

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

**25 September 2024**

### **Treasury Management Compliance Report – First Quarter 2024/25**

#### **Report by Interim 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 2024/25 the County Council complied with all the relevant statutory and regulatory requirements related to its treasury management activities. The Interim 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 2024/25 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 financial institutions 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. *(Note: Australia & New Zealand Banking Group and Commonwealth Bank of*

*Australia both upgraded from A+ to AA- by Fitch during the quarter; in line with Moody's and Standard & Poor's existing ratings).*

- 2.2 **Borrowing:** On 30 June 2024 the County Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £461.3m (unchanged from 31 March 2024). During the first quarter of 2024/25:
- (a) No new external borrowing (including forward borrowing) for capital purposes was undertaken during the period (as per the approved 2024/25 Treasury Management Strategy).
  - (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. In all other cases, the 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 In accordance with the approved 2024/25 Treasury Management Strategy, the County Council's Liability Benchmark model will be updated during the year thereby keeping the Council's borrowing position under regular review. The Liability Benchmark (including future iterations of the model) is used to forecast the timing of when new external borrowing will be required to finance the County Council's capital expenditure plans (*currently forecast to be 2025/26 as set-out in paragraph 6.17 of the 2024/25 Treasury Management Strategy*).
- 2.4 **Investment:** The average level of County Council cash balances available for treasury investment during 2024/25 (to 30 June) was £376.5m (£426.6m average throughout 2023/24). Total level of cash balances, including money held in the County Council's main Lloyds business bank accounts, amounted to £336.8m on 30 June 2024 (£326m as of 31 March 2024) as shown in Table 1 (paragraph 2.7). The increase in cash balances is in line with usual cash-flow movements observed throughout the first quarter of a financial year, a consequence of Capital and Revenue funding (including government grants) being received ahead of planned spend during the financial year.
- 2.5 UK banking legislation continues to place 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 both adequate cash-flow liquidity and supporting investment returns.
- 2.6 The County Council therefore complied with the approved 2024/25 Treasury Management Strategy during the first quarter through the arrangement of short-term investments (up to one year) in UK Government deposits (via the Debt Management Office) and financial institution (UK and non-UK Banks) unsecured deposits; with liquidity to meet all financial obligations as they arose being maintained in Money Market Funds.

- 2.7 Consequently, the disposition of bank unsecured and other investments on 30 June 2024 as compared with 31 March 2024, is detailed below:

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

Counterparty Type	Mar-24 £m	Mar-24 %	Jun-24 £m	Jun-24 %
Banks Unsecured (Deposits)	124.7	38.3	134.5	39.9
Short-Term Money Market Funds	87.7	26.9	80.5	23.9
<b>Total Bank Unsecured</b>	<b>212.4</b>	<b>65.2</b>	<b>215.0</b>	<b>63.8</b>
Bank Secured (Covered Bonds)	9.6	2.9	9.6	2.9
UK Government	0.0	0.0	20.0	5.9
UK Local Authority	60.0	18.4	50.0	14.9
<b>Internal Investments</b>	<b>282.0</b>	<b>86.5</b>	<b>294.6</b>	<b>87.5</b>
Externally Managed - Multi Asset (i)	23.3	7.1	23.0	6.8
Externally Managed – Property (i)	20.7	6.4	19.2	5.7
<b>TOTAL INVESTMENTS</b>	<b>326.0</b>	<b>100.0</b>	<b>336.8</b>	<b>100.0</b>

(i) Externally Managed investments reported at their prevailing market valuation (as opposed to the original investment amount shown within Appendix A).

- 2.8 In demonstrating compliance with the County Council’s creditworthiness policy (as contained within the approved 2024/25 “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-24 £’m	Jun-24 £’m
AAA (i)	97.3	90.1
AA-	49.9	94.9
A+	74.8	59.6
A (or lower)	0.0	0.0
Local Authority (No Rating)	60.0	50.0
<b>Internally Managed</b>	<b>282.0</b>	<b>294.6</b>
Externally Managed	44.0	42.2
<b>TOTAL INVESTMENTS</b>	<b>326.0</b>	<b>336.8</b>

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

- 2.9 Externally Managed Pooled Investment Funds (Update): Following the majority of investors within the Lothbury Property Trust Fund (including the County Council) submitting redemption requests to fully divest from the fund, the Fund Manager formally terminated this fund on 30 May 2024. On fund termination, all investors were treated equally, with investments valued at the Fund’s April 2024 valuation (NAV). As a result, the County Council’s Lothbury Property Fund investment is valued at £3.5m on fund termination (against the £5m original investment), so a £1.5m realised loss will be reported through 2024/25 which is to be funded from the interest smoothing reserve (£7.8m balance on 1 April 2024). Additionally, the County Council received the first tranche of funding (£1.5m) in repayment of its Lothbury

investment in June 2024. The timing and amounts of future repayments will be dependent on the actual proceeds from future asset sales by the Fund Manager, which they are targeting to complete in fully winding down the fund by the end of 2024/25.

2.10 The full breakdown of the County Council’s investment portfolio on 30 June 2024 is shown in **Appendix A**.

2.11 The Interim Director of Finance and Support Services also confirms that during the first quarter there were no breaches of the following additional exposure limits as approved within the 2024/25 Annual Investment Strategy, including:

- (a) Up to a maximum of £200m may be invested in short-term Money Market Funds (excluding externally managed pooled funds). **Actual:** £80.5m on 30 June 2024 (*£151.1m highpoint during the quarter*).
- (b) 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:** £42.2m total investment on 30 June 2024; all of which is invested in unrated multi-asset income and property funds.
- (c) 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	Mar-24 £'m	Jun-24 £'m
Australia	25.0	25.0
Canada	14.9	14.9
Finland	10.0	10.0
Netherlands	15.0	15.0
Norway	10.0	10.0
<b>Total Investments</b>	<b>74.9</b>	<b>74.9</b>

*£74.9m representing the highpoint of such invested amounts during the first quarter of 2024/25.*

- (d) Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account. **Actual:** £69.5m on 30 June 2024 – see Appendix A/Memorandum (*£69.5m representing the highpoint during the quarter*).

### **3. Risk Implications and Mitigations**

3.1 Covered in main body of report.

Mike Suarez

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**Appendices**

Appendix A – The County Council’s investment portfolio on 30 June 2024.

**Background Papers**

None