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Wednesday, 5 February 2020

Notice of Reports Received following Publication of Agenda.

Audit Committee

Thursday, 13th February, 2020 at 2.00 pm,
County Hall, The Rhadyr, Usk, NP15 1GA

Attached are reports that the committee will consider as part of the original agenda but were submitted to democratic services following publication of the agenda.

Item No	Item	Pages
6.	**Treasury Policy and Strategy report (Annex D to follow)**	1 - 4

Paul Matthews
Chief Executive

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Annex D – Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements that are not integral to this Authority's treasury management processes, upon local authorities. The guidance also covers investments that are not part of treasury management, for example commercial investments including property and loans and other investments in local organisations.

The Authority has taken regard of the recommendations within the WG investment guidance revised in 2019 (for implementation 2020/21) and incorporated them where relevant into the above Treasury Management Strategy Statement (TMSS). There are however some specific areas of the WG investment guidance which are not explicitly outlined in the above TMSS and these are covered further as follows:

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy in line with its declaration of a Climate Emergency in 2019. The Authority's aim is to make the county of Monmouthshire zero carbon by 2030 and will revise the Corporate Plan, Well-being Plan, Local Development Plan and other relevant plans and policies in support of this. It will call on the Welsh Government and the UK Government to provide the necessary powers, resources and technical support to successfully meet the 2030 target.

Financial and Non-financial Investments: The Authority's investments contribute to its service delivery objectives and/or promote wellbeing as follows:

- treasury management investments support effective treasury management activities,
- loans & other investments in local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Authority, and
- commercial investments provide a net financial surplus that is reinvested into local public services.

More information about the categories of investments can be see below in Table C1

Table C1: Types of Investments and Limits

Type	Specified	Other Loans	Other Non-specified	Financial / Non-financial
Treasury management	Investments with Government, Local Authority, Bank & Building Soc Deposits, CDs, MMFs, Bonds etc *	NA	Investments which are long term or with counterparty not of high credit quality - £6m Limit. Strategic pooled funds and REITS - £6m Limit *	**Financial**
Assistance to local organisations/relevant to Council functions	Loans to other Local Authorities, Joint ventures with LA's and LA wholly owned subsidiaries **	Loans to local enterprises, charities, 3rd party companies, part non-LA Joint ventures **	Shares in local enterprises, charities, 3rd party co's, part non-LA JVs including seed funding to SRS	**Financial**

			Ltd ****	
Commercial financial investments	NA	Loans to part non-LA Joint ventures and 3rd party entities ***	Shares in part non-LA Joint ventures and 3rd party entities ***	**Financial**
Commercial Property investments	NA	NA	This includes the Solar Farm, Castlegate & Newport Leisure park ***	**Non-financial**
Long standing Property Investments	NA	NA	This includes the county farms portfolio, shops & industrial units	**Non-financial**

* The Limits on these investments are detailed in table 3 & in the Price risk indicator in the Main report
** Rather than include an explicit limit on these type of investments, a business case will be made for each individual investment and capacity made available in an existing budget or a new budget approved by Council for any possible losses.
***Rather than include an explicit limit for these type of investments, approval is required by the Investment committee and Council prior to any such investments. To date £4.5m has been approved and spent on the Solar Farm and an additional £50m was approved in May 2018, of which £31m has been invested to date.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

Other Loans: The WG Guidance defines a loan as a written or oral agreement where the authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan. For the purpose of applying the WG guidance within this strategy document, where such arrangements are treasury investments, also meeting the definition of a Specified Investment they are classed as Specified investments not loans see Table C1.

A local authority may choose to make loans & other investments in local enterprises, local charities, wholly owned companies and joint ventures where relevant to Council functions and to promote local economic growth.

Valuation of Loans and Receivables: The Authority uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Authority has appropriate credit control arrangements to recover overdue repayments in place.

Loans may also be made for commercial purposes. Whilst these assets will be valued as above, the limits and assessment of security will be addressed as in the Commercial investments section below.

Other Non-specified investments: Any financial investment not meeting the definition of a specified investment or a Loan is classed as 'Other non-specified'. This category applies to investments over one year and with counterparties not of high credit quality. It also applies to units in pooled funds and shares in companies. Limits on non-specified investments are also shown in table C1; the Authority confirms that its current non-specified investments remain within these limits.

Commercial investments: This category covers financial and non-financial investments held primarily or partially to generate a profit. It includes investment property & also loans made for commercial purposes. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. The Authority's current Investment Property portfolio is divided into long held Investment Properties such as County Farms and the three more recently acquired commercial Investment Properties. With regard to this latter group, at 31st March 2019, the Authority's newly acquired investment property portfolio was held in the Authority's accounts at a book value of £35.6m. This is more than the capital cost of acquisition and enhancement to date of £35.2m and is considered to provide security for the capital investment made. A full report to Audit committee on these investments is due in the coming months, which will also outline the income which has been received into the revenue account since purchase.

The total of the Authorities usable reserves is £13.1m. This represents 37% of the value of the Authorities Commercial Investment Properties acquired to date. Due to the due diligence process undertaken before Commercial Investments are entered into and the forecast income over the lifetime of the assets, these investments are considered to be prudent by the Authority.

Liquidity: The Authority's liquidity management has been detailed in the main Treasury report with regard to treasury activities. Before supporting local entities or placing a commercial investment the impact on liquidity is fully addressed, most commonly by taking out loans of an appropriate maturity to ensure funds are available for the life of the activity. £40,000 of seed funding was placed with SRS Ltd in 2011/12 with the intention of it remaining there for the long term to support that entity.

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will follow its Investment strategy for Commercial assets which ensures that any borrowed capital will be repaid with annual income earned from the investment or that an exit strategy identified during the due diligence will be followed.

Yield (net profit): The Authority utilises its profit generating investment activity to achieve a balanced revenue budget. Table C2 below details the proportion of treasury & commercial income to total revenue income and therefore its contribution to meeting the costs of delivery of the Authorities primary functions. Revenue monitoring is carried out for the whole Authority on a quarterly basis. Any Authority wide shortfall, including shortfalls resulting from lower than budgeted returns from Investments, will be addressed as part of that process to bring the Authority's outturn position back on track.

Table C2: Proportionality of Investment income to total revenue income

	2019/20 Forecast £m	2019/20 Forecast £m
Total revenue income	147.3	147.3
Budgeted Profit from treasury investments	0.2	
Budgeted Profit from the 3 newer Commercial Investments		0.7
Proportion	0.14%	0.47%

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and has used Alder King as advisers for the last 2 Commercial investment Property Acquisitions. The quality of these services is controlled by the Internal Estates team and also the Investment Committee appointed to oversee the Commercial Investments.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the provisions in this guidance has entered into its commercial investments utilising Local Authority investment powers, which allow for the prudent management of its financial affairs where carried out reasonably and in accordance with an authority's primary function to serve the public. Returns from commercial investments help to ensure there are sufficient funds to continue to provide public services.

Capacity and skills: The Section 151 officer is responsible for ensuring that those elected members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to:

1. take informed decisions as to whether to enter into a specific investment;

2. assess individual investments in the context of the strategic objectives and risk profile of the local authority; and

3. understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

The Audit Committee has a delegated responsibility to scrutinise the treasury management activity of the Authority, which ensures that elected members have the necessary opportunity to assess whether officers are operating within the boundaries of both the prudential framework and the internal boundaries approved within the TMSS. The Audit Committee is provided with training by the Authority's Treasury Management advisers periodically and have been presented with a questionnaire to assess further training requirements.

Commercial deals: The investment committee is responsible for ensuring that those tasked with negotiating commercial deals have the appropriate skills and access to information to allow them to operate with regard to the principles of the prudential framework and regulatory regime within which the Authority operates.