

Treasury Management and Investment Sub-Committee Agenda

18 October 2021 at 6pm

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. These have to be submitted in advance to committees@chelmsford.gov.uk. Further details are on the agenda page. To manage the number of public at this meeting anyone wishing to attend should obtain an admission pass beforehand by emailing committees@chelmsford.gov.uk. If you would like to find out more, please email daniel.bird@chelmsford.gov.uk or telephone on 01245 606523

Treasury Management and Investment Sub Committee

18 October 2021

AGENDA

1. Apologies for Absence and substitutions

2. Minutes

To consider the minutes of the meeting held on 21 June 2021

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.

To manage the number of people expected to attend this meeting, an admission pass will need to be obtained by any member of the public who wishes to attend. These can be requested by emailing committees@chelmsford.gov.uk

5. Treasury Management Mid-Year Review 2021/22

6. Verbal Update on Changes to PWLB borrowing rules and CIPFA Treasury Management Code of Practice

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 21 June 2021 at 7.00pm

Present:

Councillor C.K. Davidson (Chair)

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

1. Apologies for Absence and Substitutions

Apologies for absence were received from Cllr B Knight.

2. Minutes

The minutes of the meeting held on 14 December 2020 were agreed as a correct record and signed by the Chair.

The Sub-Committee were informed that the Accountancy Services Manager was now also the Section 151 officer.

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 Outturn Report 2020/21

The Sub-Committee considered a draft report to the Cabinet on 13 July 2021, regarding the Treasury Management Outturn for 2020/21. It was noted that under statute and the CIPFA code on Treasury Management, members were required to receive a report on the Treasury Management activities that took place on 2020/21. The report contained a review of the overall Treasury Management functions including rates of return on investments in 2020/21. It was noted by the Sub-Committee that during the year, there had been no breaches of the Treasury Management Strategy. The Sub-Committee was informed that the CCLA fund had produced £278k of income during 2020/21 but there had been a slight downward fluctuation in capital value of £46k, therefore the unrealised capital gain to date was £1.4m. It was noted that more importantly the total returns from the fund continued

to far exceed what could be achieved from cash investments. The Sub-Committee also heard that the fund should be exited only to avoid long-term losses.

The Sub-Committee was informed that the Council's investment holdings on 31st March 2020 were £50.4m and £47m on 31st March 2021. It was noted that interest earnings were £0.44m, a lower yield due to the pandemic, the return on investments was 0.62% compared to the previous return of 1.25%. The Committee heard that as a summary, the Council's Treasury Management had operated within approved parameters, had resulted in no realised losses and delivered a £0.44m incomes to support Council services. It was noted that investment returns of the City Council were benchmarked against other authorities. This identified that the City Council was only 50th best out 143 Councils reviewed, the better performing Councils invested more funds with external managers.

It was highlighted to the sub-committee that a dis-proportionately large share of the Council's investment income comes from the CCLA property fund which represents only a small share of total Council investments.

The statutory indicators in Appendix C to the report were highlighted to the Sub-Committee and officers informed them a review of these was intended for a future meeting.

In response to questions from members, the Sub-Committee was informed that;

- Future negative interest rates did not look as likely as they had at times during the previous financial year.
- Officers would circulate information on the low interest rates with counterparties after the meeting.
- The Council's Treasury advisors had identified negative interest rates as a risk, and their solution would be to lock into longer term fixed rates in advance. This would not however always be possible and it was likely that the Council would have to pay financial institutions to hold Council funds in the event of negative interest rates.

Members of the Sub-Committee noted that despite the financial disruption caused by the pandemic, the CCLA property fund had continued to perform well and had produced a very positive return compared to other investments available.

RESOLVED that the Treasury Management Outturn Report for 2020/21 before the Sub-Committee be endorsed and recommended to Cabinet for approval.

(7.02pm to 7.12pm)

6. [Expected Treasury Management Activity 2021/22](#)

The Sub-Committee received a report providing them with an outlook for Treasury management activity in 2021/22. It was noted that the Accountancy Services Manager was responsible under delegation to operate treasury management activity within the parameters set in the strategy. The Sub-Committee heard that in June 2019, advice was provided from the Council's Treasury advisors to invest higher

amounts with fund managers but due to the pandemic this had not taken place. The Sub-Committee was informed that this had now been revisited by officers and a £10m investment would be taking place, to enable the Council to preserve capital and increase yield. It was noted that the plans were slightly different to June 2019 and that the allocation would all be multi assets funds. There would no longer be any allocation to a bond fund. This change reflected the poorer outlook for bond funds in the current low interest rate environment. The Sub-Committee heard that the £10m of investments would not deliver a large return, the target being around 3%, but would be better than the less than 0.1% available elsewhere.

The Sub-Committee noted the approach that had been set out by the Accountancy Services Manager and that it was within their agreed strategy.

RESOLVED that the report be noted.

(7.13pm to 7.20pm)

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 7 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 thanked officers for the comprehensive detail provided and agreed that it was useful information in line with what they had requested at previous meetings.

RESOLVED that the report be noted.

(7.21pm to 7.35pm)

8. Urgent Business

There were no matters of urgent business to discuss.

The meeting closed at 7.36pm.

Chair



Treasury Management and Investment Sub Committee

18th October 2021

Treasury Management Mid-Year Review 2021/22

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 (TM) activities undertaken in the first part of 2021/22 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 Council without amendment for consideration and thereby meet statutory obligations

Recommendations

That Cabinet note the contents of this report and requests that Full Council review the report and approve that no changes to the 2021/22 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 & 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 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 the Treasury Management & Investment Sub Committee have reviewed the contents of the report and recommended that the Cabinet notes its contents and seek Council approval for it.

2. Executive Summary

- No breaches of the 2021/22 Treasury Management Strategy occurred
- Interest Rates have remained low due to the Bank of England base rate staying at 0.10% resulting in projected income from cash investments being low
- Investments in three Diversified Income Funds have improved yields in 2021/22 since their establishment in late June
- The Council continues to remain internally borrowed to fund its capital investment and does not expect in 2021/22 to externalise any debt.
- The Council has a high level of liquidity as a result of cashflow uncertainties as a consequence of the Coronavirus pandemic and the level of returns from longer investments have not justified an increase in duration.
- No change to the TM Strategy is recommended for 2021/22

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 the Treasury Management and Investment Sub Committee. No changes to the 2021/22 Treasury Management Strategy are recommended.

List of appendices:

Appendix 1 – Review of Treasury Management Activity (2021/22)

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: N/A

Consultees:

Relevant Policies and Strategies:

Treasury Management Strategy 2021/22

1. Treasury Management Activity during the period 1st April 2021 – 31st August 2021

This report complies with the CIPFA Code by identifying the Council's investments and external borrowings as at 31/08/2021 and compares treasury activity to the approved strategy.

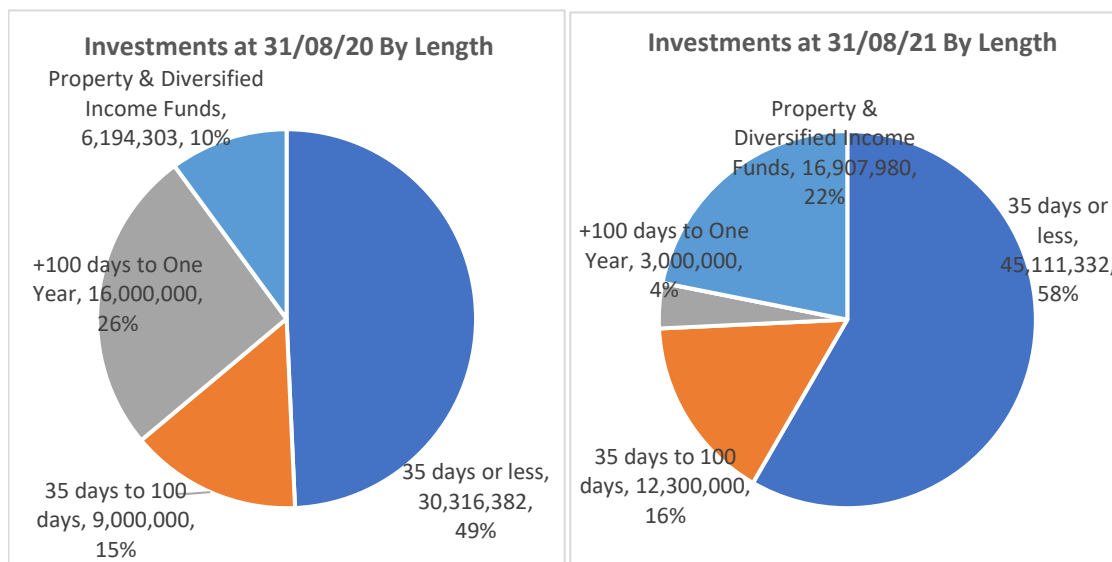
2 **Liquidity Management and borrowing**

2.1 The Council has continued to keep a significant proportion of its portfolio available for instant access and within notice accounts. This reflects the uncertain cashflow of the Council due to income losses from Covid-19 (mainly Business Rates and Sales, Fees and Charges). Also, investment returns for longer duration investments have not justified the lengthening of maturities

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

A minimum of £15m of all investments must be invested for periods of 35 days or Less

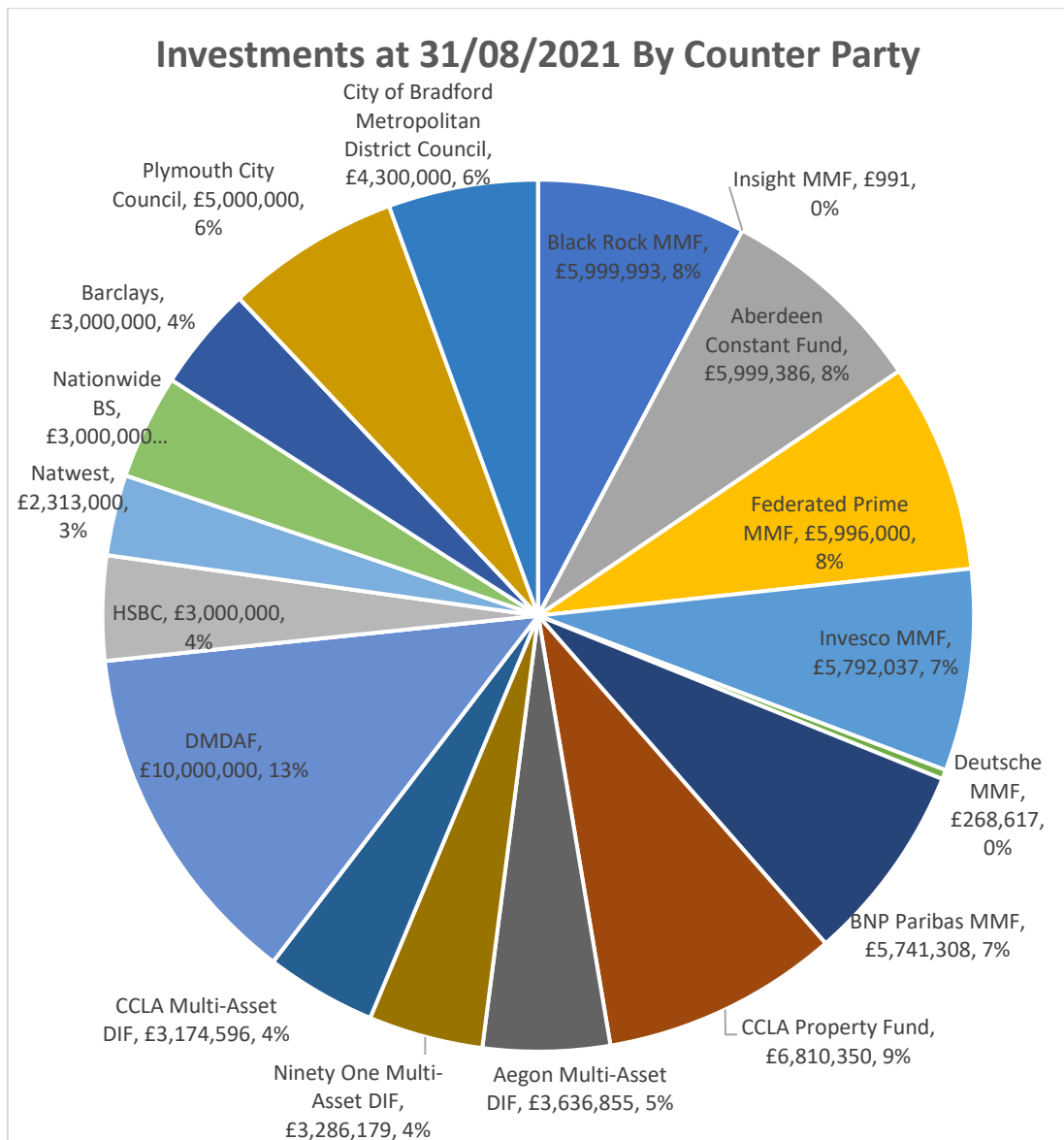
Outcome: The target was achieved, and officers will continue to keep the average durations of investments short until longer investment durations become worthwhile in terms of returns.



2.2 The Council's Treasury strategy set the following **No fixed duration investments over 365 days are proposed for 2021/22;** Subject to being reviewed during 2021/22 depending on cashflow and counterparty risk. It is recommended that any investments beyond 365 days are at the discretion of the Section 151 Officer

Outcome: The limit has not been exceeded. Currently, none are proposed at this point in time, but further work on the Council's cashflow will be undertaken to assess whether longer term (1 year or longer) investments would be worthwhile.

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



The Council's investments with the DMDAF (Government), local authorities and Nationwide Building Society are all fixed maturity dates and of a duration of less than one year. The investments with HSBC and Barclays are 31-day and 95-day notice accounts respectively, which both achieve a higher return to the Council than Money Market Funds.

- 2.4 **The Council has not undertaken any external borrowing in the year to date.** The funding of the approved Capital programme requires borrowing but that has been internal borrowing which reduces the amount the Council has to invest. The Council operates two 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	£37m
Operational Boundary of Borrowing	£1.8m

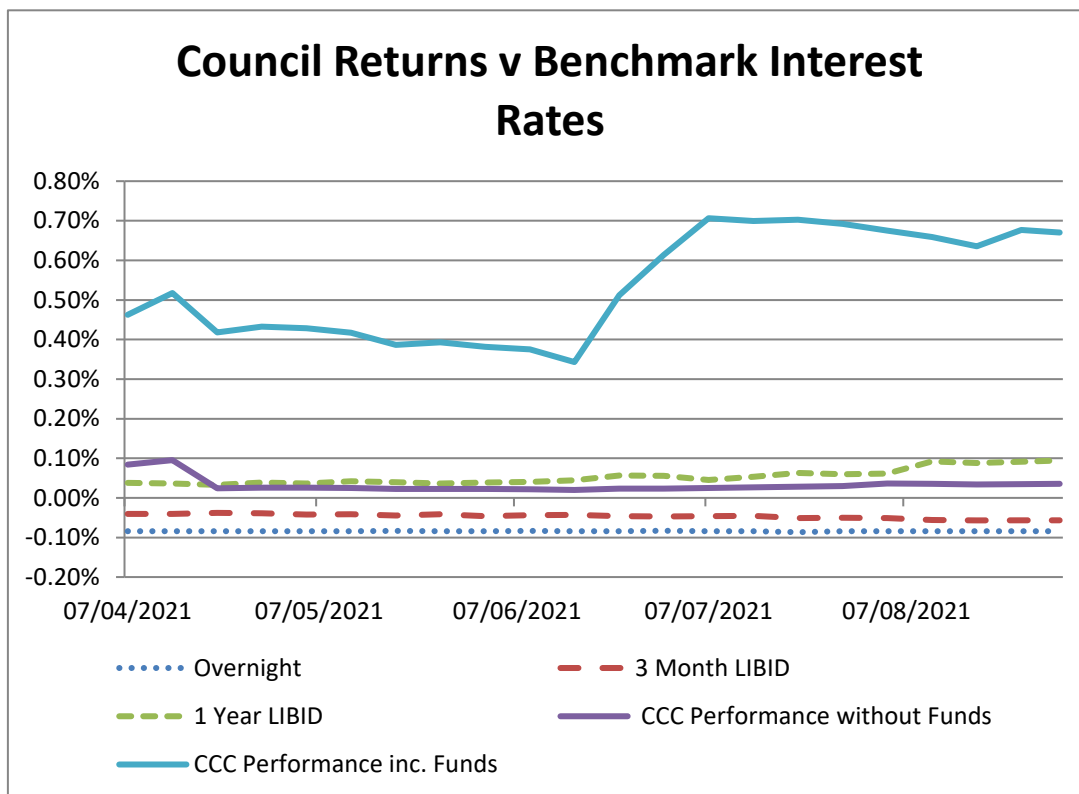
- 2.5 The impact of Covid 19 has continued to make cashflow planning and forecasting difficult throughout 2021/22. The Council cash balances will fall as the year progresses due to the normal outflow of Council Tax to other precepting bodies and capital programme spend. It is thought unlikely that short-term external borrowing will occur in 2021/22 and a full review of the Councils forecast cashflow is taking place as part of the 2022/23 budget which will identify when the Council may need to undertake external long-term borrowing.

3. Rate of Return

- 3.1 The Bank of England Base rate stands at 0.1%. One-month local authority loans are 0.01% and one year 0.20%, although the local authority market has reduced significantly over the last year or so, due to local authorities sitting on higher liquidity from government funding relating to Covid-19.

Money Market Funds are currently running at 0.01% or 0.00% with other cash investments with banks and building societies offering similarly low returns. The Council has now invested in three multi-asset diversified income funds to a total of £10m across the three funds which will help to increase returns on the Council's overall portfolio. The returns are discussed in paragraphs 3.2 to 3.6.

3.2 Money market interest rates have fallen since the beginning of Covid-19 outbreak. The Council returns are shown below alongside some comparable benchmark rates.



3.3 The Council’s rate of return in 2021/22 reflects the historically low interest rates on any cash or short-notice investments. Three diversified income funds have now been invested in which provide a better return to the Council. Officers are continually reviewing options for longer duration investments. However, lack demand from borrowers (a limited number of counter parties) and low interest rates have made increasing duration not financially attractive to-date.

3.4 The Council had an average yield on its portfolio of 0.67% as at 31st August 2021. The budgeted income for 2021/22 from investment returns is £290k, this is expected to be exceeded for the year by at least £150k due to investment in the three diversified income funds.

3.5 Some longer duration interest rates have started to rise slightly during September as the market begins to price in potential rate rises over the medium term. These trends will be monitored throughout the rest of 2021/22 to assess whether returns can be increased, whilst maintaining security for the Council.

3.6 For the remainder of the financial year, it is expected that short term interest rates will remain very low, but Council returns will be maximised wherever possible within the approved TM Strategy.

4 Externally Managed Fund Performance

4.1 The Council is now 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 secure return for the Council at a higher rate than many other alternatives. Capital values will fluctuate throughout the period of investment.

- CCLA Property Fund - This investment fund is open only to Local Authority investors. The Council invested at cost of £5m and its current value is £6.8m. The yield is currently around 4.1%.
- Aegon Multi-Asset Diversified Income Fund - A £3.6m investment was made into the Aegon DIF in June 2021.
 - Income yield to end of August – 6.03% (on initial capital investment)
 - Capital Value – 1.02% increase on initial investment
- Ninety-One Multi Asset Diversified Income Fund – A £3.3m investment was made into the Ninety-One DIF in June 2021.
 - Income Yield to end of August – 4.06% (on initial capital investment)
 - Capital Value – 0.42% decrease on initial investment
- CCLA Multi Asset Diversified Income Fund – A £3.1m investment was made into the CCLA DIF in July 2021.
 - Return to end of August – No dividend declared yet (paid quarterly) but expected at between 2.5% and 3%
 - Capital Value – 2.41% increase on initial investment

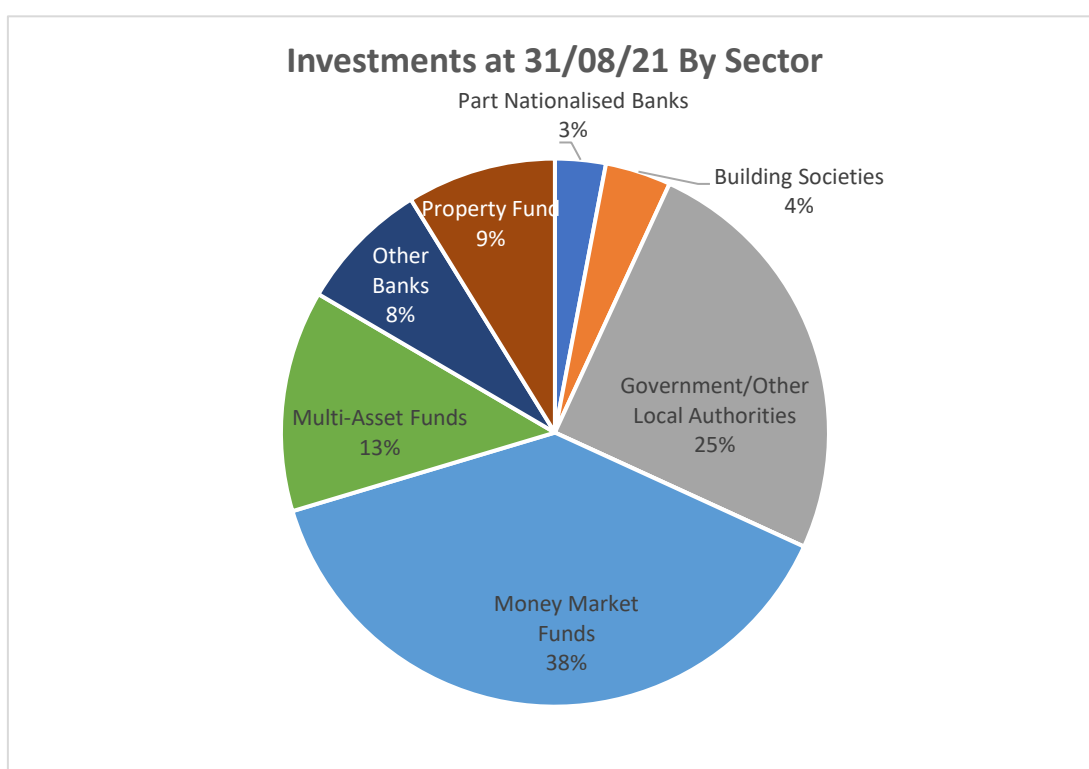
The return on all external funds should be looked at as a portfolio allowing for periods of over and underperformance for individual funds. If the first few months of performance were to continue, then the annualised income yield would be yield 4.31%. The unrealised capital gain to date is £1.9m (including CCLA property fund). It is important to note the unrealised capital gain will fluctuate, the main objectives of the investment in funds is spread of risks across asset types and improving annual income (yield).

4.2 As all four of the funds that the Council is invested in are externally managed, the Council benefits from experts who bring expertise and additional data when selecting and managing investments, therefore helping to spread risk across a wider range of counter parties and assets, whilst maintaining a high yield.

4.3 The value of the different funds the Council invests in can be seen when looking at the returns the Council receives without them. As at the 31st August 2021, Council returns excluding these funds was 0.03% due to the historically low returns for any cash investments. There has also been a significant reduction of counterparties active in the market, particularly other local authorities looking to borrow. This reduced demand is due to higher levels of liquidity as a result of Government support to reduce the impact of Covid-19. It is therefore proposed to continue to hold investments in the four different funds in order to maximise the return to the Council, whilst maintaining security of its assets.

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 greatly altered from last financial year to current, predominantly due to the continued high short-term cash balances generated as a result of Covid-19.



Exposure	As at 31 st August 2020	As at 31 st August 2021
Bail-in risk	59%	53%
Exempt from bail-in (including CCLA)	41%	34%
Diversified Income Funds	0%	13%
Total	100%	100%

The Diversified Income Funds will be partially exposed to Bail-In risk, but it is not possible to identify specifically 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.

6 Conclusion

- No breaches of the Treasury Management Strategy occurred

- Interest Rates are expected to remain low for the remainder of the financial year resulting in low returns for cash investments.
- The Council continues to remain internally borrowed to fund its capital investment.
- Investments into three diversified income funds has occurred in 2021/22, resulting in higher returns for the Council.
- No change to Strategy is recommended for the rest of 2021/22.