Appendix B

Member's Question to FMOS 29 November 2017

The following question has been received from Mr A H K Postan:-

"We face market uncertainties following a period of gains for Council's pooled funds. We may need to draw in these monies to fund the construction of Carterton Leisure Centre. The potential downside could equate to a loss equivalent in value to the entire Ubico savings.
Could we learn of the officers' views on:-

1 funding source; internal/external debt/liquidation

2 Upside vs downside outlook re pooled funds

3 If q3 indicated retention, can our advisers provide a robust defensive re-allocation of our funds

4 Separation of execution f advice and execution from our investment advisers

5 The importance of timing
In view of the inherent volatility of financial markets, why do we commit to a long term contract with our advisers?

Responses to each of the questions are set out below:

1 The Council is currently updating its capital programme and its associated plans for funding the capital expenditure. The provision of depot facilities for the waste and recycling service through a lease rather than direct capital expenditure has significantly reduced the capital programme for 2017/18. The Council has not needed to seek loan financing at this point in time. The review of the capital programme, together with the Councils plans for revenue expenditure and its plans for the use of revenue reserves, will be reflected in the Council's updated cash-flow forecast. This will identify when the Council will require additional cash either through borrowing or through liquidating some investment(s) in pooled funds. The outcome of this review will feed into the Council's Treasury Management Strategy, which will be considered by this Committee, Cabinet and Council early in the New Year.

2 There are uncertainties ahead for the markets, in particular if the country ends up with a chaotic Brexit in March 2019. However, our treasury advisors do not see a sharp correction in the forthcoming 2-3 months and there is therefore no imperative to immediately sell the Council's holdings to realise capital gains.

It is worth noting that since this time last year when a similar set of questions were asked the total return for the five bond/equity pooled funds has been in the order of 9.2% made up of 4.3% dividend yield and 4.9% unrealised capital gain. Had the committee acceded to the request at that stage and merely placed these funds into the cash based instruments then the Council would have lost £250,000 in dividend yield if placed in short dated cash instruments.
It is right that an assessment of risk is carried out when reviewing investment activities but realising a capital gain could come at the expense of a significant negative revenue budget impact if the investment is not placed into suitable alternative funds with appropriate yield.

It is worth remembering that the pooled funds were chosen to deliver stable income returns across a spread of markets and were not chosen to deliver significant capital gain (although it is a useful side benefit should it be realised).

3 Yes, our advisors would work with Officers to identify appropriate alternative funds, for example the Royal London Enhanced Cash Plus Fund (for a short time frame), the M&G Strategic Bond Fund or a multi asset income fund (for the medium-term). These funds would help to mitigate the revenue impact of crystallising the capital gains in the global funds.

4 The Council's Treasury Advisors provide advice upon the suitability of various funds. The choice of fund remains the decision of the Council (via the delegations provided through the Treasury Management Strategy). Execution of treasury transactions is performed by the Council's Treasury Officers, although they may use brokers or other third parties depending upon the nature of the transaction. Third parties are independent of the Treasury Advisors.

5 The Council has just commenced a new 3 year contract with its advisors. There are very few advisors in the market with the experience, skills and knowledge of the particularities of the local authority treasury management environment. Indeed, only two tenders were received on this occasion. The advisors are expected to have a detailed knowledge of the legislation, Regulations and Codes of Practice which govern the Council's treasury activity and the associated accounting arrangements. Letting a contract of less than 3 years would not be an efficient use of Officer time, would result in increased costs and ultimately may result in no advisors being willing to provide services to the Council.

In any event even if the Council were to utilise a significant portion of the pooled funds to finance capital spend there would still be a requirement for the Council to engage advisors to deal with day to day cash flow management and balance sheet activities. In these circumstances a three year contract is actually seen as a relatively short term contract.