

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

**20 November 2020**

### **Treasury Management Compliance Report – Second Quarter 2020/21**

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

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#### **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 2020/21 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**

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

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#### **Proposal**

##### **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 2020/21 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, no counterparty that the 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: At 30 September 2020 the Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £478.3m (no change from 30 June 2020). During the second quarter of 2020/21:
- 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 2020/21 (to 30 September) was £380.7m. Actual levels of investments, including cash balances held in the Council's main Lloyds business bank accounts, amounted to £401.1m at 30 September 2020 (£340.7m as at 30 June 2020). Increased cash balances available for investment during the quarter were a consequence of delayed progress on the 2020/21 Capital Programme (including additional Capital grants received the period) and 2020/21 Revenue & Emergency Covid-19 funding received ahead of spend committed throughout the remainder of 2020/21.
- 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. This is particularly applicable at this time due to the need to ensure the Covid-19 funding is readily accessible as needed. As a consequence, the disposition of bank unsecured/other investments at 30 September 2020 as compared with 30 June 2020, is detailed below:

Counterparty Type	Jun-20 £m	Jun-20 %	Sep-20 £m	Sep-20 %
Banks Unsecured (Deposits)	40.0	11.7	84.5	21.1
Short-Term Money Market Funds	98.7	29.0	49.9	12.4
<b>Total Bank Unsecured</b>	<b>138.7</b>	<b>40.7</b>	<b>134.4</b>	<b>33.5</b>
Bank Secured (greater than 1 year)	10.0	2.9	10.0	2.5
Non-Bank (less than 1 year)	139.5	41.0	179.5	44.8
Non-Bank (greater than 1 year)	15.0	4.4	15.0	3.7
<b>Internal Investments</b>	<b>303.2</b>	<b>89.0</b>	<b>338.9</b>	<b>84.5</b>
Externally Managed - Bond Funds (i)	0.0	0.0	24.9	6.2
Externally Managed - Multi Asset	14.9	4.4	14.9	3.7
Externally Managed - Property	22.6	6.6	22.4	5.6
<b>TOTAL INVESTMENTS</b>	<b>340.7</b>	<b>100.0</b>	<b>401.1</b>	<b>100.0</b>

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

2.5 During the second quarter of 2020/21 the Council continued to prioritise the monitoring of its cash flow positions, to ensure that there were enough funds to meet all financial obligations (including those relating to Covid-19) as they arose. However with short-term Money Market Fund rates falling towards 0%, the Council took the opportunity to transfer investments from such liquidity funds into marginally higher yielding short term deposits and loans ranging between three and twelve month durations; this included transferring £24.9m into the Federated (externally managed) enhanced cash fund. The resulting maturity profile of the Council's investment portfolio ensures that forecast cash flows remain sufficient throughout the remainder of 2020/21. The full breakdown of the Council's investment portfolio at 30 September 2020 is shown in **Appendix A**.

2.6 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2020/21 "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-20 £'m	Jun-20 £'m	Sep-20 £'m
AAA (i)	76.2	108.7	59.9
AA-	20.0	20.0	15.0
A+	15.2	15.0	44.5
A	30.0	10.0	10.0
A-	10.0	10.0	25.0
Local Authority (No Rating)	149.5	139.5	184.5
<b>Internally Managed</b>	<b>300.9</b>	<b>303.2</b>	<b>338.9</b>
Externally Managed (AAA)	0.0	0.0	24.9
Externally Managed (Other)	37.2	37.5	37.3
<b>Total Investments</b>	<b>338.1</b>	<b>340.7</b>	<b>401.1</b>

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

2.7 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 2020/21 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 **£15.0m** invested with Australian banks at 30 September 2020.
- (b) Up to a maximum of £25m may be invested with UK Registered Social Landlords (Housing Associations): Actual **£10.0m** at 30 September 2020.
- (c) Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual **£25.0m** at 30 September 2020.
- (d) Up to a maximum of £150m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual **£49.9m** at 30 September 2020.

- (e) 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 **£62.2m** total investment at 30 September 2020 (of which **£37.3m** is invested in unrated multi-asset income and property funds).
- (f) Up to a maximum of £100m 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 **£62.3m** at 30 September 2020.

### **3 Risk implications and mitigations**

3.1 Covered in main body of report.

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#### **Appendices**

Appendix A - Council's investment portfolio as at 30 September 2020

#### **Background papers**

None