DEAL MAKER

Manchester’s treasury chief on city deals, austerity and stable finances  page 22

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Editor's Letter

Decision time?

It’s decision time for many in local government. Not only are accounts being closed and budgets recently crafted for 15/16 (along with the uncertainty of the period beyond), but the prospect of rising interest rates means there are some tricky calculations to be made for treasury investments.

None of that is easy, as the contributors in this issue aptly demonstrate. Take the Room151 Think Tank (page 14), our event to thrash out the prospects for treasury strategies. It’s clear that many treasurers see their investments and liabilities at a turning point. Views on how to go forward are diverse, but the prospect of bail-in regulation for the big banks, and interest rate rises sometime next year, mean that key decisions will need to respond to a financial environment in a state of flux. Just as the downturn had big implications, after five quarters of GDP growth (as modest as it has been) so might an upturn. As Phil Triggs points out in his article (page 28) it may all rest on when employment hits the right level for the Bank of England to nudge the rate upwards.

In this, of course, local government will be relying on the judgement of Mark Carney and his economists, not Whitehall. Which will be a relief for many of our readers, no doubt, but certainly for Agent151 (page 39) whose column concentrates on the disappointment of dealing with civil servants. Never a happy encounter and one fraught with frustration it appears.

Complexity

Of course local government doesn’t just face one set of financial decisions. While investment looms large finance has other roles to play. Our interview with Richard Paver (page 22) details the intricacies of his job in Manchester, the first council to strike a City Deal for investment based on an “earn back” arrangement. Paver’s is a stark example but for further proof, if proof were needed, read Aidan Dunn, of Suffolk County Council, whose diary (page 38) reveals a finance operator involved in contract negotiation, at the sharp end of a beasting from local business leaders and learning from his council’s involvement in social media.

And that tells us something. The finance role is far from narrow, nor are the range of decisions involved in the job. As painful as being in local government may be, it is also one of the most fascinating places to be right now.

Gavin Hinks
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Local government has “little room for manoeuvre”

The current system for funding local government is running out of steam. Both the Local Government Association and CIPFA made the case for reform while appearing before MPs on the common’s local government select committee in March.

The two bodies have jointly set up a commission to look at future options for local government finance, but took the opportunity to push the point home in March as part of the committee’s investigations of fiscal devolution to cities and city regions.

CIPFA’s chief executive Rob Whiteman (pictured) argued for a review to determine what central government wants local authorities to achieve. He argues that local government currently fulfils the function of delivering services chosen by central government departments, “with very little room for manoeuvre within the proscription of what they do”.

This he says achieves financial control and some economies of scale, but fails to achieve what he refers to as “system efficiencies”. Centralised control over spending means councils cannot act to direct funds to address “early intervention” or “prevention”.

To do this local government would need to have more control over revenue raising. “Within a decade the system just might not work anymore because councils are so straight-jacketed in what they can and cannot do,” said Whiteman.

Rob Whiteman has made a big impact since he took on the role of chief executive with some good media coverage. But I’m not sure I entirely agree with his assessment of local authorities becoming more like government agencies rather than true local democracy. Yes, some of the so-called “localism” ideas do smack of centralisation but there has always been somewhat of a command and control tendency in the Department for Communities and Local Government (DCLG).

Capping (sorry DCLG, ‘referendum criteria’) has been going on for years. It would be great if a local authority did accept the challenge and go for a referendum (I thought it was going to happen this year) to test the public’s appetite for services versus tax. I think other areas of finance reform have created some wriggle room and it will be interesting to see how the Localised Business Rates system starts to work. I was struck - when I went skiing in April to the French Alps and had to pay the tourist tax - what a simple tax this would be to implement that could go a long way to paying for better local services in tourist hot spots.

This is really one I think the government could loosen up on and let councils implement.
Tower Hamlets raises support questions

The debacle at Tower Hamlets council has prompted questions about the role of s151 officers after inspectors were appointed to examine finances at the authority.

The appointment of audit firm PwC came after allegations were made by the BBC’s Panorama programme of fraud at the council. Secretary of state Eric Pickles asked PwC to look into claims of governance failures and poor financial management. A file was also passed to the Metropolitan Police which has since said it found no evidence of fraud or other offences.

Tower Hamlets’ mayor Lutfur Rahman (pictured right) has denied all the allegations. But events in the borough have prompted discussion about the relationship between elected members and their spending agendas, on one hand, and council officials with statutory responsibilities on the other.

One local authority finance chief told Room151 that there were few options for s151 officers to receive support and report concerns if their own authorities ignored their advice.

In a statement issued by DCLG Mr Pickles said the decision to call in PwC was “not taken lightly”. He added: “Localism requires local transparency, scrutiny and accountability and these vital checks and balances must be upheld.”

The judgement about when a line has been crossed into “inappropriate” behaviour can be very subjective at the margin. The solution is to efficiently keep robust records of the decision-making process and authority for actions.

The fear is that this could be interpreted as needing to pile additional bureaucracy onto day-to-day activities, ultimately costing the tax-payer and frustrating day-to-day service provision. Am I being too idealistic to suggest that the default setting should be to act in good faith and to assume that others in public service will too?

In the tiny minority of cases where people do not, evidence seems to suggest that they get found out - and there is already a system in place to deal with the consequences of that.
Downgrades demand “flexibility”

The UK banking sector suffered another blow when Fitch, the ratings agency, downgraded its outlook for four banks, a move likely to prompt local authority treasurers into reviewing their strategies.

Lloyds Banking Group, Lloyds Bank plc, HBOS and Bank of Scotland have been revised to negative from stable. A statement from Fitch said the revisions came because of “the probability that sovereign support will be provided is weakening.”

Fitch believes government support remains likely if trouble strikes. But also developments in legislation should over time make it less probable.

The European Union is working on legislation that would remove the need for bank bail-outs and make bail-ins, by share and bond holders, as well as big customers, more likely.

Fitch said the ratings “have been affirmed to reflect Fitch’s view that support for the banks from the UK authorities (AA+/Stable), in case of need, is still highly likely because of their systemic importance. However, the Negative Outlooks show that the support propensity may weaken over time as resolution legislation evolves.”

Fitch’s decision raises the issue of whether local authority investments are sufficiently diversified and whether there are enough investment options out there for local authority money to avoid counterparty risk.

Frank Wilson
It’s been pretty tough watching our credit rating reports of late as the average ratings continue to decline (is A the new AAA?). I think we just need to stay fleet of foot and alert to what our advisors are telling us. Clearly the loss of the Co-op to the local authority banking sector will impact on a number and our bank has just been downgraded such that we can’t keep funds with them now.

My best guess is that this will further increase the utilisation of money market funds, as this can be seen as outsourcing the credit problem to the funds (clearly the consequences stay with you though).

More generally it creates a further fall in confidence in banks for local authority investment deposits.

Trevor Castledine
Looking at a rating as a proxy for actually understanding the quality of an investment is lazy and has proven to be a dangerous approach. If they don’t already, treasurers need to actually understand the quality of the banks where they deposit money and have suitable limits to minimise concentration risk. In my view, the Basel III regulations will have made banks which survive much safer places to be creditors, albeit by imposing significant stress in the short-term as capital buffers and other ratios are built up. However, diversification of risk is still of value and cash balances can be stored in money-market or short-term bond funds. Effort needs to be made to establish such safe havens as alternatives to traditional banking deposits, if such a facility does not already exist.

Stephen Fitzgerald
For me good treasurers approach this area in a flexible, intelligent fashion to achieve financial advantage for their authorities. Treasurers need to exercise judgement whether the criteria in their treasury management strategies are still appropriate in changed circumstances. A slavish adherence to the ratings seems to me to be a slightly unsophisticated approach. Good financial decision makers need to take account of all relevant factors, including the weight given to credit ratings and why. I have been astounded that there has not been more self-criticism from banks and other city institutions about their bail outs. If local authority treasurers had shown the same level of competence they would have been looking for new jobs, not being awarded bonuses.
IT PROCUREMENT MUST IMPROVE

It’s been made official. The public sector needs to improve their procurement of information technology.

Spending on IT in the public sector ran to £13.8bn in 2011/12 but according to an Office of Fair Trading report in March procurement procedures are “overly complex” while gaining security clearances creates costs that are prohibitive to suppliers.

Buyers sometimes lack the information needed to make a judgement about IT, while the absence of data collection in the public sector makes it difficult to challenge incumbent suppliers on their performance.

The conclusions once again throw a spotlight on the public sector and its struggle to commission IT projects effectively following a series of costly blunders.

“The OFT also found that the public sector lacks sufficient in-house commercial and technical expertise that could help it understand and manage large and complex ICT contracts more effectively,” said the OFT’s report. Suppliers know more than public sector officials about the quality and suitability of products, the report adds.

Rachel Merelie, the OFT’s project leader, said: “The public sector needs better information and expertise so it is able to judge whether ICT suppliers are delivering good value for money.”

Frank Wilson
I think one of the problems here is that many authorities try to package up a massive range of services and software into major long-term contracts and expect their managers to understand them all and manage them.

Of course this is not helped by some of the requirements placed upon councils regarding security from the likes of the Cabinet Office with blanket approaches to issues such as the Public Services Network.

Getting an intelligent client to not only undertake the procurement, but also manage the ultimate contract, remains a challenge for many. Budgets cuts and increasing competition in pay from the private sector make for added difficulties. This is only set to get worse as the economy picks up and more contracts go out. Simpler usually remains better.

Trevor Castledine
Is it any surprise that overly complex procurement procedures lead to inefficient solutions for the public sector? The trade-off between the risk of a procurement challenge and the risk of getting a bad deal is not being correctly positioned.

I don’t believe that sufficient challenge is made as to how much flexibility can really be put in procurement documents, to avoid being backed into a sub-optimal decision later down the line, with a “zero-risk of controversy” approach being taken instead.

On in-house expertise, it’s very difficult in times of budget reductions to be brave enough to spend-to-save. But ultimately that’s the decision. Hang the possibility of people complaining - pay the amount necessary to bring the correct people in - and then back them to take a pragmatic approach to procurement.

Stephen Fitzgerald
Performance in this area is variable across the public sector as a whole. In spending taxpayer’s money we have to be vigilant to ensure procurement processes are even-handed and can transparently demonstrate that value for money is achieved. With this in mind, it is not always possible to proceed as flexibly as the private sector.

The issue of commercial expertise really comes down to the quality of the council officer. If we are remunerating our key officers in this area below the level of the private sector it is hardly surprising if the quality of decision-making is not all it might be. This is one of the reasons why the current stance from central government on senior public sector pay is likely to be destructive. Some local authorities do IT procurement well, but we will always hear more about the failures than the successes.

*Public Sector IT expenditure 2011/12*

Source: Supply of Information and Communications Technology to the Public Sector (OFT)

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total</th>
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<tr>
<td>Central government</td>
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<tr>
<td>Local government</td>
<td>7%</td>
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<tr>
<td>Defence</td>
<td>17%</td>
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<tr>
<td>Education</td>
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<td>Health</td>
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<td>Criminal justice</td>
<td>14%</td>
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<tr>
<td>Transport</td>
<td>16%</td>
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</tbody>
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*Public Sector IT pending products*

Source: Supply of Information and Communications Technology to the Public Sector (OFT)

- Hardware (£2,143m)
- COTS software licences (£1,685m)
- Outsourced IT services (£4,811m)
- Non-outsourced service (£2,710m)
- Communications (£3,633m)
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(1) Source: Lipper FMI FundFile as of June 2013. AUM of open-ended funds domiciled in Europe & Offshore territories (excluding mandates, dedicated funds & funds of funds) from Money Market & Money Market Enhanced Investment Types and gathered by Master Groups (Currency Exchange Strategies Fund Sector & Absolute Return Fund Feature excluded). Issued by Amundi S.A is a limited company with a share capital of €596,262,615 - Portfolio manager regulated by the AMF under number GP04000036 - Head of ce: 90 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com. This material is communicated solely for information purposes for professional investors and neither constitutes an offer to buy, an investment advice nor a solicitation to sell a product. This material is neither a contract nor a commitment of any sort. All potential investors should determine prior to any investment decision the suitability of any investment, seeking the advice of a professional adviser as well as the tax consequences of such an investment. The information contained in this material shall not be copied, reproduced, modified, translated or distributed without the prior written approval of Amundi, to any third person or entity in any country or jurisdiction which would subject Amundi or any of its products, to any registration requirements within these jurisdictions or where it might be considered as unlawful. October 2013. Photo credit: Getty images.
£100m loan continues lending trend

Northumberland County Council has finalised a loan of £100m to an NHS trust marking another step in a potential new trend for lending by local authorities.

The 25-year loan is aimed at reducing PFI liabilities for Northumbria Healthcare NHS Trust on contracts for work on Hexham Hospital and the second phase of Wansbeck General Hospital in Ashington. The loan, under discussion since 2013, will be charged at 0.25% above the Public Works Loan Board rate.

Northumberland’s loan follows an arrangement struck by Warrington Borough Council in February to lend £90m to a housing association.

Steve Mason, executive director of corporate services at Northumberland CC, told Room151.com that the loan was intended to help avoid the necessity for cuts by Northumbria Healthcare. No extra borrowing was made by the council to deliver the loan.

The county council manages its debt as a single portfolio and periodically takes on fresh borrowing when loan rates suit, he added. Mason said the “fairest” way to calculate a rate was to link to PWLB rates.

Elsewhere Mason has been reported saying legal advice was taken to ensure the loan could be made.

Warrington’s £90m loan was made to Helena Partnerships and is aimed at supporting the provision of 1,400 new homes.

Frank Wilson
These recent developments are interesting and the logic behind the Northumberland deal around protecting local health services is hard to argue against.

It is however hard to draw lines between borrowing to on-lend (which of course Northumberland insists it is not doing) and investing in the local community infrastructure.

I am sure both these large councils have thoroughly checked out their legal positions, but you could see a challenge coming along at some stage if someone gets their sums wrong in terms of borrowing power.

Having said that, what is the difference in outcome terms between a council financing a new hospital for example (and leasing to the local Trust) and providing a loan so that they can do the same (or buy out a PFI deal on a building)?

We are continually asked to be innovative by government but with innovation comes risk - it will be interesting to see from which direction a challenge might come.

Mind you, it just goes to show what many of us finance professionals thought of PFI – Pretty Fine Investment (for the banks...).

Trevor Castledine
Without commenting on the specific case, my concern would be whether councils in general actually have the correct level of credit assessment expertise in-house in order to make and manage large, long-term loans safely.

It has to be asked why it is considered to be within councils’ remits to become part of the shadow banking community. If funding isn’t available from “normal” channels why would a council be willing to lend? If it is, what is the rationale for lending more cheaply? Clearly, this market could develop to be of large size - councils control a lot of money - but I see significant risks associated with building up lending portfolios without putting in place the correct human infrastructure. Given the constraints of local authority spending, I wonder if that is really feasible. When the first loan defaults, we could see some significant fall out.

Stephen Fitzgerald
The principle of pan-public sector financing has been established for some time among local authorities and from my experience the market has been working effectively without much publicity. It is desirable that this be extended to longer-term arrangements where it is supported by a business case.

However, with such large transactions involved, it is important that the local authority carries out due diligence to ensure that taxpayer’s money is protected, which I am confident will be the case in those loans that have been recently reported in the media. It is also important to ensure that providing loans does not compromise liquidity of the authority by tying up money which might be needed to support core business in these tight financial times. Each local authority’s circumstances are different and these arrangements should be a matter for local discretion with council members being fully informed of the implications of the decisions and the rationale supporting them.

Ultimately, I see this as a positive development. A key element of the future should be closer working between public sector bodies to achieve the best outcome for communities and there is no reason why this should not extend to loans and borrowing.
In 2013 local government was handed (back) the responsibility to administer and allocate healthcare budgets across its authorities. The opportunity that comes with that funding is huge but the implications of failing to allocate it wisely are equally daunting.

The big opportunity here in my view is to streamline funding and to begin tackling healthcare by implementing more preventative measures. So, rather than the health service responding to people’s health symptoms, you try to look at the whole person in their care pathway and provide services and solutions that address problems before they become acute. This is not just, what do they need now, but what do they need next and what will they need after that?

Funding has been given to the upper-tier authorities and a single fund is effectively being managed by the county council in our case. As a district, a large part of what we’re doing recognises the role housing plays in the healthcare conundrum and we’ve set out a programme of housing adaptations designed to improve the long-term health of our tenants. If you can provide a comfortable enough living environment for someone who might otherwise need to be taken into care then the financial benefits to the system further down the line can be massive. And while we’re currently spending around £1m a year in this area, the burning question for us is, should we be spending more?

Most councils will tell you that we’ve got huge demographic pressures coming our way. An ageing population with increasing health needs demands resources. Tackling their future issues now rather than waiting for a tidal wave of acute ill-health episodes is a no-brainer. As local authorities and as a country, we have to ask ourselves if we can afford not to increase funding towards preventative healthcare measures. We can see that healthcare costs are growing and we can see the demographic trend is likely to exacerbate the cost of care. We know that healthcare budgets, throughout the era of austerity, have continued to rise with inflation, year-on-year (in stark contrast to councils’ budgets), yet we see that demand for services is outstripping resources at an alarming rate.

As a district council we have to be strong players in trying to work with the clinical commissioning group and the county council to influence policy and strategy. We do this through the health and wellbeing board, among other outlets. From a more practical point, as mentioned above, we’re trying to generate positive outcomes through housing.

For some people the stress on housing is a little tangential, but we see quality accommodation as a key driver in quality of life, wellbeing and health. One of the pieces of work we’ve been doing is around fuel poverty and retrofitting solid wall houses that you can’t insulate effectively. When temperatures fluctuate too much you get mould, damp and mildew and these conditions can be the cause of some pretty serious health problems. The only way to combat them effectively is by introducing constant heat in the home. We’ve tried to do that by retrofitting the walls to create insulation space. That’s a project that runs into the hundreds of thousands but what will it save us in the long term? It’s a difficult question to answer with any accuracy but our best estimate points to it being a sound investment.

We’ve also developed a partnership with Savills to finance solar panels on many of our tenants’ roofs. Savills rent the roof space from us in exchange for the feed in tariff. The tenants benefit because they get the free electricity. That’s actually happened with little upfront cost to the council, but could make a big impact on quality of life by lifting people out of fuel poverty.

We’ve got three big challenges ahead of us. The first is recognising that prevention is better than cure and to some extent I think that argument is beginning to be acknowledged. The second is putting the case forward that there are good reasons why we, as councils, should be increasing our spending in this area at a time when cuts are much easier to justify. Lastly, we need to convince government that to help us meet these challenges there are funding issues that must be addressed. At the moment they may agree that there’s a problem, but they don’t necessarily think it’s theirs.
Political manifestos and financial plans, at the national and local level, are fundamentally born out of politicians’ beliefs and motives. The ethics contained within those manifestos, or absence thereof, are (in theory) passed on to council officers who are charged with seeing political will made real. Depending on the policies of leaders responsible for the manifestos, council officers may be required to put their council’s money towards supporting ethical and environmental ends—or not.

To my mind, that is where a council’s ethical responsibilities start and finish. We the officers have a four-yearly task to integrate a new manifesto into a much wider corporate plan for the council and contained within that plan are a treasury management strategy and, in some cases, a pension investment strategy.

We often hear arguments about the moral and ethical obligations of the Local Government Pension Scheme and, occasionally, we hear debates about which counterparties treasury money should or shouldn’t be placed with.

As a CIPFA-qualified director of two councils, both positions strike me as unworkable on any number of levels.

Firstly, one person’s ethics is not necessarily the same as the next person’s. If we look at what we might broadly define as left-wing ethics, right-wing ethics, various religious views, secular ethics and so on, it becomes obvious that the whole area is subjective. Take an example which strikes me as completely unethical—the provision of tobacco. If we discovered tobacco today it would never be allowed to reach the shops. It is toxic to human health, reduces the length of people’s lives and places a huge burden on the NHS. But free marketeers will tell us the tobacco industry maintains jobs and generates tax revenue. Smokers argue that they have the legal right to smoke, so why should their elected officials use tax payer money, or their own pensions contributions, to impose sanctions on the companies where they choose to spend their money (particularly if those sanctions also result in a loss of return for a pension fund or treasury portfolio)? You may or may not buy the argument, but it goes to show, even with the most obvious of examples, that taking an ethical position that genuinely reflects the views of the wider electorate, never mind the members of local authority cabinets, is fraught with difficulty.

Anything fraught with difficulty in a local authority tends to mean one thing—more time and money. And here’s my second issue: you just can’t do this properly without allocating substantial officer time and resource to it. Bear in mind that in treasury we already have a fiscal duty to assess every counterparty against the criteria of security, liquidity and yield, in that order. If you decide you’re going to turn that triangle into a square and apply ethics as your fourth criteria, every decision you make about counterparty suitability is going to take much longer and require much more resource. We’ve trained our treasurers to balance the triangle—our finance officers can competently assess security, liquidity and yield, judging how each trades off against the other to produce the optimum decision for the organisation. But throw ethics into this mix and most would struggle to cope. Not only that, but optimal financial investment decisions would be compromised in favour of social and environmental considerations, which disbenefit the organisation’s financial health in favour of the “greater good”. This is not the treasurer’s core skill set.

Even then, in our increasingly litigious society, a massive evidence base would be required to justify such subjective decisions against claims from disgruntled organisations who meet all of our standard treasury criteria but fail short of the ethical test.

Bear in mind also that to do this properly you want to be able to make black and white decisions that can be scrutinised, challenged and justified. If you’re going to make ethical judgments about organisations you do business with, you don’t want any grey areas such as “the treasurer’s opinion”. Does the counterparty...
or investment opportunity meet our ethical benchmark, whatever that might be, or does it not? Few councils will be investing directly in tobacco stocks through their treasury function – we generally hold very little in equities – but we might have unit trusts or, let’s say, short-duration bond funds.

If you currently invest in a unit trust that holds fifty stocks, one of which is a tobacco company, are you prepared to disinvest after all the due diligence you’ve done on the fund, just because of the one tobacco stock?

What if your short-duration bond fund buys some Tesco debt for a few months? Tesco sells tobacco of course. You may decide that tobacco distribution is just as bad as tobacco manufacture – or maybe you should consider it. Either way, your investments, albeit briefly, include loans to a corporate who may not meet your ethical criteria - if you’ve managed to define them. Do you pull your money, wait for the fund’s manager to sell the Tesco paper and then re-enter the fund? How do you know when that’s going to happen? Are you going to suffer redemption penalties? What yield do you sacrifice in the meantime?

How about banks? Whatever your view on the changing nature of treasury portfolios, banks still make up the lion’s share of our approved counterparty list. Now, I bet that if you look across the entire portfolios of all the banks you place cash with you won’t find a single one that doesn’t have a tobacco stock, or a tobacconist, somewhere among its investments or business customers. Fundly enough, you might have made a case for the Co-operative Bank on those grounds a short while ago and look what’s happened there. If you want to apply indirect investment screening to your portfolio as well as direct investment screening, you are likely to end up with no bank counterparties at all, and where would that leave your security and liquidity requirements?

If you then decide, pragmatically, there’s no way you can afford to monitor indirect investment comprehensively, and restrict yourselves to worrying about direct investments, then your policy probably won’t be that ethical after all. There really isn’t a satisfactory halfway house where ethics are concerned.

It’s also worth asking who you would be doing this for? The greater good of society is of course what underpins decisions like this, but whose money is it and what do they want their money to achieve? If we’re talking about the LGPS and council treasury portfolios then the money belongs to pension fund members and residents, respectively.

If I had to guess I would say both camps would vote with their wallets if canvassed about the best use of their assets. Ethical investment policies are by definition constraints designed to exclude companies on non-financial grounds and so with that comes the risk that your policy will force you to forgo yield at some point. Do the ultimate owners of the assets want that?

The fact is, councils have any number of conflicting responsibilities which mean that certain parts of our organisations are going to pull against other parts.

We have a responsibility with healthcare budgets, for example, to promote the health and wellbeing of our residents and we do that with things like anti-smoking campaigns. And in other parts of the council, like our pension funds, we might be investing in the tobacco companies who produce the cigarettes we’d like our residents to stop smoking.

It’s far from ideal but it’s symptomatic of organisations that have limited resources and no shortage of demand for a conflicting range of services that fall under our remit. I think the best any of us can realistically be expected to do at local authority investment level is follow what UK law dictates.

If a company is a legal entity and central government has found no reason to revoke its legal status then for us to apply our own subjective view of its ethical merit leaves us open to large increases in workload, dwindling counterparty lists, if it’s done thoroughly enough, and possibly even legal challenges from the companies we decide to exclude.

We don’t have the time, resource or expertise to drive ethical policies in treasury management and pensions and there is no sense in us doing it merely as a box-ticking exercise.
Richard Harbord
Richard Harbord is chief executive of Boston Borough Council
@richardharbord

Finding the future of local government

A dramatic reduction in funding has raised questions about the purpose of local government. Richard Harbord suggests we need an answer soon.

There has never been a time when the future of local authorities has been so discussed. This has been brought about by the great downturn in finances and the reality that decline is likely to continue for the foreseeable future.

The problem is the debate is not focussed and “the future” tends to mean different things to different participants. Much of the discussion has been superficial rather than fundamental.

If the leading national politicians are asked about the future they say there will always be local authorities. That is because there is much minutiae which central government is not geared up to deal with.

The question, therefore, is not whether there will be local authorities but what role and form those local authorities will take, and more particularly about the national structure in which they sit.

Same old same old...

Almost 20 years ago I did some research with a professor at the University of Minnesota under the grand title of Public Sector Redesign. Strangely, the research started with the then new free schools in the US, and how the thinking determining their structure could be applied to the wider public sector. The central point of my thesis was that we could not carry on with the way we provided individual services and, most importantly, the way we dealt with our public services needed a re-think.

There have been studies over the years sponsored by central government, such as Lyons, which looked at developing strong independent local authorities by ensuring they were financed in a way that would give them some independence. Central to those conclusions was the return of business rates to the control of local authorities. That was, however, a proper return.

Not the half-hearted and doomed arrangements we currently have foisted upon us (entirely my own view – feel free to disagree).

You cannot escape the way services have declined since the end of the second world war and the fact that local authorities have been in gradual decline from the day I joined until now, and that there is no chance of resurgence in my life time.

From time to time people get very excited about the actual structure of local government. There have over the last 50 years been some very major reorganisations, led by London in 1965 forming the 33 authorities that are there today. There has been talk of a further rationalisation, but the thing is that major reorganisations are very costly and lead to a period of no activity while everybody gazes at their navels and wonders if they have a job. None of the major reorganisations have ever had thorough post-event appraisals to see if the claims for efficiency, customer service and economies were really fulfilled.

Unenthusiastic

Today’s main political parties are not enthusiastic about this sort of change and Eric Pickles is certainly on record saying there will be none while the current coalition is in power. Change presently rotates around shared services and shared management teams, and there is an ongoing bidding round where a shared management team is the passport to additional funds.

There have been good and bad examples of shared services. I have never been a great devotee of major sharing of back office services. The more adventurous of these have had very mixed success. Achieving unified terms and conditions and the right balance of political input etc, has proved to be hard and difficult to sustain. I believe that there are benefits of opportunistic shared services which might involve several separate services and sharing with different authorities.

I find the concept of shared management teams slightly difficult as well because managing two authorities with different personalities and policies is a time consuming challenge.

The point is that I wonder whether there are sufficient long-term and sustainable benefits from these initiatives to see us through. I strongly feel that the real think pieces should be directed to starting from the customer perspective and seeing what a local authority should be doing to make life more bearable.

If we don’t get on with this, it will be too late.
Surviving the QE roller-coaster

Pension fund investment strategies need to prepare for coming volatility as the Quantative Easing tap is turned off

With so much discussion within the Local Government Pension Scheme (LGPS) about governance, structural reform and collaborative initiatives, it’s easy to overlook how volatile funding levels have become and what this means for investment strategy.

The last few years have seen unprecedented monetary policy measures, or Quantitative Easing (QE). We have all become so familiar with this central bank toolkit we forget just how extraordinary it is. Interest rates have been cut close to zero and followed with purchases of government debt on a level that was inconceivable prior to the 2008 financial crisis. Every step has been taken to stimulate economic activity by making money as cheap as possible. It is a policy that appears (finally) to have worked in the US and UK, and is now being aggressively adopted in Japan and Europe.

QE has also had a large impact on LGPS funding levels. Initially, this was undoubtedly negative. The Bank of England’s buying of gilts drove yields lower and caused actuarial calculations of pension fund liabilities to rise sharply. Most LGPS funds have little exposure to gilts (certainly far less than is typical for private sector schemes), preferring instead to focus on riskier assets with higher expected long-term returns, such as equities and property. With “safe” gilts rising faster than risk assets, funding levels deteriorated quite quickly.

Recently the impact has been more benign as easy money flooded markets and drove up the price of risk assets. Since May 2013 there has been a growing recognition that QE will eventually end, particularly in the US. Government bond yields have moved a little higher. Funding levels have therefore improved.

LGPS funds in England and Wales will have seen actuarial valuations in March 2013. Typically, these show a rise in their deficits since 2010, higher than in 2007. The average funding level for the sector, calculated on a consistent and conservative basis, would probably be around 75%. Roll that forward to the end of 2013, with risk assets having risen and gilt prices fallen, and the funding level could have been up to 10% higher. Some of this gain will have been lost in the first three months of 2014, but the volatility of funding levels is clear.

This volatility could soon become relevant to investment strategy. While the funding shortfall is large, strategy will focus on return generation to close the gap, with little attention paid to liabilities. However, we may now be in an environment where funding levels swing sharply up and down, and some funds may want to adopt strategies that lock-in at least part of what could be short-lived improvements. Liability focused investment strategies are a logical response to such an environment.

QE has also changed the nature of risks facing LGPS funds. The flood of money into markets means there are no “cheap” assets any more. In equity markets, for example, US shares are priced at historically high multiples of historically high profits (relative to the economy). There has been little earnings growth in the last year, but investors have been willing to pay higher prices, so the scope for disappointment is growing. In property, valuations have started to rise sharply and it is increasingly difficult to invest quickly. In bonds, high yield and other credit spreads are returning towards the low levels seen immediately before the financial crisis. There is little margin of safety in almost any asset type. Even “safe” assets are now at “risky” valuation levels and running to cash is not really an option because it is guaranteed to deliver returns well below inflation.

How will this play out? The only certainty is that QE is not permanent. At some stage monetary policy will return to normal and the tide of liquidity will go out. Policy makers will make strenuous efforts to avoid destabilising markets during this process, as has been seen from the actions of the US Federal Reserve. However, eventually the QE drug does need withdrawing.

What is far less clear is how markets will react as this unfolds. Will bond yields continue to edge higher? Will risk assets continue to sustain higher ratings? Will inflation be allowed back into the economic system as a means of reducing the burden of public sector debt? It is likely that swings from optimism to pessimism and back will continue for some while. LGPS funds would be well advised to start monitoring their funding levels more regularly and to create a strategy framework that enables volatility to be used as an opportunity rather than a threat.

John Harrison

John Harrison is a senior adviser with AllenbridgeEpic and independent adviser to four LGPS funds.

Issue 3 June 2014
Rising rates, bail-ins, tight budgets and diversification revealed at the Room151 Think Tank as driving treasury strategy

Participants

Mike Batty, principal accountant, treasury & investments, LGSS
Jonathan Hunt, director of corporate finance & investment, Westminster & Tri-borough
Dave Kempson, chief finance officer, Luton
Nigel Mascarenhas, head of treasury, Camden Borough Council
Amir Mota, client adviser, local authorities, J.P. Morgan Asset Management
Dom Piper, J.P. Morgan Asset Management
Phil Triggs, strategic manager, pension fund & treasury, Surrey County Council
Bridget Uku, group manager, treasury & investments, London Borough of Ealing
Nick Vickers, head of financial services, Kent County Council
John Wood, head of financial & commercial service, Staffordshire County Council

How are treasury strategies evolving in the current environment?

Bridget Uku: One of the first things that attracted me about treasury management, one of the first selling points is about the fact that it cuts across a range of professional disciplines. We’re seeing that more so now than ever before. Risk management is definitely lying at the heart of our investment philosophy, so it’s very important we have a treasury risk & investment board where we have senior management sitting there with treasury staff getting an update of what our risk exposures are, making sure that we measure them... and also counter party management... because that’s a big thing for local authorities.

Other things we’re looking at are the fact that now, with the banking sector,... local authorities are having to come up with innovative ways of providing the services that they want. Treasury management is lying at the heart of partnership working with social housing, and all sorts of different things like that, to ensure that we provide the needs of the borough and provide financing where the banks are not providing it.

Jonathan Hunt: The concept of security still very much remains and has to. It then becomes [about] the types of investment, moving away from banks... It is morphing into should we look at doing internal investment with the surplus cash we have, because we can’t repay our loans at sensible rates. That is a developing story that has happened and is going to continue going forward. The days where treasury was just purely investing in banks... have now gone and people look very much at different ways of putting their money to work.

Nigel Mascarenhas: What strikes us... is the sheer spectrum of strategies out there... Just in London you see some authorities who will only invest with DMO and then you see other authorities who’ve taken cash up to two three years out with banks whose ownership is not clear in that period of time. That strikes us as quite a strange situation to be in. Our risk appetite is somewhere in the middle of that. It’s also interesting that we’ve chosen not to go with the recommended duration that our advisers are suggesting. We’re slightly more cautious. Where they’ve removed time limits on some counterparties we’ve tried to stick with those... We use CDs now, money market funds, treasury bills, all sorts of instruments, and I think that will increase. One of the ways that we get good counterparty exposure is by using money market funds. We can’t do all that due diligence in-house so we recognise that... placing MMFs, who have proprietary credit rating systems, works very well for us.

Dom Piper: As well as your observation that strategies differ across local authorities, when I look across our client base and the cash space, it differs even more. We have definitely seen a seachange. If you look back to the height of the crisis there was a massive retreat back to government and treasury style funds. That’s eased off.

We’ve seen money come back into credit funds. But we are still in a very low rate environment. Even when we see rates pick up on the short end, we’re not going to see that pick up in terms of banking relationships, and that moves more from, or is driven by, economic pressure, as well as regulatory pressure of the likes of Basel III, which is just going to continue to impact banks for holding short-term cash on their balance sheets.

I think you are right to be looking away from traditional banking relationships, where you’re just placing one month deposits, for example. I think those days are gone.

In a money fund, yes you’re going to have diversification. Money funds are very short-dated so we’re still happy to access a lot of that short, one to three month, market with financials [banks]. Many of the better corporate names [or corporate paper] you’re going to come across are only going to achieve a treble B rating which would not be sufficient to qualify for an investment within the fund.

In terms of some of the changes we’re seeing, we’ve brought additional product in play through client demand, to start tapping into a little bit extra duration and introducing corporate...
exposure. There’s a little bit of that in the Managed Reserves Strategy that we run.

We’re having much more dialogue about segregated mandates with clients who can give up the pooled liquidity you get with a fund... a lot more dialogue around clients segmenting their cash and being aware of what they really need to be short-term or immediately available, versus what can go out longer and earn them a bit extra return.

**What effect will legislation enforcing bank bail-ins have on treasury strategies? Will it drive diversification?**

**Nick Vickers:** We’re now in a situation where we’ve got an investment portfolio that allows us to invest in property and equities. We’ve extended to covered bonds, corporate bonds, money market funds, T-bills, CDs. A small part of that is about return... but it’s really about things like bail-in risk. We nearly halved our counterparty limits from February this year from £50m to £30m for the big banks. That, sadly, will probably go down again next year. So we’ve got no option if we’re not going to end up with huge pots of money in the DMO but to diversify.

**John Wood:** Trying to get diversification is a key issue, effectively because of the impact of reduced credit ratings and the impact of the bail-in.

I’m interested to hear local authorities are starting to use a wider range of instruments to get diversification. And I guess that’s a route that we will all need to consider.

We’ve made large use of money markets in the last few years... We've had a very cautious low risk strategy focusing on custodian cash rather than investment cash. We have not actually moved away from that yet because the financial advice hasn’t changed sufficiently. Even so, because of the bail-in risk... [that] really is reducing our capacity to do it.

**Dave Kempson:** We have put some money into property but I don’t see that as part of my investment portfolio any longer because I am looking at that as gone for a long-term holding. I don’t want to get into the property buying and selling world because the risk of loss is just too great. I’m following that through for the duration. We haven’t moved into CDs, Treasury bills, equities and those kind of things, but we have to consider them now. We are heavily into money market funds and we’re extremely worried that it looks as if the regulation might change there to take that potential away.

**Phil Triggs:** Surrey’s central strategy has not been mentioned yet. It revolves around internal borrowing. The last five years our full capital
spend has been funded internally and,... in terms of generating a return, we’re actually saving on the interest that we pay on the Public Works Loans Board loans. Now at some point in the future, I think it’ll have to be sooner rather than later, that will have to be unwound and we’ll have to start reversing that policy and it’s going to be quite painful. The size of the commitment is quite major.

The saving we’re making is the difference between what we would pay on that borrowing portfolio and the return we would make. So, the difference between 5.6, 7 and say 4.4, 4.5% in interest... I think that would supersede any of the best returns on the most imaginative of investment portfolios.

That will have to be unwound - there is a date, unknown in the future, that would be the optimum date in terms of taking some pain, in terms of the cost of carry of that portfolio. But nobody knows when that date will be and my favoured approach is to drip feed gradually back in and unwind that position. But it’s quite a battle persuading politicians and management of the need to take some pain to start that reversal process.

What will happen with interest rates?

Amir Mota: We’ve been having discussions with clients now saying that it’s time to start thinking about rising rates, to start looking at treasury portfolios and seeing how each individual component and instrument reacts to a rising rate environment. We do think, as a house, that early 2015 will be the period when we see rising rates. Different instruments react differently, it’s a good time now certainly to think how portfolios are going to react and I think some are doing that.

Bridget Uku: We have been running down our internal cash balances and balancing books by savings on borrowing. We are watching interest rates and every risk meeting we’re having discussions as to where interest rates are going, when do we want to meet the borrowing and take the pain of the cost of carry for a little while. We’ve actually started to have that conversation more seriously now and we might need to start taking some borrowing soon. I don’t think the economy is ready for interest rates to go up. There is no inflation risk that’s driving that. Yes, the UK economy is firing on all cylinders, but I still think interest rates going up is a little bit further down the road.

Mike Batty: When we start to look at long-term interest rates... we don’t necessarily feel they are going to rise to the same extent. There’s less risk in terms of taking out long-term borrowing as opposed to taking it in another year or 18 months. Dipping in and out of any long-term borrowing is where we will be going for Northamptonshire and Cambridgeshire County Councils.

For long-term borrowing we look at the picture in totality. We need to understand where our capital financing requirement is going, whether we have a borrowing need and what our cash reserves are doing, whether they are projected to fall. We look at our borrowing requirement in the context of balance sheet forecasts and those interest rate forecasts.

Where do yields feature in your thinking?

Nick Vickers: My director of finance has managed to get cabinet to agree to how much of our revenue budget we will spend on debt charges. It really does mean, even if rates do start to go up, we have very, very limited revenue space because it will just mean finding savings somewhere else. Incurred those debt costs is effectively a piece of discretionary expenditure, isn’t it? So I think the yield curve and things like that, they’re less important than whether we can actually afford debt costs. We’ve got just over a billion pounds worth of borrowing in Kent, that is a very substantial revenue cost to the council, which we can’t do anything [about].

Dave Kempson: We’re in a slightly different position from some of the others here because we did some significant borrowing in advance, just before the government... went from supported capital borrowing to capital grant. We thought we were protecting the council for the future to support capital borrowing and we are suddenly in a position where... we are still over-borrowing. We have not borrowed since 2009/10, 10-11.

That put significant pressure on us and we are not looking for new borrowing currently until we get down to our absolute core cash minimum, and then it’s a question of do we allow buildings to fall down, or do we find another innovative way of doing things? Do we have to go back to borrowing? And that’s a major future dilemma for us. But I’d say that’s about five years away.

Nigel Mascarenhas: We’ve looked at where our borrowing needs are. We’ve got a housing account which has got increasing appetite for borrowing, very safe income and not many investments so really... they can afford to borrow. Debt matured last week which was running at 10 and 3/8ths borrowed in the late 80s. You can borrow now for 4.40%, you may be able to get even lower if you time it correctly. It’s ironic... it is time to borrow right now if you can afford to. On the other hand, with the general funds we’ve got lots of investments and reserves so there’s not that need to borrow. I think increasingly what authorities should be looking at is splitting. Technically we have two pools of debt.
How are treasury strategies evolving?
What we are seeing – not just from a local authority perspective but across the board – is a greater drive toward segmenting cash investments. By that I mean taking a close look at the percentage of cash that has to be kept same day liquid vs. cash that can be put to work further out on the curve. This can be achieved by looking beyond AAA money market funds (MMFs) into enhanced type cash products or via separately managed accounts that can be tailored to a specific treasury team’s risk, return and liquidity requirements.

Are EU regulations on money market funds affecting advice?
During the workshop, a couple of councils raised concerns around MMFs no longer being an option available given impending regulatory change. This certainly is not an outcome we foresee, and any regulatory change that does come into play would take some time to be brought into force. MMFs may look a little different in construct two or three years from now, but investor demand for a pooled vehicle which instantly diversifies risk and provides an ongoing credit review process will not go away.

One potential outcome of regulatory change that was highlighted was a move away from stable net asset value to variable. This is a potential outcome and over the next year or so it would be wise for treasury managers to ensure that their investment guidelines support both fund types.

Are expected rising interest rates affecting strategies?
There was a poll in the room around expectations for a rise on sterling rates – I think there was a mixed view on when it will happen. J.P. Morgan’s view is aligned to the market – we believe a rise is likely in the first quarter of next year. If treasurers have a view that rates could rise more quickly than the market anticipates then the use of floating rate notes is a good way of managing interest rate risk, assuming they are able to get supply.

Are corporates an option?
There is limited supply of A1/P1 rated corporate names and as such they do not factor highly in the buy-list for our AAA Money Market Funds. We do look at BBB rated corporate names for our managed reserve strategy and this can provide a good diversifier to financials. Unlike financials, many corporations are happy to be BBB rated and are very capable of being able to service their debt on the short end.

What’s the impact of bail-ins?
Even if not compulsory, bail-ins impact perceived confidence in any implied government guarantee of bail-out and further underlines the need for a rigorous credit process. Bail-in may ease political messaging for the government vs. a bail-out, but would not be without other consequences across the financial markets.

Should LAs maximise investment yield?
While everyone has an eye on yield, it should not be the primary driver of an investment decision. A good starting point is to identify what an investor’s tolerance to loss is on a marked to market basis and over what period of time. If tolerance to loss is zero then an investor should not really be looking any further than an AAA government or credit fund style investment. If however they can withstand marked to market losses over a three to six month period then there are definitely options available to increase yield.

Can headline risk be hedged?
The use of an asset manager effectively outsources a treasurer’s credit process and should look to reduce the potential occurrence of headline risk. It’s also useful to ladder maturities into the investments that are made. If a credit starts to deteriorate it’s useful to be able to reduce exposure by allowing maturities to naturally roll off as opposed to having to sell a security into the market facing a potential capital loss.
Squeezing benefits out of auditors

The perception may be that auditors dance to their own tune but *Stephen Sheen* argues there are three areas where more can be gained from an audit.

It may seem that we are inching our way towards local audit, albeit at some indeterminate point in 2017 or 2020. But some giant strides have already been taken whose muddy footprints may mark the audit landscape for years to come.

The headlines have been dominated by cost. The abolition of the Audit Commission projected savings of £250m across local government up to 2017. The re-tendering of private sector appointments promised at least another £30m.

There are questions to be asked about whether audits can be carried out effectively at the contracted prices on a sustainable basis. Two of the Big Four accountancy firms have been priced out of the market, and there is a deficiency of evidence that the remaining firms are investing substantially to fill the deficit in technical resources left by the running down of the Commission and the exclusion of its regional experts from outsourcing staff transfers.

To a large extent, this is the auditors’ problem. They are contracted to deliver an opinion on the financial statements in compliance with auditing standards and the Commission’s Code of Practice, at the agreed fee.

In doing this, auditors are assisted by an attitudinal shift away from audit as a public good towards it being a service for the authority. The scope of local authority audit has been reduced to exclude specific responsibilities for opinions on financial standing, legality of transactions and fraud. Powers to intervene remain available. But in the last two years only two public interest reports have been issued for principal authorities across the whole of England. Other powers have lain unused.

The opportunity was offered during the legislative process for the Local Audit and Accountability Act 2013 to reinvigorate expectations that the role of auditor is to hold authorities to account. But the Act confirms that their duties are restricted to giving an opinion on the financial statements and a high-level view on the adequacy of arrangements for securing value for money: a signature to support your view of your business.

However, the perception still seems to hold in local government that auditors work to their own purposes, as an imposition. What benefits could authorities accrue from dealing with their auditors as service providers in similar ways to other service providers?

There are three main areas where immediate benefits could be secured:

- Ensuring the auditors are working to a relevant agenda
- Confirming proper resources are allocated to the authority, in terms of both competence and experience of staff
- Making reporting effective by being above all constructive.

Many of the difficulties that arise between authorities and the auditors can be traced to the auditor bringing their own issues to the assignment, rather than gaining an understanding of your business and what might be material to users of your accounts. This can be particularly problematic where the agenda is a firm-wide one based on what is significant for the audit of commercial organisations.

For instance, some authorities have been required to spend considerable time demonstrating why they are a going concern or confirming that members are not substantial related parties. Big issues in the private sector, where investors need to be assured that assets are not about to lose all their value and business has not been affected by non-commercial relationships with the families of directors. But not for local government, where continuity of services is generally assured andfavoured relationships are prohibited.

Of immediate concern is a skewed focus on property valuations, and an inconsequential change to the relevant provisions in the 2013/14 Accounting Code. Property would be a prime area for pumping up the balance sheet with inflated values… if there were anyone in local government who might be impressed. But where the value of property is sufficiently accurately stated to impress taxpayers with the scale of the authority’s stewardship (and is comfortably in excess of borrowings), there is little more to be gained from the pursuit of accuracy.

Your wish, more likely, is that if auditors are going to devote resources to auditing property, this is with the objective of providing assurance that the authority’s dealings have complied with statutory requirements. So take the first steps now to ensuring that the auditors are providing a service for you, by balancing the agenda in your interests. If auditors are going to trample all over your accounts, at least make sure that they do it with clean boots.

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**Stephen Sheen**

Stephen Sheen is the managing director of Ichabod’s Industries, a consultancy providing technical accounting support to local government.
Treasury Profile

Treasury adviser: Arlingclose
Current account bank: Co-operative Bank
(we are in the process of procuring an alternative supplier jointly with other North East local authorities)

Size of general fund:
Average = £430.1m
(March 31, 2014 based on estimated capital expenditure as at 28 February 2014 = £446.5m)

HRA Estimated CFR:
Average = £366.5m
HRA debt ceiling = £393.3m (1 April 2013 = £363.6m. March 31, 2014 - based on estimated capital expenditure as at 28 February 2014 = £369.4m)

Approximate treasury yield for YTD:
Average interest rate payable = 3.4%
Average interest rate receivable = 0.7%

Proportion of specified / non-specified investments: 100% specified investments as at 27 March 2014

Main external investments as at 27 March 2014: £10m fixed term deposit with Lloyds Banking Group, £5m money market funds

Current loans as at 17/02/14:
PWLB: £80m
LOBO: £345m
Local authority loans: £185m
Others: £3m
TOTAL = £613m

Is treasury a shared service? No, although we do provide a treasury management service to a small number of third parties

Size of treasury team: 2 FTEs

Average loan maturity to next option date: 8.2 years
Average loan maturity: 33.2 years
Average forecast borrowing rate as at 31/3/14: Forecast average interest rate payable = 3.4%
Describe your responsibilities.

As the new Director of Resources at Newcastle City Council I am responsible for a directorate which includes Finance Services, including Revenues and Benefits, Human Resources, ICT, Legal Services, Business Management, Audit, Insurance and Risk.

As part of the directors’ team we work collectively across the council’s departments and with key partners to deliver services for the city. An example of this is the budget themes where I am leading on a review of enabling services. Viewing these services as a vital part of the delivery chain, rather than “back office,” is critical to the success of the review.

I am also the council’s chief finance officer, which in these times of austerity is a vital role in assuring the council’s financial sustainability.

What formative experiences will you draw upon?

During my career I have performed roles from trainee accountant right up to s151 officer. Each of these roles has allowed me to work with people from a wide range of backgrounds, professions and disciplines. I have found that working with colleagues, understanding their drivers and motivations has enabled me to provide insight and support in the delivery of their business. It’s the dialogue that adds value and focus to delivering outcomes for people.

As a manager I have felt the greatest personal satisfaction in seeing colleagues develop and grow through enabling them to maximise their contribution and reach their full potential.

What are your priorities over the next 12 months?

As with any new role the first priority is to understand the situation, what are the short, medium and long term outcomes we are trying to achieve and the drivers for change.

The rolling forward of the council’s three-year budget is essential, building on the dialogue the council has with stakeholders to help shape the way we work together while looking to deliver a financially sustainable council and a city that meets its citizen’s needs.

Working with colleagues and partners to deliver the aspirations of the City Deal and further developing the council’s civic enterprise initiative will be instrumental in achieving a sustainable financial future.

What’s the attraction to the Newcastle job?

The chance to make a contribution to my home city, coupled with the council’s ambition to be a cooperative council, and the great work which has already started through initiatives such as the extensive consultation and engagement programme, Let’s talk Newcastle, City Deal and the Combined Authority.

It is also a nice bonus to visit St James’s Park more often although there haven’t been many memorable moments – so far!

What’s the biggest project you’ve worked on and the biggest you expect to find at Newcastle?

At Nottingham we delivered some major capital projects from the National Ice Centre to doubling the size of the tram network. In Newcastle we have some really ambitious capital schemes including Science Central and the Stephenson Quarter which will revitalise whole areas of the city and create sustainable economic activity for the city and the region.

However, by far the biggest project is how we achieve financial sustainability to ensure that residents and communities are able to reach their full potential.

What’s your single most important piece of advice to others?

I’m a big Bryan Ferry fan, and in the words of one of his songs I would say my advice to finance colleagues is: Let’s Stick Together. These are very challenging times and as austerity continues we face even bigger challenges. By working together through bodies such as the Society of Municipal Treasurers, CIPFA and SIGOMA we can support each other and develop the strategies we and our organisations need to deliver financial sustainability.
The council is still recognisable but a lot of things that we used to do we’ve stopped doing, or we do things differently now.

Overview

Sketch out your job

Treasurer of Manchester City Council, been doing that job for 15 years now. Turnover of the council is about £1.5bn a year. Revenue budget is the majority of that with a HRA of circa £60m a year and capital spend... about £200m. Our overall external debt is probably some £600m but the theoretical debt ceiling is nearer £950m with £300-£350m funded internally from reserves, provisions, cash flows and the likes. Quite an under-borrowed position which we have been in for a number of years.

Why are you under-borrowed?

Because of the amount of cash that we’ve got. So as I say, we’ve probably got the best part of £300-£350m of cash representing reserves, provisions, general cash flow that we’re generating. Clearly, if we borrowed the full amount, we’d have £350m more invested in short-term money markets, effectively losing money at the moment. So, for probably four years now we’ve virtually borrowed nothing and just run off our cash flows. I’m also treasurer of the Greater Manchester Combined Authority which came into being in April 2011, the first combined authority in the country. Revenue budget of the combined authority is probably circa £250m now. The best part of £200m of that is transport related and the capital programme is probably approaching half a billion pounds. Historically the capital programme’s been almost exclusively public transport investment in Metro Link, and the like, but increasingly some highway schemes, also economic development and loans and grants through the Regional Growth Fund, Growing Places, evergreen funding.
Man with many hats

Treasurer of Manchester City Council and the Greater Manchester Combined Authority Richard Paver has grappled with city deals, the “disproportionate” impact of austerity, loans from the European Investment Bank and the need for longer term budgeting in local government finance.

How has the city fared as a result of the austerity measures that have come in since 2010?
RP: “As a council we’ve probably faced one of the biggest portions of cuts of any authority in the country. If you look at those who have been worst affected - ourselves, Liverpool, some of the inner London boroughs - we’ve had huge swathes of money to take out of the budget. By the end of 15/16 we’ll [Manchester] have taken out 40%. Probably £250m so far. We’ve lost about 3,000 staff so far… probably about 30% of staffing.”

What has been the role of treasurer in that experience?
RP: “Clearly I’m in the middle of all of that, making sure that we’ve got a robust plan and process in place, working hard with directorates. You can’t sit here in the centre and just dictate and take £50m out of adults’ [social services] budget and £70m out of children’s [social services]. There’s an awful lot of work goes on across the council of service managers with support from the centre.

“The council is still recognisable but a lot of things that we used to do we’ve stopped doing, or we do things differently now. We’ve carried on providing services but using different delivery methods, different methods of allocating costs and the like. Quite a lot of closure of premises, library closures, Sure Start centres, rationalised all our office accommodation to move more and more staff into the town hall.”

How do you feel Manchester has come through that?
RP: “As a city, we’ve done alright. We’ve probably been as successful as anybody, maintaining the momentum of the city and growth in the city and that’s starting to pick up again. As a city council it’s had a major impact on what we can provide.”

Has that been hard?
RP: “Yes, I think it has been hard. I think one of the challenges is we’re a strongly Labour council, and it has some very different views, on some issues, [to] central government, certainly the pace and scale of the changes, and the fact that austerity really hit the more deprived authorities…

“I think we worked out that even if you assume that the same level of cuts had been made nationally, there’s a disproportionate burden on Manchester.

“It’s all cut from your grant and receipts, and clearly an authority like Manchester is much more dependent on its grant than if you’re sat in Wokingham or South Oxfordshire. So when a percentage is applied to your grant receipts, the impact of that overall is substantially greater… if you look at Berkshire, Oxfordshire and parts of Surrey, you’re actually seeing growth in resources overall.”

Do you have some sympathy with the argument made by Rob Whiteman at CIPFA that local government finance is in need of reform?
RP: “Certainly its future in the current funding mechanisms is something that needs looking at. If you look forward, I say we’ve taken out £250m already, we’re expecting to take out another £100m over 15/16 and 16/17. What will be left at the end of that remains to be seen. …

“Yes, we’ve got a big business rates base, but we’re being hammered by appeals like lots of other major authorities. We’ll be well into the safety net territory in 13/14. Not quite sure what 14/15 is going to show for business rates. We think there will be a bit of growth thereafter, but we’ve got £100m of cuts to find and growth in council tax base and business rates might give us 10 of that over the coming two years. …
Manchester is a success in terms of what it’s doing but there’s no way it can generate sufficient resources, so I think the strain is on at the present time to see where we’ll be in two years’ time.

Manchester has been one of the pioneers of city deals.

RP: “I think overall it’s been beneficial. I mean probably the most unique bit was the earn back model that we got, which was rather a nightmare to negotiate with central government. But we’ve got an agreement with them and out of that we get £105m worth of grants over the next five years. The theoretical earn back could be £150m over that five year period but clearly it doesn’t go on stream on day one so, there’s an agreement to underpin that from central government. There’s also some Department for Transport funding, a major highways scheme with a budget of £290 million ... it’s got its planning permission but now it’s funded.

“Signing the city deal in a sense was the easy bit of the exercise – the headlines, the interesting bit. The hard work then starts to actually make sure that you can make them work in practice.”

Should local authorities be permitted to keep hold of much more of the cash they’re collecting locally?

RP: “I wasn’t convinced about business rates at the present time because of the difficulties that the system has brought largely through the appeals, but also claims of reliefs and things. ...It’s actually quite difficult to predict your income at the present time.

“I think we’ll get through that as the economy picks up, empty properties will reduce in numbers, people will start paying them. You hope the appeals will work their way through the system although they still seem to be arriving at a regular pace of knots. Is business rates retention the way forward? Well, it may be, but it doesn’t feel like that at the present time. It’s very unstable so, we’re in safety net territory. In 13/14 we’ve put a big budget allowance in for volatility in business rates, in 14/15 £10m.”

Is the banking market offering enough value at the moment?

RP: “They’re not offering great returns at the moment but we’ve taken the view, both for the city and the combined authority, of a safety first approach to banking deposits, so we’re bumbling along at average levels with large investments with DMO.

“Signing the city deal, in a sense, was the easy bit of the exercise – the headlines, the interesting bit. The hard work then starts to actually make sure that you can make them work in practice.”

The Biography

After studying mathematics at Oxford, Richard joined local government as a graduate trainee accountant in the mid 1970’s. He worked mainly in Shire counties over the succeeding years, and was appointed director of finance and administration in Northamptonshire County Council in 1992, where he also became the first treasurer of the independent Northamptonshire Police Authority. In 1999, he was enticed back to the city of his birth by the prospect of working with Manchester to deliver the Commonwealth Games and joined the City Council as treasurer. The following year he also became strategic director for corporate services. He was also Greater Manchester treasurer of the Integrated Transport Authority and in April 2011 became the first treasurer of the Greater Manchester Combined Authority (GmCA).

In these varied roles he has been responsible for negotiating, as part of the HRA reform, the repayment of a substantial sum of market LOBO loans and, as
deferring draw-downs of European Investment Bank monies, which you’re permitted to do under loan agreements. We aim to draw that money as late as we can under the contracts that we’ve got, and therefore keep the cash as low as possible.”

In terms of that short term market place, is it versatile enough for you?

RP: “No, I think we struggle which is why we use the Debt Management Office as fall-back. You might find the council’s got £100m out on deposit, you might find £40m or £50m of that with DMO and the rest with the banks. Other local authorities are largely in the same position as us at the moment having surplus funds at this time of year, so we’re all chasing an ever-decreasing range of places to put the money.”

Is there change you’d like to see in that marketplace?

RP: “I’m not sure I want to see a change in the marketplace. We’ve made representations to government that their cash flow doesn’t help us. ... I’m not quite sure why it suits them to pay things out early and late, leaving a dearth of cash mid-year. All of the authorities who have a reliant on grant all face the same position.

“Worth saying on the banking side, I chair the CIPFA treasury capital panel and we had a meeting with the challenger banks, the Treasury and CLG, probably four months ago now, and we’re aware of government’s interest in getting local authorities to lend to a wider range of institutions. But without credit ratings and ... recommendations from advisers, it’s going to be very hard to see which treasurer is going to put their head on the line first.

“The other thing you look at is how much would you lend a challenger bank? Well, maybe a million or two out of a much larger portfolio. Actually, that has no impact then on your performance because it would be a very small sum of money out of your total portfolio. You would need a substantial amount.”

What’s your view of the Local Government Association’s proposed bond agency?

RP: “It doesn’t seem a destination for Manchester but that may be because of our circumstances. Manchester was one of two or three authorities as part of the housing debt write-off. So our task is to try, as we do undertake some new borrowing in the next year or two, to rebalance the portfolio towards shorter-term debt that starts to match our Minimum Revenue Provision. ... I don’t want a large flood of money which has got a longer term duration to it, it just doesn’t suit our particular needs at all. As I say, we’re also in dialogue with the European Investment Bank over a £100m facility. That will beat any offer from a bond agency hands down on the current numbers.”

What sort of interest rate risk are you exposed to and how are you managing it?

“We’re in the shorter term end of the market, probably no more than 10 years, and if we manage to get the EIB loan away then we’ll be able to fix that in advance as we’ve done with the Metro Link. There’s quite a lot of borrowing still to undertake on the transport side but we’ve got a fair slug of that actually fixed in advance with the EIB so we’ve limited the upside risk there. I think what we will be looking at is to probably take some variable rate. We’ve tended to take fixed rate, we’ve got a small amount of variable rate on the transport side.”

part of the Combined Authority’s Metrolink funding, a £650m facility with the European Investment Bank. Total current funding programmes exceed £1bn which are likely to increase on the back of the City Deal “earnback” Agreement.

Richard also participated in the recent acquisition of Stansted Airport by the Manchester Airport Group alongside international investors IFM, and in acquisitions of other UK airports. He chairs the Greater Manchester Treasurers/IFM Finance Officers’ meeting, which monitors the Airport Group’s operations on behalf of shareholders. Recently taken up the management of the Greater Manchester Investment Team. He is chair of the CIPFA Treasury and Capital Management Panel in 2013.

Governor of one of the major high schools in Manchester, Richard also chairs its resources committee. Recently appointed as board member for Transport for Greater Manchester (Executive arm of the GMCA) having been on their Audit Committee for several years.
What do you think the future holds for local government finance?

“The next few years are clear but unless spending picks up again in the medium term, I think the flexibility for authorities to do the things that they do best, reflecting local priorities, will become increasingly difficult.”

And if there was one big change that you would like to see happen to local government finance in the future, what would it be?

“I think it needs to be on a stable basis. It just doesn’t seem stable at the present time with the ... scale of cuts of complete disproportion to what you can manage. Eric Pickles says the system’s designed to incentivise people and as I said, the incentive seems to be well, ‘you can make £100m of cuts in the next two years and if you’re lucky, you might grow by £10m.’ That doesn’t seem very incentivising in Manchester. It might work in Woking or Surrey, or somewhere the local resource base is much more than it is here. But I think we’re going to struggle to have any meaningful impact on the range of cuts that are coming down the line.”

So when you talk about stabilising what do you mean by that?

“Well, I think with the range of cuts, I think we need longer term settlements. We’ve got a settlement for 15/16, at the moment we have a finger in the air as to what 16/17 might look like. We’ve got no visibility beyond there. So we’ve got a two year budget strategy and that’s better than a one year budget strategy, but we’re still guessing what the trajectory might be.

“You’d hope that government of whatever colour would recognise that, by and large, local authorities have changed out of all recognition and decide to give it a bit of a fighting chance with a more stable financial base.

Is there a problem in the way central government views local authorities?

They’ve seen them as an easy way to save money so far. Local authorities have been very successful at saving money, probably not had the public backlash you might have expected and therefore probably just seem an easy option going forward. Whereas taking money out of the NHS for example, or schools, creates a turbulence in the population.

I am, as I mentioned, a chair of resources at a major school and the amount of money going into schools and the expansion of schools compared with what’s happening to the underlying local authorities is very, very different.

“Schools I think are employing more staff than they ever have done. I read in the press the other day that councils have probably cut their head count by the largest amount that’s been cut ever ... so very different.”
At the height of the financial crisis, the UK Treasury, like many other finance ministries around the world, took unprecedented action to protect all depositors in banks suffering insolvency or a severe decline in market confidence. The central banks maintained liquidity to allow banks to function, ensured they had sufficient capital and where necessary injected public funds to keep them going. In the UK, billions were injected into RBS and Lloyds, Northern Rock and Bradford & Bingley as they were nationalised.

However, in practice, central banks and governments didn’t really want to protect all depositors, they just wanted to protect some: the small retail depositors (because they vote in elections), and inter-bank depositors (because fear of inter-bank losses spreads panic around the system). Unfortunately, whoever they are, in legal terms all of the depositors were the same, just another unsecured creditor. As a result, the only legal way that they could protect their favoured depositors, was to protect them all, and stand full square behind the system. When the depth of government support became clear, this made the job of selecting banking counterparties relatively simple.

However, having wheeled the system out of intensive care there was agreement between the international monetary and financial authorities that they should not be forced to provide this kind of support again. As a result, in most developed markets, preparations began to formalise “bank bail-ins”. In the UK this has resulted in the Financial Services (Banking Reform) Act 2013. The purpose of the new legislation is to allow the Bank of England to select the depositors they want to protect, and enforce a hair-cut on the rest to ensure that the government no longer picks up the tab.

In technical terms, a bail-in involves shareholders of a failing institution being divested of their shares and creditors of the institution having their claims cancelled or reduced to the extent necessary to restore the institution to financial viability. The shares can then be transferred to affected creditors to provide the necessary compensation. Alternatively, where a suitable purchaser is identified, the shares may be transferred to them, with the creditors instead receiving compensation in some other form.

The bail-in regulation will help to ensure that shareholders and creditors of the failed institution, rather than the taxpayer, meet the costs of failure. In the event of a bail-in it will also ensure that the failed institution can continue to operate and provide essential services with limited disruption to its customers. At the same time, the process should maintain public confidence in the banking system.

The rating agency, Fitch recently commented that the progress being made in implementing these legislative measures will reduce the implicit sovereign support in most of the major global bank ratings. Fitch therefore expects a number of financial institutions to be downgraded over the next two years, resulting in some banks’ short-term rating actually falling below the prestigious highest level ‘F1’. A large number of banks will probably also see their Support Rating Floor changed to “No Floor” status.

This means that we will all have to assess the creditworthiness of banks on their own independent merits, and not be able to rely on the “too big to fail” test, as wholesale depositors, such as local authorities, will be able to lose money on their deposits without the bank failing.

In practice, it will make careful monitoring of counterparties and diversification of deposits much more important. Either a lot more work, or a another good reason to use an AAA money market fund, such as The Public Sector Deposit Fund.

See: www.psdf.co.uk and www.ccla.co.uk
There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat;
And we must take the current when it serves,
Or lose our ventures.

Julius Caesar (IV.ii.269-276)

Brutus speaks these urgent words in Act IV of Shakespeare’s play, attempting to convince Cassius that it is time to begin the battle against Octavius and Antony. If they do not take the full sea and current now when the time is right, they will lose their opportunities.

In other words, timing is everything.

The precise and measured timing of brave decisions is vital for local authorities who have taken advantage of an internal borrowing policy over the last five years since interest rates fell to record low levels back in 2009. A fine equilibrium is in operation at the moment. Capital funding borrowed externally where we commit to 50-year debt will cost us 4.4% as opposed to generating only around 0.4% on the money markets. Therefore, the saving on the cost of carry is 4.0%. Internal borrowing has resulted in significant savings in these austere times.

In the short term this is not an imprudent situation as, by postponing medium to long-term borrowing, local authorities can fund capital expenditure at the opportunity cost of investment income foregone, whilst reducing any counterparty risk that could arise should surplus funds be invested. However, at some point in time, the reserves being used to meet the borrowing requirement will be required to be “cash backed” by borrowing and this may be at a time when interest rates are at an unfavourable level. The time when interest rates do start an ascent could be soon.

In order to maintain price stability, the government has set the Bank’s Monetary Policy Committee (MPC) a target for the annual inflation rate of the Consumer Prices Index (CPI) of 2%. Subject to that, the MPC is also required to support the government’s economic policy, including its objectives for growth and employment. The current stated policy trigger point is unemployment at 7.0% before interest rates rises are necessary. Current CPI is comfortably below the target level at 1.6%, but the range of evidence suggests that the unemployment rate is likely to reach the 7% threshold materially earlier than previously expected.

Thus, as the economic recovery takes hold, future growth could be achieved far more quickly than previously anticipated. Occasionally, this is countered by pessimistic commentary stating that the UK economy is nowhere near where it needs to be. There is no doubt, however, improvements continue with latest growth figures at 0.8% for the first quarter of 2014 and by 1.9% in 2013, the strongest annual growth rate in six years. With such stellar advances, the general consensus is that interest rate rises will take place around the time of the 2015 general election.

Rises in gilt yields will be a market led movement based on the market’s perception of interest rate direction and what the Bank of England governor, Mark Carney will do, or advise, or influence. The current market focus is intense and gilt yields will rise on the expectation of interest rate rises, i.e., in advance of the MPC making the decision.

Given that we have a long-term capital funding obligation, we need to assess the short-term savings currently being generated by sheltering from the cost of carry, and balance this against missing out from historically low interest rates for the long term (45-50 years). At some specific point in the future, a local authority could fully refinance its internal borrowing position. At that point, it will be able to calculate an average interest rate on the entire portfolio’s worth of new loans.
With regard to that new portfolio, for every basis point (0.01%) higher than the optimum, the authority will pay additional interest over the long term. Missing out on historically low rates will result in significantly higher interest payments over the long term. Obviously, the equilibrium in which we are placed consists of weighing those extra future costs against the cost of carry savings currently being enjoyed.

In future years, we will be able to calculate the calendar day on which, if a local authority had fully refinanced its internal borrowing, it would have hit the sweet spot exactly right. In other words, the cost of carry will cancel out exactly the amount of savings generated by going back into the debt market before gilt yields rose. That future day will come and go, and no one will ring a bell at the start of that particular morning. Hindsight is indeed 20/20 vision.

So what are the solutions? One option is to drip feed the re-entry into PWLB long-term fixed rate borrowing over a period of time. It must be remembered, however, that the cost of carry will take a considerable time to be offset by savings in the future borrowing rate.

Short-term fixed rate loans will provide low financing risk as short-term rates are expected to remain lower than longer dated loans in the medium term. Variable rate PWLB loans will rise as short-term rates increase, but increases are expected to be limited over the next couple of years and remain cheaper than long-term rates. Trigger points for consideration should be in place.

Long-term 50-year money is currently 4.4%, still historically low. There is the prospect of a steep market-led gilt movement as confidence grows. We could see a UK and global economic recovery bigger and faster than originally thought. When future good news hits the airwaves, swift market movements could catch us on the hop. A staged move back into borrowing could be the answer.

Going back to Julius Caesar, we see in the play that repeated failures to interpret signs correctly, and failure to adapt properly to events as they unfold, form the basis for most of the tragedies that occur. Woe betide if such tragedies should befall us as a result of bad timing in our debt strategies. Timing is indeed everything.
Short dated fixed income funds can supplement market money investments

Money market funds (MMFs) in the UK currently offer an annual yield of zero to 0.40%, well below the Bank of England base rate of 0.50%. Short-dated fixed income (SDFI) can offer some additional pickup in yield over MMFs with only a small increase in risk. Typical yields for Sterling-denominated SDFI funds are in the 0.60 to 1.00% range depending on risk appetite and duration.

With some improved planning of cash needs, and by holding a small float for unexpected items, surplus cash can be invested in SDFI to improve yield. If an emergency cash call is needed, whilst not the market norm, same-day settlement is also available in SDFI markets.

Tailored SDFI funds offer a level of customisation with which typical MMFs cannot compete, with the level of risk, credit quality and duration being controlled to suit the investor’s needs. Risk can also be adjusted by using derivatives to hedge or even increase it. Customisation can also be used to align an investor’s strategy and cash needs with the holdings in the fund. For example, if an investor has short-term cash needs for small amounts but knows that a large cash call will come in the future, short-term needs can be met with government securities and the later cash call with longer-dated corporate credit.

Government securities offer very good liquidity, with tight bid/ask spreads and short settlement times, but the trade-off is a lower yield. Longer-dated corporate credit, whilst still very liquid, offers slightly more risk but with a much higher yield. Customisation can also be extended to socially responsible investment policies or regulatory constraints (e.g. Solvency II or local bylaws) if these impact on what is permitted within the investment universe.

SDFI can also offer improved diversification. Typical MMFs have large allocations to financial commercial paper whereas SDFI can allocate to instruments such as high quality asset-backed securities, covered bonds, or the more usual government, agency, supranational and corporate bonds from across a wide range of industry sectors. Higher yielding foreign currency bonds can be purchased with the currency hedged out to reduce risk. Small allocations to longer term holdings of lower credit quality bonds can also be implemented to boost yield, with only a small impact on risk and liquidity.

With default rates at extremely low levels, the additional credit risk in SDFI over MMFs is very low. The major difference in risk will come from duration. Typical MMFs are around three months, but a SDFI fund can still keep duration at less than a year and, in some cases, as low as 6 months while still offering a significant pick-up in yield. SDFI also offers mark-to-market valuation, so there are no hidden surprises if yields move and securities are sold.

Short-dated fixed income is an often overlooked asset class but can offer some significant improvements in yield, customisation and risk control for many institutions.

Discretion

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Merrick Styles

Merrick Styles is co-head of investment at Amundi (UK).
Kent may have won the headlines but Colin Marrs reveals Milton Keynes has been working on a pioneering deal for regeneration across the city

Chancellor George Osborne garnered headlines in March when he announced that a new garden city of 15,000 homes would be built on the site of a former chalk pit in Ebbsfleet, Kent. But that figure failed to raise an eyebrow at Milton Keynes Council, which already has plans to extend its boundaries by building almost double that number of homes by 2028. Tim Hannam, director of resources at the authority, says: “We hope that by 2030 we will have increased our population from the current 260,000 to around 350,000, which would put us in the top 10 cities in England.”

In December 2012 a key part of this jigsaw fell into place when the council put pen to paper on a deal to acquire land in the area which had been owned by the government’s regeneration quango, the Homes and Communities Agency (HCA). The agreement saw the council take possession of a portfolio of 838 sites with a combined area of 545 acres (221ha).

The HCA’s decision to relinquish its interest in the land was a result of the initial explosion of enthusiasm for localism demonstrated by the coalition government on coming to power in 2010. The council is confident that acquiring the land holdings gives it much more control to shape its own destiny – particularly in meeting its strategic economic and regeneration goals, including the city’s expansion. But Hannam says although regeneration is the key aim, the council is hoping to make a financial return from the land in its possession, and is using a variety of innovative techniques to help it do so.

The HCA ended up with extensive land interests in and around Milton Keynes as a hand-me-down from the original development corporation established by ministers in 1967 to oversee the construction of the new town. After the corporation’s abolition in 1993, the undeveloped land passed down through various national regeneration quangos - the Commission for New Towns (CNT), followed by English Partnerships and finally the HCA. In June 2011, the agency unveiled a land disposal strategy, as part of a government drive announced to boost development.

Negotiations between the council and the quango began. Initially, the HCA pressed for an “overage” agreement on all of the sites: if the council developed and sold the land it received, the quango would receive a cut of the profits over a certain value. But the council was less keen on this arrangement and in the end got its way on most of the sites. The council also managed to gain approval for the removal of existing “clawback” arrangements attached to the land. Whereas overage requires the payment of a percentage over a particular profit, clawback would have required the payment of a fixed value in the event of any resale.

Most of the sites were valued independently and the council paid the full value for them, with no strings attached. However, the smallest sites were not considered worth the cost of valuation. On these sites, the agreement will see profits from any development shared between the council and the agency on a 50:50 basis.

In the end, a £32m price was agreed for the whole of the portfolio, which fell into three categories - 97 major development sites making up 345 acres; 100 acres of land across 458 sites with some development potential; and around 100 acres on 283 sites deemed “residual land” with less development potential. Hannam is pleased with deal - “We negotiated hard and feel we got good value,” he says.

The HCA did, however, insist on retaining some of its holdings in the city. On three of its sites, planning permission had already been approved, and the agency will retain ownership of (and profits from) the deals it made with private developers, whilst managing the ongoing development process. Hannam says: “There is no additional value that the council could have got out of those sites.”

The sites acquired by the council are split between £20.2m of land held for future development purposes and £11.74m of existing assets, which have already been developed and will be managed in future by the council. The former will transfer to a stand-alone limited liability partnership (LLP) established by the

Colin Marrs
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Balancing act

The Homes and Communities Agency has to perform a tricky balancing act. It is responsible for both releasing its land asset to encourage development, while ensuring it achieves best value for those sites. According to its own figures, it has been successful in achieving these aims. During 2013/14, the HCA disposed of enough land for 5,944 homes against a target of 4,771 and for 263,182 square metres of employment floorspace, against a target of 194,028 square metres.

The value of property and development assets, including community related assets, which were disposed of during 2012/13 amounted to £987.7 million, up from £388.8 million during the previous year. The jump is partly explained by the transfer of 409 sites formerly owned by the abolished regional development agencies in 2011. Many of these were in RDA hands because of barriers to development such as contamination. Plans for use of these sites have been developed through “stewardship” arrangements involving local authorities. In the Treasury’s 2012 Autumn Statement, the HCA was given a boosted role in accelerating the release of surplus public sector land through a targeted programme of transfers from other government departments and agencies.

roof tax

A separate part of the deal with the HCA saw Milton Keynes Council take on responsibility for the council’s “roof tax” arrangements. The roof tax was introduced in 2004, and was aimed at giving developers more certainty over the amount of money they would be expected to pay through planning gain. Under the system, infrastructure was funded by the Homes and Communities Agency, which then recouped the cash by charging a fixed levy per house or acre of development.

The deal that was struck allowed the council to be exempted from national rules which would have penalised it for not introducing a community infrastructure levy. Hannam says: “The roof tax is now part of a rolled-up section 20 agreement which will apply to the 26,000 homes we are yet to build as part of the city’s expansion plans.”

The agreement for transfer of responsibility for the Milton Keynes Tariff included an obligation for the agency to provide a £4.6 million loan to the council to cover up-front costs likely to be incurred for completing infrastructure under the tariff. It also included provision for the agency to recover all expenditure historically incurred under the tariff over the course of development of the sites retained by the agency – valued at £5.6 million.

council, named Milton Keynes Development Partnership (MKDP). Crucially, because LLPs are transparent for tax purposes, the partnership retains the council’s tax status and is not required to pay corporation tax on its profits.

The LLP arrangement has also allowed the council to benefit from expertise plucked from the private sector – MKDP chairman John Duggan, is former chairman of development firm Gazeley, while chief executive Charles MacDonald was a partner at the Milton Keynes office of property consultancy Bidwells. John Walker, the former CNT chief executive is also a member of the nine-strong board, which includes four council members including the leader.

The council used prudential borrowing from the Public Works Loan Board to cover the costs of the land purchase, and the partnership will owe the council the £20.2m value of the assets transferred to it. The net capital receipts generated by the partnership will be used to either reduce this initial debt more quickly - resulting in interest savings - or to invest in enabling works on the current assets or the purchase of new assets.

Interest payments on the loan total £1.660m per year. For the first five years, the council is using receipts from its New Homes Bonus — a central stream where the government pays the council the value of council tax on new homes for six years — cover the interest. Hannam says: “This means we don’t have an immediate imperative to sell the sites and can be more strategic.” After five years, the limited liability partnership will take on the interest payments.

The council’s financial approach on many of the sites it has acquired is to accept a lower capital receipt on those for which it grants planning permission and sells on, in return for the creation of a revenue stream for the partnership. Hannam points to one of the former HCA sites which could become the site of a hotel. He says: “We are trying to sell it for a receipt but will also charge a ground rent which is relatively low but which builds up over time.” Leases will be granted for up to 150 years, he says.

On this site, the ground rent will increase at the rate of inflation, rather than the higher levels of increases that might be imposed by a commercial developer. Hannam says: “We may actually make a loss on some sites – the purpose is to encourage development rather than focus on the profit.” But he admits that the flip side of the coin is that some sites could lead to the council making a profit of ten times the price it paid for the land.

The financial models will also vary from site to site. Hannam says: “We are quite keen on leasehold development for residential sites in particular. However, in some cases we might decide that we will retain full ownership and appoint contractors to develop the land. It is a mix and match approach.” He says that vehicles, such as local asset backed vehicles, could also be considered in future.

A suite of development briefs for much of the land are already in existence. These documents offer a strategic overview of the type of development property firms will be expected to provide on each of the sites. Hannam says that much of the land which the council bought from the HCA is currently earmarked for commercial development such as offices. But the council is reviewing whether all of the current land uses outlined in the briefs are appropriate, and whether more residential sites can be created. “In some cases they are not sensible for commercial use, in other cases they will not be suitable for housing,” Hannam says.

As section 151 officer at the council, Hannam still has financial responsibilities in relation to MKDP, despite its standalone status. He says that a suite of procedures have been put in place to ensure sound financial management, including annual approval by the council of the partnership’s business plan, along with quarterly reports to cabinet. He says: “I was a bit nervous 15 months ago about the prospect of setting up the company – I didn’t want it to turn into the Wild West. Happily it is nothing like that.”
GROW YOUR OWN: funds may be dwindling but councils are finding ways to promote growth

With the economy improving there is pressure on local authorities to do their bit to promote and stimulate economic development. But when budgets are constrained which policies are local authorities using to get a result from limited resources?

TalkingPOINT panel

Vic Allison, Wychavon DC
I have written about Wychavon’s approach to property investment before. We see this often providing a better return for our taxpayers and also an economic benefit too. We have been buying employment land recently which we will make available for new and expanding businesses, and we are about to invest in a major new supermarket in one of our town centres. We have also lent money to local companies so they can invest in property and then employ, or in the case of the council’s old leisure centre, train people. But not all councils will have the cash, so what else have we done at Wychavon to stimulate economic development?

Our new business plan is called Grow, Save, Charge. This is our response to the economic downturn and sets out a number of actions to help balance the books over the medium term. Saving through efficiency savings or service reductions will be familiar to us all, as will charging more where we can. But “grow” as a concept might be less familiar. We consider that growing rather than shrinking the size of the council is the way forward. We will do this by carrying out work for other organisations and our recent venture with our South Worcestershire neighbours and Civica for a Revenues and Benefits centre of excellence is a good example of this.

But the “grow” concept doesn’t just apply to the council as an organisation. We have similar ambitions for the district. We also recognise that growing the number of homes and the number of businesses will provide financial rewards for us through the New Homes Bonus and Business Rates Retention schemes. The latter can be an added benefit when considering opportunities for investing in property.

But we are also promoting Wychavon at every opportunity as a place where businesses can thrive. Our recently published book Grow in Wychavon tells the story of 50 (well, 52 actually) successful businesses to inspire entrepreneurs and business leaders. We promote Wychavon as a good location in the centre of England, well served with good transport links, beautiful countryside, an enthusiastic and skilled local workforce and, of course, an extremely helpful council able to offer grants and advice. I am sure many rural areas can offer similar benefits for businesses.

Matt Bowmer, Northamptonshire CC
We have a corporate goal to become self-sufficient as we accept that the austerity cuts are only 40% of the way through. That requires councils and their finance directors to be bold and begin to take risks that once upon a time we’d have put on the too-difficult pile.

One of our headline policies has been the Revolving Infrastructure Fund, which has seen a strong collaboration with the director of environmental development and transport and his team. Politicians and senior officers identified a long list of major road schemes stalled due to funding challenges. These were cut down to a short list of three schemes supporting Daventry, Kettering and Wellingborough, which are now funded through radical new relationships with developers and contractors, S106 contributions, future business rate uplift and the long-term commitment of New Homes Bonus in partnership with districts and boroughs. This initiative continues and has drawn interest from Business Innovation and Skills who have cited it as best practice.

Under the single brand of Northampton Alive, Northamptonshire County Council has worked closely with Northampton Borough and the West Northamptonshire Development Corporation to regenerate the county town with a view to stimulating greater outside investment. With the partnership seeing a new bus interchange.
Talking POINT

opening last month, a new rail station opens in September with the £20m project underwritten by the county with its liability backed up through business rate uplift in the Waterside Enterprise Zone over the medium/long term. The university is relocating back into the town centre in an £80m project which is supported by the county and Northampton Borough in collaboration with the two Local Enterprise Partnerships through passporting of the government’s preferential PWLB rate initiative. These are all elements of a Northampton Alive programme which also sees the Heritage Gateway project improving the links to the town from the station in a partnership project which also brings in funding from the Heritage Lottery.

“That requires councils and their finance directors to be courageous, bold, and begin to take risks that once upon a time we’d have put on the ‘too difficult’ pile.”

A further element of the Northampton Alive programme is Project Angel, a major invest-to-save scheme, and a continuation of the county’s successful asset exploitation programme, that has seen us exit over sixty properties in the last eighteen months. This will also see the council exit twelve buildings, mainly out of town, to a new office for 2,000 full-time employees in the town centre. The buildings being exited are a mix of leased and owned, but are all typically expensive to run. The capital receipts, surrendered leases and, most importantly, significantly reduced utility costs, more than cover the cost of the new build of £48m and, indeed, deliver an efficiency to our medium-term financial plan, as well as more footfall and spend in the local economy.

Other initiatives, while not strictly financial interventions, are part of the big overall push on growth and economic development. There is a highly effective growth hub in place which is an excellent first point of contact for companies new to Northamptonshire, a We Love Northamptonshire campaign also aimed at new business, and enterprise hubs operating in our libraries which have enabled the set up of new businesses, to name just a few.

This is all the more remarkable given the local challenge of currently having to work through two overlapping LEPs – Northamptonshire Enterprise Partnership and South East Midlands Local Enterprise Partnership. The most recent challenge here is the bidding process for infrastructure previously directed through county councils but now part of the Single Growth Fund. The Strategic Economic Plan has consequently received significant scrutiny if not duplication of effort at a time of very scarce resource. Don’t they say, “always finish on a high note?”.

Chris Buss, LB Wandsworth

Economic growth is one of those things that you hear a lot about. But it’s difficult to pin down in terms of causes for growth or perhaps, more accurately reasons, for lack of growth.

This is perhaps in part due to the fact that economics is an imprecise science when compared to say physics or chemistry where it is possible to measure the reaction of the mixture of two substances or the impact of a certain weight moving at a set velocity hitting a fixed object.

However, despite the imprecise nature of the science the current government has made it quite clear that growth in terms of either growing the residential or business tax base is a task that local authorities are now expected to get engaged in, and failure to engage will have a potentially dramatic impact on a local authority’s resource base. Some commentators have even predicted some form of ‘death spiral’ for those authorities who are unable or unwilling to engage.

“In our case, in order to maximise the overall level of growth we have actually given up on part of the future revenue stream by taking the decision to forego the business rates growth on a major development site.”

However, how does a council engage to best advantage, particularly as economic development is not always high up the list of services which have political sex appeal? To some extent engagement may largely depend upon where you are in the country. In a London environment like Wandsworth the objective has become in part about promoting development to increase the tax base growth, and then to embed some of that economic growth in the local economy by enabling local people to both obtain and retain jobs in the construction and operational phases, by the use of planning obligations. Managing this process of growth is not always easy as there are competing demands for limited space, which is further complicated by partial deregulation of the planning system.

In our case, in order to maximise the overall level of growth we have actually given up on part of the future revenue stream by taking the decision to forego the business rates growth on a major development site – Battersea Power station. That revenue stream will fund, or part fund, the Northern Line underground extension without which much of the development in the area would not happen. Effectively, taking a short-term loss, to enable long-term, hopefully sustainable, growth, which will provide jobs for local people and income to the council.

We are perhaps fortunate in having this one off opportunity, but it is one we intend to take to create sustainable employment opportunities and communities.
700 new staff, twitter, cutting costs and a stressful breakfast

Return of the magnificent seven... hundred

Dominating my schedule at the moment is the imminent end of Suffolk County Council’s contract with BT for back office services. The ten-year contract ends in May at which point we have chosen to bring our services in house. Although this is counterintuitive for an authority which has outsourced a considerable number of services, we have established that the in-house option gives us the flexibility on size, cost and service requirements. When the contract ends approximately 700 staff will be transferring into Suffolk CC from the joint venture, though 36 staff will be taking voluntary redundancy. I see the staff returning as a real opportunity. We are doing a lot of work on the cultural integration to take the best commercial skills from the joint venture and combine them with the value and skills of the council team. My priority at the moment is for a smooth transfer – as programme director I need to be absolutely confident that staff continue to get paid, IT still works and it’s business as usual. I reflect on this being one of those complex projects where you hope that no one notices a thing.

The tweet factor

Through PA Consulting we are exploring social media to improve our understanding of service users and potentially influence them. PA has bought access to Twitter and is using their data engineers to learn what is said about Suffolk. Surprisingly, Suffolk CC had 33,000 mentions over the last 12 months with education and adult social care key topics. This had us thinking how it could give us insight into one of the biggest challenges facing Suffolk – low levels of aspiration and educational attainment. Social media is a powerful source of customer insight, which is already used to great effect in the private sector, and we’re pleased to be on the cutting edge here in Suffolk.

Rocking the boat

April saw us celebrate saving £1.2m through our Cost Down Programme launched in 2013/14 to manage contracts better. The savings were achieved through firm but fair negotiations and, given the unprecedented challenges we face, by asking suppliers for refunds, discounts and price reductions. Historically Suffolk has not wanted to rock the boat with suppliers so it was with trepidation that we started our more assertive approach a year ago. I was really pleased the majority of our suppliers were keen to work with us and seek win wins. That said, a few chose not to engage. This has disappointed me, and in the longer term may be a disappointment to their shareholders.

One size does not fit all

Throughout April I have been talking to other local authorities interested in Suffolk’s divestment programme, and whether it leads to the savings that we are all so desperate for. Over 18 months from 2011 we floated off nine business units, and transferred 4,000 staff. What was previously directly-employed activity is now managed outside the council, through contracts totalling more than £75m. The divestments set up two wholly owned companies, a mutual, two industrial provident societies, and a joint venture, as well as a number of more traditional outsourcing contracts. Services transferred ranged from libraries through to residential care provision. Now the dust has settled we are reflecting on whether this was a success. Certainly there were savings (almost £7m) and we have learned one size doesn’t fit all. There are financial savings to be made but divestment in itself will not completely solve the budget gap. It has a role to play in the mixed economy of services.

Breakfast with FSB

Mid April saw me as guest speaker over breakfast with the Suffolk branch of the Federation of Small Businesses. Local businesses are keen to win council contracts and we see it as in the best interests of the local economy. We have been working to make our opportunities visible to local businesses, and tweet new opportunities (@SuffolkSourcing). It was with a spring in my step that I arrived for the session – surely with over half a billion pounds of spend going through my procurement team, I would be guest of honour! Surprisingly not. It turned out that I was the breakfast. There is a real frustration with the cost of bidding for council work and that ‘Suffolk based SME’ cannot be used as a tender evaluation criterion. Hmm, more work to be done here. So, it’s a busy time in Suffolk.

Aidan Dunn

Aidan Dunn is assistant director of strategic finance and head of procurement for Suffolk County Council.
Agent 151’s experience of Whitehall is not a happy one. A shortlist of faults reveals their many ‘ugly faces’

As an s151 officer in a local authority I often come into contact with civil servants. This experience has, as you may already have guessed, been highly unsatisfactory and has led me to some firm observations which I want to share with you, not least because I am getting close to the end of my tether. Compiling my top ten has been rather like judging the World Gurning Championship at the Egremont Crab Fair: there is no shortage of ugly faces to choose from. It has been a shortlisting process, and let me say now that I am sorry if your own gripes about the civil service do not feature.

Here, then, without further ado, is my top ten:

1. **Lack of passion.** Do you ever get the impression that no one in the Whitehall civil service really cares? I suspect that this comes from being one step removed from the sharp end of providing services. When I say cares, I don’t mean puts in effort to obtain promotion or glory: there’s plenty of that! I mean fights blood and guts for every penny that can be found to deliver the services the country needs. If this part of the civil service could be characterised with a single gesture, it would be a shrug.

2. **Generalism.** Senior civil servants are trained to be generalists. The most annoying thing about meeting a generalist tasked with something in your area of expertise is that they will befriend you and pump you for information. Then they will represent themselves as an expert on the subject in your place and give the wrong advice.

3. **Not seeing things through.** You take ages getting a civil servant briefed to the point at which they are ready to support your case when they suddenly announce they are being rotated to another team and replaced with another know-nothing generalist. Back to square one.

4. **Centralism.** It is an unspoken civil service axiom that central is better than local. Having been designed to run an empire, the civil service machine now has nothing better to do than interfere with local decisions. Under the guise of localism, the civil service has, in fact, pursued an agenda of centralisation.

5. **Inability to successfully undertake large projects.** No list of this nature would be complete without this point, which of course applies especially to IT projects. There are so many examples I wouldn’t know where to begin. Well, perhaps I can’t resist mentioning Universal Credit.

6. **Not listening.** You may think that when civil servants are developing policy or preparing for a ministerial decision they consult you so that they can enjoy the benefit of your knowledge and wisdom. This is not the case. The purpose is twofold: firstly to demonstrate that consultation has taken place, and, secondly, to flush out the potential objections so they can work out how to deal with them. The heartfelt pleas in your consultation response will change nothing, but will be used as evidence that the consultation was successful and that you have bought in to the outcome.

7. **Covering things up.** This goes on all the time. The truth about inefficiency, ineptitude, theft, fraud, corruption and lust cannot be allowed to surface because it may be embarrassing for… er… ministers.

8. **Not working together.** Government departments mistrust each other and actively work to ensure that they collaborate minimally. This involves a great deal of time in working groups and task forces squabbling over which department should lead the collaboration if only the legal and practical barriers could be overcome, and running pilots on new initiatives instead of just adopting them.

9. **Passporting cuts.** This is the practice of meeting a departmental savings target by sneakily passing on the cut to a delivery agency, which already has its own equivalent target. This sort of opportunity is viewed as gold-dust in Whitehall circles, and localism has certainly provided excellent cover for many such schemes.

10. **Poor financial management.** This makes it onto the list because as a finance director I am unable to ignore the lack of financial discipline that has led to departmental overspending and qualified accounts becoming such regular occurrences that they now pass without comment.

So there it is: that’s my top ten. Recent cuts to local authority budgets have had a surprising effect. Rather like a boxer who has allowed himself to get out of shape, local government has responded to a regime of consuming less and exercising more by becoming fighting fit. However, such a diet taken too far can be damaging to health, and in the case of local government we are now at that point. Having diagnosed what is wrong with the civil service (and setting aside a few liberties I may have taken in doing so), I believe a similar regime – if followed dutifully – may have the same benefits.
Best of the WEB

Closedown, referendums, the Green Investment Bank, the Public Works Loan Board and a nascent bond agency are among the stories at Room151.co.uk

Fund mergers off the table as DCLG announces new LGPS consultation

May 2: After months of speculation over the future shape of the Local Government Pension Scheme (LGPS), the Department of Communities and Local Government (DCLG) has announced a consultation which will focus on Common Investment Vehicles and a greater use of passive investment strategies. The 25 page document released by DCLG, Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies, has explicitly ruled out the possibility of fund mergers for the time being. The consultation will last for 10 weeks, opened on 1 May and will close on 11 July 2014.

Further details in the consultation reveal that DCLG believes some £660m pounds of savings a year could be achieved by a move towards more passive fund management and an end to “the use of fund of funds arrangements in favour of a common investment vehicle for alternative assets.”

http://www.room151.co.uk/local-government-pension-scheme-investment

Top 10 issues for the 2013/14 closedown

April 25: Grant Thornton’s audit expert Graham Liddell reveals his checklist of the ten most important issues for the closedown. Top of the schedule is asking whether accounts tell the overall story of financial performance and position. Close on its heels is whether accounts are internally consistent? In particular, does the movement in reserve statements agree with the detailed notes?

Read the whole list at:

http://www.room151.co.uk/category/grahamliddell

Scottish referendum creates uncertainty for inter-authority lenders

March 6: Concerns have been raised that some long-term lenders are steering clear of Scottish councils in the run up to this September’s referendum on independence. A number of delegates at CIPFA’s Scottish Treasury Management Forum in Dunblane said their councils had been turned down for loans due to uncertainty over the future sovereignty of the country. During a panel session, Brian Livingston, executive director of finance and resources at Fife Council, said his authority has been turned down by lenders twice in the past year. He said: “I brushed it aside as a blip. However, as recently as yesterday we were offered another deal by a broker and the same thing happened – the broker came back and said the offer was not on the table to a Scottish local authority. It looked like a blip but it is beginning to feature more prominently now.”

www.room151.co.uk/funding
S&P affirms RBKC’s A-1+ short-term rating: outlook negative

April 8: Ratings agency Standard & Poor’s has maintained its top credit ratings for Royal Borough of Kensington and Chelsea, but gave the council a negative outlook, due to its reliance on the UK government for much of its funding.

The agency this week said that it would affirm its AAA long term and A-1+ short term issuer credit ratings on the borough. But it added that the negative outlook reflects that of its long-term sovereign credit rating on the UK.

A statement released by the agency said: “In our view, the borough’s economy and finances are not sufficiently robust to withstand country-specific stresses. It depends heavily on the sovereign as the majority of its revenues are linked to the UK.”

More at www.room151.co.uk/investment

Fitch downgrades UK banks as treasurers look to spread risk

April 3: Ratings agency Fitch downgraded its outlook ratings for four UK banks from stable to negative, increasing calls for councils to diversify their investments. Fitch adjusted its opinion on the long-term prospects for Lloyds Banking Group plc, Lloyds Bank plc, HBOS plc and Bank of Scotland plc. It said that although support for the banks from the UK authorities was still likely because of their systemic importance, the ratings reflect the risk that support may weaken as legislation evolves.

The government and European Union are both pursuing laws that would restrict the ability of governments to bail out banks in any future financial crisis. Frederic Barthelemy, head of corporate client development UK & Ireland at Amundi Asset Management said: “The issue for treasurers will be finding a big enough range of counterparties to invest their money with, to diversify effectively.”

More at www.room151.co.uk/investment

Q&A with the Green Investment Bank

April 15: February saw the Green Investment Bank launch a new loan product aimed at local authorities making the switch to low energy street lighting. Room151 caught up with managing director Gregor Paterson-Jones to find out more about the loan.

R151: Why would councils approach you for a loan rather than the PWLB or other sources?

GPJ: We found that with PWLB you have to borrow an amount up front and deploy it over time, meaning interest costs start from day one. We developed a product that means that you can draw down money as you need it, and only start repaying when the project begins.

In addition, you can fix the rate of repayments to match the energy savings which result from the new lighting.

R151: What do you require from the councils you lend to?

GPJ: In order for us to lend to an authority it must have good credit and no financial problems. Their proposed scheme has to use LED lighting, and there must be a robust business case to prove value for money. We will lend £3 million as the minimum loan – we don’t want to do lots of small pilot schemes.

www.room151.co.uk/interviews

Arlingclose raises concerns over bond agency

April 10: Treasury adviser Arlingclose voiced concerns over the details of a Local Government Association plan to create a municipal bonds agency.

Last month, the LGA announced it had approved a revised business plan for the new agency, launching a “mobilisation” phase during which it will seek commitments from councils interested in investing and/or borrowing.

The plan said the new agency could significantly undercut the borrowing rate offered by the Public Works Loan Board (PWLB), but Arlingclose, in a note to clients, said that this could, in turn, provoke a response from the Treasury.

According to the business plan the new agency can expect to borrow at 20 to 25 basis points below the current PWLB certainty rate of 80 points above gilts.

But the Arlingclose letter said: “The response of HM Treasury on current PWLB policy remains unknown but history tells us that significant shifts in policy can and have occurred to ensure that the PWLB retains its unique position as the primary lender of choice.”

David Whelan, managing director of local authority adviser Capita Asset Services, said: “We have these concerns as well, but also welcome the initiative as being a positive step towards potentially reducing the cost of borrowing for local authorities.”

Aidan Brady, lead adviser to the LGA on the scheme, said: “Yes, it is a risk but the amount of money committed in the first stage is moderate. This isn’t a mad chase down a blind alley spending millions on day one on something that we are expecting to make huge returns on instantly. We are introducing it incrementally, taking a very cautious approach.”

More at www.room151.co.uk/funding
£200m cap on asset disposal scheme

April 3: Councils are to be given a chance to use receipts from the disposal of assets on spending aimed at transforming services, up to a total of £200m, the government has announced.

The announcement means that normal rules which prevent capital receipts being used for revenue projects will be waived for the successful bidders.

The government has also announced £105m of new cash which will be added to its Transformation Challenge Award, meaning a total of £305m will be available in 2015/16 and 2016/17 for shared service and ICT initiatives.

Councils will be required to provide cost benefit analyses of their proposals and how they would work with other councils and public sector bodies.

Sales of assets should be in addition to those the authority has already planned.

An additional amount of £15m is available for 2014/15. Firstly, small district councils will be able to bid for up to £400,000 to help move to a shared senior management team, including the chief executive, with one or more other councils.

Secondly, the cash will be used to help councils working with other public sector partners to reform services and make a return during the year.

www.room151.co.uk/funding

Impact of Scottish independence on banks and treasurers

With six months to go until the referendum on Scottish independence, treasurers throughout the UK are evaluating the impact of a “yes” vote on their authorities’ financial arrangements. Most of the attention so far has been around lending to local authorities on the “other” side of the border – north or south, depending which way you’re looking. This follows a couple of instances where English councils have withdrawn their offers of money after the broker told them that their counterparty was Scottish. But this misses the bigger question of whether banks based on the far side of Hadrian’s Wall will need to be treated any differently.

www.room151.co.uk/category/david-green/

English PWLB borrowing drops

April 11: The total amount of English council borrowing through the Public Works Loan Board fell by 16 per cent from March 2013 to March 2014. Figures released by PWLB show that the amount owed by major authorities fell from £64.5bn to £53.9bn during the year. In Scotland, the total amount of PWLB lending rose from £62.3m to £70.6m.

More at www.room151.co.uk/151-news

Councils ‘need to plan for HS2-related development’

Local authorities near proposed new High Speed 2 rail stations should create delivery bodies with planning powers to deliver regeneration and development schemes, according to a new report.

The study, by the HS2 taskforce, says councils should consider how local funding sources can be used to deliver infrastructure for such schemes, and how to capture rises in land values. It recommended that councils should publish growth strategies related to the rail project by the end of this year.

The report said: “The Government should support local authorities to deliver their HS2 growth strategies and provide national coordination through a central delivery body (which works with local delivery bodies).”

www.room151.co.uk/category/investment

Concentration risk in Scottish treasury investment ‘worrying’

Scottish council investments are dangerously concentrated in two banks, according to a stark warning by treasury adviser, Arlingclose. Speaking at the CIvFA Scottish Treasury Management Forum in Dunblane, senior staff from the firm told delegates that councils north of the border need to diversify more to protect themselves against potential future banking crises and bail-in risk. Figures collated by the Forum reveal that out of £1.32bn deposited by Scottish councils with banks in December 2013, £681m, or 51%, is placed with Royal Bank of Scotland and Bank of Scotland.

This is up from 48% in 2012. Mark Pickering, director at Arlingclose, told delegates: “It is very important that you seek to diversify more. The current concentration is worrying.” He warned delegates that moves by the UK Government and European Union would prevent taxpayers’ money being used to bail out failing banks in future. A European “bail-in directive” due to be introduced in January 2016 will ensure taxpayers will be last in line to bail out struggling banks and that creditors, according to a pre-defined hierarchy, will forfeit some or all of their holdings first.
Localism, capital accounting, poverty in suburbia, public health spending

The Future of England: The Local Dimension
Published by Institute for Public Policy Research
Date April 2014
@ www.ippr.org/publications/2

People’s trust in local government and local councillors is consistently higher than it is for parliament, local MPs or ministers, according to this report from the Institute for Public Policy Research.

Research found that close to a third (28%) believe that some form of “subnational” institution “should have the most influence over the way England is run in the future”.

This report concludes: “National decision makers should recognise that there is a far greater appetite on the part of the general public for stronger local democratic institutions and more local determination of policy issues than us commonly assumed.” The answer doesn’t necessarily need to mean an English parliament. “A proper central/local settlement in England offers the possibility of reviving England’s over-centralised and flagging democratic system,” the report says.

Local Authority Capital Accounting
Published by CIPFA
Date April 2014
@ www.cipfa.org/policy-and-guidance/reports

Finance teams have been depleted in recent years and those remaining have found their responsibilities widened. This guide is aimed at those coming to capital accounting unfamiliar with its intricacies.

“Suddenly being asked to take on capital accounting work can be a daunting prospect, as it is one of the most technically challenging areas of the accounts and seems especially prone to frequent change,” according to the introduction. The guide is built around frequently asked questions and top tips, case studies of accounting for assets and glossary.

A Healthy Approach to Spending
Published by New Local Government Network
Date March 2014
@ www.nlgn.org.uk/public/2014/a-healthy-approach-to-spending

The delegation of public health budgets to local authorities has caused much controversy after the British Medical Journal published research claiming the budgets have been “diverted” into uses that were not anticipated or intended.

In this article Dr Claire Mansfield of the New Local Government Network argues that shifting the budgets to local government was always aimed at producing innovation.

“What the BMJ coverage does not recognise is that public health moved to local government with the intention of doing things differently,” writes Dr Mansfield. “Last year, NLGN conducted research and published a report, ‘Healthy Dialogues’, that looked at how the transition of public health from the NHS to local government had gone so far. Naturally, it was not without its challenges but local government and public health teams across the country are taking great strides to transform the service.”

Poverty in Suburbia
Published by The Smith Institute
Date April 2014
@ www.smith-institute.org.uk/publications.html

An estimated 6.8m people live in poverty in the suburbs of England and Wales, according to The Smith Institute. Over the ten years to 2011 the number of suburban areas hosting above average figures for poverty rose by 34%.

This report calls for “renaissance” in the suburbs aided by cheaper, more reliable transport, better access to shops and services, better childcare for lone working parents and improved access to work for the disabled. Future welfare reform could have a disproportionate effect on suburbs.

“Policy makers need to understand fully the impact of welfare reforms on poorer suburban economies, especially for vulnerable groups. A comprehensive review of the appropriateness and relative cost-effectiveness of the anti-poverty infrastructure in suburbia is long overdue,” the report says.
The private sector has rushed to digitise and use big data. But what have local authorities been doing with the same technology? This article argues the case for local government to enter the digital age to transform service provision and examines the progress made so far, and the best practice that is emerging.

Composed of a survey examining the state of digital technology use, case studies and recommendations, the paper aims at providing a way forward for local government.

“The promise of digital technology is that it provides local authorities with huge opportunities to transform the services that they provide and new ways to connect with the individuals and communities who use those services,” says the paper.

“In a time when councils have to do much more with fewer resources, digital can provide a way to improve outcomes whilst delivering efficiencies. The challenge ahead for local government is to understand how digital can aid innovation, harness the knowledge and good practice of the private sector, and make the most of the public’s appetite for digital technology. We know that technology exists that can benefit councils. But this report flags up the importance of prioritising the people, not just products. This is necessary to ensure that the technology that is invested in meets the needs of councils and citizens, does so efficiently, and is fully utilised by both.”

The paper’s conclusion is that digital technologies and businesses can help drive local economic growth: “But this report has found that whilst there is much good practice emerging, councils sometimes struggle to fully unlock the benefits of technologies that they do invest in. They are often uncomfortable, and understandably risk averse, moving forward on this agenda.

“We have found that many of the reasons hindering progress and undermining confidence in this field are the same sorts of barriers that often surround service transformation in general: skills, organisational culture, and leadership.”

The report calls for a rebalancing of the UK economy and an examination of how the voluntary and community sector might fill the gap left by disappearing council services. It also calls for a review of local government finance which “must be - and be seen to be - fair.”

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