

Regulation, Audit and Accounts Committee

23 July 2018

Treasury Management Compliance Report – First Quarter 2018/19

Report by Director of Finance, Performance and Procurement

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 first quarter of 2018/19 the Council complied with all of the relevant statutory and regulatory requirements. In accordance with the regulatory requirements the Director of Finance, Performance and Procurement confirms that on one occasion a monetary exposure limit as approved within the 2018/19 Annual Investment Strategy was exceeded; details contained within the report below (paragraph 2.5).

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

1.1 Throughout the first quarter of 2018/19 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.

1.2 The Director of Finance, Performance and Procurement approved two changes to the Council's lending list during the first quarter of 2018/19. Both changes related to bank deposits placed on an unsecured basis and were a result of UK Bank Ring-Fencing Regulations and related credit rating updates published by Fitch, Moody's and Standard & Poor's during the period:

- (1) Following a credit rating upgrade for Lloyds Bank plc (Lloyds ring-fenced bank) the maximum duration limit for unsecured deposits

increased to **one year** from six months. No changes were made to either the maximum duration period for deposits with Lloyds Bank Corporate Markets plc (Lloyds non ring-fenced bank; six months) or the maximum monetary limit for total investments held within the Lloyds Banking Group on an unsecured basis (£15m). The Council's investment with Lloyds Bank Plc totalled £14.7m at 30 June 2018 (see **Appendix A**).

- (2) Following a credit rating downgrade to NatWest Markets plc (RBS non ring-fenced bank) no new deposits to be arranged with this name. Unsecured investments with National Westminster Bank plc (RBS ring-fenced bank) however continue to be approved up to a maximum monetary limit of £15m for up to a maximum investment duration of one year. The Council held no investments with the RBS Banking Group during the first quarter of 2018/19.

1.3 Borrowing Strategy: The Director of Finance, Performance and Procurement confirms that there were no breaches of the Council's Prudential Indicators approved in connection with its capital programme and borrowing activities (in accordance with CIPFA's "Prudential Code"). At 30 June 2018 the Council's Public Works Loan Board (PWLB) borrowing totalled £392.4m (£395.9m at 31 March 2018); during the first quarter:

- There was no new external borrowing for capital purposes (an internal borrowing strategy was maintained throughout the period).
- £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011.
- No external debt rescheduling was undertaken during the period.
- Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) no other short-term borrowing was undertaken for cash flow purposes. All daily cash flow shortages were funded by withdrawals from the Council's instant access accounts (including short-term Money Market Funds).

1.4 Investment Strategy: The average level of Council funds available for treasury investment during 2018/19 to-date, including Local Enterprise Partnership (LEP) grant monies, was £314.8m. Actual levels of available funds amounted to £333.7m at 30 June 2018; including £80.2m held as the accountable body for the LEP. 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. The full breakdown of the Council's investment portfolio at 30 June 2018 is shown in **Appendix A**.

1.5 The Director of Finance, Performance and Procurement confirms that on one occasion a monetary exposure limit as approved within the 2018/19 Annual Investment Strategy was exceeded; details reported below:

- (1) The maximum approved limit for total investments held in short-term Money Market Funds (£115m) was exceeded for one day (£132.5m on 17 May 2018) due to actual payments and receipts differing from the cash flow forecast; with corrective action being taken on the next working day. Money Market Funds are used to cover the Council's daily liquidity requirements (as opposed to short-term borrowing from other institutions). The maximum monetary limit approved for all such funds is maintained to ensure that the Council is not over exposed to lower yielding investment products; and is therefore not reflective of any additional credit risk. Internal controls continue to be reviewed to ensure that this limit is not exceeded in the future.

- 1.6 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 June 2018 as compared with 31 March 2018, is detailed below:

Investment Type	31-March-18		30-June-18	
	£m	%	£m	%
Bank & Building Society Unsecured	118.9	46.8	139.6	41.8
Money Market Funds	38.8	15.3	78.8	23.6
Total Bank Unsecured	157.7	62.1	218.4	65.4
Bank Secured (less than 1 year)	10.4	4.1	0.0	0.0
Bank Secured (greater than 1 year)	7.9	3.1	7.9	2.4
Non-Bank (less than 1 year)	37.0	14.6	46.5	13.9
Non-Bank (greater than 1 year)	16.2	6.4	26.2	7.9
Internally Managed Investments	229.2	90.3	299.0	89.6
Externally Managed - Bond Funds (i)	15.0	5.9	25.0	7.5
Externally Managed - Property Funds	9.7	3.8	9.7	2.9
TOTAL INVESTMENTS	253.9	100.0	333.7	100.0

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

- 1.7 The increase in non-bank investments in excess of one year is a consequence of a new £10m two year investment arranged with Plymouth City Council during April 2018 (in addition to £16m invested with two other local authorities and a £0.2m shareholding in the UK Municipal Bond Agency). The increase in externally managed bond funds follows a £10m investment into the Federated Sterling Cash Plus Fund during April 2018 (AAA rated; fund size £828bn at 30 June 2018).
- 1.8 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2018/19 "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	2017/18	2018/19			
	31.03.18 £'m	30-Jun £'m	30-Sep £'m	31-Dec £'m	31-Mar £'m
AAA (i)	57.1	86.7			
AA	0.0	0.0			
AA- (ii)	118.7	137.9			
A+	8.5	14.7			
A	44.7	55.0			
A-	0.0	4.5			
BBB+	0.0	0.0			
Externally Managed Funds	24.7	34.7			
UK Municipal Bond Agency	0.2	0.2			
TOTAL INVESTMENTS	253.9	333.7			

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

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

1.9 Furthermore, the Director of Finance, Performance and Procurement confirms that during the period there were no breaches of the following additional exposure limits as approved within the 2018/19 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 £54.9m at 30 June 2018 (£30m Australia; £14.9m Canada; and £10m Singapore).
- 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 £43.8m at 30 June 2018.
- Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual £37.3m at 30 June 2018.

4. Resource and Value for Money Implications

Covered in main body of report.

5. Risk Management Implications

Covered in main body of report.

6. Human Rights Act Implications

Not applicable.

7. Crime and Disorder Act Implications

Not applicable

Katharine Eberhart

Director of Finance, Performance and Procurement

Contacts:

Vicky Chuter, Financial Reporting Manager, Tel: 0330 222 3414

Jon Clear, Treasury Management Officer, Tel: 0330 222 3378

Appendices

Appendix A - Investment portfolio at 30 June 2018

Background Papers

None