Chelmsford City Council

22 February 2023

Capital, Treasury and Financial Strategies 2023/24

Report by: Cabinet Member for Fairer Chelmsford

Officer contacts: Phil Reeves, Accountancy Services Manager (section 151 officer).
Tel: 01245 606562. Email: phil.reeves@chelmsford.gov.uk.

Purpose

To seek approval for the Council's main financial strategies for 2023/24.

Recommendations:

That the Capital, Treasury and Investment Strategies for 2023-24 as submitted to the meeting be approved.

On 24 January 2023, the Cabinet considered the attached report which sets out a proposed approach to the management of the Council's cash, capital investments (the capital expenditure programme) and other types of investment, including property.

The Cabinet agreed to recommend to the Council that the strategies be approved without amendment.

List of appendices:

None

Background papers:

None

Corporate Implications

Legal/Constitutional: Enables the Council to meet statutory obligations

Financial: As identified in the report

Potential impact on climate change and the environment: Supports corporate goals

Contribution toward achieving a net zero carbon position by 2030: Supports corporate goals

Personnel: None

Risk Management: None

Equality and Diversity: None

(For new or revised policies or procedures has an equalities impact assessment been carried out? If not, explain why)

Health and Safety: None

Digital: None

Other: None

Consultees:

Legal and Democratic Services Manager

Relevant Policies and Strategies:

None relevant

Chelmsford City Council Cabinet

24th January 2023

Capital, Treasury Management & Investment Strategies 2023/24

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 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.

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 **Appendix 1** 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 and Investment Strategies

Members of the Treasury Management & Investment Sub-Committee (TMISC) 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 (TM). Under statute and the CIPFA Code of Practice on Treasury Management ("the Code"), members are required to receive reports on the Council's TM activities. The document in **Appendix 2** complies with the Code and relevant Government regulations.

Full Council has overall responsibility for the Treasury Strategy but delegates to the TMISC responsibility to monitor activity and recommend changes to the 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 3**.

2. Executive Summary

Capital Strategy

- Sets limits to amounts that can be borrowed by the Council.
- Summarises the costs of the capital programme.
- Identifies how the Council plans to finance its capital expenditure programme.

Treasury Strategy

- Investments

- Changes from last year's strategy are
  - The Council will no longer consider investing with challenger banks
  - The Council has changed treasury advisor to Link, who undertakes credit assessments in a slightly different manner than the Council's previous advisor; the results are not significantly different
  - No other material changes from the previous year.
- It is proposed to have a target of a minimum of £3m 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 internally borrows to fund the capital programme.
- A new requirement to report prudential indicators on a quarterly basis, twice to the committee and twice to the portfolio holder and Management Team. The indicators for investment have been revised.
- Prior to completion of the budget, interest income of circa £1.3m is expected for 2023/24 at a rate of 4.0% across the Council's portfolio. This assumes an increase in the Bank of England's base rate to 4.25%.
- Officers will review the impact of the banking changes when they become known and report to TMISC any implication during 2023/24.

- Borrowing

- No changes to the principles of last year's strategy are proposed.
- Borrowing will only be undertaken for the purpose of managing temporary liquidity or to fund the capital programme.
- Any investment made by the Council primarily for yield blocks access to Public Works Loan Board (PWLB) borrowing. The implications are considered in the capital strategy.
- The Section 151 Officer 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.
- Some temporary borrowing may be required in 2023/24. External borrowing is expected to be required in 2024/25 based on known and assumed financial commitments.

Non-Cash Investments (Investment Strategy)

- No changes to the principles of last year's capital strategy are recommended.
- No new capital expenditure (investments) will be made where the purpose of the investment is primarily for yield. This restriction is in line with 2022/23 Strategy which stated that the Council will not invest in commercial property.

- 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 TMISC.

3. Conclusion

3.1. Cabinet is asked to accept the TMISC recommendation 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- Capital Strategy 2023/24

Appendix 2 – Treasury Management Strategy 2023/24

Appendix 3 – Investment Strategy 2023/24

Background papers:

Nil

Corporate Implications

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

Financial: As detailed in the report

Potential impact on climate change and the environment:

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:

Capital Strategy 2023/24

1.1 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.

1.2 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. Additionally, in local government it can include spending on assets owned by other bodies, and loans or grants to other bodies which enable them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 do not have to be capitalised and can be charged to revenue in year.

1.3 **Governance: Capital Investment in Council Services – Capital Schemes and Replacement Programme**

The Replacement Programme is expenditure required to maintain existing levels of service provision, including Digital hardware, and in some cases software, vehicles and plant and it also includes annual grants and improvement loans which are budgeted for annually.

Capital Schemes items are usually building works but can be anything which does not meet the criteria of replacement, including regeneration schemes.

Governance: Service managers bid annually in September to include projects and replacement items in the Council's capital programme. Bids are collated by Accountancy who review the financial elements of the bid and calculate any financing and/or running costs.
In determining viability, capital bids must include:

- details of how the proposal will help to achieve the corporate priorities
- details of the intended outcomes and potential running costs;
- statement of the risks of undertaking the scheme and how these will be managed;
- details of consultations undertaken in arriving at the proposal and any potential alternatives; and

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.

1.4 Funding the Costs of Capital Expenditure

Overpage is an explanation of the Council's proposed approach to funding capital expenditure.

Methods of Capital Financing

Capital resources, these are the funds that pay for capital expenditure and can come from many sources. Broadly speaking these are:

- **Sales of Assets (Capital Receipts):** Any disposal of property or equipment over £10,000 in value is a capital receipt. These can only be spent on other capital items.

- **Leasing:** This is where we can use an asset in exchange for making a series of revenue payments over several years. From 2024/25 all leasing will be counted as a debt. However, leasing differs from traditional debt as often the leasing company can retain legal ownership of the asset and is able to obtain capital allowances to reduce the cost to the Council.

- **Borrowing** (excluding leasing):
  - The Council can borrow externally from other local authorities, the Government or the private sector.
  - Borrowing can also be carried out internally, where cash balances are "borrowed" to fund capital expenditure.

  If the Council undertakes any form of internal or external borrowing, then payments must be made to cover future or current principal debt repayments (Minimum Revenue Provision (MRP)). The method to calculate MRP is set out in the section on Borrowing Strategy. Councils can choose to pay off debt from surplus capital resources, such as capital receipts, at any time.

- **Revenue contributions to capital:** the Council can use revenue budgets to fund capital expenditure.

- **Grants:** there are Government grants and grants from external organisations towards specific works that the Council can often bid for.

- **Section 106 agreements and Community Infrastructure Levy (CIL)**: if a new development is undertaken in the City, the Council is legally entitled to ask for assets or money to mitigate the impact of the development.

The circumstances where each type of capital resource will be used depends on the nature of the scheme. Whilst developing scheme proposals, consideration should be given to the types of funding which offer the best value for money for the Council. Clearly, the optimal funding arrangements are those where third parties fund or help fund the investment. The S151 Officer will, at the end of each financial year, determine the appropriate funding for the capital programme.

The Council has limited capital resources and will apply those resources in a way that reduces
the revenue burden of the schemes. This will therefore use the principle of applying any suitable resource available to fund schemes before using borrowing (internal or external).
So, for example CIL resources will be applied to schemes that meet CIL regulatory requirements at the earliest opportunity if this defers or avoids the need to borrow.

1.5 Cost of the Capital Programme

In the 2023/24 budget, the Council is planning capital expenditure as summarised below:

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Replacement Programme	£3.849m	£4.038m	**£4.961m**	£3.005m	£3.853m
Capital Projects	£9.189m	£39.647m	**£23.299m**	£20.308m	£8.344m
New Capital Bid Submissions 2022/23 Require Approval	£0.000m	£0.020m	**£0.504m**	£2.955m	£2.163m
Provision for potential new Capital Projects	£0.000m	£0.000m	**£8.814m**	£1.200m	£1.200m
TOTAL	£13.038m	£43.705m	**£37.578m**	£27.468m	£15.560m

Details of the programme can be found in the Budget Report 2023/24 section 4 table 8 and 8a and section 10, elsewhere on this agenda.

<u>Basis for Estimating Future Costs</u>

The above reflects the approved capital programme and known replacement items. An allowance of £1.2m per year for new schemes in 2024/25 and 2025/26 has been made. In previous years, a higher allowance was allowed for growth. This has been reduced due to the affordability of the capital programme and the increasing reliance upon borrowing and the impact on the revenue budgets. Additional growth in capital spending should only be considered where it is affordable. Additional resources should wherever possible be identified to reduce the burden on revenue budgets. A £9m provision for additional spend in 2023/24 on a current scheme, Chelmer Waterside Infrastructure, has been included. However, this cost increase is uncertain and the actual costs won't be known until the summer of 2023. This extra provision has been included in financial planning due to its significant size relative to the Council's finances. This was previously reported in the November Capital Report taken to Cabinet. A decision has been made that any additional costs for this scheme will be resourced from CIL.

There is a risk that the figures shown will be understated for future growth as they are based on affordability rather than previous experience. There is a high risk that scheme costs will increase due to inflation and supply and demand. This has been evidenced with increasing costs of current schemes. The costs of each capital scheme will need to be reviewed carefully before committing to ensure that they are affordable.

Financing of the programme is currently planned as shown in the table overpage.

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Capital Receipts	£1.747m	£1.225m	**£0.200m**	£0.200m	£4.100m
Grants and Contributions	£3.832m	£20.312m	**£23.366m**	£12.617m	£8.255m
Revenue Contributions	£1.988m	£3.605m	**£0.282m**	£0.070m	£0.070m
Borrowing	£5.200m	£17.331m	**£13.245m**	£14.177m	£2.864m
Finance Leases	£0.000m	£0.000m	**£0.000m**	£0.404m	£0.271m
Operational Leases	£0.271m	£1.232m	**£0.485m**	£0.000m	£0.000m
TOTAL	£13.038m	£43.705m	**£37.578m**	£27.468m	£15.560m

The forecast resourcing of the capital programme has taken a much more cautious view of the amount of capital receipts expected given the current economic conditions. This has resulted in increased forecast borrowing.

1.6 **Borrowing strategy**

The Capital Financing Requirement (CFR) is the calculation of the Council's internal and external borrowing used to finance its capital expenditure. Statutory guidance is that long-term debt should remain below the CFR. Temporary breaches for cashflow are acceptable.

For the first time, the table below highlights the requirement for external borrowing to finance the capital programme in 2024/25 and 2025/26.

Estimates of Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	**31.3.2023 forecast**	**31.3.2024 budget**	**31.3.2025 budget**	**31.3.2026 budget**
Leasing (Debt)	£0.529m	£0.421m	£0.310m	£0.562m	£0.606m
External Borrowing	£0m	£0m	£10.000m	£31.925m	£34.188m
Total "External Borrowings"	£0.529m	£0.421m	**£10.310m**	£32.487m	£34.794m
Total Capital Financing Requirement (CFR)	£18.899m	£35.837m	**£48.248m**	£61.290m	£62.336m
Internal Borrowing (makes up the difference between CFR and external borrowings)	£18.370m	£35.416m	**£37.938m**	£28.803m	£27.542m

The Government guidance identifies that local authorities should not borrow more than, or in advance of, their needs purely in order to profit from investment of extra sums borrowed. It also makes clear that this extends to borrowing taken on to finance the acquisition of property or other forms of non-financial assets. Local authorities can acquire financial or non-financial assets from capital receipts but should not repurpose receipts allocated to the acquisition of assets that contribute to service delivery to fund the purchase of investments, solely to avoid the requirements against borrowing in advance of need. However, the guidance does allow for local authorities to disregard this provision of borrowing to fund investment activity with appropriate explanations contained in the Capital and Investment Strategy. The City Council will undertake borrowing to finance commercial property where it meets other strategic requirements such as economic regeneration or supporting small and medium enterprises (SMEs) for example, and also to profit from the sums borrowed, but only after undertaking robust due diligence and review of risk (including an assessment of proportionality of the investment to reflect the scale of the Council's operations).

The Council is required to approve a policy for repaying debt (MRP) which is in italics below:

MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis up to a period of 50 years. For assets acquired under finance leases, the principal repayment inherent in the lease will be used as the basis for MRP in respect of those assets. This policy does not prevent the Council from making early or one-off repayments of debt from capital receipts or from revenue provisions.

MRP is charged in the year following completion of a scheme and for equipment the MRP charge is a half-year cost in the year of acquisition.

Affordability of the Capital Programme

The table over page shows the planned repayment of debt. This is a charge to the revenue budgets. The consequences of any capital spend must be considered in relation to the impact on the revenue budgets. There are limited sources of new capital available, and this will result in additional capital spending being financed by borrowing.

Planned repayments of debt and Financing Costs

Minimum Revenue Provision (MRP) Charge

The table overpage provides an indication of the cost to the revenue budget. Some of the capital schemes, although earmarked for borrowing, will provide an income which will offset the cost of the MRP. The revenue budgets for these schemes have not yet been included in a future year and because of this the MRP charge is netted down. The MRP on these schemes is shown as a separate line in the table.

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
MRP	£0.227m	£0.285m	**£0.723m**	£1.387m	£1.813m
Finance Leases MRP	£0.106m	£0.108m	**£0.111m**	£0.152m	£0.227m
Total Planned Repayment of Debt	**£0.333m**	**£0.393m**	**£0.834m**	**£1.539m**	**£2.040m**
Charges for Operational Leases	£0.392m	£0.301m	**£0.446**	£0.414m	£0.337m
Total Financing Costs Excluding Self Financing Schemes	**£0.725m**	**£0.694m**	**£1.280m**	**£1.953m**	**£2.377m**
Additional MRP Charge Self Financing Schemes excluded above	£0.000m	£0.000m	**£0.000m**	£0.000m	£0.049m
Total Financing Costs All Borrowing	**£0.725m**	**£0.694m**	**£1.280m**	**£1.953m**	**£2.426m**

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. The higher borrowing limit may not reflect long-term need and may only be reached for short periods. It therefore can be higher than the Capital Financing Requirement.

Authorised limit and operational boundary for external debt in £ms

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit – total external debt	£40m	£50m	£65m	£65m
Operational boundary – total external debt	£0.5m	£11.0m	£33.0m	£35.0m

Authorised limit – total external debt – this includes Finance leases.
Operational Boundary – total external debt – this is based on the debt outstanding on forecast finance leases and external borrowing. Future changes to accounting regulations may require restatement during 2024/25. The accounting changes are in relation to IFRS 16 and the re-categorisation in Council's accounts of operational leases

to finance leases. The conversion will increase the external debt held on the Council's balance sheet.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the annual treasury management strategy approved by Council. Three times a year, the Treasury Management and Investment Sub-committee meets to review activity and any new material issues, recommend new strategy and review year-end performance.

2. **Sustainability – Capital Funding**

The consequences of the Capital programme, such as loss of interest on capital receipts spent or scheme running costs, will be included in the annual revenue budget reports to Council and Medium-Term Financial Forecast. This mechanism does provide Members with assurance of the affordability and sustainability of the capital expenditure plans.

The Council has a plan for disposals of assets and the expected funding is summarised below (individual values of receipts are not shown for commercial reasons)

	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Asset sales	£1.168m	£0.423m	**£0.000m**	£0.000m	£3.900m

There were no material disposals in 2021/22 and no planned material disposals until 2025/26. A more cautious approach to the timing of receipts is now being taken to move towards a more worst-case funding assumption reflecting economic conditions.

At the end of 2025/26 there is no balance currently forecast for capital receipts from the sales of significant assets. All receipts collected will have been used to resource the capital spend.

As detailed above, the limited forecast of capital receipts decreases the sustainability of capital funding and unless external sources of funding are identified for individual capital projects then borrowing will be required for future capital spending.

Summary

The strategy is focussed on what the Council can afford by way of pressure on the revenue budget.

There is a high risk that the capital budgets will need to increase due to the current economic climate and increasing inflation and contingencies included in the plan will be exceeded.

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 2021 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 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.

1.3 The Council's investment priorities 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.

1.4 Borrowing 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.

1.5 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.

1.6 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 are set in the Capital Strategy.

2. External Context

2.1 The Council's Treasury Management Strategy operates in a macroeconomic environment which can lead to 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 after-effects of COVID and the ongoing impact of Russia's invasion of Ukraine have led to global energy and food supply shocks resulting in higher prices. This has led central banks to increase interest rates, to try and control inflation, to levels not seen since the 2008 financial crisis. This in combination with wage inflation has caused inflation to hit a 40-year high, of 11.1% for the year to October 2022.

2.3 The Bank of England (BoE) Bank Rate is 3.5% in December 2022 and has risen for nine consecutive meetings. Further rate rises are expected in 2023, though there is debate about how much further.

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 bail-out 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 will consider security, liquidity and return when reviewing new 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.

Officers believe investing in private banks and building societies that meet our risk appetite and investment criterion offers higher returns than offered by public bodies. When considering investing, we will consider return in deciding between public bodies and private organisations as interest rates are significantly higher than those in recent times.

3. Local Context: Investment Balances and Potential External Borrowing

3.1 At the end of October 2022, the Council held £74.5m of investments. These investments arise from balances including unspent Community Infrastructure Levy (CIL) and reserves, as well as income received in advance of expenditure.

Forecast year-end investment balances are detailed in the table below.

Date	31/03/2022 Estimate (£m)	31/03/2023 Forecast (£m)	31/03/2024 Forecast (£m)	31/03/2025 Forecast (£m)	31/03/2026 Forecast (£m)
Year-end investment held	75	32	20	20	20
External Borrowing	0	0	10*	32	34

*Short-Term borrowing is forecast for approximately a month to cover March 2023. Officers believe the above are best estimates available, but it is worth noting requirements to externalise debt that have been forecast during past budget processes have not materialised. This has been due to slippage in the capital expenditure and buoyant CIL income.
The above investment balance is made up of working capital of £3m and £17m of long-term investments that is supported by long-term reserves and other balances.

3.2 During most months, the cash balance can rise and fall by between £10 and £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, and will do so wherever possible in advance of need to ensure sufficient liquidity.

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 2023/24 budget papers will include debt limits reflective of the 2023/24 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 historic level of CFR is shown in the table below with the external and internal debt.

Temporary Use of Surplus cash	**Mar 2022 Actual**	**Forecast Apr 2023**
Capital Financing requirement	18.899m	35.837m
External Debt (leasing)	0.529m	0.421m
Surplus cash internally borrowed	18.370m	35.416m

The Council has reserves which can be considered as cash-backed and can be invested for longer periods as the Council always maintains 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 is an opportunity cost on internal borrowing which is the interest we could have earned externally (the margin between external borrowing costs and investment income). 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 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, as far as possible, to internalise borrowing.

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

4 How we intend to Invest 2023/24

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 2023/24 a target of at least £3m 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.

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. The Council will aim to achieve the optimum return on its investments with proper levels of security and liquidity that is within the Council's risk appetite. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

4.2 No fixed-duration investments over 365 days are currently proposed for 2023/24. This can be reviewed during 2023/24 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 as recommended in Section 7.4.

4.3 The Council went through a tender exercise resulting in the appointment of new treasury advisors Link Group. Their methodology for their credit list differs from the previous advisors and specific differences have been listed for the specified counterparty below for banks and building societies. Broadly the approaches arrive at materially similar outcomes to the policy the Council was following last year.

The Council uses credit ratings and Link Group list of suggested counterparties to determine suitable counterparties. Link Group employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour-coded bands which indicate the relative creditworthiness of counterparties.

Link Group 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. A suggested list of counterparties is available live through their passport service and is also released by Link Group on a weekly basis.

The Council policy has been, and is, recommended to differ from Link Group advice when it comes to duration of investments with Banks (UK and Foreign) and Building Societies. The Council's Officers have focused more on long-term credit ratings and an assessment of systematic importance to the UK economy when assessing investment duration. This means the Council has a slightly longer duration, 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 investment 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
- 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 but require 2 – 5 day notice to withdraw funds.

The Council invests short-term cash in several AAA-rated money market funds. These funds provide a rate of interest (2.67%-2.99% in November 2022) 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 investments 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 forms 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.

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 have 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 lends 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 Link Group suggested lists. Link Group only suggest investments with UK banks for up to 6 months for the majority of those listed. The Council differs from Link Group 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) are met and no information is available that identifies unacceptable risk. The Council will not invest with any bank that is not on the suggested Link Group list.

4.7 **Unsecured building society investments.** Link Group recommend a pool of Building Societies that it suggests clients could invest with. Where our criteria do differ to Link Group relates to the suggested duration periods where Link Group only recommend up to a maximum of 6 months. The Council current policy goes beyond Link Group advice and lends up to 365 days.

It is recommended that the Council's treasury strategy takes a different approach to investing with building societies than that suggested by Link Group. If a building society has a long-term credit rating of at least A- then investments for up to 365 days should be allowed. This is the same as the Council's previous counterparty policy for Building Societies but is a higher risk approach than Link Group based on duration.

4.8 **Unsecured Non-UK bank investments.** Link Group 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 Link Group advice 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 a maximum of 365 days and A- for investments of up to 100 days.

The Council may differ from Link Group advice in terms of the length of investment, as long as the credit rating criteria above are met. The Council will not invest with any bank that is not on the suggested Link Group list. In practice, the Council's approach is more conservative than Link Group who, for non-UK banks with a Fitch rating of between A- to A+, suggest in many cases durations up to 6 months. The Council is broadly consistent with Link Group where the non-UK bank has a rating of AA- or above, with a few exceptions where Link Group suggested duration is up to 2 years.

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 counterparty 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 Link Group 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 funds 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 this 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 around £17m in the CCLA property fund and 3 Multi-Asset funds. These funds are backed by cash in reserves and other long-term balances.

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 2022/23 that investments would be appropriately secure.

It is recommended that the strategy is changed from last year so as to not consider investments in challenger banks.

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	UK Government	No Limit	365 days	None

Treasury Bills or Gilts				
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans)	UK Government	£10m each authority	365 days	None
UK Banks	A-	£3m for each group	365 days	None
Building Societies	A-	£3m for each group	365 days	None
Non-UK Banks	AA-	£3m each group	365 days	None
Non-UK Banks	A-	£3m each group	100 days	None
Registered Social Landlord Loans	A-	£3m each group	365 days	None
Covered Bonds	AA-	£6m	365 days	None
Reverse Repurchase Agreements (each agreement)	AA-	£6m	365 days	None
Supranational Bonds (per institution)	AAA	£6m	365 days	None

The counterparty limit for 2022/23 is £3m per financial institution and it is recommended that this is retained for 2023/24 as reducing the £3m limit would reduce the number of institutions willing to take Council deposits, as a smaller investment would be 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.

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	No investments permitted with challenger banks.		Previously delegated approval to TMISC of up to £3m subject to criterion.

4.14 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

4.15 Officers will review the impact of the banking changes when they are known and report to Treasury sub any implications. If needed an extra meeting of the sub-committee will be called to consider any implications in timely manner.

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 Capital Financing Requirement (CFR) for any meaningful amount of time.

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 to local authorities for any duration up to 50 years. The PWLB is the source of loans/funds if no other lender can provide finance. The Government has regulated so that the PWLB will not lend to an authority that plans to buy investment assets primarily for yield. The Section 151 Officer will be expected by the PWLB to certify that no such purchases are planned.

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. When setting the limits, these will need to be consistent with the liability benchmark as this shows the borrowing requirement to fund the forecast capital programme.
- 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 is set out in the Capital Strategy; they will be linked to the CFR (the borrowing needed to fund the capital programme).

Should the Council undertake long-term borrowing during 2023/24 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 Prudential Indicators

7.1 The code requires local authorities to have regard to certain treasury indicators. The following indicators will assist in measuring and managing the Council's exposure to Treasury Management risk in 2023/24. The 2021 Prudential Code introduces additional indicators and a requirement for monitoring to be reported formally on at least a quarterly basis, however, due to the volume of finance reports already made to formal committees, it is recommended that we report twice a year to TMISC and twice a year to the Cabinet member for Fairer Chelmsford and Management Team. New indicators have been marked in the heading of those indicators below.

7.2 The Council has both limits and targets within the below indicators. Limits should not 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 is a voluntary measure that seeks to ensure that the Council has the necessary funds to meet unexpected payments within a rolling period, without additional borrowing.

Liquidity Risk Indicator Amended	Target
Total minimum cash available within 35 days	£3m

7.4 Long-Term Treasury Management Investments – The purpose of this indicator is to manage the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments or the costs of enforced borrowing for liquidity purposes. The prudential limits on the long-term treasury management investment will be: -

Price risk indicator – Amended Prudential indicator	**2023/24**	**2024/25**	**2025/26**	**Investment Funds**
Limit on principal invested beyond year-end	£10m	£10m	£10m	£20m

The £20m shown is a maximum limit for investment funds which have no fixed maturity date such as Multi Asset or Property funds. Additionally, there is a separate £10m limit for sums invested in fixed term investments over 365 days in duration. The £10m limit for cash invested over 365 days is only expected to be used if cash balances turn out materially higher than forecast.

7.5 Counterparty Indicator – This indicator measures whether the Council has operated within its approved limits for counterparties and any breaches will be reported during the year.

7.6 Target Income Yield – This indicator sets a target for the interest income return from the Council's investments in funds.

Yield Indicator – Existing	Target
Average Interest Rate Earned on external funds	4.5%

7.7 Maturity structure of borrowing:
This is a new prudential indicator which is set to control the Authority's exposure to refinancing risk. As the Council does not currently have any external debt and is not expected to undertake any long-term external borrowing in 2023/24, no limits have been set in this strategy.

7.8 Liability Benchmark:
This indicator is a tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and as a result aids long-term planning. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

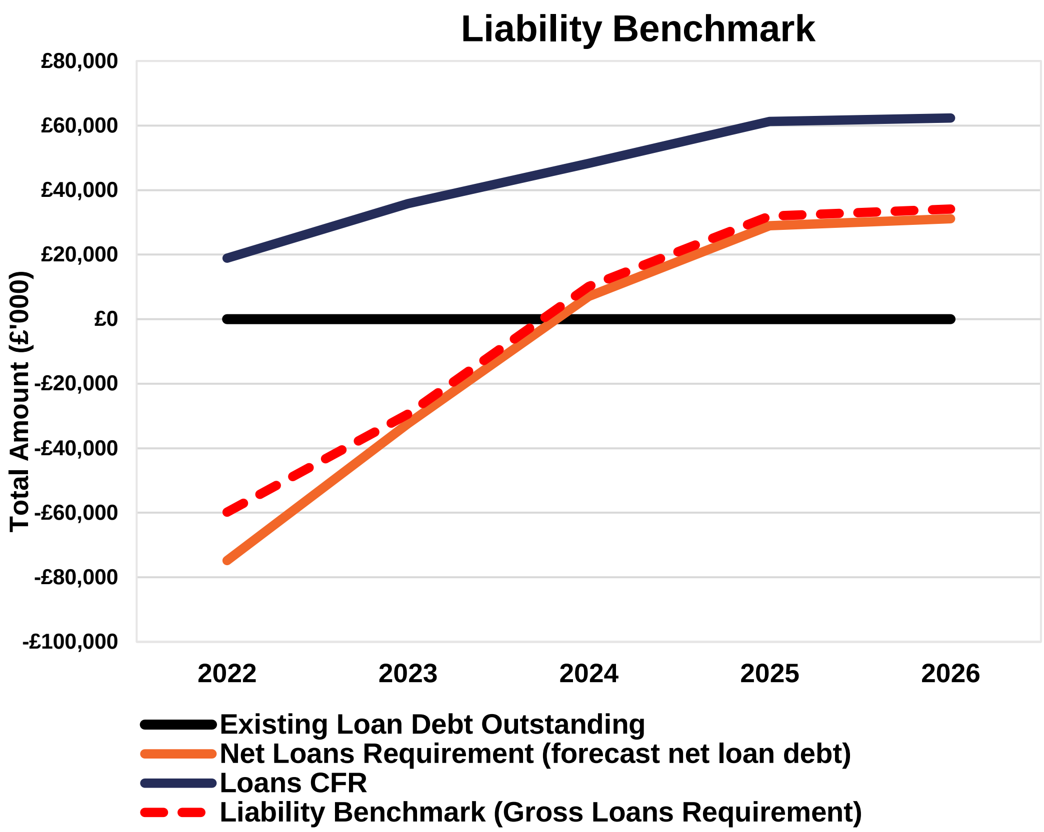
Ref.	**Liability Benchmark – New Prudential Indicator**	**31/03/22 Actual (£m)**	**31/03/23 Estimate (£m)**	**31/03/24 Forecast (£m)**	**31/03/25 Forecast (£m)**	**31/03/26 Forecast (£m)**
1	Capital Financing Requirement (CFR)	19	36	48	61	62
2	Less: Balance sheet resources	94	68	41	32	31
3	**Net loans requirement (Negative shows surplus cash/Positive are external borrowing requirement)**	**-75**	**-32**	**7**	**29**	**31**
4	Plus: Liquidity allowance.	15	3	3	3	3
5	**Liability benchmark (Negative shows surplus cash/Positive are external**	**-60**	**-29**	**10**	**32**	**34**

	borrowing requirement)					

The Liability benchmark is a new prudential indicator which is being implemented for this first year. It may need to be further refined; this will be done during the year if required.

The table above shows our capital financing requirement based on the capital programme (Ref 1), so for 31/03/22 the capital programme to that date required £19m of borrowing. It also forecasts (Ref 3) whether this may require external borrowing. A positive figure means external borrowing is forecast to be required. This indicator will be updated by the Section 151 officer for January Cabinet to reflect any new budget proposals.

In the current forecasts it is estimated that short-term borrowing of c.£10m will be needed towards the end of March 2024 and the Council is currently forecast to require external borrowing from 2024/25 onwards, currently forecast to be £32m in 2024/25 and £34m in 2025/26. The information above is shown graphically below.



8 Interest Income

8.1 The indicative budget for interest income for 2023/24 is £1.3m based on an average investment portfolio of £32.5m at an interest rate of 4.0%. If actual levels of investments or actual interest rates differ from those forecasts, 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.

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)

Guidance from the PWLB issued in 2020/21 prevents any local authority from borrowing from it for any purpose if, in the current or following 2 years, the authority has plans in its capital programme to invest in assets primarily for yield. The City Council can access non-PWLB sources to fund capital investment. However, the Council previously approved 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. The 2021 Prudential and Treasury Management code has been revised to be more explicit in their recommendation that authorities must not borrow for the primary purpose of earning a financial return. It has also increased the level of reporting on ‘non-treasury’ investments.

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.

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	31.3.2022 actual			2023/24
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Chelmsford City Football Club	£0.083m	£0.083m	£0.000m	£0.083m
BID Company	£0.011m	Nil	£0.011m	Nil
Maximum New loans if required.	Nil	Nil	Nil	£10.000m
TOTAL LIMIT	**£0.094m**	**£0.083m**	**£0.011m**	**£10.083m**

The above table includes an allowance of up to £10m of new loans should the Council for example decide to create a standalone company 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. These will need approval in line with financial rules.

Commercial Investments:

DLUHC defines property to be a commercial investment if it is held primarily to generate a financial return. 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. No new assets have been acquired since last reported; any increases shown reflect improvement works.

Property Type	31.3.2022 actual £ms					31.3.2023 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	-£1.57	£18.95	£0.00	£0.00	£0.82	**£19.77**
Other	£0.00	-£0.18	£0.00	£0.82	£5.62	£0.00	£0.00	-£0.11	**£5.51**
Retail	£0.00	-£0.00	£0.00	-£22.00	£32.95	£0.00	£0.00	-£0.66	**£32.29**
Industrial	£0.00	£0.00	£0.00	-£0.72	£0.29	£0.00	£0.00	-£0.01	**£0.28**
TOTAL	£0.00	-£0.18	£0.00	-£23.47	£57.81	£0.00	£0.00	£0.04	**£57.85**

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 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 30 years’ experience and 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 Link Group, the Council’s Treasury Advisors.

Training and qualifications: Documents and schedules will be kept of training and qualifications of the key roles.

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 Link Group 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	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	£75.00m	£32.00m	£20.00m
Service investments: Loans	£0.094m	£0.083m	£0.062m
Commercial investments: Property	£57.81m	£57.85m	£57.85m
TOTAL INVESTMENTS	£132.904m	£89.933m	£77.912m

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	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast	31.03.2025 Forecast
Service investments: Loans	Nil	Nil	Nil	Nil
Commercial investments: Property*	£3.477m	£5.879m	£7.020m	£6.899m
TOTAL FUNDED BY BORROWING	£3.477m	£5.879m	£7.020m	£6.899m

*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. The additional borrowing relates to improvements to existing properties and development of existing sites.

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)	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Forecast**
Treasury management investments	0.7%	1.9%	4.0%
Service investments: Loans	Nil	Nil	Nil
Commercial investments: Property	6.1%	6.6%	6.5%
Treasury Management Income £ms (draft estimate 23/24)	£0.6m	£1.4m	£1.3m
Investment Rent Income £ms (draft estimate 23/24)	£3.6m	£3.8m	£3.8m

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	**2021/22 Actual**	**2022/23 estimate**	**2023/24 estimate**	**2024/25 estimate**	**2025/26 estimate**
Income from Treasury Management as Percentage of Net Revenue Income	1.4%	3.2%	2.9%	2.1%	2.3%
Total Borrowing Undertaken to Fund Investment Properties and regeneration projects with commercial rents	£3.477m	£5.879m	£7.020m	£6.899m	£6.773m
Commercial Income as percentage of Net Service Expenditure	9.7%	9.4%	9.2%	8.6%	8.9%

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**	**2025/26 Limit**
Commercial Income as percentage of Net Service Expenditure	14.8%	14.%	14%	14%	14%

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.