

# **Year Zero**

## Capital Financing Risk Management

29<sup>th</sup> January 2021

# 2021 Risk Overview

- PWLB Revision
- The End of Commercialism?
- Zero Interest Environment
- Climate Emergencies
- Audit Checklist

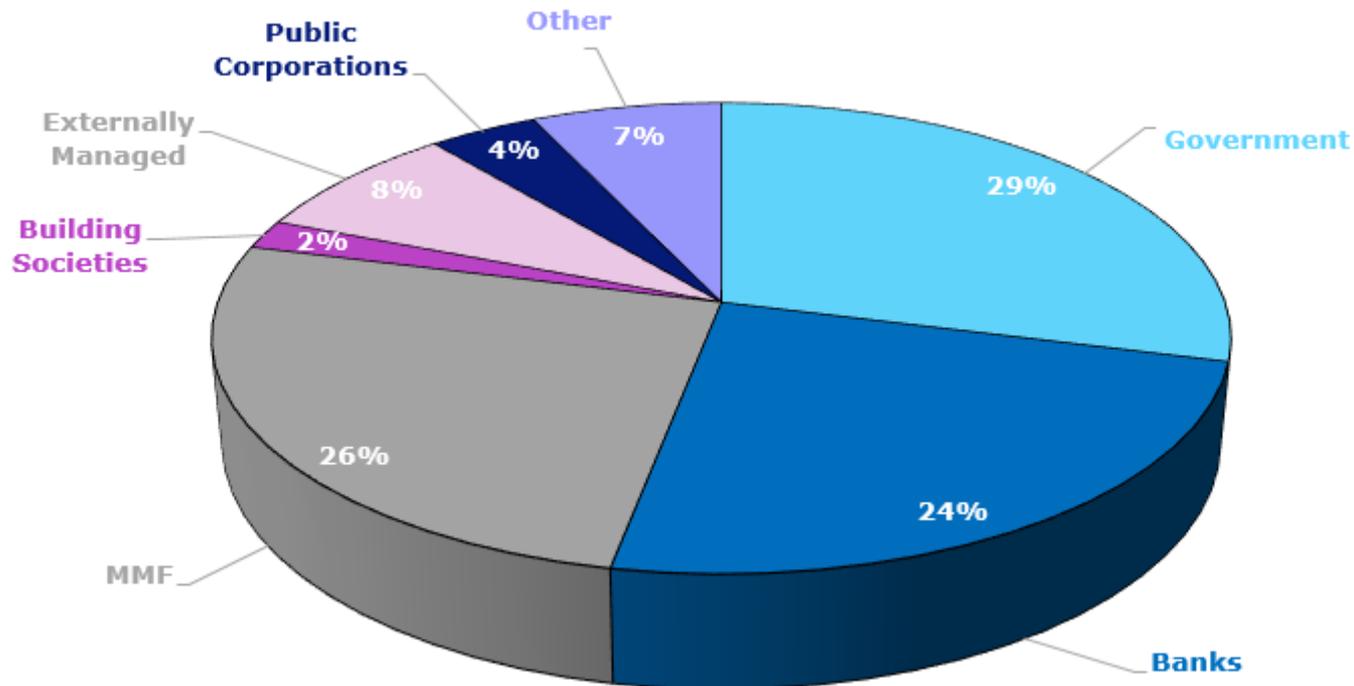
# PWLB Revision

- S151 officers must state there is no intention to buy investments primarily for Yield in the next 3 years or face repayment penalties
- Para 3.101 “The government will not restrict authorities’ ability to carry out projects in neighbouring districts or the authorities wider economic area where these projects are for service delivery, housing or preventative action or regeneration”
- Any such investment must be Policy driven, absolutely not debt to finance yield

# The End of Commercialism ?

- Legacy of Commercial Property boom has yet to be determined
- Regeneration, Housing, service delivery and local policies will shape path of future capital expenditure
- Any alternative to PWLB debt must be fully understood (Swaps / Hedge Accounting / Fees etc. / MIFID2)
- Are Green Bonds the solution?
- For those reliant on investment income budgets the future is far from clear

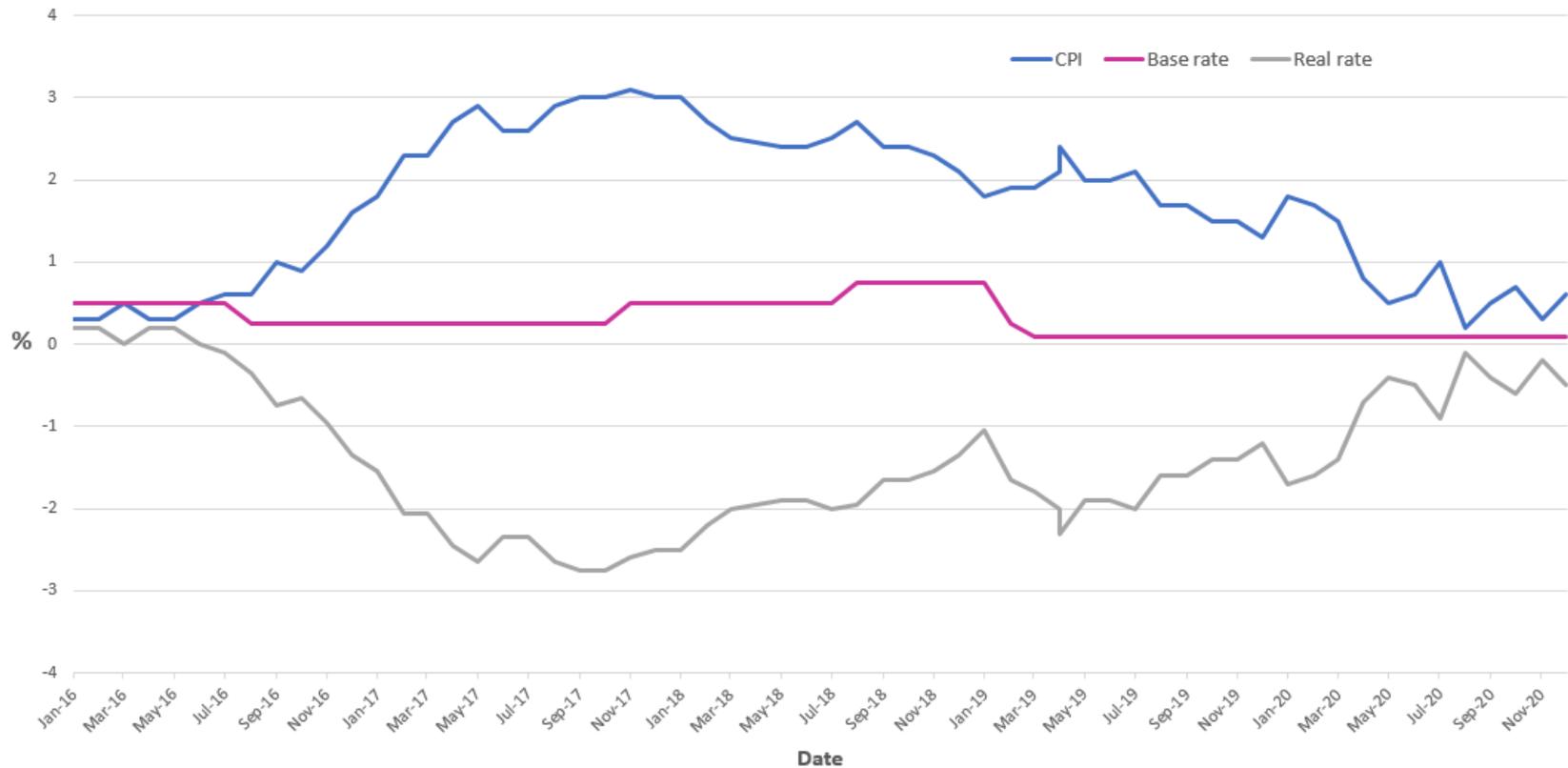
# £50bn Zero Interest Environment



YOUR INTEREST  
IS OUR BUSINESS

# Zero Interest Environment

Real rate of return



YOUR INTEREST  
IS OUR BUSINESS

# Climate Emergencies

*"The move towards a more sustainable public sector is going to require a fundamental shift in the sector's priorities..... Officers, Councillors and local communities will need to view all activity in their area through the primary lens of the climate crisis."*

**Rob Whiteman, CIPFA CEO, Jan 2020**

# **You've Declared a Climate Emergency - Financing Solutions**

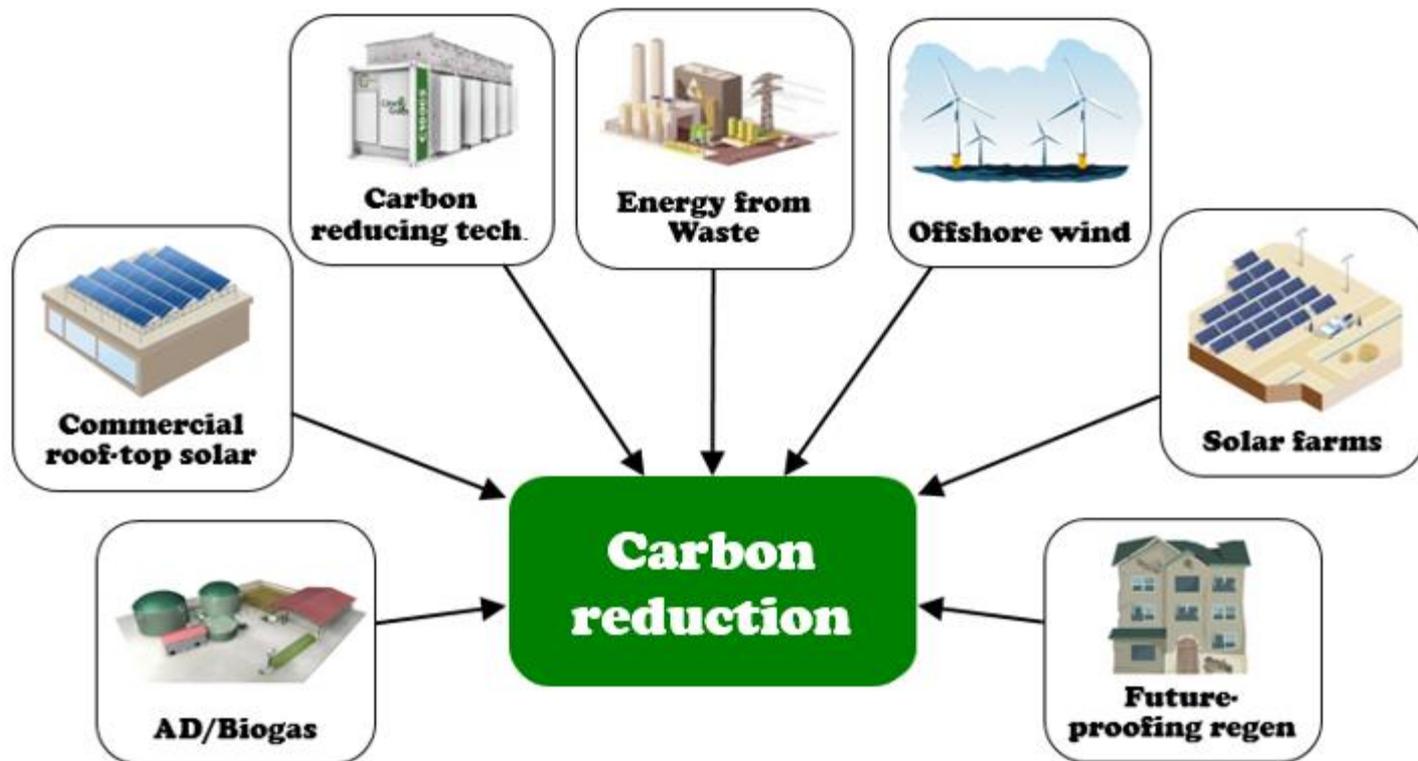
## Green Bond = Sub PWLB Financing

- Budget Savings
- Low Resource Load
- No high advisor Fees or conflicts of interest
- Flexible structures that match YOUR capital Programme

## Carbon Reducing Investment Strategy

- Instruments to reduce carbon footprint
- Yield to support collapse in Investment Income
- Better Risk Management
- Match Member and Public expectations

# UK Local Authority Investments



# Green Investment Audit Check List

	<b>Finance sector</b>	<b>Alternative Green</b>
Yield	≥0%	5%+
Diversification	Low	High
Carbon impact	x	✓
Asset backed	x	✓
Business case	x	✓
Inflation plus return	x	✓

# Rob's Change Starts With Better Business Cases

## A case for Solar Investment ?

- £1m in solar = removes circa.300 tonnes of carbon.
- Security (asset) and Risk Management (diversification) plus inflation beating Yield.
- Environmental benefits.
- Other non-financial benefits (Silent Evidence).
- Establish a clear process for Review and Monitoring.
- State role of advisors and be clear why they were chosen.
- Have independent expert advice and risk advice.

# Audit Checklist

- Have Internal Audit reviewed your Capital Strategy ?
- When was last full Audit review of Treasury function?
  - Is the role of advisors & conflict of interest section up to date ?
  - Performance management of TM Function ?
  - Is the TMS an advisors template?
  - Do you have capacity to invest in non finance sector instruments?
- Is the Capital Finance Risk Register up to date?
- Member Training and MIFID 2 Compliance – undertaken / independent ?
- Member awareness of Zero Rate Environment and green expectations
- Has DD and advice come from real experts - A solar farm is not the same risk profile as an overnight cash investment.
- Risk Assessment from Risk experts.
- Is there member oversight of Reserves policy?

# Time for Questions

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