Chelmsford City Council

8 December 2021

Treasury Management Mid-Year Review

Report by:
Cabinet Member for Fairer Chelmsford

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Purpose
To report to the Council the Treasury Management (TM) activities undertaken in the first part of 2021-22 and on compliance with the approved TM Strategy, and to request that the Council consider the recommendation of the Treasury Management and Investment Sub-Committee and Cabinet that the Strategy continue unamended.

Recommendation
That the Council note the Treasury Management activities carried out in 2021-22 and confirms the existing TM Strategy.

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:
Cabinet

Relevant Policies and Strategies:
Treasury Management Strategy 2021/22

APPENDIX 1

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.

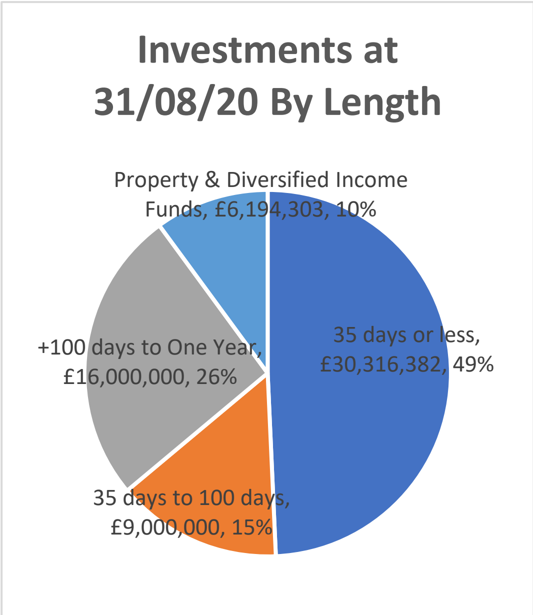
2. **Liquidity Management and borrowing**

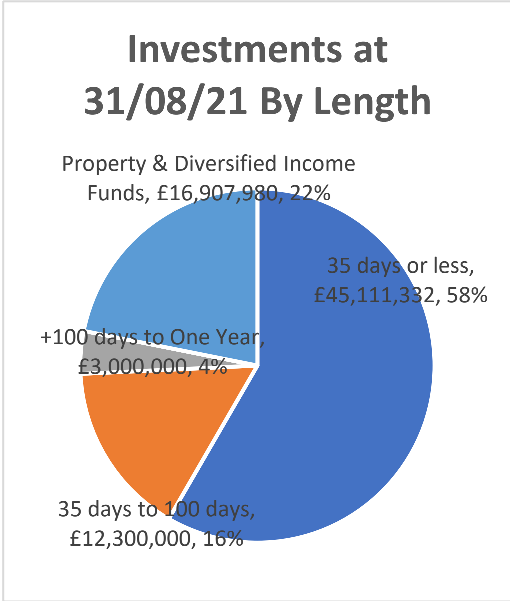
2.1 The Council has continued to keep a significant proportion of its portfolio available for instant access and within notice accounts. This reflects the uncertain cashflow of the Council due to income losses from Covid-19 (mainly Business Rates and Sales, Fees and Charges). Also, investment returns 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.





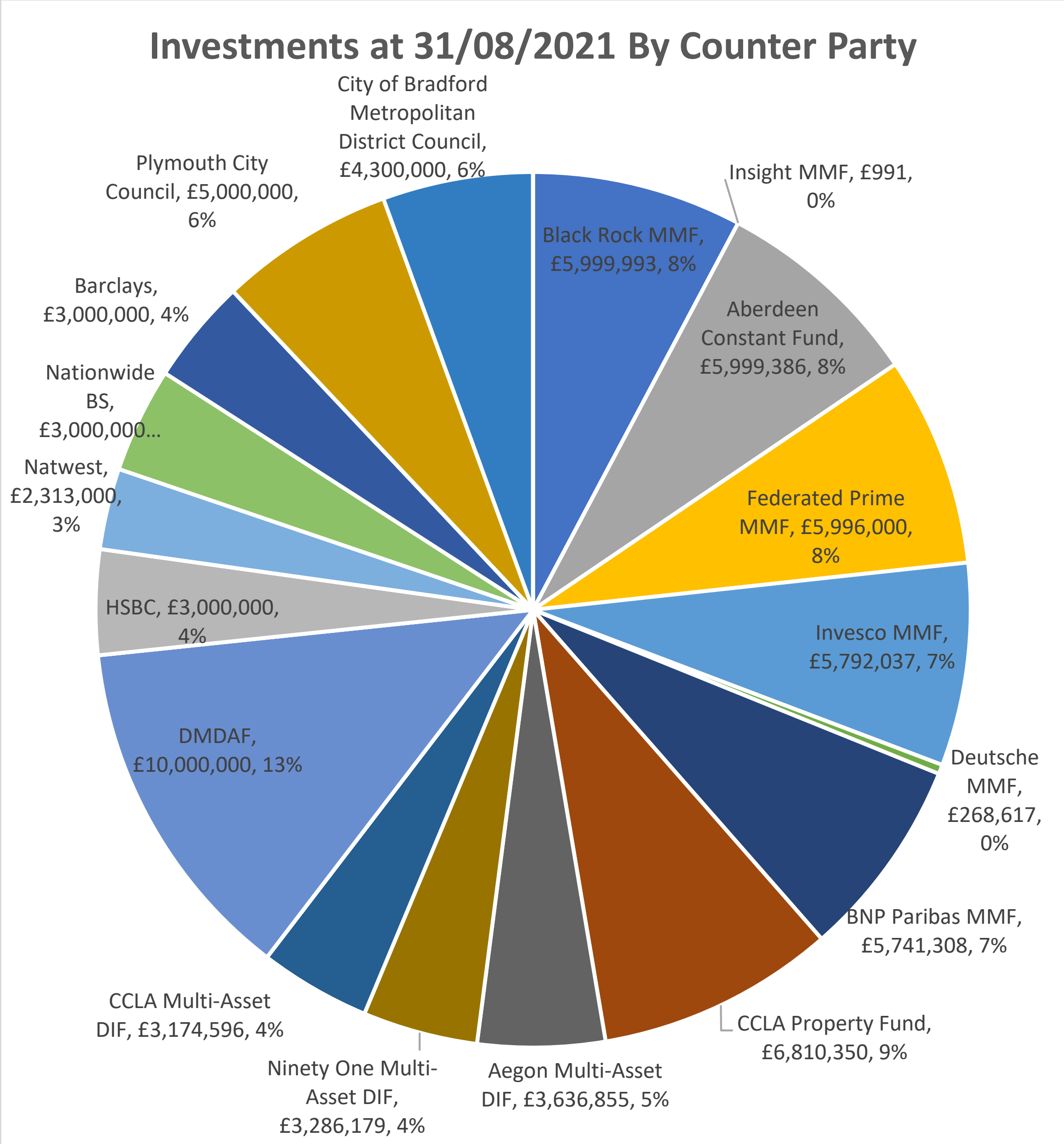
Investments at:	**31/08/20**	**%**
35 days or less	£30,316,382	49
35 to 100 days	£9,000,000	15
+100 days to 1 yr	£16,000,000	26
Over 1 yr	£0	0
Property & DIF	£6,194,303	10
Total	**£61,510,685**	**100**

Investments at:	**31/08/21**	**%**
35 days or less	£45,111,332	58
35 to 100 days	£12,300,000	16
+100 days to 1 yr	£3,000,000	4
Over 1 yr	£0	0
Property & DIF	£16,907,980	22
Total	**£77,319,312**	**100**

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**

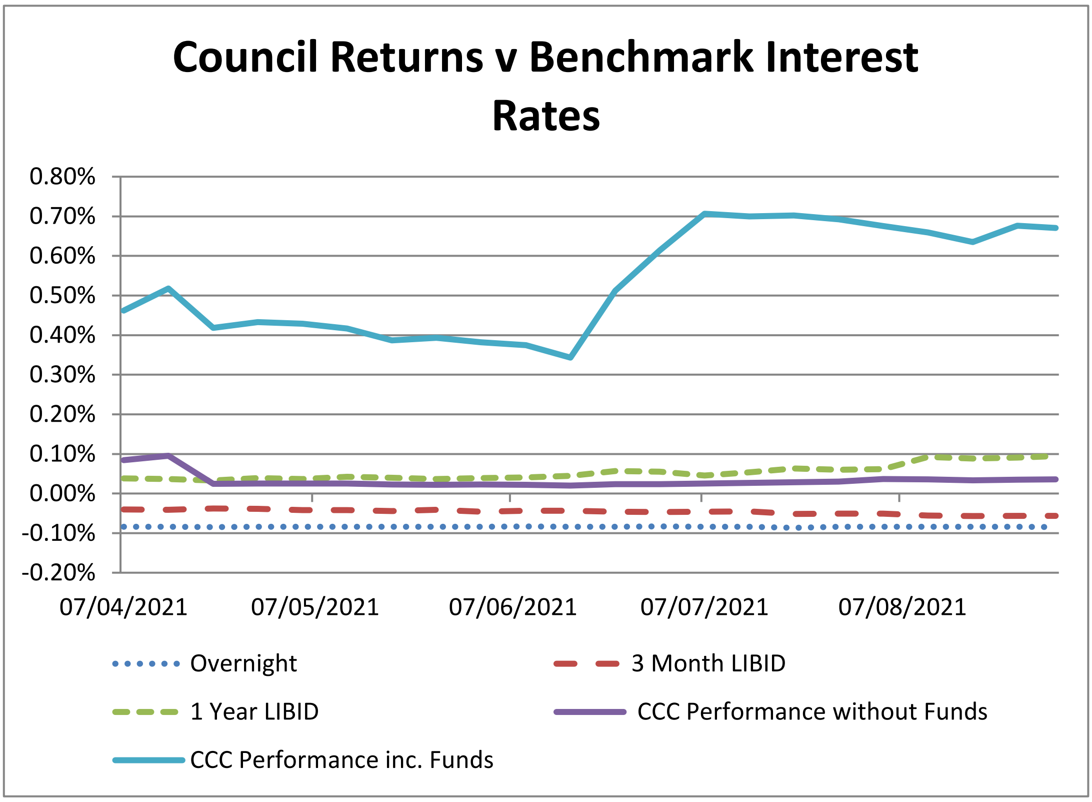
2.5 The impact of Covid 19 has continued to make cashflow planning and forecasting difficult throughout 2021/22.
The Council cash balances will fall as the year progresses due to the normal outflow of Council Tax to other precepting bodies and capital programme spend. It is thought unlikely that short-term 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 of 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).

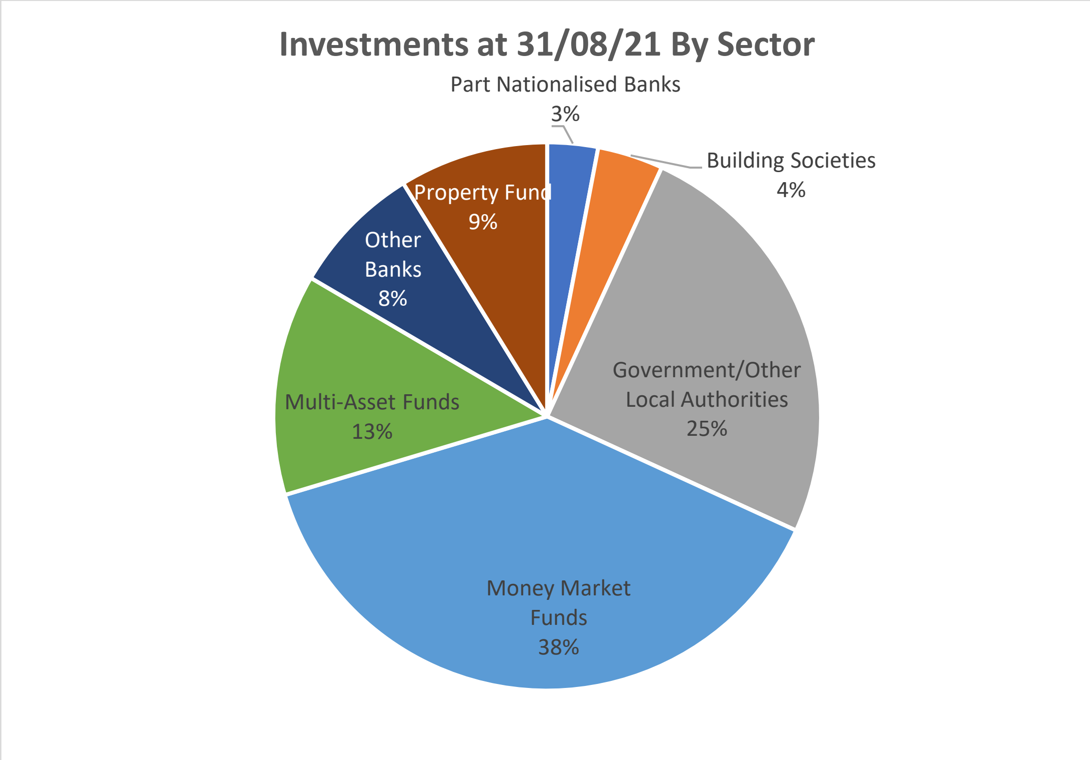
4.2 As all four of the funds that the Council is invested in are externally managed, the Council benefits from experts who bring expertise and additional data when selecting and managing investments, therefore helping to spread risk across a wider range of counter parties and assets, whilst maintaining 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 has 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. **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 31st August 2020	As at 31st 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.