

## **Regulation, Audit and Accounts Committee**

**22 July 2019**

### **Treasury Management Compliance Report – First Quarter 2019/20**

#### **Report by Director of Finance and Support Services**

##### **Executive 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 first quarter of 2019/20 the 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**

That the report be noted.

## **1. Introduction**

1.1 The 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 Council is implementing best practice in accordance with the Code.

## **2. Compliance Report**

1.1 Throughout the first quarter of 2019/20 the 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. Additionally there were no changes to the Council's approved 2019/20 lending list as a result of credit updates; including rating information published by Fitch, Moody's and Standard & Poor's, credit default swap/equity price trends and general media alerts.

1.2 Borrowing Strategy: At 30 June 2019 the Council's Public Works Loan Board (PWLB) borrowing totalled £485.4m (£388.9m at 31 March 2019). During the first quarter of 2019/20:

- Given the significant borrowing need in the approved capital programme (up to March 2024) the Council took advantage of the historically low borrowing rates offered by the Public Works Loan Board and borrowed an additional £100m; 50-year PWLB maturity loans at an average rate of 2.22%. The Council's overall borrowing at 30 June 2019 (£485.4m) remained within the "Authorised Borrowing Limit" approved by County Council in February 2019 (£550m).
- £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011.
- No external debt rescheduling was undertaken during the period.
- In the management of the Council's cash flows (excluding money held on behalf of the Chichester Harbour Conservancy) short-term borrowing was only undertaken on an exceptional basis via overdraft facilities in place with the Council's main provider of banking services (Lloyds Bank Plc). The Council's policy of funding daily cash flow shortages from balances held in the Council's instant access bank accounts and short-term Money Market Funds was maintained throughout the period.

1.3 Investment Strategy: The average level of Council funds available for treasury investment during 2019/20 (to-date) was £248.3m; actual levels of investments amounted to £289.1m at 30 June 2019 (£204.8m as at 31 March 2019). Investment balances continue to depend on the timing of precept payments from West Sussex Boroughs/Districts and government grants received in advance of expenditure, levels of useable reserves and the progress on the Council's capital programme (including the arrangement of new long-term borrowing).

1.4 UK banking legislation places 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 unsecured bank deposits and short-term Money Market Funds however remains an integral part of the Council's investment strategy in maintaining adequate cash-flow liquidity as well as enhancing short-term investment returns. As a consequence, the disposition of bank unsecured/other investments at 30 June 2019 as compared with 31 March 2019, is detailed below:

Counterparty Type	31-March-19		30-June-19	
	£m	%	£m	%
Banks & Building Societies Unsecured	46.5	22.7	99.7	34.5
Short-Term Money Market Funds	80.1	39.1	90.3	31.2
<b>Total Bank Unsecured</b>	<b>126.6</b>	<b>61.8</b>	<b>190.0</b>	<b>65.7</b>
Bank Secured (greater than 1 year)	7.9	3.8	0.0	0.0
Non-Bank (less than 1 year)	11.0	5.4	25.0	8.6
Non-Bank (greater than 1 year)	20.0	9.8	10.0	3.5
<b>Investments (Internally Managed)</b>	<b>165.5</b>	<b>80.8</b>	<b>225.0</b>	<b>77.8</b>
Externally Managed - Bond Funds (i)	0.0	0.0	24.5	8.5
Externally Managed - Multi Asset	15.3	7.5	15.5	5.4
Externally Managed - Property	24.0	11.7	24.1	8.3
<b>TOTAL INVESTMENTS</b>	<b>204.8</b>	<b>100.0</b>	<b>289.1</b>	<b>100.0</b>

(i) Ultra-Short Dated Bond Funds (Enhanced Cash)

- 1.5 During the first quarter of 2019/20 the Council invested £24.5m into the externally managed Federated Cash Plus Fund (AAA credit rated ultra-short dated bond fund) as opposed to holding cash in lower yielding Money Market Funds. The full breakdown of the Council's investment portfolio at 30 June 2019 is shown in **Appendix 1**.
- 1.6 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2019/20 "Annual Investment Strategy") the movement in the Council's 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:

Institution / Investment Credit Rating	2018/19	2019/20			
	31-Mar £'m	30-Jun £'m	30-Sep £'m	31-Dec £'m	31-Mar £'m
AAA (i)	88.0	90.3			
AA	0.0	0.0			
AA- (ii)	47.7	75.0			
A+	14.8	14.8			
A	0.0	44.9			
A-	15.0	0.0			
<b>Internally Managed</b>	<b>165.5</b>	<b>225.0</b>			
Externally Managed (AAA)	0.0	24.5			
Externally Managed (Other)	39.3	39.6			
<b>TOTAL INVESTMENTS</b>	<b>204.8</b>	<b>289.1</b>			

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

(ii) Includes all non-rated UK local authorities (assumed AA- rating).

- 1.7 Furthermore, the Director of Finance and Support Services confirms that during the first quarter there were no breaches of the following additional exposure limits as approved within the 2019/20 Annual Investment Strategy, including:
- 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): Actual £40.0m at 30 June 2019 (£30m Australia; and £10m Singapore).
  - Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual £14.9m at 30 June 2019.
  - Up to a maximum of £115m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual £90.3m at 30 June 2019.
  - 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 £64.1m total investment at 30 June 2019 (of which **£39.6m** is invested in unrated multi-asset income and property funds).

- Up to a maximum of £75m to be made available for long-term strategic investment based on forecast levels of PFI/MRMC reserves (as reported in the Council's Treasury Indicators): Actual **£49.6m** at 30 June 2019.

**4. Resource and Value for Money Implications**

Covered in main body of report.

**5. Risk Management Implications**

Covered in main body of report.

**6. Human Rights Act Implications**

Not applicable.

**7. Crime and Disorder Act Implications**

Not applicable

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**Background Papers:** None