Treasury Management and Investment Sub-Committee Agenda

13 December 2021 at 6pm

Remote Meeting

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 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 daniel.bird@chelmsford.gov.uk or telephone on 01245 606523

Treasury Management and Investment Sub Committee

13 December 2021

AGENDA

1. Apologies for Absence and substitutions

2. Minutes

To consider the minutes of the meeting held on 18 October 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.

5. Update on Regulation Changes

6. Treasury Management & Investment Strategies 2022/23

7. 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 18 October 2021 at 7pm

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 21 June 2021 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 questions were asked or statements made.

5. Treasury Management Mid-Year Review 2021/22

In accordance with the CIPFA Code of Practice the mid-year review of the Council's treasury management function and activities in 2021/22 was presented to the Sub-Committee. The review examined the position with the Council's investments at 31 August 2021 and compared treasury activity to the approved Treasury Management Strategy. The Sub-Committee was asked to consider whether any amendments to the Strategy were necessary and, if so, to recommend them to Cabinet on 16 November and then Full Council on 8 December 2021.

The Sub-Committee was informed by officers that no changes to the strategy were being recommended and were directed to the executive summary on page 8 of the agenda pack. It was noted by the Sub-Committee that no breaches of the strategy had occurred and that despite low investment rates, there was some hope that they were beginning to increase. The Sub-Committee also heard that the Council had an average yield on its portfolio of 0.67% at the end of August 2021 and that the budgeted income from investment returns was £290k. It was noted that due to the three diversified income funds this was now expected to be exceeded by at least

£150k. The Sub-Committee was also reminded to expect some fluctuations to capital values but that these three funds should provide much higher returns than cash funds over the longer term. Officers also informed the Sub-Committee that more short term cash was being held than last year but that this would be expected to change as interest rates picked up. It was also noted that there was no need for external borrowing and that officers had been updating cash flow projections to identify any possible needs to borrow. It was also noted that the CCLA property fund had increased by £0.5m since February 2021.

In response to a question from a member of the Sub-Committee, it was noted that higher levels of liquidity had occurred due to less capital spend due to the pandemic alongside grant money still coming in from the government.

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

(6.02pm to 6.08pm)

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

The Sub-Committee received a short verbal update from officers on recent changes to PWLB borrowing rules and the draft CIPFA Treasury Management Code of Practice. It was noted that a verbal update rather than a written report was being provided due to the changing interpretation of the guidance nationally and this allowed officers to provide the latest information. The Sub-Committee heard that the new CIPFA code had only just been published and was being consulted on till the end of December. The Sub-Committee also heard that the changes were quite complex but did not have a signifcant effect on activity for the Council, compared to others.

The draft CIPFA Code implied that many Councils might have greater restrictions placed on the use of long-term investments. However, the code is in draft and it is currently felt likely that increased restrictions will not be included when a final code is produced. The Sub-Committee heard that the new PWLB rules are to prevent local authorities from borrowing to invest in commercial assets. The rules try to clarify what is permissible borrowing using 11 examples. It was noted that the change of emphasis, was due to concerns that there are some local authorities who are taking on too much financial risk when borrowing to invest in assets for commerical yield.

The Sub-Committee thanked officers for the verbal update and it was agreed that a written report would be provided to the next meeting, once the position was clearer.

RESOLVED that

1. a written update be provided at the next meeting and;
2. the report be noted.

(6.09pm to 6.19pm)

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.

RESOLVED that the report be noted.

(6.20pm to 6.29pm)

8. Urgent Business

There were no matters of urgent business to discuss.

The meeting closed at 6.30pm.

Chair

Treasury Management and Investment Sub-Committee

13th December 2021

Regulations Governing Local Authority Treasury Management

Report by:

ACCOUNTANCY SERVICES MANAGER (S.151 Officer)

Officer Contact:

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

Purpose

To inform update members that changes are being made to PWLB (Public Works Loan Board) and CIPFA regulations governing Local Authority investment and borrowing

Options

1. Note the content of the report
2. Seek further information

Recommendation

Note the contents of the report.

1. Background

1.1 Councils can only borrow in the long-term to fund their capital programme. The City Council has not had to borrow externally to fund its capital programme but has used internal borrowing, some £14.4m as at the 31/03/2021. The Council's cashflow planning does not indicate an immediate need to externalise debt to fund the capital programme. However, cashflow assumptions can change so the Council's Treasury Management Strategy makes provision for the need to externalise debt if required.

1.2 The Council has the option of externalising the borrowing if it believes that borrowing is in the best financial interests of the Council and in-line with Treasury Management best practice. The decision to borrow externally is delegated to the Accountancy Services Manager (Section 151) but that borrowing must be within the limits contained in the Capital, Treasury Management & Investment Strategies 2021/22 (February 2021 Council).

1.3 Over the last two years a number of changes have been made to the CIPFA and PWLB rules regarding borrowing. The intent of the changes has been to restrict the use of borrowing to fund investment in assets that generate commercial returns and have commercial risk. The Council's policies have been amended as necessary to remain compliant.

1.4 During the autumn CIPFA have drafted additional changes to their code for consultation (officers must have regard to the code when undertaking their work). Nationally the reaction to the proposed changes has been negative on the basis that the changes are over-prescriptive. CIPFA do state that any changes would expect to be implemented in April 2023, so officers will only recommend amending Council policy (strategy) then. The PWLB has made changes that are not open to consultation which place additional restrictions on local authority borrowing (capital expenditure). This report is intended to flag the potential issues to members.

2. What's the PWLB and its importance to Chelmsford Council

The Government recognises the need for Council's to borrow to fund their capital expenditure. It seeks some controls over that borrowing through regulations and by offering centralised borrowing facilities (PWLB).

The Treasury views the purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in service delivery, housing, regeneration, treasury management, and occasionally preventative action over borrowing, under a Prudential regime (Local authorities determine what they themselves can afford to borrow).

Councils can borrow from commercial organisations, the public or other Local Authorities. The Government via the PWLB has always tried to offer the most competitive terms. However, it always lends to Local Authorities at premium over the Government's own borrowing rates. Councils generally find it most cost effective to borrow on a long-term basis from the PWLB and seek short term loans from other local authorities.

The objectives of Treasury Management are to manage the Council's funds in such a way to deliver Security, Liquidity and Return. The S151 officer must ensure that the Council always has access to sources of liquidity. This does include identifying a lender of last resort. Experience has shown during the financial crisis and pandemic that money markets cannot be relied upon to provide the Council with access to cash in all circumstances. In February 2021 Council took the decision that maintaining access to PWLB was an essential requirement, as it provided best value funding and acted as lender of last resort.

The Capital Treasury & Investment Strategy 2021/22 report determined that the Council would not buy property primarily for yield, to ensure that access to PWLB was maintained.

3. New PWLB Rules

In March 2020 the government consulted on revising the PWLB's lending terms to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets bought primarily for yield. Further clarifications (guidance) were issued in the Summer of 2021.

The key clarifications

- Councils will be offered lower rates of interest if they submit a return to Government explaining their planned capital expenditures. This must include an assurance from the section 151 officer that the local authority does not intend to buy investment assets primarily for yield.
- Applying for PWLB loans will require the local authority to confirm that the plans they have submitted in their Certainty Rate return remain current and that they are not planning to use the PWLB to refinance any investment assets bought primarily for yield transactions which were made after 26 November 2020. If the authority cannot provide both of these assurances, the loan application will be rejected.
- The rules do not prevent Councils refinancing existing investment properties, if they were acquired before the 26 November 2020. Neither do they prevent the Council funding improvements to existing assets where this represents value for money.
- If a council plans to spend on properties deemed to be for investment, in any of the 3 years on certainty return it will be unable to borrow from PWLB to finance any expenditure it its capital plan.

Defining whether a capital projects fails the criteria for PWLB borrowing

PWLB will continue to support service delivery, housing, regeneration, preventative action, and treasury management. The PWLB has provided guidance on how these activities are defined so as to restrict inappropriate borrowing.

The section 151 officer is required to use their professional judgment to assess the main objective of the capital expenditure and consider whether it is being undertaken primarily for yield.

It can be expected that borrowing decisions will be subject to external audit and therefore could be challenged on an annual basis.

The definitions in the guidance do not appear to prevent the City Council from undertaking its current/normal approach to capital expenditure. This is an initial judgement for with any new guidance interpretation changes overtime to either loosen or tighten.

4. Restriction of how the benefits of regeneration investment (funded by PWLB borrowing) may be used

One part of the new rules goes beyond defining/restricting what regeneration capital investment is, to controlling how benefits can be used (extract of guidance below).

"*While some parts of a regeneration project may generate rental income, these rents <u>should</u> be recycled within the project or applied to related regeneration projects, rather than being applied to wider services.*"

The PWLB give examples of what is and isn't allowed. These are helpful when explaining issues. Below is one such example of what is allowable but with the caveat on how income can be spent.

Example: *A council purchases a town centre hotel and retail units within its local authority area*

It costs the local authority £47.6 million. The hotel closed down in 2014 and part of the building has been demolished. Some of the retail units have become vacant since the closure of the hotel. They plan to build a new leisure development, consisting of a cinema and restaurants. This is part of a regeneration project that has had £80 million of investment from the local authority and external sources. This has funded a new health centre, bus station and community library, among other things. The redevelopment of the town centre is expected to give a £14 million boost to the local economy, create 400 jobs and generate another £570,000 in business rates annually.

<u>The PWLB will support this sort of activity in future as it is clearly aimed at regenerating the town centre and includes service delivery in the form of the health centre and is a clear example of regeneration.</u>

<u>If the currently occupied retail units are generating rental income, the council should be clear how any surplus income would be spent and ensure it is not being directed towards general service spending</u>. That is the PWLB would require any surplus income to be invested in economic development activities.

Officers see this ring fencing as problematic and another example (not a PWLB one) can be best used to explain:

Example: If the Council were to build industrial units for small businesses (necessary to assist in the creation/maintenance of local jobs), a rental income would accrue to the Council. It is in the Council's interest to maintain control over those units to ensure its policy objectives are met in the long term, so the rental income will continue. The Council would not wish to subsidise the rents and would expect over time for the rental income to exceed financing costs of construction. It is not sensible for revenue surpluses to be rigidly earmarked for further economic development projects, that will not necessarily provide best value for money for the tax-payer.

The rules at an initial consideration do seem to restrict local authorities more than is necessary particularly regarding regeneration projects.

5. PWLB rules: Income derived from Capital investment that are not Regeneration

The PWLB guidance does give more examples where it states income generated from schemes that are not regeneration should also not be used to support general expenditure. This earmarking of new income streams will make financial management complex and the Section 151 officers believes that PWLB will take a practical view, which reflects the scale of the investment. So, where a scheme has significant cost but generates significant income then rules will be applied.

The examples given by the PWLB do seem to reference schemes that have been carried out by local authorities in the past, perhaps for income generation. The examples emphasise the need for income to be earmarked for similar projects.

Example from PWLB: A council purchases land for an energy generation project

The council has made energy efficiency and sustainability a policy priority. The council will purchase land in a neighbouring district for a renewable energy project. Windfarms will be built on the land. The energy generated by these projects will be sold back to the national grid and <u>this income will be used to cross-subsidise the land purchase and other environmental projects the council wants to pursue.</u>

The PWLB would support this sort of activity because the project serves a clear policy purpose for the local authority, advancing its environmental and climate change, and is not primarily to generate an income. <u>This would be an example of service delivery</u>.

The approach to the managing these additional complications is that as capital proposals are developed within the Council, that the Section 151 officer advises on any difficulties a scheme creates regarding PWLB funding. It is assumed in the Capital, Treasury and Investment strategy that all schemes will be compliant with PWLB borrowing rules. Should that not be the case Section 151 officer will advise Cabinet and Council at the time they consider a new capital scheme.

6. CIPFA New Treasury Management and Prudential Code

The draft guidance was published the last week of September for consultation (closing in November). The issues of note are:

- Risk appetite. A requirement to define more fully what a Council's risk appetite for investment is in the annual Treasury Strategy report

- New proposals for Key Performance Indicators on borrowing and investment risk.

- A stronger evidencing that borrowing is linked to cashflow needs. The draft includes some confusing guidance. Generally, feedback nationally from multiple stakeholders has been negative for example.

The LGA have been reported as saying “There is a danger that the proposals will cause significant confusion and other unintended consequences. “

“It is essential that the guidance governing something as important as local authority borrowing and treasury management, which has direct implications for the delivery of local and national policy, is clear and enables councils to deliver on their fiduciary responsibilities to local communities.”

The consultation proposes that authorities should not take on new borrowing, if financial investments for commercial purposes “can reasonably be realised instead”.

The LGA believe this could rule out local authorities investing in the property sector in any way for a financial return, including through pooled property funds. “Although it is not entirely clear what is being proposed, it is possible to interpret the proposals here as meaning that local authorities should prioritise the security of the cash value of investments above all else, including instead of holding a strong and diverse investment portfolio and keeping pace with inflation.

“In this case there is a very strong likelihood that the real value of investments will decline significantly over time and that income that could have been achieved will be lost; we have heard views expressed that such an approach will guarantee real value losses. If this is the intention of the changes proposed, it does not seem to represent good stewardship of public funds.”

The 2022/23 Capital, Treasury & Investment strategies do not need to reflect the new code, which won’t be finalised until after publication of the Council strategies report.

7. Conclusion

Further time will be needed to assess the changes made by PWLB and CIPFA. The proposed 2022/23 Capital & Investment Strategies elsewhere on the agenda reflect the PWLB rules changes but any implications from the CIPFA codes are not included as implementation is not expected until April 2023.

List of appendices:

None Background papers:

Nil

Corporate Implications

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

Financial: As detailed in the report. There are restrictions on what can be borrowed from the PWLB

Potential impact on climate change and the environment:

None

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:

Chelmsford City Council Treasury Management and Investment Sub-Committee

13th December 2021

Treasury Management & Investment Strategies 2022/23

Report by:
Accountancy Services Manager (S151 Officer)

Officer Contact:
[Phil Reeves, Accountancy Services Manager (S151),
phil.reeves@chelmsford.gov.uk, 01245 606562]

Purpose
To recommend Treasury Management and Investment Strategies for 2022/23 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 and Council are legally responsible for approving the Treasury Management and Investment Strategies. The attached report enables the sub-committee to recommend to Cabinet and Council Treasury Management & Investment Strategies for 2022/23.

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 are able to amend the contents of the attached report and thereby recommend changes to how the Council invests its money.

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:

Chelmsford City Council Cabinet

25th January 2022

Capital (*to be taken directly to Cabinet*), Treasury Management & Investment Strategies 2022/23

Report by:
Cabinet Member for a Fairer Chelmsford

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

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

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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 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
  - A small change is proposed to categorisation of long-term investments moving from 364 days to 365 day.
  - No material changes from the previous year

- It is proposed to have a target of at least £15m of liquid funds to manage cashflow during the year. This reflects monthly fluctuations in cash levels.
- Cash available for investment is expected to reduce as the Council intends to internally borrow to fund the capital programme.
- Interest income of £701,000 is expected in the budget for 2022/23 at a rate of 1.04% across the Council's portfolio. This assumes an increase in the Bank of England's base rate to 0.25%.

Borrowing

- No changes to last year's strategy are proposed.
- Borrowing will only be undertaken for the purpose of managing temporary liquidity or to fund the capital programme.
- A clarification from PWLB issued in 2021 means that any investment made by Council primarily for yield blocks access to PWLB borrowing. The implications are considered in the capital strategy.
- The Section 151 Officer under the constitution manages investments and borrowings. Current planning assumes internal borrowing will be the main source of funding, but the Section 151 Officer will externalise borrowing should it represent better financial value to the authority.
- Limits for borrowing will be set in the Capital Strategy which will be reported to Cabinet and then Council as part of the 2022/23 Budget.

Non-Cash Investments (Investment Strategy)

- No new capital expenditure (investments) will be made where the purpose of the investment is primarily for yield. This restriction is broader than the 2020/21 Strategy which stated that the Council will not invest in commercial property. The PWLB has during 2021 clarified that it does not allow Councils to borrow if they undertake any capital investment primarily for yield.
- 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 recommendation of the Treasury Management and Investment Sub-committee 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 2022/23

Appendix 2 – Investment Strategy 2022/23

Background papers:

Nil

Corporate Implications

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

Financial: As detailed in the report

Potential impact on climate change and the environment:

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

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

Contribution toward achieving a net zero carbon position by 2030:

N/A

Personnel:

N/A

Risk Management:

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

Equality and Diversity:

N/A

Health and Safety:

N/A

Digital:

N/A

Other:

Consultees:

Relevant Policies and Strategies:

Treasury Management Strategy

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 2017 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 CIPFA is currently in the process of proposing a new TM code, but responses to the consultation from Local Authorities have not been finalised and the new code has not been approved. The Council's 2022/23 Treasury Management Strategy will continue to have regard to the 2017 TM code, rather than the draft 2021 TM code. CIPFA have advised the new code does not need to be implemented until April 2023. Officers will provide the Treasury Management and Investment Sub-committee with updates on the code.

1.3 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.

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

(a) the security of capital
(b) the liquidity of its investments; and
(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.

1.5 It is important to note that the borrowing of 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.

1.6 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.

1.7 This Treasury Management Strategy will focus solely on investments arising from the organisation's cashflows and debt management activity and matters of borrowing. 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 2022/23 budget papers going to Cabinet and Council in the new calendar year.

2. External Context

2.1 The Council's Treasury Management Strategy operates in a macroeconomic environment which can have a significant impact on the Council's treasury operations in terms of inflation, interest rate and counterparty risks.

The economic environment and interest rate forecast

2.2 The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Treasury Management strategy for 2022/23.

2.3 The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 7-2 to keep rates on hold and 6-3 to maintain the asset purchase programme. Within the announcement the MPC suggested interest rates would be increased soon, but to less than the 1% level expected by financial markets.

Within the November 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fades and demand slows. UK CPI for October 2021 registered 4.2% year on year.

The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.

Credit Outlook and counterparty risk

2.4 Where operationally possible, the Council tries to reduce the amount of unsecured bank deposits it holds in reaction to the "bail in" risk arising from reform to the banking sector. Under "bail in" provisions, investors would face losses to their deposits and shareholdings in order to recapitalise a bank before any Government bailout would occur.

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.

2.5 Public Bodies provide much less risk as investment counterparties, but yields are usually lower. The Council should, where possible, continue to spread 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.

3. <u>Local Context: Investment Balances and Potential External Borrowing</u>

3.1 At the end of November 2021, the Council held £86.8m of investments. These investments arise from balances including unspent Community Infrastructure Levy (CIL) and reserves, as well as income received in advance of expenditure. Also, the Government's support to Councils and Businesses has increased cash holding over the last year, the majority of this cash has either been paid out to Businesses or returned to the government on finalisation of the various schemes, however, the Council still holds a small proportion of cash relating to this in 21/22.

The level of investment balance is not expected to be as high over the next couple of years but is then expected to rise slightly in view of increasing income from the Community Infrastructure Levy scheme under the new Local Plan and relatively reduced spend on the Capital Programme.

Forecasted year end investment balances are detailed 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 should the budget included new capital proposals, then below figures will be amended before the report is presented to Council by the Section 151 officer)*

Date	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
Balance (£m)	66	34	35	40	62

3.2 During most months the cash balance can rise and fall by between £10-15m 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. Alternatively, it can undertake temporary borrowing, but will do so wherever possible in advance of need to ensure sufficient liquidity. It is not expected that the Council will have to undertake temporary borrowing for liquidity purposes at the time of drafting this Strategy.

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.

3.3 The Capital Strategy published with the Revenue 2022/23 budget papers will include debt limits reflective of the 2022/23 budget.

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. The current level of CFR reflects the decisions taken by Council to cease revenue contributions to capital in 2019/20 and 2020/21.

The historic level of CFR is shown in the table below with the external and internal debt.

Temporary Use of Surplus cash	Mar 2021	Forecast Apr 2022
Capital Financing requirement	14.410 m	23.151m
External Debt	0.635m	0.531m
Surplus cash internally borrowed	13.775 m	22.620m

The main advantages of this strategy are a lower exposure to external debt, and at the same time, lower exposure to counterparty risk in external investments.

However, no strategy is entirely risk free. The main risk of using cash surpluses generated as described above is that some will be available only temporarily. When the cash is required for its original purpose the authority may need to borrow externally to fund its capital spending plans at a time when interest rates are higher or other conditions are not favourable.

The Council has reserves which can be considered as cash backed and can be invested for longer periods as the Council always maintain 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.

There can be an opportunity cost on internal borrowing which is the interest we could have earned externally (the margin between external borrowing costs and investment income). On most occasions the interest rates on borrowing are higher than those earned on investments made by the Council. However, if long-term borrowing rates are expected to rise, then it may be favourable to borrow to lock into favourable funding, the cash can be held as investments until utilised to pay for expenditure. The consultation on a new CIPFA code does seek views on what is best practice regarding balancing external and internal debt levels. Officers will have regard to the conclusions of the code when undertaking Treasury Management next year, but this will only be formally adopted for 2023/24.

The Section 151 Officer undertakes Treasury Management within the limits set by the Capital Strategy and has the flexibility to adjust the balance between borrowing and investments to meet changing circumstances. The current preferred option is to as far as possible, internalise all surplus funds. However, with rates potentially starting to rise it may become prudent to lock into longer-term debt and this option should remain open to the Council.

3.4 The principles of how borrowing could be undertaken externally are discussed in Section 5 below.

4 Investments 2022/23

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 2022/23 a target of at least £15m 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

This is a prudent approach in line with CIPFA and DLUHC guidance.

4.2 One minor change to investment counter party rules is proposed for 2022/23 compared to 2021/22 to allow 365-day investments rather than limiting to 364 days. This is outlined in the tables below. The Council takes advice from Arlingclose, the Council's Treasury Advisors in determining who are suitable counter parties to hold Council funds.

4.2 No fixed duration investments over 365 days are currently proposed for 2022/23. This can be reviewed during 2022/23 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 limit as recommended in Section 7.4.

4.3 The Council use Credit Ratings and Arlingclose's recommendations to determine suitable counter parties. Arlingclose's approach is not based on a rigid model but on an assessment of a range of measures that require a final human judgement of the overall risk. The assessments include the following: credit ratings, the likelihood of UK or another Government support, market information (e.g., share price or Credit Default Swap), collateral offered by the Counter Party, types of activity undertaken by the institution and other external advice. The Counter Parties recommended in this report reflect discussions by officers with Arlingclose, which are then reviewed by the Cabinet Member for Fairer Chelmsford and the Treasury Management and Investment Sub-committee.

Arlingclose 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. An approved list of counterparties is released by Arlingclose each month.

The Council policy has been and is recommended to differ from Arlingclose advice when it comes to duration of investments with Banks (UK and Foreign) and Building Societies. Officers have been concerned that Arlingclose have taken too cautious an approach to assessing duration limits, an example being 35-100 days limits for investments with UK clearing banks. The Council's Officers have focused more on credit ratings and an assessment of systematic importance to UK economy when assessing investment duration. This allows the Council to have a slightly longer duration and increased pool of potential counterparties, whilst 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 investments 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
- Potential to undertake unsecured Challenger Bank investments
- 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 (0.0-0.1%) but require 2 – 5 days' notice to withdraw funds.
The Council invests short-term cash in several AAA-rated money market funds. These funds provide a modest rate of interest around 0.01% at November 2021 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. Arlingclose offer some guidance on risks of each local authority but the data is based on snap-shot year end accounts as only a few authorities can afford the cost of ratings by credit agencies.

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 has 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 operates 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 Arlingclose’s approved lists. Arlingclose only recommend investments with UK banks for up to 100 days. The Council differs from Arlingclose 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) is met and no information is available that identifies unacceptable risk. The Council will not invest with any bank that is not on the approved Arlingclose list.

4.7 **Unsecured building society investments.** Arlingclose have in the past recommended a wide pool of Building Societies that its clients could invest with. During this time, the Council was not comfortable with this approach as some Building Societies were recommended which did not have sufficiently high credit ratings. The Council therefore chose to go beyond Arlingclose advice and only invest with Building Societies with a long-term credit rating of A- and only for up to and including 365 days. In recent times, Arlingclose have significantly reduced the number of Building Societies on their approved lists, so that at present, only Nationwide Building Society are an approved counterparty. The Council’s treasury strategy therefore takes a different approach to investing with building societies than that recommended by Arlingclose, and will continue to look at credit rating first, requiring that building societies have a long-term credit rating of at least A-. This is the same as the Council’s previous counterparty policy for Building Societies.

4.8 **Unsecured Non-UK bank investments.** Arlingclose 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 Arlingclose advise 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 365 days but over 100 days and A- for investments of up to 100 days. Arlingclose recommends a limit of 35 days for investments with non-UK banks on their approved counterparty list. The Council differs from Arlingclose advice in terms of the length of investment, as long as the credit rating criteria above are met. An example of where this may differ would be an investment with DBS bank, which currently has a credit rating of AA- (Fitch). This credit rating is better than several of the UK banks that are approved on Arlingclose’s counterparty list and so the Council is comfortable investing for a longer period than Arlingclose recommend, as per the credit rating criteria above. The Council will not invest with any bank that is not on the approved Arlingclose list.

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 counter party 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 Arlingclose 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 fund 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.

At the time of drafting this report the Council has an investment of over £6m in the CCLA property fund and 3 further investments in Multi-Asset funds totalling just under £10m.

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. There has been insufficient evidence to demonstrate during 2021/22 that investments would be appropriately secure. However, it is recommended that the Treasury Management and Investment Sub-committee reviews any new evidence on these challenger banks and if satisfied that they provide sufficient Security, Liquidity and Return, that up to £3m could be invested by the Council.

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	Increased to 365 days from 364
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans)	UK Government	£10m each authority	365 days	Increased to 365 days from 364
UK Banks	A-	£3m for each group	365 days	Increased to 365 days from 364
Building Societies	A-	£3m for each group	365 days	Increased to 365 days from 364
Non-UK Banks	AA-	£3m each group	365 days	Increased to 365 days from 364
Non-UK Banks	A-	£3m each group	100 days	None
Registered Social Landlord Loans	A-	£3m each group	365 days	Increased to 365 days from 364
Covered Bonds	AA-	£6m	365 days	Increased to 365 days from 364

Reverse Repurchase Agreements (each agreement)	AA-	£6m	365 days	Increased to 365 days from 364
Supranational Bonds (per institution)	AAA	£6m	365 days	Increased to 365 days from 364

A factor in setting the current individual limit of £3m per financial institution was it represented some 5% of total funds (as can be seen in predicted year-end balance for 21/22 in table in section 3.1), clearly as investment balances fall the £3m represents a greater percentage of total funds, so investments become less spread proportionally if the £3m limit is kept.

However, reducing the £3m limit would reduce the number of institutions willing to take Council deposits as the investment is judged too small to be economic for large institutions. Indeed, there are several institutions who will not accept £3m from the Council as this is too small for them. The strategy must therefore balance these factors and for 2021/22 has retained the £3m limit.

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

Challenger Banks e.g. Aldermore, Metro etc	Unrated	Delegate to Treasury Management and Investment Sub-Committee authority to determine criteria to invest up to £3m		

5. Borrowing Sources

5.1 The Council has a need to fund its capital plans from borrowing. This section of the strategy sets out the Council's approach to borrowing. Long term borrowing is only used to fund the capital programme so the level of borrowing will never exceed the CFR for any meaningful amount of time. As previously stated in Section 3.3, the CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by internal or external borrowing and so will be determined by the Budget Report 2022/23.

5.2 As identified in Section 3.3, the current 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.

5.3 When the Authority needs to borrow externally it will seek to strike a balance between minimising interest costs and securing certainty of borrowing costs. 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).

5.4 The PWLB can lend for up to 50 years and also for the short term to Local Government. The PWLB is the source of loans/funds if no other lender can provide finance. The Government after a period of consultation has announced that the PWLB will not lend to an authority that plans to buy investment assets primarily for yield that is identified in their capital programme. The Section 151 Officer will be expected by the PWLB to certify that no such purchases are planned.

The CIPFA guidance by which Local Authority treasury management is assessed and governed, will likely be amended to encourage further restriction of borrowing to fund investment purchases. This has been reflected in the draft TM code produced by CIPFA. However, officers believe the draft nature of the code makes it difficult to define impact on the 2022/23 strategy. So, as previously stated any changes finally agreed by CIPFA will not be imposed/implemented until April 2023, although officers will have regard to the new code when undertaking Treasury Management in 2022/23.

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.

5.5 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.
- 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 temporarily due to 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 2022; they will be linked to the CFR (the borrowing needed to fund the capital programme).

Should the Council undertake long-term borrowing during 2022/23 then the Section 151 Officer will establish indicators to assist in the management of borrowing and these will be reported back to members. Indicators will also reflect where possible the new CIPFA code.

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

5.7 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

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

6.1 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.

7. Treasury Management Indicators

7.1 Officers will review the indicators once the finalised version of the CIPFA code is published. Until then the following Treasury Management Indicators will be used. These assist in measuring and managing the Council's exposure to Treasury Management risk in 2022/23.

7.2 The Council has both limits and targets within the below indicators. Limits cannot 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.

7.3

Liquidity – The liquidity indicator seeks to ensure that the Council has the necessary funds to meet its normal day to day payments.

Liquidity Risk Indicator	Target
Total cash available within 35 days	£15m

7.4

Long-Term Treasury Management Investments – This indicator sets two separate limits, one limit on the total amounts invested in longer term instruments with no fixed maturity date such as Multi Asset or Property funds, and one on the limit of total amounts invested in fixed term investments over 365 days

Long Term Investments Indicators	Limit
Total cash invested over 365 days with a fixed maturity date	£10m
Total cash invested with no fixed maturity date	£20m

7.5 (The £10m limit for cash invested over 365 days is only expected to be used if cash balances turn out materially different than forecasted)

Counterparty Indicator – This indicator measures whether the Council has operated within its approved limits for counterparties.

7.6

Counterparty Indicator	Limit
Council and Arlingclose counterparty approved limits	No breach

Target Income Yield – This indicator measures the interest income return for the Council's investments in funds, as these are the most significant drivers of investment income as a whole.

Yield Indicator	Target
Interest Rate Earned on external funds	3%

8. Interest Income

8.1 The budget for interest income for 2022/23 is £701,000, based on an average investment portfolio of £67.5m at an interest rate of 1.04%. If actual levels of investments or actual interest rates differ from those forecasted, performance against the budget could be significantly different.

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. A consultation on a new Prudential code is taking place so any changes will be identified and implemented by April 2023 in line with the timetable placed on the Council.

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)

New guidance from the PWLB issued in 2020/21 prevents any local authority from borrowing from it for any purpose, if, the authority in the current or following 2 years has plans in its capital programme to invest in assets primarily for purpose of obtaining yield. This new guidance is more restrictive than the previous guidance which placed limits only on commercial property investment. The City Council can access non-PWLB sources to fund capital investment. However, the Council approved last year 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.

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 but still plan for such investments to return the sum 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	31.3.2021 actual			2022/23
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Chelmsford City Football Club	£0.104m	£0.104m	£0.000m	£0.104m
BID Company	£0.022m	Nil	£0.022m	£0.011m
Maximum New loans if required.	Nil	Nil	Nil	£10.000m
TOTAL LIMIT	**£0.126m**	**£0.104m**	**£0.022m**	**£10.115m**

The above table includes an allowance of up to £10m of new loans should the Council decide to create a standalone company for example 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: Service managers bid annually in September in the same way as for Capital Projects and Replacement Programme.

The bids are reviewed and prioritised by Management Team then referred to Cabinet which then makes recommendations to Council in February each year.

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 and will need approval in line with financial rules.

Commercial Investments:

DLUHC defines property to be a commercial investment if it is held primarily or partially to generate a profit. 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.

Property Type	31.3.2021 actual £ms					31.3.2022 expected £ms			
	Acquisitions	Disposals	Transfers*	Gains or (losses)	Value in accounts	Acquisitions	Disposals	Works/ Additional Gains or (losses)	Value in accounts
	In Year	In Year				In year	In Year	In Year	
Office	£0.00	£0.00	£0.00	-£0.95	£19.57	£0.00	£0.00	£1.1	**£20.67**
Other	£0.00	-£1.31	-£0.68	-£0.10	£6.12	£0.00	-£0.14	£0.00	**£5.98**
Retail	£0.00	-£0.18	£0.00	-£8.56	£46.56	£0.00	£0.00	£0.00	**£46.56**
TOTAL	£0.00	-£1.49	-£0.68	-£9.61	£72.25	£0.00	-£0.14	£1.1	**£73.21**

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 purchased 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 25 years' experience, 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 Arlingclose, the Council's Treasury Advisors.

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 Arlingclose 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	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	£47.2m	£66m	£34m
Service investments: Loans	£0.126m	£0.115m	£10.144m
Commercial investments: Property	£72.25m	£73.21m	£72.76m
TOTAL INVESTMENTS	£119.576m	£139.325m	£116.904m

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	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast	31.03.2024 Forecast
Service investments: Loans	Nil	Nil	Nil	Nil
Commercial investments: Property*	£3.5m	£3.5m	£3.4m	£3.4m

TOTAL FUNDED BY BORROWING	£3.5m	£3.5m	£3.4m	£3.4m

*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.

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)	**2020/21 Actual**	**2021/22 Forecast**	**2022/23 Forecast**
Treasury management investments	0.62%	0.69%	1.04%
Service investments: Loans	Nil	Nil	Nil
Commercial investments: Property	5.56%	5.22%	5.31%
Treasury Management Income £ms (draft estimate 22/23)	£0.5m	£0.5m	£0.7m
Investment Rent Income £ms (draft estimate 22/23)	£4.0m	£3.9m	£4.2m

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	**2020/21 estimate**	**2021/22 estimate**	**2022/23 estimate**	**2023/24 estimate**
Income from Treasury Management as Percentage of Net Revenue Income	No longer to be measured less than 1% of budget			
Total Borrowing Undertaken to Fund Investment Properties	£3.5m	£3.5m	£3.4m	£3.4m
Commercial Income as percentage of Net Service Expenditure	10.32%	9.64%	10.03%	11.42%

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	**2021/22 Limit**	**2022/23 Limit**	**2023/24 Limit**	**2024/25 Limit**
Commercial Income as percentage of Net Service Expenditure	14.8%	16.3%	15.5%	16.7%

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.