

## AUDIT COMMITTEE – 21 September 2017

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Wards affected: ALL

### **PROPOSED RECOMMENDATION TO COUNCIL**

- (i) 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 £15.000M, as per 3a and 3b.
- (ii) That Audit Committee recommends Council to approve the delegated powers as set out in paragraphs 3a and 3b
- (iii) That Audit Committee endorses the use of appropriate borrowing, if appropriate schemes become available and recommends to Council to provide authority for Cabinet to approve borrowing up to the Council agreed ceiling, if appropriate schemes are available.

### **Executive Summary**

#### **1. The Current Treasury Portfolio**

The Council's investment portfolio as at 31 August 2017 comprises the following:

	<b>31 March 16 Actual £m</b>	<b>31 March 17 Actual £m</b>
Longer than 1 year	4.000	6.000
Under 1 year	63.200	68.627
Total	67.200	74.627

The funds are all in 'cash' institutions so in the main, achieving less than 1% in interest.

The Council currently has the ability to invest in indirect property funds, but has not exercised that option.

The Council does not currently have the ability, under its Treasury Strategy 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 WDC 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

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 District's geographic area, which will allow for an element of spreading exposure and risk.

## 2. Interest Rate Forecasts

The Council uses 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. Capita Assets' 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 2017. This means the council is unlikely to achieve more than the 0.70% it averaged in 2016/17.

### Property Fund

21. The Council has direct property investments within the Wycombe District Council area amounting to £104.95m at 31 March 2016.
22. As part of its Treasury Management Strategy, the Council may seek to invest in an indirect property fund. This would be managed by a fund manager and may invest in properties across the UK or internationally. The Council would hold a shareholding in the fund based on the value of its investment.
23. Property Funds in the UK can provide returns of 4-6% at present together with capital appreciation. This is considerably more than the average of 0.7% currently being achieved on the Council's treasury investments. However, capital values can go down as well as up. The investment would also be long term and there are potential entry and exit fees. The Council will not invest more than £7.5m in indirect property funds.
24. One further consideration is whether such an investment would be considered capital expenditure or not. The Authority will seek guidance on the status of any fund and due diligence will be undertaken by the Head of Finance and Commercial and the Portfolio Holder before any investment is made.

(Extract from WDC Treasury Strategy – Agenda Item 8)

### **3. Treasury Investment Proposals**

Whilst the Strategy and Policies in respect of WDC 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.

Audit Committee is therefore asked to consider and recommend to Council.

- a) To approve the investment of up to £7.500M, [in accordance with the Council's existing strategy], 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 Capita Assets 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 £7.500M in commercial property for Treasury Yield purposes only, and to delegate power jointly to the Chief Executive (or in her absence the Corporate Director) and the Section 151 Officer, after consultation with the Leader (or in her absence the Deputy Leader) and the Portfolio Holder for Finance to approve such acquisitions and disposals.

Investing £15.000M and achieving just 4.25% against the current average of 0.70% would 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.

The Reserves supported by cash that will be used for such investments will be the General Fund, using c£6.000M of Cash and the Repairs / Renewals funds, as both of these are underpinned by material cash holdings and not anticipated to be needed for traditional Capital Investment purposes.

### **4. Borrowing**

At present WDC has no external borrowing, although the current strategy does permit borrowing of up to £19.000M.

Audit Committee is asked to consider the value and benefits of proposing the use and an increase in borrowing limits to allow Council and Cabinet to proceed with larger commercial income and regeneration schemes, should they be proven to be viable and support the Councils Corporate Plan.

By approving the principles for up to £25.000M of external borrowing for specific schemes, it may be possible to front load the borrowing at a lower market rate and invest appropriately, pending full and final submissions of schemes. The borrowing would not be drawn down until the Capital Requirement was fully identified and the scheme approved by Cabinet/Council.