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| <p>Appendices: Nil</p> |
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NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

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| Report Title | Treasury Management Amendment |
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AGENDA STATUS: PUBLIC

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| Audit Committee Meeting Date: | 3 rd September 2018 |
| Policy Document: | Yes |
| Directorate: | Chief Finance Officer |
| Accountable Cabinet Member: | Cllr Brandon Eldred |

1. Purpose

1.1 To present Committee with a proposed amendment to the NBC Treasury Management Policy.

2. Recommendations

- 2.1 To consider the contents of this finance treasury management policy report.
- 2.2 That Audit Committee recommends Council to approve the use of property investments, direct and indirect, to achieve improvements in Treasury yields, up to a maximum investment value of £16.000M.
- 2.3 That Audit Committee recommends Council to approve the delegated powers as set out in paragraphs 3.3.2.

3. Issues and Choices

3.1 Report Background

- 3.1.1 Treasury funds are all in 'cash' institutions so in the main, achieving less than 0.5% in interest, these amendments seek to utilise the cash held in specific reserves as part of the resources available to the council to deliver VfM and increase 'income' from the Treasury service.
- 3.1.2 The Council currently has not specifically identified the ability to invest in indirect property funds in its Treasury Management options, but this is

available to Local Authorities. (In particular through CCLA which has a special status allowing for Treasury Investments by Local Authorities).

- 3.1.3 The Council also does not currently have the ability, under its Treasury Management options to invest directly in property, for Treasury purposes (as opposed to regeneration or capital investment). The subtle difference is that the Treasury investment in property must be of a nature that allows for liquidation and achieves an agreed yield, these properties might not be within the NBC boundary as they will be seen as medium term acquisitions for yield, as opposed to holding cash in banks). Removing this distinction would also assist in providing a more balanced portfolio which balances returns with the Council's duty to maintain appropriate security and liquidity of public monies
- 3.1.4 Delegated power is sought to widen the Council's ability to invest in property funds, where appropriate circumstances arise. Independent external advice will be sought in respect of suitability, viability and the ability to 'liquidate' such investments. As these will be Treasury Property Investments, they may be in property assets outside of the Borough's geographic area, which will allow for an element of spreading exposure and risk.

3.2 Interest Rate Forecasts

- 3.2.1 The Council uses Link Asset Services (ex-Capita Assets) as a treasury adviser to the Council who, as part of their service, assist the Council in formulating a view on interest rates. LAS' view is that interest rates are likely to remain static for at least one year, and that increases beyond this would be incremental. Although there are inflationary pressures, there is also uncertainty as to how Brexit negotiations will affect the wider economy. This view is supported by forecasts obtained from the Centre for Economics and Business Research, who anticipate no base rate increases until the end of 2018 and then it is likely to be graduated. This means the council is unlikely to achieve 1.0% through deposits until 2020/21.

3.3 Treasury Investment Proposals

- 3.3.1 Whilst the Strategy and Policies in respect of NBC Treasury Management are set out in the documents approved by Full Council, the actual delegation/approval to enact these transactions requires clarification. Therefore, to ensure that the use of these investments is appropriately considered and approved, the following seeks to clarify the approval/authorisation process.
- 3.3.2 Audit Committee is therefore asked to consider and recommend to Council.
 - a) To approve investments of up to £8.000M, in one or more indirect property funds and to delegate power to the Section 151 Officer, after consultation with the Portfolio Holder for Finance, and after receipt of advice from LAS with due regard to security and liquidity, to approve such investments subject to the limitation that funds to be invested in would be restricted to those that are already utilised by one or more other Local Authorities and offering in excess of 4% return/yield at the time that the investment is placed.
 - b) To approve the direct investment of up to £8.000M in commercial property for Treasury Yield purposes only, and to delegate authority to the Chief Executive, in consultation with the Section 151 Officer and the Head of

Assets/Regeneration after consultation with the Leader and the Portfolio Holders for Finance and Assets to approve such acquisitions and disposals.

- 3.3.3 Investing up to £16.000M and achieving just 4.00% against the current average of c0.50% could improve our Treasury income by c£0.500M. It must be noted that from an accounting presentation view, these funds will not appear 'spent' in the reserve balances, as it is a cash/treasury approach. This approach prevents revenue v capital issues arising.
- 3.3.4 The Reserves supported by cash that will be used for such investments will include the General Fund and funds held in the collection fund for Business Rates appeals etc. These are considered to be available for longer term investment and cannot be used by NBC as standard forms of funding for capital projects.

3.4 Choices (Options)

- 3.3.5 Audit Committee has the choice to accept these proposals and submit a recommendation to Council to amend the NBC Treasury Management Policy/Strategy, or it can choose not to accept them, acknowledging the opportunity to increase income by c£0.500M would be foregone.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The policy implications are contained in the body of the report.

4.2 Resources and Risk

- 4.2.1 NBC currently places all treasury assets (cash) in standard bank institutions. Whilst investing in alternative Treasury vehicles represents some risk, it has to be balanced with the fact that investments in banks are only underwritten by Government up to £85,000 (since 2016).
- 4.2.2 As with all investments there is an element of risk, but this will be mitigated to ensure that whilst a good level of yield is sought, it will not be at the detriment of security and liquidity.

4.3 Legal

- 4.3.1 There are no specific legal implications arising from this report.

4.4 Equality

- 4.4.1 There are no specific equalities implications arising from this report.

4.5 Consultees (Internal and External)

- 4.5.1 None at this stage.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Regular reporting of the Council's financial position helps to ensure the proper stewardship of the Council's resources. Active financial management contributes to the delivery of value for money services, enabling public money to be used to maximum benefit.

4.7 Other Implications

4.7.1 None identified.

5. Background Papers

Northampton Borough Council – Treasury Management Strategy

General Fund Revenue Budget and Capital Programme 2018/19 and Medium Term Financial Plan 2018/19 – 2022/23, Appendix 5 28 February 2018

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Stuart McGregor
Chief Finance Officer