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

**1 February 2023**

### **Treasury Management Compliance Report – Third Quarter 2022/23**

#### **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 third quarter of 2022/23 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 third quarter of 2022/23 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. 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:** On 31 December 2022 the County Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £461.3m (unchanged from 30 September 2022). During the third quarter of 2022/23:

- (a) No new external borrowing (including forward borrowing) for capital purposes was undertaken during the period.
- (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 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 2022/23 (to 31 December) was £455.8m (£428.1m average throughout 2021/22). Total levels of investments, including cash balances held in the County Council's main Lloyds business bank accounts, amounted to £401.3m on 31 December 2022 (£448.3m as of 30 September 2022) as shown in Table 1 (paragraph 2.4). Whilst falling during the third quarter, cash balances available for investment remain at elevated levels, a consequence of Capital and Revenue funding received ahead of planned spend and levels of usable reserves that the County Council continues to hold.

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 short-term investments (including unsecured bank deposits and Money Market Funds) however remains an integral part of the County Council's treasury management strategy in maintaining adequate cash-flow liquidity. During the third quarter of 2022/23 this included the arrangement of short-term investments (up to one year) in UK Government deposits (via the Debt Management Office), financial institution deposits and local authority loans; with liquidity to meet all financial obligations as they arose being maintained in Money Market Funds. As a consequence, the disposition of bank unsecured/other investments on 31 December 2022 as compared with 30 September 2022, is detailed below:

**Table 1 – Disposition of Investments by Counterparty Type**

Counterparty Type	Sep-22 £m	Sep-22 %	Dec-22 £m	Dec-22 %
Banks Unsecured (Deposits)	134.1	29.9	148.3	37.0
Short-Term Money Market Funds	104.5	23.3	82.2	20.5
<b>Total Bank Unsecured</b>	<b>238.6</b>	<b>53.2</b>	<b>230.5</b>	<b>57.5</b>
Bank Secured (Deposits)	0.0	0.0	0.0	0.0
UK Government	90.0	20.1	35.0	8.7
UK Local Authority	70.0	15.6	90.0	22.4
<b>Internal Investments</b>	<b>398.6</b>	<b>88.9</b>	<b>355.5</b>	<b>88.6</b>
Externally Managed - Multi Asset	23.0	5.1	23.4	5.8
Externally Managed - Property	26.7	6.0	22.4	5.6
<b>TOTAL INVESTMENTS</b>	<b>448.3</b>	<b>100.0</b>	<b>401.3</b>	<b>100.0</b>

2.5 The full breakdown of the County Council's investment portfolio on 31 December 2022 is shown in **Appendix A**.

2.6 In demonstrating compliance with the County Council's creditworthiness policy (as contained within the approved 2022/23 "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:

**Table 2 – Disposition of Investments by Credit Rating**

Institution / Investment Credit Rating	Mar-22 £'m	Jun-22 £'m	Sep-22 £'m	Dec-22 £'m
AAA (i)	134.0	123.6	104.5	82.2
AA-	77.4	119.9	129.8	84.8
A+	44.3	49.8	49.8	54.0
A	44.5	44.5	44.5	54.5
A- (or lower)	0.0	0.0	0.0	0.0
Local Authority (No Rating)	90.0	55.0	70.0	80.0
<b>Internally Managed</b>	<b>390.2</b>	<b>392.8</b>	<b>398.6</b>	<b>355.5</b>
Externally Managed	52.6	52.2	49.7	45.8
<b>Total Investments</b>	<b>442.8</b>	<b>445.0</b>	<b>448.3</b>	<b>401.3</b>

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

2.7 The Director of Finance and Support Services also confirms that during the third quarter there were no breaches of the following additional exposure limits as approved within the 2022/23 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).

**Table 3 – Disposition of Investments by Sovereign (Non-UK)**

Deposits by Sovereign	Sep-22 £'m	Dec-22 £'m
Australia	24.7	24.7
Canada	14.9	14.9
Finland	9.9	9.9
Netherlands	10.0	14.3
<b>Total Investments on 31 December 2022</b>	<b>59.5</b>	<b>63.8</b>

*Total non-UK investments on 31 December 2022 (£63.8m) represents the highpoint of such invested amounts during the third quarter of 2022/23.*

(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:** £88.3m on 31 December 2022 – see Appendix A/Memorandum (£88.3m represents the highpoint during the quarter).

(c) Up to a maximum of £200m may be invested in short-term Money Market Funds (excluding externally managed pooled funds). **Actual:** £82.2m on 31 December 2022 (£164.3m highpoint during the quarter).

(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:** £45.8m total investment on 31 December 2022; all of which is invested in unrated multi-asset income and property

funds (*change in fund market valuations being the only movements during the quarter*).

- (e) 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:** £45.8m on 31 December 2022 being investments in externally managed pooled funds (*no new long-term investments arranged during the quarter*).

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

- 3.1 Covered in main body of report.

Taryn Eves

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#### **Contact Officers**

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#### **Appendices**

Appendix A – The County Council's investment portfolio on 31 December 2022.

#### **Background Papers**

None