Treasury Management and Investment Sub-Committee Agenda

Chelmsford City Council

16 October 2023 at 6pm

Remote Meeting

Membership

Councillor C. Davidson (Chair)

and Councillors

K. Franks, S. Hall, S. Sullivan, and R. Whitehead

Local people are welcome to attend this remote 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. These have to be submitted in advance to committees@chelmsford.gov.uk. Further details are on the agenda page. If you would like to find out more, please email jan.decena@chelmsford.gov.uk or telephone on 01245 606523

Treasury Management and Investment Sub-Committee

16 October 2023

AGENDA

1. Apologies for Absence and substitutions

2. Minutes

To consider the minutes of the meeting held on 19 June 2023.

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 20 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.

Any member of the public who wishes to submit a question or statement to this meeting should email it to committees@chelmsford.gov.uk 24 hours before the start time of the meeting. All valid questions and statements will be published with the agenda on the website at least six hours before the start time and will be responded to at the meeting. Those who have submitted a valid question or statement will be entitled to put it in person at the meeting.

5. Treasury Management Mid-Year Review 2023/24

6. 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 19 June 2023

Present:

Councillor C. Davidson (Chair)

Councillors K. Franks, S. Hall, S. Sullivan and R. Whitehead

1. Apologies for Absence and Substitutions

No apologies were received for this meeting.

2. Minutes

The minutes of the meeting held on 15 December 2023 were agreed as a correct record and signed by the Chair.

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 public questions nor statements were received for this meeting.

5. Update on Banking Reforms

The Sub-Committee received a report providing an update on potential upcoming changes in the banking system following a review of the ring-fencing regime by an independent panel. It was noted that the Financial Services (Banking Reform) Act 2013 was enacted following the 2008-09 global financial crisis and it was intended to put resilience in the banking sector. The Act introduced key regulations including ring-fencing to separate retail banking from the riskier non-retail banking activities. The Act came into effect in 2019 which included a review of the regime after three years in operation. The appointed independent panel published a report in March 2022. The main findings were that whilst the ring-fencing regime would be worth retaining, recommendations were made to make the regime more flexible whilst still maintaining stability.

(Cllr Franks entered 6.06pm)

The Sub-Committee was informed that the Council consulted its external treasury advisor regarding the proposed Government reforms following the review. It was noted that the reforms would not deregulate the sector but to address any unintended consequences and provide more flexibility to the sector. It was concluded that the reforms were not expected to bring any significant risks for the Council and that there would be no changes to the treasury strategy because of these reforms.

RESOLVED that the report to be noted.

(6.03pm to 6.15pm)

6. Treasury Management Outturn Report 2022/23

The Sub-Committee received a report on the Treasury Management activities that took place in 2022/23. This highlighted the effects of decisions taken and the circumstances of any non-compliance with the Code and the Treasury Management Strategy.

The Sub-Committee was noted that the treasury management outturn was heavily influenced by the current economic environment. It was also noted that the Council's interest earnings from investments for the year were £1.87 million which was £1.17 million higher than the budget, and the overall return on investments for 2022/23 was 4.1% compared to 0.75% in the previous year. The Council retained some long term investments that were to be evaluated over the medium term .

The Sub-Committee was informed that there were no external loans made in 2022/23, but Council have outstanding finance lease liabilities that were used to acquire vehicles and equipment to deliver services that are deemed as borrowing by the Government. The Sub-Committee was also informed that training would be available to new members, and it was recommended for the external treasury advisors to provide this.

In response to questions and comments from the Sub-Committee about potentially investing in long term investments, it was advised that;

- The capital programme would be reviewed to see what cash would be available to the Council. It was noted that Council was not in a position to make long-term plans.
- This was in part due to no regular precept receipts in February and March which makes it difficult to lend over this period.
- Money Market funds rose rapidly during 2022/23 due to the interest rate and is expected to go up less in 2023/24.
- It was noted that the inflation was higher than expected and there was a level of uncertainty on the future movement of interest rates.

RESOLVED that the Treasury Management Outturn Report 2022/23 to be recommended to Cabinet, then to Full Council.

(6.15pm to 6.26pm)

Exclusion of the Public

Resolved that under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for Item 6 on the grounds that it involved the likely disclosure of exempt information falling within paragraph 3 of Part 1 of Schedule 12A to the Act.

7. Non-Treasury Investments-Monitoring and Strategy Development

The Sub-Committee received a report providing them with an update in respect of the Council’s non-cash investments, it also provided them with the agreed monitoring information on non-cash investments with a commentary on each asset. The Sub-Committee were also provided information on the acquisition of residential and commercial developments.

RESOLVED that the report be noted.

(6.26pm to 7.00pm)

8. Urgent Business

There were no matters of urgent business to discuss.

The meeting closed at 7.00pm.

Chair

Chelmsford City Council Treasury Management and Investment Sub Committee

16th October 2023

Treasury Management Mid-Year Review 2023/24

Report by:
Section 151 Officer

Officer Contact:
Phil Reeves, Accountancy Services Manager (Section 151 Officer), 01245 606562, phil.reeves@chelmsford.gov.uk

Purpose

To inform members of the Treasury Management and Investment Sub-committee (TMISC) on the treasury activities undertaken in the first part of 2023/24 and to report on compliance with the approved TM Strategy.

Options

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

Preferred option and reasons

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

Recommendations

That Treasury Management and Investment Sub Committee (TMISC) and Cabinet note the contents of this report and request that Full Council review the report and approve that no changes to the 2023/24 Treasury Strategy are required.

1. Background

1.1. The Council has cash to invest arising from its revenue activities, capital balances and the collection of Council Tax and Business Rates. The Council can fund its capital programme from borrowing. The activities around the management of Council cash and external borrowing are known as Treasury Management.

1.2. 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 report in Appendix 1 complies with the CIPFA Code of Practice and relevant Government regulations.

1.3. Full Council has overall responsibility for Treasury Strategy but delegates to the Treasury Management and Investment Sub Committee (TMISC) responsibility to monitor and recommend changes to the strategy. The Section 151 Officer of the Council is delegated responsibility to manage operational TM activities within the approved strategy.

1.4. Members of TMISC are asked to review the contents of the report and recommend that the Cabinet note its contents and seek Council approval for it.

2. Executive Summary

- No breaches of the 2023/24 Treasury Management Strategy have occurred.
- Higher than expected interest rates and cash balances are estimated to increase investment income by £1m more than the budget for 2023/24.
- The Council remains internally borrowed to fund its capital investment; however, the council may have to externalise debt towards the end of the financial year.
- No change to the TM Strategy is recommended for 2023/24.
- No changes are being made at this time to the holdings of diversified investment funds following a review of funds and discussions with fund managers. Any decisions to change holdings will be made under the operational delegation by the s151 officer.

3. Conclusion

3.1. Cabinet will be asked to accept the review of the Treasury Management Activity for the period to the end of August as endorsed by TMISC. No changes to the 2023/24 Treasury Management Strategy are recommended.

List of appendices:

Appendix 1 – Review of Treasury Management Activity (2023/24)

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:

Fund managers are 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: N/A

Consultees:

Relevant Policies and Strategies:

Treasury Management Strategy 2023/24

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1 Treasury Management Activity during the period 1st April 2023 – 31st August 2023

This report complies with the CIPFA Code by identifying the Council's investments and external borrowings as at 31/08/2023 and compares treasury activity to the approved strategy.

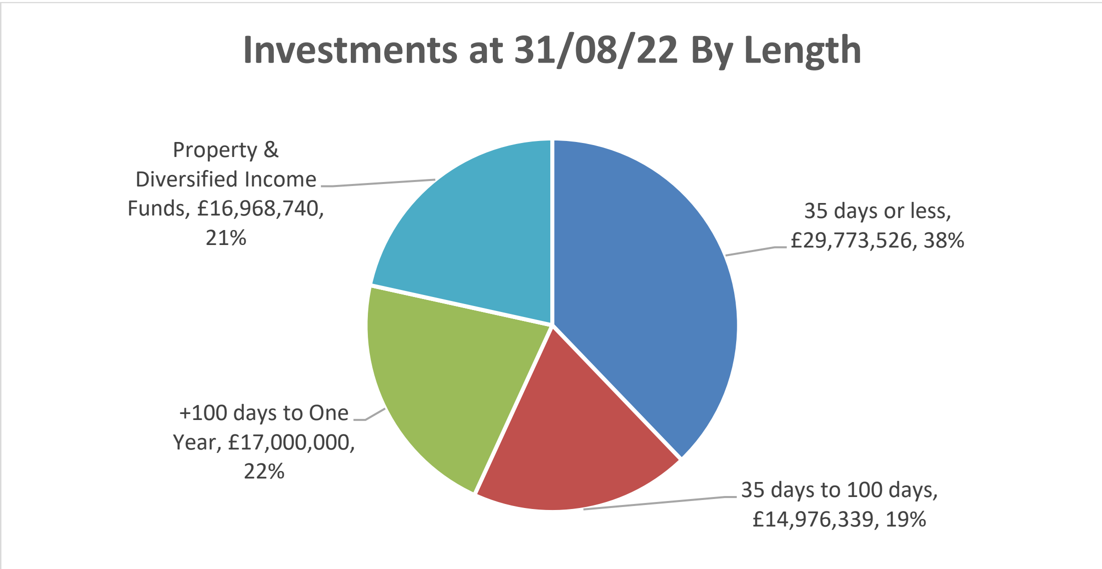
2 **Liquidity Management and borrowing**

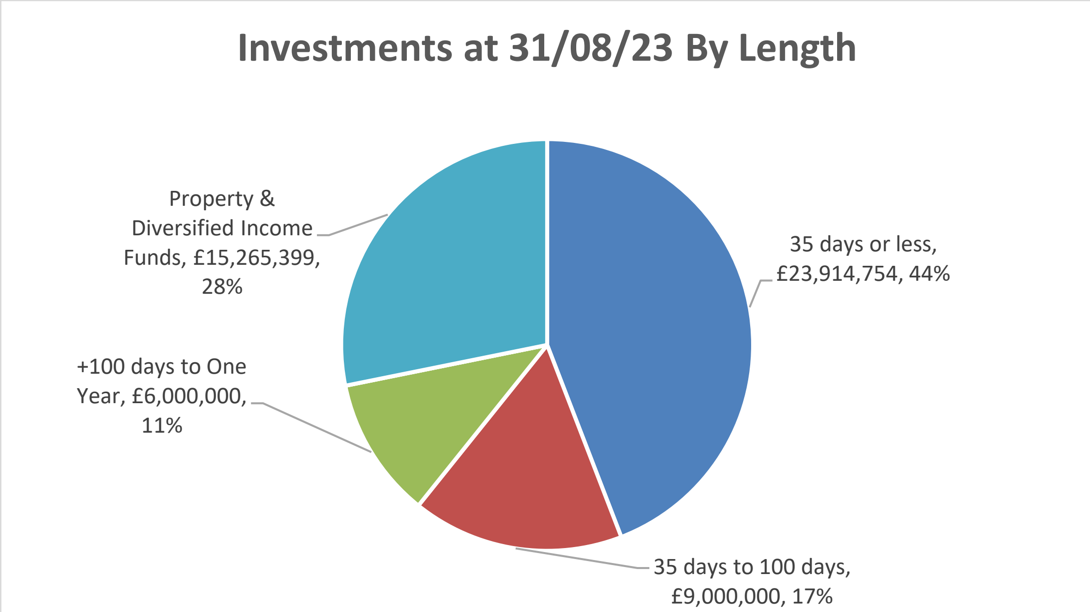
2.1 The Council has continued to keep a significant proportion of its portfolio available for instant access and within notice accounts. The Council is undertaking significant capital investment including Waterside infrastructure and with the resulting expectation of a need to borrow later in the financial year, new investments durations have been kept to below a year.

To assist in managing liquidity, the Council set the following target in its Treasury Management Strategy.

A minimum of £3m of all investments are targeted to be invested for periods of 35 days or less.

Outcome: The target was achieved, and officers will continue to keep the average durations of investments short until longer investment durations become worthwhile in terms of returns.





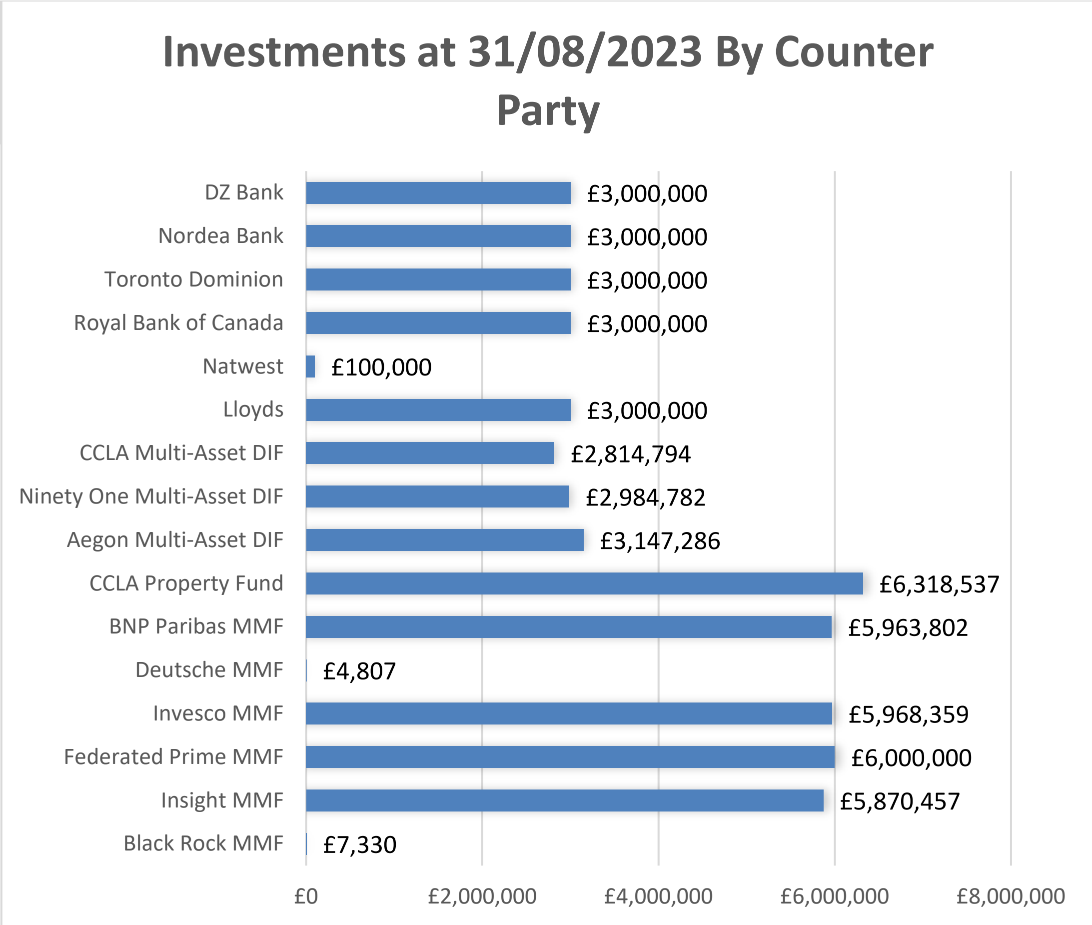
Investments at:	31/08/22	%
35 days or less	£29,773,526	38
35 to 100 days	£14,976,339	19
+100 days to 1 yr.	£17,000,000	22
Over 1 yr.	£0	0
Property & Diversified Monthly Income Fund	£16,968,740	21
Total	**£78,718,605**	**100**

Investments at:	31/08/23	%
35 days or less	£23,914,754	44
35 to 100 days	£9,000,000	17
+100 days to 1 yr.	£6,000,000	11
Over 1 yr.	£0	0
Property & Diversified Monthly Income Fund	£15,265,399	28
Total	**£54,180,153**	**100**

2.2 The Council's Treasury strategy identified the following.
No fixed duration investments over 365 days are proposed for 2023/24; Subject to being reviewed during 2023/24 depending on cashflow and counterparty risk. It is recommended that any investments beyond 365 days are at the discretion of the Section 151 Officer. For investments 2 years and over, consultation will be made with TMISC chair.

Outcome: The target has not been exceeded. Currently, none are proposed but officers continue to look at options based on reviews of the Council's cashflow and interest forecasts.

2.3 **No breaches of counter -party limits have occurred**. The investments held by the Council are noted below.



The Council's investments outside of those held in funds are mostly fixed maturity dates and of a duration of less than one year.

2.4 **The Council has not undertaken any external borrowing in the year to date.** The funding of the approved Capital programme has required borrowing but that has been internal borrowing which reduces the amount the Council has to invest. The Council operates two external borrowing limits, the Authorised (maximum limit) which cannot be exceeded without Council agreement and an Operational boundary (which provides an expected level of external debt). The current limits are noted below.

	Limit
Authorised Limit of Borrowing	£50m
Operational Boundary of Borrowing	£11m

2.5 The Council cash balances will fall as the year progresses due to the normal outflow of Council Tax to other precepting bodies and capital programme spend. Cash balances are expected to continue to fall due to the capital programme. Also, repayment to government of balances for business rate grants held for the covid period and retail relief that are expected to be settled this year. Partially offsetting this there was also a one-off windfall from a VAT refund (Leisure VAT case) in August. It is thought that short-term external borrowing will occur towards the end of 2023/24 and a full review of the Council's forecast cashflow is taking place as part of the budget cycle which will update the long-term borrowing forecast.

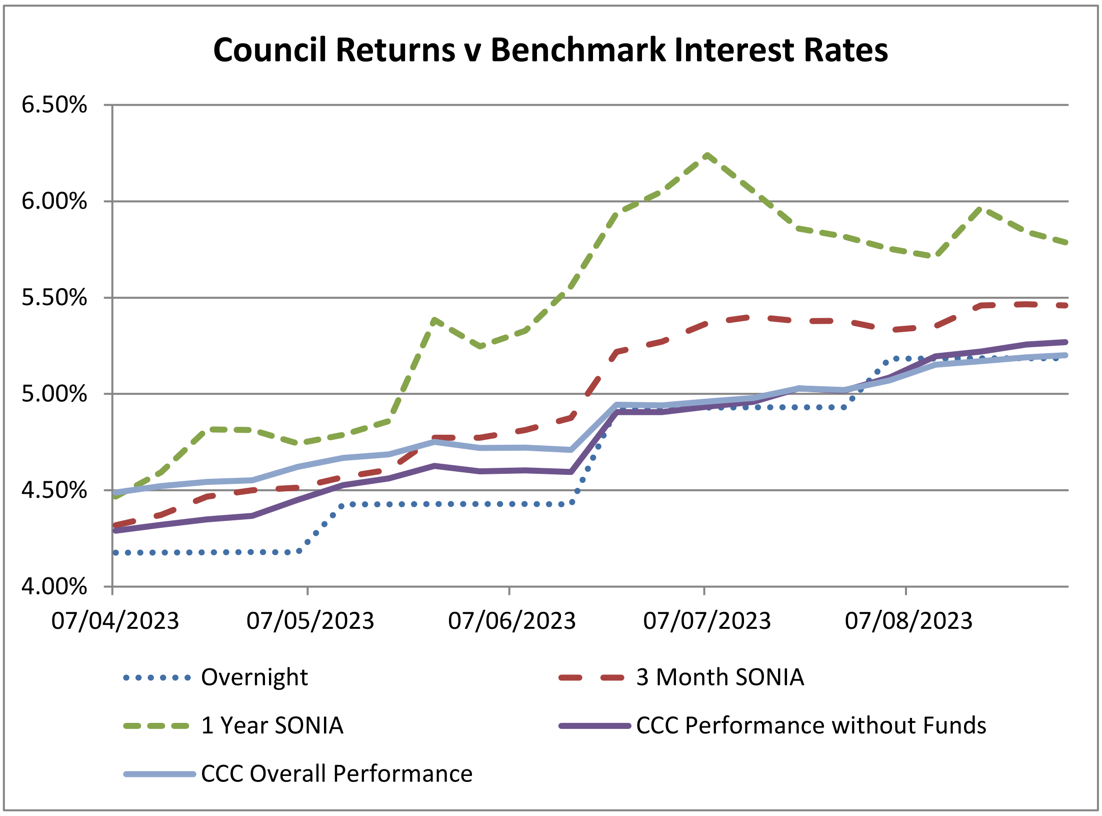
3. Rate of Return

3.1 The Bank of England Base rate stands at 5.25% after a series of increases in the last year until August but in September the base rate was held unchanged. The Markets are still tentatively pricing one more hike by February 2024.

As at 22nd September, the one-month local authority loans are 5.3% and one-year loans at 5.7%, however there is a great deal of volatility in the market. Money Market Funds are currently running between 5.14% to 5.33% with other cash investments such as with building societies offering around the base rate and some banks offering higher than the base rate in general for three-month investments.

The Council continues to invest in three multi-asset diversified income funds as part of its long-term strategy for returns and diversified portfolio. The returns are discussed in paragraphs 3.2 to 3.6.

3.2 Money market interest rates have increased with bank rate rises over the last six months. The Council returns are shown below alongside some comparable benchmark rates.



3.3 The Council's income yield in 2023/24 has improved compared to recent years due to the rise in Bank of England base rate which has led to increased rates on any cash or short-notice investments. Three diversified income funds have yields which lag behind money market rates when interest rates are rising but, as rates stabilise or fall, performance should rise above cash. Officers are continually reviewing options for longer duration investments.

3.4 The Council had an average yield on its portfolio of 5.2% as at 31st August 2023. The budgeted income for 2023/24 from investment returns is £1.3m; this is expected to be exceeded for the year by £1m at £2.3m, mainly due to rate rises and higher cash balances. Further gains will be dependent on the extent of any interest rate increases and cash balances which will be affected by the capital programme.

3.5 It is expected that interest rates are close to peaking but are still dependent on inflation data, with the latest set being weaker than expected, so it is likely that they will not increase much further.

4 Externally Managed Fund Performance

4.1 The Council has invested in three Multi Asset Diversified Income Funds alongside its longstanding investment in the CCLA property fund. These are all intended to be longer term investments to generate a return for the Council at a higher rate than many other alternatives. Capital values will fluctuate throughout the period of investment. During recent times, interest rates have gone up quickly leading to reduced prices paid for gilts and bonds. This has caused the value of the funds the Council has invested in to move downwards but values are expected to recover as rates peak and begin to fall.

Fund	Initial Investment Value	01/04/2023 Investment Value	31/08/2023 Investment Value	Unrealised Gain/(Loss) (since inception)	Annualised Income Return on 1st April Valuations	Annualised Total Return (2023/24)
CCLA Property Fund	£5,000,000	£6,318,537	£6,246,179	£1,246,179	4.32%	1.59%
CCLA DIF	£3,100,000	£2,814,794	£2,806,816	-£293,184	4.35%	3.67%
Aegon DIF	£3,600,000	£3,147,286	£3,155,519	-£444,481	7.66%	8.29%
Ninety One DIF	£3,300,000	£2,984,782	£2,931,261	-£368,739	4.39%	0.12%

- CCLA Property Fund – This investment fund is open only to Local Authority investors. The Council invested at cost of £5m and its current selling value is £6.2m on 31st August. The annualised income yield on the valuation at 1st April is 4.32%
- Aegon Multi-Asset Diversified Income Fund – A £3.6m investment was made into the Aegon DIF in June 2021.
    - Annualised income yield is 7.66% on the valuation at 1st April.
    - Capital Value – 12.35% decrease on initial investment and 0.26% increase against April valuation.
- Ninety-One Multi Asset Diversified Income Fund – A £3.3m investment was made into the Ninety-One DIF in June 2021.
    - Annualised income yield is 4.39% on the valuation at 1st April.
    - Capital Value – 11.17% decrease on initial investment and 1.79% decrease on April valuation.
- CCLA Multi Asset Diversified Income Fund – A £3.1m investment was made into the CCLA DIF in July 2021.
    - Annualised income yield is 4.35% based on first quarter's dividend.
    - Capital Value – 9.46% decrease on initial investment and 0.28% decrease on April valuation.

4.2 The return on all external funds should be looked at as a portfolio, allowing for periods of over- and underperformance for individual funds. If the performance of the first few months of this year were to continue, then the annualised income yield would be 5.03% on April valuation. The unrealised capital gain to date is £140K (including CCLA property fund). It is important to note the unrealised capital gain will fluctuate; the main objectives of the investment in funds are spread of risks across asset types and improving annual income (yield).

4.3 The externally managed funds give the Council benefits from specialists, who bring expertise and additional data when selecting and managing investments, therefore helping to spread risk across a wider range of counterparties and assets, whilst maintaining a high yield.

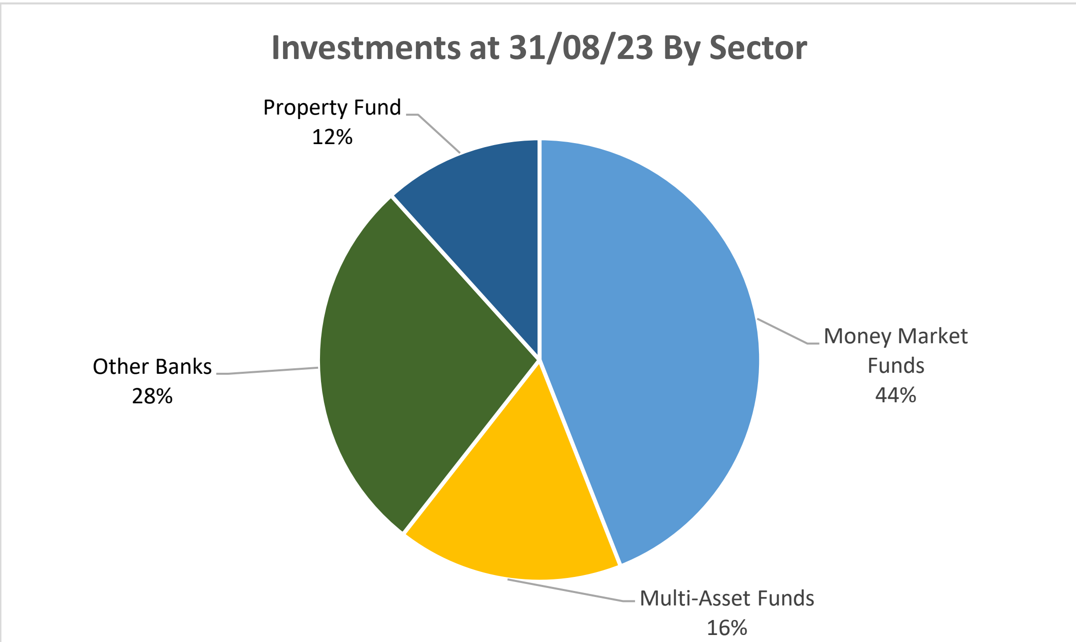
4.4 The funds the Council invests in had a slight negative impact compared to cash on the overall income yield since June 2023 but these are seen as a medium-term investment that will outperform cash investments over a longer time frame.

4.5 Fund managers have taken a defensive approach in positioning their portfolios with a recession being forecast as their base model. After discussions with fund managers, officers believe that holding the funds at this point is the preferred option. Performance is expected to pick up over time and expect gradual return of capital values and higher yields than should be achievable from cash as interest rates peak and begin to fall.

5.0 Bail-in Risk

5.1 This is the risk that regulators will step in and enforce losses on depositors in order to recapitalise a failing bank or building society, rather than rely on taxpayer bailouts.

5.2 Overall exposure to bail-in has not materially changed from last financial year to current.



Exposure	As at 31st August 2022	As at 31st August 2023
Bail-in risk	72%	72%
Exempt from bail-in (including CCLA)	16%	12%
Diversified Income Funds	12%	16%
Total	**100%**	**100%**

The Diversified Income Funds will be partially exposed to Bail-In risk, but it is not possible to identify specific risk due to the changing nature and proportion of their investments in bonds, equities, property, etc. They have therefore been split out as a separate line in the table above for clarity. There has been no further investment in Diversified income funds, the increase in percentage holdings is the result of a reduction in total investments held by the Council.

6 Conclusion

- No breaches of the Treasury Management Strategy have occurred.
- Interest Rate rises during the financial year have led to higher returns for cash investments.
- The Council remains internally borrowed to fund its capital investment.
- Though income and total return from the fund managers is disappointing in the current year, it is not unexpected in the current economic climate. Investment into three diversified income funds and CCLA property fund is seen as a medium-term investment that is expected to enhance the returns for the Council over the longer period.
- No change to Strategy is recommended for the rest of 2023/24.