

Chichester District Council

Corporate Governance and Audit Committee

25 October 2021

2021-2022 Treasury Management half-yearly update

1. Contacts

Report Author:

Mark Catlow – Group Accountant, Financial Services
E-mail: mcatlow@chichester.gov.uk

2. Recommendation

2.1 The Committee is requested to consider the Treasury activity summarised in this report and provide comments to the Cabinet as necessary.

3. Background

3.1 This report provides the Committee with a summary of treasury management activity and regulatory developments for the year to date.

3.2 The Authority's treasury management strategy for 2021/22 was approved by Council in March 2021. The Authority continues to invest in line with this policy and the investment position at 30 September 2021 shown below.

Table 1: Treasury Management Summary

Investments £000	Balance 31/03/2021	Movement	Balance 30/9/2021
Short term Investments	49,500	(19,500)	30,000
Money Market Funds	5,000	45,650	50,650
Total liquid investments	54,500	26,150	80,650
Long term Investments			
Pooled Funds – External	24,000	-	24,000
Pooled funds – Local Authority	10,000	-	10,000
Property fund			
Total investments	88,500	26,150	114,650

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

4. 2021-22 Treasury Summary

4.1 Recovery from coronavirus pandemic continued to dominate the first half of the financial year and the Government's support for businesses and Local Government is reflected in the Council's cash balances. As residual balances on the various national support schemes are settled, officers expect cash balances to fall over the next twelve months by around £30m.

- 4.2 Twelve-month CPI inflation rose from 2.0% in July to 3.2% in August, slightly above the expected level (3.0%) and a further increase to above 4% is likely in the near term, owing largely to developments in energy and goods prices. Whilst the Bank of England held Bank Rate at 0.1% throughout the period some modest tightening of monetary policy is now felt likely in Q2 2022 and officers are factoring this into Treasury decisions where necessary.
- 4.3 Identifying suitable and sufficient investment counterparties has been and will continue to be a challenge, although the latest credit analysis from Arlingclose has increased maximum duration for some UK banks from 35 to 100 days which will help. Despite this, there is still much uncertainty around the ultimate extent of losses banks and building societies will suffer due to the pandemic and, as a result, additional Money Market Fund accounts were opened to provide more options for diversified liquidity investment.
- 4.4 During the first six months of 2021-22 officers implemented the 'comply or explain' Ethical, Social and Governance investment approach required by the Council's current Treasury Strategy. All investments made during the first half of the year have been with institutions that either are Local Authorities, Central Government or who had signed the United Nations principles for responsible investment and banking.
- 4.5 The Council's external pooled fund investments remained at £34m through the period, and by August had they recovered much of the pandemic related losses in value, although market losses during September meant a closing carried loss of £823k (a gain of £545k since 1 April). Income remains very stable at 4% per annum overall, or £1,36m pa. Further information on the forecast for 2021-22 is provided at paragraph 7.6.
- 4.6 Officers expect make a new £3m investment in quarter 3 2021-22 in the CCLA diversified income fund. This fund has a medium term investment horizon (3 yrs. +) and is actively managed to provide income and capital growth over this period. The Fund follows a responsible investment policy which excludes investment in certain sectors including tobacco, adult entertainment, gambling, high interest lending, armaments and in companies materially exposed to fossil fuel extraction, oil and gas production and refining.

5. Other Non-Treasury Holdings and Activity

- 5.1 Although not classed as treasury management activity, the CIPFA Code requires the Authority to report on investments held for policy reasons outside of normal treasury management.
- 5.2 The Authority continues to hold approximately £13.6m of investments in directly owned property, unchanged from the value established at 31 March 2021.
- 5.3 As we continue with the recovery stage and transition toward a post Brexit and Covid19 commercial property market, it remains difficult to determine the long term impact on our investment portfolio with any certainty or tangible evidence to support it. That being said, some property sectors have proved to be more robust than others with high demand for industrial premises for example. This is dependent on the continued relaxation of restrictions and ongoing support to

businesses by Government. With the furlough scheme now ended there is added risk to the financial viability of some of our tenants.

- 5.4 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 increased 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.
- 5.5 Presently two of the Council's Investment Properties have a market value that is less than the original purchase price. In aggregate the carried loss on these two properties is £752k, representing 14% of the original investment cost of £5,258k. Putting this into context, the income received annual from our investment properties is around £1m per annum and any carried gains or losses are only crystallised as and when CDC disposes of the property. At present, the Council has no need to, or intention of, disposing of these commercial investments.

6. Compliance Report

- 6.1 How treasury activity complied with the council's main 2021-22 treasury limits is disclosed at appendix C. There are no exceptions for the reporting period.

7. Other Developments

- 7.1 This section updates the Committee on relevant developments since the last report in earlier this year.

Investments in external funds

- 7.2 Officers monitor longer term cash projections to identify if longer term, higher yielding investments are possible.

New Codes and Regulations

- 7.3 The attention of MHCLG, CIPFA and the UK's Debt Management Office is squarely focussed on non-Traditional treasury activity, or those investments made for:
- Commercial purposes, being non-financial assets held primarily for financial returns; and,
 - Service purposes, which include regeneration or local infrastructure investments
- 7.4 There are additional reporting requirements proposed for the 2022-23 CIPFA Treasury Code which, if adopted, will expand the scale and scope of Treasury reporting. As the current consultation for these proposals is not due to conclude until November 2021, it is possible that the 2022/23 Treasury and Investment strategy, due to be considered by this Committee in January 2022, will need further amendment and updated as 2022 progresses.

8. Estimates of 2021/22 income

- 8.1 The Authority's 2021/22 budget was set against the economic backdrop described above and in appendix E. As described in paragraph a modest tightening of monetary policy is now felt likely and the 2022-23 income budget is likely to reflect an increase in Bank Rate partway through the financial year.
- 8.2 The figures in table 2 for external pooled funds are based on announced dividends to the end of the period, some of which will not be received until a month or two later.
- 8.3 The forecasts are simple extrapolations based on year to date returns. The actual income will ultimately depend on many factors including but not limited to the extent of the pandemic's economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

Table 2: Income by investment type to end of September 2021

	To date	Full year Estimate	Budget	Comments
LAPF	£186k <i>Note 1</i>	£372k	£347k	On track
Pooled Funds	£498k <i>Note 1</i>	£997k	£786k	Caution is needed with the forecast at this early stage. The budget for 21-22 expected a modest reduction in income due to the effect of the pandemic on corporate dividends and distributions and it may be this effect has not yet filtered through.
Internal Funds	£12k <i>Note 2</i>	£30k	£35k	The budget assumed a rate of return just below 0.1% and actual returns are below this at present.

Note 1: The actual figure is adjusted for announced dividends due 30 September 2021

Note 2: The actual figure is adjusted for unwound accruals of £7.4k for 2020-21 financial year

9. Alternatives Considered

- 9.1 None

10. Resource and Legal Implications

- 10.1 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.

11. Consultation

- 11.1 Not relevant.

12. Community impact and corporate risks

- 12.1 Not relevant

13. Other Implications

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

14. Appendices

A - Movements in Fund fair values and income – Pooled Funds

B - Benchmarking indicators – **Actual figures as at 30-9-21 will be updated once available**

C - Compliance report

D - Non Treasury investments

E – Outlook for the remainder of 2021-22

15. Background Papers

15.1 None.

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

Exhibit A1: Performance in 21-22

STRATEGIC POOLED FUND PORTFOLIO				CHICHESTER				From:	31/03/2021	To:	30/09/2021
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	4,788,404	-14,888	124,770	0.5	-0.31%	2.60%	2.29%	4.2%	
CCLA - LAMIT PROPERTY FUND	PROPERTY	3,268,201	9,997,100	549,385	186,781	0.5	5.81%	1.98%	7.79%	4.5%	
M&G STRATEGIC CORPORATE BOND FUND	BOND	355,988	4,044,020	-3,168	49,803	0.5	-0.08%	1.23%	1.15%	2.3%	
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	4,771,540	4,775,834	-122,800	105,127	0.5	-2.51%	2.15%	-0.36%	1.9%	
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	11,187,364	4,470,471	130,027	173,427	0.5	3.00%	4.00%	6.99%	8.7%	
THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND	BOND	2,180,373	2,356,111	-7,657	16,290	0.5	-0.32%	0.69%	0.37%	1.0%	
THREADNEEDLE STRATEGIC BOND FUND	BOND	2,578,812	2,744,887	14,699	29,231	0.5	0.54%	1.07%	1.61%	1.2%	
GRAND TOTAL			33,176,827	545,597	685,427	0.5	1.67%	2.10%	3.77%	2.6%	

Unrealised capital loss since purchase: -823,216

Annualised income return: 4.23%

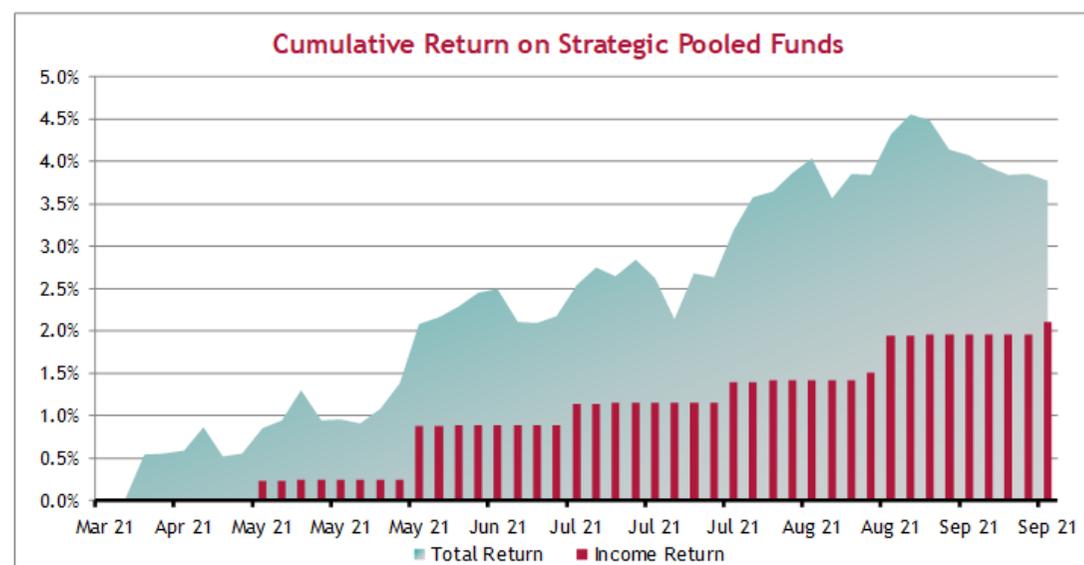
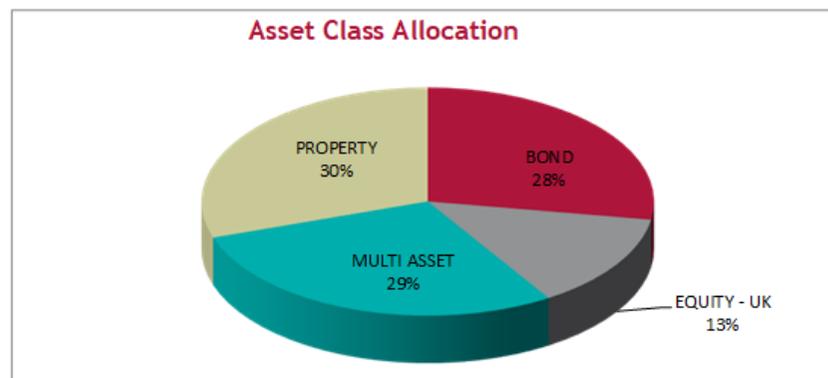
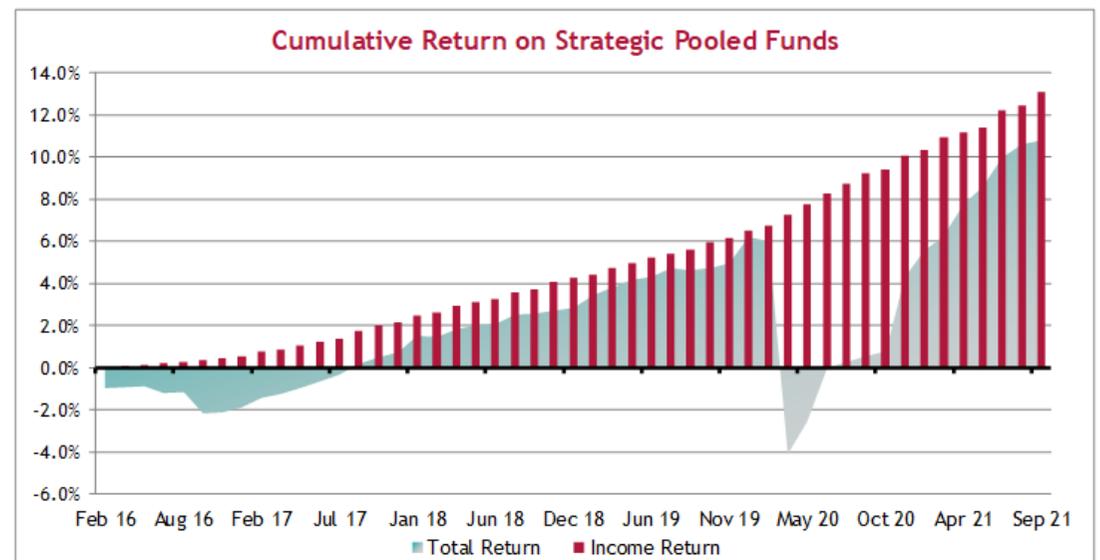
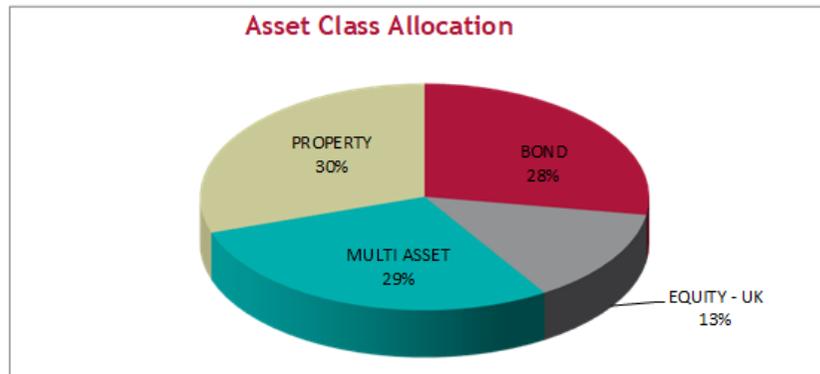


Exhibit A2: Performance since Purchase

STRATEGIC POOLED FUND PORTFOLIO				CHICHESTER			From:	29/02/2016	To:	30/09/2021
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	4,788,404	-211,596	406,378	1.8	-4.23%	8.13%	3.90%	9.7%
CCLA - LAMIT PROPERTY FUND	PROPERTY	3,268,201	9,997,100	-2,901	2,237,955	5.3	-0.03%	22.38%	22.35%	3.4%
M&G OPTIMAL INCOME FUND	BOND	1,101,193	0	11,150	126,837	2.6	0.68%	7.69%	8.36%	2.4%
M&G STRATEGIC CORPORATE BOND FUND	BOND	356,976	4,044,020	44,020	197,625	1.8	1.10%	4.93%	6.02%	6.1%
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	4,771,540	4,775,834	-224,166	740,885	3.7	-4.48%	14.82%	10.33%	4.7%
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	11,187,364	4,470,471	-529,529	544,786	1.8	-10.59%	10.90%	0.31%	12.1%
THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND	BOND	2,180,373	2,356,111	6,111	79,129	1.9	0.26%	3.37%	3.63%	2.7%
THREADNEEDLE STRATEGIC BOND FUND	BOND	2,578,812	2,744,887	94,887	324,414	4.4	3.58%	12.24%	15.82%	4.8%
GRAND TOTAL			33,176,827	-812,024	4,658,009	3.3	-2.28%	13.06%	10.78%	4.6%

Unrealised capital loss since purchase: -823,216 Annualised income return: 3.76%



Appendix B: Treasury Management – Benchmarking indicators

Q2 21-22 data will be available around 20 October and an update will be tabled at the Committee

Return

Measure	Qtr 3 20-21	Qtr. 4 20-21	Qtr 1 21-22	Qtr. 2 21-22	Non-met districts Q4 average	Rating
Internal investment return %	0.12	0.11	0.08			GREEN
External funds – income return %	4.13	4.40	4.27			GREEN
External funds – capital gains/losses %	-4.93	9.56	7.29			GREEN
Total treasury Investments – income return %	1.55	1.72	1.39			GREEN

Although external fund values are recovering, the Council's investments in external funds are still showing an unrealised loss, however as this is less than the Council's risk reserve for fair value losses, the score has been updated to Green.

Security

	Average Credit Score Time weighted (lower = better)	Average Credit Rating Time weighted	Bail-in exposure (lower = better)	
31 March 2021	4.54	A+	27%	
30 September 2021				GREEN
Similar Local Authorities				

Liquidity

	7 day liquidity	100 day liquidity	Average maturity	
31 March 2021	11%	33%	103 days	
30 September 2021				GREEN
Similar Local Authorities				

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

Sector	Time limit	Counterparty limit	Sector limit	Complied/Exception Ref
The UK Government	25 years	Unlimited	n/a	Complied
Local authorities & other government entities	10 years	£5m	Unlimited	Complied
Secured investments	10 years	£5m	Unlimited	Complied
Banks (unsecured)	13 months	£3m	Unlimited	Complied
Building societies (unsecured)	13 months	£3m	£5m	Complied
Money market funds	n/a	£5m or 0.5% of fund value	Unlimited	Complied
Strategic pooled funds (excluding LAPF)	n/a	£5m	£30m	Complied
Strategic pooled funds (CCLA - LAPF)	n/a	£10m	£10m	Complied
Real estate investment trusts	n/a	£2m	£4m	Complied
Other investments	2 years	£3m	£5m	Complied

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 (£2.5m).

	31/3/21 Actual	2021/212 Limit	
Upper limit on one-year revenue impact of a 1% change in interest rates	£0.39m	N/A	N/A

This limit is only calculated as at 31 March each year.

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:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end*	£40m	£40m	£40m
Limit on principal invested beyond year end	£60m	£60m	£60m
	Complied	Complied	Complied

* expected figure

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	30 September 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	This indicator is only calculated and reported as at 31 March each year.
Net operating surplus	This indicator measures the contribution received from the investment portfolio at a net level (income less costs) over time.	This indicator is only calculated and reported as at 31 March each year
Vacancy levels and tenant exposure	Monitoring vacancy levels to ensure the property portfolio is being managed productively.	Voids at 30th September 2021: <ul style="list-style-type: none"> • Industrial 1/15 • Retail 2/26 • Offices 2/8 Total 5/49 = 10.2% (20/21 14.3%)
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.	See main report section 5

