

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

**21 January 2019**

### **Treasury Management Compliance Report – Third 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 third 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**

2.1 Throughout the third 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.

2.2 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 31 December 2018 the Council's Public Works Loan Board (PWLB) borrowing totalled £388.9m (£392.4m at 30 September 2018). During the third 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).

2.3 Investment Strategy: The average level of Council funds available for treasury investment during 2018/19 (to-date) was £291.4m; actual levels of investments amounted to £206.1m at 31 December 2018 (£266.8m as at 30 September 2018). The decrease in the investment portfolio during the third quarter is mainly a consequence of the Council paying-over the Local Enterprise Partnership balance held (£48.9m) to the new accountable body (Croydon Council) on 9 November 2018.

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 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 31 December 2018 as compared with 30 September 2018, is detailed below:

Investment Type	30-Sept-18		31-Dec-18	
	£m	%	£m	%
Bank & Building Society Unsecured	99.7	37.4	69.7	33.8
Money Market Funds	52.5	19.7	23.2	11.3
<b>Total Bank Unsecured</b>	<b>152.2</b>	<b>57.1</b>	<b>92.9</b>	<b>45.1</b>
Bank Secured (greater than 1 year)	7.9	3.0	7.9	3.8
Non-Bank (less than 1 year)	46.5	17.4	30.0	14.6
Non-Bank (greater than 1 year)	26.2	9.8	26.2	12.7
<b>Internally Managed Investments</b>	<b>232.8</b>	<b>87.3</b>	<b>157.0</b>	<b>76.2</b>
Externally Managed - Bond Funds (i)	10.0	3.7	10.1	4.9
Externally Managed - Multi Asset Funds	0.0	0.0	14.8	7.2
Externally Managed - Property Funds	24.0	9.0	24.2	11.7
<b>TOTAL INVESTMENTS</b>	<b>266.8</b>	<b>100.0</b>	<b>206.1</b>	<b>100.0</b>

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

2.5 The full breakdown of the Council's investment portfolio at 31 December 2018 is shown in **Appendix A**.

- 2.6 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	31.1	
AA	0.0	0.0	0.0	0.0	
AA- (ii)	118.7	137.9	123.0	96.0	
A+	8.5	14.7	14.7	14.7	
A	44.7	55.0	30.0	15.0	
A-	0.0	4.5	4.5	0.0	
BBB+	0.0	0.0	0.0	0.0	
UK Municipal Bond Agency	0.2	0.2	0.2	0.2	
<b>INTERNALLY MANAGED</b>	<b>229.2</b>	<b>299.0</b>	<b>232.8</b>	<b>157.0</b>	
Externally Managed Funds	24.7	34.7	34.0	49.1	
<b>TOTAL INVESTMENTS</b>	<b>253.9</b>	<b>333.7</b>	<b>266.8</b>	<b>206.1</b>	

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

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

- 2.7 Included within “Externally Managed Funds” (as reported above) the Council purchased units in the Fidelity and Investec multi-asset income pooled investment funds during the third quarter of 2018/19 (£7.5m per fund). Both long-term investments were approved by the Director of Finance, Performance and Procurement in accordance with the 2018/19 Treasury Management Strategy.

- 2.8 Furthermore, the Director of Finance, Performance and Procurement confirms that during the third 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 31 December 2018 (£25m Australia; £5m Canada; and £10m 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 £12.9m at 31 December 2018.
- Up to a maximum of £115m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual £23.2m at 31 December 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 **£49.1m** total investment at 31 December 2018 (of which **£39.0m** is invested in unrated multi-asset income and 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 **£73.1m** at 31 December 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

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#### **Appendices**

Appendix A - Investment portfolio at 31 December 2018

#### **Background Papers**

None