

Regulation, Audit and Accounts Committee

23 July 2020

Treasury Management Compliance Report – First Quarter 2020/21

Director of Finance and Support Services

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 2020/21 the 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.

Focus for Regulation, Audit and Accounts Committee

The Committee is asked to review and comment on the Treasury Management Compliance Report.

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 first quarter of 2020/21 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 2020/21 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: At 30 June 2020 the Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £478.3m (£481.8m at 31 March 2020). During the first quarter of 2020/21:

- (a) No new external borrowing for capital purposes was undertaken during the period; however £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011 (leaving £7.0m to be repaid by April 2021).
- (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) no short-term borrowing was undertaken for cash flow purposes. The Council's policy of funding daily cash flow shortages from balances held in the Council's instant access bank accounts and short-term Money Market Funds was maintained throughout the period.

2.3 **Investment:** The average level of Council funds available for treasury investment during 2020/21 (to-date) was £353.8m. Actual levels of investments, including cash balances held in the Council's main Lloyds business bank accounts, amounted to £340.7m at 30 June 2020 (£338.1m as at 31 March 2020). 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 (including the arrangement of new long-term borrowing).

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 30 June 20 as compared with 31 March 2020, is detailed below:

Counterparty Type	Mar-20 £m	Mar-20 %	Jun-20 £m	Jun-20 %
Banks Unsecured (Deposits)	60.0	17.7	25.0	7.3
Banks Unsecured (Call Accounts)	0.2	0.1	15.0	4.4
Short-Term Money Market Funds	66.2	19.6	98.7	29.0
Total Bank Unsecured	126.4	37.4	138.7	40.7
Bank Secured (greater than 1 year)	10.0	2.9	10.0	2.9
Non-Bank (less than 1 year)	139.5	41.3	139.5	41.0
Non-Bank (greater than 1 year)	25.0	7.4	15.0	4.4
Internal Investments	300.9	89.0	303.2	89.0
Externally Managed - Multi Asset	13.9	4.1	14.9	4.4
Externally Managed - Property	23.3	6.9	22.6	6.6
TOTAL INVESTMENTS	338.1	100.0	340.7	100.0

2.5 During the first quarter of 2020/21 the Council has continually monitored cash flow positions to ensure that there were sufficient funds to meet all financial obligations (including those relating to Covid-19) as they arose. To achieve this and in line with investment advice received from the Council's treasury management advisor (Link Asset Services) the above

table reports that the exposure to instant access investments (bank call accounts and Money Market Funds) has increased from £66.4m at 31 March 2020 to £113.7m at 30 June 2020 (representing a 71.2% increase). The full breakdown of the Council's investment portfolio at 30 June 2020 is shown in **Appendix A**.

- 2.6 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2020/21 "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	Mar-20 £'m	Jun-20 £'m
AAA (i)	76.2	108.7
AA-	20.0	20.0
A+	15.2	15.0
A	30.0	10.0
A-	10.0	10.0
Local Authority (No Rating)	149.5	139.5
Internally Managed	300.9	303.2
Externally Managed	37.2	37.5
Total Investments	338.1	340.7

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

- 2.7 Furthermore, the Director of Finance and Support Services confirms that during the first quarter there were no breaches of the following additional exposure limits as approved within the 2020/21 Annual Investment Strategy, including:
- (a) Up to a maximum of £25m may be invested with UK Registered Social Landlords (Housing Associations): Actual **£10.0m** at 30 June 2020.
 - (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 **£10.0m** at 30 June 2020.
 - (c) Up to a maximum of £150m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual **£98.7m** at 30 June 2020.
 - (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 **£37.5m** total investment at 30 June 2020 (all of which is invested in unrated multi-asset income and property funds).
 - (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 Council's Treasury Indicators): Actual **£62.5m** at 30 June 2020.

3. Resource and Value for Money Implications

3.1 Covered in main body of report.

4. Risk Management Implications

4.1 Covered in main body of report.

5. Human Rights Act Implications

5.1 Not applicable.

6. Crime and Disorder Act Implications

6.1 Not applicable.

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Appendices

Appendix A -Investment Portfolio at 30 June 2020

Background Papers

None