

# Chichester District Council

The Cabinet

7 September 2021

## 2020-21 Treasury Management outturn report

### 1. Contacts

#### Report Author:

Mark Catlow – Group Accountant, Financial Services  
E-mail: [mcatlow@chichester.gov.uk](mailto:mcatlow@chichester.gov.uk)

#### Cabinet Member:

Peter Wilding - Cabinet Member for Finance, Corporate Services and Revenues and Benefits. Telephone: 01428 707324 E-mail: [pwilding@chichester.gov.uk](mailto:pwilding@chichester.gov.uk)

### 2. Executive Summary

This report provides a summary of the Council's Treasury activities for 2020-21. It contains a summary of the Council's internal and external investments, confirms that the Council's Treasury strategy was complied with and looks ahead to proposals to update the regulatory framework covering Treasury activities.

### 3. Recommendation

**3.1 The Cabinet is requested to consider the Treasury activity summarised in this report.**

### 4. Background

4.1 This report provides the Committee with a summary of Treasury Management activity undertaken for the year to 31 March 2021. The objective is to provide Members with assurance over the effectiveness of Treasury activities undertaken during the reporting period and compliance with the Council's Treasury Management Strategy and Policy statement.

4.2 The Council's Corporate Governance and Audit Committee considered this report on 19 July 2021 and were content for the report to be presented to Cabinet with no additional comments.

### 5. Treasury Activity during 2020-21

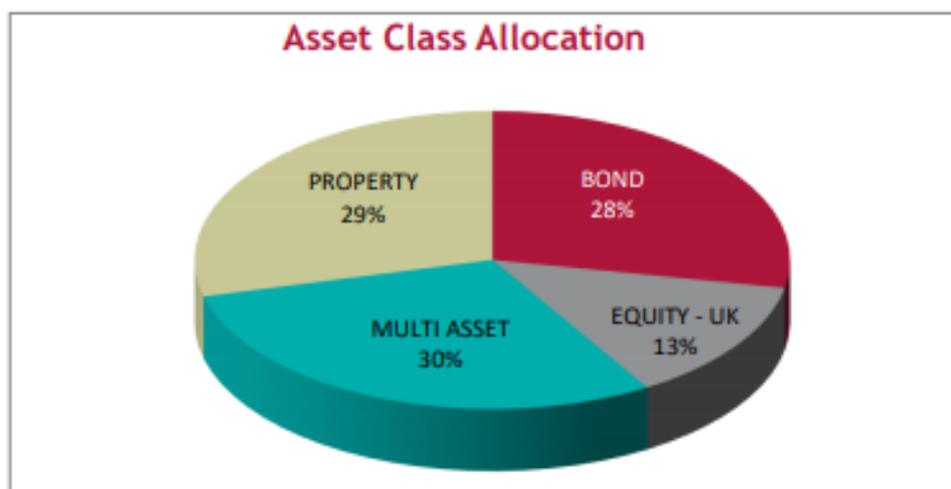
5.1 On 31 March 2020, the Council had investments of £75m with no external borrowing (table 1, below). Across the year, the investments managed varied between £75m and £120m, reflecting both the normal cyclical pattern of annual cash receipts and also temporary funding from Government for COVID reliefs and recovery grants. The Council's investments at 31 March 2021 stood at £88.5m

<b>Investments £000</b>	<b>Balance 01/04/2020</b>	<b>Movement</b>	<b>Balance 31/03/2021</b>
Short term Investments	35,000	14,500	49,500
Money Market Funds	6,050	(1,050)	5,000
<b>Total liquid investments</b>	<b>41,050</b>	<b>13,450</b>	<b>54,500</b>
Long term Investments	-	-	-
Pooled Funds – External	24,000	-	24,000
Pooled funds – Local Authority	10,000	-	10,000
Property fund			
<b>Total investments</b>	<b>75,050</b>	<b>13,450</b>	<b>88,500</b>

Note: the figures in the table above exclude any movements in Fair value.

5.2 During 2020-21 the sheer scale of cash receipts from the Government for various COVID related measures meant that finding suitable high quality counterparties for liquidity investment was, at times, challenging. This issue has been addressed for 2021-22 with a relaxation in the overall investment ceiling for Money Market Funds.

5.3 The Council's allocation of external investments across asset class at 31 March 2021 is shown below.



5.4 The overall composition, performance and returns of our external pooled investments are shown in appendix A. A summary of the key metrics is presented below:

	Since purchase £000	Annualised %	2020-21 £000	Annual %
Income return	3,980	3.78	1,312	4.41
Capital return	(1,357)	(3.8)	2,848	9.6
Volatility		3.3		4.3

Note 1: Annualised return since purchase

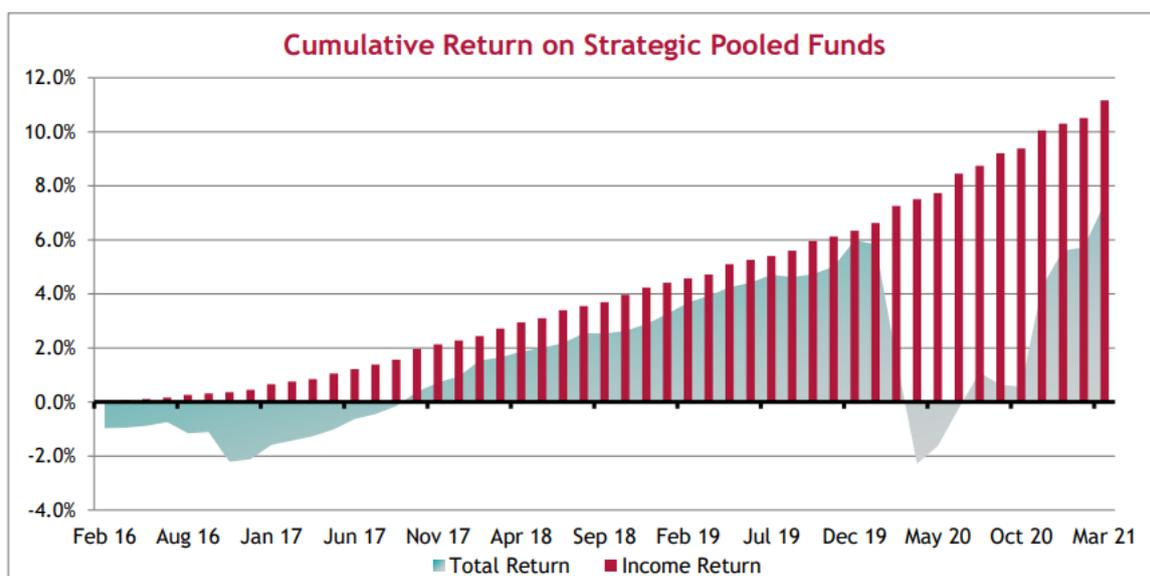
5.5 During the initial phase of the pandemic in March 2020, the sharp falls corporate bond and equity markets had a negative impact on the value of the Council's pooled

fund holdings and was reflected in the 31st March 2020 fund valuations. Since March 2020 capital values have recovered to some extent however our investments had carried loss of £1.36m at 31 March 2021. The most significant factors in this appear to be the lag in the recovery in UK equities compared to US and European markets and the impact of COVID on the property sector.

5.6 Members will be aware that changes in capital values are not presently required to be charged against the Council’s General Fund, although this arrangement is due to expire on 31 March 2023. The risk to Council budgets is further mitigated by the Council’s investment risk reserve (£1.016m at 31 March 2021) which has been established to help offset any future fair value losses that are required to be charged against Council resources.

5.7 In common with other property funds, dealing in the CCLA Local Authorities’ Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days’ notice for redemptions.

5.8 The Council’s approach to these investments has been to develop a balanced portfolio of investments that delivers a stable revenue return each year. The graph below shows that, despite volatility in prices due to the factors discussed above, the income return is achieving this aim and to date has generated just under £4m to support Council services.



5.9 Future returns from most of the Authority’s externally managed funds could be lower as the corporate world is still adjusting to the economic shock of COVID-19. It may yet be too early to see the effect on distributions of the economic damage in the short- to medium-term. The outlook for returns on internally managed funds is also not promising. Following the cut in Bank rate from 0.75% to 0.10% in March 2020, rates on term and call investments are now close to zero percent.

5.10 To account for these risks, the budget for 2021-22 Treasury income has been reduced as follows:

	BUDGET 2020-21 £k	ACTUAL 2020-21 £k	BUDGET 2021-22 £k
Internally managed	346	100	35
Property Fund dividends	480	420	347
Other external fund dividends	691	892*	786*

- 21-22 Budget and 20-21 outturn reflects the full year effect of further investments made in late 2019-20

5.11 Benchmarks and red/ amber/ green risk ratings continue to be used across a series of indicators focussed on measuring security, liquidity and return. These are shown at appendix B with a short commentary against each.

## 6. Other Non-Treasury Holdings and Activity

6.1 Although not classed as treasury management activity, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management.

6.2 The Authority continues to hold approximately £13.6m of investments in directly owned property.

6.3 Further information on the performance of the Council's non-treasury investments in contained in appendix D.

## 7. Compliance Report

7.1 How Treasury activities complied with the Council's main 2020-21 Treasury limits is disclosed at Appendix C. There are no exceptions for the reporting period.

## 8. Other issues

8.1 This section updates the Committee on other matters relevant to Treasury activity.

### Proportionality of Commercial Income

8.2 During 2020-21 the Council reviewed potential indicators to measure the proportionality of commercial income generated by Chichester District Council. The Council determined that it expected income from commercial properties to remain below 10% of the Council's net cost of services.

8.3 In 2020-21 the Council's income from its commercial investments, net of direct costs but before changes in fair value was £878k, or 4.3% of the Council's budgeted net cost of services (£20,448k).

### Treasury workshop for Members

8.4 A Treasury workshop for all Members was delivered on 3 December 2020 to help inform Members of the issues facing the Council in advance of approving the 21-22

Treasury and Investment Strategy. A similar event will be held in December 2021 in advance of the Council’s consideration of the same for 22-23.

## **CIPFA consultations**

8.5 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee’s recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

8.6 Proposed changes to the Treasury Management Code, relevant to the Council, include:

- Q1 to Q4: requiring job specifications and “knowledge and skills” schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document
- Q5: preparing a new TMP 13 on Environmental, Social and Governance Risk Management
- Q6: forming a specific treasury management committee for MiFID II professional clients (which would include Chichester).

8.7 The Council has responded to the consultation on the Treasury Management Code and a copy of the Council’s submission is included at appendix E

## **9. Community impact and corporate risks**

9.1 The Council is required by the Accounts and Audit Regulations to comply with CIPFA’s Code of Practice for Treasury Management and the Prudential Code for Capital Finance.

## **10. Other Implications**

	Yes	No
<b>Crime and Disorder</b>		X
<b>Climate Change and Biodiversity</b>		X
<b>Human Rights and Equality Impact</b>		X
<b>Safeguarding and Early Help</b>		X
<b>General Data Protection Regulations (GDPR)</b>		X
<b>Health and Wellbeing</b>		X
<b>Other</b>		X

## **11. Appendices**

- 11.1 A - Movements in Fund fair values and income – Pooled Funds
- 11.2 B - Benchmarking indicators
- 11.3 C - Compliance report
- 11.4 D - Non Treasury investments
- 11.5 E - Response to CIPFA Consultation on Treasury Code

**12. Background Papers**

12.1 None.

## Appendix A: Movements in Fund fair values and income – Pooled Funds

### All Funds – cumulative

STRATEGIC POOLED FUND PORTFOLIO				CHICHESTER				From:	29/02/2016	To:	31/03/2021
FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility	
AEGON (KAMES) DIVERSIFIED MONTHLY INCOME FUND	MULTI ASSET	4,418,978	4,803,292	-196,708	281,609	1.3	-3.93%	5.63%	1.70%	6.4%	
CCLA - LAMIT PROPERTY FUND	PROPERTY	3,268,201	9,447,715	-552,286	2,058,704	4.8	-5.52%	20.59%	15.06%	3.3%	
M&G OPTIMAL INCOME FUND	BOND	1,101,193	0	11,150	126,837	2.6	0.68%	7.69%	8.36%	2.2%	
M&G STRATEGIC CORPORATE BOND FUND	BOND	356,976	4,047,189	47,189	147,822	1.3	1.18%	3.69%	4.86%	3.1%	
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	4,771,540	4,898,634	-101,366	635,758	3.2	-2.03%	12.72%	10.69%	2.8%	
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	10,341,778	4,340,444	-659,556	371,360	1.3	-13.19%	7.43%	-5.76%	13.1%	
THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND	BOND	2,180,373	2,363,768	13,768	62,839	1.4	0.59%	2.67%	3.26%	1.8%	
THREADNEEDLE STRATEGIC BOND FUND	BOND	2,578,812	2,730,188	80,188	295,183	3.9	3.03%	11.14%	14.16%	2.9%	
<b>GRAND TOTAL</b>			<b>32,631,231</b>	<b>-1,357,621</b>	<b>3,980,112</b>	<b>2.8</b>	<b>-3.81%</b>	<b>11.16%</b>	<b>7.35%</b>	<b>3.3%</b>	
				Unrealised capital loss:	<b>-1,368,813</b>	Annualised income return:	<b>3.78%</b>				

### All Funds – 2020-21 Financial Year

STRATEGIC POOLED FUND PORTFOLIO				CHICHESTER				From:	31/03/2020	To:	31/03/2021
FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility	
AEGON (KAMES) DIVERSIFIED MONTHLY INCOME FUND	MULTI ASSET	4,418,978	4,803,292	763,051	200,078	1.0	18.89%	4.95%	23.84%	8.6%	
CCLA - LAMIT PROPERTY FUND	PROPERTY	3,268,201	9,447,715	-67,652	420,270	1.0	-0.71%	4.42%	3.71%	3.2%	
M&G STRATEGIC CORPORATE BOND FUND	BOND	355,988	4,047,189	434,590	115,597	1.0	12.03%	3.20%	15.23%	5.4%	
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	4,771,540	4,898,634	442,761	182,922	1.0	9.94%	4.11%	14.04%	4.0%	
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	10,341,778	4,340,444	810,795	279,011	1.0	22.97%	7.90%	30.88%	19.7%	
THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND	BOND	2,180,373	2,363,768	167,684	42,282	1.0	7.64%	1.93%	9.56%	3.0%	
THREADNEEDLE STRATEGIC BOND FUND	BOND	2,578,812	2,730,188	296,821	72,361	1.0	12.20%	2.97%	15.17%	4.0%	
<b>GRAND TOTAL</b>			<b>32,631,231</b>	<b>2,848,050</b>	<b>1,312,521</b>	<b>1.0</b>	<b>9.56%</b>	<b>4.41%</b>	<b>13.97%</b>	<b>4.3%</b>	
				Unrealised capital gain:	<b>2,848,050</b>	Annualised income return:	<b>4.41%</b>				

## Appendix B: Treasury Management – Benchmarking indicators

### Return

Measure	Qtr 1 20-21	Qtr. 2 20-21	Qtr 3 20-21	Qtr. 4 20-21	Non-met districts Q4 average	Rating
Internal investment return %	0.47	0.12	0.12	0.11	0.13	GREEN
External funds – income return %	3.97	3.90	4.13	4.4	3.88	GREEN
External funds – capital gains/losses %	-8.09	-8.17	-4.93	9.56	5.64	AMBER
Total treasury Investments – income return %	1.89	1.64	1.55	1.72	1.38	GREEN

Although external fund values have recovered over the final quarter, the Council's investments in external funds are still showing an unrealised loss overall and this justifies an amber rating.

### Security

	Average Credit Score Time weighted (lower = better)	Average Credit Rating Time weighted	Bail-in exposure (lower = better)	
31 March 2020	3.85	AA-	29%	
31 March 2021	4.54	A+	27%	GREEN
Similar Local Authorities	4.70	A+	65%	

The average credit rating has dropped due to a general worsening in credit quality over the course of the pandemic, and in particular:

- A fall in the average credit quality of UK Local Authorities as this is linked to the UK Sovereign rating which was downgraded in October.
- The maturity of some stronger credit quality investments during the year

The above factors do not represent a significant worsening of the overall credit quality of our portfolio.

### Liquidity

	7 day liquidity	100 day liquidity	Average maturity	
31 March 2020	13%	43%	52 days	
31 March 2021	11%	33%	103 days	GREEN
Similar Local Authorities	44%	61%	40 days	

The liquidity measure used is a value weighted average and reflects new 364 day duration investments with Local Authorities to secure marginally increased returns.

## **Appendix C – Compliance report**

### **Compliance with investment limits**

	<b>2020/21 Limit</b>	<b>Complied/ Exception Ref</b>
Banks unsecured, total	£30m	<b>Complied</b>
Corporates, total	£10m	<b>Complied</b>
Local Authority property fund, total	£10m	<b>Complied</b>
Other pooled investment funds, total	£30m	<b>Complied</b>
Council's own bank, total max 7 days	£2.5m	<b>Complied</b>
Money market Funds, total	£24m	<b>Complied</b>
Counterparty ratings	various	<b>Complied</b>

### **Interest rate exposure**

This indicator is set to control the Authority's exposure to interest rate risk.

To measure this, the council calculates the effect of a 1% change in interest rates and has set a reportable exception level where the impact of this exceeds 50% of the council's individual counterparty limit (£3m).

	<b>31/3/21 Actual</b>	<b>2020/21 Limit</b>	
Upper limit on one-year revenue impact of a 1% change in interest rates	£0.39m	£3m	<b>Complied</b>

The risk of interest rate exposure faced by the council is relatively low as the council's investments are still primarily short duration fixed interest or overnight money market deposits.

### **Principal Sums Invested for Periods Longer than 364 days**

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The long-term principal sums invested to final maturities beyond the period end were:

		<b>2021/22</b>	<b>2022/23</b>
Actual principal invested beyond year end	£34.0m	£34.0m	£34.0m
Limit on principal invested beyond year end	£50m	£50m	£50m
	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>

## **Appendix D: Non-Treasury investment indicators**

The Council has set the following indicators to measure its exposure to risk associated with non-treasury investments.

Measure	Description	31 March 2021
Commercial income to net service expenditure	This indicator measures the Council's dependence on income from its commercial property investments as a proportion of the net cost of services	See paragraph 7.3 of main report
Net operating surplus	This indicator measures the contribution received from the investment portfolio at a net level (income less costs) over time.	The Council's investment property portfolio generated £950k rental income and incurred £72k direct costs leaving a surplus of £878k before any changes in fair value.
Vacancy levels and tenant exposure	Monitoring vacancy levels to ensure the property portfolio is being managed productively.	<p>Voids at 31st March 2021:</p> <ul style="list-style-type: none"> <li>• Industrial 3/15</li> <li>• Retail 4/26</li> <li>• Offices 1/8</li> </ul> <p>Total 8/49 = 16.33% (19/20 14.3%)</p>
Exposure to credit default events for loans made	This will measure the Council's exposure to loss through default for non-treasury loans made to third parties	None
Market value of commercial properties	This indicator will track the Council's ability to recover its investment in any commercial investment should the need arise.	<p>Commercial investment valuations were prepared as at 31st March 2021 and the Council's statement of accounts discloses a value of £13.66m for the Council's investment properties on that date. This value remains the latest valuation</p> <p>As we enter into the recovery stage it may still be too early to understand the full impact of Covid19 on the commercial property market, or how long the recovery will take. This is dependent on the continued relaxation of restrictions plus ongoing support to businesses by Government. It remains challenging to predict the full impact on our investment properties with any certainty or tangible evidence to support it.</p> <p>The anticipated challenges to the commercial property market have been mitigated to some extent by the continued Government support packages and grant funding. Nonetheless, downward pressure on rents and increasing risk of tenant default continue, with investment yields needing to reflect the added risk to future income streams and will ultimately result in lower capital values. These values may well fall below the original purchase price of the investment properties, although we should not lose sight of the income received since the acquisition when comparing to the original purchase price.</p>

