

Regulation, Audit and Accounts Committee

4 November 2019

Treasury Management Compliance Report – Second 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 second 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

2.1 Throughout the second 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.

2.2 Borrowing: At 30 September 2019 the Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £485.3m (no change from 30 June 2019). During the second quarter of 2019/20:

- No new external borrowing for capital purposes was undertaken during the period.
- No external debt rescheduling was undertaken during the period.

- Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) no short-term borrowing was undertaken for cash flow purposes. 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.

2.3 Investment: The average level of Council funds available for treasury investment during 2019/20 (to-date) was £284.5m. Actual levels of investments, including cash balances held in the Council's main Lloyds business bank accounts, amounted to £305.0m at 30 September 2019 (£289.2m as at 30 June 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).

2.4 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 September 2019 as compared with 30 June 2019, is detailed below:

Counterparty Type	Jun-19 £m	Jun-19 %	Sep-19 £m	Sep-19 %
Banks Unsecured	99.8	34.5	134.8	44.2
Short-Term Money Market Funds	90.3	31.2	46.2	15.1
Total Bank Unsecured	190.1	65.7	181.0	59.3
Bank Secured (greater than 1 year)	0.0	0.0	10.0	3.3
Non-Bank (less than 1 year)	25.0	8.6	30.0	9.8
Non-Bank (greater than 1 year)	10.0	3.5	20.0	6.6
Internal Investments	225.1	77.8	241.0	79.0
Externally Managed - Bond Funds (i)	24.5	8.5	24.6	8.1
Externally Managed - Multi Asset	15.5	5.4	15.4	5.0
Externally Managed - Property	24.1	8.3	24.0	7.9
TOTAL INVESTMENTS	289.2	100.0	305.0	100.0

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

2.5 During the second quarter of 2019/20 and in accordance with the Council's treasury management policies and objectives, the following new investments with durations ranging between one and three years were approved:

- One year investments totalling £25m with two other UK local authorities (Doncaster Metropolitan Borough Council and Thurrock Council) at fixed rates of interest ranging between 0.88% and 0.95%.

(ii) £10m investment with Metropolitan Housing Trust (Met Thames Valley Housing Group) fixed at 1.40% for two years; the Council retaining the right to request repayment (payable after three months) if the Housing Association is downgraded below its current A- long-term credit rating.

(iii) £10m purchase of a three year Nationwide Building Society covered bond (bank secured); variable rate of investment return based on daily market rates (currently yielding 1.14%).

2.6 The full breakdown of the Council's investment portfolio at 30 September 2019 is shown in **Appendix A**.

2.7 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	Mar-19 £'m	Jun-19 £'m	Sep-19 £'m
AAA (i)	88.0	90.3	56.2
AA	0.0	0.0	0.0
AA- (ii)	47.7	75.0	100.0
A+	14.8	14.9	14.9
A	0.0	44.9	59.9
A-	15.0	0.0	10.0
Internally Managed	165.5	225.1	241.0
Externally Managed (AAA)	0.0	24.5	24.6
Externally Managed (Other)	39.3	39.6	39.4
TOTAL INVESTMENTS	204.8	289.2	305.0

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

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

2.8 Furthermore, the Director of Finance and Support Services confirms that during the second 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 **£45.0m** at 30 September 2019 (£30m Australia; and £15m 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 **£24.9m** at 30 September 2019.
- Up to a maximum of £115m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual **£46.2m** at 30 September 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 **£64.0m** total investment at 30 September 2019 (of which **£39.4m** 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 **£69.4m** at 30 September 2019.

3. Resource and Value for Money Implications

3.1 Covered in main body of report.

4. Risk Management Implications

4.1 Covered in main body of report.

5. Human Rights Act Implications

5.1 Not applicable.

6. Crime and Disorder Act Implications

6.1 Not applicable

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Appendices

Appendix A - Investment portfolio at 30 September 2019

Background Papers

None