WARRINGTON BOROUGH COUNCIL CONSERVATIVE COUNCILLORS GROUP

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TITLE OF REPORT: **Response to WBC's Post-Completion Review of its Investment in the Altana Corporate Bond Fund**

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18	9 April 2024	Final	Updated following feedback from Altana Wealth Limited

Although this is the Final Version of the Report (Version 18), the author is still happy to receive any further comments or suggestions.

1 FOREWARD

Since May 2022 I have been the Leader of the Warrington Borough Council Conservative Councillors Group, the largest opposition Group on Warrington Borough Council (WBC). Members of the Conservative Group have previously criticised WBC's choice of investments including Redwood Bank, Together Energy, Mailbox REIT plc. as well as the Altana Corporate Bond Fund.

I have tried to be objective in this report, but readers should be aware that my views may not be representative of WBC and that I have previously spoken about the scale and risks of the Council's investments made for the purposes of financial return.

I am very grateful for the help and advice of colleagues in drafting this report. The views expressed are my own, and any criticisms should be taken as being directed at the Council organisation and political leadership rather than at any individual.

Prior to the release of this Report, I have shared draft versions with WBC, Altana Wealth Limited and the Leader of WBC. I am grateful for any feedback received and I hope that I have accurately addressed any comments and suggestions.

This report is produced in my capacity as a Ward Councillor for Birchwood in Warrington and Leader of the Conservative Councillors Group on WBC. The purpose of the report is to help hold the Council to account and to find ways to improve the Council's Treasury Management processes. I regard this work as a serious responsibility for myself and all Councillors in Warrington.

It has not been the purpose of this report or my intention to criticise Altana Wealth Limited.

Councillor Nigel Balding (Birchwood)

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2 EXECUTIVE SUMMARY

The Altana Corporate Bond Fund UCITS (ACBF) is a hedge fund specialising in sub-investment grade bonds (junk bonds). In 2018 Officers of Warrington Borough Council changed WBC's investment strategy and invested £10m in the ACBF, authorised by "delegated authority". Very few details of the investment were subsequently reported to the Council and these reports to WBC were misleading about the nature of the investment and lacked important details such as the name of the fund.

In 2023 Bloomberg published an article highlighting WBC's investment in junk bonds, which came as a shock to Warrington Councillors. Much of the insight into the ACBF investment in this report had to come from independent sources rather than WBC, which is of great sadness and concern to the author.

This report considers WBC's decision-making when it invested in the ACBF. Based on the information available, this report concludes that the decision-making process did not include the necessary consultation or consideration of alternative options to comply with the Council's Constitution. The report also concludes that elected Councillors should have made this decision rather than Council officers.

This report also reviews WBC's Treasury Management reporting of the ACBF in since 2018. WBC's reports show a lack of openness and transparency for this investment, which is symptomatic of the reporting of most other WBC Treasury investments. Omissions, mistakes, lack of clarity, and late reporting have all been preventing proper audit and scrutiny of the ACBF investment by Councillors or by Warrington residents.

Local authorities are required to follow statutory guidance in the process of their treasury management activities and there is also guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). An analysis of WBC's management of the ACBF investment shows a wide gap between the Council's actions and the spirit or the letter of this guidance.

The report provides detailed recommendations for improvement and suggests lessons to be learnt. Although some of these ideas have been suggested before, it is hoped that this report's analysis will further support the case for change. I hope WBC will consider these recommendations and respond formally as soon as possible.

In my opinion, there remains further urgent work for the audit and scrutiny of other Warrington Treasury investments, particularly the Altana Wealth Managed Account and the M7 investments including Mailbox REIT plc which poses an ongoing significant financial risk to the Council.

3 CONFIDENTIAL OR EXEMPT

This report is not confidential or exempt.

4 EQUALITY AND DIVERSITY / EQUALITY IMPACT ASSESSMENT

There are no identified Equality and Diversity issues associated with this report.

5 CONSULTATION

This report has been produced with the help and advice of Conservative colleagues. I am, as always, also very grateful for briefings from WBC officers. Prior to release the report was shared with WBC, Altana Wealth Limited, the Leader of the Council and the Cabinet Member for Corporate Resources.

WBC provided limited feedback mainly on the layout of the report and the need to consult with Altana. Helpfully, Altana responded quickly by email. There has not yet been any feedback from the Leader of the Council or Cabinet Member for Corporate Resources, although I am hopeful that we will be able to meet to discuss after publication.

6 INTRODUCTION

In 2018 Warrington Borough Council invested £10m in the Altana Corporate Bond Fund (ACBF). This investment was held by the Council until recently when WBC decided to sell and closed its investment after a few months.

The ACBF has now been redomiciled from Ireland to the Cayman Islands.

Councillors are privileged to be able to ask for briefings from their councils, and these briefings are vital for understanding finances. However, the sources of investment information in this report are predominantly WBC's published Treasury Management reports, as well as other publicly available information which has taken some time and effort to find.

WBC describes the £10m ACBF investment as being made under "delegated authority", meaning that the decision was not made by elected councillors. The investment process was in two parts. Firstly, WBC's investment strategy was changed, and then £10m was invested into a new strategic type of financial instrument.

The WBC Constitution is not very clear about how a delegated authority for changes in Treasury Management Strategy work, so this report considers whether delegated authority did exist in this case.

On 13 November 2023 the author wrote a letter (Author's Letter) to the Chair of WBC's Audit and Corporate Governance Committee concerning the need for a review of the Council's investment in the ACBF. The Author's Letter suggested that the ACGC Committee should consider reviewing the associated decision-making, strategy, reporting arrangements and performance.

WBC officers replied to the Author's Letter in the form of a report entitled "Post Completion Review of The Altana Corporate Bond Fund" (the Investment Review).

The Investment Review and the Author's Letter were included in the papers for the ACGC meeting held on 18 January 2024. WBC officers presented their report, and a short debate took place between the five committee members and officers present.

As determined by majority vote at the ACGC, the author was not permitted to speak at the Committee concerning his letter or the Council's response (Investment Review), but this report provides an opportunity to feedback further thoughts and recommendations for consideration by Warrington Borough Council. This report also addresses newly discovered information which was not previously available.

Key

Quotes are provided in this report from several sources these are displayed in different ways to highlight their source as follows:

> Quote from the WBC Constitution.

> Quote from the UK Government's statutory guidance or the CIPFA Code of Practice.

> Quote from a WBC Treasury Management Report.

> Quote from the Author's Letter.

> Quote from the WBC Investment Review.

7 BACKGROUND

7.1 WBC Treasury Investments

WBC's Treasury management processes are based on internal and external rules and regulations. External rules include Acts of Parliament, Statutory Guidance, and the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice. Internal rules are included in WBC's Constitution and various strategy and policy documents agreed by WBC's Full Council. As an example, the following extract from the Statutory Guidance on Local Government Investments directs WBC to prioritise Security, Liquidity and Yield, in that order, when selecting Treasury management investment.

> 21. Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance.

Rules concerning WBC Treasury investments are included in the Council's Constitution under the Section for Treasury Management, Banking, Borrowing and Investment (rules FR82 – FR95).

In local government councillors are expected to make high level decisions having consulted with council employees (officers) for advice. These decisions are then implemented by officers. By necessity much decision-making is also delegated to officers.

By default, local authorities are not treated as professional investors by financial institutions. The Markets in Financial Instruments Directive (MiFID) regime (implemented in 2007) uses client 'categories' to recognise that investors have different levels of experience, knowledge, and expertise.

It tailors MiFID regulatory protections provided by investment firms to those investors accordingly. Under this regime, investors will either be retail clients, professional clients or eligible counterparties (ECPs)" https://www.fca.org.uk/publication/impact-assessments/mifid-ii-client-categorisation.pdf

Having reviewed its classification with financial institutions under the Market in Financial Instruments Directive (MIFID II), WBC has opted to be registered as a professional client with its financial services providers such as Altana.

Councillors aren't expected to have professional expertise in finance or treasury management and rely on WBC officers for advice. However, councillors can sometimes have financial or other experience having worked in different organisations, and ideally this should benefit WBC.

7.2 Altana Corporate Bond Fund (ACBF)

The Fund Manager, Altana Wealth Limited, described the background for the ACBF as follows:

> *The UCITS fund was launched in May 2014. From January 2016, Lee Robinson and Philip Crate took over the management of the fund. Global liquid credit with a credit rating of at least B- [S&P and Fitch or B3 (Moody's)]. Non-benchmarked strategy and as such no strategic allocation to any sector and country.*

In an awards ceremony organised by the Hedge Fund Journal in 2017 the ACBF was awarded the "Best Performing Fund in 2016" for the "Corporate Credit < US$100m strategy assets" category. It was one of sixty winners in different categories that year.

WBC is yet to acknowledge that it invested in ACBF shares, preferring to use the terms "bonds" or "units". However, it seems clear that different share classes were available in the fund depending on the investment currency required by the client. It seems highly likely that WBC would have invested in the GBP denominated shares.

SHARE CLASSES AND CODES

Fund Class	Description	Min Initial Investment	ISIN	Bloomberg Ticker	SEDOL
A EUR	Institutional / non-distributing	EUR 2500000	IE00BL3DKJ11	ALTCBAE ID	BL3DKJ1
C GBP	Institutional / non-distributing	GBP 2500000	IE00BL3DKL33	ALTCBCG ID	BL3DKL3
E EUR	Institutional / non-distributing	EUR 1000000	IE00BL3DKN56	ALTCBEE ID	BL3DKN5
I EUR	Retail / non-distributing	EUR -	IE00BL3DKS02	ALTCBID ID	BL3DKS0
O USD	Institutional / non-distributing	USD 2500000	IE00BNGN5N16	ALTCBOU ID	BNGN5N1

Before investing in the ACBF, WBC officers had previously worked with Lee Robinson, who is the founder and Chief Investment Officer at Altana, through their mutual involvement in Redwood Financial Partners Limited which is the parent company of Redwood Bank.

Revelations by Bloomberg provided the name of the fund in which WBC had invested, and this enabled councillors and the public to access more information provided on the Altana Wealth website https://www.altanawealth.com/acbf-fund-information. This information includes charts of the share price performance which is useful for comparison with WBC reporting over time.

7.3 Treasury Management Strategies and Reporting

In February each year WBC Officers present the next year's proposed Treasury Management Strategy statement (TMS) to the Audit and Corporate Governance Committee (ACGC). Following scrutiny, and potentially some changes, the ACGC makes a recommendation for the strategy to be adopted by the Council. The TMS forms part of the annual Budget which is approved by WBC's Full Council.

The ACGC also receives four quarterly reports on Treasury finances which are called:

- Treasury Management Quarter 1 Monitoring Report (September)
- Mid Year Treasury Review (November)
- Treasury Management Monitoring Report Quarter 3 (April)
- Treasury Management Outturn Report (July)

The WBC financial year runs from 1 April to 31 March, so quarterly reports are for the periods ending 30 June, 30 September, 31 December, 31 March. However, there is usually a gap of about two months between the end of each quarter and the presentation of the associated report to the ACGC.

7.4 Bond Ratings

The WBC TMS statements use the Fitch credit rating agency scales for categorising allowed investments.

Under the Fitch system long-term investment grade bonds are rated from AAA, AA, A, BBB (from highest quality to good quality) but these ratings may be somewhat vulnerable to changing economic conditions.

For short-term borrowing Fitch uses F1, F2, F3, B, C, RD and D. The category 'F2' is used in some of the WBC TMS entries means that a bond has a good intrinsic capacity for timely payment of financial commitments.

Fitch's categories from 'BB' to 'D' are non-investment (speculative) grade bonds. WBC's TMSs have sometimes included 'B' as a minimum category for an investment, and Fitch defines this as:

> *"Highly speculative - 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment."*

An additional +/- for AA through CCC levels indicates relative differences of probability of default (-) or recovery (+) for issues.

8 DECISION-MAKING

The Author's Letter and WBC's Investment Review both discuss the governance aspects of the decision-making process used in 2018 when WBC changed its TMS and invested in the ACBF. This report considers these decisions in the context of WBC's Constitution. The purpose of the analysis is to highlight any issues which might be useful for learning lessons for the future.

Decision-making is described in Parts 2-5 of the WBC Constitution as follows:

- Part 2 - How decisions are made.
- Part 3 - Who makes decisions.
- Part 4 - The rules for decision-making.

The Investment Review describes how WBC's Section 151 Officer changed the Treasury Management Strategy "under delegated authority" before investing £10m in the ACBF in September 2018. WBC subsequently reported these actions in a Mid Year Treasury Management report which was included in the papers issued for a WBC Full Council meeting held on 17 December 2018. The date of change for the TMS has not been reported.

8.1 How Decisions are Made

Part 2 of the WBC Constitution includes how the Council makes decisions using different bodies within the Council including Full Council, the Cabinet and other Council Committees, and Council Officers. There are eight principles of decision-making in WBC, and these are shown below (my highlighting).

(i) proportionality – the action must be proportionate to the desired outcome

(ii) due consultation and the taking of professional advice from officers

(iii) respect for human rights

(iv) a presumption in favour of openness

(v) clarity of aims and desired outcomes

(vi) having considered the financial implications and any risk involved in the decision

(vii) having explained what if any viable options were considered

(viii) giving reasons for the decision

8.1.1 Due Consultation

In terms of the decision-making principle of "**due consultation**", it is important to consider whether this could have been followed more closely, particularly as such a large sum of money was involved and there is no record of WBC Councillors being consulted.

Decisions involving over £250k are usually referred to WBC's Cabinet. In this case there is an opportunity for other Councillors to "call-in" decisions for scrutiny if they think they have not been made correctly. The ACBF decision was 40 times the minimum requirement for a Cabinet decision, and it was a departure from an investment strategy which had previously been agreed by Full Council.

Under the Constitution the Audit and Corporate Governance Committee (ACGC) is charged with the scrutiny of the Council's Treasury Management Strategy but the Investment Review suggests that there was not enough time or opportunity to formally consult with the ACGC before making the decisions.

The Investment Review describes how WBC was "carrying a lot of cash" at the time of the investment, that overnight deposits were paying in the region of 0.1% and that these deposits were insecure. However, the ACBF had been in operation since January 2014 and WBC had been "carrying cash" for some time, so it is difficult to see how this decision was urgent or that due consultation had been fully carried out without consulting Cabinet or the ACGC.

The Investment Review gives reasons why the ACBF was selected, including reporting that it was an award-winning fund (The Hedgefund Journal, UCITS Awards 2017 – Corporate Credit < US$100m Strategy Assets Best Performing Fund in 2016).

The Investment Review discusses the riskiness of investments in non-investment grade bonds, saying that the ACBF only invested in the "low risk category" and described the term "junk bond" as emotive.

> 7.3 The term Junk Bond is an emotive term to describe non-investment grade bonds. However, there are different levels of risk within the category and the Altana Fund invested in the low risk category. The Altana Fund is also a regulated UCITS Fund in that no single position may account for more than 10% of the fund.

However, Bloomberg reported that the ACBF was invested in bonds that many asset managers shun such as Credit Suisse's additional-tier 1 debt which was valued at less than 10% of face value.

The term "junk bond" is well defined in financial markets and widely used in the media. Both WBC's ACGC and its Cabinet Committee should have been made aware that WBC was investing in this sector of the financial markets. Councillors should be able to consider the financial risks and the potential for reputational damage for any new investments which have not been previously agreed by the Full Council.

The Investment Review says that WBC officers took advice before making the ACBF investment, but it is usual procedure for local authorities that councillors would be fully informed before such a large decision was considered and that the councillors themselves would sign it off.

WBC Treasury Management papers show that the first investment in the ACBF was made on 7 September 2018. The dates of meetings of the ACGC around this time were: 26 July 2018, 16 October

2018, and 17 January 2019. Full Council meetings were held on 18 June 2018, 24 September 2018, 29 October 2018, and 17 December 2018.

Perhaps some eyebrows would have been raised if WBC Councillors or residents had noticed a change from investing in investment grade bonds to a new strategy which included a substantial commitment to investing in junk bonds.

The decision-making process should have taken some time because of the need to take advice from several people within the Council as well as, potentially, external advice. The purpose of a strategy is to direct actions, so this should have come first.

Communicating a draft change to the TMS internally and then updating the Treasury Management Practices (TMPs) would both have been required. This should have been followed by the consideration of the potential investments available to meet this new strategy. Any candidate investments found would require due diligence before making a purchase, and the Investment Review gives a substantial list of due diligence that has been recorded.

> 3.1 The Council carried out a full internal due diligence of the fund before investing. This included a detailed analysis of the following key documents:
>
> - Presentation Pack of the fund containing key data such as investment strategy, past performance, Altana data, fund terms etc
> - Fund Fact Sheet
> - Risk Report
> - CBI Authorisation Letter
> - CVs of Fund Managers
> - Prospectus
> - Policy Documents
> - Certificate of Incorporation
> - Prime Brokers/Custodians and Administrator
> - Confirmation from lawyers that no legal cases pending against Management Company
> - Latest Audited Financial Statements
> - Company Organogram
> - Proof of Professional Indemnity cover taken out by the Management Company and Fund
> - Regulatory Certificates/Licences for the Manager and Fund
> - Copy of Investment Management Agreement including Fund restrictions
> - Due Diligence Questionnaire

The process leading up to making an investment in the ACBF on 7 September 2018 should have taken several weeks or months, so it seems strange that a change made to the TMS was not brought to the attention of Councillors before the investment. A change in TMS could have been presented to the ACGC on 26 July 2018, or an extra meeting arranged. If this was not possible then the investment decision could have been delayed until after the TMS change had been agreed at the ACGC on 16 October 2018.

At the least, it seems fair to say that the decision is controversial in terms of the due consideration undertaken.

8.1.2 Alternative Options

Decision-making principle **(vii)** is that alternative options are considered before making a decision. The Author's Letter (below) suggested looking at the other viable options which were considered but unfortunately these are not listed in the Investment Review. There would have been other available options for larger and more liquid funds, funds with a longer track record, and funds which invested in investment grade bonds. Many other funds would also have fitted into the existing Treasury Management Strategy.

> WBC's treasury management practices in 2018 included the following statement:
>
> > ***TMP3 - Decision-making and analysis*** *– the Council will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.*
>
> The ACGC might wish to consider these details in connection with the ACBF investment from 2018 - 2023. Reference could be made to the other options available at the time.

The selection of the ACBF brought new risks to WBC, such as the specialist nature of the fund and its small size (September 2018 - Fund AUM: €43,347,000).

If WBC followed principle (vii) before investing in the ACBF then it should show this by providing more information about the alternative viable options considered.

8.2 Who Makes Decisions

Part 3 of the Constitution contains Section A - "Responsibilities of Council, Cabinet, and other Regulatory Committees". Within this, at Sub-Section 3 – "Responsibilities of the Cabinet" the Constitution describes how the Cabinet has responsibility for Budget decisions and is accountable to the Council (Full Council).

Sub-Section 3 explains that Cabinet has responsibility for any remedial actions for the Budget, and this is relevant because the Treasury Management Strategy is part of the Budget. The Constitution text is as follows:

> 3.3 The Cabinet is responsible for and accountable to the Council, where appropriate, for the following functions recognising that certain functions discharged by Officers or services within its remit fall, by virtue of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) and any subsequent amendments thereto, to be discharged by the Council, a Regulatory Committee or Sub-Committee or other appointed Committees or Sub-Committees:
>
> ....
>
> f) within the Policy and Planning Framework and Budget, agreeing any remedial action which may be necessary to ensure that the relevant requirements of Council plans and policies are met;
>
> ....

Based on this text, the Cabinet as well as the ACGC should have had the opportunity to agree to the proposed changes to Council's Treasury Management Strategy which had previously been agreed in the Budget. This may be even more obvious now as the decision to invest £10m in a fund containing junk bonds was controversial and the associated press interest (Bloomberg, BBC) was arguably embarrassing to WBC.

8.3 The Rules for Decision-Making

8.3.1 Budget and Policy Framework

Part 4 of the WBC Constitution is "Rules of Procedure" and Section D of this is the "Budget and Policy Framework Procedure Rules" which includes the following regarding decisions contrary to the Budget (Rule 4).

> **4. Decision-Taking contrary to the Policy and Planning Framework and the Budget**
>
> 4.1 Subject to paragraphs 5.1 to 5.4 below the Cabinet (including any Committee or Sub-Committee of the Cabinet), or any body or person discharging Cabinet functions may only take decisions which are in accordance with the Framework and the Budget. Where there is a need or a wish to take a decision contrary to this requirement, in whole or in part, then the decision in question can only be taken by the full Council unless the matter is urgent as defined in 5.1 – 5.4 below.

It is not clear that an investment in the ACBF was an urgent decision. If not, then the decision would have been contrary to the Budget and delegated authority would not have applied. Even if the decision had been urgent then it is not clear that it was allowed under the referenced Sections 5.1 – 5.4.

8.3.2 Delegated Authority

The Report discusses below the rationale for using delegated authority to invest in the ACBF:

> 5.1 At the time of setting the 2018/19 Treasury Management Strategy authorisation to invest in this type of counterparty was not in the strategy. It is standard practice across Local Government that the Section 151 Officer is the Responsible Officer for treasury management as recorded in the Council's Treasury Management Practices Statement. The Section 151 Officer can make changes to Treasury Management Strategy in year as long as the decision is reported to a future meeting of the Audit & Corporate Governance Committee (A&CGC) and Full Council. The Section 151 Officer authorised the investment under delegated powers before the investment was made.

To understand how the TMS can be changed mid-year it is necessary to examine Clauses 3 and 4 in the Financial Procedure Rule FR82 of WBC's Constitution. FR82 starts with:

> **The CIPFA Code of Practice on Treasury Management (2009)**
>
> **FR82** The Council has formally adopted the CIPFA Code of Practice on Treasury Management (2009) and the following 4 clauses:

The CIPFA Guidance provides a template for local authority constitutions and WBC's Constitution is based on this. The template from the CIPFA Treasury Management in the Public Services 2021 edition for Clauses 3 and 4 is:

> 3 This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to [note 1], and for the execution and administration of treasury management decisions to [note 2], who will act in accordance with the organisation's policy statement, TMPs and IMPs, and if they are a CIPFA member, CIPFA's Standard of Professional Practice on treasury management.
>
> 4 This organisation nominates [note 3] to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

WBC's corresponding Constitution text since 2018 (shown below) is the same as the CIPFA template except for one additional sentence in each clause. These sentences are highlighted below. The added texts are key to understanding how the ACFB investment could, or could not, have been made correctly.

> iii) This Council delegates responsibility for the regular monitoring of its treasury management policies and practices to the Audit and Corporate Governance Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. The Section 151 Officer can make in year changes to the Council's treasury management strategy, these changes must be reported to the Audit and Corporate Governance Committee at the next available meeting.
>
> iv) This Council nominates the Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and making in year changes to the treasury management strategy.

Changes are allowed to the template text under the CIPFA Code as described by this clause:

> CIPFA recognises that some organisations may not find the TM Code's recommended or proposed forms of wording to be precisely suitable to their circumstances. An organisation may, where it can justify doing so, make alterations to the recommended or proposed wording without adversely affecting its stated adoption of the TM Code, so long as, when taken as a whole, those alterations do not result in an organisation materially deviating from the TM Code's key principles as described in Section 4.

The CIPFA Code Key Principle 2 is key to understanding this additional text in WBC's Constitution.

> KEY PRINCIPLE 2
>
> Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Without the wider context of the Constitution discussed above, the WBC text change to Clause iii) implies that the Section 151 Officer can make a change the TMS without scrutiny; TMS changes just need to be reported after they have come into effect.

If this interpretation is correct, then it means that the Section 151 Officer can change WBC's TMS at any time and then invest in whatever they think is best. This might include junk bonds, crypto currency, or magic beans for example. However, this would put the security of WBC's Treasury at risk so the change on its own would not be compliant with the CIPFA Code.

On its own the WBC change to Clause iii) might be in breach of the CIPFA Code Key Principle 2 as it reduces "control of risk" to the Treasury due to the lack of due consultation. However, the addition to the text in the WBC Clause iv) might provide the necessary balance. The additional Clause iv) text leaves room for improvement in clarity but it could be interpreted as saying that in-year changes to strategy made by the Section 151 Officer must be approved by the ACGC; this must happen before implementation otherwise the CIPFA Key Principle 2 is broken.

8.3.3 Audit and Corporate Governance Committee (ACGC)

The Investment Review describes how the proposed change to the TMS did not arrive at the ACGC for approval as required by the Constitution. Instead, the change to the TMS was included in the 2018/19 Mid Year Treasury Review and sent to Full Council. The WBC Constitution is also clear that the Mid Year report must be sent to the ACGC. The Investment Review (see below) comments that "it is normal practice for the Mid-Year Treasury Review to go to the Audit & Corporate Governance Committee for approval".

> 5.2 The Treasury Management Strategy was amended to account for this investment catergory and reported to Full Council on 17 December 2018. The details can be found on in section 4 paragraph 4.2 and the recommendation on section 20.1 of the report. It is normal practice for the Mid-Year Treasury Review to go to the Audit & Corporate Governance Committee for approval before going to Full Council. In 2018 there was no room on the agenda of the November A&CGC for the report. It was thus agreed with the Chair of A&CGC that it would not go to A&CGC but straight to Full Council. However, the report was sent to all members of A&CGC for comments in advance of the Full Council report being sent out. A full e-mail audit trail of the approval exists. The rational of this decision was that the next available A&CGC was not until January 2019 which would have meant the report going to Full Council in February 2019 and would have resulted in the report being 5 months out of date by then.

In addition to the WBC Constitution and TMS documents is the CIPFA guidance on Treasury Management. The Section below, from CIPFA guidance on decision-making, makes it clear that decisions should be subjected to prior scrutiny. At WBC the ACGC is nominated for Treasury Management Scrutiny. This text reinforces the view that a change in TMS should have been approved by the ACGC in advance of a new category of investment being made.

TREASURY MANAGEMENT IN THE PUBLIC SERVICES CODE OF PRACTICE AND CROSS-SECTORAL GUIDANCE NOTES

1.3 DECISION MAKING AND ANALYSIS IN THE PUBLIC SERVICES

CIPFA considers it vital that the treasury management decisions of organisations in the public services should be subjected to prior scrutiny. The treasury management strategy is approved annually by full board/council, which is a strength. The treasury management strategy should be supplemented by the provision of monitoring information and regular review by board members/ councillors in both executive and scrutiny functions.

As shown below, the Investment Review indicates that, very unusually, the paper describing the TMS change was missed from the ACGC meeting because "there was no room on the agenda". This is surprising, not only because of the importance of this change but also because ACGC meetings were, at the time, relatively short Council meetings (compared to the Development Management Committee for example, which can take four hours).

5.2 The Treasury Management Strategy was amended to account for this investment catergory and reported to Full Council on 17 December 2018. The details can be found on in section 4 paragraph 4.2 and the recommendation on section 20.1 of the report. It is normal practice for the Mid-Year Treasury Review to go to the Audit & Corporate Governance Committee for approval before going to Full Council. In 2018 there was no room on the agenda of the November A&CGC for the report. It was thus agreed with the Chair of A&CGC that it would not go to A&CGC but straight to Full Council. However, the report was sent to all members of A&CGC for comments in advance of the Full Council report being sent out. A full e-mail audit trail of the approval exists. The rational of this decision was that the next available A&CGC was not until January 2019 which would have meant the report going to Full Council in February 2019 and would have resulted in the report being 5 months out of date by then.

This statement also suggests that the Chair of the ACGC might have been advised by officers to move the scrutiny of the 2019-20 Mid Year Treasury Review to the Full Council meeting agenda. If this advice was given, then it would have been inappropriate, given the lack of scrutiny available at Full Council. This would also have been in breach of the WBC Constitution (2018-23 – FR82), which says:

iv) This Council nominates the Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and making in year changes to the treasury management strategy.

9 INVESTMENT TIMELINE

This Section describes the events connected with WBC's investment in the Altana Corporate Bond Fund UCITS (ACBF). They include WBC's Treasury Management Strategy (TMS) changes; WBC Treasury reports provided to the WBC Audit and Corporate Governance Committee (ACGC); and events for the ACBF itself.

9.1 Events for Review in Date Order (dd/mm/yyyy)

9.1.1 12/09/2017 WBC Invests in Redwood Financial Partners Ltd

WBC purchased shares in Redwood Financial Partners Ltd. This event is included here as there is a connection with the CIO of Altana Wealth, who is also a shareholder, and as it might have been a turning point before subsequent changes in approach for WBC Treasury Management.

9.1.2 Treasury Management Strategy 2018/19 (meeting 14/02/2018)

The February 2018 meeting of WBC's ACGC recommended a change to the TMS authorising the investment of up to £50m of Treasury monies into junk bonds.

9.1.3 ACBF Due Diligence

A date has not been given for WBC's due diligence before making its first investment in the ACBF on 7 September 2018.

The Author's Letter requested a description of the ACBF provided to WBC before it made its investment decision.

1. **Due diligence.** What was the description of the ACBF provided to WBC before it made its investments? Did this make it clear that the investment would include junk bonds or any other financial instruments which would not be described as "investment grade"? Under what authority was this investment decision made? For example, delegated authority, and were any Councillors made aware that the investment would include junk bonds?

Comment

The Investment Review lists a series of documents that are "saved and available for future audit inspection if required", however these have not been made available for Councillors. Several of these documents, like the Prospectus, would have been public documents, although they are not easily accessible.

WBC Councillors have requested to see documents such as those listed in the due diligence; however, these requests have been declined due to confidentiality, ignored, or blocked by saying that permission must be provided by the Leader of the Council.

9.1.4 07/09/2018 Investment in ACBF first made.

WBC invested an initial £5m in the ACBF on 7 September 2018 and another £5m was invested on 12 October 2018. However, the dates of investments were not reported until September 2019 (one year later).

At the time of the investment WBC's 2018/19 TMS included:

- Non-specified investments of up to £20m in corporate bond funds (Short term "F2", Long term "A") up to a limit of £20m; and
- Non-specified investments of up to 2 x £5m in Bond Funds ("AA").

The ACBF contained bonds of a lower credit rating ("B" to unrated) so it was not compliant with WBC's TMS as published at this time.

9.1.5 30/09/2018 Report to Full Council Quarter 2 (meeting 17/12/2018)

The 2018-19 Mid-Year Treasury Review presented to Full Council described an investment in "a corporate bond to Altana Wealth".

> 4.5 Investments and borrowing during the first six months of the year have been in line with the strategy, and there has been one deviation from the strategy with an investment to a corporate bond to Altana Wealth, as detailed in 4.2. Further details of the Council's investment and debt portfolio can be seen in section 5 and 6 below.

Comment

The text in this report might easily have been interpreted as meaning that WBC invested in corporate bonds issued by a company Altana Wealth. Instead of saying "a corporate bond to Altana Wealth" a more accurate description should have been used like "£10m investment in shares in the Altana Corporate Bond Fund UCITS".

Later, in the Mid Year Treasury Review, a list is provided of investments as of 30 September 2018.

> 6.2 The total of the Council's investments as at 30th September 2018 was £66m. The investment portfolio yield for the first six months of the year was 4.44%. A breakdown of which is given below:

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
CCLA	30/04/13	30/04/23	4.955	13,515,171
Willersey Solar Bond	13/10/14	01/08/18	7.000	0
Solar Bonds 1 - Rolls Royce	30/10/15	30/10/20	6.000	5,000,000
Solar Bonds 2 - Swindon	07/09/16	30/09/18	5.000	0
Solar Bonds 2 - Swindon	07/09/16	30/09/18	5.000	0
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
Solar Bonds 2 - Swindon	07/09/16	30/09/18	5.000	0
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
Solar Bonds 4 - Welsh	21/04/17	26/09/18	4.000	0
Solar Bonds 6b - Wirsol	24/08/17	21/09/18	4.000	0
Solar Bonds 6b - Wirsol	24/08/17	21/09/18	4.000	0
Just Cash Flow Bond	10/01/18	14/11/19	7.100	10,140,000
Total Investments				**29,204,215**

Comment

The Full Council meeting resolved to "note" the report and it was not subsequently brought for scrutiny at the ACGC meeting on 17 January 2019 (as seemingly required by the Constitution).

The reported list of investments (see above) on 30 September 2018 does not include what we now know to be the first ACBF investment for £5m made on 7 September 2018. However, there is £5m recorded as an overnight deposit with Altana Wealth. This anomaly might have been picked up if the report had been brought to the ACGC, but it is not something that would usually have been dealt with at a Full Council meeting when Councillors have many other things to consider and debate.

One of the roles of the ACGC is to scrutinise Treasury investments. Guidance notes for local authorities produced by CIPFA make it clear that strong scrutiny arrangements are required that can challenge decision-making.

> Local authorities may be tempted to use arguments around commercial sensitivity to reduce the transparency of decision making. It is vital that commercial sensitivity does not result in less rigorous decision making. Governance procedures should ensure that decision making takes place in as open and transparent a manner as possible. Where commercial sensitivity genuinely prevents full transparency, local authorities should put into place strong scrutiny arrangements that can still challenge decision making while respecting commercial confidentiality and subsequent arrangements for reporting on the detail of decisions and scrutiny review.

The 2018-19 Mid-Year Treasury Review describes a change in TMS which was made by the WBC Section 151 Officer under delegated powers specified in the Constitution.

> 4.2 There has been one change to the TMSS with the inclusion of a new investment instrument which was agreed by the Section 151 Officer under delegated powers :

Collective Investment Schemes structures as Open Ended Investment Companies (OEICs)			
	Credit Criteria	Maximum Limit	Maximum Maturity Period
Corporate Bond	Allowing B to Unrated	£20m	1 year

Comment

The change described in 4.2 was required to allow the ACBF investment to comply with the Treasury Management Strategy. However, the description of the investment category in 4.2 is imprecise and the Councillors who approved the change in strategy might not have imagined that "Corporate Bond" would include small investment funds which invest primarily in sub-investment grade bonds. In addition, the heading "Maximum Maturity Period" is confusing at best.

The Decision-Making Section of this report considers the delegated powers for changes to the TMS as the WBC Constitution text does not seem clear on this point.

9.1.6 Treasury Management Strategy 2019/20 (meeting 07/02/2019)

The TMS presented to the ACGC in February 2019 included the changes which were described in the Q2 Mid-Year Treasury Review which was included in the papers for noting at the December 2018 Full Council meeting.

The TMS included the reference to bond funds with credit criteria of “B- and unrated debt issuers”.

9.1.7 31/12/2018 Report to ACGC Quarter 3 (meeting 20/03/2019)

The Q3 Treasury report shows a movement from £0 to £10m in the overnight deposits with Altana Wealth for the period 31 March 2018 to 28 February 2019.

3.9 The breakdown of fixed investments and the overnight deposits are shown below:

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
CCLA	30/04/13	30/04/23	4.930	10,515,171
Willersey Solar Bond	13/10/14	01/08/18	7.000	0
Solar Bonds 1 - Rolls Royce	30/10/15	30/10/20	6.000	5,000,000
Solar Bonds 2 - Swindon	07/09/16	30/09/18	5.000	0
Solar Bonds 2 - Swindon	07/09/16	30/09/18	5.000	0
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
Solar Bonds 2 - Swindon	07/09/16	30/09/18	5.000	0
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
Solar Bonds 4 - Welsh	21/04/17	26/09/18	4.000	0
Solar Bonds 6b - Wirsol	24/08/17	21/09/18	4.000	0
Solar Bonds 6b - Wirsol	24/08/17	21/09/18	4.000	0
Just Cash Flow Bond	10/01/18	14/11/19	7.100	10,140,000
Total Investments				**26,204,215**

Overnight Deposits Counter Party	Balance 31/03/2018 £	Balance 28/02/2019 £	Movement £	Yearly Avg Interest Rate %
Santander (A&L)	10,750,000	0	(10,750,000)	0.55%
Bank of Scotland	0	0	0	
Yorkshire Bank	0	0	0	
Nat West (Select Liquidity)	10,000,000	560,000	(9,440,000)	0.15%
Handelsbanken	0	0	0	
Legal and General MMF	0	0	0	0.65%
Federated (Prime Rate) MMF	0	31,070,000	31,070,000	0.71%
Aberdeen (Standard Life) MMF	0	0	0	0.53%
Deutsche MMF	0	0	0	
CCLA MMF	25,000	5,205,000	5,180,000	0.71%
Amundi MMF	0	0	0	0.70%
Altana Wealth	0	10,000,000	10,000,000	#DIV/0!
	20,775,000	**46,835,000**	**26,060,000**	**0.64%**

Comment

It seems strange that £10m is allocated to Altana as a “Overnight Deposits”. It also seems strange that there no entry in the “Fixed Investments” for the ACBF as purchased on 7 September 2018, so perhaps this relates to the money used purchase the ACBF. If so, then this is odd as the purchases were made before 28/2/2019 and the balance at that time would be expected to be £0.

Section 15. of the report entitled "Treasury Development" indicates two purchases.

15.6 **Altana Wealth Bond** – the TMSS was updated in the Mid-Year report to include the investment in a corporate bond instrument. Two £5m investments have been made with Altana Wealth.

Comment

Again, the text avoids naming the investment, which is Altana Corporate Bond Fund (UCITS).

9.1.8 31/03/2019 Report to ACGC Quarter 4 (meeting 25/07/2019)

The 2018/19 Outturn report describes "Altana Wealth" as a fixed investment with an interest rate of 3%.

10.4 Fixed investments have decreased by net £39.4m over the year due to the liquidation of solar bonds, the selling of £3m units from the CCLA fund and the purchase and the investment in the Altana Wealth financial fund. There have been further investments in Redwood Bank and Birchwood Business Park. The movement in investments during the financial years 2018/19 were:

Counterparty	2017/18 Actual £000	2018/19 Actual £000	Net Movement in 2018/19 £000	Year Avg. Interest Rate %
Fixed Investments				
CCLA	13,515	10,576	(2,939)	4.77
Various Solar Bonds	51,500	5,000	(46,500)	5.00
LiveWire Energy	549	549	0	4.00
Just Cash Flow Bond	10,140	10,140	0	7.10
Altana Wealth	0	10,000	10,000	3.00
Total Fixed Investments	**75,704**	**36,266**	**(39,439)**	**5.31**

Comments

The figure of £10m on 31 March 2019 is the same amount as that invested. However, a real price for what we now know is the Altana Corporate Wealth Bond was very variable (see the chart in the Background Section of this report). Later Treasury Management reports, such as Q1 2019/20, describe the "Actual" figure as "Principal" and this figure is sometimes revised at the year end and repeated in the quarterly reports. Councillors might expect an Outturn report to describe actual figures which, at this time, would have shown an increase in value since investment.

We now know that the ACBF shares didn't pay interest, and probably no dividends either. Councillors might have expected an Outturn report to provide an accurate return figure. According to the figures provided by WBC for "Dividends", between 1 April 2018 and 31 March 2019 WBC received no returns on its £10m investment.

9.1.9 30/06/2019 Report to ACGC Quarter 1 (meeting 26/09/2019)

The Quarter 1 report references "Altana Wealth" with two transactions and gives dates for the first time. The reference to the Public Sector Social Impact Fund (PSSIF) is included below to show that this new investment relationship was being set up between WBC and Altana Wealth at the time. Figures were quoted as at 31 August 2019.

By the time this report was published the ACBF investment had been in place for 12 months, but this is the first time that WBC reports start dates, maturity dates, and interest rates.

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
CCLA	30/04/13	30/04/23	4.687	10,576,466
Solar Bonds 1 - Rolls Royce	30/10/15	15/04/19	6.000	0
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
Just Cash Flow Bond	10/01/18	14/11/19	7.100	10,140,000
Altana Wealth	07/09/18	31/03/20	3.000	5,000,016
Altana Wealth	12/10/18	31/03/20	3.000	5,000,032
Total Investments				**31,265,558**

3.12 **Altana Wealth Bond** – two investments totalling £10m are currently held and interest has been received at an annual equated rate of 3%.

13.8 **Public Sector Social Investment Fund** – a report is due to be submitted to Cabinet in September 2019 to create a fund with Altana Wealth who are an international Fund Management Company.

Comments

The "Maturity Date" (whatever this means) is not compatible with the TMS agreed by Full Council in 2018 which stated a "Maximum Maturity Period" of "1 year".

The table implies that the ACBF is a "Fixed Investment" with a maturity date and an interest rate. Most readers would understand fixed income in a similar way to the Investopedia definition for fixed income which is:

> *Fixed income broadly refers to those types of investment security that pay investors fixed interest or dividend payments until their maturity date. At maturity, investors are repaid the principal amount they had invested. Government and corporate bonds are the most common types of fixed-income products.*

The term "fixed investment" seems incompatible with what we now know was the nature of the ACBF.

The reported "interest" of 3% compares with the actual returns of cash to WBC which would have been more accurately reported as 0% in the previous year and 2% in the current year.

9.1.10 30/09/2019 Report to ACGC Quarter 2 (meeting 21/11/2019)

The Q2 report shows the figures for investments as at 31 October 2019 to be the same as reported two months earlier for Q1 report (as at 31 August 2019).

6.2 The total of the Council's investments as at 31st October 2019 was £105m. The investment portfolio yield for the first six months of the year was 5.7% on fixed investments. A breakdown of which is given below:

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
CCLA	30/04/13	30/04/23	4.687	10,576,466
Solar Bonds 1 - Rolls Royce	30/10/15	15/04/19	6.000	0
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
Just Cash Flow Bond	10/01/18	14/11/19	7.100	10,140,000
Altana Wealth	07/09/18	31/03/20	3.000	5,000,016
Altana Wealth	12/10/18	31/03/20	3.000	5,000,032
Total Investments				**31,265,558**

Comment

It seems strange that a date of 31 October 2019 was used for reporting investments in this report which covered the period ending on 30 September 2019. The previous Q2 Mid Year report recorded values to 30 September 2018, as might be expected.

The report for the previous year showed that the £5m "Solar Bonds 1 – Rolls Royce" (6% interest rate) had a maturity date of 30 October 2020. However, this year's report shows a maturity date of 15 April 2019 and £0 value. There does not seem to be an associated note in the report but perhaps this was sold early to finance the ACBF.

9.1.11 03/11/2019 "Dividend" – £200K

Using figures supplied in the WBC Investment Review paper we now know that WBC received cash of £200k on 3 November 2019.

9.1.12 Treasury Management Strategy 2020/21 (meeting 24/02/2020)

The TMS for 2020/21 reports the WBC Treasury Investments of £263m. This is a significant increase in the size of the Treasury from the previous year.

9.1.13 31/12/2019 Report to ACGC Quarter 3 (meeting 20/03/2020)

The ACGC meeting for 18 March 2020 was cancelled due to COVID-19. However, the report had been prepared and, although it is not included on the WBC website, it is available on request from the

Council. This report provides an update on the 2019/20 treasury activity and performance undertaken up to 29 February 2020.

3.9 The breakdown of fixed investments and the overnight deposits are shown below:

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
CCLA	30/04/13	30/04/23	4.871	10,576,466
Solar Bonds 1 - Rolls Royce	30/10/15	15/04/19	6.000	0
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
Just Cash Flow Bond	10/01/18	14/11/19	7.100	0
Altana Wealth	07/09/18	31/03/20	3.000	5,000,016
Altana Wealth	12/10/18	31/03/20	3.000	5,000,032
Surrey Council	20/12/19	20/01/20	0.780	0
South Somerset Council	23/12/19	20/01/20	0.780	0
PSSIF	28/01/20	24/01/25	3.000	20,000,000
Total Investments				**41,125,558**

Section 15. Treasury Developments included the following:

15.5 **Altana Wealth Bond** – the TMSS was updated in the Mid-Year report to include the investment in a corporate bond instrument. Two £5m investments have been made with Altana Wealth. The average return on the investment is 3.44%

Comment

It's not clear how the 3.44% average return on investment is calculated. Earlier tables in the report give figures up to the end of February 2019. A return of cash of £200k which WBC describes as a "dividend" was received on 9 July 2019 so a return of 2% on the principal sum would seem like a more reasonable figure to use.

9.1.14 31/03/2020 Report to ACGC Quarter 4 (meeting 23/07/2020)

The Q4 Outturn report shows a drop of 13.65% in the value of the ACBF.

10.6 The movement in all types of investment during 2019/20 is shown in the table below:

Counterparty	2018/19 Actual £000	2019/20 Actual £000	Net Movement in 2019/20 £000	Year Avg. Interest Rate %
Fixed Investments				
CCLA	10,576	10,198	(378)	4.86
Solar Bond	5,000	0	(5,000)	6.00
LiveWire Energy	549	549	0	4.00
Municipal Bond Agency	200	200	0	0.00
Warrington Sports Holding Ltd	1,650	1,331	(319)	0.00
Just Cash Flow Bond	10,140	0	(10,140)	7.10
Altana Wealth	10,000	8,635	(1,365)	-
Public Sector Social Investment	0	20,000	20,000	0.00
Various Local Authorities	0	270,000	270,000	1.33
Total Fixed Investments	**38,115**	**310,913**	**272,798**	**3.63**

11.6 **Altana Wealth Bond Fund**– the investment in a corporate bond fund was made but at the end of the financial year the value of the fund had reduced by 13% due to worldwide falls in the financial markets caused by Covid-19. This is the value of the investment at the end of the year. Any gains or losses on the investment will only be realised when the asset is sold. There is currently a statutory override and therefore no impact on the revenue account for the year.

Comment

The description given in 11.6 is closer to the underlying investment name than previous reports, but even so not all the words are used and not necessarily in the right order! Answer = “Altana Corporate Bond Fund UCITS”

For the first time the market value of the investment is shown in the report- which is great - but shouldn’t this always be given?

9.1.15 30/06/2020 Report to ACGC Quarter 1 (meeting 24/09/2020)

The Q1 report uses another new name for the ACBF investment for the first time - “Altana Wealth/Societe Generale”. The “Maturity Date” has been put forward by 12 months, the “Interest Rate” is a very precise 0.016%, and the “Principal” has been reduced in line with the figure used in the previous Q4 Outturn report.

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
Long Term Investments				
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
CCLA	30/04/13	30/04/23	4.456	10,198,172
Municipal Bond Agency	04/12/14	31/03/25	0	200,000
PSSIF	28/01/20	24/01/25	3.000	20,000,000
M7 Investment	03/04/20	03/04/23	3.000	2,000,000
M7 Investment	03/04/20	03/04/23	3.000	3,000,000
Altana Wealth Managed Account	17/04/20	17/04/21	3.000	10,000,000
Abundance for Liverpool Comm Hom	26/08/20	28/02/23	8.000	2,474,737
Warrington Sports Holding Ltd	01/04/00	31/03/25		1,331,375
Short Term Investments				
Altana Wealth/Societe Generale	07/09/18	31/03/21	-0.016	4,317,674
Altana Wealth/Societe Generale	12/10/18	31/03/21	-0.016	4,317,690
Kingston Upon Hull	11/03/20	14/04/20	1.000	0
Dover District Council	20/03/20	20/04/20	1.000	0

3.17 **Altana Wealth Bond** – two investments totalling £10m are currently held and the value of the fund at the end of the year was £8.635m due to the Coronavirus pandemic. The value of the units have increased to £9.617m as at 31.08.2020 and it is expected that the shortfall will be recovered in the coming months.

Comments

The negative interest rate figure in the Fixed Investments tables is a mystery as it does not relate to either the reduction in market value or the cash returned to date.

Section 3.17 is a reassuring update, and this was issued shortly after the improved valuation. This demonstrates that contemporary updates can be provided in Treasury Management reports.

9.1.16 30/09/2020 Report to ACGC Quarter 2 (meeting 19/11/2020)

Compared to the Q1 report the “Interest Rate” has improved from -0.016 to -0.014. The value for “Principal” has not changed.

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
Short Term Investments				
Altana Wealth/Societe Generale	07/09/18	31/03/21	-0.014	4,317,674
Altana Wealth/Societe Generale	12/10/18	31/03/21	-0.014	4,317,690

Comments

The report is describing figures as at 30 September 2020 but the figure for “Principal” has not been changed to reflect the changing marked value of the ACBF. However, there is a further update later in the report:

13.2 **Altana Bond Fund** – this is a low risk bond fund the Council invested in during 2019 for diversification reasons. The fund performed well in 2019 but due to Covid-19 the fund is currently 4% down on year to date (less than other Local Authority Bond Funds). The fund manager expects the fund to fully recover and move into positive returns during the coming months.

It's not clear what the investment valuation would have been at the beginning of the year. It would have been more transparent to tell Councillors how to monitor the fund share price and they could have looked the value up.

9.1.17 Treasury Management Strategy 2021/22 (meeting 01/03/2021)

The TMS is unchanged from the previous year concerning the bond funds.

9.1.18 31/12/2020 Report to ACGC Quarter 3 (meeting 17/03/2021)

The Q3 report shows an interest rate of 0% in comparison with -0.014% in Q2. Without explanation, the name of the investment has returned to "Altana Wealth" rather than "Altana Wealth / Societe Generale".

Fixed Investments Counter Party	**Start Date**	**Maturity Date**	**Interest Rate %**	**Principal £**
Warrington Sports Holding Ltd	01/04/00	31/03/25	0	1,331,375
CCLA	30/04/13	30/04/23	5.022	10,198,172
LiveWire Community Energy	29/02/16	28/02/26	4.000	301,499
LiveWire Community Energy	18/10/16	18/10/21	4.000	247,545
Municipal Bond Agency	04/12/14	31/03/25	0.000	200,000
Public Sector Social Impact Fund	28/01/20	24/01/25	3.000	20,000,000
M7 REIP IX Coupon Loan Note	03/04/20	03/04/23	3.000	2,000,000
M7 REIP IX Equity	03/04/20	03/04/23	3.000	3,000,000
Altana Wealth Managed Account	1704/20	17/04/21	3.000	10,000,000
Abundance Liverpool Community Homes	26/08/20	28/02/23	8.000	2,474,737
M7 Box+ I LP Coupon Loan Note	25/09/20	25/01/23	8.000	2,500,000
M7 Box+ I LP Equity	25/09/20	25/01/23	8.000	2,500,000
Altana Wealth Managed Account	29/09/20	30/09/21	4.500	5,000,000
M7 Box+ II LP Equity	27/10/20	27/10/23	8.000	25,000,000
Valley Ridge Holding Ltd	06/11/20	05/11/22	13.000	6,300,000
Technology Enhanced Oil	30/11/20	30/05/22	6.000	10,000,000
Altana Wealth	07/09/18	31/03/20	0.000	4,317,674
Altana Wealth	12/10/18	31/03/20	0.000	4,317,674
London Borough Waltham Forest	01/05/20	30/04/21	1.050	10,000,000
Total Investments				**119,688,692**

Comments:

The principal figure, which might be the market value, has not been updated in this report; however, the market valuation is mentioned in the following comment:

> 15.2 **Altana Wealth Bond** – two £5m investments have been made with Altana Wealth into a low risk bond fund during 2019 for diversification reasons. The fund performed well in 2019 but due to Covid-19 the fund was down. In December 2020 the fund moved into positive return.

The report says that WBC has invested into a "low risk bond fund" but no justification is provided for this statement. With hindsight it seems that the Council's opinion is not universally accepted.

9.1.19 31/03/2021 Report to ACGC Quarter 4 (meeting 22/07/2021)

The Q4 Outturn report shows a large increase from £8.6m to £25.8m in the value of funds with "Altana Wealth" at the end of the 2020/21 financial year. This compares with the Q3 report which shows investments of £8.6m.

10.5 The movement in all types of investment during 2020/21 is shown in the table below:

Counterparty	2019/20 Actual £000	2020/21 Actual £000	Net Movement in 2020/21 £000	Year Avg. Interest Rate %
Fixed Investments				
Warrington Sports Holding Ltd	1,331	1,331	0	0.00
LiveWire Energy	549	549	0	4.00
CCLA	10,198	10,125	(72)	4.95
Municipal Bond Agency	200	200	0	0.00
Public Sector Social Investment	20,000	20,122	122	3.00
M7 Real Estate Investment Property		33,425	33,425	8.8
Abundance for Liverpool Com. Homes		2,474	2,474	8.0
Valley Ridge Holding		6,300	6,300	13.0
Technology Enhanced Oil		9,379	9,379	6.0
Altana Wealth	8,635	25,872	17,237	3.37
Local Authority	270,000	10,000	(260,000)	1.05
Total Fixed Investments	**310,913**	**119,781**	**191,135**	**4.80**

Comments:

The increase from £8.6m to £25.8m in funds with the counterparty Altana Wealth is probably due to WBC investing with Altana Wealth Limited in a new way that is described as the "Altana Wealth Managed Account" (AWMA).

Putting ACBF and the AWMA together in the table under the heading "Altana Wealth" might suggest that WBC regards them as very similar, and this is further suggested by the similar TMS descriptions of "B- and unrated". If so then this is a concentration of category risk within WBC's Treasury.

Later on, the report comments on good news for the performance of ACBF.

> 11.9 **Altana Wealth Corporate Bond Fund**– the investment in a corporate bond fund was made in 2018/19. The value of the bond reduced at the end of 2019/20 due to worldwide falls in the financial markets caused by Covid-19. The bond has improved over this financial year and was valued at £10.581m at the end of the year. Any gains or losses on the investment will only be realised when the asset is sold.

Some further explanation for the figures would have added to transparency. The ACBF improved in value from £8.635m to £10.581m during the year (22.5% increase). However, the £15m of new money invested into the AWMA during the year does not seem to have changed value so significantly.

Investment	2019/20	2020/21	Movement
ACBF	£8.635	£10.581	+22.5%
AWMA	£15.000	£15.291	+1.94%

The 2021/22 Outturn report describes a performance for the AWMA of +5.86%. It is possible that cash was returned from the account which might explain the 1.94% increase in value; however, the reader can't be certain about what has happened.

This table considers counterparties, which is very important. However, the PSSIF (called the "Public Sector Social Investment" in the table) is 51% owned by Altana and might usefully have been grouped with the other Altana Investments when considering counterparties. Perhaps an Altana grouping with individual investments listed within the group would have been more transparent. For example:

Counterparty	2019/20 Actual £000	Additions / Withdrawals	2020/21 Actual £000	Net Movement £000	% cash return
Altana					
PSSIF	20,000	0	20,125	122	3.0
ACBF	8,635	0	10,581	1,946	0
AWMA	0	15,000	15,291	15,291	?

9.1.20 30/06/2021 Report to ACGC Quarter 1 (meeting 23/09/2021)

The Q1 report goes back to reporting on the individual ACBF investments and their alternative name "Altana Wealth / Societe Generale". It also shows more detail for individual investments into the Altana Wealth Managed Account (AWMA).

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal Jul/2021
Short Term Investments				
Altana Wealth/Societe Generale	07/09/18	31/03/22	3.680	5,290,813
Altana Wealth/Societe Generale	12/10/18	31/03/22	3.680	5,290,829
LB Waltham Forest	01/05/20	30/04/21	1.050	0
Altana Wealth Managed Account	17/04/20	17/04/22	3.000	10,194,145
Altana Wealth Managed Account	29/09/20	30/09/21	4.500	5,097,073
Altana Wealth Managed Account	17/06/21	17/06/22	3.500	500,000

Comments:

When totalled, the figures presented in the table match those reported at mid-year. The £10m investment made on 17 April 2020 has become £10.194m on 31 July 2021 (an increase of 1.94%) and the £5m invested on 29 September 2020 has become £5.097m (also an increase of 1.94%). However, it is strange to see that the £5m investment has an "interest rate" of 4.5% and for the £10m investment it is 3%.

It is likely that changes in valuation of four different investments took place in three months, but these were not reported.

It seems unlikely that that two investments in the AWMA had the same performance (1.94% increase) if they had different "interest rates".

9.1.21 30/09/2021 Report to ACGC Quarter 2 (meeting 18/11/2021)

In Q2 the figures for principal (market value?) are unchanged from Q1 but the interest rate has increased from 3.680% to 3.997%.

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal Sep/2021
Short Term Investments				
Altana Wealth/Societe Generale	07/09/18	31/03/22	3.997	5,290,813
Altana Wealth/Societe Generale	12/10/18	31/03/22	3.997	5,290,829

9.1.22 Treasury Management Strategy 2022/23 (meeting 28/02/2022)

The maximum investment per fund is reduced from £20m to £10m. This might suggest there was no appetite for further investment in the ACBF, and the Altana Wealth Managed Account was now the preferred investment vehicle with Altana.

9.1.23 31/12/2021 Report to ACGC Quarter 3 (meeting 14/04/2022)

The two figures for “Altana Wealth / Societe Generale” have been combined in this report and renamed “Altana Wealth Corporate Bond”. The interest rate is now 3.434%.

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal Feb/2022
Short Term Investments				
Altana Wealth Corporate Bond	07/09/18	31/03/22	3.434	10,581,641
Altana Wealth Managed Account	17/04/20	17/04/22	3.000	17,791,218

Comment:

The inconsistent changes in name are confusing or inaccurate and the aggregation / disaggregation of investments is not transparent.

9.1.24 31/03/2022 Report to ACGC Quarter 4 (meeting 21/07/2022)

The Outturn report shows an increase in value for the combination of the ACBF and the AWMA over the year. The “interest rate” is now 3.37%, changed from 3.434% at the previous quarter.

10.5 The movement in all types of investment during 2021/22 is shown in the table below:

Counterparty	2020/21 Actual £000	2021/22 Actual £000	Net Movement in 2021/22 £000	Year Avg. Interest Rate %
Fixed Investments				
Altana Wealth	25,872	28,911	3,039	3.37

In addition, comments were made on the ACBF and the AWMA.

11.8 **Altana Wealth Corporate Bond Fund**– the investment in a corporate bond fund was made in 2018/19. The bond has improved over this financial year and was valued at £10.738m at the end of the year. Any gains or losses on the investment will only be realised when the asset is sold. The funds are performing well and dividends received.

11.9 **Altana Wealth Managed Account** – in April and September 2020 £10m and £5m were invested with Altana Wealth into a managed account which has specific criteria of investments the Council would wish to invest in. A further two investments were made in 2021 of £500k and £2m. The fund is performing well and was valued at £18.172m at the end of the year and dividends received.

Comments

Disaggregating the £10.738m figure for the value of the ACBF at the end of the year from the total in 10.5 indicates the following changes:

Investment	2020/21 (m)	2021/22 (m)	Movement
ACBF	£10.581	£10.738	+1.48%
AWMA	£15.291	£18.173	+4.14% (after movements in capital)

The ACBF changed little in value over the year and did not provide a dividend. However, the AWMA increased more in the same environment.

The 2021/22 Outturn report describes a performance for the AWMA of +4.14% for 2021.

Adding 4.14% to the initial value and then adding £2.5m for additional funds gives a figure of £18.42m. Subtracting the final figure suggests that £250k was returned from the AWMA to the Council during the year.

Unfortunately, the Treasury Management reports do not give enough clear information to be sure about the performance of the investments.

9.1.25 30/06/2022 Report to ACGC Quarter 1 (meeting 22/09/2022)

The ACBF principal is stated to be £10,738,473 in line with the Outturn report, but the interest rate has dropped to 0.99%.

Fixed Investments Counter Party Summary	Start Date	Maturity Date	Interest Rate	Principal Jul/2022
Short Term Investments				
Altana Wealth Corporate Bond	07/09/18	31/03/23	0.99	10,738,473
Altana Wealth Managed Account	Various		3.00	18,172,103

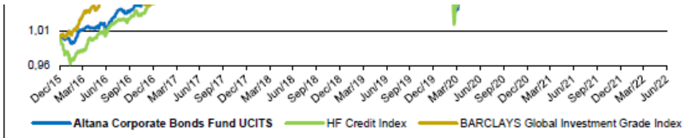
Comment:

As discussed elsewhere the "interest rate" column is very misleading. Newsletters for the Altana Corporate Bond Fund UCITS are available online and looking at newsletter dated June 2022 the "Current Weighted Average Yield" for the underlying investments was 10.5%.

ALTANA
WEALTH

Monthly Newsletter
June 2022

Altana Corporate Bond Fund UCITS



Fund Size	$46.14m
Current Weighted Average Yield	10.5%

Main Performance Contributors

	Top Performers	Bps		Worst Performers	Bps
1	ITRX 500 06/27 3MA	+21	1	NVFVES 5 06/15/25 REGS	-40
2	ITRX 100 06/27 3MA	+15	2	AAL 11.75 07/15/25 144A	-31
3	CMWAU 2.5 03/29/25	+1	3	VEDLN 8.95 03/11/25 REGS	-25
4	BACR 8.875 PERP	+1	4	VAL US	-22
5	GNKLN 0 12/15/34 B1	+1	5	MTNLN 6.75 01/31/23 REGS	-21

9.1.26 30/09/2022 Report to ACGC Quarter 2 (meeting 17/11/2022)

The Q2 report seems very similar to Q1 with the same "principal" and "interest rate" in September as those in July.

Fixed Investments Counter Party Summary	Interest Rate	Principal Sep/2022
Short Term Investments		
Altana Wealth Corporate Bond	0.99	10,738,473

9.1.27 Treasury Management Strategy 2023/24 (meeting 09/02/2023)

The TMS for bond funds is unchanged from the previous year.

9.1.28 31/12/2022 Report to ACGC Quarter 3 (meeting 15/03/2023)

The Q3 report shows a jump in interest rate from 0.99% to 4.81%. The columns for "start date" and "maturity date" are removed compared with Q3 in the previous year.

3.12 The breakdown of fixed investments and the overnight deposits are shown below:

Fixed Investments Counter Party Summary	Interest Rate Dec/2022	Principal Dec/2022
Long Term Investments		
LiveWire Community Energy	4.00	301,499
CCLA	4.12	11,902,947
ASIP	3.00	20,283,533
M7 REIP IX a	10.00	34,495,878
Technology Enhanced Oil	6.00	9,379,470
M7 Box+ Mailbox	7.00	14,490,716
Redwood Bank	6.50	4,200,000
Short Term Investments		
Altana Wealth Corporate Bond	4.81	10,738,473
Altana Wealth Managed Account	2.78	18,172,103
LiveWire Community Energy	4.00	247,545
Abundance for Liverpool Comm Homes	8.00	2,474,737
Total Investments		**126,686,902**

Comment

With the benefit of hindsight, the "interest rate" of 4.81% is very confusing as it does not relate to returns of cash or the overall return of the Fund. Instead, it shows the ACBF as providing an investment return which is broadly inline with the other investments in the table; this would have been reassuring to readers at the time.

9.1.29 31/03/2023 Dividend – £330K

The dividend is recorded for the ACBF on the last day of WBC's financial year. It equates to 3.3% on the original investment, or 3.07% on the principal recorded at the beginning of the financial year.

9.1.30 31/03/2023 Report to ACGC Quarter 4 (meeting 27/07/2023)

The Outturn report includes Altana Wealth as a counterparty and does not distinguish between the ACBF and the AWMA.

10.3 **Investments held by the Council** – An analysis of the Council's treasury management and non-treasury management investments is given in the table below:

Counterparty	2021/22 Actual £000	2022/23 Actual £000	Net Movement in 2022/23 £000
Altana Wealth	28,911	33,236	4,325

The report includes the following text for ACBF.

> 11.9 **Altana Wealth Corporate Bond Fund** - Altana Corporate Bond Fund (ACBF) is a short duration diversified bond fund that the Council invested in since 2018/19. Over the last five years the fund has generated a compound average net return of +1.78%; 2022/23 the Council received a return of £330k which equates to 3.3%.

and

> The Council has largely monetized the gains on its original investment by redeeming some of the units held in the fund. Warrington recently decided to redeem all its investment in ACBF. To date the Council has redeemed 60% of its holding in ACBF, with the intention of redeeming the remainder in due course.

Comments

This may be the first time that the name "Altana Corporate Bond Fund (ACBF)" has been used in a Treasury Management report, but it is not used consistently.

Looking forward to the next TM report, the 40% remaining investment in the ACBF is given a value for the principal of £4,331,743 which implies that 60% redeemed was valued at £6,497,615 and the total was £10,829,358 (up from £10.738m at the beginning of the year). If this is correct, then the values for Altana Wealth were split as follows:

Investment	2021/22 £000	2022/23 £000	Movement
ACBF	£10.738	£10,829	+2.3%
AWMA	£18.173	£22,407	+??%
Total	£28,911	£33,236	+??%

However, looking forward to the Q1 report, the principal for the AWMA was stated as £17,483k so it remains a mystery about how to reconcile these figures.

The valuation of £10,829k on 31 March 2023 suggests a return of 8.29% in capital and a total of £730k in cash by 31 March 2023. Together this is a total return of 15.59% at 31 March 2023.

The Author's Letter to the ACGC chair asked for figures for the return of capital for the ACBF, which have not been provided.

> 7. **Latest position.** In July 2023 the ACGC was informed that WBC had redeemed 60% of its holding in the ACBF and intended to redeem the remainder in due course. The ACGC might like to be updated with details of the latest financial position including all sales of ACBF units and the current valuation. In summary, what has been the capital return and average annual interest rates on those units sold and what is the projection for any units as yet unsold?

Additionally, a question to Full Council asked:

Question:
Please can the Cabinet Member Responsible for Corporate Finance confirm the total amount of all monies that were invested into units in the Altana Wealth Corporate Bond Fund as well as the total amount of monies that were returned on their sales.

An answer to a different question was provided in the review as follows:

6.1 The Council invested £5m in the bond fund on 7 September 2018 and £5m on 12 October 2018. The investment at the Council's request was repaid in full between March – October 2023. The Council has received all its investment back and positive returns of +9.5% over the investment period, averaging a yearly net return of c.+1.82%. In evaluating this investment, we need to evaluate interest rates over the last five years, not interest rates now. Over the last 5 years the UK base interest rate offered terrible returns, spent some time close to zero and averaged 1.26% over the last five-years.

The total returns of +9.5% on the sale of the ACBF suggest a loss of 6% in value between March and October 2023.

9.1.31 30/06/2023 Report to ACGC Quarter 1 (meeting 21/09/2023)

The Q1 report shows a principal of £4.331m which is presumably the remaining 40% of the ACBF shares.

Fixed Investments Counter Party Summary	Start Date	Maturity Date	Interest Rate	Principal Jul/2023
Long Term Investments				
LiveWire Community Energy	29/02/16	28/02/26	4.00	172,240
CCLA	30/04/13	30/04/24	4.95	9,940,722
Altana Social Impact Ptsp	28/01/20	24/01/25	5.50	20,606,150
M7 REIP IX a	03/04/20	03/04/25	10.00	1,865,678
M7 REIP IX b	03/04/20	03/04/25	10.00	1,053,852
M7 Box+ II LP	27/10/20	27/10/26	8.00	27,509,533
Technology Enhanced Oil	30/11/20	30/01/24	6.00	9,379,470
M7 Box+ Mailbox	13/05/21	13/05/26	7.00	9,000,000
Redwood Bank	16/12/21	10/03/30	6.50	4,200,000
Short Term Investments				
Altana Wealth Corporate Bond	07/09/18	01/04/24	3.26	4,331,743
Altana Wealth Managed Account	Various		3.00	17,843,023
LiveWire Community Energy	18/10/16	01/04/24	4.00	182,000
Abundance for Liverpool Comm Homes	26/08/20	01/04/24	0.00	2,474,737
Total Investments				**108,559,148**

- Council began the process of disinvesting in the Altana Bond Fund to reduce the Council's exposure to bonds and the higher overnight investment returns that can be made This will take several months to achieve without incurring losses as the bonds are liquidated when they mature. The fund has performed well during Q1 and the Council's period of investment, it being one of the top performing funds in the sector

9.1.32 30/09/2023 Report to ACGC Quarter 2 (meeting 14/11/2023)

The Quarter 2 report changes to using values for "Original Principal" which is different from the previous reports.

Fixed Investments Counter Party Summary	Start Date	Maturity Date	Original Principal	FV Principal Sep/2023	Principle Returned to Date	Dividends Estimated 23-24
Long Term Investments						
LiveWire Community Energy	29/02/16	28/02/26	301,499	172,240	- 129,259	6,890
CCLA	30/04/13	30/04/24	10,000,000	9,940,722	- 3,000,000	482,591
Altana Social Impact Partnership	28/01/20	24/01/25	20,000,000	20,606,150	0	2,060,000
M7 REIP IX	03/04/20	03/04/25	5,000,000	2,313,566	- 2,608,622	214,686
M7 Box+ II LP	27/10/20	27/10/26	25,000,000	22,300,000	- 10,501,569	1,784,000
TEO	30/11/20	30/01/24	9,900,000	9,900,000	0	593,437
M7 Box+ Mailbox	13/05/21	13/05/26	10,000,000	10,000,000	0	350,000
Redwood Bank	16/12/21	10/03/30	4,200,000	4,200,000	0	273,748
Short Term Investments						
Altana Wealth Corporate Bond	07/09/18	01/04/24	10,000,000	2,000,000	- 8,000,000	154,867
Altana Wealth Managed Account	Various		17,000,000	17,843,023	0	2,100,000
LiveWire Community Energy	18/10/16	01/04/24	247,545	182,000	- 65,545	3,271
Abundance for Liverpool Comm Homes	26/08/20	01/04/24	2,474,737	2,474,737	0	0
Total Investments			**117,223,780**	**102,336,908**	**- 24,304,995**	**6,208,279.71**

Comments

There is no clear mapping between the different reporting methods for "principal" and it is not clear what "FV Principal" means. The term could usefully be included in the report's Glossary of Terms.

In the 2021/22 Q4 Outturn report the total investments into the AWMA were reported as £17.5m. It states that investments were made on: 17 April 2020 £5m, 29 September 2020 £5m, 17 June 2021 £500k, 27 Sept 2021 £2m. However, the "Original Principal" for the AWMA is now reported as £17m. It would be reassuring to reconcile the differences, but the report data does not allow for this.

A statement indicating conclusion of WBC's ACBF investment is made later in the report:

As part of the Council's 2023/24 Treasury Management Strategy the Council made the decision to exit the bond form to reduce its exposure to bonds but also due to the high interest rates that could be earned in cash accounts and Money Market Funds. By 16 October 2023 the Council had fully exited the fund with all funds returned and no losses to principal occurring.

ACBF has generated a net return of +3.21% for the six-month period ending 30 September 2023. The fund outperformed the Barclays Global Aggregate IG Index (+3.21% vs. -1.62%) over the same period. UK government bonds generated a loss of -6.82% for the six-month

Comments

To complete a review of the ACBF investment it would be helpful to know details of the sales of shares in the ACBF.

9.1.33 19/10/2023 Dividend – £155K

WBC completed its investment on 16 October 2023, so this return of a "dividend" seems to coincide with this event.

Comment

WBC's Treasury Management reports have not previously been clear on the returns, and it is helpful that the Investment Review gives more details now.

6.1 The Council invested £5m in the bond fund on 7 September 2018 and £5m on 12 October 2018. The investment at the Council's request was repaid in full between March – October 2023. The Council has received all its investment back and positive returns of +9.5% over the investment period, averaging a yearly net return of c.+1.82%. In evaluating this investment, we need to evaluate interest rates over the last five years, not interest rates now. Over the last 5 years the UK base interest rate offered terrible returns, spent some time close to zero and averaged 1.26% over the last five-years.

The Investment Review statement 6.1 implies that a return of £950k was achieved over 5 years and separately it lists a total of £885k in "dividends".

WBC has not provided figures for the returns on the sales of the ACBF shares. However, rough calculations, based on the total returns, suggest that the value of the ACBF investment declined significantly between the last reported value in the Q3 report of £10.788m at December 2022 and the final sale of the investment.

9.1.34 31/12/2023 Report to ACGC Quarter 3 (meeting 11/04/2024)

This report has not been published yet.

9.1.35 08/02/2024 Treasury Management Strategy 2024/25

The TMS for 2024/25 has was agreed by the ACGC and Full Council at its Budget meeting on 26 February 2024. It includes the AWMA as a specified investment which seems like a successor to the ACBF but larger in size.

10 TREASURY MANAGEMENT

10.1 Treasury Management Strategies

The ACBF was a different type of investment for WBC, so the Council changed its Treasury Management Strategies (TMSs) over the investment period to accommodate this. The sections below discuss each year's TMS in turn and how they were changed to communicate and agree any new Council investment plans.

10.1.1 Treasury Management Strategy 2017/18

At the beginning of the financial year 2017/18, the WBC Treasury included £81m of investments and the TMS included only a little scope for investing in corporate bonds or bond funds.

The strategy was for mostly long-term investments with Fitch credit ratings of "A" or higher.

12. Specified Investments

12.3 Other instruments

	Minimum 'High' Credit Criteria	Maximum Limit	Maximum Maturity Period
Bonds issued by multilateral development banks	Long term AA	£5m	1 year

The Non-Specified Investments Section included a category for corporate bonds; the maximum limit was set at £5m for "Short-term F2, Long term A".

There was also a category for “un-rated bonds” with a maximum limit of £5m and maximum maturity period of “10 years”. Unrated bonds are also known as junk bonds (see “Everything You Need to Know About Junk Bonds in www.investopedia.com).

13. Non-Specified Investments

13.2 Maturities of any period:

Fixed term deposits with variable rate and variable maturities:			
	Minimum ‘High’ Credit Criteria	**Maximum Limit**	**Maximum Maturity Period**
Corporate Bonds Corporate Bond Funds / Gilt Funds	Short-term F2, Long term A	£5m	10 years
Floating Rate Notes	Long term A	£5m	5 years
Covered Bonds	Long term AA-	£5m	10 years
Un-rated bonds	Long term B-	£5m	10 years

13.3 Maturities in excess of 1 year

	Minimum ‘High’ Credit Criteria	**Maximum Limit**	**Maximum Maturity Period**
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
Bond Funds	AA	£5m	10 years

Comments

In 2017/18 the Treasury Management Strategy included the use of good quality, secure, investment grade securities with a potential to have a small proportion of junk bonds (up to a maximum of 6% of the Treasury). This seems to be in line with CIPFA guidance for Treasury investments, but the situation would change dramatically in the following year.

10.1.2 Treasury Management Strategy 2018/19

At the beginning of 2018 WBC’s Treasury included £105m in investments. For the financial year 2018/19 WBC adopted a TMS which included a much higher proportion of investments in corporate bonds and bond funds.

A new column for “Maximum Group Limit” was included in the tables and the “Maximum Individual Investment” limit for a corporate bond fund was raised from £5m to £20m. The maximum limit was also increased from £5m to £50m for “Un-rated bonds” / “Long term B-”.

13. Non-Specified Investments

13.2 Maturities of any period:

Fixed term deposits with variable rate and variable maturities:				
	Minimum ‘High’ Credit Criteria	**Maximum Individual Investment**	**Maximum Group Limit**	**Maximum Maturity Period**
Corporate Bonds Corporate Bond Funds / Gilt Funds	Short-term F2, Long term A	£20m	£20m	10 years
Floating Rate Notes	Long term A	£1m	£5m	5 years
Covered Bonds	Long term AA-	£1m	£5m	10 years
Un-rated bonds	Long term B-	20m	£50m	10 years

13.3 Maturities in excess of 1 year

	Minimum ‘High’ Credit Criteria	**Maximum Individual Limit**	**Maximum Group Limit**	**Maximum Maturity Period**
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Bond Funds	AA	£5m	£10m	10 years

Comment

After this change WBC had authorised £50m of Treasury investments into junk bonds when the total size of the Treasury was £105m. This strategy was pushing the boundaries of statutory guidance which states that Local Authorities should prioritise security and liquidity before yield in their investments.

It seems possible that this change was made in anticipation of an investment into the ACBF; however, these categories were not an exact match for the ACBF.

10.1.3 Treasury Management Strategy 2019/20

The Specified Investments Section in the 2019/20 TMS was changed to add entries matching the Altana Corporate Bond Fund investment which had been made during the year.

11. Specified Investments And Counterparty Limits

11.3 Other instruments

	Minimum 'High' Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period

Collective Investment Schemes structures as Open Ended Investment Companies (OEICs)			
Bond Funds	B- and unrated debt issuers	£20m	1 year
Managed Account Bond Funds	B- and unrated	£30 per fund	1 year

Comments

The columns don't match in the tables from Section 11.3, but it is reasonable to guess what they mean.

The table includes "Managed Account Bond Funds" which don't classify as OEICs.

The problems with the above table layout might have been fixed with the something like the table below. As OEICs do not usually have a maturity, the "Max Maturity Period" column is removed, and the Maximum Individual and Maximum Total columns should be completed with prudent values.

	Minimum 'High' Credit Criteria	Maximum Individual Investment	Maximum Total Investment
Managed Account Bond Funds	B- and unrated	£30m	£??m
…			
Collective investment schemes structured as Open Ended Investment Companies (OEICs)			
Bond Funds	B- and unrated debt issuers	£??m	£20m

In 2018/19 corporate bonds were included in the "non-specified" section but this year, in 2019/20, they are included as "specified" investments. The difference between specified and non-specified is important and this is covered in the Specified Investments section of this report.

The table could be interpreted as if there are an unspecified number of Managed Account Bond Funds so the investment in this category, which includes junk bonds, is potentially unlimited. This would be incompatible with the CIPFA Treasury Management Code.

Section 12 of the TMS included a subsection 12.2 for "Maturities of any period".

12. Non-Specified Investments

12.2 Maturities of any period:

	Minimum 'High' Credit Criteria	Maximum Individual Investment	Maximum Group Limit	Maximum Maturity Period
Corporate Bonds Corporate Bond Funds / Gilt Funds	Short-term F2, Long term A	£20m	£20m	10 years

In Section 12.3 "Maturities in excess of 1 year" the strategy included:

12.3 Maturities in excess of 1 year

	Minimum 'High' Credit Criteria	Maximum Individual Limit	Maximum Group Limit	Maximum Maturity Period
Corporate bonds	Short term F2 Long Term A-	£10m	£20m	10 years

and

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Bond Funds	B- and unrated debt issuers	£10m	£30m	5 years
Managed Account Bond Funds	B- and unrated	£10m	£30m	5 years

Comments

It seems to be a mistake to include "Managed Account Bond Funds" in the TMS for both Sections 11 and 12, it should be in one or the other. Is the maximum individual investment £10m or £30m, it's not clear?

I think that this is what the TMS was trying to say:

	Minimum 'High' Credit Criteria	Maximum Individual Investment	Maximum Total Investment
Managed Account Bond Funds	B- and unrated	£10m	£30m
…			
Collective investment schemes structured as Open Ended Investment Companies (OEICs or UCITS)			
Bond Funds	B- and unrated debt issuers	£10m	£30m

10.1.4 Treasury Management Strategy 2020/21

The TMS for 2020/21 reports WBC Treasury Investments as £263m. This is a significant increase from the previous year.

3.1 The Council's treasury portfolio position as at 31st December 2019 comprised of:

Current Portfolio Position	Principal £m	Total £m	Average Interest Rate %
Fixed Rate Funding			
- Public Works Loans Board	815.732		2.267
- Money Market	178.512		2.542
- Temporary Borrowing	170.210	1,164.455	1.015
Variable Rate Funding			
- Public Works Loans Board			
- Money Market	150.000	150.000	0.871
TOTAL BORROWING		**1,314.455**	2.190
Council Investments			
- Externally Managed	(20.577)		4.723
- Internally Managed	(14.049)		1.843
- Call Accounts	(228.864)	(263.490)	0.364
TOTAL INVESTMENTS		**(263.490)**	**1.628**
NET BORROWING		**1,050.965**	
Non-Treasury Investments			
- Group Entities	(310.600)		
- Loans to Housing Assoc. & Commercial	(137.727)		
- Investment Properties	(257.008)	**(705.336)**	
NET BORROWING (less Non-Treasury)		**345.629**	

In Section 11 on Specified Investments, the text in the "Maximum Total Investment" column was changed from "£20m" to "£20m per fund". The "Max Maturity Period" is changed from "1 year" to "1 year / rolling".

11. Specified Investments And Counterparty Limits

11.3 Other instruments

	Minimum 'High' Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period
Collective Investment Schemes structures as Open Ended Investment Companies (OEICs)				
Bond Funds	B- and unrated debt issuers	£20m per fund		1 year / rolling
Managed Account Bond Funds	B- and unrated	£30m per fund		1 year / rolling

Comments

The maximum total investment in bond funds is now only limited by the number of funds in existence. This strategy meant that WBC could have invested all its Treasury monies in these funds without checking with Councillors.

The term "1 year / rolling" is not explained. However, it is most likely trying to explain that OEICs don't have a maturity, and that WBC feels that it can exit these investments within 12 months if required. In the case of the Managed Account this might mean that the bonds in the account can be sold within 12 months although the actual bonds themselves may mature over longer periods.

10.1.5 Treasury Management Strategy 2021/22

The TMS is unchanged from the previous year concerning the bond funds.

11. Specified Investments And Counterparty Limits

11.3 Other instruments

	Minimum 'High' Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period
Collective Investment Schemes structures as Open Ended Investment Companies (OEICs)				
Bond Funds	B- and unrated debt issuers	£20m per fund		1 year / rolling
Managed Account Bond Funds	B- and unrated	£30m per fund		1 year / rolling

10.1.6 Treasury Management Strategy 2022/23

The TMS is changed so that bond funds are no longer listed under the category of OEICs. This category was correct for the ACBF but not for the Managed Account Bond Fund.

The “Credit Criteria” is changed to “Internal and External Due Diligence” and the maximum investment per fund is reduced from £20m to £10m for “Bond Funds” e.g. the ACBF.

11. Specified Investments And Counterparty Limits

11.3 Other instruments

	Minimum ‘High’ Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period
Bond Funds	Internal and External Due Diligence	£10m per fund		1 year / rolling
Managed Account Bond Funds	Internal and External Due Diligence	£30m per fund		1 year / rolling

Comments

The reference to the credit rating of “B-” has been replaced with the text “internal and external due diligence”. This provides a catch-all to invest in any type of bond fund and in any amount and makes the strategy very wide-ranging.

When written like this, the WBC TMS is almost no strategy at all, which goes against the principle of thinking ahead and consulting with council members before making any decisions.

Subsequent comments in the Q4 report illustrate WBC’s move away from a strategic approach. The comments concerning the AWMA show that WBC has chosen flexibility over strategy. The report says that “the managed account was set-up to:”

- give Warrington direct control over assets in a liquid, flexible structure, which better aligns its assets to its funding requirements. Also allows the Council to respond to and take advantage of new investment opportunities;
- it allows immediate access to WBC cash if needed, rather than having to partially redeem investment in a fund that would incur bid/offer costs;
- the portfolio can be used as collateral to borrow at low rates, although this facility has never been used;
- the simpler structure has lower running costs;
- Gives the Council access to gilt and the treasury note market.

The statement that Treasury investments might be used as collateral is very novel from a TMS point of view. If used, then this would conflict with the primary aims of security and liquidity which the TMS also states as its requirements.

10.1.7 Treasury Management Strategy 2023/24

The TMS for bond funds is unchanged from the previous year.

11. Specified Investments And Counterparty Limits

11.3 Other instruments

	Minimum 'High' Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period
Bond Funds	Internal and External Due Diligence	£10m per fund		1 year / rolling
Managed Account Bond Funds	Internal and External Due Diligence	£30m per fund		1 year / rolling

10.1.8 Treasury Management Strategy 2024/25

The TMS for 2024/25 has been agreed by the ACGC and Full Council at its Budget meeting. It includes Section 11 for Specified Investments which is related to what might be a future ACBF or the AWMA:

11. Specified Investments And Counterparty Limits

11.3 Other instruments

	Minimum 'High' Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period
Bond Funds	AAA/BBB	£10m per fund		1 year / rolling
Managed Account	AAA / BBB or sovereign Rating of investments	£50m per fund		1 year / rolling

Comments

It's not clear what AAA/BBB means for a Minimum 'High' Credit Criteria. The Fitch rating of BBB is described as follows:

> Good credit quality
>
> 'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

"BBB" is not the 'high quality' credit rating that is required for a specified investment. In the Fitch system the rating of "A" is the lowest rating that should be acceptable as it is described as "High credit quality" in the ratings system.

Moving these investments into the Non-Specified Section of the TMS would seem prudent and this would have the advantage of making it clearer to councillors that these investments require a higher level of scrutiny. It might also make things clearer when considering the proportions of WBC Treasury investments that are specified and non-specified.

10.2 Specified Investments

Investments by local authorities are classified into "specified" and "non-specified" categories. Warrington Borough Council's 2024/25 TMS gives examples (see below) of the descriptions of these categories.

11. SPECIFIED INVESTMENTS (MATURITIES UP TO ONE YEAR) AND COUNTERPARTY LIMITS

11.1 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable. The maximum limit will be applied to each account (i.e. bank, local authority, bond, etc.)

12. NON-SPECIFIED INVESTMENTS (MATURITIES OVER ONE YEAR)

12.1 These are any investments which do not meet the specified investment criteria. The investments may be for periods in excess of one year, and/or more complex instruments which require greater consideration before being authorised.

The concept of specified and non-specified investments comes from the Statutory Guidance on Local Government Investments (effective for financial years commencing on or after 1 April 2018).

The following is an extract from the statutory guidance:

31. An investment is a specified investment if all of the following apply:
- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].*
- The investment is made with a body or in an investment scheme described as high quality (see paragraph 33 or with one of the following bodies:
  - i. The United Kingdom Government;
  - ii. A local authority in England or Wales (as defined in section 23 of *the 2003 Act*) or a similar body in Scotland or Northern Ireland; or
  - iii. A parish council or community council.

32. For the purposes of paragraph 32 the Strategy should define high credit quality. Where this definition incorporates ratings provided by credit rating agencies paragraph 42 is relevant.

33. A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

Unfortunately, WBC's TMS statements do not define "high credit quality" as suggested in Point 32 above, but they do use the Fitch credit rating system under which the minimum credit rating described as high credit quality is "A". Based on this it seems reasonable to conclude that anything rated below "A" should be "non-specified" in Warrington's TMSs.

WBC classified the ACBF as "non-specified" in 2018/19, but this changed to "specified" in 2019/20, even though the minimum credit criteria was "B- and unrated". The ACBF remained a "specified" investment until it was sold.

In advance of the WBC 2024/25 Budget, the author attended briefings with the Council about the proposed TMS for 2024/25. The feedback from these briefings was that WBC regards specified investments as "not tightly defined" within the TM Guidance Notes.

The ACBF has now been sold, but the current position is that WBC believes that the underlying investments in the Altana Wealth Managed Account are "high quality" even though they may include "BBB" rated investments (names of these investments are not available to Councillors).

10.3 Investment Performance

The Author's Letter requesting a review of the ACBF investment suggested that the ACGC should review the fund's performance measured against the Treasury Management requirements for security, liquidity, and yield, with security and liquidity as the most important.

The relative importance of security, liquidity and yield is discussed several times in the statutory guidance and CIPFA Codes. Below is an example from the Statutory Guidance.

> **Security, Liquidity and Yield**
>
> 26. A prudent investment policy will have two underlying objectives:
>   - **Security** – protecting the capital sum invested from loss; and
>   - **Liquidity –** ensuring the funds invested are available for expenditure when needed.
>
> 27. The generation of **yield** is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with these priorities.
>
> 28. When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance.

10.3.1 Security

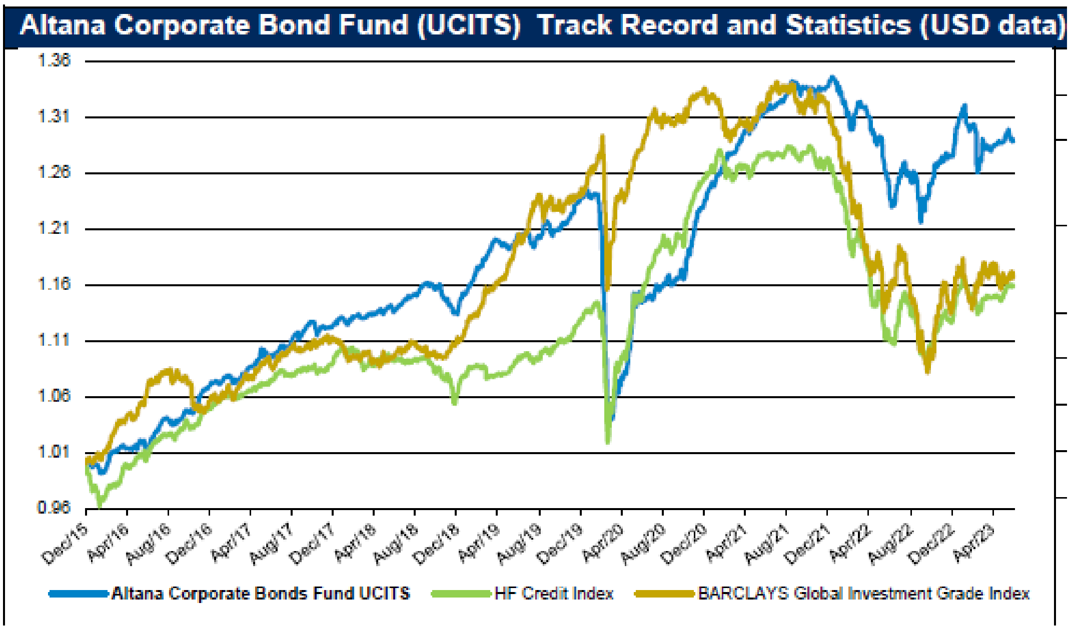
The Author's Letter (below) suggested that security of capital should be reviewed, particularly as the value of the ACBF investment had been mentioned in Treasury Management reports and these values had dropped in 2019.

> 6. **Security of Capital.** Fluctuating capital values are probably not surprising now that we know that the underlying investments are mostly junk bonds. The ACGC could consider if this was/is appropriate for a treasury investment.

A complete set of figures for the values of the ACBF investment were not provided in the Treasury Management reports. It would have been useful for Councillors to see a chart of the Fund valuations over time to help illustrate the security of the investment.

We now know that the ACBF managers produced monthly newsletters for the Fund. The Investment Review says that monthly reports were sent to the Council's Treasury Management Review Group (WBC officers). However, now that the name of the investment has been revealed by Bloomberg it has been possible to find the published monthly newsletters for the Fund.

The chart below is taken from the June 2023 Monthly newsletter which was the last newsletter issued. The chart plots the Fund value in US dollars rather than GB pounds, but the currencies are related, and this chart illustrates the general points from a scrutiny of strategy perspective.



The chart shows that, from the initial investment in September 2018 to the divestment in 2023, the value of the Fund varied significantly and particularly around January 2020, which coincided with the start of the COVID-19 pandemic.

It could have been particularly difficult for WBC to liquidate this investment during the COVID-19 crisis; if it had then the Council would have taken a significant loss.

The Treasury Management Outturn report dated 23 July 2020 reported:

> 11.6 **Altana Wealth Bond Fund**– the investment in a corporate bond fund was made but at the end of the financial year the value of the fund had reduced by 13% due to worldwide falls in the financial markets caused by Covid-19. This is the value of the investment at the end of the year. Any gains or losses on the investment will only be realised when the asset is sold. There is currently a statutory override and therefore no impact on the revenue account for the year.

At this point in the investment timeframe, it seems clear that the ACBF did not meet the reasonable requirements of a local authority for security and liquidity.

10.3.2 Liquidity

The Investment Review says that the ACBF was a "liquid fund" and in theory the ACBF investment could be sold at a day's notice (see below). A description of how this would work in practice is probably provided in the Fund's prospectus. It would have been extremely useful if officers had made this available for this report, and regrettable that it was not.

> 5.5 The Altana Bond is a liquid fund that can be liquidated at a day's notice. This fund like Money Market Funds and Bank deposits are recorded as 1 year rolling funds in the Treasury Management Strategy. The Treasury Management Strategy and counterparty lists are agreed by A&CGC and Full Council as part of the budget cycle each year.

This Investment Review statement does not seem objective given the size of the fund owned by WBC and the potentially illiquid nature of some junk bonds. The monthly newsletter for September 2018 shows Fund Assets Under Management (AUM) at €43m so WBC's investment of £10m would have been a very significant proportion of the fund to liquidate quickly.

The statement is also contradicted by the 2022/23 Outturn report where it describes selling-down WBC's investment over a period of months.

> The Council has largely monetized the gains on its original investment by redeeming some of the units held in the fund. Warrington recently decided to redeem all its investment in ACBF. To date the Council has redeemed 60% of its holding in ACBF, with the intention of redeeming the remainder in due course.

The prospectus for a similar Altana fund, called "Altana UCITS Funds PLC", is publicly available. This shows that there are restrictions on the amounts of money that can be released immediately as well as increased costs. If the underlying investments are not very liquid, then these costs could be quite large so that other investors in the fund are not disadvantaged.

WBC has a portfolio of Treasury investments including some cash balances, so it is normal for some investments to be more liquid than others. Should WBC have a liquidity issue then it seems unlikely that investments like the ACBF could be sold quickest.

When selecting investments like the ACBF as part of a portfolio approach, a compromise is being made between liquidity and other benefits like security or yield for example. The liquidity of the ACBF was limited by the small fund size and because junk bonds can be some of the least liquid quoted investments. However, this compromise was not made clear in WBC's Investment Review, TMSs or Treasury Management reports.

10.3.3 Yield

The Author's Letter suggested that the ACGC could consider the returns from the ACBF investment as part of a post investment review. The Author's Letter said:

> 5. **Returns of interest.** The ACGC could request a complete list of interest rate returns for the ACBF. It's not clear how often interest was received. As part of a review, and for the sake of completeness, it would be valuable to see a full list of interest payments to the Council over the term of the investment. The level of fluctuation of interest rates may give members an
>
> indication of the volatility of the investment and inform the committee of how the ACBF matched the requirements of WBC's Treasury Management Strategy (TMS).
>
> The ACBF does not compare well with the average return for WBC treasury fixed rate investments; even at the start, in 2019, the average return was 5.31% which was much higher than the 3% for the ACBF. However other treasury investments may not be directly comparable due to differences in liquidity, risk, or term. It would be valuable to explain these differences when reviewing the ACBF performance.

The Investment Review reported that a net return of 1.82% was achieved over the 5-year investment period and that this compared with low interest rates.

6. **PERFORMANCE**

6.1 The Council invested £5m in the bond fund on 7 September 2018 and £5m on 12 October 2018. The investment at the Council's request was repaid in full between March – October 2023. The Council has received all its investment back and positive returns of +9.5% over the investment period, averaging a yearly net return of c.+1.82%. In evaluating this investment, we need to evaluate interest rates over the last five years, not interest rates now. Over the last 5 years the UK base interest rate offered terrible returns, spent some time close to zero and averaged 1.26% over the last five-years.

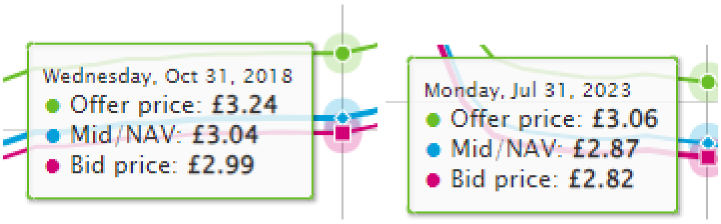
Comparison with the CCLA

It is probably unfair to compare the ACBF with bank base rates as they are very different types of investment.

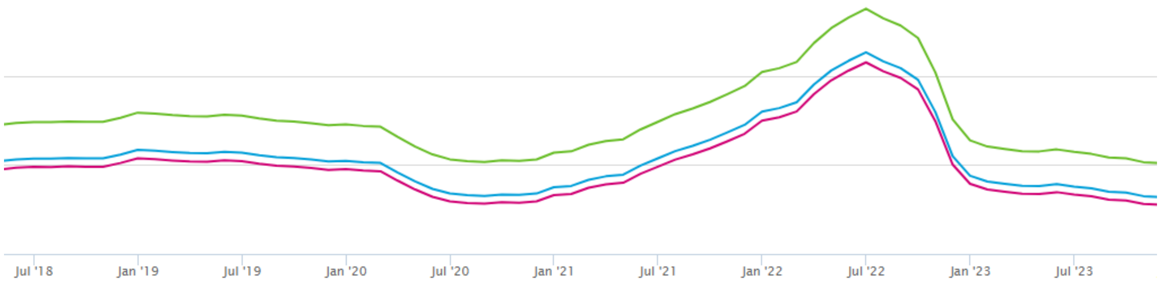
At the time of the selection of ACBF there was another investment choice approved in WBC's TMS which might have been closer to the risk / reward profile and WBC should have considered this at the time. This was the Churches, Charities and Local Authorities (CCLA) Property Fund which is another financial instrument used by many councils. An extract from the non-specified investments in WBC's TMS is shown below.

Churches, Charities and Local Authorities (CCLA) Property Fund		£20m	£20m	10 years

The CCLA fund is over £1 billion in size, making it over 20 times the scale of the ACBF; this might suggest better liquidity. Due to the design of the CCLA, with councils in mind, it ticks all the ESG boxes for Warrington. Should WBC have opted for this fund instead of the ACBF there is no guarantee that it would have bought and sold at the same time, but if it did then the purchases and sales would have been approximately at the following prices:



Between 31 October 2018 and 31 July 2023 this fund would have dropped from £3.24 to £2.82 in price per unit and it would have returned £0.62 in dividends. Total return = (2.82 – 3.24 + 0.62) / 3.24 = 6.2%. With hindsight this was not bad for a property fund considering the property market but not as good at the ACBF overall. However, the CCLA was more stable in price for the majority of the 5 -year period and at times it would have been ahead of the ACBF in terms of performance.



WBC Reported Figures

Over the period of the investment, Treasury Management reports often included figures for investment performance. In Question 20 at Full Council on 4 December 2023, WBC was asked for details of monies invested and returned from the ACBF.

> **Question:**
> Please can the Cabinet Member Responsible for Corporate Finance confirm the total amount of all monies that were invested into units in the Altana Wealth Corporate Bond Fund as well as the total amount of monies that were returned on their sales.
>
> **Response:**
> A full post investment review of the Altana Corporate Bond Fund will be reported to the Audit & Corporate Governance Committee at their January 2024 meeting. When this point will be answered in full.

The monies invested in and returned from the sales and purchases of ACBF shares were not given, but the Investment Review presented to the ACGC Meeting on 24 January 2024 did supply this table listing "dividends":

> 6.7 The table below shows the dividends paid to the Council during our period of investment. These are all recorded for the audit trail on the Council's financial system and treasury management system.

Total Dividend £	Date Received
199,999.98	09/07/2019
199,999.99	03/11/2021
330,000.01	31/03/2023
154,867.27	19/10/2023
884,867.25	

Descriptions of the different share categories (see the Background Section) suggest that all ACBF share types were non-distributing and this suggests that dividends would not have been possible. This may also be implied by some wording in the 2022/24 Q4 report which says, "*The Council has largely monetized the gains on its original investment by redeeming some of the units held in the fund*". One hypothesis is that WBC sold shares periodically in leu of dividends and this would explain the random dates for receiving cash (July, November, March, October).

Using figures from the table in 6.7, the actual returns for the ACBF compared with those reported in the quarterly reports were:

Quarter	Reported "Interest" %	Annual Dividend Yield %
2018/19		
Q3	-	
Q4	3	0
2019/20		
Q1	3	
Q2	3	
Q3	3	
Q4	0	2
2020/21		
Q1	-0.016	
Q2	-0.014	
Q3	0	
Q4	3.37 *	0
2021/22		
Q1	3.68	
Q2	3.434	
Q3	3.434	
Q4	3.37 *	2
2022/23		
Q1	0.99	
Q2	0.99	
Q3	4.81	
Q4	-	3.3
2023/24		
Q1	3.26	
Q2	-	
Q3	-	
Q4	-	1.54

* The returns were possibly aggregated with other Altana investments.

It is hard to explain the differences in the figures reported and the figures subsequently given for "dividends" received.

11 SCRUTINY OF INVESTMENTS

The ACBF was an investment **primarily for financial return** and CIPFA includes guidance notes for this type of investment in its publication called "Treasury management in the public services" – "Guidance notes for local authorities…" (2021) (cipfa.org) Below is an extract from the document.

DECISION MAKING, GOVERNANCE AND ORGANISATION

Authorities undertaking investments primarily for financial return should ensure that these are subject to enhanced decision making and scrutiny as a result of the additional risk being taken on and the potential impact on the sustainability of the authority.

The Author's Letter (see below) requested that details of the capital returns from sales of the ACBF shares should be included in the Investment Review of the ACBF; it is disappointing that these figures have not been provided.

7. **Latest position.** In July 2023 the ACGC was informed that WBC had redeemed 60% of its holding in the ACBF and intended to redeem the remainder in due course. The ACGC might like to be updated with details of the latest financial position including all sales of ACBF units and the current valuation. In summary, what has been the capital return and average annual interest rates on those units sold and what is the projection for any units as yet unsold?

The CIPFA guidance notes referenced above also say that greater scrutiny is required for non-specified investments.

The investment statutory guidance also distinguishes between 'specified' and 'non-specified' investments, the latter (which include equity-type investments) requiring greater scrutiny by authorities. The 2018 guidance issued by MHCLG emphasises that security, liquidity and yield should take precedence in that order and includes specific guidance in respect of non-financial investments.

The Treasury Management Section discussed how WBC classified the ACBF as a "non-specified" investment in 2018/19, but this changed to "specified" in 2019/20 even though the minimum credit criteria was "B- and unrated".

It seems strange that WBC retains the ACBF and its successor the AWMA in the "specified" category in its TMS. This signals that less scrutiny is required than is indicated by Fitch investment ratings.

The Author's Letter suggested (see below) that WBC should provide a description of the ACBF provided to WBC before it made its investments. However, this was not provided, and experience shows that asking WBC again does not work and that repeated requests cause offence.

I'd like to request that a review of WBC's investment into the ACBF should include the following matters:

1. **Due diligence.** What was the description of the ACBF provided to WBC before it made its investments? Did this make it clear that the investment would include junk bonds or any

The Investment Review lists a series of documents that are "saved and available for future audit inspection if required".

3.1 The Council carried out a full internal due diligence of the fund before investing. This included a detailed analysis of the following key documents:

- Presentation Pack of the fund containing key data such as investment strategy, past performance, Altana data, fund terms etc
- Fund Fact Sheet
- Risk Report
- CBI Authorisation Letter
- CVs of Fund Managers
- Prospectus
- Policy Documents
- Certificate of Incorporation
- Prime Brokers/Custodians and Administrator
- Confirmation from lawyers that no legal cases pending against Management Company
- Latest Audited Financial Statements
- Company Organogram
- Proof of Professional Indemnity cover taken out by the Management Company and Fund
- Regulatory Certificates/Licences for the Manager and Fund
- Copy of Investment Management Agreement including Fund restrictions
- Due Diligence Questionnaire

3.2 All these documents and others are saved and available for future audit inspection if required.

Unfortunately, these documents are not made available to Councillors if requested. Of note is the ACBF prospectus which was a public document at the time and would have been a great help in producing this report. The Investment Management Agreement would also be extremely helpful, but the author has previously asked to see the Investment Management Agreement for another WBC / Altana investment called the ASIP and this request has been declined.

12 CONCLUSIONS AND RECOMMENDATIONS

These conclusions are drawn from the various Sections of this report and any recommendations are included with these conclusions for convenience.

12.1 Decision-Making

The decisions made when investing in the ACBF were controversial because:

- The investment was not allowed under WBC's agreed Treasury Management Strategy, but this strategy was changed without consultation.
- The underlying investments included non-investment grade bonds.
- The investment was with a company who had an existing relationship with the Council, and it is not clear that there was due consideration of other investment options.
- WBC chose not to publish key details of the investment.

The Decision-Making Section in this report considers the framework for decision-making in WBC in the context of the ACBF investment. This section discusses whether WBC's decision was made in the correct way following WBC's decision-making principles, whether it was the right person or group of people who made the decision, and whether the WBC Constitutional rules were followed.

How decisions are made: When WBC makes decisions it is required to follow pre-defined decision-making principles which include, amongst other things, due consultation, and the consideration of options.

In terms of consultation, the WBC Investment Review says that WBC officers took advice before making the ACBF investment, but the two committees who have responsibilities for Budget and Treasury functions were not consulted. This report's analysis shows that decisions should have been taken by elected members, following advice from officers.

Although requested in the Author's Letter, WBC's Investment Review did not describe the other investment options that were considered before investing in the ACBF. Unless further information is provided it seems reasonable to conclude that a decision was made without giving due consideration to other viable options and that the TMS was subsequently changed to fit this decision.

WBC seems to have been highly impressed with the ACBF as it had won a hedge fund award in 2017 and it describes its relationship with the fund manager as very good. The Council decided to urgently invest in the ACBF because it was convinced that it was "carrying too much cash".

Recommendation 1. WBC should update its Investment Review of the ACBF investment with more details of its decision-making.

On the face of it, WBC did not follow its decision-making principles of consultation and consideration of options before investing £10m in the ACBF.

The updated Investment Review should contain more information concerning the ACBF investment decisions.

In general WBC should be much more open and transparent when reviewing controversial past decisions particularly the ACBF, Together Energy and Mailbox so that processes can be improved.

Who makes decisions: WBC decisions can only be made by people or groups of people who have the authority to do so. As an elected body, the most significant decisions are made by elected members; however, for practical reasons, Councillors also delegate decision-making to Council officers.

The change in Treasury Management Strategy to permit investments in sub-investment grade bonds was controversial and it was a change to WBC's agreed Budget. Because of this, the decision should have been recommended by the ACGC, as referenced in the WBC Constitution, and then the strategy should have been approved by the Cabinet.

The Investment Review explained that the Section 151 Officer's decisions to change the TMS and invest in the ACBF were allowed under delegated authority. The Decision-Making Section of this report reviews the text in WBC's Constitution which relates to this. This report does not agree that delegated authority existed.

The WBC Constitution text differs significantly from the model text in the CIPFA guidance. The text has been altered with additional text relating to a delegated authority. However, the meaning of alterations is unclear. WBC's interpretation of the text is given in Appendix A and the reader will be able to judge whether WBC's interpretation really is consistent with the current text.

WBC's interpretation means that the Section 151 Officer can change WBC's TMS at any time and then invest in whatever they think is best. This might include junk bonds, crypto currency, or magic beans for example. However, this can't be right as it would be incompatible with the CIPFA Code Key Principle 2 concerning risk.

Recommendation 2. The delegated authority to change WBC's Treasury Management Strategy should be reviewed.

Option 1: (Preferred) WBC's customisation of the CIPFA text for TMS changes should be removed and the Constitution reverted to the CIPFA Code guidance text.

Option 2: The text in FR82 of the Constitution should be amended to improve readability as described in **Appendix A**.

The subsequent decision to invest £10m in the ACBF was also controversial as the fund was predominantly invested in junk bonds and there was a pre-existing relationship with the fund manager. Investment decisions like this need to be particularly transparent for the protection of the Council's reputation.

Recommendation 3. Councillors should make the decisions that could have a significant impact on residents.

For Treasury Management activities, councillors need to have good advice from officers to make good decisions. WBC Councillors need to be supplied with detailed explanations as well as all the necessary facts. Warrington residents expect to hold their elected representatives responsible for decisions made on their behalf.

The Rules for Decision-Making:

Scrutiny of WBC's Treasury Management Strategy (TMS) is an important function of the ACGC. However, the WBC Investment Review outlines how the change in TMS described in a Q2 Mid Year Treasury Report was missed from the agenda of an Audit and Corporate Governance Committee meeting.

The WBC Investment Review described the investment decision as urgent because low interest rates were providing a low rate of return on Treasury funds. It said there was not enough time to consult with the ACGC about a change in strategy, but meetings of WBC Councillors are held frequently, and urgent meetings can be arranged at short notice.

The CIPFA Code of Practice on Treasury Management (2009) is referenced in WBC's Constitution at FR82 and is adopted by WBC. Under the Constitution and Code, the Council's ACGC is charged with scrutiny and approval of its TMSs. Bringing a retrospective change in the TMS directly to Full Council was inappropriate as there would have been little scope for scrutiny or discussion at that meeting.

In conclusion, the investment in the ACBF and change in TMS were not made in accordance with WBC's rules for decision-making.

12.2 Reporting of Events

In summary, WBC's reporting of its investment in the ACBF has missed significant details and other information has been inaccurate, misleading, or provided later than it should have been.

In addition, WBC reports have often lacked objectivity regarding the ACBF, and bad news has been left out whilst positive news has been highlighted. For example, the decline in value of the investment as it was sold down has not yet been reported and figures for the returns on the ACFB were overstated.

12.2.1 What did WBC buy with its £10m?

The most serious reporting problem is that WBC did not report the real name of its publicly quoted investment. We now know that the investment was shares in the Altana Corporate Bond Fund UCITS. If the real name had been provided, then this would have enabled a much greater understanding of WBC's investment. Why did WBC do that?

An example of some important missing information is the Fund's own description which was "a long-short opportunistic credit fund focused on the crossover/high yield universe, particularly in the secondary market".

The investment was first made in 2018 and at different times it has been referenced as follows:

Name given	Report
"A corporate bond to Altana Wealth" "Altana Wealth"	2018/19 Mid-Year Treasury Review presented to Full Council

"Altana Wealth Bond"	2019/20 Quarter 1 – Report to ACGC (meeting 2019/09/26)
"Altana Wealth/Societe Generale" (a short term investment)	2020/21 Treasury Management Quarterly Monitoring report presented to the ACGC
"Altana Bond Fund"	This description was used in the text of the 2020/21 Mid-Year Treasury Review.

The attributes of the ACBF have also been misreported. The use of terms like "dates of maturity" and "interest" were misleading about the nature of WBC's investment.

Recommendation 4. Treasury Management reports should accurately describe investments.

Investments should be consistently called by their correct names e.g. "Altana Wealth Corporate Bond Fund UCITS" or ACBF for short and not "Altana Wealth Corporate Bond" or "Altana Wealth / Societe Generale" for example.

Descriptions of the nature of WBC Treasury Investments should be improved, and they should be reported in a neutral and objective way so Councillors can be made aware of all the issues. Shares should be called shares, not bonds or units. Returns of capital should not be described as interest or dividends.

All future Treasury Reports should use clearly defined terminology. Any terminology such as "rolling", "principal", "FV principal", "original principal", "interest", or "dividend" that is not clear, or is not what the reader would expect, should be explained or included in a glossary. If different terms are used in subsequent reports, then an explanation and a mapping between these terms should be provided.

12.2.2 What returns did WBC's investment make?

The list of share classes in the Background Section suggests that WBC's ACBF shares were non-distributing. It seems likely that on occasions WBC sold shares to return cash to the Council in leu of a dividend.

Figures for "interest" were reported to the Council and no explanation was given about how the interest figures were calculated. Over time the reported interest figures bore little resemblance to what WBC described later as "dividends" and what now seems likely to be the sales of shares.

An example of misleading reporting can be seen in the 2019/20 Treasury Management Quarter 1 Monitoring Report 18 September 2019 (below). In this report the "Altana Wealth" investments were listed as “Fixed Investments” with a “Maturity Date” and an “Interest Rate”. These terms would have applied to a bond and not to non-distributing shares in an Irish UCITS.

2019/20 Treasury Management Quarter 1 Monitoring Report ACGC - 18 September 2019

Fixed Investments Counter Party	Start Date	Maturity Date	Interest Rate	Principal
Altana Wealth	07/09/18	31/03/20	3.000	5,000,016
Altana Wealth	12/10/18	31/03/20	3.000	5,000,032

The reported interest of 3% compares with the money returned from sales of shares, which would have been more accurately reported as 2%. By looking at a share price chart the £10m investment at this time would have been worth 97% of the original value (using mid prices on the share price chart and not accounting for any spread between buy and sell prices).

Recommendation 5. The accuracy of figures provided in the Treasury Management reports should be reviewed.

Checks should be made to ensure that investment figures are accurate and up to date.

WBC’s Investment Review of this investment suggests that the performance of the fund was reported quarterly (see below). However, the valuation figures for the ACGC were generally changed once a year. Figures for cash returned on the final sales of shares have not been provided even though they have been requested by Councillors.

5.4 The performance of the fund was reported to A&CGC on a quarterly basis and to Full Council twice a year per the requirements of the CIPFA Treasury Management Code.

WBC’s Treasury Management reports are usually published about two months after the period end; however, during the time between period end and report publication significant changes can occur. The Q1 2020/21 Treasury Management report to 30 June 2020 was able to mention an improvement in the value of the ACBF when the report was presented in September, but updates are often missed.

Recommendation 6. Significant changes to Treasury investments occurring between the quarter end date and the publication of the Treasury report should be included in the report.

The WBC Treasury Outturn reports should include valuations of investments such as the ACBF. However, an analysis of figures for investment value or return provided in WBC’s Treasury Management reports suggests that they are often inaccurate or out of date. For example, the 2018/19 Outturn report shows an unchanged figure for the £10m investment and subsequent reports often combine the ACBF with the AWMA which make the figures much less clear.

Recommendation 7. Reporting of investments in Q4 Treasury Outturn Reports should be easier to read and more comprehensive.

Outturn reports should provide actual figures for investment returns.

Individual investments should be reported in the Outturn reports and reports on investment should include starting value, additions / withdrawals, cash returns, and final value.

It should be possible to compare actual returns with WBC's expected returns. If an actual return varies significantly from an expected return, then this should be highlighted in the Outturn report at the latest.

An example of the confusion caused by these reports can be seen in the Author's Letter which included the text below. The author assumed that the investment periods stated in the Treasury Management reports were fixed, because the term "fixed investments" had been used in reports and specific dates were given. This misunderstanding was not corrected or commented on by the Council after receiving the Letter.

> 4. **Decision Making.** The original time frames of the investments are reported as 7/9/2018 - 31/3/2021 and 12/10/2018 - 31/3/2021. At some point these were extended to 31/3/2022 and then later to 1/4/2024. These were important decisions. Given the fluctuations in capital value and comparatively low returns in interest, it seems worth reviewing the rationale for extending the investment terms beyond 31/3/2021.

We now know that WBC incorrectly described the ACBF investment as having a fixed interest rate and a maturity date. Consequently, Councillors' understanding of the nature and risk of this investment was wrong and no opportunity was provided to check the facts. This illustrates how difficult it is to understand WBC's investments.

Recommendation 8. Misunderstandings should be corrected.

When Councillors have misunderstood investments for whatever reason (e.g. returns, dividends, bonds, or shares, etc.) and this is clear in what they say (in the press, meetings, emails, or briefings) then these mistakes should be corrected as soon as possible in replies from the Council.

A chart of the fund valuation over time is included in the Background Section. This shows that the fund valuation fluctuated significantly over time. However, this information was not made available in the Treasury Management reports so an opportunity was missed to provide useful monitoring information.

Recommendation 9. More information should be provided on investment performance.

A greater level of information should be provided to councillors. Valuations and returns should be presented for each quarter as well as any significant changes that might have occurred at the dates of publication of reports to the ACGC. It is usual for monitoring of capital values to use share price charts, and these could have been provided.

12.2.3 Outturn Reports

The Q4 2020/21 Treasury Management Outturn Report is an example of a lack of key information provided by WBC on counterparties as well as a lack of information on the performance of underlying investments. This report aggregates two of the three Altana investments. It reports a change in funds over the year but doesn't include figures for capital additions and withdrawals.

Missing important pieces of information from reports prevents the effective assessment of investment performance and counterparties.

Recommendation 10. Reporting on counterparties should be easier to read and more informative.

Where there is more than one investment associated with the same counterparty then the different investments should be reported separately, and totals provided for the group as well as the individual investments.

12.3 Treasury Management

12.3.1 Treasury Management Strategies

Since 2019 WBC's TMS has included increasingly large maximum amounts for investments in several named funds or accounts managed, owned, or run by Altana Wealth Limited.

The current situation is that WBC's investments with Altana are valued at over £50m. Over time the ASIP, ACBF, and AWMA investments increased risks to WBC through the concentration of Treasury investments with one financial services advisor/provider. There is now an authorised upper limit of £70m for Altana investments.

These maximum investment amounts total more than 50% of WBC's Treasury monies which is disproportionate; proportionality is a key decision-making principle listed in the WBC Constitution.

In 2023/24 the TMS included £20m for ASIP and £40m in bond funds and managed account bond funds, with no minimum credit criteria. In 2024/25 the minimum credit criteria for bond funds increased to "BBB" but the maximum amounts were increased further to £50m per managed account fund. All these investments were categorised as "specified investments" and required less scrutiny than other options.

Fitch describes "BBB" as "good quality" rather than "high quality" and these investments are not suitable as "specified investments" according to CIPFA guidance. It is also concerning that WBC suggests that the reason it is increasing the minimum credit rating this year is due to a perceived improvement in returns for better rated bonds rather than a desire to improve security.

Recommendation 11. Treasury Management Strategy investment limits should be proportionate to the size of the Treasury.

A maximum limit of £30m for non-investment grade (junk) bonds in 2023/24 was disproportionate to the size of WBC's Treasury and disproportionate decisions are incompatible with WBC's decision-making principles. These large limits should be scaled back and the rationale for including them, and their associated risks, should be described in the TMS Statement.

The TMS for 2022/23 did not include a specific credit requirement for bond funds or managed accounts. Instead, it stated “Internal and External Due Diligence” for the credit criteria. This did not provide a strategy for the level of security the Council plans for its Treasury investments.

Recommendation 12. Approved investment categories should be specific so that they identify a clear strategy for investment.

Stating “Internal and External Due Diligence” as credit criteria as done in 2022/23 does not provide sufficient detail for a strategy statement.

Comments in the Q4 2022/23 TM report state that the AWMA “can be used as collateral to borrow at low rates”. However, this concept is more appropriate to a hedge fund or an investment trust rather than a council treasury where security and liquidity are the primary requirements.

Recommendation 13. WBC’s TMS should rule out the possibility of using Treasury investments as collateral for borrowing.

If Treasury investments are allowed to be used as collateral for borrowing, then the liquidity of the Treasury is immediately compromised as the Council would be able to sell an asset used as collateral. For the avoidance of any doubt, the current TMS should be updated to explicitly rule out the use of Treasury investments as collateral.

12.3.2 Specified Investments

The Section on Treasury Management looked at how the WBC’s TMSs divide investments into “specified” and “non-specified” investments. Statutory guidance says that investments made primarily for financial return, like the ACBF, should only be specified investments if they are “high credit quality” and that local authorities should define this term in their TMSs. WBC does not do this.

Warrington’s Treasury Management Strategies use the Fitch credit rating system under which the minimum credit rating described as high credit quality is “A”. Based on this it seems reasonable to conclude that anything rated below “A” should be non-specified.

WBC regards specified investments as “not tightly defined” within the TM Guidance Notes; however, reading these guidance notes gives a different impression. This report concludes that it was wrong to classify WBC’s ACBF investment, which largely contained non-investment grade bonds (“B-“ and unrated), as a “high credit quality” investment.

Recommendation 14. The “specified” categories of Treasury investments should be reviewed.

Warrington’s TMS should define what it means by “high credit quality”. Investments rated at less that “A” on the Fitch scale should classified as “non-specified”.

12.3.3 Investment Performance

When managing investments, councils are required by CIPFA Guidance to give priority to the security and liquidity of those investments over other considerations such as yield, and the Author's Letter requested that the ACBF investment should be reviewed to see how well it met these requirements.

A chart of the fund valuation over time is included earlier in this report and this shows that the valuation fluctuated significantly over time. However, valuation charts were not made available in the Treasury Management reports so this useful **security** (volatility) information was not provided for monitoring.

> **Recommendation 15. Information concerning the security of capital such as valuation charts should be provided in Treasury Management reports or on request to Councillors.**

In terms of the security of ownership of the underlying WBC investments managed by Altana Wealth, I have been assured that Altana assets are held by reputable third parties such as Citigroup and Societe Generale.

Sales of WBC's shares in the ACBF were made over several months which may speak to the level of **liquidity** provided by the fund.

> - Council began the process of disinvesting in the Altana Bond Fund to reduce the Council's exposure to bonds and the higher overnight investment returns that can be made This will take several months to achieve without incurring losses as the bonds are liquidated when they mature. The fund has performed well during Q1 and the Council's period of investment,

It is also important to consider that the value of the investment reported before sales commenced was significantly higher than the implied sales values (which have not been reported by WBC). It seems likely that sales reduced the value of the underlying holdings in the market, and this demonstrates one of the reasons why liquidity is the second priority of Treasury Management.

The Treasury Management Section considered the **yield** of the ACBF investment, and the Investment Review provided figures for "dividends" received from the ACBF. However, it has not been possible to reconcile these with figures for "interest" provided in the Treasury Management reports. In theory these figures should match.

The Investment Review did not list the alternative investments considered before purchasing ACBF shares so it is difficult to assess the success of the investment. All that can be concluded is that it was a rough ride with fluctuating valuations, but in the end the investment returns were probably better than returns on cash.

12.4 Scrutiny of Investments

CIPFA guidance says that greater scrutiny is required for less secure "non-specified" investments. WBC classified the ACBF as "non-specified" in 2018/19 but this changed to "specified" in 2019/20 even though the minimum credit criteria was "B- and unrated". The ACBF remained classified as a "specified" investment by WBC. Its successor, the Altana Wealth Managed Account (AWMA), has also been given this category even though the investments are not "high quality" on the Fitch scale.

It is hard to see why WBC is not following CIPFA guidance on the classification of Treasury investments other than to justify less scrutiny; several Councillors have complained about levels of scrutiny in general.

This lack of scrutiny is very concerning as WBC's investments are large and the limits are even larger. Additionally, WBC has just two main partners for Treasury investments which are Altana Wealth and M7.

Treasury reports currently provide no information about the underlying investments in the AWMA and little information is provided about the performance of this account.

Recommendation 16. WBC's Altana Wealth Management Account requires closer scrutiny.

WBC currently publishes no information about the underlying investments for the Altana Wealth Managed Account and little in terms of overall performance. This is potentially its largest Treasury investment. To provide better scrutiny, the Quarterly Treasury Management reports should include at least the largest five investments and describe any significant events. All underlying investments in the Altana Wealth Managed Account should be listed in the Outturn reports.

No scrutiny process is perfect, but this report concludes that barriers currently exist to improvements in WBC. This report contains many examples of where Treasury reports or answers to councillor questions on finance have included information which is inaccurate, only partial, or no information at all. When asked for more information on investments WBC frequently does not provide this. Experience shows that asking again does not work, nor does escalating the requests - and repeated requests cause offence.

As well as the author, other councillors who have served on the ACGC regret not being provided with accurate information on WBC's investments and feel inevitably frustrated about the loss of time second-guessing reports. These failures to accurately report WBC investments have undermined attempts to participate in WBC's scrutiny process and created a lack of confidence in WBC's Treasury Management processes.

Recommendation 17. Questions from WBC Councillors concerning Treasury Management should be answered fully and in good time.

It is vital for WBC's processes of scrutiny and accountability that questions concerning Treasury Management be answered properly and Councillors should be supported when this is not the case.

WBC holds several documents concerning the ACBF which it used for due diligence before investing. These documents include the Prospectus and the Investment Management Agreement, both of which would have been helpful in this scrutiny task and in producing this report. Unfortunately documents like these are not made available for inspection when requested by Councillors.

Recommendation 18. Councillors should have access to documents relating to WBC investments.

Through their work, most WBC Councillors handle confidential and sensitive information from time to time. Councillors who are members of certain committees will receive these types of documents regularly.

Generally, WBC Councillors should be allowed access to scrutinise documents relating to WBC investments should they wish to see them. WBC already facilitates the viewing of sensitive documents by Councillors in a secure environment and this should be extended to all investment documents on request.

13 FURTHER WORK

13.1 Answers to Questions

The compiling of this report has been based on publicly available information on the ACBF. However, there should be other ACBF information stored by WBC, and this would clarify many of this report's unanswered questions.

13.2 Mailbox

WBC's investment in Mailbox REIT plc has been the subject of a review by the ACGC but a series of questions remain unanswered. Governance of this investment is likely to raise similar concerns to this review, as well as new ones.

WBC's £10m investment in Mailbox was for a sizable percentage of the ordinary shares of this startup property company created by M7. Concerns exist about how this investment was made under delegated authority and why Treasury Management reports did not refer to difficulties with finances when they occurred.

14 TABLE OF RECOMMENDATIONS

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APPENDIX A - CHANGES TO FR82

The Author requested a proposed change to the text to FR82 to clarify the position as it stands at the moment. The current text from the WBC Constitution is shown below and the text highlighted shows the additions to the CIPFA model text.

> *iii) This Council delegates responsibility for the regular monitoring of its treasury management policies and practices to the Audit and Corporate Governance Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. The Section 151 Officer can make in year changes to the Council's treasury management strategy, these changes must be reported to the Audit and Corporate Governance Committee at the next available meeting.*
>
> *iv) This Council nominates the Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and making in year changes to the treasury management strategy.*

This is WBC's suggested new wording required to clarify the position for the future but with no change in meaning:

> *iii) This Council delegates responsibility for the regular monitoring (including changes, see 'iv' below) of its treasury management policies and practices to the Audit and Corporate Governance Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. The Section 151 Officer can make in year changes to the Council's treasury management strategy, these changes must be reported to the Audit and Corporate Governance Committee at the next available meeting. In the event that reporting will be delayed for too lengthier a period of time due to the schedule of meetings, the Section 151 Officer will consult with the Chair of the Audit & Corporate Governance Committee to agree a process to update the members of the Committee and consequently full Council as required (this may or may not require a special meeting of the Committee to take place).*
>
> *iv) This Council nominates the Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and making in year changes to the treasury management strategy. The Audit and Corporate Governance Committee should consider advice from the section 151 Officer when considering in year changes.*

This report's recommendation is to revert to the CIPFA guidance template text.