Treasury Management Sub-Committee Agenda

20 June 2019 at 7pm

Crompton Room, Civic Centre, Duke Street, Chelmsford

Membership

Councillor C.K. Davidson (Chair)

and Councillors

M.W. Bracken, D.J.R. Clark, P.H. Clark and J.M.C Raven

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TREASURY MANAGEMENT SUB-COMMITTEE

20th June 2019

AGENDA

PART I

1. **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

2. **MINUTES**

   To consider the minutes of the meeting held on 17 December 2018.

3. **PUBLIC QUESTION TIME**

4. **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.

5. **TREASURY MANAGEMENT OUTTURN REPORT 2018/19**

6. **STRATEGIC INVESTMENT PROPOSALS**

7. **URGENT BUSINESS**

   To consider any other matter which, in the opinion of the Chairman, should be considered by reason of special circumstances (to be specified) as a matter of urgency.

PART II (EXEMPT ITEMS)

To consider whether the public (including the press) should be excluded from the meeting during consideration of the following agenda items on the grounds that it involves the likely disclosure of exempt information specified in the appropriate paragraph or paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated in the Agenda item.

8. **STRATEGIC INVESTMENT PROPSALS**

   APPENDIX TO ITEM 6

   Category: Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (Information relating to the financial or business affairs of any particular person including the authority holding that information)

   Public Interest Statement: It is not in the public interest to release details of this Appendix at present, on the grounds that any publicity on the financial details may affect the financial interests of the Council and other parties and, by extension, those of the residents of Chelmsford.

MINUTES

of the

TREASURY MANAGEMENT SUB-COMMITTEE

held on 17 December 2018 at 10am

Present:

Councillor G.B.R. Knight (Chairman), Councillor J Galley and Councillor R.H. Ambor

1. **Apologies for Absence and Substitutions**

There were no apologies for absence.

2. **Minutes**

The minutes of the meeting held on 22 October 2018 were confirmed as a correct record and signed by the Chairman.

3. **Public Question Time**

There were no questions from members of the public.

4. **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.

5. **Treasury Management Strategy 2019/20**

The Sub-Committee considered a draft report to the Cabinet on 29th January 2019 regarding the proposed Treasury Management Strategy for 2019/20. Members were asked to review the draft report and recommend a Treasury Management Strategy for 2019/20 to Cabinet on 29th January 2019 and then Full Council on 27th February 2019.

The Sub-Committee was informed that an approach had been developed which would allow some increased risks but still be of a prudent approach. The Sub-Committee heard that that the training session from the Council's Treasury Advisors Arlingclose had been informative and had informed them of possible routes. It was noted that the current investments had not always kept pace with inflation and that new approaches would help to achieve a yield in line with or above inflation. The Committee noted that the approaches needed to deliver a good yield but still be secure.

The Sub-Committee heard that one of the options detailed in the new draft strategy was that of investing in multi asset funds. The Sub-Committee was informed that these were of a higher risk but would be expected to deliver higher yields in response. It was noted that due to the unrealised gains in the CCLA property fund there was in effect a buffer of £1.6 million in place to help mitigate any possible risks. The Sub-Committee heard that the proposed strategy set out the amounts that could be invested in different areas and officers stated that the figures were subject to change prior to the Cabinet meeting in January due to a potential property purchase.

The Sub-Committee heard that for now the figures included as part of revenue monitoring were based on current yields and hadn't yet been adjusted in line with the draft approach. It was noted that multi asset funds were designed for longer term investment as this allowed a higher return, therefore if for liquid purposes any short-term borrowing was required this would likely be at low rates through other local authorities.

The Sub-Committee heard that multi asset funds were normally invested in for three to five years. A member of the Sub-Committee stated that the proposed strategy would allow the Council to choose from a wider range of funds than they can currently. Officers informed the Sub-Committee that the proposed ideas had resulted from advice and discussions with Arlingclose and were not seen as too high risk. It was also noted that the proposed change in approach had not been considered previously due to the nature of the Council's capital programme including the Riverside Redevelopment where funds were needed in easy to access funds for liquidity purposes. The Sub-Committee heard that the proposed approach would help to keep investments in line with or above inflation and a balance between risk and reward would be developed. Officers also informed the Sub-Committee that due to the volatile nature of the markets currently, once the new strategy was agreed in April 2019 the markets would be looked at closely before making any new investments.

A member of the Sub-Committee suggested that officers ask Arlingclose to study and track similar funds between now and April to be able to demonstrate the possible results over a period of time, the Sub-Committee agreed that this would be beneficial. Members confirmed that they were happy with the proposed Strategy.

RESOLVED that;

1. the draft Treasury Management Strategy for 2019/20, set out in the report before the Sub-Committee, be endorsed and recommended to Cabinet and Council for approval and;

2. officers ask Arlingclose to monitor and track some multi asset funds to provide further information on them to the Council.

(10.01am to 10.16am)

6. **Urgent Business**

There were no matters of urgent business brought before the Sub-Committee.

The meeting closed at 10.16am.

Chairman

Chelmsford City Council

Treasury Management Sub-Committee
20th June 2019

AGENDA ITEM 5

Subject	Treasury Management Outturn Report 2018/19
Report by	Director of Financial Services

Enquiries contact: Phil Reeves, Accountancy Services Manager (01245 606562, phil.reeves@chelmsford.gov.uk)

Purpose

Under statute and the CIPFA Code of Practice on Treasury Management ("the Code"), Members are required to receive a report on the Treasury Management activities that took place in 2018/19.

Recommendation(s)

1. Recommend the Treasury Management Outturn Report 2018/19 to Cabinet or amend as appropriate

Corporate Implications	
Legal:	None
Financial:	As detailed in report.
Personnel:	None
Risk Management:	All treasury management activity requires a careful consideration of risk and reward.
Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N)	None
Health and Safety:	None
IT:	None
Other:	None

Consultees	None

Policies and Strategies

The report considers the following policies and strategies of the Council:
Treasury Management Strategy 2018/19.

1. <u>Introduction</u>

1.1 The CIPFA Code of Practice for treasury management sets out the requirements for oversight by the Council of its treasury management operations. As part of the Code, the Council is required to receive an annual report on the performance of the treasury management function which highlights the effects of decisions taken and the circumstances of any non-compliance with the Code and the Council's Treasury Management Strategy.

2. <u>Background</u>

2.1 The Council can expect to have cash to invest arising from its revenue and capital balances, and collection of Council Tax. This cash can be usefully invested to produce a return to help support services and Council Tax. The activities around the management of this cash are known as 'Treasury Management'.

2.2 Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2.3 CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the MHCLG Guidance.

2.4 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
when these are satisfied
(c) Yield.

2.5 The operation of Treasury Management is not without risk and the Council could suffer losses if one of its counterparties had financial difficulties.

2.6 The Council formally reviews its investment holdings in the following ways:

• Treasury Management Strategy report in February
• Treasury Outturn report in July
• A half year update in November
• Treasury Management sub-committee to monitor Treasury Activity during the financial year.

The review of the year's activities is set out in the following appendices:

Appendix A - Economic Environment update

Appendix B -Borrowing and Actual Investment Activity compared to the Approved 2018/19 strategy

Appendix C -Treasury Investment Prudential Indicators for 2018/19

3. Summary of Review

3.1 During the financial year, Treasury Management operated within the Council's Policies and Prudential Indicators.

3.2 The Council suffered no losses in 2018/19 but with low interest rates returns continued to be low. The Bank of England base rate was raised in August 2018 to 0.75%. This has increased the interest earned on instant access funds and on new fixed term investments.

3.3 The Council's investment holdings on the 31st March 2018 were £75.4m and £48.7m on 31st March 2019. The average investment balance during the year was higher than allowed for in the budget due to re-phasing of the capital programme.

3.4 Interest earnings from investments were some £0.82m, which was above the budget of £0.70m mainly because of higher than anticipated market interest rates and a higher average cash balance than expected.

3.5 The return on investments in 2018/19 was 1.04% compared to the budgeted rate of 0.92%.

4 Conclusions

4.1 It should be noted that the Council's Treasury Management has operated within approved parameters.

List of Appendices

Appendix A -Economic Environment Update

Appendix B -Borrowing and Actual Investment Activity compared to the Approved 2018/19 strategy

Appendix C -Treasury Investment and Prudential Indicators for 2018/19

Background Papers

Nil.

Appendix A – Economic Environment Update

Introduction

The amount of interest the Council earns on its balances is a function of the mix of fixed and variable rate investments made by the authority, together with the performance of the shares it holds in pooled investment funds such as the CCLA and Money Market Funds.

Therefore, the interplay of various economic factors including interest rate expectations, property prices and economic growth all affect the performance of the Council's investments.

Economic factors

The financial year 2018/19 saw steady, if restricted, UK economic growth and lower levels of inflation as the economy continued to be affected by uncertainty surrounding the UK's exit from the European Union.

The UK Bank of England base interest rate rose in August 2018 to 0.75%. Inflation year to March was 1.9%. Low levels of unemployment continued. Relatively sluggish growth and low inflation, together with the continued political uncertainty from China/US trade tensions and Brexit meant that many forecasters had pushed back expectations of further interest rate increases to early 2020.

This led to the Council's fixed and variable rate investments continuing to earn historically low levels of interest.

Property prices appeared to have stabilised following the volatility in 2016 in the immediate aftermath of the Brexit vote. This has influenced the valuation of the Council's investment in the CCLA Property Fund which increased by £0.1m in the year; taking the Council's unrealised gain to £1.7m on its initial investment. The income yield for the year was 4.33%, as measured against the current £6.7m market value.

Appendix B – Borrowing and Actual Investment Activity compared to the Approved Strategy for 2018/19

External borrowing

1. The Council became effectively debt free on the 16th September 2002, when it repaid all its PWLB debt. The Council therefore only has the freedom to borrow in the following circumstances:

- Short term borrowing to manage liquidity
- Long term borrowing only to fund capital expenditure if no other capital resources exist e.g. the Council has spent its capital receipts or expects to do so imminently

The Council did not need to borrow in 2018/19.

2. Finance leases must be shown as a type of permitted borrowing in the Council's Accounts and the Council now must declare that it has technically borrowed money when they are used. At 31st March 2019, the Council had repaid all its outstanding finance lease liabilities.

Investments

3. Officers with appropriate knowledge and training invest the Council's cash balances. Arlingclose are used as advisers on treasury management to help inform the decision-making process.

4. The Council's funds are invested in the following priority order, in accordance with statutory guidance:

i) Security – protecting the capital sum invested from loss

ii) Liquidity – ensuring the funds invested are available for expenditure when needed

iii) Yield – subject to achieving proper security and liquidity, to pursue a yield on investments to support service provision

5. The Council uses cash-flow planning methods in order to manage its in-house investments. This allows officers to separate in-house funds in to two categories:

- Shorter term, lower yielding investments – these investments are invested for relatively short durations, normally 3-6 months, in order to ensure that the maturity profile of investments matches the peaks and troughs in the Council's liquidity needs – particularly for the final 2 months of the year where council tax income falls significantly due to the 10 monthly instalments most residents pay in.
- Longer term, higher yielding investments – these are investments of 'core cash' which the Council does not require for operational purposes within the short to medium term. These funds can be invested for a year or more in

appropriate counterparties in order to generate higher yields without causing liquidity issues.

6. During 2018/19 the Council's investment portfolio has reduced in size from £73.8m to £47.0m as a result of significant capital expenditure on Riverside and other capital projects.

Compliance with Treasury Management Strategy

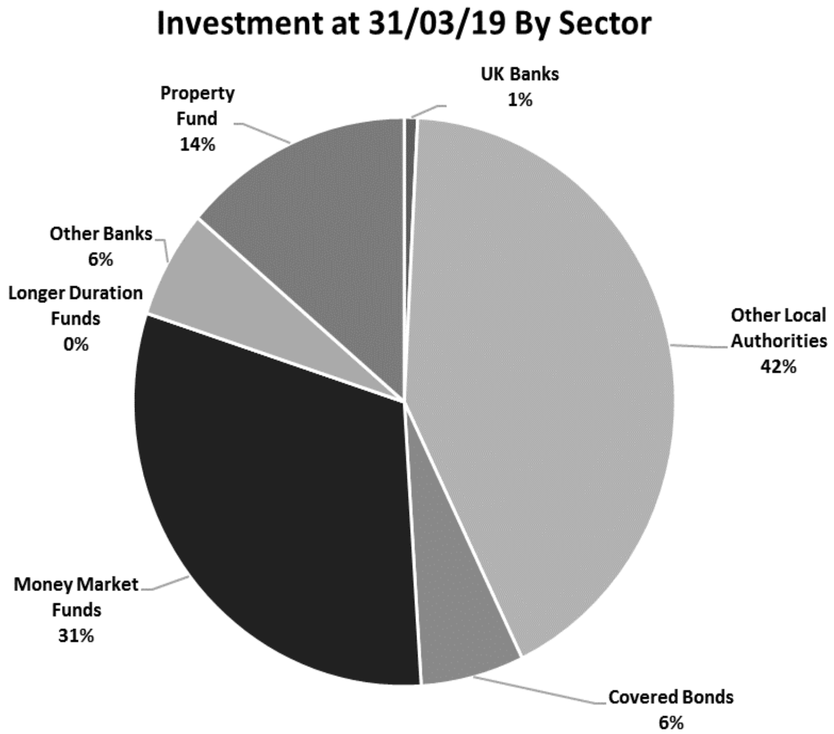
7. A summary of the approved treasury management strategy, together with actual outcomes is presented below:

a.	**To ensure that there are no breaches of the approved counterparty limits or durations**	No breaches occurred in 2018/19.
b.	**The option to invest up to £6m in mixed asset, bond funds or a second property fund**	No further investments in longer term funds took place in 2018/19; work is on-going with respect to these.
c.	**To continue holding up to £8m (£5m initial investment plus a generous allowance for unrealised capital growth) investment in the CCLA Local Authority Property Fund**	The CCLA enjoyed more modest capital appreciation of £103k in the financial year 18/19. This is in addition to £291k in dividend income. The Council's investment was valued at £6.72m as at 31st March 2019.
d.	**Limit investments over 365 days in duration to £8m**	Investments with a duration in excess of 365 days did not exceed £8m in the year.
e.	**Ensure that no more than 75% of the Council's Portfolio is invested for periods of greater than 3 months at any one time**	No breach occurred.
f.	**In exceptional circumstances allow short borrowing on occasions to cover any liquidity shortfalls caused by the unexpected timing of payments or to avoid the opportunity costs of liquidating certain investments**	No exceptional borrowing was required in 2018/19. Occasional liquidity shortfalls arising from urgent payments after the daily cut-off point for liquidity funds were managed via the Council's overdraft facility and corrected the following day.

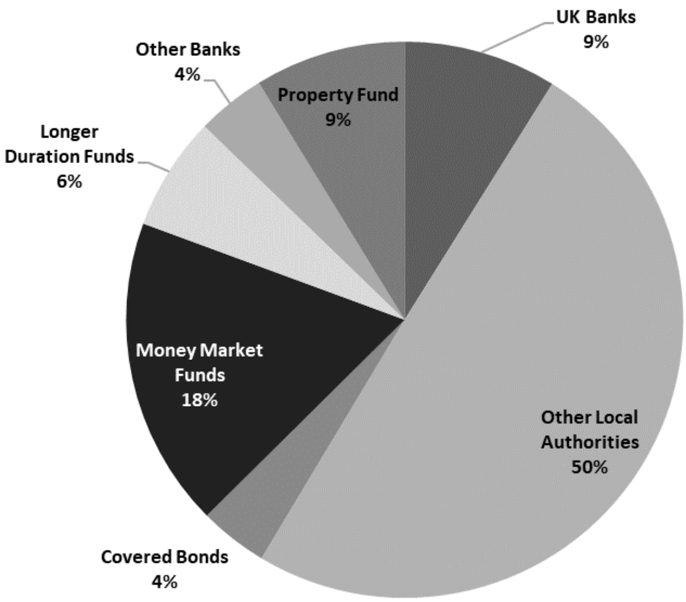
In 2018/19, the Council remained mindful of the risk of Bail-in losses from unsecured lending to banking counterparties. Most UK banks completed the process of ringfencing of their retail banking activities during 2018/19 and as a result, credit ratings improved or stabilised for some of the main UK banks.

As at 31st March the Council's exposure to Bail In risk (direct lending to banks and building societies) was 7.21%, against 13% at the end of the previous financial year. Year ending exposure tends to be lower than the average exposure because, where possible, the Council takes advantage of higher rates offered by other local authorities in the final quarter of the year. In addition, the Council took precautionary measures against potential volatility in markets arising from the political negotiations around Brexit, towards the end of March and funds were kept in very liquid accounts to be placed with HM Government.

Exposure	**2016/17**	**2017/18**	**2018/19**
Bail In Risk	37%	13%	7%
Fund Managers and Money Market Funds	23%	25%	31%
Exempt from Bail In (including CCLA)	40%	62%	62%
Total	100%	100%	100%



Investment at 31/03/18 By Sector



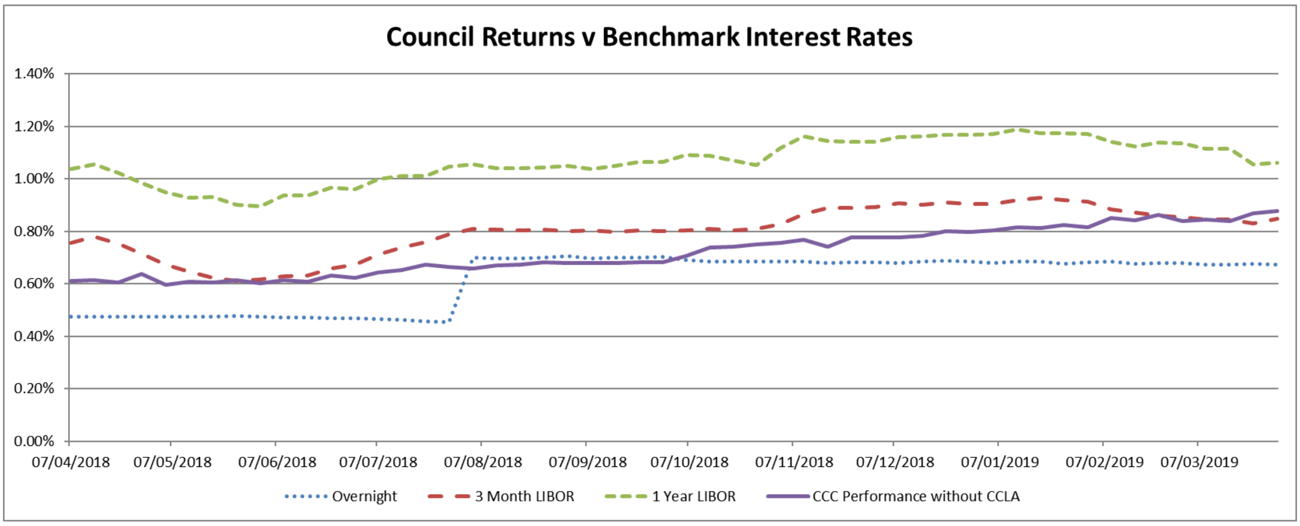
Counter Party	31/03/2019	Limits for 2018/19
Externally Managed Funds	£s	£s
Insight MMF	3,407,000	6,000,000
Aberdeen Constant Fund	5,514,000	6,000,000
Federated Money Market Fund	1,000,000	6,000,000
Invesco Money Market Fund	5,214,000	6,000,000
CCLA Property Fund	6,722,630	8,000,000
UK Treasury Bills	0	Unlimited
Banks		
Natwest	386,000	3,000,000
DBS (Development Bank of Singapore)	3,000,000	3,000,000
Local Authorities		
Newcastle City Council	5,000,000	20,000,000
Surrey County Council	5,000,000	20,000,000
London Borough of Croydon	5,000,000	20,000,000
Surrey Heath Borough Council – Camberley	5,500,000	20,000,000
Fixed and Floating Bonds		
FRN – Barclays	3,000,000	6,000,000
	48,743,630	

Return on investments

8. Whilst interest rates have increased marginally in the last 12 months, interest rates and returns on investment remain at near-historic lows. Consequently, returns remain below the prevailing inflation rate, resulting in negative real rates of return on funds invested.

Comparisons by Arlingclose out of 143 authorities (132 last year) show the City Council's returns remained in the second quartile for authorities in March 2019 (49th highest) compared to March 2018 (40th highest). This shows that comparative performance remains significantly lower in terms of total return ranking than its high point early in 2016 (22nd highest), and December 2015 (10th highest). Over this period many authorities have invested more extensively in property funds, bond funds, equity funds and mixed asset funds. Consequently, Chelmsford has moved further down the total return curve.

The LIBID (London Inter Bank Interest Rate) rates below show the interest levels that London based banks charge each other. These highlight the historically low levels of interest rates and provide context for the Council's own investment returns.



	Market investments (excluding CCLA)	CCLA Investment Yield	All Investments
	Year ending 31/03/2019		
Running yield	0.88%	4.33%	1.35%

Security

The Council suffered no loss of funds in 2018/19.

Conclusion

The Council has operated within its Treasury Management framework. This has enabled the Council to safeguard its financial assets and produce a good level of return relative to the prevailing market interest rates.

Treasury Management Performance Indicators

Chelmsford City Council

Period Ending: 31/03/2019

Security

	Month ending	Projected as at Nov 18	Target for year	Target for year	Target for year	Target for year
	31/03/2019	*31/03/2019*	*31/03/2019*	*31/03/2020*	*31/03/2021*	*31/03/2022*
Only to invest with approved counterparties	No breach	No breach	No breach	No breach	No breach	No breach
Only to invest up to approved limits	No breach	No breach	No breach	No breach	No breach	No breach
Highest Bail in exposure not to exceed 33% of portfolio in year	27.00%	27.00%	33.00%	33.00%	33.00%	33.00%

Liquidity

	Month ending	Projected as at Nov 18	Target for year	Target for year	Target for year	Target for year
	31/03/2019	*31/03/2019*	*31/03/2019*	*31/03/2020*	*31/03/2021*	*31/03/2022*
At least £10m maturing in 100 days or less	£ 34,021,000	£ 28,000,000	£ 10,000,000	£ 10,000,000	£ 10,000,000	£ 10,000,000
Between 100 days and 1 year	£ -	£ -		£ -	£ -	£ -
Investments maturing in more than 365 days and strategic funds	£ 14,722,630	£ 14,722,630	£ 16,000,000	£ 18,000,000	£ 18,000,000	£ 18,000,000
	£ 48,743,630	**£ 42,722,630**				

	Actual Borrowing Period ending	Projected as at Nov 18	Target for year	Target for year	Target for year	Target for year
	31/03/2019	*31/03/2019*	*31/03/2019*	*31/03/2020*	*31/03/2021*	*31/03/2022*
Authorised Limit of Borrowing	£ Nil	£ Nil	£ 8,000,000	£ 10,000,000	£ 10,000,000	£ 10,000,000
Operational Boundary of Borrowing (excluding finance leases)	£ Nil	£ Nil	£ Nil	£ Nil	£ Nil	£ Nil

Yield

	Period ending	Projected as at Nov 18	Projected benchmarks	Projected benchmarks	Projected benchmarks
	31/03/2019	*31/03/2019*	*31/03/2020*	*31/03/2021*	*31/03/2022*
Average yield on cash portfolio	0.73%	0.78%			
3 month Libor benchmark	0.85%	0.77%	1.02%	1.27%	1.27%
Average yield on CCLA	4.33%	4.28%			
Average yield on total portfolio	1.04%	1.05%			
1 year Libor benchmark	1.06%	1.02%	1.27%	1.52%	1.52%

APPENDIX C

TREASURY MANAGEMENT SUB-COMMITTEE

20th June 2019

AGENDA ITEM 6

Subject	STRATEGIC INVESTMENT PROPOSALS
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Director of Financial Services (Amanda.fahey@chelmsford.gov.uk) , 01245 606419)

Purpose

February 2019 Council requested that the Treasury Management Sub-committee consider the risks and benefits of investing a further £10m in external funds.

Recommendation(s)

That the sub-committee:

1. Considers the risks and benefits of a further £10m investment in strategic external funds
2. Agrees that the recommended portfolio of strategic funds identified by the Council's treasury management advisors is sufficiently beneficial to undertake, that it is within the risk appetite of the Council and that the risks alleviations are appropriate.

Corporate Implications

Legal:	The 2019/20 Treasury Management Strategy, approved by Council, approved proposals to invest an additional £10m in to pooled funds for the purposes of strategic investment. This approval was made subject to the satisfaction of the Treasury Management sub-committee after reviewing the risks and benefits.
Financial:	As identified in report
Personnel:	
Risk Management:	It is not possible remove all risk of capital or interest losses from any Treasury management strategy and the use of the new

	funds must be assessed against the level of risk appetite set out in the Treasury Management Strategy approved by Council. This report identifies the investment mandate set out in the Treasury Strategy and identifies how the proposed investments meet the obligations.
Equalities and Diversity: Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N)	
Health and Safety:	
IT:	
Other:	

Consultees	None.

Policies and Strategies

The report takes into account the following policies and strategies of the Council:

Treasury Management Strategy

1. <u>Background</u>

1.1 The Council has significant cash-backed assets arising from the disposal of property assets and from timing differences relating to cashflows from its on-going operations. The Council also holds on a long-term basis reserves for either specific purposes or as rainy-day funds. This cash can be usefully invested in order to generate a return.

1.2 Statutory guidance and the CIPFA Code of Practice requires local authorities to prioritise security of capital sums invested and effective management of liquidity as a priority. Once these have been achieved, authorities are free to pursue yield in order to support the revenue budget.

1.3 Traditionally the Council has been able to achieve security and liquidity whilst delivering a strong yield through investment with banks and building societies. However, following the global financial crisis of 2007/2008 two factors have meant that this approach no longer guarantees security, liquidity or an effective yield:

- Historically low interest rates have undermined the return on investment
- "Bail in" regulations have increased the risk to capital from commercial investments with banks

Additionally, the undertaking of significant expenditure on the Riverside project and Commercial Property acquisition, without recourse to borrowing, has meant keeping investments periods short, which reduced potential return.

1.4 The Council's treasury activity can be thought of as split in to two broad categories:

- Instant access and term deposits of 3 – 6 months; investments generally used to manage short term liquidity needs for the Council's on-going operations

- Longer term deposits of a year or more, including the investment in the CCLA Property Fund, which are used to generate higher returns on core cash assets not needed for immediate operations; for example capital receipts to be applied to future projects, planning contributions receipts not yet used and other cash-backed reserves

1.5 The Council's Treasury advisors, Arlingclose, have for a number of years recommended that some of the Council's Longer-Term funds could be invested more advantageously by greater use of assets classes rather than cash. The February 2019 approved the investment of up another £10m in external funds which use other assets classes.

1.6 A report has been prepared by Arlingclose, which recommends a portfolio of strategic externally managed funds. (Appendix A).

2.0 <u>Executive Summary</u>

2.1 Arlingclose have considered a number of other factors in the design of the portfolio:

- Risk appetite – Arlingclose are aware that the Council is seeking a cautious approach to pooled funds and have therefore not included any pure equity funds which, whilst offering a higher yield, are exposed to more potential volatility. Should volatile or low market conditions occur the strategy is to hold the fund until values recover.

- Diversification across asset classes – The portfolio proposal includes the Council's existing CCLA LAMIT Property Fund investment as well as mutli/mixed asset and bond funds. The intent behind this is to smooth out price volatility on the total portfolio by including a variety of asset classes which behave differently in different market conditions. An assessment of the correlation in price movements between the various funds has been performed to test the diversification.

- Diversification across funds – The proposal includes selecting more than one fund in the multi-asset and bond asset classes. This strategy is undertaken in order to reduce the portfolio's concentration risk to an individual fund.

- Fund performance history – the past performance of specific funds has also been considered in the design of the portfolio. The overall portfolio is aimed at delivering a 4% income yield

2.2 The details of the selected funds are provided in Appendix A to this report.

2.3 Members are asked to review the report and consider if appropriate risk management is in place to undertake the investments

2.4 The material risks of undertaking this additional investment, and the way each of those risks will be managed, is outlined below:

- **Risk**: The value of funds will vary reflecting market prices on the underlying investments. If sold losses are realised at a cost to the tax payer
  Management: The investments are intended to be held for 3-5 years, based on historic evidence this should result in limited capital appreciation at the end of the period. Should volatile or low market conditions occur the strategy is to hold the fund until values recover.
- **Risk**: Fund managers can under perform their peers or the market
  Management: Arlingclose monitor all the funds they recommend to clients on an ongoing basis. If a trend of under-performance is recognised then the Council will be advised. In the event of significant concerns about fund performance, the Director of Finance will take decisions about investment and disinvestment in approved funds. The sub-committee members will be notified of any actions taken.
- **Risk**: Liquidity Shortfalls, which might result in the Council being unable to fund bill payments in a timely way.
  Management: The Council investment strategy allows for a prudent level of cash balances to be held to meet liquidity requirements without the need to draw funds from the external managers. If necessary the Council can borrow short to long term from other local authorities and often at rates below those achieved from investing in external funds. Additionally, the Council can approach its own banker, Natwest, for overdraft facilities which, given the Council is a statutory body, is unlikely to be refused.
- **Risk**: Fund Managers can prevent clients from withdrawing funds in certain circumstances
  Management: The Council investment strategy allows for a prudent level of cash balances to be held to meet liquidity requirements without the need to draw funds from the external managers. If necessary the Council can borrow short to long term from other local authorities and often at rates below those achieved from investing in external funds. Additionally, the Council can approach its own banker, Natwest, for overdraft facilities which, given the Council is a statutory body, is unlikely to be refused.
- **Risk**: Prevents or Makes more difficult the ability of the Council to pay for capital expenditure on the Council's priorities.
  Management: The Council's plans currently indicate the cash balance at the end of each of the next three financial years would be between £40-50m. Additionally in year cash balances rise by £10-15m due to the profile of tax collection. This provides significant scope for additional capital spend. Additionally, the undertaking of external borrowing has not prevented 449 of 517 local authorities holding investments, whilst having external debt.
- **Risk** :Fluctuations in Investment Income. The use of external managers may produce less certain levels of income compared to fixed term/fixed rate investments.
  Management: The Council can undertake a mix of, setting a budget below targeted investment returns, top up reserves with unexpected gains and use reserves to fund unexpected losses. These matters would be dealt with annually in the budget process.
- **Risk**: Under accounting rules any loss must be charged to the Revenue account of the Council, however the government has granted until at least 2023 a statutory override which only requires that losses be chargeable to the local taxpayer when sold.

Management: At present the statutory override runs to 2023 and it is expected that the Government will extend this override in the future, as is normal practice with such instruments. The Council may choose to set aside reserves to offset potential realised losses if it looks like the government intends to end the override in 2023. Additionally, the Council has a historic £1.7m capital gain from the CCLA property fund, which could be used to offset potential losses.

2.5 The benefits of greater use of externally-managed pooled funds

- The use of externally-managed pooled funds reduces the risk of capital loss to a single counter party. Most funds allow only a small share of the fund to be invested with a single counter party
- The Council is using experts with significantly more resources available than to the Council to research risks and benefits of investments opportunities.
- Expected yield from a portfolio of investments will potentially produce at least £200k-£300k of additional income to be used to support the delivery of Council priorities.

3.0 Conclusion

3.1 The Council expects the capital value and income yields of strategic funds to fluctuate with the economic cycle and is prepared to accept unrealised gains and losses in a given financial year, as a result of macro-economic conditions. As long as recovery is anticipated over the lifetime of the investment it is not anticipated that this will give rise to a need to divest from strategic funds.

3.2 The funding for additional strategic investments is from core cash and there is no current expectation that the funds will be needed for liquidity purposes within the minimum 3-year time horizon of this strategic portfolio.

3.3 The £1.7m historic gain from the CCLA property fund is sufficient to provide flexibility to exit funds at a time of the Council's choosing for liquidity or performance reasons without a charge to the taxpayer.

3.4 No investment strategy is without risk and the continued low interest rate environment means that the authority is not obtaining sufficient benefit from its cash.

3.5 The Director of Finance and the Council's treasury advisors therefore recommend further investment in strategic funds, on the basis of the risk management proposals set out in this report.

List of Appendices

Appendix A – Arlingclose report on proposed portfolio

Background Papers

Nil