

Regulation, Audit and Accounts Committee
20 January 2020
Treasury Management Compliance Report – Third 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 third 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.

Recommendations:

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 third 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 31 December 2019 the Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £481.8m (£485.3m at 30 September 2019). During the third quarter of 2019/20:

- (a) No new external borrowing for capital purposes was undertaken during the period; however £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011.
- (b) HM Treasury and the PWLB announced a 1% increase in the margin over UK Gilt yields on top of the 0.8% margin over gilts local authorities had previously paid to borrow funds; with the aim of returning PWLB borrowing rates back to levels seen in 2018.
- (c) No external debt rescheduling was undertaken during the period.
- (d) 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 £300.7m. Actual levels of investments, including cash balances held in the Council's main Lloyds business bank accounts, amounted to £324.1m at 31 December 2019 (£305.0m as at 30 September 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 31 December 2019 as compared with 30 September 2019, is detailed below:

Counterparty Type	Sep-19 £m	Sep-19 %	Dec-19 £m	Dec-19 %
Banks Unsecured	134.8	44.2	105.4	32.5
Short-Term Money Market Funds	46.2	15.1	39.8	12.3
Total Bank Unsecured	181.0	59.3	145.2	44.8
Bank Secured (greater than 1 year)	10.0	3.3	10.0	3.1
Non-Bank (less than 1 year)	30.0	9.8	80.0	24.7
Non-Bank (greater than 1 year)	20.0	6.6	25.0	7.7
Internal Investments	241.0	79.0	260.2	80.3
Externally Managed - Bond Funds (i)	24.6	8.1	24.6	7.6
Externally Managed - Multi Asset	15.4	5.0	15.5	4.8
Externally Managed - Property	24.0	7.9	23.8	7.3
TOTAL INVESTMENTS	305.0	100.0	324.1	100.0

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

- 2.5 Following PWLB increasing the cost of borrowing (see paragraph 2.2[b]) and given the statutory provisions set out in the Local Government Act 2003 that prevent local authority default, the Council took advantage of the favourable rates offered on the local-to-local borrowing market (as compared with bank deposit rates) and increased total investments held with other UK Local Authorities to £95m; thereby reducing bank unsecured deposits. This included a £5m investment with Barnsley Metropolitan Borough Council fixed at 1.45% for two years. No maximum monetary limit for total short-term (up to one year) investments with local authorities is set within 2019/20 Treasury Management Strategy (£25m maximum per local authority); therefore all investments approved during the third quarter remain compliant with the strategy.
- 2.6 The full breakdown of the Council's investment portfolio at 31 December 2019 is shown in **Appendix 1**.
- 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	Dec-19 £'m
AAA (i)	88.0	90.3	56.2	49.8
AA	0.0	0.0	0.0	0.0
AA- (ii)	47.7	75.0	100.0	122.1
A+	14.8	14.9	14.9	15.1
A	0.0	44.9	59.9	63.2
A-	15.0	0.0	10.0	10.0
Internally Managed	165.5	225.1	241.0	260.2
Externally Managed (AAA)	0.0	24.5	24.6	24.6
Externally Managed (Other)	39.3	39.6	39.4	39.3
TOTAL INVESTMENTS	204.8	289.2	305.0	324.1

- (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 third quarter there were no breaches of the following additional exposure limits as approved within the 2019/20 Annual Investment Strategy, including:
- (a) 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 **£25.0m** invested with Australian banks at 31 December 2019.
- (b) Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual **£33.2m** at 31 December 2019.

- (c) Up to a maximum of £115m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual **£39.8m** at 31 December 2019.
- (d) 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 **£63.9m** total investment at 31 December 2019 (of which **£39.3m** is invested in unrated multi-asset income and property funds).
- (e) 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 **£74.3m** at 31 December 2019.

3. Resource and Value for Money Implications

Covered in main body of report.

4. Risk Management Implications

Covered in main body of report.

5. Human Rights Act Implications

Not applicable.

6. Crime and Disorder Act Implications

Not applicable

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Background Papers: None

Appendix 1

Investments held with counterparty's approved within the Council's 2019/20 Treasury Management Strategy (together with prevailing credit ratings and maximum monetary and duration limits) at 31 December 2019, are set out below:

Total Investments for period = £324.1m

Table 1: UK Banks (Unsecured) – Total £80.4m

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	6 Months	07/11/19	07/05/20	182	128	1.02%	£10.0m
Handelsbanken Plc: 35-Day Notice Account	AA-	£15m	1 Year	n/a	n/a	n/a	n/a	0.69%	£2.1m
Lloyds Bank Plc: Business Account(s)	A+	£15m	1 Year	n/a	n/a	n/a	n/a	0.65%	£0.2m
Lloyds Bank Plc: 175-Day Notice Account)	A+	£15m	1 Year	n/a	n/a	n/a	n/a	1.13%	£14.9m
National Westminster Bank Plc	A	£15m	1 Year	01/04/19	02/01/20	276	2	1.01%	£5.0m
National Westminster Bank Plc	A	£15m	1 Year	01/04/19	31/03/20	365	91	1.07%	£5.0m
National Westminster Bank Plc	A	£15m	1 Year	01/10/19	30/09/20	365	274	0.91%	£5.0m
Nationwide Building Society	A	£15m (i)	6 Months	05/07/19	06/01/20	185	6	0.82%	£15.0m
Santander UK Plc (Snr Unsecured Bond)	A	£15m	6 Months	05/12/19	17/02/20	74	48	0.88%	£13.2m
Standard Chartered Bank (CD)	A	£15m	6 Months	05/11/19	05/05/20	182	126	0.88%	£10.0m

Table 2: 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
Nationwide Building Society (Covered Bond)	AAA	£10m (i)	10 Years	02/08/19	02/08/22	1,096	945	1.14%	£10.0m

(i) The total amount invested per financial institution (secured and unsecured deposits) cannot exceed £25m.

Table 3: Non-UK Banks (Unsecured) – Total £25.0m

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)	AA-	£15m	1 Year	12/04/19	09/04/20	363	100	1.14%	£5.0m
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	21/05/19	20/05/20	365	141	1.14%	£5.0m
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	12/04/19	13/01/20	276	13	0.95%	£5.0m
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	01/05/19	24/02/20	299	55	0.95%	£5.0m
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	12/04/19	09/04/20	363	100	0.98%	£5.0m

Table 4: UK Local Authorities – Total £95.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Aberdeen City Council	AA-	£25m	20 Years	19/12/19	24/09/20	280	268	0.95%	£5.0m
Barnsley Metropolitan Borough Council	AA- (ii)	£25m	20 Years	05/11/19	05/11/21	731	675	1.45%	£5.0m
Cambridgeshire County Council	AA- (ii)	£25m	20 Years	11/04/19	09/04/20	364	100	0.98%	£5.0m
Croydon Council	AA- (ii)	£25m	20 Years	05/11/19	03/11/20	364	308	0.95%	£10.0m
Dundee City Council	AA- (ii)	£25m	20 Years	29/10/19	27/10/20	364	301	0.98%	£5.0m
Doncaster Metropolitan Borough Council	AA- (ii)	£25m	20 Years	15/08/19	13/08/20	364	226	0.88%	£5.0m
Hull City Council	AA- (ii)	£25m	20 Years	15/11/19	15/05/20	182	136	0.90%	£5.0m
North Lanarkshire Council	AA- (ii)	£25m	20 Years	09/12/19	09/11/20	336	314	0.93%	£5.0m
Plymouth City Council	AA- (ii)	£25m	20 Years	09/04/18	09/04/20	731	100	1.40%	£10.0m
Salford City Council	AA- (ii)	£25m	20 Years	13/12/19	11/12/20	364	346	0.95%	£5.0m
Slough Borough Council	AA- (ii)	£25m	20 Years	29/11/19	29/05/20	182	150	0.86%	£5.0m
Surrey County Council	AA- (ii)	£25m	20 Years	24/12/19	24/06/20	183	176	0.90%	£10.0m
Thurrock Council	AA- (ii)	£25m	20 Years	03/07/19	02/07/20	365	184	0.95%	£10.0m
Thurrock Council	AA- (ii)	£25m	20 Years	05/08/19	04/08/20	365	217	0.92%	£10.0m

(ii) Assumed UK Local Authority credit rating if no actual rating exists (one notch lower than the UK sovereign rating).

Table 5: UK Housing Associations (RSLs) – Total £10.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Metropolitan Housing Trust (MTVH Group)	A-	£15m	5 Years	05/09/19	06/09/21	732	615	1.40%	£10.0m

Table 6: Short-Term Money Market Funds – Total £39.8m

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 (iii)	n/a	n/a	n/a	n/a	0.73%	£25.0m
Blackrock Sterling Liquidity Fund	AAA	£25m	Note (iii)	n/a	n/a	n/a	n/a	0.69%	£14.8m

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

Table 7: Pooled Funds (Externally Managed) – Total £63.9m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Dividend Return	Amount
Federated Sterling Cash Plus Fund	AAA	£25m	Note (iv)	11/04/19	n/a	265	n/a	0.86%	£24.6m
Fidelity Multi-Asset Income Fund	n/a	£15m	Note (v)	11/12/18	n/a	386	n/a	4.90%	£8.0m
Investec Diversified Income Fund	n/a	£15m	Note (v)	05/12/18	n/a	392	n/a	4.29%	£7.5m
CCLA (Local Authorities' Property Fund)	n/a	£15m	Note (vi)	28/02/17	n/a	1,037	n/a	4.23%	£9.7m
Hermes Property Unit Trust (HPUT)	n/a	£15m	Note (vi)	28/08/18	n/a	491	n/a	2.99%	£9.5m
Lothbury Property Trust (LPT)	n/a	£15m	Note (vi)	03/09/18	n/a	485	n/a	2.96%	£4.6m

(iv) Up to one year investment horizon for externally managed ultra-short dated bond funds (enhanced cash).

(v) Three year investment horizon for externally managed multi-asset income funds.

(vi) Minimum five year investment horizon for externally managed property funds.