Treasury Management and Investment Sub-Committee Agenda

21 June 2021 at 7pm

Council Chamber, Civic Centre, Chelmsford

Membership

Councillor C.K. Davidson (Chair)

and Councillors

M.W. Bracken, D.J.R. Clark, J. Galley, G.B.R. Knight, A.B. Sosin and R.T. Whitehead

Local people are welcome to attend this meeting, where your elected Councillors take decisions affecting YOU and your City. There will also be an opportunity to ask your Councillors questions or make a statement. However, numbers must necessarily be restricted owing to distancing requirements and if you wish to attend you will need to obtain an admission pass beforehand. To apply for an admission pass or find out more about attending please email daniel.bird@chelmsford.gov.uk or telephone on Chelmsford (01245) 606523

Treasury Management and Investment Sub Committee

21 June 2021

AGENDA

1. Apologies for Absence and substitutions

2. Minutes

To consider the minutes of the meeting held on 14 December 2020

3. Declaration of Interests

All Members are reminded that they must disclose any interests they know they have in items of business on the meeting's agenda and that they must do so at this point on the agenda or as soon as they become aware of the interest. If the interest is a Disclosable Pecuniary Interest they are also obliged to notify the Monitoring Officer within 28 days of the meeting.

4. Public Question Time

Any member of the public may ask a question or make a statement at this point in the meeting. Each person has two minutes and a maximum of 15 minutes is allotted to public questions/statements, which must be about matters for which the Committee is responsible.

The Chair may disallow a question if it is offensive, substantially the same as another question or requires disclosure of exempt or confidential information. If the question cannot be answered at the meeting a written response will be provided after the meeting.

Owing to social distancing requirements, it is necessary to limit the number of members of the public attending the meeting. Any member of the public wishing to attend, whether as an observer or to ask a question or make a statement, should email committees@chelmsford.gov.uk in advance of the meeting. If space permits, they will be sent an admission pass which must be presented on arrival.

5. Treasury Management Outturn Report 2020/21

6. Expected Treasury Management Activity 2021/22

Part II (Exempt Items)

To consider whether the public (including the press) should be excluded from the meeting during consideration of the following agenda items on the grounds that they involve the likely disclosure of exempt information specified in the appropriate paragraph or paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated in the Agenda item

7. Non-Treasury Investments - Monitoring and Strategy Development

Category: Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 Information relating to the financial or business affairs of any particular person (including the authority holding that information)

Public interest statement: It is not in the public interest to release details of this report at present, on the grounds that the report contains information that is commercially sensitive and to place the information in the public realm will be detrimental to the negotiations to be undertaken by the Council.

8. Urgent Business

To consider any other matter which, in the opinion of the Chair, should be considered by reason of special circumstances (to be specified) as a matter of urgency.

MINUTES

of the

TREASURY MANAGEMENT AND INVESTMENT SUB COMMITTEE

held on 14 December 2020 at 7.00pm

Present:

Councillor C.K. Davidson (Chair)

Councillors M.W. Bracken, D.J.R. Clark, J. Galley. A.B. Sosin, R.T Whitehead

1. Apologies for Absence and Substitutions

Apologies for absence were received from Cllr P Clark.

2. Minutes

The minutes of the meeting held on 20 October 2020 were agreed as a correct record and signed by the Chair.

The Sub-Committee were updated on a matter arising from the minutes. It was noted that in addition to the confidential report circulated at the last meeting, there was a seperate list of other smaller property assets. The Sub-Committee was informed that this would be circulated to them.

3. Declaration of Interests

All Members were reminded to declare any Disclosable Pecuniary interests or other registerable interests where appropriate in any items of business on the meeting's agenda. None were made.

4. Public Question Time

No questions were asked or statements made.

5. Treasury Management and Investment Strategies 2021/22

The Sub-Committee considered a draft report to the Cabinet on 26th January 2021 regarding the proposed Treasury Management and Investment Strategies for 2021/22. Members were asked to review the draft report and recommend the 2021/22 strategies to Cabinet on 26th January 2021 and then Full Council on 24th February 2021.

The Sub-Committee were provided with an overview of the documents and informed that they would essentially govern how the Council could invest its financial resources. The Sub-Committee was reminded that investment decisions within the approved strategy would continue to be made by the Director of Financial Services after receiving advice from the Council's Treasury advisers Arlingclose.

The Sub-Committee heard that due to the pandemic, cash flow had been heavily distorted, with the Council passing on significant funding to local businesses from Central Government. The Sub-Committee was informed that this meant cashflow and investment balances would continue to be more difficult to predict. It was noted that the report recommended carrying a target of at least £15m in liquid funds to manage cashflow through the year. It was also noted that no changes were being recommended to how long the Council can invest or with which counter parties. The Sub-Committee was also informed that borrowing would only be undertaken for temporary liquidity or to fund the Capital Programme. The Sub-Committee also heard that in terms of non-cash investments, it was recommended that no new commerical property investments be made for the primary purpose of yield generation.

In response to questions from members of the Sub-Committee, it was confirmed that the two strategies were very similar to the current ones and there were not any significant changes. It was also confirmed that investment in the CCLA fund would not be prohibited by rule changes made by the Public Works Loan Board.

The Sub-Committee were happy with the proposed strategies and agreed that they should be recommended to the Cabinet.

RESOLVED that the Treasury Management and Investment Strategies be recommended to the Cabinet.

(7.05pm to 7.17pm)

6. Urgent Business

There were no matters of urgent business to discuss.

The meeting closed at 7.18pm.

Chair

Treasury Management and Investment Sub-Committee

21 June 2021

Treasury Management Outturn Report 2020/21

Report by:
ACCOUNTANCY SERVICES MANAGER (Section 151 officer)

Officer Contact:
Phil Reeves, Accountancy Services Manager, phil.reeves@chelmsford.gov.uk, 01245 606562

Purpose
Under statute and the CIPFA Code of Practice on Treasury Management ("the Code"), Members are required to receive a report on the Treasury Management activities that took place in 2020/21.

Recommendations
Recommend the Treasury Management Outturn Report 2020/21 to Cabinet or amend as appropriate.

1. Introduction

1.1. The CIPFA Code of Practice for Treasury Management sets out the requirements for oversight by the Council of its treasury management operations. As part of the Code, the Council is required to receive an annual report on the performance of the treasury management function which highlights the effects of decisions taken and the circumstances of any non-compliance with the Code and the Council's Treasury Management Strategy.

2. Background

2.1. The Council can expect to have cash to invest arising from its revenue and capital balances, and collection of Council Tax. This cash can be usefully invested to produce a return to help support services and Council Tax. The activities around the management of this cash are known as 'Treasury Management'.

2.2. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2.3. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

2.4. The Council's investment priorities as required by Government regulations are in order of priority:

(a) The security of Capital
(b) The liquidity of its investments; and
When these are satisfied
(c) Yield

The MHCLG and CIPFA both advise that absolute certainty of security of capital and liquidity does not have to be achieved before seeking yield from investments. An appropriate balance of all three should be sought and that balance is determined by the Council in its Treasury Strategy.

2.5. The operation of Treasury Management is not without risk and the Council could suffer losses if one of its counterparties had financial difficulties.

2.6. The Council formally reviews its investment holdings in the following ways:

- Treasury Management Strategy report in February
- Treasury Outturn report in July
- A half-year update in November
- Treasury Management sub-committee to monitor Treasury Activity during the financial year.

The review of the year's activities is set out in the following appendices:

Appendix A – Economic Environment Update

Appendix B – Borrowing and Actual Investment Activity compared to the Approved 2020/21 Strategy

Appendix C – Treasury Performance Indicators for 2020/21

3. Summary of Review

3.1. During the financial year, there were no breaches of the Treasury Management Strategy.

3.2. The CCLA fund produced £278k in income during 2020/21 but there was a slight downward fluctuation in capital value of £46k (unrealised capital gain to date £1.4m). However, returns from the fund should be measured over several years as fluctuations in value should be expected. More importantly the total returns from the fund (capital and income) continue to far exceed what can be achieved from cash investments. The Council cannot enter and exit the fund to try to avoid short-term unrealised losses; the fund should be exited only to avoid long-term losses or seek more effective alternative investments.

3.3. The Council's investment holdings on the 31st March 2020 were £50.4m and £47.0m on 31st March 2021. The average investment balance during the year was slightly higher than allowed for in the budget due to re-phasing of the capital programme.

3.4. Interest earnings from investments were some £0.44m, which was below the budget of £0.49m, mainly because of lower yield due to the pandemic.

3.5. The return on investments in 2020/21 was 0.62% compared to the previous return of 1.25%.

4. Conclusion

4.1. It should be noted that the Council's Treasury Management has operated within approved parameters, has resulted in no realised losses and delivered income of £0.44m which has helped to support Council services.

List of appendices:

Appendix A – Economic Environment Update

Appendix B – Borrowing and Actual Investment Activity compared to the Approved 2020/21 Strategy

Appendix C – Treasury Performance Indicators for 2020/21

Background papers:

None

Corporate Implications

Legal/Constitutional: None

Financial: As detailed in report.

Potential impact on climate change and the environment: Any fund managers will be required to consider ESG (Environmental, Social and Governance) factors in their investment process. All the fund managers would be expected to have signed up to the UN Principles for Responsible Investment (PRI). PRI argues that active participation in ESG and exercising shareholder rights on this basis can help to improve the performance of companies which may otherwise not address such concerns and so being an engaged corporate stakeholder is a more effective way to bring about change in corporate behaviour on ethical issues.

Further requirements from those identified above are not practical given the limited ability to directly influence any immediate change in the financial markets.

Contribution toward achieving a net zero carbon position by 2030: None

Personnel: None

Risk Management: All treasury management activity requires a careful consideration of risk and reward.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

Consultees: None

Relevant Policies and Strategies:

Treasury Management Strategy 2020/21

Appendix A – Economic Environment Update

Introduction

The amount of interest the Council earns on its balances is a function of the mix of fixed and variable rate investments made by the authority, together with the performance of the shares it holds in pooled investment funds such as the CCLA and Money Market Funds.

Therefore, the interplay of various economic factors including interest rate expectations, property prices and economic growth all affect the performance of the Council's investments.

Economic factors

The vaccination programme is proceeding at pace in the UK and restrictions on economic activity are easing leading to a positive economic outlook in the coming year. UK GDP is expected to recover strongly but will continue to depend on the evolution of the pandemic and measures taken to protect public health globally.

The UK Bank of England base interest rate has been held at 0.10% throughout the year and extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. Inflation year to March was 0.7% (CPI) and is projected to rise in the near term as the impact of Coronavirus eases. Unemployment was at 5.0% in the three months to January 2021 and is expected to rise when the furlough scheme is withdrawn in September 2021. Interest rates were unanimously voted by the Monetary Policy Committee to be maintained at 0.10% in May 2021.

This has led to the Council's fixed and variable rate investments continuing to earn historically low levels of interest and the Council has held a significant proportion of the cash balances in liquid funds to manage cashflow.

The valuation of the Council's investment in the CCLA Property Fund decreased by £46K in the year, leaving the Council's unrealised gain at £1.44m on its initial investment. The income yield for the year was 4.32%, as measured against the current £6.44m market value. The Fund now has a minimum 90-day redemption period.

CCLA are expecting a steady trend in capital values to be maintained but within that wide dispersion of performances between sub-sectors. Retail is expected to remain weak despite the sector being open for trading and office accommodation is expected to remain steady in value.

Appendix B – Borrowing and Actual Investment Activity compared to the Approved Strategy for 2020/21

External borrowing

1. The Council effectively became debt free on the 16th September 2002, when it repaid all its PWLB debt. The Council therefore only has the freedom to borrow in the following circumstances:

   - Short term borrowing to manage liquidity
   - Long term borrowing only to fund capital expenditure if no other capital resources exist e.g. the Council has spent its capital receipts or expects to do so imminently

   The Council did not need to borrow in 2020/21.

2. Finance leases are deemed by Government to be a type of borrowing in the Council's Accounts and Treasury reporting must identify that the Council has borrowed money when they are used. At 31st March 2021, the Council had outstanding finance lease liabilities of £557,000.

Investments

3. Officers with appropriate knowledge and training invest the Council's cash balances. Arlingclose are used as advisers on treasury management to help inform the decision-making process.

4. The Council's funds are invested in the following priority order, in accordance with statutory guidance:

   i) Security – protecting the capital sum invested from loss

   ii) Liquidity – ensuring the funds invested are available for expenditure when needed

   iii) Yield – subject to achieving proper security and liquidity, to pursue a yield on investments to support service provision

   The regulations and CIPFA both advise that absolute certainty of security of capital and liquidity does not have to be achieved before seeking yield from investments. An appropriate balance of all three should be sought and that balance is determined by the Council in its Treasury Strategy.

5. The Council uses cash-flow planning methods in order to manage its in-house investments. This allows officers to separate in-house funds in to two categories:

   - Shorter term, lower yielding investments – these investments are invested for relatively short durations, normally 3-6 months, in order to ensure that the maturity profile of investments matches the peaks and troughs in the Council's liquidity needs – particularly for the final 2 months of the year where council tax income falls significantly due to the 10 monthly instalments most residents choose to pay in.

- Longer term, higher yielding investments – these are investments of ‘core cash’ which the Council does not require for operational purposes within the short to medium term. These funds can be invested for a year or more in appropriate counterparties in order to generate higher yields without causing liquidity issues.

6. During 2020/21 the Council’s investment portfolio has remained relatively similar in size from £50.4m to £47.0m. However, the inflow and outflow of Covid 19 grants for business made 2020/21 cashflow unusual.

Compliance with Treasury Management Strategy

7. A summary of the approved treasury management strategy, together with actual outcomes is presented below:

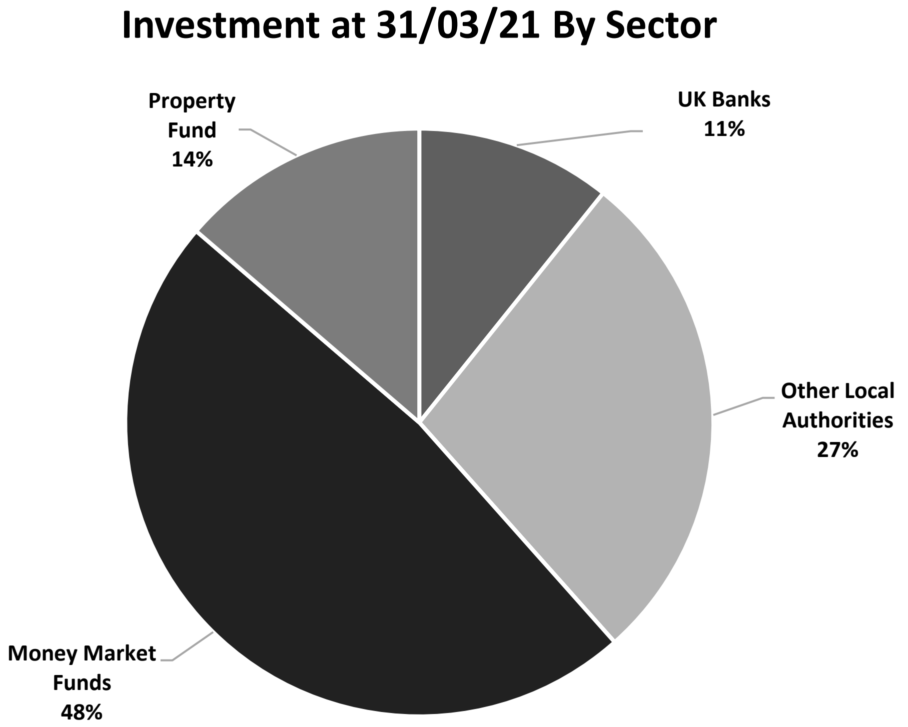
a.	**To ensure that there are no breaches of the approved counterparty limits or durations**	No breach occurred.
b.	**The option to invest further sums in pooled funds**	No additional investments in longer term funds took place in 2020/21.
c.	**To continue holding up to £8m (£5m initial investment plus a generous allowance for unrealised capital growth) investment in the CCLA Local Authority Property Fund**	The CCLA depreciated in value during 2020/21, largely due to the impact of Coronavirus. However, £278k in dividend income was still realised. The Council’s investment was valued at £6.44m as at 31st March 2021.
d.	**Limit investments over 365 days in duration to £18m**	Investments with a duration in excess of 365 days did not exceed £18m in the year.
e.	**Ensure that no more than 75% of the Council’s Portfolio is invested for periods of greater than 3 months at any one time**	No breach occurred.
f.	**In exceptional circumstances allow short borrowing on occasions to cover any liquidity shortfalls caused by the unexpected timing of payments or to avoid the opportunity costs of liquidating certain investments**	No exceptional borrowing was required in 2020/21.

In 2020/21, the Council remained mindful of the risk of Bail-in losses from unsecured lending to banking counterparties.

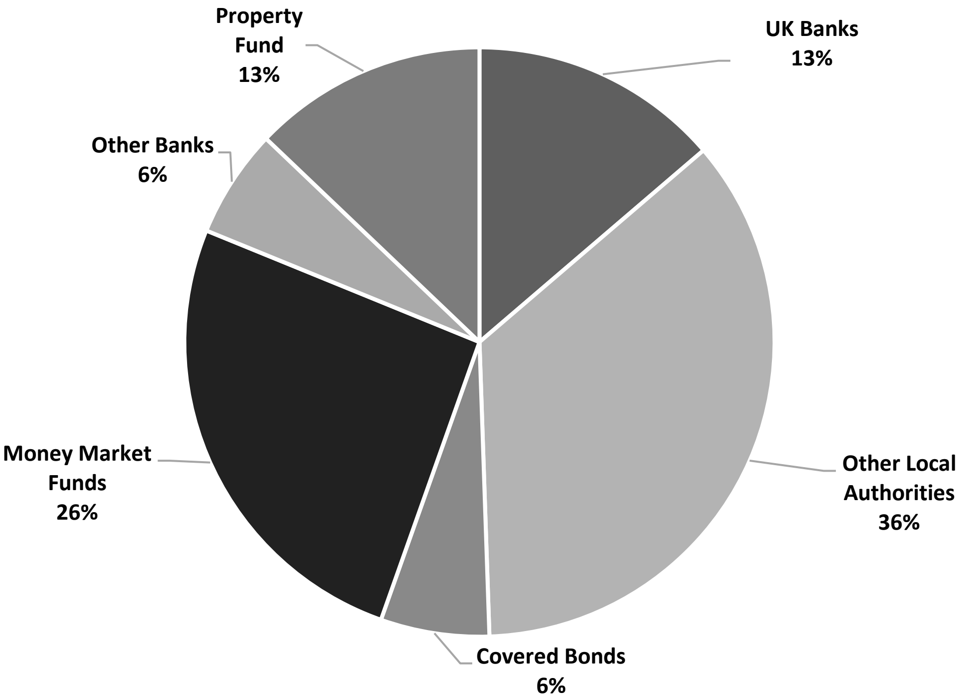
As at 31st March the Council’s exposure to Bail In risk (direct lending to banks and building societies) was 11%, against 20% at the end of the previous financial year.

Year ending exposure tends to be lower than the average exposure because, where possible, the Council takes advantage of higher rates offered by other local authorities in the final quarter of the year. However, due to the uncertainty surrounding the impact of Covid-19, the Council chose to hold a higher proportion of its cash in liquid accounts in order to protect against potential cashflow problems and reflecting the very low yield that could be achieved (below 0.1%).

Exposure	**2017/18**	**2018/19**	**2019/20**
Bail In Risk -Direct investment	7%	20%	11%
Bail In Risk – Pooled Fund Managers and Money Market Funds	31%	26%	48%
Exempt from Bail In (including CCLA)	62%	54%	41%
Total	100%	100%	100%



Investment at 31/03/20 By Sector



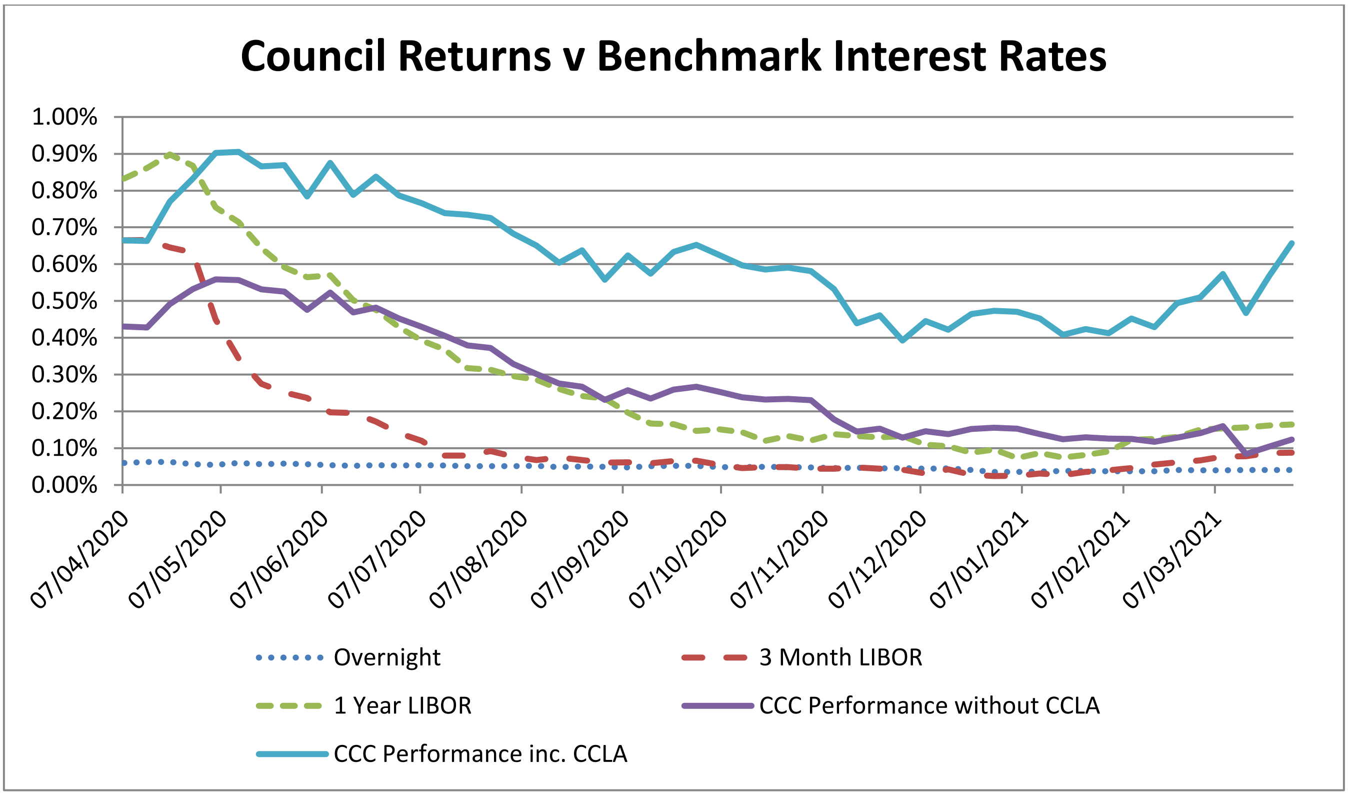
Counter Party	31/03/2021	Limits for 2020/21
Short-Term Money Market Instant Access Funds	£s	£s
BlackRock MMF	4,566,800	6,000,000
Aberdeen Constant Fund	5,955,140	6,000,000
Federated Money Market Fund	5,996,000	6,000,000
Invesco Money Market Fund	5,950,800	6,000,000
CCLA Property Fund	6,436,090	8,000,000
UK Treasury Bills	0	Unlimited
Banks		
Natwest	2,047,160	3,000,000
HSBC	3,000,000	3,000,000
Local Authorities		
Birmingham City Council	3,000,000	20,000,000
Warrington Borough Council	5,000,000	20,000,000
Plymouth City Council	5,000,000	20,000,000
	46,951,990	

Return on investments

8. Interest rates remained at very low levels throughout 2020/21, with the Bank of England base rate being held at 0.10%. Consequently, returns remain below the prevailing inflation rate, resulting in negative real rates of return on funds invested.

   Comparisons by Arlingclose out of 127 authorities (143 last year) show the City Council's returns remained in the second quartile for authorities in March 2020 (50th highest) compared to March 2019 (49th highest). This shows that comparative performance remains significantly lower in terms of total return ranking than its high point early in 2016 (22nd highest), and December 2015 (10th highest). Over this period many authorities have invested more extensively in property funds, bond funds, equity funds and mixed asset funds.

   The LIBOR (London Inter Bank Offered Rate) rates below show the interest levels that London based banks charge each other. These highlight the historically low levels of interest rates and provide context for the Council's own investment returns.



	Market investments (excluding CCLA)	CCLA Investment Yield	All Investments
	Year ending 31/03/2021		
Average yield	0.28%	4.32%	0.62%

Security

The CCLA fund dropped in capital value by £46k but is still valued at £1.44m over the initial investment made by the Council.

Conclusion

The Council has operated within its Treasury Management Framework. This has enabled the Council to safeguard its financial assets and produce a good level of return relative to the prevailing market interest rates.

Treasury Management Performance Indicators

Period Ending: 31/03/2021

Security

	Year 2020/21	Projected as at Nov 20	Target for year	Target for year	Target for year	Target for year
	31/03/2021	*31/03/2021*	*31/03/2021*	*2021/22*	*2022/23*	*2023/24*
Require - Only to invest with approved counterparties	No breach	No breach	No breach	No breach	No breach	No breach
Require - Only to invest up to approved limits	No breach	No breach	No breach	No breach	No breach	No breach
Target - Bail in exposure to not exceed portfolio	58.60%	50.00%	50.00%	50.00%	50.00%	50.00%

Liquidity

	Year 2020/21	Projected as at Nov 20	Target for year	Target for year	Target for year	Target for year
	31/03/2021	*31/03/2021*	*31/03/2021*	*2021/22*	*2022/23*	*2023/24*
Target - At least £8m maturing in 100 days or less	£ 40,515,900	No breach projected	£ 8,000,000	£ 8,000,000	£ 8,000,000	£ 8,000,000
Require - Investments maturing in more than 365 days not to exceed target	£ 6,436,090	No breach projected	£ 10,000,000	£ 10,000,000	£ 10,000,000	£ 10,000,000
	£ 46,951,990	**£ -**				

	Actual Borrowing 2020/21	Projected as at Nov 20	Target for year	Target for year	Target for year	Target for year
	31/03/2021	*31/03/2021*	*31/03/2021*	*2021/22*	*2022/23*	*2023/24*
Requirement - Authorised Limit of Borrowing	£ Nil	£ Nil	£ 45,000,000	£ 45,000,000	£ 45,000,000	£ 45,000,000
Target - Operational Boundary of Borrowing (excluding finance leases)	£ Nil	£ Nil	£ 25,000,000	£ 25,000,000	£ 25,000,000	£ 25,000,000

Yield

	Year 2020/21	Previous Year
	31/03/2021	*31/03/2020*
Average yield on cash portfolio	0.28%	0.86%
3 month Libor benchmark	0.14%	0.56%
Average yield on CCLA	4.32%	4.48%
Average yield on total portfolio	0.62%	1.25%
1 year Libor benchmark	0.29%	0.84%

APPENDIX C

Treasury Management and Investment Sub-Committee

21st June 2021

Expected Treasury Management Activity 2021/22

Report by:
ACCOUNTANCY SERVICES MANAGER (Section 151 Officer)

Officer Contact:
Phil Reeves, Accountancy Services Manager, phil.reeves@chelmsford.gov.uk, 01245 606562

Purpose
To provide an update of the outlook for 2021/22 Treasury management activity.

Options
1. Note the content of the report
2. Recommend to Council changes to the Treasury Management Strategy

Recommendation
Note the contents of the report.

1. Background

1.1 Cabinet and Council are legally responsible for approving the Treasury Management and Investment Strategies.

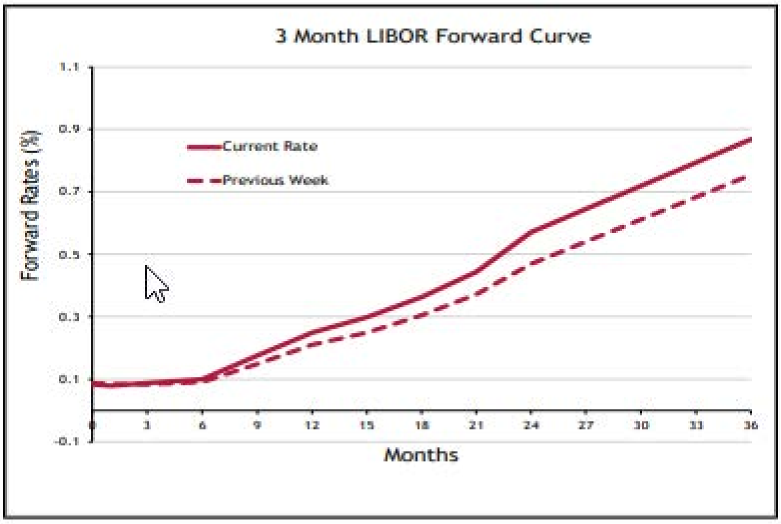
1.2 The Accountancy Services Manager is delegated to operate treasury management activity within the parameters set in the Strategy. This report is intended to update members on any issues and the progress of implementing the strategy for 2021/22.

1.3 If members believe it is appropriate, then they can recommend changes to Strategy to Cabinet and then Council.

2. Expected Investment Activity

Interest rates and Returns

The graph below (source Arlingclose, May 2021) shows the forward money market expectations for interest rates. Clearly the markets could be wrong but, given the current conditions, it seems reasonable to assume sub-1% interest rates will remain for 2021/22 and 2022/23. Current interest returns for the Council (excluding CCLA) are 0.01% to 0.17%



The Council's net interest/investment earnings forecast in the 2021/22 budget are £290k of which some £250k are estimated to come from the CCLA property fund.

Investments Expected to be made

A significant change to investment practices will be made in late-June when £10m will be placed with external bond and multi-asset managers. This is in-line with the Treasury Strategy.

Why use funds?

- The Council employs Arlingclose to provide advice on Treasury Management best practice (the best outcomes for Security, Liquidity and Yield). The advice provided by Arlingclose recommends the investment of core cash holdings in investment funds of various types, rather than regular cash deposits.
- The use of funds was agreed in the Treasury Strategy and discussed in detail in June 2019 at the Sub Committee and included within the Strategy.
- The Council will invest an additional £10m, taking funds managed by external managers to around £16.4m. This level of investment is sustainable over a number of years given it broadly matches core cash backed balances such as Reserves and CCLA unrealised profit, before considering general cash in hand from activities such as CIL (prior to its use).
- The intention of the investment in funds is not to achieve excessive levels of return. That would imply high risk but target an average of 3-4% per year (asset growth and income).

- The interest rate outlook is not promising for cash investment returns; yields are likely to be 0.01% to 0.15%. The new funds are expected to generate an additional £290k to £400k per year on the £10m invested.
- The funds are not intended to generate significant capital returns, as performance will come mostly via income/yield. This has been evidenced by historic performance.
- The additional risk of using funds should be considered low over the longer term (3-5 years). The fluctuations/volatility in fund prices over that time period should average out.
- The extent of any potential losses from counter party failure is reduced compared to individual cash investments as money is spread over a greater number of banks etc by the fund managers compared to any Council inhouse investment.
- Any increased risk on the Treasury investment portfolio must be seen in the context of the overall Council finances and the need to protect services from cuts.
- The valuation of the funds will vary during the time the Council holds them. The unrealised increase in the CCLA fund value is £1.4m. The funds should be considered a portfolio, so fluctuations should be considered across all funds not individual ones. Total return (income and capital) will be the key performance measure.

Which Funds?

- The identification of which fund managers to use was undertaken by Arlingclose. The recommendation was reported to Sub-committee in June 2019 but is a decision for officers under delegation.
- Arlingclose recommend the use of Property, Multi-Asset and Bond funds. They have recommended a revision to the original allocation of Council money across the fund types. The allocation should now be more heavily weighted to multi-asset funds given the current low-interest-rate environment. For completeness, an explanation of the ‘new’ types of fund is below:
  - Multi-asset funds invest in a diversified portfolio comprising equities (UK or global), bonds, property and alternatives (e.g. infrastructure, asset leasing). ‘Alternative’ assets exhibit lower correlation with bond or equity markets and are often key components in multi-asset strategies. These funds aim to provide long-term total returns comprising income distributions and capital growth. Funds may or may not have pre-determined allocations to asset types and/or geographical areas or industry sectors. The asset allocation is often left to the fund manager(s) as to where they perceive best value over the medium to long-term. Arlingclose advise a minimum 3-year investment horizon for multi asset funds.
  - Bond prices and yields have an inverse relationship, meaning the price of a bond is sensitive to the general level of interest rates. For example, if interest rates rise compared to the rate prevailing when an existing bond was issued, the price of that bond will generally fall, all other things being

equal. This is because higher interest rates generally mean new bonds can be issued with a higher coupon (interest rate), making existing bonds issued at lower interest rates (with lower coupons) less attractive, which pushes the price down as investors are only willing to pay a lower price to compensate for earning a lower coupon. Conversely, when interest rates fall compared to those when a bond was issued, the price of that existing bond will increase as investors need to pay more for an existing bond with a higher coupon.

- Even with rising interest rates, bond funds will still provide a higher level of income than cash investments while being within the Council's risk appetite and investment horizon. Additionally, helping to prevent being overly concentrated in the recommended two multi-asset funds. However, consideration is being given to replacing the Bond fund with a third Multi-Asset fund but this would be dealt with under delegation.
- The use of different managers/funds rather than one manager by fund type (bond or multi-asset), is to provide different styles/approaches to investing and thereby creating more diversification in investment.
- The Council can choose to invest in tranches or on a single day. The current approach is expected to be a single investment day trying to lock into investment income returns earlier rather than tranche investing which averages purchase price over a longer time period.

Other cash will continue to be held in MMF, LA deposits and bank deposits, broadly as below:

Investment type	**£ms**
Bond Funds	3.0
Multi Asset Funds	7.0
Property Fund	6.3
Cash/deposits	13.7
Money Market Funds	29
Total Funds	**59**

3. Expected External Borrowing

3.1. The Council cashflow has been heavily affected by COVID income losses and the payment of government business grants. Given those issues, it is at a practical level difficult to create any robust forecasts of cashflow except around Core cash holdings.

3.2. The levels of cash holdings of £59m suggest that, even after the Council has locked into an additional £10m of fund investments, it is likely that the only form of borrowing needed will be short-term for liquidity purposes.

3.3. Any short-term borrowing will be in the form of loans from other local authorities, currently at rates of 0.01 to 0.17%.

List of appendices:

None

Background papers:

Nil

Corporate Implications

Legal/Constitutional: The report meets statutory obligations on reporting Treasury Management Activity

Financial: As detailed in the report

Potential impact on climate change and the environment:

Any fund managers will be required to consider ESG (Environmental, Social and Governance) factors in their investment process. All the fund managers would be expected to have signed up to the UN Principles for Responsible Investment (PRI). PRI argues that active participation in ESG and exercising shareholder rights on this basis can help to improve the performance of companies which may otherwise not address such concerns and so being an engaged corporate stakeholder is a more effective way to bring about change in corporate behaviour on ethical issues.

Further requirements from those identified above are not practical given the limited ability to directly influence any immediate change in the financial markets.

Contribution toward achieving a net zero carbon position by 2030:

N/A

Personnel:

N/A

Risk Management:

The report is part of the Council's approach to managing risks arising from Treasury Management

Equality and Diversity:

N/A

Health and Safety:

N/A

Digital:

N/A

Other:

Consultees:

Relevant Policies and Strategies: Treasury Management Strategy