

Somerset West and Taunton Council

Shadow Executive – 11 February 2019

Draft Investment Strategy 2019/20

This matter is the responsibility of Shadow Executive Councillors Andrew Sully and Martin Dewdney.

Report Author: Andrew Stark, Interim Finance Manager

1 Executive Summary

- 1.1 This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018.
- 1.2 For comparison purposes the tables in the report show the combined position for Taunton Deane Borough Council and West Somerset Council for the years up to and including 2018/19.

2 Recommendations

- 2.1 Shadow Executive recommends the draft Investment Strategy for 2019/20 as included within this report, for approval by Shadow Council.

3 Risk Assessment

3.1 Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	2	4	8
The Council has in place suitable arrangements to develop, approve and deliver its investment strategy through appropriately trained staff and access to specialist treasury and commercial advice.	1	4	4

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily/weekly/monthly)	> 75%

4 Introduction

4.1 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

4.2 This strategy focuses on the second and third of these categories.

5 Treasury Management Investments

- 5.1 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £50m and £90m during the 2019/20 financial year.
- 5.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities. Full details of the Council’s policies and its plans for the 2019/20 treasury management investments are covered in a separate document, the treasury management strategy.

6 Service Investments: Loans

- 6.1 **Contribution:** The Council lends money to local businesses, local charities and employees to support local public services and stimulate local economic growth.
- 6.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to minimise this risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for Service Purposes

Category of Borrower	31.03.18 Actual			2019/20
	Balance Owing	Loss Allowance	Net Figure in Accounts	Approved Limit
	£m	£m	£m	£m
Local Businesses	2.043	(0.022)	2.021	20.000
Local Charities	0.902	(0.001)	0.901	3.000
Total	2.945	(0.023)	2.922	23.000

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue payments

- 6.3 **Risk Assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by working up a robust business case and applying due diligence to all requests for service loans.

7 Commercial Investments: Property

- 7.1 The Council does not currently hold any commercial property investments, although this is an area that the Council is currently exploring. If, and when, such investments are deemed appropriate a policy will be developed which covers security, risk and liquidity as well as explaining the contribution these investments would make to council objectives.

8 Financial Guarantees

- 8.1 Although not strictly counted as investments, since no money has exchanged hands yet, financial guarantees carry similar risks to the Council and are included here for completeness.
- 8.2 Taunton Deane Borough Council has guaranteed the following items which are included in the 2017/18 Statement of Accounts:-
- Greenwich Leisure Limited Pension Liability £4.9m
 - South West Audit Partnership Limited Pension Liability £0.268m

9 Capacity, Skills and Culture

- 9.1 Officers involved in the investment making decision process are governed by internal procedures and processes and external statutory guidance in the form of the CIPFA Treasury Management Code and MHCLG Investment guidance. Internally limits are set in the annual Treasury Management Strategy Statement and the overriding Treasury Management Practices.
- 9.2 Commercial deals: this is a relatively new area for the Council, however, the commercialism agenda is very much at the centre of the organisational structure of Somerset West and Taunton Council. The new Commercial Investment and Change function will lead on commercial activities for the Council. Recruitment is ongoing to ensure that the appropriate commercial skills and knowledge will be available to the new Council. Where specialist commercial advice is required, for example asset valuation, conveyancing etc then this advice will be bought in.
- 9.3 Commercial Investment and Change members of staff will also be subject to an induction process and ongoing training which will ensure that those negotiating commercial deals are aware of the core principles of the Prudential Framework and of the regulatory regime within which all local authorities operate.
- 9.4 Corporate governance: arrangements have been put in place to ensure accountability, responsibility and authority for decision making on investment activities. Existing governance arrangements stem from the Constitution and the associated scheme of delegation. Budget approvals are in place to support all requests for commercial schemes and third party loans.

10 Investment Indicators

- 10.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Councils total risk exposure as a result

of its investment decisions.

- 10.2 **Total risk exposure:** the first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to draw down and guarantees the Council has issued over third party loans.

Table 2: Total Investment Exposure

	31.03.18 Actual £m	31.03.19 Forecast £m	31.03.20 Forecast £m
Treasury Management Investments	56.333	56.333	56.333
Service Investments: Loans	2.946	2.674	2.271
Commercial Investments: Property	0	0	2.000
Total Investments	59.279	59.007	60.604
Commitments to Lend	0	0	13.000
Guarantees Issued on Pension Liabilities	5.168	5.168	5.168
Total Exposure	64.447	64.175	78.772

- 12.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, it is difficult to comply with this guidance. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of need.

Table 3: Investments Funded by Borrowing

	31.03.18 Actual £m	31.03.19 Forecast £m	31.03.20 Forecast £m
Service Investments: Loans	0	0.750	7.000
Commercial Investments: Property	0	0	2.000
Total Funded By Borrowing	0	0.750	9.000

13 Links to Corporate Aims / Priorities

- 13.1 The Investment Strategy supports the delivery of the Corporate Aims.

14 Finance / Resource Implications

- 14.1 Any financial/resource implications are contained in the main body of the report.

15 Legal Implications

- 15.1 There are no legal comments for this report.

16 Environmental Impact Implications

16.1 There are no environmental impacts applicable to this report.

17 Safeguarding and/or Community Safety Implications

17.1 There are no safeguarding or community safety implications applicable to this report.

18 Equality and Diversity Implications

18.1 There are no equalities implications applicable to this report.

19 Social Value Implications

19.1 There are no social value implications to this report.

20 Partnership Implications

20.1 There are no partnership implications to this report.

21 Health and Wellbeing Implications

21.1 There are no health and wellbeing implications to this report.

22 Asset Management Implications

22.1 There are no asset management implications to this report.

23 Data Protection Implications

23.1 There are no data protection implications to this report.

24 Consultation Implications

24.1 There are no consultation implications to this report.

25 Scrutiny Comments / Recommendation(s)

25.1 To be included following the meeting if appropriate.

Democratic Path:

- Shadow Scrutiny – Yes
- Shadow Executive – Yes
- Shadow Full Council – Yes

Reporting Frequency: Once only Ad-hoc Quarterly
 Twice-yearly Annually

Contact Officer

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