

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

**19 July 2021**

### **Treasury Management Compliance Report – First Quarter 2021/22**

**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 first quarter of 2021/22 the County 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 County 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 County Council is implementing best practice in accordance with the Code.

##### **2. Compliance Report**

2.1 Throughout the first quarter of 2021/22 the County 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 County 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 June 2021 the County Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £471.3m (£474.8m at 31 March 2021). During the first quarter of 2021/22:

- (a) No new external borrowing for capital purposes was undertaken during the period; however £3.5m (plus interest) was repaid to the PWLB in final repayment of the £70m borrowing taken during April 2011.
- (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) and approved overdraft facilities with the County Council's main provider of banking services (Lloyds), no short-term borrowing was undertaken for cash flow purposes. The County Council's policy of funding daily cash flow shortages from balances held in short-term Money Market Funds was maintained throughout the period.

2.3 **Investment:** The average level of County Council funds available for treasury investment during 2021/22 (to 30 June) was £394.1m. Actual levels of investments, including cash balances held in the County Council's main Lloyds business bank accounts, amounted to £378.4m at 30 June 2021 (£414.6m as at 31 March 2021). 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 2021/22.

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 County 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 first quarter of 2021/22 this included the arrangement of short term investments (up to one year) with both financial institutions and local authorities; and appropriate liquidity being maintained in Money Market Funds. As a consequence, the disposition of bank unsecured/other investments at 30 June 2021 as compared with 31 March 2021, is detailed below:

Counterparty Type	Mar-21 £m	Mar-21 %	Jun-21 £m	Jun-21 %
Banks Unsecured (Deposits)	76.3	18.4	74.7	19.7
Short-Term Money Market Funds	150.0	36.2	87.5	23.1
<b>Total Bank Unsecured</b>	<b>226.3</b>	<b>54.6</b>	<b>162.2</b>	<b>42.8</b>
Bank Secured (greater than 1 year)	10.0	2.4	10.0	2.6
Non-Bank (less than 1 year)	125.0	30.2	140.0	37.0
Non-Bank (greater than 1 year) – (i)	15.0	3.6	15.0	4.0
<b>Internal Investments</b>	<b>376.3</b>	<b>90.8</b>	<b>327.2</b>	<b>86.4</b>
Externally Managed - Multi Asset	15.3	3.7	27.5	7.3
Externally Managed – Property	23.0	5.5	23.7	6.3
<b>TOTAL INVESTMENTS</b>	<b>414.6</b>	<b>100.0</b>	<b>378.4</b>	<b>100.0</b>

(i) *Greater than one at commencement of investment.*

2.5 The full breakdown of the County Council's investment portfolio at 30 June 2021 is shown in **Appendix A**. This includes an additional £12m long-term investment into the County Council's Multi-Asset Income Funds (Fidelity and

NinetyOne; £6m per fund) that was approved by the Director of Finance and Support Services during the first quarter of 2021/22 and actioned in early May.

- 2.6 In demonstrating compliance with the County Council's creditworthiness policy (as contained within the approved 2021/22 "Annual Investment Strategy") the movement in the 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-21 £'m	Jun-20 £'m
AAA (i)	160.0	97.5
AA-	15.0	15.0
A+	46.3	44.7
A	15.0	15.0
A-	10.0	10.0
Local Authority (No Rating)	130.0	145.0
<b>Internally Managed</b>	<b>376.3</b>	<b>327.2</b>
Externally Managed (AAA)	0.0	0.0
Externally Managed (Other)	38.3	51.2
<b>Total Investments</b>	<b>414.6</b>	<b>378.4</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 first quarter there were no breaches of the following additional exposure limits as approved within the 2021/22 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 June 2021.
  - (b) Up to a maximum of £25m may be invested with UK Registered Social Landlords (Housing Associations). **Actual:** £10.0m at 30 June 2021.
  - (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:** £10.0m at 30 June 2021.
  - (d) Up to a maximum of £175m may be invested in short-term Money Market Funds (excluding externally managed pooled funds). **Actual:** £87.5m at 30 June 2021.
  - (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:** £51.2m total investment at 30 June 2021 (all of which 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 County Council's Treasury Indicators). **Actual:** £76.2m at 30 June 2021.

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

3.1 Covered in main body of report.

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#### **Contact Officers**

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#### **Appendices**

Appendix A – The County Council’s investment portfolio as at 30 June 2021.

#### **Background Papers**

None