

Review Committee – 2 February 2016

Minutes of the meeting of the **Review Committee** held on **2 February 2016** when there were present:-

Chairman: Cllr J H Gibson
Vice-Chairman: Cllr D J Sperring

Cllr R R Dray
Cllr B T Hazlewood
Cllr M Hoy
Cllr J L Lawmon
Cllr Mrs C M Mason

Cllr J R F Mason
Cllr Mrs C A Pavelin
Cllr Mrs M H Spencer
Cllr M J Webb

VISITING MEMBER

Cllr M Maddocks

APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllrs Mrs L A Butcher, J Hayter and G J Ioannou.

OFFICERS PRESENT

R Manning - Head of Finance, Essex County Council (ECC)
M Petley - Senior Accountant
P Gowers - Overview and Scrutiny Officer
M Power - Committee Administrator

11 MINUTES

The Minutes of the meeting held on 5 January 2016 were agreed as a correct record and signed by the Chairman.

12 TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2016/17

The Committee considered the report of the Section 151 Officer on the Council's treasury strategy for borrowing and investment.

In response to a question, Members were advised that the capital receipt of £71,000 estimated for 2016/17 came from the sale of a property in which the Council had retained a share under the terms of the transfer of housing stock to Rochford Housing Association.

Members requested information on which of the investments detailed in the report are traded and subject to the risk of market movement, and which are deposits to maturity. The following was noted:

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- Term and call deposits with banks and building societies have a fixed interest rate return and are not traded.
- Investments with Registered Providers (former Registered Social Landlords) would be at the higher end of the risk spectrum for the Council and would generate a reasonable return. These are not traded.
- Investments in property based funds would be higher risk and provide a larger return and are not traded. This would not be suitable as a one year investment.
- UK Government Gilts/Treasury Bills can be short or longer term and are relatively low risk, with a low return. If the value of the Gilt were to fall a decision would have to be made whether it should be disposed of.
- Banks/Supranational banks (EU development banks) would provide a slightly better return and would have good liquidity.
- Commercial Bonds – these have a higher risk and may not be suitable for investments of only one year. They may be considered for future investment strategy.
- Standard Money Market Funds and Collective Investment: being used currently in Rochford.

It would be the function of the Section 151 Officer if a decision needed to be made on whether to invest overseas.

There are limits on the amount the Council can invest and it has to decide on the levels of liquidity, return and risk that are acceptable. Currently, the Council's risk appetite is extremely low.

The Council's external treasury management advisors, Capita, provides the Council with credit ratings for institutions it invests in. The market is monitored by Capita on a daily basis and the Council is advised immediately if any of the Council's investments are 'put on watch'. A decision can then be taken by the Council. A weekly relationship meeting with Capita in which information on positive changes in investment values is provided. Discussions with Capita will take place to establish the level of service they can provide to the Council within the current yearly fee of £6,000.

The Head of Finance, ECC advised that the Council needs to maximise the return on its assets due to the on-going reduced levels of funding it receives. Increased income could help to mitigate the risk of further reduction in the Council's services. The Head of Finance, ECC advised that the investments proposed for consideration in the report, including Government Gilts and Bonds, were relatively low risk but would provide a greater return than is achieved under the Council's current investment strategy. Members requested information on the level of anticipated return that could be achieved by

investing in the financial instruments listed in the report, in order the risk could be evaluated.

There was concern that the value of Gilts and traded instruments can fall as well as rise and traded investments are subject to market volatility. Members felt that investment in a local or national housing association would not be appropriate as it cannot be traded on a daily market.

The Council's Investment Board has been established to consider making decisions on a portfolio of investments. Potentially, money lost as a result of a higher risk investment strategy could have an impact on what the Investment Board is able to achieve.

With reference to the Committee's benchmarking exercise undertaken last year, which showed that Rochford District Council's investments were performing better than those of many similar sized District Councils, Members wished to meet with other District Councils who are considering a higher risk investment approach to find out how the process worked is working and what benefits have been seen.

Officers advised that an appropriate investment profile will need to be established to meet the aspiration contained in the report of increasing investment income from £35-40,000 as it is currently to £80-100,000 for 2016/17. There is likely to be between £2-3 million available for long term investment in 2016/17. The current strategy has deposits in a one-year fixed rate account at a rate of 0.9%. Members requested information on how much of an increase in return would be yielded by investing in gilts, for example, as opposed to a fixed rate deposit.

Members expressed concern about using Council tax money in this way and questioned the notion of a Council being involved in trading on the stock market.

Members did not feel able to recommend to Council the proposed Annual Investment Strategy due to the lack of information being supplied to the questions they had raised.

To enable an informed decision on whether the Council should consider moving to a higher risk investment strategy, Members requested that the following 'dummy portfolios' be set up, to run for three months, with regular review by Members:

- A Portfolio with the aim of achieving the investment return expectations for 2016/17 detailed in the report, i.e. in the region of £80,000 - £100,000.
- A Portfolio investing in higher risk items.
- Two Portfolios investing in lower risk items.

- A Portfolio, to be provided by Capita, that uses historic data, which will provide data on market volatility over the past year, using tracker information.

Members felt that, pending receipt of these 'dummy' portfolios, the annual investment strategy should remain as it is for 2016/17.

The Committee requested that arrangements be made for them to meet with other District Councils of a similar size to discuss their investment strategy.

Resolved

- (1) That the Treasury Management Strategy Statement indicators, limits and delegations contained within the report be noted.
- (2) That the Capital Expenditure Forecasts be noted.
- (3) That the Minimum Revenue Provision (MRP) policy for 2016/17 be noted.
- (4) That the Authorised Limit and Operational Boundary for external debt as laid down in the report be noted.
- (5) That 'dummy portfolios' be set up, to run for three months, with regular review by Members and that one portfolio, using historic data, be set up that will provide data on market volatility over the past year, using tracker information.
- (6) That meetings be arranged so that the Committee can meet with other District Councils of a similar size to discuss their investment strategy.

Recommended to Council

- (7) That the Treasury Management Strategy Statement and Minimum Revenue Provision Policy Statement 2016/17 be approved.
- (8) That the Treasury Management Annual Investment Strategy remain as it is for 2016/17, pending further information being provided on areas identified by the Committee.

13 KEY DECISIONS DOCUMENT

The Committee considered the Key Decisions Document and noted its contents.

14 WORK PLAN

The Committee considered its Work Plan.

The Michelins Farm item would be taken to the meeting on 1 March 2016.

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A site visit to Rayleigh and Clements Hall leisure centres would be undertaken by Members prior to the Committee meeting with Fusion on 12 April 2016.

The meeting closed at 8.20 pm.

Chairman

Date

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