

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

**18 January 2021**

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

**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 third 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 third 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 31 December 2020 the Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £474.8m (£478.3m at 30 September 2020). During the third quarter of 2020/21:

- (a) No new external borrowing for capital purposes was undertaken; however, £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011 (leaving £3.5m to be repaid in April 2021).
- (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) 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 31 December) was £399.5m. Actual levels of investments, including cash balances held in the Council's main Lloyds business bank accounts, amounted to £400.6m at 31 December 2020 (£401.1m as at 30 September 2020). Cash balances available for investment remain at elevated levels, a consequence of Capital, 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; ensuring that there were enough funds to meet all financial obligations (including those relating to Covid-19) as they arose. During the third quarter of 2020/21 this included the arrangement of short term investments (up to three months) with financial institutions and appropriate liquidity being maintained in Money Market Funds. As a consequence, the disposition of bank unsecured/other investments at 31 December 2020 as compared with 30 September 2020, is detailed below:

Counterparty Type	Sep-20 £m	Sep-20 %	Dec-20 £m	Dec-20 %
Banks Unsecured (Deposits)	84.5	21.1	84.6	21.1
Short-Term Money Market Funds	49.9	12.4	68.6	17.2
<b>Total Bank Unsecured</b>	<b>134.4</b>	<b>33.5</b>	<b>153.2</b>	<b>38.3</b>
Bank Secured (greater than 1 year)	10.0	2.5	10.0	2.5
Non-Bank (less than 1 year)	179.5	44.8	159.5	39.8
Non-Bank (greater than 1 year)	15.0	3.7	15.0	3.7
<b>Internal Investments</b>	<b>338.9</b>	<b>84.5</b>	<b>337.7</b>	<b>84.3</b>
Externally Managed - Bond Funds (i)	24.9	6.2	24.9	6.2
Externally Managed - Multi Asset	14.9	3.7	15.4	3.9
Externally Managed - Property	22.4	5.6	22.6	5.6
<b>TOTAL INVESTMENTS</b>	<b>401.1</b>	<b>100.0</b>	<b>400.6</b>	<b>100.0</b>

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

2.5 As the quarter progressed towards the end of 2020, markets as a whole saw an increasing swathe of monies being focused on ultra-short investment periods; thereby placing downward pressure on yields (to near zero or negative rates). As year-end positioning begins to unwind in early 2021 so the amount of money weighing on short-term yields should begin to dissipate. However, underlying interest rate expectations, bank regulatory requirements and investor liquidity needs will still combine to ensure that short-term investment rates remain at very low levels. Investments with other local authorities (up to one year duration periods) continue to be approved to mitigate the risk of such ultra-low rates of return. The full breakdown of the Council's investment portfolio at 31 December 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	Dec-20 £'m
AAA (i)	76.2	108.7	59.9	78.6
AA-	20.0	20.0	15.0	15.0
A+	15.2	15.0	44.5	44.6
A	30.0	10.0	10.0	10.0
A-	10.0	10.0	25.0	25.0
Local Authority (No Rating)	149.5	139.5	184.5	164.5
<b>Internally Managed</b>	<b>300.9</b>	<b>303.2</b>	<b>338.9</b>	<b>337.7</b>
Externally Managed (AAA)	0.0	0.0	24.9	24.9
Externally Managed (Other)	37.2	37.5	37.3	38.0
<b>Total Investments</b>	<b>338.1</b>	<b>340.7</b>	<b>401.1</b>	<b>400.6</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 third 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 31 December 2020.
- (b) Up to a maximum of £25m may be invested with UK Registered Social Landlords (Housing Associations): Actual **£10.0m** at 31 December 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 31 December 2020.
- (d) Up to a maximum of £150m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual **£68.6m** at 31 December 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 **£62.9m** total investment at 31 December 2020 (of which **£38.0m** 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 **£63.0m** at 31 December 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 31 December 2020

#### **Background Papers**

None