

Public Document Pack

Tony Kershaw
Director of Law and Assurance

If calling please ask for:

Adam Chisnall on 033 022 28314
Email: adam.chisnall@westsussex.gov.uk

www.westsussex.gov.uk

County Hall
Chichester
West Sussex
PO19 1RQ
Switchboard
Tel no (01243) 777100



12 January 2024

Dear Member,

Regulation, Audit and Accounts Committee - Monday, 15 January 2024

Please find enclosed the following document for consideration at the meeting of the Regulation, Audit and Accounts Committee on Monday, 15 January 2024 which was unavailable when the agenda was published.

Agenda No	Item
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8.	Treasury Management Compliance Report - Third Quarter 2023/24 (Pages 3 - 10)
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The paper was delayed as prior consideration was required at the Treasury Management Panel on 11 January 2024.

Yours sincerely

Tony Kershaw
Director of Law and Assurance

To all members of the Regulation, Audit and Accounts Committee

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**Key decision: Not applicable
Unrestricted**

Regulation, Audit and Accounts Committee

15 January 2024

Treasury Management Compliance Report – Third Quarter 2023/24

Report by Director of Finance and Support Services

Summary

In accordance with treasury management governance arrangements, this report details compliance against planned parameters as approved within the annual Treasury Management Strategy Statement (TMSS).

During the third quarter of 2023/24 the County Council complied with all of the relevant statutory and regulatory requirements related to its treasury management activities. The Director of Finance and Support Services confirms that there were no breaches of the approved TMSS (including the Annual Investment Strategy) during the period.

Recommendation

The Committee is asked to review and comment on the Treasury Management Compliance Report.

Proposal

1. Introduction

1.1 The County Council has substantial amounts of investments and borrowings and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management recommends that members are regularly updated on treasury management activity. This report therefore ensures the County Council is implementing best practice in accordance with the Code.

2. Compliance Report

2.1 Throughout the third quarter of 2023/24 the County Council complied with the relevant statutory and regulatory requirements which require officers to identify and where possible quantify the levels of risk associated with its treasury management activities. No financial institutions that the County Council held investments with during the quarter was negatively impacted by credit rating updates as published by Fitch, Moody's and Standard & Poor's, credit default swap/equity price trends and general media alerts.

2.2 **Borrowing:** On 31 December 2023 the County Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £461.3m (unchanged from 30 September 2023). During the third quarter of 2023/24:

Agenda Item 8

- (a) No new external borrowing (including forward borrowing) for capital purposes was undertaken during the period.
- (b) No external debt rescheduling was undertaken during the period.
- (c) Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) and overdraft facilities with the County Council's main provider of banking services (Lloyds), no short-term borrowing was undertaken for cash flow purposes. In all other cases, the County Council's policy of funding daily cash flow shortages from balances held in short-term Money Market Funds was maintained throughout the period.

- 2.3 In accordance with the approved 2023/24 Treasury Management Strategy, the County Council's Liability Benchmark model has been updated during the year thereby keeping the Council's borrowing position under regular review. The Liability Benchmark (including future iterations of the model) is used to forecast the timing of when new external borrowing will be required to finance the County Council's capital expenditure plans (*forecast to be 2025/26 as set-out in paragraph 3.13 of the 2023/24 Treasury Management Mid-Year Report*).
- 2.4 **Investment:** The average level of County Council cash balances available for treasury investment during 2023/24 (to 31 December) was £447.3m (£450.9m average throughout 2022/23). Total level of cash balances, including money held in the County Council's main Lloyds business bank accounts, amounted to £349.7m on 31 December 2023 (£408.4m as of 30 September 2023) as shown in Table 1 (paragraph 2.7). The decrease in the cash balances during the third quarter is mainly a consequence of higher payments made over the period in relation to the 2023/24 Revenue Budget, which are funded from external grants, precepts and other income received earlier in the financial year. In addition, there has been capital expenditure over the period which is funded through internal borrowing using the Council's cash balances.
- 2.5 During the third quarter of 2023/24, the County Council complied with the approved Treasury Management Strategy through the arrangement of short term investments (up to one year) in UK Government deposits (via the Debt Management Office), financial institution deposits and local authority loans; with liquidity to meet all financial obligations as they arose being maintained in Money Market Funds.
- 2.6 UK banking legislation continues to place the burden of rescuing failing banks disproportionately onto unsecured creditors (including local authority investors) through the potential bail-in of unsecured bank deposits. The use of short-term investments (including unsecured bank deposits and Money Market Funds) however remains an integral part of the County Council's treasury management strategy in maintaining both adequate cash-flow liquidity and supporting investment returns.
- 2.7 As a consequence, the disposition of bank unsecured and other investments on 31 December 2023 as compared with 30 September 2023, is detailed below:

Table 1 – Disposition of Investments by Counterparty Type

Counterparty Type	Sep-23 £m	Sep-23 %	Dec-23 £m	Dec-23 %
Banks Unsecured (Deposits)	123.8	30.3	149.5	42.7
Short-Term Money Market Funds	100.4	24.6	81.0	23.2
Total Bank Unsecured	224.2	54.9	230.5	65.9
Bank Secured (Covered Bonds)	0.0	0.0	10.0	2.9
UK Government	30.0	7.4	0.0	0.0
UK Local Authority	110.0	26.9	65.0	18.6
Internal Investments	364.2	89.2	305.5	87.4
Externally Managed - Multi Asset	22.6	5.5	23.3	6.6
Externally Managed – Property	21.6	5.3	20.9	6.0
TOTAL INVESTMENTS	408.4	100.0	349.7	100.0

2.8 The full breakdown of the County Council’s investment portfolio on 31 December 2023 is shown in **Appendix A**.

2.9 In demonstrating compliance with the County Council’s creditworthiness policy (as contained within the approved 2023/24 “Annual Investment Strategy”) the movement in the investment portfolio (actual cash position) by the credit rating of the financial institution, or the credit rating of the specific investment (for example covered bonds) if higher than the individual counterparty rating, is shown below:

Table 2 – Disposition of Investments by Credit Rating

Institution / Investment Credit Rating	Mar-23 £’m	Jun-23 £’m	Sep-23 £’m	Dec-23 £’m
AAA (i)	90.9	96.1	100.4	91.0
AA-	64.8	84.8	79.9	49.9
A+	54.1	73.8	83.9	84.6
A	29.5	0.0	0.0	15.0
A- (or lower)	0.0	0.0	0.0	0.0
Local Authority (No Rating)	110.0	110.0	100.0	65.0
Internally Managed	349.3	364.7	364.2	305.5
Externally Managed	45.6	45.0	44.2	44.2
Total Investments	394.9	409.7	408.4	349.7

(i) Includes short-term Money Market Funds and Covered Bonds.

2.10 The Director of Finance and Support Services also confirms that during the third quarter there were no breaches of the following additional exposure limits as approved within the 2023/24 Annual Investment Strategy, including:

- (a) Up to a maximum of £200m may be invested in short-term Money Market Funds (excluding externally managed pooled funds). **Actual:** £81m on 31 December 2023 (£162.4m highpoint during the quarter).
- (b) Up to a maximum of £100m may be invested in externally managed pooled funds; of which £60m may be invested in such funds not holding a AAA credit rating. **Actual:** £44.2m total investment on 31 December 2023; all of which is invested in unrated multi-asset income and property funds (change in fund market valuations being the movements during the quarter).

- (c) Up to a maximum of £90m (£30m per individual sovereign) may be invested in non-UK organisations (excluding investments held in short-term Money Market Funds and externally managed pooled funds).

Table 3 – Disposition of Investments by Sovereign (Non-UK)

Deposits by Sovereign	Jun-23 £'m	Sep-23 £'m	Dec-23 £'m
Australia	15.0	25.0	25.0
Canada	14.9	14.9	14.9
Finland	9.9	0.0	10.0
Netherlands	14.3	14.3	15.0
Norway	0.0	10.0	10.0
Total Investments	54.1	64.2	74.9

£74.9m representing the highpoint of such invested amounts during the second quarter of 2023/24.

- (d) Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account.
Actual: £84.9m on 31 December 2023 – see Appendix A/Memorandum (*£84.9m representing the highpoint during the quarter*).
- (e) Up to a maximum of £100m to be made available for long-term (greater than one year) strategic investment based on forecast levels of PFI/MRMC reserves (as reported in the County Council’s Treasury Indicators).
Actual: £54.2m on 31 December 2023 being investments in externally managed pooled funds (£44.2m) and a £10m 15-month Lloyds Bank Plc fixed interest covered bond investment approved during the third quarter of 2023/24 (maturing March 2025).

3. Risk implications and mitigations

- 3.1 Covered in main body of report.

Taryn Eves

Director of Finance and Support Services

Contact Officers

Vicky Chuter, Financial Reporting Manager, 033 022 23414

Jon Clear, Treasury Management Officer, 033 022 23378

Appendices

Appendix A – The County Council’s investment portfolio on 31 December 2023.

Background Papers

None

Investments held on 31 December 2023

Investments held with counterparty's approved within the County Council's 2023/24 Treasury Management Strategy (together with prevailing credit ratings and maximum monetary and duration limits) on 31 December 2023, are set out below:

Total Investments at 31 December = £349.7m

Table 1: UK Banks (Secured) – Total £10.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Lloyds Bank Plc (Covered Bond)	AAA	£25m	10 years	27/11/23	07/03/25	466	432	5.384%	£10.0m

Table 2: UK Banks (Unsecured) – Total £74.6m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Goldman Sachs International Bank	A+	£15m	1 Year (i)	08/08/23	08/02/24	184	39	5.755%	£10.0m
Goldman Sachs International Bank	A+	£15m	1 Year (i)	08/11/23	08/05/24	182	129	5.515%	£5.0m
Handelsbanken Plc	AA-	£15m	1 Year	07/12/23	07/06/24	183	159	5.400%	£15.0m
Lloyds Bank Plc (Business Accounts)	A+	£15m	1 Year	n/a	n/a	n/a	n/a	0.000%	£0.1m
Lloyds Bank Plc	A+	£15m	1 year	01/12/23	10/01/24	40	10	5.380%	£4.5m
Lloyds Bank Plc	A+	£15m	1 year	01/06/23	01/03/24	274	61	5.170%	£5.0m
Lloyds Bank Plc	A+	£15m	1 year	01/06/23	31/05/24	365	152	5.240%	£5.0m
National Westminster Bank Plc	A+	£15m	1 Year	03/02/23	02/02/24	364	33	4.450%	£5.0m
National Westminster Bank Plc	A+	£15m	1 Year	03/08/23	02/08/24	365	215	5.920%	£5.0m
National Westminster Bank Plc	A+	£15m	1 Year	03/11/23	01/11/24	364	306	5.500%	£5.0m
Santander UK Plc	A	£15m	6 Months	06/10/23	06/02/24	123	37	5.440%	£15.0m

- (i) *The 2023/24 Treasury Management Strategy approves investment durations up to a maximum of one year for unsecured deposits in UK Banks holding an A+ long-term credit rating. However, given Goldman Sachs International Bank's elevated CDS price reflecting higher risk (in comparison with other approved UK banks) the County Council currently only considers deposits up to a maximum six month duration; in line with recommended exposure limits received from Link Group.*

Table 3: Non-UK Banks (Unsecured) – Total £74.9m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Australia and New Zealand Bank (Australia)	A+	£15m	1 Year	21/04/23	19/04/24	364	110	5.080%	£5.0m
Australia and New Zealand Bank (Australia)	A+	£15m	1 Year	21/07/23	19/07/24	364	201	6.030%	£5.0m
Australia and New Zealand Bank (Australia)	A+	£15m	1 Year	20/12/23	20/09/24	275	264	5.360%	£5.0m
Commonwealth Bank of Australia (Australia)	A+	£15m	1 Year	03/07/23	02/07/24	365	184	6.460%	£10.0m
Cooperatieve Rabobank (Netherlands)	A+	£15m	1 Year	03/11/23	01/11/24	364	306	5.625%	£15.0m
DNB Bank (Norway)	AA-	£15m	1 Year	19/09/23	18/09/24	365	262	5.970%	£10.0m
Nordea Bank (Finland)	AA-	£15m	1 Year	05/10/23	04/10/24	365	278	5.765%	£10.0m
Toronto-Dominion Bank (Canada)	AA-	£15m	1 Year	11/08/23	09/08/24	364	222	6.100%	£10.0m
Toronto-Dominion Bank (Canada)	AA-	£15m	1 Year	13/09/23	12/09/24	365	256	6.030%	£4.9m

Table 4: UK Local Authorities – Total £65.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Birmingham City Council	n/a	£25m	20 Years	15/03/23	13/03/24	364	73	4.440%	£5.0m
Cambridgeshire County Council	n/a	£25m	20 Years	29/08/23	27/08/24	364	240	5.550%	£10.0m
Derbyshire County Council	n/a	£25m	20 Years	25/09/23	24/09/24	365	268	5.700%	£15.0m
Plymouth City Council	n/a	£25m	20 Years	13/04/23	11/04/24	364	102	4.500%	£10.0m
Southwark Council	n/a	£25m	20 Years	28/02/23	27/02/24	364	58	4.250%	£5.0m
Suffolk County Council	n/a	£25m	20 Years	24/03/23	22/03/24	364	82	4.600%	£10.0m
Telford & Wrekin Council	n/a	£25m	20 Years	28/02/23	27/02/24	364	58	4.400%	£10.0m

Table 5: Short-Term Money Market Funds – Total £81.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Aberdeen Standard Sterling Liquidity Fund	AAA	£25m	Note (ii)	n/a	n/a	n/a	n/a	5.296%	£25.0m
Blackrock Sterling Liquidity Fund	AAA	£25m	Note (ii)	n/a	n/a	n/a	n/a	5.327%	£25.0m
Deutsche Sterling Liquidity Fund	AAA	£25m	Note (ii)	n/a	n/a	n/a	n/a	5.287%	£6.0m
Federated (UK) Sterling Liquidity Fund	AAA	£25m	Note (ii)	n/a	n/a	n/a	n/a	5.383%	£25.0m

(ii) No defined maturity periods for short-term Money Market Funds; withdrawals based on cash flow liquidity requirements.

Table 6: Pooled Funds (Externally Managed) – Total £44.2m

Counterparty	Monetary Limits	Duration Limits	Start Date	No. of Days	Invested Amount	Income (Total)	Income (2023/24)	2023/24 EIR (iii)	Market Value
Fidelity Multi-Asset Income Fund	£15m	Note (iv)	11/12/18	1,847	£13.5m	£2.4m	£0.56m	5.477%	£11.1m
Ninety-One Diversified Income Fund	£15m	Note (iv)	05/12/18	1,853	£13.5m	£2.1m	£0.41m	4.067%	£12.2m
CCLA (Local Authorities' Property Fund)	£15m	Note (iv)	28/02/17	2,498	£10.0m	£2.8m	£0.33m	4.408%	£8.9m
Hermes Property Unit Trust (HPUT)	£15m	Note (iv)	28/08/18	1,952	£10.0m	£1.8m	£0.26m	3.441%	£8.4m
Lothbury Property Trust (LPT)	£15m	Note (iv)	03/09/18	1,946	£5.0m	£0.8m	£0.11m	2.802%	£3.6m

(iii) Actual income relating to 2023/24 (Q3) confirmed by Lothbury and Ninety-One only (as at 05/01/24); income from the other funds estimated based on indicative information received during the quarter from the respective fund managers

(iv) Minimum five year investment horizon for externally managed multi-asset income and property pooled funds.

Memorandum (included within above tables)

Total investments in negotiable (tradable) instruments held in the County Council’s HSBC custody account on 31 December 2023 (£84.9m):

Counterparty	Instrument	Start Date	Maturity Date	Amount
Commonwealth Bank of Australia (Australia)	Certificate of Deposit	03/07/23	02/07/24	£10.0m
Cooperatieve Rabobank (Netherlands)	Certificate of Deposit	03/11/23	01/11/24	£15.0m
DNB Bank (Norway)	Certificate of Deposit	19/09/23	18/09/24	£10.0m
Lloyds Bank Plc	Covered Bond	27/11/23	07/03/25	£10.0m
Santander UK Plc	Certificate of Deposit	06/10/23	06/02/24	£15.0m
Nordea Bank (Finland)	Certificate of Deposit	05/10/23	04/10/24	£10.0m
Toronto-Dominion Bank (Canada)	Certificate of Deposit	11/08/23	09/08/24	£10.0m
Toronto-Dominion Bank (Canada)	Certificate of Deposit	13/09/23	12/09/24	£4.9m