

Regulation, Audit and Accounts Committee

5 November 2018

Treasury Management Compliance Report – Second 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 second quarter of 2018/19 the Council complied with all of the relevant statutory and regulatory requirements related to its treasury management activities. The Director of Finance, Performance and Procurement confirms that there were no breaches of the approved TMSS (including the Annual Investment Strategy) during the period.

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 second 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. Additionally there were no changes to the Council's approved 2018/19 lending list as a result of credit updates; including rating information published by Fitch, Moody's and Standard & Poor's, credit default swap/equity price trends and general media alerts.
- 1.2 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 September 2018 the Council's Public Works Loan Board (PWLb) borrowing totalled £392.4m (unchanged 30 June 2018). During the second quarter:

- There was no new external borrowing for capital purposes (an internal borrowing strategy was maintained throughout the period).
- 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).

- 1.3 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 £308.6m; actual levels of investments amounted to £266.8m at 30 September 2018 (£333.7m as at 30 June 2018). 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.
- 1.4 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 as well as enhancing short-term investment returns. As a consequence, the disposition of bank unsecured/other investments at 30 September 2018 as compared with 30 June 2018, is detailed below:

Investment Type	30-June-18		30-Sept-18	
	£m	%	£m	%
Bank & Building Society Unsecured	139.6	41.8	99.7	37.4
Money Market Funds	78.8	23.6	52.5	19.7
Total Bank Unsecured	218.4	65.4	152.2	57.1
Bank Secured (greater than 1 year)	7.9	2.4	7.9	3.0
Non-Bank (less than 1 year)	46.5	13.9	46.5	17.4
Non-Bank (greater than 1 year)	26.2	7.9	26.2	9.8
Internally Managed Investments	299.0	89.6	232.8	87.3
Externally Managed - Bond Funds (i)	25.0	7.5	10.0	3.7
Externally Managed - Property Funds	9.7	2.9	24.0	9.0
TOTAL INVESTMENTS	333.7	100.0	266.8	100.0

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

- 1.5 The full breakdown of the Council's investment portfolio at 30 September 2018 is shown in Appendix A. The decrease in the investment portfolio from 30 June 2018 is a consequence of no precept monies being received during September 2018 (given the ten instalment payment profile agreed with West Sussex Boroughs and Districts throughout 2018/19) and LEP capital grant monies being paid to third parties during the period (£32m). Furthermore the Council is due to pay-over the remaining LEP balance held (£48.9m) to the new accountable body (Croydon Council) on 4 October 2018.

- 1.6 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	60.4		
AA	0.0	0.0	0.0		
AA- (ii)	118.7	137.9	123.0		
A+	8.5	14.7	14.7		
A	44.7	55.0	30.0		
A-	0.0	4.5	4.5		
BBB+	0.0	0.0	0.0		
Externally Managed Funds	24.7	34.7	34.0		
UK Municipal Bond Agency	0.2	0.2	0.2		
TOTAL INVESTMENTS	253.9	333.7	266.8		

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

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

- 1.7 Included within "Externally Managed Funds" (as reported above) the Council purchased units in the Hermes and Lothbury property pooled investment funds during the second quarter of 2018/19 (£10m and £5m respectively). Both long-term investments were approved by the Director of Finance, Performance and Procurement in accordance with the 2018/19 Treasury Management Strategy.
- 1.8 Furthermore, the Director of Finance, Performance and Procurement confirms that during the second quarter 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 £40.0m at 30 September 2018 (£25m Australia; £10m Canada; and £5m Singapore).
 - Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual £22.4m at 30 September 2018.
 - Up to a maximum of £115m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual £52.5m at 30 September 2018.
 - 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 £34.0m total investment at 30 September 2018 (of which £24.0m is invested in unrated property funds).

- 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 **£58.1m** at 30 September 2018.

3. Resource and Value for Money Implications

Covered in main body of report.

4. Risk Management Implications

Covered in main body of report.

5. Human Rights Act Implications

Not applicable.

6. Crime and Disorder Act Implications

Not applicable

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Appendices

Appendix A - Investment portfolio at 30 September 2018

Background Papers

None