Chelmsford City Council Treasury Management and Investment Sub-Committee

11th December 2023

Treasury Management & Investment Strategies 2024/25

Report by:
Accountancy Services Manager (s151 Officer)

Officer Contact:
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Purpose
To recommend Treasury Management and Investment Strategies for 2024/25 to Cabinet and then Full Council

Options
1. Accept the strategies.
2. Recommend changes to the way by which the Council's investments are to be managed.

Recommendation
Recommend the Treasury Management and Investment Strategies to Cabinet

1. Background

1.1 Cabinet is responsible for recommending to Council the Treasury Management and Investment Strategies which Council is legally responsible for approving. The attached report enables the sub-committee to recommend to Cabinet and Council Treasury Management and Investment Strategies for 2024/25.

1.2 The attached report references the Capital Strategy, which is a matter for Council and Cabinet as it relates to decisions regarding the capital & revenue budgets. The Treasury Management and Investment Committee does not consider the Capital Strategy.

1.3 Members of the sub-committee can amend the contents of the attached report and thereby recommend changes to how the Council invests its money.

1.4 The capital estimates are in the process of being reviewed and updated and some values may change when they are presented to Cabinet in January because of this.

List of appendices:
Draft Cabinet Report and Appendices

Background papers:
None

Corporate Implications

Legal/Constitutional: None

Financial: As detailed in report.

Potential impact on climate change and the environment: The Council's Climate and Ecological Emergency Action Plan as agreed at Cabinet 28th January 2020 included review of the Council's investment strategy in light of the Climate and Ecological Emergency Declaration.

Contribution toward achieving a net zero carbon position by 2030: As above

Personnel: None

Risk Management: All investment activities require 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: Medium Term Financial Strategy

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Chelmsford City Council Cabinet

30th January 2024

Capital (*to be taken directly to Cabinet*), Treasury Management and Investment Strategies 2024/25

Report by:
Leader of the Council

Officer Contact:
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Purpose

To recommend an approach for managing the Council's:

- Cash and
- Other types of investment including property

Options

1. Accept the recommendations contained within the report
2. Recommend changes to the way the Council's investments are to be managed

Preferred option and reasons

Recommend the report to Council without amendment for consideration and thereby meet statutory obligations.

Recommendations

That Cabinet requests that Full Council approve the Capital, Treasury Management and Investment Strategies.

1. Background

1.1. There are three financial strategies that the Council is obliged by Government to approve when setting a budget:

- Capital Strategy
- Treasury Management Strategy
- Investment Strategy

1.2. Capital Strategy

The Capital strategy (***Not currently included***) sets out a framework for the management of capital finance and links to capital and revenue budget plans being reported to January Cabinet. The strategy is not reviewed by the Treasury Management and Investment Sub-committee.

1.3. Treasury & Investment Strategies

Members of the Treasury Management & Investment Sub-Committee have reviewed the contents of these strategies and recommended that the Cabinet note their contents and seek Council approval for the Strategies.

The activities around the management of the Council's cash and external borrowing are known as Treasury Management. Under statute and the CIPFA Code of Practice on Treasury Management ("the Code"), members are required to receive reports on the Council's Treasury Management (TM) activities. The document in **Appendix 1** complies with the Code and relevant Government regulations.

Full Council has overall responsibility for the Treasury Strategy but delegates to the Treasury Management and Investment Sub-committee responsibility to monitor activity and recommend changes to strategy. The Accountancy Services Manager (Section 151 Officer) has been delegated responsibility to manage operational TM activities within the approved strategy.

1.4. The Department for Levelling Up, Housing and Communities requires the Council to publish and have approved an Investment Strategy. This strategy covers investments that are deemed not to be Treasury Management activities. The Investment Strategy is in **Appendix 2**.

2. Executive Summary

Treasury Strategy

Investments

- Changes from last year's strategy are

  - It is proposed to have a target of a minimum of £5m (previously £3m) of liquid funds to manage cashflow during the year. This reflects monthly fluctuations in cash levels.
  - Reporting on prudential indicators will be made to TMISC at least three times a year.
  - No other material changes from the previous year
- Cash available for investment is expected to reduce as the Council internally borrows to fund the capital programme.
- Prior to completion of the budget gross interest income of circa £1.0m is expected for 2024/25 based on an assumed rate of 4.6% across the Council's portfolio. Forecasts provided to the Council identify a decrease in the Bank of England's base rate to 4% by March 2025.

Borrowing

- No changes to the principles of last year's strategy are proposed.
- Borrowing will only be undertaken for the purpose of managing temporary liquidity or to fund the capital programme.
- Limits for external borrowing will be set in the Capital Strategy which will be reported to Cabinet and then Council as part of the 2024/25 Budget.
- The Section 151 Officer under the constitution manages investments and borrowings, so will undertake borrowing as needed. Prior to completion of the budget, the Council cashflow planning indicates that some temporary borrowing may be required in 2023/24. External borrowing is expected to be required in 2024/25 based on known and assumed financial commitments.

Non-Cash Investments (Investment Strategy)

- No changes to the principles of last year's investment strategy are recommended
- No new capital expenditure (investments) will be made where the purpose of the investment is primarily for yield. This restriction is in line with 2023/24 Strategy.
- The strategy has provision to allow for the creation of a stand-alone housing company, if needed.
- The monitoring of non-treasury investments is undertaken by the Treasury Management and Investment Sub-committee.

3. Conclusion

3.1. Cabinet is asked to accept the endorsement of the Treasury Management and Investment Sub-committee and to recommend to the Council the Treasury Management and Investment Strategies.

3.2. Cabinet is asked to recommend the Capital Strategy to Council.

List of appendices:

Appendix 1 – Treasury Management Strategy 2024/25

Appendix 2 – Investment Strategy 2024/25

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. So currently the instant access money market funds are excluded from the ESG assessment.

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:

Medium Term Financial Strategy

Treasury Management Strategy

1.1 Treasury Management at Chelmsford City Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA code) which requires the authority to approve a Treasury Management strategy before the start of each financial year. This report fulfils the authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA code.

1.2 Treasury Management covers the management of the Council's cash flows, borrowing and investments, and any associated risks. Chelmsford City Council has substantial cashflows and investments from its activities and is therefore exposed to a series of financial risks including the loss of invested funds. Risk also comes from possible changes in interest rates affecting investment income or the cost of any external borrowings.

1.3 The Council's investment priorities are, in order of priority:
(a) the security of capital
(b) the liquidity of its investments; and
(c) yield.

The Government 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.

1.4 Borrowing monies purely to invest or lend on to make a return is unlawful and this Council will not engage in such activity. The borrowing of monies to fund the capital programme is allowed and there will potentially be the need to borrowing up to a year in advance to secure the funding or de-risk the interest rate risk. Officers will aim to minimise borrowing costs by investing surplus cash based on forecast cashflow needs.

1.5 In the event of major changes to the external or internal context in which this strategy has been set, it may be necessary for the Council to revise its strategy during the year.

1.6 This Treasury Management Strategy will focus solely on investments arising from the organisation's cashflows and debt management activity. Non-treasury investments will be covered separately under the Investment Strategy (**Appendix 2**). The monetary limits on borrowing will be set in the Capital Strategy which forms part of the 2024/25 budget papers going to Cabinet and Council in the new calendar year.

2. External Context

2.1 The macroeconomic environment has a significant impact on the Council's treasury operations via inflation, interest rate and counterparty risks.

The economic environment and interest rate forecast

2.2 The Bank Base Rate at the start of the financial year was 4.25% and has risen to 5.25%. The view of the market is that this potentially could be the peak (terminal) rate for this cycle.

CPI inflation has fallen from 8.7% in April to 6.7% in September and has further eased to 4.6% in October.

The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

A key measure of economic activity used by economists, the composite Purchasing Managers Index, fell from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021.

As the growing drag from higher interest rates intensifies over the next six months, the economy could continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. There was also a decline in job vacancies in August which suggest labour market has loosened further since July. However, some of the loosening in the tightness of the labour market was offset by the decline in supply of workers. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

There has been a cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth. The headline 3 month year on year growth of average earnings rose by 7.8% for the period June to August.

2.3 In Bank of England's (BoE) latest monetary policy meeting on 6 November, the BoE left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

It is believed the BoE wants the markets to believe that rates will remain higher for longer. So is messaging that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". The Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the BoE the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

2.4 Below is Link's interest rate forecast on their view of the movement of interest rates between 2023 and 2026. They are forecasting interest rates to be falling over this period. We have based our planning around this, however actual Treasury Management activity will follow prevailing market conditions.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Credit Outlook and counterparty risk

2.5 The institutions on the Council's approved counterparty lists are well-capitalised and general credit conditions across the sector are expected to remain benign, limiting the chances of losses to the Council.

2.6 Public Bodies provide much less risk as investment counterparties, but yields can be lower. The Council will consider security, liquidity and return when reviewing new investments over different organisations and different investment categories (property, pooled funds, public bodies, etc.) to provide a satisfactory balance of security of capital and return. The City Council will avoid lending to councils that have a section 114 notice but there is no evidence that a notice would have any impact on the ability of the Council to repay loans on maturity.

Officers believe investing in private banks and building societies that meet our risk appetite and investment criterion can offer higher returns than offered by public bodies when there is uncertainty with interest rate movement. When considering investing, we will consider return in deciding between public bodies and private organisations.

3. Local Context: Investment Balances and Potential External Borrowing

3.1 At the end of October 2023, the Council held £54m of investments. These investments arise from balances including unspent Community Infrastructure Levy (CIL) and reserves, as well as income received in advance of expenditure.

Forecast year-end investment balances are in the table below. These are best estimates at this stage; significant variation could occur due to changes in the Capital Programme and other changes. *(Please note: if any changes are made to capital programme in the budget, then below figures will be amended before the report is presented to Council by the Section 151 officer.)*

Date	31/03/2023 Actual (£m)	31/03/2024 Forecast (£m)	31/03/2025 Forecast (£m)	31/03/2026 Forecast (£m)	31/03/2027 Forecast (£m)
Year-end investment held	41	20	14	14	14
Cumulative External Borrowing	0	7	38	38	30

Officers believe the above are best estimates available with forecast showing that there is potentially the need to borrow from March 2023. This will be subject to whether there is further slippage in the capital expenditure and if income such as CIL arrives earlier than expected.

The above investment balance is made up of working capital of £5m and £9m of long-term investments that is supported by long-term reserves and other balances.

3.2 The table below shows the forecast external borrowing costs. These costs could vary due to the timing of the capital spend and the interest rate when financing is sourced.

The borrowing costs below assume short term loans from other local authorities and interest rate assumptions listed in section 2.4 above. This is consistent with advice provided from our external treasury advisors where any external borrowing should be kept short dated.

	31/03/2023 Actual (£'000)	31/03/2024 Forecast (£'000)	31/03/2025 Forecast (£'000)	31/03/2026 Forecast (£'000)	31/03/2027 Forecast (£'000)
Forecast External Borrowing Costs	0	32	789	1,298	899

3.3 During most months, the cash balance can rise and fall by between £10m and £15m due to receipt of income and payment of precepts to other Essex bodies. The Council should therefore aim to keep sufficient cash in hand to manage these fluctuations. However, the Council can undertake temporary borrowing, and will do so wherever needed to ensure sufficient liquidity.

The financial year-end tends to be the lowest point for the Council's cash balances. This is because most residents pay their Council Tax over 10 instalments, but the Council pays these out to central government and other precepting authorities on a monthly basis; so significant net cash outflows occur in February and March each year. The principles to establish how investments should be managed are discussed in Section 4 below.

3.4 The Capital Strategy published with the Revenue 2024/25 budget papers will include debt limits reflective of the 2024/25 budget. So, the figures below may be amended by s151 before Cabinet.

The CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by (internal or external) borrowing. The budget report will update the forecast of the CFR and the table below shows current estimates.

Temporary Use of Surplus cash	March 2023 Actual £m	April 2024 Forecast £m
Capital Financing Requirement	35.363m	38.916m
Made up of:		
External Debt (leasing)	1.135m	0.849m
Surplus cash internally borrowed	34.228m	38.067m

The Council has reserves which are cash-backed which can be invested for long-periods as the Council always maintains a certain level of reserves and working capital.

It is not unusual for councils to hold investments equal to working capital whilst external debt is being used to fund capital expenditure. Working capital is the day-to-day cash balances held for the normal operations of the Council such as making payments to suppliers.

The Council also run down investments by internally borrowing cash backed resources to fund the capital programme instead of external loans. This can enable the opportunity to finance capital expenditure at lower debt costs than external borrowing.

Borrowing Sources

3.5 The Council has a need to fund its capital plans from borrowing. This section of the strategy sets out the Council's methods to borrow. Long-term borrowing is only used to fund the capital programme so the level of borrowing will never exceed the CFR (Capital Financing Requirement) for any meaningful amount of time. As previously stated in Section 3.4, the CFR is the amount of capital expenditure the Council has financed by internal or external borrowing and so will be determined by the Budget Report 2024/25.

3.6 The practice and assumption is internal borrowing is prioritised over externalising debt, however, the Section 151 Officer will monitor external rates of borrowing and the sustainability of using internal borrowing to determine if it becomes more beneficial to externalise the debt.

3.7 When the Authority needs to borrow externally it will seek to strike a balance between minimising interest costs, securing certainty of borrowing costs and having the planned liquidity required. Examples of where the Council can seek to borrow funds from are:

- Public Works Loan Board (PWLB). This is only allowed if a Council has no approved capital plans to purchase assets primarily for the purposes of yield. More details can be found in the Investment Strategy and paragraph 5.4 below.
- Other UK Local Authorities. This is usually relatively short-term debt running from a few days to two years in duration.
- Any institution which meets the Council's investment criteria.
- UK public or private sector pension funds (Excluding the Essex Local Authority Pension Fund).

3.8 The PWLB can lend to local authorities for any duration up to 50 years. The PWLB is the source of loans/funds if no other lender can provide finance. The PWLB will not lend to an authority that plans to buy investment assets primarily for yield. The Section 151 Officer will be expected by the PWLB to certify that no such purchases are planned.

From a Treasury Management perspective, it is recommended that the PWLB should be retained as a borrowing option and therefore the purchase of investment assets primarily for yield should be excluded from the capital programme. This is recommended not only due to the reduced rates now available through PWLB but due to the backstop accessibility of this source of borrowing.

3.9 The Council already has in place the following set of debt indicators and will revise them in the Capital Strategy:

- The Authorised Limit is the limit placed by the Council on the absolute level of its gross debt at any time. The Local Government Act 2003 stipulates that it must not be breached at any time. When setting the limits, these will need to be consistent with the liability benchmark as this shows the borrowing requirement to fund the forecast capital programme.
- The Operational Boundary on the other hand is a lower figure reflecting the planned maximum level of debt at any time, the difference being designed to give headroom to deal with unforeseen movements in cash flow. It will not normally be a matter of concern if the Operational Boundary is breached due to temporary variations in cash flow. However, a sustained or regular trend above the Operational Boundary would require investigation and appropriate action.

The authorised and operational borrowing will be set out in the Capital Strategy to be published in January 2024; they will be linked to the CFR (the borrowing needed to fund the capital programme).

3.10 Officers may find it appropriate to undertake short-term borrowing for liquidity purposes.

3.11 In addition to borrowing via loans, other debt financing models may be used to finance the capital programme where this represents best value for the authority. These forms of debt are included in the overall borrowing limits. Such debt finance models include:

- Sale and leaseback arrangements
- Hire purchase arrangements

4 **How we intend to Invest 2024/25**

4.1 The Council's treasury investment strategy will prioritise its investment objectives in the following order:

- Security of assets – investing in counterparties only where the risks of incurring a capital loss through default, and the risks of late payment of principal and interest, are low. Also, by spreading risk as widely as is practically possible.
- Liquidity – Ensuring that the authority can access enough cash to meet its obligations with appropriate notice. It is recommended for 2024/25 a target of at least £5m of short-notice funds is held. The definition of short notice will be any held for less than or equal to 35 days.
- Yield – subject to the management of risks associated with security and liquidity of assets, the Council will seek to maximise the yield from its investment portfolio.

The Government 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. The Council will aim to achieve the optimum return on its investments with proper levels of security and liquidity that is within the Council's risk appetite.

4.2 No fixed-duration investments over 365 days are currently proposed for 2024/25. This will be reviewed during 2024/25 depending on interest rates, cashflow and counterparty risk. It is recommended any investments beyond 365 days are at the discretion of the Section 151 Officer, up to a limit of £10m as recommended in Section 7.4.

4.3 The Council use credit ratings and Link Group list of suggested counterparties to determine suitable counterparties. Link Group employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies.
- CDS spreads that may give early warning of changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour-coded bands which indicate the relative creditworthiness of counterparties.

Link Group aim to promote security of assets first through diversification, as well as limits on the sums invested and limits on which counterparties the Council can invest with. A suggested list of counterparties is available live through their passport service and is also released by Link Group on a weekly basis.

The Council policy has been, and is, recommended to differ from Link Group advice when it comes to duration of investments with Banks (UK and Foreign) and Building Societies. The Council's Officers have focused more on long-term credit ratings and an assessment of systematic importance to the UK economy when assessing investment duration. This means the Council has a slightly longer duration and slightly less Counter parties than suggested by Link Group, but still maintaining diversification of investments and therefore security of the

Council's assets. How this works in practice is explained in sections 4.6, 4.7 and 4.8 below, whilst section 4.13 sets out the duration limits allowed.

No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit-rating criteria.

Given the advice received by the Council regarding credit risks, sub-inflation returns and potential economic slowdown, the Council will retain within the strategy the following investment types:

- Enhanced Money Market Funds & Money Market Funds (MMF)
- UK Public bodies
- Unsecured Bank Investments
- Unsecured Building Society Investments
- Unsecured Non-UK Bank Investments
- Unsecured Registered Social Landlord Loans
- Covered Bonds, Reverse Repurchase Agreements and Supranational Bonds
- Multi Asset funds, Bond funds and Property funds

4.4 **Enhanced Money Market and Money Market Funds.** The Council has access to enhanced money market funds (AAA rated) which offer a rate of return but require 2 – 5 day notice to withdraw funds.

The Council invests short-term cash in several AAA-rated money market funds. These funds provide a rate of interest (5.26%-5.37% in November 2023) and most importantly allow same-day access to funds. Interest rates are linked to the BOE base rate and so any increase in this will feed through to the rates earned for the Council.

These funds spread the Council's investment over many financial institutions, so reducing risk. Historically the funds have proved very safe.

4.5 **UK Public Bodies.** Debt Management Agency Deposit Facility, Government Treasury Bills or Gilts as these are all investments with the UK Central Government. These are the safest possible form of UK investment, so the Council will place no limit on the amount that can be invested.

Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans). These are theoretically as safe as lending to Government, but what would happen should a Local Authority go bankrupt has never been tested in law. It is therefore prudent to place some limit on investments with each local authority but recognising this type of investment is much safer than most alternatives.

4.6 **Unsecured UK bank investments.** The changes to UK Bank regulation from the adoption of a "bail-in" approach to recapitalising banks and the move to ringfencing of UK bank retail operations have increased the amount that could be lost in the event of a bank failure. With the completion of ringfencing activities by major banks to protect retail investors from investment banking losses, different banks have placed local authority depositors in either the retail or investment banking divisions. It should be noted that the credit scores for the banks with which the Council lends have either remained the same or improved as a result of ringfencing. The Council believes that it is prudent to invest with banks who are on Link Group suggested lists. Link Group only suggest investments with UK banks for up to 6 months for the majority of those listed. The Council differs from

Link Group advice in terms of the length of investment, up to a period of 365 days. But only if the credit rating criteria (table 4.13 below) are met and no information is available that identifies unacceptable risk. The Council will not invest with any bank that is not on the suggested Link Group list.

4.7 **Unsecured building society investments.** Link Group recommend a pool of Building Societies that it suggests clients could invest with. Where our criteria do differ to Link Group relates to the suggested duration periods where Link Group only recommend up to a maximum of 6 months. The Council current policy goes beyond Link Group advice and lends up to 365 days.

It is recommended that the Council's treasury strategy takes a different approach to investing with building societies than that suggested by Link Group. If a building society has a long-term credit rating of at least A- then investments for up to 365 days should be allowed. This is the same as the Council's previous counterparty policy for Building Societies but is a higher risk approach than Link Group based on duration.

4.8 **Unsecured Non-UK bank investments.** Link Group review the approach to investment with non-UK banks separately to UK banks. This reflects the different risks and ownership structures that affect the security of the investment. The Council first uses Link Group advice to select appropriate non-UK banks and then uses credit rating information to make investment decisions. The Council uses credit rating of AA- for selecting investments with non-UK banks of up to a maximum of 365 days and A- for investments of up to 100 days.

The Council may differ from Link Group advice in terms of the length of investment, as long as the credit rating criteria above are met. The Council will not invest with any bank that is not on the suggested Link Group list. In practice, the Council's approach is more conservative than Link Group who, for non-UK banks with a Fitch rating of between A- to A+, suggest in many cases durations up to 6 months. The Council is broadly consistent with Link Group where the non-UK bank has a rating of AA- or above, with a few exceptions where Link Group suggested duration is up to 2 years.

4.9 **Registered Social Landlord (RSL) Loans.** The Council can lend to RSLs in the pursuit of treasury management objectives but must treat any loans made for policy reasons as capital expenditure. The option to lend for Treasury purposes has been on the Council's counterparty list for several years but there has not been a suitable opportunity.

4.10 **Covered Bonds, Reverse Repurchase Agreements and Supranational Bonds**. These are all different investment products but have in common the highest levels of credit rating. They are either backed by a pool of guaranteed bank assets or UK and/or foreign Governments. The Council takes advice from Link Group before undertaking any of these investments, so an investigation of the individual strength of each investment has been determined. They are rarely used by the Council.

4.11 **Multi-Asset, Bond and Property Funds**. These potentially offer the Council income and capital growth of the sum invested. There are several types of funds including property funds, bond funds, equity funds and multi-asset funds. Funds seek to reduce risk by building a pool of investments and as such are considerably safer than an investment of comparable size in a specific single asset.

However, any fund exposes the Council to market price volatility. Officers will carefully consider any investment opportunities and always keep any ownership under review. A review of the risks and benefits of using Funds was made in the summer of 2019 and which concluded that Multi-Asset, Bond and Property funds provide a suitable method to invest Council funds.

As at 31st October 2023, the Council has an investment of around £15m in the CCLA property fund and 3 Multi-Asset funds. These funds are backed by cash in reserves and other long-term balances.

The extension of the IFRS 9 statutory override in local government was extended until 31 March 2025. The standard covers financial instruments and requires fair value movements in pooled asset funds to be reflected in budgets. Currently the changes in valuation are treated as unrealised loss or gains but once the IFRS 9 overrides ends, the gains and losses in valuation will be crystallised and impact on unusable reserves.

4.12 **Challenger Banks.** As part of the Government's policy to reduce the size of banks and to encourage competition, new 'challenger banks' are appearing in the UK banking market. Many of these challenger banks are unrated but do have high levels of capital buffers.

It is recommended that the strategy is unchanged so as to not consider investments in challenger banks.

4.13 **Counterparty – Duration and Monetary Limits**
The duration that an investment is made for impacts on the level of risk to the capital invested. The longer the investment the more risk of some unexpected change occurring to the financial strength of the deposit taker. Perhaps, more importantly the Council can only invest for durations that enable Council liquidity to be managed effectively. To reduce these risks limits can be placed on the length of investments. The Council is required by law to identify the proposed investment criteria under the categories Specified and Non-Specified, as shown below:

Specified Investments -investments of duration less than or equal to 365 days and denominated in sterling. -investments made to UK Government, UK local authorities or institutions of high credit quality. - high credit quality defined as a minimum A- by Fitch or the equivalent score of the other main rating bodies (Standard & Poor's, Moody's).				
Specified Counterparty	**Minimum Credit Criteria**	**Max. Limit £m**	**Max. maturity period**	**Change from Prev. approach**
Enhanced Money Market Funds (Variable Unit Price) Up to 5 funds	AAA	£6m each fund	2-5-day notice	None

Money Market Funds (per fund)	AAA	£6m each fund	Instant Access	None
Debt Management Agency Deposit Facility, Government Treasury Bills or Gilts	UK Government	No Limit	365 days	None
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans)	UK Government	£10m each authority	365 days	None
UK Banks	A-	£3m for each group	365 days	None
Building Societies	A-	£3m for each group	365 days	None
Non-UK Banks	AA-	£3m each group	365 days	None
Non-UK Banks	A-	£3m each group	100 days	None
Registered Social Landlord Loans	A-	£3m each group	365 days	None
Covered Bonds	AA-	£6m	365 days	None
Reverse Repurchase Agreements (each agreement)	AA-	£6m	365 days	None
Supranational Bonds (per institution)	AAA	£6m	365 days	None

The counterparty limit for 2023/24 is £3m per financial institution and it is recommended that this is retained for 2024/25 as reducing the £3m limit would reduce the number of institutions willing to take Council deposits, as a smaller investment would be judged too small to be economic for large institutions. Indeed, there are many institutions who will not accept £3m from the Council as this is too small for them.

Non-specified Investments These do not meet the criteria of specified investments. They are identified separately to ensure the Council understands that these are higher risk, either due to counter party risk, liquidity risk, market risk or interest rate risk.				
Counterparty	**Min. Credit Criteria**	**Max. Limit £m**	**Max. maturity period**	**Change from existing approach**
CCLA Local Authority Property Fund	Unrated	£8m	n/a	None
Multi-Asset or Bond funds	Unrated	£5m per fund	n/a	None
Covered Bonds (per bond)	AA-	£6m	3 years	None
Supranational Bonds (per each institution)	AAA	£6m	3 years	None
Debt Management Agency Deposit Facility, Government Bills or Gilts	UK Government	No Limit	5 years	None
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans	UK Government	£10m each authority	5 years	None

4.14 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's approach does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

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.

Therefore, externally managed funds will be required have regard for ESG but this is not possibly for internally managed bank deposits and short-term investments (money market funds).

5. Role of the Treasury Management and Investment Sub-committee

5.1 The Sub-committee will be informed of investment activity and of significant changes in conditions that lessen or increase the risks of the Council's Treasury Management activity. The Sub-committee will, where necessary, recommend changes to officers and report back to Council.

6. Treasury Management Indicators

6.1 The code requires local authorities to have regard to certain treasury indicators. The following indicators will assist in measuring and managing the Council's exposure to Treasury Management risk in 2024/25.

The 2021 Prudential Code introduced Prudential indicators and a requirement for monitoring to be reported formally on at least a quarterly basis however due to volume of finance reports already made to formal committees, it is recommended that we report four times a year to TMISC or Cabinet, however officers believe the existing 3 meetings of the TMISC committee are sufficient.

6.2 The Council has both limits and targets within the below indicators. Limits should not be breached during the time period covered by the Strategy, whereas Targets are an aim that Officers will try and work within, but which can be breached during the year if absolutely necessary.

6.3 Liquidity – The liquidity indicator is a voluntary measure that seeks to ensure that the Council has the necessary funds to meet unexpected payments within a rolling period, without additional borrowing.

Liquidity Risk Indicator	Target
Total minimum cash available within 35 days	£5m

6.4 Long-Term Treasury Management Investments – The purpose of this indicator is to manage the Authority's exposure to the risk of incurring losses by seeking early repayment of its investment or the costs of enforced borrowing for liquidity purposes. The prudential limits on the long-term treasury management investment will be: -

Price risk indicator	**2023/24**	**2024/25**	**2025/26**	**Investment Funds**
Limit on principal invested beyond year end	£10m	£10m	£10m	£20m

The £20m shown is a maximum limit for investment funds which have no fixed maturity date such as Multi Asset or Property funds. Additionally, there is a separate £10m limit for sums invested in fixed term investments over 365 days in duration. The £10m limit for cash invested over 365 days is only expected to be used if cash balances turn out materially higher than forecast.

6.5 Counterparty Indicator – This indicator measures whether the Council has operated within its approved limits for counterparties and any breaches will be reported during the year.

6.6 Target Income Yield – This indicator sets a target for the interest income return from the Council's investments in funds.

Yield Indicator	Target
Average Interest Rate Earned on external funds	4.9%

6.7 Maturity structure of borrowing:

These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits. Officers will have regard to prevailing interest rate assumptions when undertaking borrowing.

The Council is asked to approve the following treasury indicators and limits:-

Maturity structure of fixed interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 25 years	0%	50%
25 years to 50 years	0%	50%
Maturity structure of variable interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years to 25 years	0%	50%
25 years to 50 years	0%	50%

The borrowing limits are set within the capital strategy and the above shows the maturity structure of loans.

With interest rates being expected to be at a high point and the recommendation of keeping borrowing short by our treasury advisors with the expectation of interest rates falling (see 2.4 above), borrowing maturity will be kept short initially and reviewed over time as interest rates changes.

For the purposes of the strategy, short term borrowing will be defined as borrowing for up to 2 years, medium term between 5 year to 10 years and borrowing beyond 10 years will be deemed as long term.

6.8 Liability Benchmark:

This indicator is a tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and as a result aids long-term planning. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

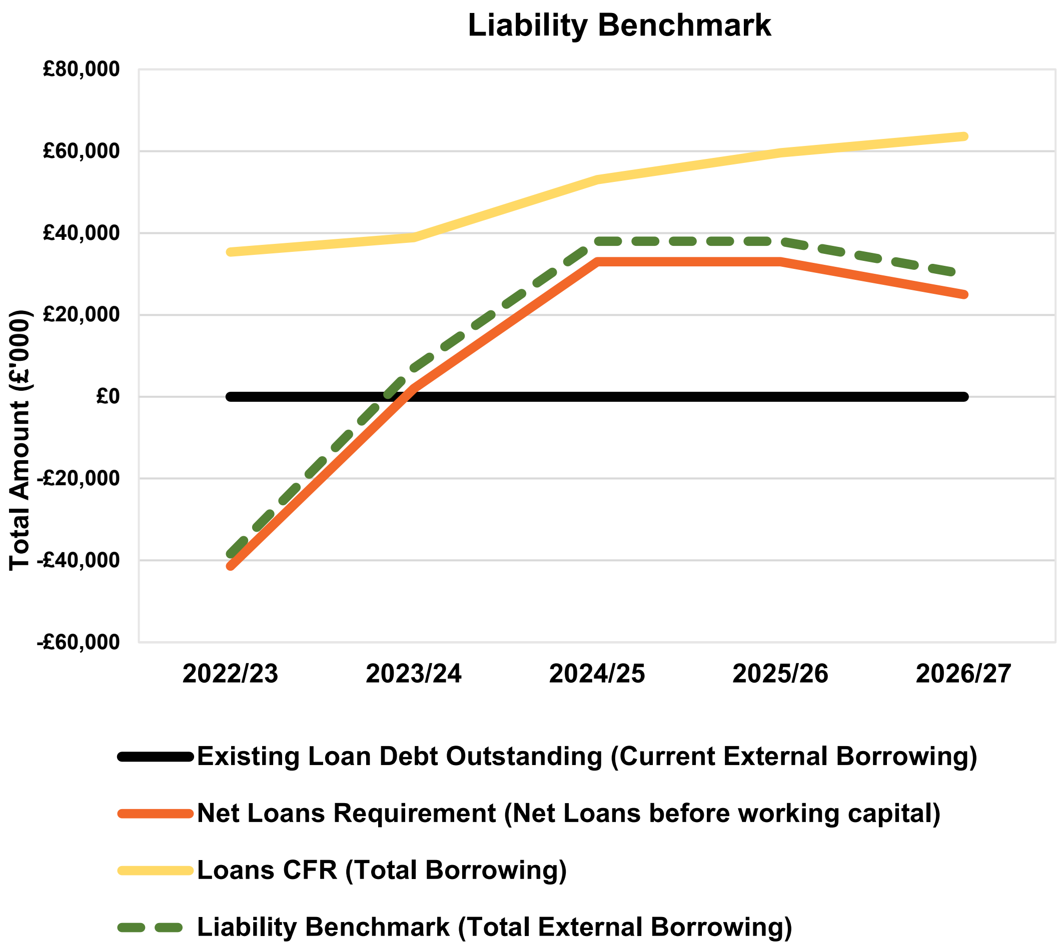
Ref.	Liability Benchmark	31/03/23 Actual (£m)	31/03/24 Estimate (£m)	31/03/25 Forecast (£m)	31/03/26 Forecast (£m)	31/03/27 Forecast (£m)
1	Capital Financing Requirement (CFR)	35	39	53	59	64
2	Less: Balance sheet resources	76	37	20	26	39
3	**Net loans requirement (Negative shows surplus cash/Positive are external borrowing requirement)**	**-41**	**2**	**33**	**33**	**25**
4	Plus: Liquidity allowance.	3	5	5	5	5
5	**Liability benchmark (Negative shows surplus cash/Positive are external borrowing requirement)**	**-38 Invested only**	**7 Externally borrowed**	**38 Externally borrowed**	**38 Externally borrowed**	**30 Externally borrowed**

The Liability benchmark was a new prudential indicator introduced for 2023/24.

The table above shows
Ref 1 our capital financing requirement, being total external and internal borrowing needed to fund the capital programme. Example at 31/03/23 the capital programme needed £35m of borrowing.
Ref 3 is a forecast of any external borrowing expected/required. A positive figure means external borrowing is forecast to be required. This indicator will be updated by the Section 151 officer for January Cabinet to reflect any new budget proposals.

The current forecasts identify short-term borrowing of c.£7m will be needed towards the end of March 2024 and £38m in 2024/25 and £38m in 2025/26 cumulatively. The Council will have higher CFR (total borrowing) in 2025/26 but because of expected CIL receipts no increase in external borrowing is expected over 2024/25 levels.

The information above is shown graphically.



6.9 In May 2022, the government introduced The Levelling Up and Regeneration Bill (the LUR Bill), which expanded the government's staturory powers to directly tackle excessive risk within the local government capital finance system. The aim of the LUR Bill is to reduce the risk to the overall system. The proposed measures provide a flexible range of interventions for the Government to investigate and take action in extreme circumstances and provide the Govenrment with the flexibility to intervene where it is appropriate to do so, based on the Government's assessment of risk. Earlier in the year, the Government consulted on calculations for four risk metrics to be used as part of the assessment. The metrics include trigger points indicating, if breached, that an authority is considered to be operating with excessive risk. We are awaiting outcome of the consultation, but these measures could potentially be in place from 1st April 2024. An update will be provided to a future TMISC following Government's confirmation of the risk metrics assessment process.

7 Interest Income

7.1 The indicative budget for interest income for 2024/25 is £1.0m based on an average investment portfolio of £22m at an interest rate of 4.6%. If actual levels of investments or actual interest rates differ from those forecasts, performance against the budget could be significantly different. The interest income is also highly dependent on the timing of capital programme expenditure and income can be higher due to programme slippage.

Investment Strategy

This document ensures compliance with the requirements of the CIPFA Prudential Code and Department for Levelling Up, Housing and Communities (DLUHC) guidance on local authority investment. The CIPFA code and DLUHC guidance recognise that organisations may make investments for reasons outside of treasury management objectives and these investments may prioritise other objectives above the security of capital.

Contents of the Investment Strategy

- The types of non-cash investments
- How Council monitors performance
- The role of the sub-committee

Investment Primarily for Yield (overarching principle)

Guidance from the PWLB issued in 2020/21 prevents any local authority from borrowing from it for any purpose, if, in the current or following 2 years, the authority has plans in its capital programme to invest in assets primarily for yield. The City Council can access non-PWLB sources to fund capital investment. However, the Council previously approved the principle that keeping access to PWLB borrowing was more important than keeping the option to undertake the purchase of investment property primarily for yield. So, the recommended overarching principle in the investment strategy is that the Council will not undertake any capital investment with the primary objective of yield. The 2021 Prudential and Treasury Management code has been revised to be more explicit in their recommendation that authorities must not borrow for the primary purpose of earning a financial return. It has also increased the level of reporting on ‘non-treasury’ investments.

Service Investments: Loans and Shareholdings

These are investments, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and for some authorities to subsidiary companies that provide services. In light of the public service objective, Councils can take moderate risk with the principal invested.

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans have been set as follows:-

Category of borrower	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Chelmsford City Football Club	£0.083m	£0.083m	£0.000m	£0.083m
Maximum New loans if required.	Nil	Nil	Nil	£10.000m
TOTAL LIMIT	**£0.083m**	**£0.083m**	**£0.00m**	**£10.083m**

The above table includes an allowance of up to £10m of new loans should the Council for example decide to create a standalone company to facilitate the creation of additional affordable housing or for other trading purposes. Any decision would be subject to Council approval.

The Council will monitor the financial position of the recipient or potential recipient through the use of (but not limited to) financial reporting tools, credit ratings where appropriate, published financial information (such as annual accounts), press articles and by maintaining an open dialogue.

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Governance: This is set out within the Capital Strategy.

There are always going to be schemes which need to be approved outside this process, due to urgent health and safety issues for example, or the need to respond quickly to market opportunities. These will need approval in line with financial rules.

Commercial Investments:

DLUHC defines property to be a commercial investment if it is held primarily to generate a financial return. This type of investment may also involve making loans to subsidiaries or partners, where the aim is achieving profit.

The Council's commercial property investments are summarised below. No new assets have been acquired since last reported; any increases shown reflect improvement works.

Property Type	31.3.2023 Actual £ms					31.3.2024 Expected £ms			
	Acquisitions In Year	Disposals In Year	Transfers to PPE in Year	Gains or (losses)	Value in accounts	Acquisitions In Year	Disposals In Year	Works/ Additional Gains or (losses)	Value in accounts
Office	£0.00	£0.00	£0.00	-£4.20	£16.32	£0.00	£0.00	£0.00	**£16.32**
Other	£0.00	£0.00	£0.00	£0.52	£5.32	£0.00	£0.00	£0.00	**£5.32**
Retail	£0.00	£0.00	£0.00	-£21.30	£36.26	£0.00	£0.00	£0.00	**£36.26**
Industrial	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**
TOTAL	£0.00	£0.00	£0.00	-£24.98	£57.90	£0.00	£0.00	£0.00	**£57.90**

The Council will continue to purchase commercial property but only where it supports regeneration, facilitates land assembly for future regeneration projects or supports Council priorities set out in “Our Chelmsford: Our Plan” but not where the primary purpose would be for yield.

Properties will only be purchased within the Council's geographic area.

Any properties that generate commercial yield will be monitored by the Treasury Management and Investment sub-committee until redevelopment occurs.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness. The Council has not committed to any such agreements.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Accountancy Services Manager (Section 151 Officer) is a qualified accountant with over 30 years' experience and the Head of Property is a member of the Royal Institution of Chartered Surveyors with over 20 years' experience in both Public and Private Sectors. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and external short courses in order to keep abreast of developments and maintain up to date skills and knowledge.

Elected members: The Council does not expect members to make investment decisions but to understand the risks the Treasury Strategy creates. The Council therefore provides training for members on the appropriate issues by providing advice and access to Link Group, the Council's Treasury Advisors.

Training and qualifications: Documents and schedules will be kept of training and qualifications of the key roles.

Due Diligence: When undertaking investments there is a need to recognise where the Council is lacking detailed market knowledge and then external advisors will be employed. The Council uses Link Group as Treasury Management Advisors and external property valuers are engaged when undertaking material purchases.

Investment Indicators

The Authority has to set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

Total investment exposure	**31.03.2023 Actual**	**31.03.2024 Forecast**	**31.03.2025 Forecast**
Treasury management investments	£41.00m	£20.00m	£14.00m
Service investments: Loans	£0.083m	£0.083m	£0.083m
Commercial investments: Property	£57.9m	£57.9m	£58.31m
TOTAL INVESTMENTS	£98.983m	£77.983m	£72.393m

The changes in commercial property values are projected changes in assets values, which given the Covid pandemic and structural changes to the economy (home working) are highly uncertain.

How investments are funded: Investments funded from borrowing have more risk than those funded from surplus resources, so the Government guidance is that there should be indicators on how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing.

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast	31.03.2026 Forecast
Service investments: Loans	Nil	Nil	Nil	Nil
Commercial investments: Property*	£5.583m	£6.803 m	£7.148m	£6.979m
TOTAL FUNDED BY BORROWING	£5.583m	£6.803m	£7.148m	£6.979m

*A commercial property funded by debt in 2019/20 was a result of the Council decision to not make revenue contributions to capital in 2019/20 due to the pandemic. If the revenue contributions had been made the overall level of borrowing would have been lower and the commercial assets (Aquarium offices) would not have been funded from internal borrowing. The additional borrowing relates to remodelling works to existing properties and development of existing sites. The impact of the pandemic has changed the demand for larger office space. As a result the Council has spent and has planned expenditure to remodel office space to maintain expected income stream.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return (income)	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	2.5%	4.9%	4.5%
Service investments: Loans	Nil	Nil	Nil
Commercial investments: Property	6.6%	6.5%	5.2%
Treasury Management Income £ms (draft estimate 24/25)	£1.9m	£2.4m	£1.0m
Investment Rent Income £ms (draft estimate 24/25)	£3.8m	£3.7m	£3.1m

Other investment indicators

The Section 151 Officer has identified the following estimates to help assess Risks and Proportionality of investment activity at the Council:

Estimates	2022/23 Actual	2023/24 estimate	2024/25 estimate	2025/26 estimate	2026/27 estimate
Income from Treasury Management as Percentage of Net Revenue Income	3.4%	4.8%	1.9%	1.3%	1.1%
Total Borrowing Undertaken to Fund Investment Properties	£5.6m	£6.8m	£7.1m	£7.0m	£6.8m
Commercial Income as percentage of Net Service Expenditure	7.5%	7.9%	6.9%	6.6%	7.6%

The estimates/indicators reflect the historic decisions and the schemes included in the proposed/approved Capital programme. Below are limits on investments which reflect the estimates above plus allowance for some headroom or flexibility to undertake higher levels of investment activity. The limit is that recommended by the Section 151 Officer. These limits are required under Government guidance and should not be exceeded. If the Council does exceed these limits, then it is expected not to rashly dispose of investments but instead should avoid entering into any further investments except for short term Treasury Management activity until appropriate alleviation of the breach is undertaken.

Limits	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
Commercial Income as percentage of Net Service Expenditure	14%	14%	11%	11%	11%

Role of Treasury and Investment Sub-committee

The non-cash investments require continuous monitoring, and the role of the sub-committee is to undertake that ongoing assessment. At a previous sub-committee meeting it was agreed that the following would be the basis of the ongoing monitoring:

- Any changes in the portfolio in the period (acquisitions and sales)
- All charges and receipts, indicating any arrears.
- Capital expenditure; planned or reactive.
- Performance against budgets; both expenditure and income.
- Any potential changes to the income through lease renewals and rent reviews.
- Any changes to Dunn and Bradstreet rating of tenants

The Sub-committee is also responsible for recommending the Investment Strategy. The strategy requires Full Council approval.