



Chelmsford City Council Treasury Management and Investment Sub Committee

14th October 2024

Treasury Management Mid-Year Review 2024/25

Report by:
Section 151 Officer

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Purpose

To inform the Treasury Management and Investment Sub-committee (TMISC) of the treasury activities undertaken in the first part of 2024/25 and to report on compliance with the approved TM Strategy.

Options

1. Accept the recommendations contained within the report.
2. Recommend changes to the way by which the Council's investments are to be managed.

Preferred option and reasons

Recommend the report to Cabinet and Council, without amendment for their consideration and thereby meet statutory obligations.

Recommendations

That Treasury Management and Investment Sub Committee (TMISC) and Cabinet note the contents of this report and request that Full Council review the report and approve that no changes are required to the 2024/25 Treasury Strategy.

1. Background

- 1.1. The Council has cash to invest arising from its revenue activities, capital balances and the collection of Council Tax and Business Rates. The Council can use borrowing only to fund its capital programme and for temporary liquidity. The activities around the management of Council cash and external borrowing are known as Treasury Management.
- 1.2. Under statute and the CIPFA Code of Practice on Treasury Management (“the Code”), members are required to receive reports on the Council’s Treasury Management (TM) activities. The report in Appendix 1 complies with the CIPFA Code of Practice and relevant Government regulations.
- 1.3. Full Council has overall responsibility for Treasury Strategy but delegates to the Treasury Management and Investment Sub Committee (TMISC) responsibility to monitor and recommend changes to the strategy. The Section 151 Officer of the Council is delegated to manage operational TM activities within the approved strategy.
- 1.4. Members of TMISC are asked to review the contents of the report and recommend that the Cabinet note its contents and seek Council approval for it.

2. Executive Summary

- No breaches of the 2024/25 Treasury Management Strategy have occurred.
- Higher than expected cash balances are estimated to increase investment income by £0.45m more than the budget for 2024/25.
- The Council remains internally borrowed to fund its capital investment; however, the council is expected to externalise debt towards the end of the financial year.
- No change to the TM Strategy is recommended for 2024/25.
- No changes are being made currently to the holdings of diversified investment funds. Any decisions to change holdings will be made under the operational delegation by the s151 officer.

3. Conclusion

- 3.1. No changes to the 2024/25 Treasury Management Strategy are recommended.
- 3.2. Cabinet will be asked to recommend the report to Council.

List of appendices:

Appendix 1 – Review of Treasury Management Activity (2024/25)

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:

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

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

Contribution toward achieving a net zero carbon position by 2030: N/A

Personnel: N/A

Risk Management:

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

Equality and Diversity: N/A

Health and Safety: N/A

Digital: N/A

Other: N/A

Consultees:

Relevant Policies and Strategies:

Treasury Management Strategy 2024/25

. Treasury Management Activity during the period 1st April 2024 – 31st August 2024

This report complies with the CIPFA Code by identifying the Council’s investments and external borrowings as at 31/08/2024 and compares treasury activity to the approved strategy.

1 **Liquidity Management and borrowing**

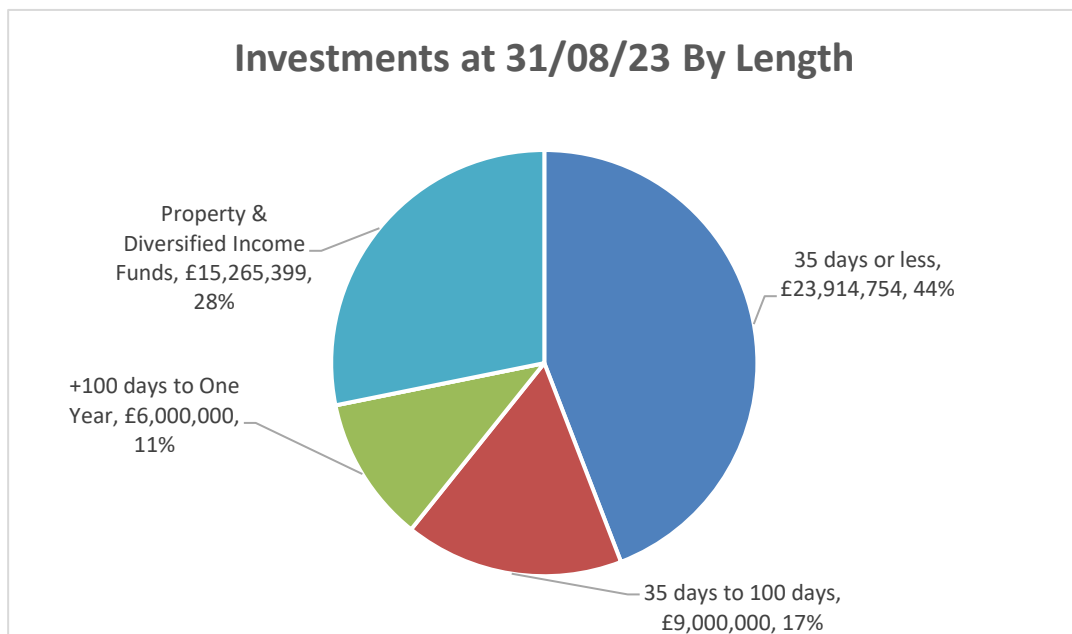
1.1 The Council has continued to keep a significant proportion of its portfolio available for instant access. This is because significant capital investment is being undertaken, including Waterside infrastructure, so investment balances will fall over the next few months. It is estimated that external borrowing will occur later in the financial year.

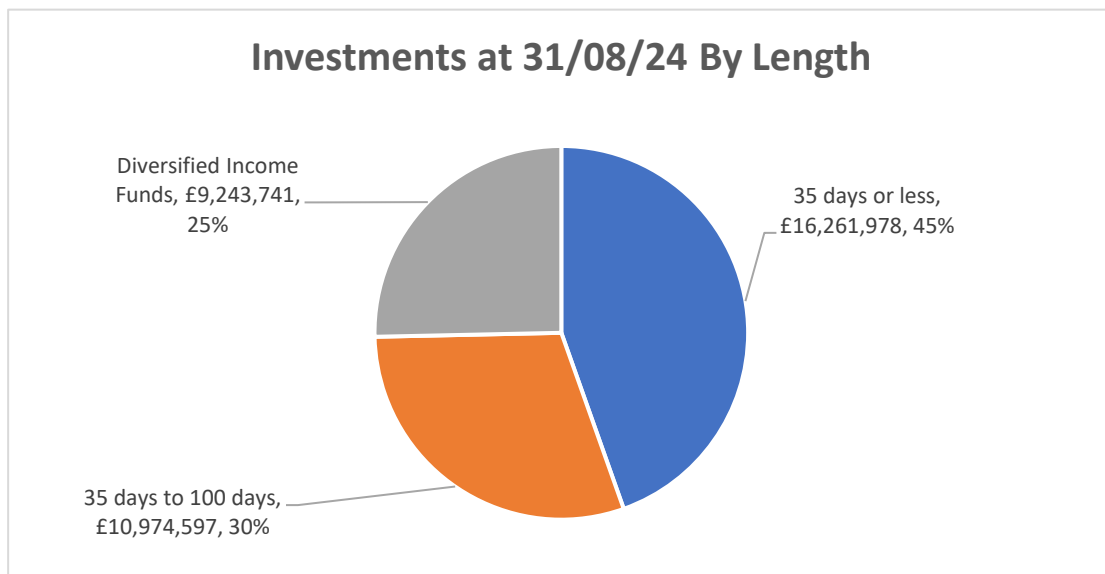
A net £35m is expected to be spent on capital schemes between now and the end of the financial year with the main items being £11m spent on Waterside, £8m towards Beaulieu station funded by S106, £7m on replacement programme.

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

A minimum of £5m of all investments are targeted to be invested for periods of 35 days or less.

Outcome: The target was achieved, and officers will continue to keep the average durations of investments short.

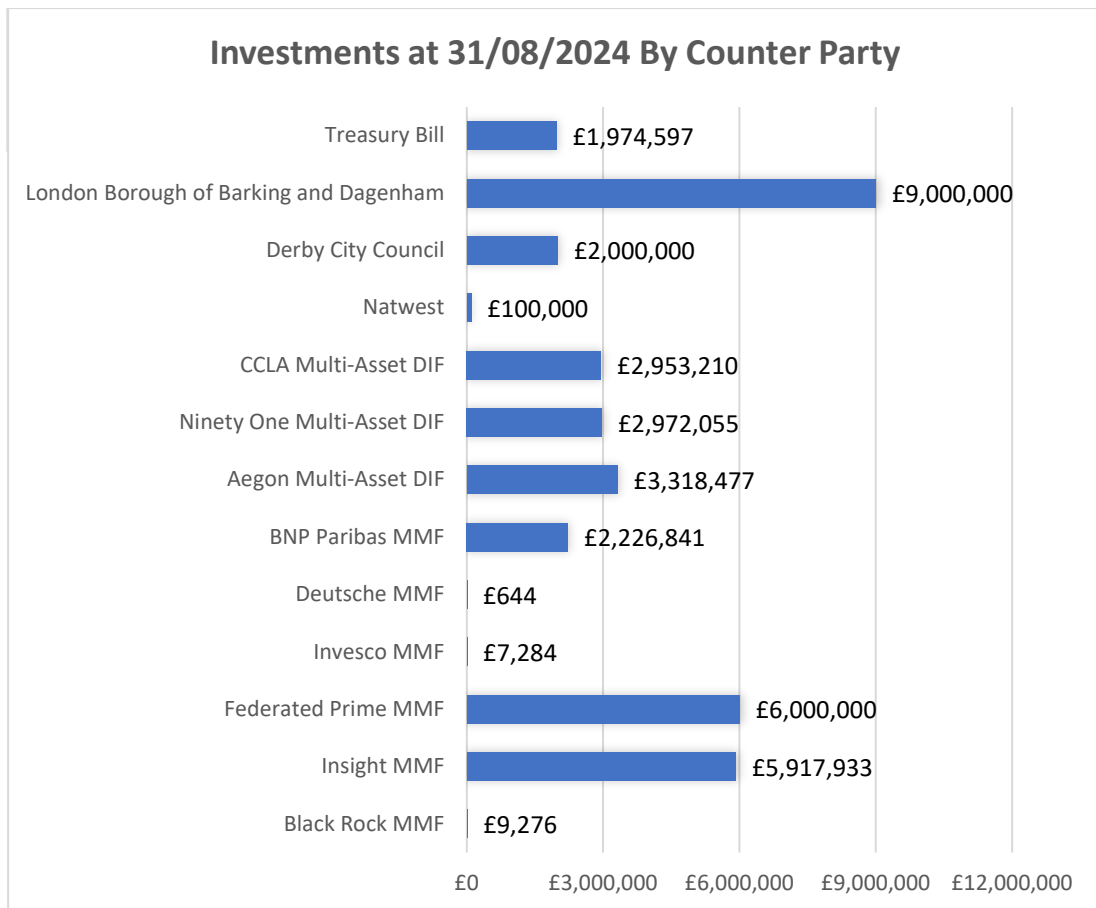




| Investments at: | 31/08/23 | % |
|--------------------------------------------|--------------------|------------|
| 35 days or less | £23,914,754 | 44 |
| 35 to 100 days | £9,000,000 | 17 |
| +100 days to 1 yr. | £6,000,000 | 11 |
| Over 1 yr. | £0 | 0 |
| Property & Diversified Monthly Income Fund | £15,265,399 | 28 |
| Total | £54,180,153 | 100 |

| Investments at: | 31/08/24 | % |
|---------------------------------|--------------------|------------|
| 35 days or less | £16,261,978 | 45 |
| 35 to 100 days | £10,974,597 | 30 |
| +100 days to 1 yr. | £0 | 0 |
| Over 1 yr. | £0 | 0 |
| Diversified Monthly Income Fund | £9,243,741 | 25 |
| Total | £36,480,316 | 100 |

- 1.2 The Council's Treasury strategy identified the following.
No fixed duration investments over 365 days are proposed for 2024/25; Current cashflow forecasts suggest there will be insufficient liquidity to make investments beyond 365 days. However, this should be retained as contingent possibility, so it is recommended that any investments beyond 365 days are at the discretion of the Section 151 Officer. For investments 2 years and over, consultation will be made with TMISC chair.
- Outcome: The target has not been exceeded.** Currently, none are proposed as a result of declining investment balances and a need to externalise debt.
- 1.3 **No breaches of counter-party limits have occurred.** The investments held by the Council are noted below.



The Council's investments banks are mostly fixed maturity dates and of a duration of less than one year.

The £9m investment is due back 18th November 2024 and the majority of this is expected to be paid over to ECC before the end of the financial year as part of the station s106 funding.

- 1.4 The Council cash balances will fall as the year progresses due to the normal outflow of Council Tax to other precepting bodies, the payments of Sec106 funds to ECC and capital programme spend. It is thought highly likely that external borrowing will occur in the second half of the current financial year, in January. A full review of the Council's forecast cashflow is taking place as part of the budget cycle which will update the long-term borrowing forecast.
- 1.5 **The Council has not undertaken any external borrowing in the year to date.** The funding of the approved Capital programme has required borrowing but to date that has been internal borrowing which reduces the amount the Council has to invest. The Council operates two external borrowing limits, the Authorised (maximum limit) which cannot be exceeded without Council agreement and an Operational boundary (which provides an expected level of external debt). The current limits are noted below.

| | |
|------------------------------------------|--------------|
| | Limit |
| Authorised Limit of Borrowing | £55m |
| Operational Boundary of Borrowing | £39m |

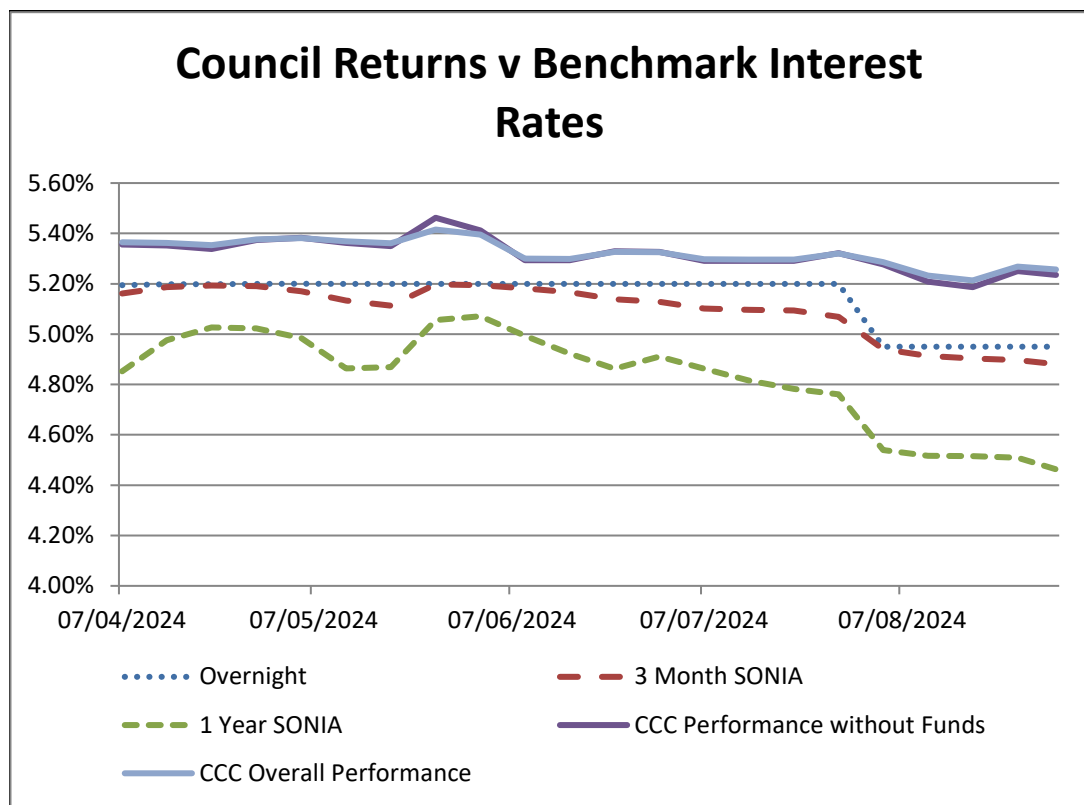
2. Rate of Return

- 2.1 The Bank of England Base rate stands at 5.0% after its first rate cut in August and remained unchanged in September. The Markets are forecasting a cut in November and possible further cuts before the end of the financial year.

On the 23rd of September, the one-month local authority loans were around 5.05% to 4.95% and one-year loans 4.95% to 4.8%, however there is a great deal of volatility in the market. Money Market Funds are currently running between 5.01% to 4.9% with other cash investments such as bank and building societies generally offering rates below the base rate, reflecting the expectation of further falls in interest rates.

The Council continues to invest in three multi-asset diversified income funds as part of its long-term strategy for returns and diversified portfolio. The returns are discussed in section 3.

- 2.2 Money market interest rates on average are just below bank rate. The Council returns are shown below alongside some comparable benchmark rates.



- 2.3 The Council's income yield and income in 2024/25 is expected to be lower than last year with Bank of England base rate falling and the Council having less cash to invest.
- 2.4 The Council had an average yield on all its investments of 5.26% as at 31st August 2024. The budgeted income for 2024/25 from investment returns is £1.0m; this is expected to be exceeded for the year by £0.45m, mainly due to higher than forecast cash balances.
- 2.5 Interest rates are expected to have peaked following the rate cut in August and a further fall is forecast in November, by 0.25%. The Bank of England's Governor is suggesting rates will continue to be cut gradually. So, return rates on the Council's investments will fall as the year progresses.

3 Externally Managed Fund Performance

3.1 The Council is invested in three Multi Asset Diversified Income Funds. These are all intended to be longer term investments made from core cash (reserves) to generate a return for the Council at a higher rate than standard cash deposits. Capital values will fluctuate throughout the period of investment. During recent times, interest rates have gone up quickly leading to reduced prices paid for gilts and bonds. This has caused the market value of the funds to move downwards but values have begun to recover.

| Fund | Initial Investment Value | 01/04/2024 Investment Value | 31/08/2024 Investment Value | Unrealised Gain/(Loss) (since inception) | Annualised Income Return on 1 st April Valuations | Annualised Total Return (2024/25) |
|----------------|--------------------------|-----------------------------|-----------------------------|------------------------------------------|--------------------------------------------------------------|-----------------------------------|
| CCLA DIF | £3,100,000 | £2,953,208 | £2,967,969 | -£132,031 | 4.38% | 5.58% |
| Aegon DIF | £3,600,000 | £3,318,477 | £3,389,412 | -£210,588 | 6.25% | 11.38% |
| Ninety One DIF | £3,300,000 | £2,972,054 | £2,999,468 | -£300,532 | 5.21% | 7.43% |

- Aegon Multi-Asset Diversified Income Fund – A £3.6m investment was made into the Aegon DIF in June 2021.
 - Annualised income yield is 6.25% on the valuation at 1st April 2024.
 - Capital Value – 5.85% decrease on initial investment and 2.14% increase against April valuation.
- Ninety-One Multi Asset Diversified Income Fund – A £3.3m investment was made into the Ninety-One DIF in June 2021.
 - Annualised income yield is 5.21% on the valuation at 1st April 2024.
 - Capital Value – 9.11% decrease on initial investment and 0.92% increase on April valuation.
- CCLA Multi Asset Diversified Income Fund – A £3.1m investment was made into the CCLA DIF in July 2021.
 - Annualised income yield– 4.38% based on first quarter’s dividend on the valuation at 1st April 2024.
 - Capital Value – 4.26% decrease on initial investment and 0.50% increase on April valuation.
 - This fund is the weaker performing on the three and under greater scrutiny by officers.

The annualised return on the funds is variable and is likely to change during the year.

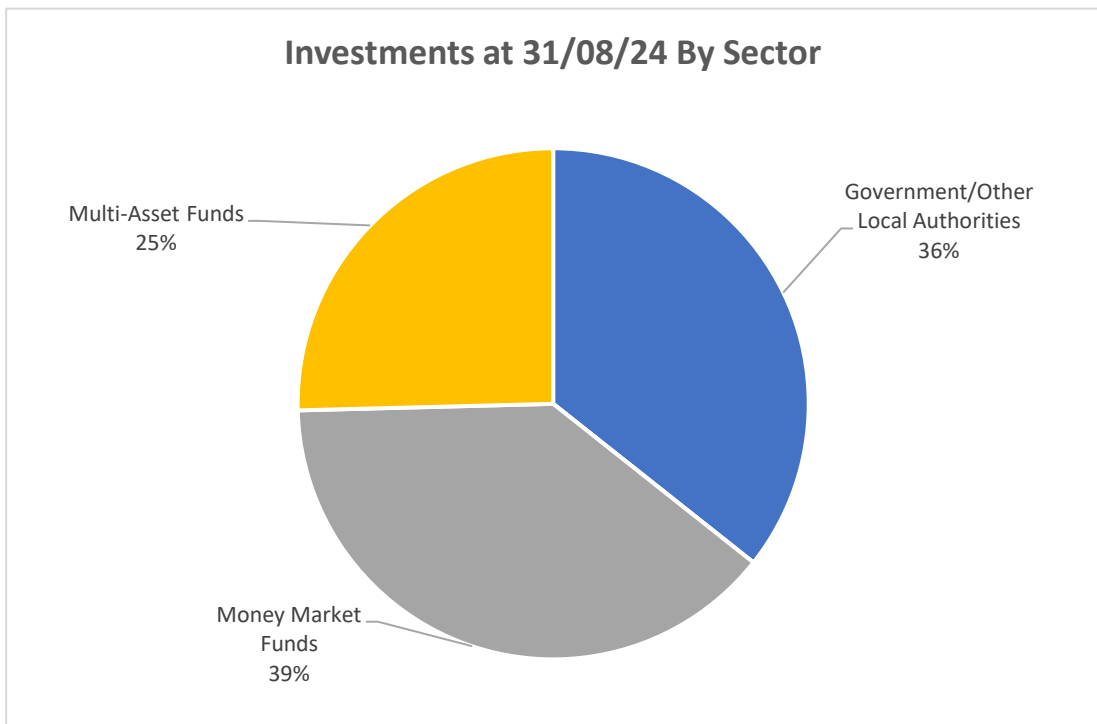
3.2 The return on all external funds should be looked at as a portfolio, allowing for periods of over- and underperformance for individual funds. If the performance of the first few months of this year were to continue, then the annualised income yield would be 5.32% on April valuation. The unrealised capital loss to date is £643K improving by £113K from April valuation. It is important to note the unrealised capital gain will fluctuate; the main objectives of the investment in funds are the spread of risks across asset types and improving annual income (yield).

3.3 The portfolio of funds has had a positive impact compared to cash on the overall income yield. The three funds have averaged a return of 5.32% improving the total investment return from 5.24% to 5.26%.

4 **Bail-in Risk**

4.1 This is the risk that regulators will step in and enforce losses on depositors to recapitalise a failing bank or building society, rather than rely on taxpayer bailouts.

4.2 Overall exposure to bail-in has reduced from last financial year to current due to holding local authority and treasury bill investments rather than private investments.



| Exposure | As at 31 st August 2023 | As at 31 st August 2024 |
|--------------------------------------|------------------------------------|------------------------------------|
| Bail-in risk | 72% | 39% |
| Exempt from bail-in (including CCLA) | 12% | 36% |
| Diversified Income Funds | 16% | 25% |
| Total | 100% | 100% |

The Diversified Income Funds will be partially exposed to bail-In risk, but it is not possible to identify specific risk due to the changing nature and proportion of their investments in bonds, equities, property etc. They have therefore been split out as a separate line in the table above for clarity. There has been no further investment in Diversified income funds, the increase in percentage holdings is the result of a reduction in total investments held by the Council.

5 External Borrowing

5.1 The Council has the freedom to borrow in the following circumstances:

- Short-term borrowing to manage liquidity
- Long-term borrowing is only used 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.

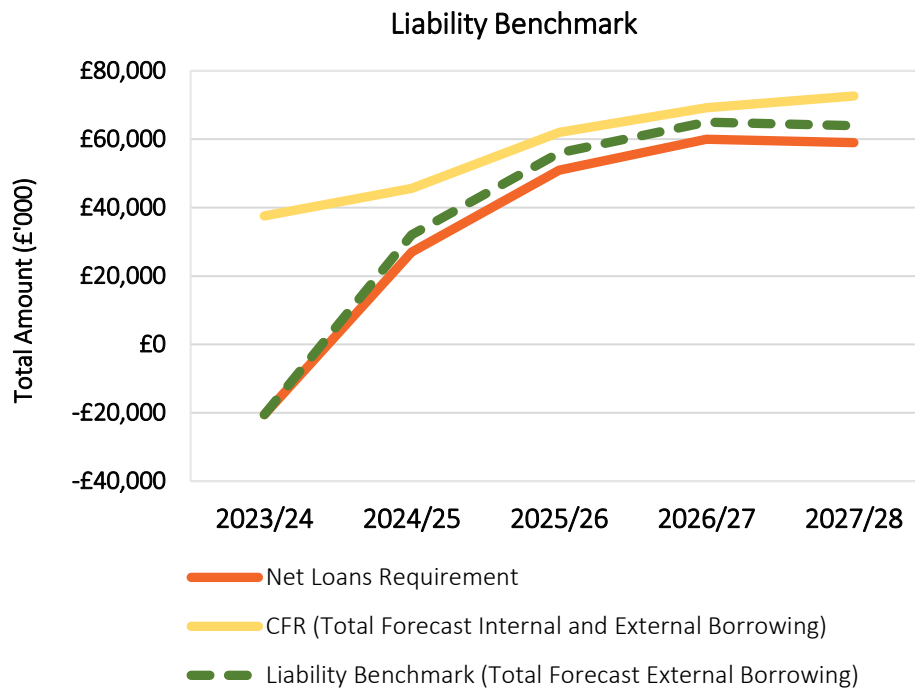
5.2 Over the financial year end the Council had some short-term borrowing which was repaid at the beginning of April 2024. Currently there is no external loan borrowing. As previously noted, external borrowing is forecast to become necessary from around January 2025. External borrowing could be up to £32m by year-end. Loans taken out are expected to be kept short in duration as further interest rate cuts are expected.

5.3 Liability Benchmark:

This indicator is a tool devised by CIPFA to help establish whether the Council is likely to be a long-term borrower or long-term investor. The liability benchmark is a calculation of the cumulative amount of external borrowing the Council must hold to fund its capital plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

| Ref. | Liability Benchmark | 31/03/24 Actual (£m) | 31/03/25 Forecast (£m) | 31/03/26 Forecast (£m) | 31/03/27 Forecast (£m) | 31/03/28 Forecast (£m) |
|------|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| 1 | Capital Financing Requirement (CFR) (total of internal and external borrowing) | 38 | 46 | 62 | 69 | 73 |
| 2 | Less: Balance sheet resources | 59 | 19 | 11 | 9 | 14 |
| 3 | Net loans requirement: Line 1 above less Line 2 above (Negative shows surplus cash/ Positive are external borrowing requirement) | -21 | 27 | 51 | 60 | 59 |
| 4 | Plus: Liquidity allowance. | | 5 | 5 | 5 | 5 |
| 5 | Liability benchmark (Total forecast external borrowing) (Negative shows net surplus cash/ Positive is external borrowing requirement) | -21 | 32 | 56 | 65 | 64 |
| | | <----- Forecast - Externally borrowed -----> | | | | |

The liability benchmark is shown graphically on the next page.



6 Conclusion

- No breaches of the Treasury Management Strategy have occurred.
- Higher than budgeted cash balances during the financial year have led to above-budget returns.
- The Council remains internally borrowed to fund its capital investment. However, external borrowing is expected to become a permanent feature from the New Calendar year.
- Total return from the three fund managers as a portfolio of investments has been better than cash. The three diversified income funds are seen as a medium-term investment to enhance the returns for the Council over the longer period.
- No change to Strategy is recommended for the rest of 2024/25.