

# Treasury Management Sub-Committee



*St Edmundsbury*  
BOROUGH COUNCIL

<b>Title of Report:</b>	<b>Update on procurement exercise for external fund manager to support treasury management activities</b>	
<b>Report No:</b>	<b>TMS/SE/15/003</b>	
<b>Decisions plan reference:</b>	Not applicable.	
<b>Report to and dates:</b>	<b>Treasury Management Sub-Committee</b>	19 January 2015
	<b>Performance and Audit Scrutiny Committee</b>	29 January 2015
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<b>Purpose of report:</b>	The purpose of this report is to provide members of the Sub-Committee with options around the timing for the procurement exercise for external fund managers to support the Council's treasury management activities.	

<p><b>Recommendation:</b></p>	<p><b>Treasury Management Sub-Committee:</b></p> <p>The Sub-Committee is asked to:</p> <ol style="list-style-type: none"> <li>a. Scrutinise the content of this report, including options around the timing for the procurement exercise for external fund managers to support the Council’s treasury management activities.</li> <li>b. Recommend Option B, as detailed in paragraph 1.2.1, via the Performance and Audit Scrutiny Committee to Cabinet.</li> </ol>
<p><b>Key Decision:</b></p> <p><i>(Check the appropriate box and delete all those that <b>do not</b> apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>
<p><b>Consultation:</b></p>	<p>Treasury management activities are undertaken in consultation with Sector (the Council’s appointed treasury management advisers) and also takes into account information obtained from investment brokers and other economic commentators.</p> <p>This committee provides for the scrutiny of treasury management strategies and performance, with changes in strategies and policies subject to approval by Cabinet and full Council.</p> <p>Under Item 4, report TMS/SE/14/001, of the Treasury Management Sub Committee Meeting on 17th November, members of the Committee received a verbal update from the Head of Resources and Performance on where the Council was with regards to testing the market for External Fund Managers for supporting the Council’s Treasury Management activities. A report containing options around the timing of this piece of work was requested for presentation at this meeting of the Sub-Committee on 19 January 2015.</p>
<p><b>Alternative option(s):</b></p>	<p>Options for the management of the Council investments are formally considered within the annual treasury management and investment strategy. This includes key strategies in respect of the maintenance of the Council’s debt free status, the continuation of in-house management of funds, and the approach to be adopted in establishing the creditworthiness of potential counterparties. The changing nature of the economic climate requires that these key areas are subject to on-going review.</p>

<b>Implications:</b>			
Are there any <b>financial</b> implications? <i>If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Are there any <b>staffing</b> implications? <i>If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Are there any <b>ICT</b> implications? <i>If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Are there any <b>legal and/or policy</b> implications? <i>If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Are there any <b>equality</b> implications? <i>If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<b>Risk/opportunity assessment:</b>		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
<b>Risk area</b>	<b>Inherent level of risk</b> (before controls)	<b>Controls</b>	<b>Residual risk</b> (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Additional costs may be incurred if the Council needs to borrow to meet capital expenditure	Medium	Ensure sufficient funds are retained to meet capital expenditure requirements	Low
If the Council did need to liquidate an investment early this would result in the loss of interest, additional charges and penalties imposed by the fund and fund manager	High	Only commit funds that the Council are sure they will not need during the term of the investment.	Low
Loss of interest through not moving to a Fund Manager	Medium	With the current low interest rates in the market place – it is felt that delaying the appointment until 2015/16 would not have a material impact.	Low
<b>Ward(s) affected:</b>	All Wards		
<b>Background papers:</b> <i>(all background papers are to be published on the website and a link included)</i>	E193 - Review of the Council's Treasury Management Strategy (18 November 2013)		
<b>Documents attached:</b>	None		

## **1. Key issues and reasons for recommendations**

### **1.1 Background**

- 1.1.1 The Sub-Committee at its meeting of 18th November 2013, as part of report E163, agreed to the option of both the use of Treasury Management Advisors and External Fund Managers, which was subsequently recommended to and approved by Cabinet, as external support for its Treasury Management Investment Activities. As a result the current Treasury Management Strategy sets out the potential use of fund managers and treasury management advisors.
- 1.1.2 External Fund managers can be used to manage local authorities' investments directly (placing the investment), by observing the limits set out in the Council's Annual Investment Strategy. It was envisaged that a procurement exercise on a potential fund manager be carried out during 2014/15. This report provides members of the Sub-Committee with options around the timing of this piece of work.
- 1.1.3 Although the Council hasn't formally appointed an External Fund Manager it still makes use of External Treasury Management Advisors - Sector, who seek to help authorities to meet their obligations under the legislation and codes of practice, including; the production of an Annual Investment Strategy; keep the authorities up-to-date with changes to relevant public credit ratings (credit worthiness through up-to-date risk assessed counterparty lists); assist with the use of risk management techniques and assist with the training of officers and Members on the above.
- 1.1.4 The current contract with Sector for Treasury Management advice is extendable until March 2017 and can be terminated on 31st March 2015.

### **1.2 Procurement exercise on a potential fund manager**

- 1.2.1 Officers have summarised below two potential options on the timing for a procurement exercise for appointment and use of an external fund manager:
- **Option A** – A procurement exercise commences during the last quarter of 2014/15 – following the approval of the Council's spending plans as part of 2015/16 budget and council tax setting reports at the end of February.
  - **Option B** – A procurement exercise commences during the summer of 2015 –allowing for further opportunity to consider the business cases for some potentially significant investment opportunities such as PSVII, Waste Transfer Site and Investing in Housing within the Borough, and the Council's overall spending plans.

### 1.3 **Factors to consider on the timing of the procurement exercise**

1.3.1 Below are a number of factors for Members of the Sub Committee to consider when considering options A and B above. These factors have been considered by Officers when arriving at the recommendation set out at the beginning of the report.

<b>Factor</b>	<b>Consideration</b>
<p>Spending plans and value of investment balances for a fund manager</p>	<p>The Council continues to plan for the short to medium term, however the budget and council tax report for 2015/16, to be considered at Full Council on 24<sup>th</sup> February 2015, will focus primarily on the year 2015/16 with future plans subject to the re-approval by the new administration following the May 2015 general and local elections.</p> <p>It is anticipated that the Budget and Council Tax reports for 2015/16 will make reference to, but will not be seeking approval of any investment plans for some of the significant investment opportunities; such as the Public Service Village Phase II, the Waste Transfer Site and the potential investing in Housing within the Borough; that are currently being considered by the Council with each investment being the subject of an individual business case and relevant due diligence.</p> <p>With so much uncertainty in the Council's medium term spending and potential borrowing plans it could prove difficult to predict accurately the treasury management activities and therefore support required from an external fund manager beyond 2015/16.</p> <p>Having said that, the Council does have a statutory requirement to plan for a minimum of 3 years and therefore the projects for 2016-18 contained in the 2015/16 budget and council tax report to Full Council on 24<sup>th</sup> February 2015 could be used as the guide to procure external fund managers with flexibility then built into the contract.</p>
<p>Current market conditions and rates of return</p>	<p>Investment rates have continued to fall, due primarily to the banks' ability to easily access cheap funds from the UK Government via the Funding for Lending Scheme which has decreased their reliance on borrowing wholesale funds (such as local authority investments). Whilst the current base rate remains at 0.5% and with the medium term rates beyond 12months remaining at some of the lowest, it isn't without surprise that the current advice is for short term investments of up to 12months.</p> <p>The value of external fund managers is in accessing some of the hidden market rates above those accessible by an in-house treasury team; these rates haven't been experienced for some time now and therefore the in-house team are broadly experiencing similar rates to those offered through a fund manager (this is however based on our limited</p>

	<p>experience of fund manager returns) allowing also for the brokerage fee that is payable through a fund manager.</p> <p>The Council's Treasury Management Advisors are now projecting that the base rate will remain unchanged until later in 2015 when a 0.25% increase is predicted. However, whilst interest rates in the short and medium term remain so low, it is not considered to have a material impact on the Council not having a formal contract with an external Fund Manager.</p>
Value for Money	<p>The Council is likely to get the most out of its proposed procurement exercise when it has a clear understanding of its cash flow (investment and borrowing) requirements. This will form the basis of the specification for testing the market. Without clear plans, the Council will have to be ambiguous with its cash flow requirements and request a high degree of flexibility with an external fund manager. This could have an impact on the likely brokerage fees from the procurement exercise.</p> <p>Another factor that could assist St Edmundsbury with achieving overall value for money would be to consider a joint procurement opportunity with Forest Heath, whose contract with its existing fund managers expires May 2015.</p>

### **Timetable of Options**

- 1.3.2 The below table summarises the high level timetable for both procurement options.

<b>Event</b>	<b>Option A</b>	<b>Option B</b>
Approval of 2015/16 spending plans	24 <sup>th</sup> February 2015	24 <sup>th</sup> February 2015
Agree Specification for Fund Managers and investment balances available	Middle of March 2015	Middle of July 2015
Appoint external support (up to 2 days) for procurement exercise	By end of March 2015	By the end of July 2015
Conduct procurement exercise	April – June 2015	August – September
Appoint external fund managers	August 2015	October 2015
External Fund Managers to feed into 2016/17?? Treasury Management Activities	February 2016	February 2016

## **2. Additional supporting information**

### **2.1 Legal and Policy Implications**

2.2 There are no legal, policy compliance / power implications as a result of this report.

2.3 This report is in line with the current Treasury Management Strategy.