

North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 30 JANUARY 2020

SUBJECT OF REPORT: TREASURY MANAGEMENT UPDATE

TOWN OR PARISH: ALL

**OFFICER/MEMBER PRESENTING: STEVE BALLARD - PRINCIPAL
ACCOUNTANT (CLOSURE AND SYSTEMS)**

KEY DECISION: N/A

RECOMMENDATIONS

The Audit Committee is requested to **note**:

1. the key messages from the Treasury Management member training workshop held on 15 January 2020,
2. that members agreed for the Council's treasury management team to continue to work within the Council's current Treasury Management Strategy, as it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing mitigation of risk,
3. that information supporting the investment strategy will be subject to on-going review, by officers and members, supported by the Council's treasury management advisors.

1. SUMMARY OF REPORT

The purpose of this report is to note the key messages arising from the treasury management member training workshop, provided and facilitated by Arlingclose, the Council's treasury management advisors, to members of the Audit Committee on 15 January 2020, and to summarise discussions relating to the preparation of the Strategy for 2020/21.

2. POLICY

The Council's Treasury and Capital strategies link directly into its revenue and capital budget planning processes, to minimise associated risks and optimise financial opportunities.

3. DETAILS

3.1 Audit Committee members attended a training workshop on 'Treasury management for elected members' on 15 January 2020. The workshop was presented and facilitated by the Council's treasury management advisors, Arlingclose.

3.2 The objective of the workshop was to provide members with an understanding of the Council's Treasury Management Strategy and the key risks and implications associated

with this, and how members provide scrutiny of the Council's treasury management activities.

3.3 The content of the presentation was:

- an introduction to treasury management
- how members provide scrutiny of treasury management
- the purpose and required content to the Council's Treasury Management and Capital strategies
- an overview of the economic outlook
- an overview of the Council's projected need for external borrowing
- treasury management risks, and how they are managed through the Council's Treasury Management Strategy
- sources of capital financing and options for sources of borrowing
- investment management objectives – security, liquidity, then yield
- benchmarking the Council's investments by type and risk

3.4 A summary of the conclusions of the presentation were:

- Balance sheet projections linked to the need for external borrowing in the future.
- The Council's borrowing requirements and limits.
- The Council current investment portfolio, with strategic elements focussed on high income to address inflation risk and to cover long-term balances.
- Benchmarking indicates that the overall return on investments and credit risk exposure of the Council's investment portfolio is not high risk, and is providing returns in line with the risks being taken.

3.5 Members discussed issues arising during the presentation with officers and the Arlingclose team, notably:

- Equity funds – members asked if there was scope to invest directly in equity markets in order to earn greater returns. Officers explained that equity investments other than through multi-asset funds, such as the Council already holds, count as capital expenditure under local government statute, and hence are not available as investments to local authorities.
- Developing markets – members asked whether there was scope to invest in developing markets in order to earn greater returns. Discussed the trade off of increased risk with increased yield. The Council currently does not make investments in overseas equities, unless included in the externally managed multi-asset funds. Any investments must be made within the current Treasury Management Strategy country limits and these would be outside of them, and increase credit risk significantly.
- Borrowing to invest – Members asked about the scope to borrow more to invest. Officers and Arlingclose confirmed that borrowing in advance of need is 'Ultra-Vires', and that it is difficult to earn a return greater than the cost of borrowing. Commercial investment property investment was funded through borrowing or finance leases, only after a robust business case was agreed providing a return above the cost of the investment.
- Property investments - The Council holds a £5m investment in the CCLA property fund, returning about 4%, which is consistently a return above inflation, mitigating inflation risk on a strategic cash balance. Members noted that some other property funds valuations had recently fallen and the economic outlook remained uncertain. Arlingclose highlighted that the CCLA only has investors from the public sector, who invest for the longer term, although there is a potential risk re the liquidity of the investment if property needs to be disposed of to enable redemptions. The CCLA did not have large exposure to retail property in its portfolio. Disposal would crystallise a loss on the capital value, arising due to the

bid/offer spread. Arlingclose did not identify a significant additional risk in continuing to hold the CCLA investment.

- Risk appetite – members asked Arlingclose whether the Council's overall investment strategy was more risk averse than other authorities in their experience. Arlingclose replied that the Council's exposure to risk was in the mid-range of other authorities. The Council's holding of externally managed pooled funds was not unusual.

3.6 Key outcomes / actions agreed during the workshop were:

1. that the Audit Committee is requested to note the key messages from the Treasury Management member training workshop held on 15 January 2020,
2. that members agreed for the Council's treasury management team to continue to work within the Council's current Treasury Management Strategy, as it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing mitigation of risk,
3. that the investment strategy, will be subject to on-going review, by officers and members, supported by the Council's treasury management advisors.

4. CONSULTATION

N/A

5. FINANCIAL IMPLICATIONS

Treasury management decisions, taken through the application of the Treasury Management Strategy, impact on both the revenue budget and the balance sheet in current and future years. Details of the financial implications of treasury management activities are included in the papers presented to the Executive.

6. LEGAL POWERS AND IMPLICATIONS

6.1 Under the Local Government Act 2003, the Council may invest money or borrow money:

- for any purpose relevant to its functions, and
- for prudent financial management.

6.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires it to approve a treasury management strategy before the start of each financial year.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

N/A

8. RISK MANAGEMENT

As noted above, the identification and mitigation of the risks associated with the Council's treasury management activities was central to the workshop presentation, and discussions between members, officers and the Council's treasury management advisors, Arlingclose.

9. EQUALITY IMPLICATIONS

None

10. CORPORATE IMPLICATIONS

The safeguarding of public money is critical to the Council's reputation, and the on-going development of the Council's Treasury Management Strategy is intended to address member

and public concerns, and ensure an appropriate balance of return on investment whilst ensuring managing associated risks.

11. OPTIONS CONSIDERED

None

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APPENDICES

Appendix 1 Arlingclose presentation – Treasury Management for elected members

BACKGROUND PAPERS

Treasury Management Strategy 2019/20

Guidance:

CIPFA – The Prudential Code for Capital Finance in Local Authorities 2018

MHCLG – Statutory Guidance on Local Government Investments (3rd edition) 2018

CIPFA – Treasury Management in Public Services – Code of Practice and cross-sectoral guidance notes 2017

CIPFA - Treasury Management in Public Services – Guidance notes for local authorities 2018