Key decision: Not applicable
Unrestricted

Performance and Finance Scrutiny Committee

13 July 2022

Treasury Management Annual Report 2021/22

Report by Director of Finance and Support Services

Summary

The County Council is required by regulations issued under the Local Government Act 2003 to review an annual treasury management report detailing borrowing and investment activity *(as compared with the approved Treasury Management Strategy)* and actual prudential and treasury indicators for 2021/*22 (as contained within the approved Budget Report)*. The attached report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) "Code of Practice on Treasury Management" (the Code) and the CIPFA "Prudential Code for Capital Finance in Local Authorities" (the Prudential Code).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. The annual treasury management report is therefore important in that it provides details of the outturn position for treasury activities and highlights compliance with policies previously approved by County Council. Whilst the County Council has taken a cautious approach to investing in 2021/22 (due to ongoing Covid-19 cashflow considerations), it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extremely stressed market and economic conditions.

Treasury Management Strategy (2021/22)

The County Council has substantial amounts of borrowings and investments and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The County Council's risk procedures regarding its treasury management activities focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. Additionally, the County Council has regard to the Department for Levelling Up, Housing and Communities (DLUHC) "Investment Guidance" that:

- Emphasises the need for investments to focus on security and liquidity, rather than yield;
- Recommends that treasury management strategies include details of assessing credit risk;
- Details reasons for borrowing in advance of need (if appropriate); and

- Details the use of treasury management advisors in undertaking treasury management activities.

Financial risks (including credit and liquidity risks) are minimised through compliance with the annual Treasury Management Strategy, which incorporates the prudential and treasury indicators, approved for 2021/22 by County Council in February 2021. During 2021/22 the County Council complied with all statutory and regulatory requirements which require officers to identify and where possible quantify the levels of risk associated with its treasury management activities. The County Council confirms the following borrowing and investment activity in 2021/22:

- **Borrowing**: At 31 March 2022 the County Council's PWLB borrowing (external borrowing for capital purposes) was £471.3m (£474.8m at 31 March 2021); £3.5m (plus interest) was repaid to the PWLB being the final repayment of the £70m borrowing taken during April 2011.

- No new external borrowing was arranged during 2021/22, consequently the County Council's total external debt remained within the "Authorised Borrowing Limit" approved by County Council in February 2021 and February 2022 (£667m, excluding PFI schemes and finance leases). As a result of the approved 2021/22 Capital Strategy and PWLB activity during the year, the County Council's level of internal borrowing (the use of internal resources in lieu of external borrowing) fell to £21.3m at 31 March 2022 (£27.6m at 31 March 2021).

- Interest payable to the PWLB during 2021/22 was £19.3m (£19.5m in 2020/21) at an average rate of 4.09%. Service contributions (£1.4m) relating to economic development projects and investment properties (purchased prior to April 2020) were received in meeting the revenue cost of borrowing. However, actual interest payable was £0.1m higher than the revised revenue budget at 31 March 2022; this overspend being funded through other year-end revenue underspends.

- Additionally, the County Council's treasury management strategy allows occasional short-term borrowing to cover day-to-day cash flow shortages. During 2021/22 no external borrowing was required for such occasions as they were funded either by way of overdraft facilities in place with the County Council's main provider of banking services (Lloyds Bank Plc) or met from balances held in the County Council's short-term Money Market Funds.

- **Investments**: The County Council's investment strategy was maintained by following the approved counterparty policy as set out in its Treasury Management Strategy for 2021/22. The Director of Finance and Support Services confirms that there were no breaches of the approved investment strategy during the period. Externally managed investments (pooled funds) continued to be approved to help mitigate the effects of ultra-low investment returns.

- Whilst the security of capital sums invested remained the primary objective for all of the County Council's internally managed investments, the importance of monitoring and updating daily cash flows continued to ensure that there were sufficient funds to meet all financial obligations (including those relating to Covid-19) as they arose; consequently high levels of liquid (instant access) cash balances were maintained throughout 2021/22.

- At 31 March 2022 the County Council's investments totalled £442.8m (£414.6m at 31 March 2021). Gross investment interest received during 2021/22 was £2.6m, representing a return of 0.61% on an average investment portfolio of £428.1m.

WSCC Average Investments	2020/21 £'m	2020/21 %	2021/22 £'m	2021/22 %
UK Government	0.0	0.0	14.0	3.3
UK Banks: Unsecured Deposits	60.7	14.9	66.9	15.6
UK Banks: Secured Deposits	10.0	2.5	10.0	2.3
Non-UK Banks: Unsecured	11.3	2.8	36.0	8.4
Non-UK Banks: Secured	0.0	0.0	7.1	1.7
Local Authority	159.8	39.2	111.9	26.1
Housing Associations	10.0	2.5	4.3	1.0
Money Market Funds	99.1	24.3	127.0	29.7
Externally Managed Pooled Funds	56.2	13.8	50.9	11.9
Total	**407.1**	**100.0**	**428.1**	**100.0**

Focus for Performance and Finance Scrutiny Committee

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

Treasury Management Annual Report (2021/22)

1. Introduction

1.1 The County Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and report on the actual prudential and treasury indicators for 2021/22. This regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report therefore summarises the following:

- UK economic overview and interest rate movements during 2021/22 *(Section 2)*
- Capital activity during 2021/22 *(Section 3)*
- The County Council's overall treasury position *(Section 4)*
- Borrowing activity during the year *(Section 5)*
- Activity of treasury investments made under statutory "power to invest" provisions granted to the County Council by the Local Government Act 2003 *(Section 6)*
- Actual performance of treasury investments as compared with budgeted returns *(Section 7)*
- A schedule of non-treasury investments *(Section 8)*
- The actual prudential and treasury indicators *(Appendix 1)*
- List of the County Council's treasury investments as at 31 March 2022 *(Appendix 2)*

1.2 The County Council's Treasury Management Strategy for 2021/22, originally approved by County Council on 12 February 2021 (Agenda Item 7; Annex 2b) can be accessed on: https://westsussex.moderngov.co.uk/ieListDocuments.aspx?CId=136&MId=2317&Ver=4

2. UK Economy and Interest Rates

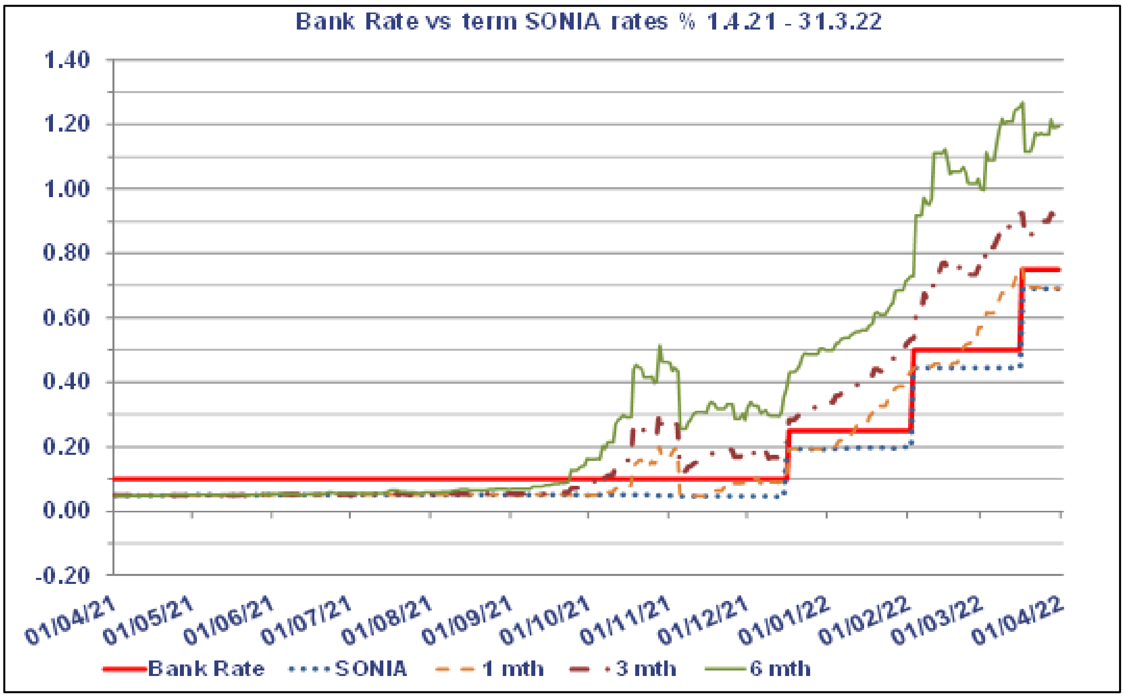
2.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world, leading to the governments of western countries providing massive fiscal support to their economies; which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to Gross Domestic Product (GDP) ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the US Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation (and full employment) to hitting an average level of inflation.

2.2 At the outset of the Covid-19 pandemic (March 2020) the Bank of England took emergency monetary policy action and cut Bank Rate to 0.10%, and then leaving the rate unchanged at subsequent meetings whilst the UK economy endured several false dawns throughout the first half of 2021/22. As the year progressed however, and with most of the economy now opened-up and nearly back to business-as-usual (highlighted through robust GDP numbers), the Bank's Monetary Policy Committee (MPC) focus changed to tackling the spiralling effects of high inflation, which given the perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023. By December 2021 it was clear that the emergency Bank Rate level introduced at the start of the pandemic was no longer necessitated. As a consequence, the Bank of England raised the Bank Rate at three consecutive MPC meetings; to 0.25% at its meeting in December 2021, to 0.50% at its meeting in February 2022 and then to 0.75% in March 2022.

2.3 The squeeze on real household disposable incomes arising from the 54% leap in April 2022 utilities prices as well as rises in taxation, water prices and many phone contract prices, are strong headwinds for any economy to deal with. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955; resulting in both additional government support schemes and a further increase in the Bank Rate to 1% in May 2022.

2.4 **Investment Rates**: During 2021/22 the Bank of England and the UK Government maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns and negative impact on their cashflows; the Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks (not just the Bank of England) would need to lift interest rates to combat the effects of growing levels of inflation.

2.5 With the cessation of London Interbank Bid Rates (LIBID) at the end of December 2021, the County Council's treasury management advisor (Link Group) has provided the following analysis of the Sterling Overnight Index Average (SONIA) rate and average 1-month, 3-month and 6-month investment earning rates throughout 2021/22. This analysis (shown below) highlights that all short-term deposit rates remained below Bank Rate during the first half of 2021/22, before initially spiking in late October 2021 (on market misconceptions that the Bank of England would increase Bank Rate at their November 2021 meeting) and then subsequently rising throughout the remainder of the year (reaching a high in March 2022) as the Bank Rate was increased to combat inflationary pressures:



Market Rates (2021/22)	Bank Rate	SONIA	One Month	Three Month	Six Month
HIGH	0.75%	0.69%	0.75%	0.93%	1.27%
High Date	17/03/22	18/03/22	16/03/22	28/03/22	17/03/22
LOW	0.10%	0.05%	0.05%	0.05%	0.05%
Low Date	01/04/22	15/12/21	10/11/21	14/04/21	09/04/21
AVERAGE	**0.19%**	**0.14%**	**0.17%**	**0.24%**	**0.34%**
Spread	0.65%	0.64%	0.70%	0.88%	1.22%

2.6 **Borrowing Rates**: Public Works Loan Board (PWLB) rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields; the PWLB Certainty Rate (which the County Council has access to) being gilts plus 0.80%. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January 2022 sentiment had well and truly changed, with gilt yields rising as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

2.7 At the close of 31 March 2022 all gilt yields from 1 to 5 years were between 1.11% and 1.45%, while the 10-year and 25-year yields were at 1.63% and 1.84% respectively.

2.8 As a consequence, a summary of PWLB borrowing rates for maturity loans (including the 0.2% Certainty Rate discount available to the County Council) during 2021/22 are shown below:

PWLB Rates (2021/22)	One Year	5-Years	10-Years	25-Years	50-Years
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
LOW	0.78%	1.05%	1.39%	1.67%	1.25%
Low Date	08/04/21	08/07/21	05/08/21	08/12/21	09/12/21
HIGH	2.03%	2.37%	2.52%	2.75%	2.49%
High Date	15/02/22	28/03/22	28/03/22	23/03/22	28/03/22
AVERAGE	**1.13%**	**1.45%**	**1.78%**	**2.10%**	**1.85%**
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

2.9 There is likely to be a further rise in short-dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 1.00% in May 2022 to 1.50% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium- to long-dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank’s £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is currently unknown and will be reported at a future point in time.

3. Capital Expenditure and Financing

3.1 The County Council undertakes capital expenditure on its long-term assets. Additionally, the capital programme includes schemes aimed at promoting economic development and growth (with any resulting income generation a subsidiary aim); such projects only being agreed when supported by approved business cases and subject to members’ obtaining appropriate assurance regarding the security of capital sums involved.

3.2 All of the County Council’s approved capital activities may either be:

- Financed immediately through the application of capital or revenue resources (including capital receipts, capital grants, external contributions, and revenue contributions) which has no resultant impact on the County Council’s borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need, which may be sourced either through external borrowing or internal borrowing (in lieu of external borrowing).

3.3 Actual capital expenditure and how this was financed in 2021/22 (as compared with the capital estimated spend approved in February 2022) is shown in the tables below:

Capital Expenditure	2021/22 Estimate *(i)* £'m	2021/22 Actual £'m
Adults Services	5.1	4.8
Children and Young People	1.9	0.5
Community Support, Fire and Rescue	3.1	7.2
Environment and Climate Change	4.9	2.9
Finance and Property	7.4	6.5
Highways and Transport	54.2	55.2
Leader	4.7	5.5
Learning and Skills	27.0	23.2
Support Services and Economic Development	2.3	6.2
Total Capital Expenditure *(ii)*	**110.6**	**112.0**

(i) As per the approved 2022/23 Treasury Management Strategy.
(ii) Capital expenditure arising from approved economic development projects included within above service totals.

Capital Financing	2021/22 Estimate £'m	2021/22 Actual £'m
Capital Receipts	-1.3	-12.0
Government Grants (including LEP funding)	-87.0	-79.1
External Contributions (including S106)	-12.5	-11.5
Revenue Contributions to capital outlay	-3.8	-6.4
Borrowing (unfinanced capital expenditure)	-6.0	-3.0
Total Financing	**-110.6**	**-112.0**

3.4 Actual capital expenditure forms one of the prudential indicators required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes. A summary of the County Council's prudential and treasury indicators (as approved within 2021/22 treasury management strategy; and revised within the 2022/23 treasury management strategy) are reported at **Appendix 1**.

4. Overall Treasury Position

4.1 Investment returns remained close to zero for much of 2021, before starting to pick in the final quarter of the year as the Bank Rate increased (paragraph 2.2). County Council lending managed to avoid negative deposit rates during 2021/22, however one feature of the year was the continued growth of local authority cash balances (including the County Council) depressing investment rates on the local-to-local lending market (paragraph 2.4). The County Council's expectation for interest rates within the approved treasury management strategy was that Bank Rate would remain at 0.1% throughout the year; and as such investment balances were either held in ultra-low yielding fixed-term (up to a maximum of 12-months) bank deposits and loans with other local authorities, and instant access Money Market Funds. The County Council began unwinding this position during the last quarter of 2021/22 by replacing maturing investments with higher yielding short-term deposits and loans. However, given the resulting nature of the County Council's investment portfolio, it is not expected that all ultra-low deposits and loans will be fully unwound until the second half of 2022/23.

4.2 Additionally, given the continued environment of high local authority cash balances and ultra-low investment returns, new external borrowing required to finance the County Council's approved capital programme was deferred into future financial years to avoid the additional cost of holding even higher levels of investments in 2021/22 (the County Council's internal borrowing strategy). As a consequence, at the beginning and the end of 2021/22 the County Council's actual treasury positions (excluding borrowing by PFI and finance leases) were as follows:

Borrowing (Excluding PFI and Finance Leases)	31/03/21 Actual £'m	31/03/22 Actual £'m
Borrowing Requirement	**507.9**	**498.6**
Less: Long-Term Debt (PWLB)	-474.8	-471.3
Less: Short-Term Debt (Non-PWLB) - *Paragraph 4.4*	-5.5	-6.0
Internal Borrowing	**27.6**	**21.3**

Investments	31/03/21 Actual £'m	31/03/22 Actual £'m
Total Investments	**414.6**	**442.8**

4.3 Throughout 2021/22 the County Council continued to hold cash on behalf of the Chichester Harbour Conservancy (CHC) as part of the Harbour's own investment strategy. This is presented as short-term debt on the County Council's Balance Sheet as the amount is available for repayment on any given notice.

4.4 The movement in the County Council's internal borrowing during 2021/22 is detailed below:

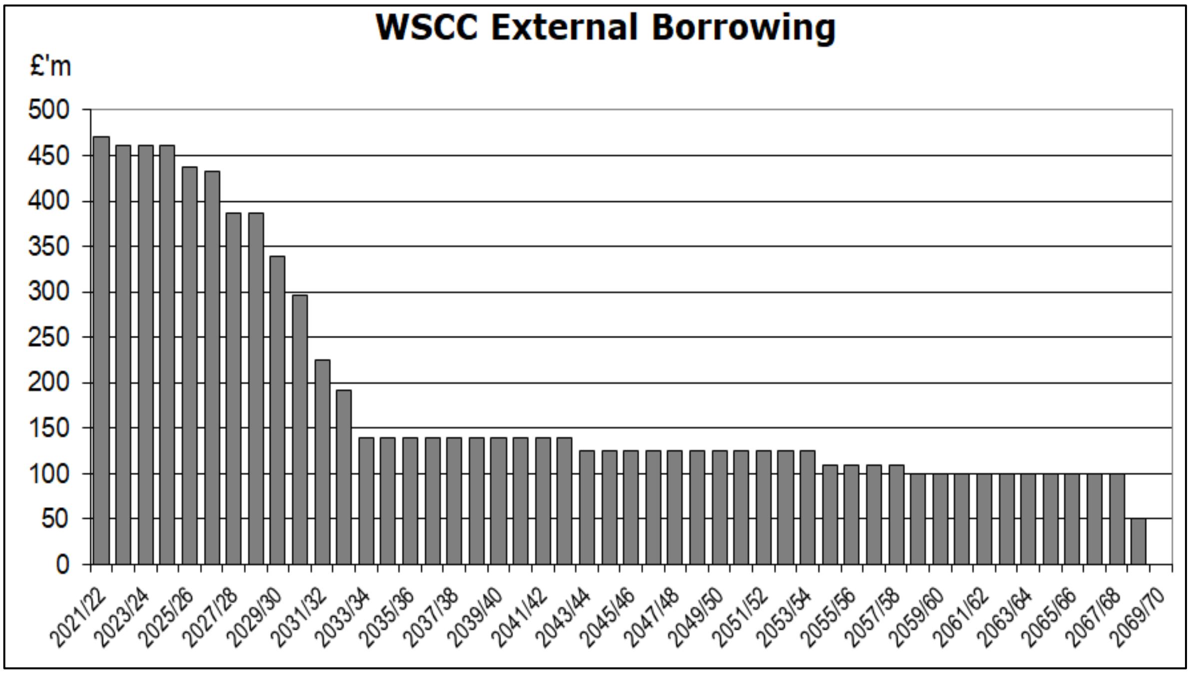
Internal Borrowing Movement	£'m
Internal Borrowing (at 31 March 2021)	**27.6**
Capital expenditure *(to be funded through borrowing)*	3.0
Repayment of PWLB Debt (EIP Loans)	3.5
Short-Term Debt *(movement)*	-0.5
Revenue Provision for Repayment of Debt	-12.3
Internal Borrowing (at 31 March 2022)	**21.3**

4.5 Total investments as reported in paragraph 4.2 (and throughout this report) differ slightly from the totals presented in the County Council's Financial Statements. Tables contained within this Annual Report exclude technical accounting entries made in accordance with International Financial Reporting Standards (IFRS) that require investments be shown inclusive of accrued interest and expected credit losses (where appropriate) on the County Council's Balance Sheet.

5. Borrowing

5.1 As reported in Section 4, no new external long-term borrowing for capital purposes was undertaken during 2021/22. £3.5m (plus interest) was however repaid to the Public Works Loan Board (PWLB) being final repayment of the £70m borrowing taken during April 2011.

5.2 As a consequence the County Council's total external borrowing at 31 March 2022 (the funding of previous years' capital programmes; all arranged via the PWLB) including the loan undertaken on behalf of the Littlehampton Harbour Board in March 2015 (all related costs recoverable from the Harbour Board) was £471.3m (£474.8m at 31 March 2021) with the following maturity profile:



5.3 The originally approved "Interest Payable" Revenue Budget (£17.8m) was supplemented in 2021/22 by the inclusion of service contributions towards the cost of borrowing in respect of investment property and Your Energy Sussex initiatives (£1.4m), as shown below:

Interest Payable: Budget (2021/22)	£'m
Approved Budget (February 2021)	17.8
Services Contributions – Investment Property	0.9
Services Contributions – Your Energy Sussex	0.5
Revenue Budget 2021/22 (Interest Payable)	**19.2**

5.4 Interest payable to the PWLB relating to the County Council's long-term borrowing amounted to £19.3m in 2021/22 (£19.5m in 2020/21); representing an average interest rate of 4.09%. Actual interest payable was therefore £0.1m higher than the revised 2021/22 Revenue Budget (as shown above); which was funded from various revenue underspends at 31 March 2022.

5.5 Given the significant borrowing requirement that remains approved within the County Council's capital programme, the Director of Finance and Support Services continues to evaluate alternative funding sources to the PWLB; including forward starting commercial loans whereby the interest rate is agreed in advance (fixed in context with current rates) but the cash is received in later years. The arrangement of such debt would therefore enable certainty of cost to be achieved without suffering an investment 'cost of carry' in the intervening period. As at 31 March 2022 however, no such forward starting loans had been arranged.

6. Investments (Treasury)

6.1 The County Council's investment policy has regard to DLUHC investment guidance, and is implemented through the County Council's "Annual Investment Strategy" (as contained within the approved 2021/22 Treasury Management Strategy); all treasury investments were made under statutory provisions granted to the County Council by the Local Government Act 2003 (Section 12; 'Power to Invest').

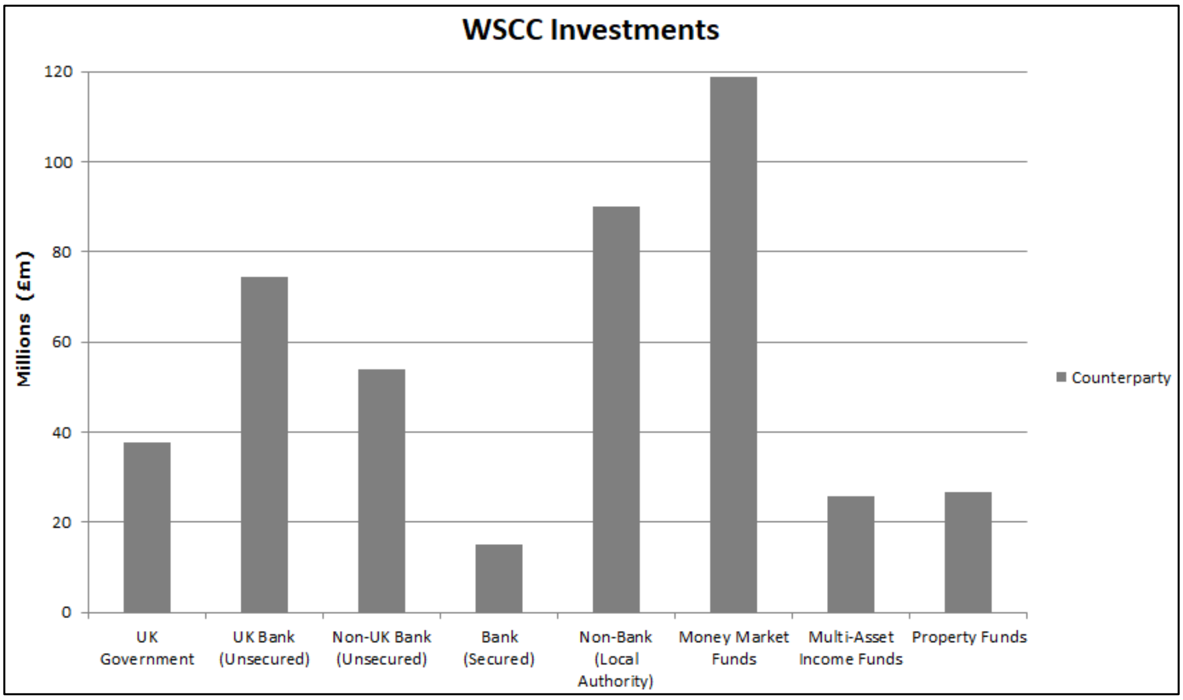
6.2 DLUHC Investment Guidance governs that the security and liquidity of the County Council's internally managed investments remained primary investment objectives. The County Council's investment strategy therefore approved limits regarding the monetary amounts and time durations of deposits arranged with individual counterparties. Additionally the strategy required that internally managed investments were not made with organisations unless they met identified minimum credit criteria; in particular counterparty credit quality was assessed and monitored with reference to credit ratings as provided by the three main credit rating agencies, supplemented by additional market data (including credit default swap prices, bank share prices and general media alerts).

6.3 The County Council defined 'high credit quality' as institutions and securities having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher (non-UK banks holding a credit rating of A+ or higher). The 2021/22 investment strategy further approved investments in the National Westminster Bank Plc (ring-fenced part of the bank) up to a maximum of one year given the part nationalised status of the bank.

6.4 Throughout 2021/22 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 Treasury Management Strategy (including the Annual Investment Strategy) as set out above.

6.5 During 2021/22 the County Council continually monitored its cash flow positions to ensure that there were sufficient funds to meet all financial obligations (including those relating to Covid-19) as they arose and therefore maintained a cautious approach to investing. Internally managed investments in 2021/22 were arranged either through approved London money market brokers or by direct dealing with the relevant counterparty. Corporate bonds, covered bonds and certificate of deposits were held via a HSBC custodian service administered by King and Shaxson Ltd. Additionally, investments arranged with other UK local authorities were protected by statutory provisions set out in the Local Government Act 2003 that prevent default; due to these statutory provisions local authorities were viewed as similar to the UK Government.

6.6 At 31 March 2022 the County Council's investments amounted to £442.8m as compared with £414.6m as at 31 March 2021. The full list of County Council investments held at 31 March 2022 (£442.8m) is shown in **Appendix 2**. Additionally a breakdown of the County Council's investments by counterparty type at this point in time is shown below:



6.7 At 31 March 2022 the County Council continued to hold high liquid (instant access) cash balances in accordance with the cautious investment approach taken throughout 2021/22. Reasons for the high cash balances included the ongoing uncertainty on future cash flows (including the timing of when unspent Covid-19 grant funding would be fully utilised), additional capital grants received over the last couple of years but not applied in 2021/22, the approved 2022/23 employers pension contributions lump-sum settlement (£48m) due in early April 2022, and holding cash to take advantage of expected higher deposit rates on the back of forecast increases to the level of Bank Rate during the remainder of 2022. Additionally, during the second half of 2021/22 short-term deposits with banks and building societies were favoured when compared with equivalent duration loans with other local authorities, due to the lower rates being offered in the local-to-local lending market.

6.8 The cash movement in the County Council's internally managed investments during 2021/22 is shown below:

Investment Activity in 2021/22	Balance on 1st April £'m	Invest-ments **Made** £'m	Invest-ments **Sold** £'m	Balance on 31st March £'m
UK Government	0.0	111.1	-73.5	37.6
Banks: Secured Deposits	10.0	15.1	-10.0	15.1
UK Banks: Unsecured Deposits	61.3	177.0	-163.7	74.6
Non-UK Banks: Unsecured	15.0	54.0	-15.0	54.0
Local Authority	130.0	90.0	-130.0	90.0
Housing Associations	10.0	0.0	-10.0	0.0
Money Market Funds	150.0	836.8	-867.9	118.9
Total (Internally Managed)	**376.3**	**1,284.0**	**-1,270.1**	**390.2**
Multi-Asset Income Funds	15.3	12.0	-1.5 *(i)*	25.8
Property Funds	23.0	3.8 *(i)*	0.0	26.8
Total Investments	**414.6**	**1,299.8**	**-1,271.6**	**442.8**

(i) Unrealised gains/losses(-) in fund valuations at 31 March 2022.

6.9 **Credit Risk**: In demonstrating compliance with the County Council's creditworthiness policy (as contained within the approved 2021/22 "Annual Investment Strategy") the movement in the County 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-21 £'m	Jun-21 £'m	Sep-21 £'m	Dec-21 £'m	Mar-22 £'m
AAA *(i)*	160.0	97.5	162.8	134.8	134.0
AA-	15.0	15.0	39.8	50.0	77.4
A+	46.3	44.7	34.7	44.2	44.3
A	15.0	15.0	30.0	29.5	44.5
A-	10.0	10.0	0.0	0.0	0.0
Local Authority (No Rating)	130.0	145.0	115.0	90.0	90.0
Internally Managed	**376.3**	**327.2**	**382.3**	**348.5**	**390.2**
Externally Managed	38.3	51.2	51.4	52.5	52.6
Total Investments	**414.6**	**378.4**	**433.7**	**401.0**	**442.8**

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

6.10 Furthermore, the 2021/22 treasury management strategy approved that a maximum of £90m may be invested in non-UK organisations (excluding investments held in short-term Money Market Funds and externally managed Pooled Funds); with a maximum of £30m invested in any one sovereign (non-UK) state. The County Council's investment portfolio split by sovereign is shown below:

Deposits by Sovereign	Mar-21 £'m	Jun-21 £'m	Sep-21 £'m	Dec-21 £'m	Mar-22 £'m
Australia	15.0	15.0	24.3	24.3	24.3
Canada	0.0	0.0	24.9	24.9	14.9
Finland	0.0	0.0	9.9	9.9	9.9
Netherlands	0.0	0.0	0.0	10.0	10.0
Internally Managed	**15.0**	**15.0**	**59.1**	**69.1**	**59.1**
UK (including Local Authority)	211.3	224.7	185.5	169.7	212.2
Money Market Funds	150.0	87.5	137.7	109.7	118.9
Externally Managed Funds	38.3	51.2	51.4	52.5	52.6
Total Investments	**414.6**	**378.4**	**433.7**	**401.0**	**442.8**

6.11 Counterparty credit quality can be further demonstrated by a benchmarking analysis of the County Council's investment portfolio *(excluding the County Council's multi-asset income and property fund investments)* undertaken by the County Council's treasury management advisor-Link Group (Link Asset Services):

Benchmarking Date: 31 March 2022	**Weighted Average Rate of Return**	**Weighted Average Time to Maturity (days)**	**Weighted Average Total Time (days)**	**Weighted Average Credit Risk**
Link Client Population Average	0.44%	74	143	2.93
English Counties (Link Clients)	0.49%	107	208	2.68
West Sussex County Council	0.45%	80	189	2.10

6.12 The Link Asset Services weighted average credit risk score ranges between 1 (low credit risk) to 7 (high credit risk). The analysis reflects the cautious investment approach adopted by the County Council throughout 2021/22; resulting in performance to be broadly in line with the average of Link clients as a whole.

6.13 **Liquidity Risk**: As required by the CIPFA Code of Practice, the County Council uses purpose built cash flow forecasting software (SAP Treasury Management Module) to determine the maximum period for which funds may prudently be invested. The maturity profile (based on remaining duration at given point in time) of the County Council investments throughout 2021/22 is shown below:

Period to Maturity	Mar-21 £'m	Jun-21 £'m	Sep-21 £'m	Dec-21 £'m	Mar-22 £'m
Instant Access Accounts	151.8	87.7	138.2	109.7	119.0
Up to one month	10.0	15.0	10.0	35.0	57.5
One month to 3 months	15.0	89.5	60.0	65.0	73.8
3 months to 6 months	89.5	40.0	85.0	48.8	99.9
6 months to 1 year	100.0	85.0	89.1	90.0	40.0
Greater than 1 year	48.3	61.2	51.4	52.5	52.6
Total Investments	**414.6**	**378.4**	**433.7**	**401.0**	**442.8**

6.14 **Short-term Borrowing (for cash flow purposes):** The County Council has ready access to short-term borrowings from the money markets to cover any day-to-day cash flow needs. During 2021/22 however, daily cash flow shortages were funded either by way of overdraft facilities in place with the County Council's main provider of banking services (Lloyds) or met from balances held in the County Council's instant access Money Market Funds.

7. Investment Performance

7.1 The County Council's budgeted investment income as approved in the 2021/22 Revenue Budget amounted to £3.0m; in line with the amount approved in 2020/21 (pre-Covid-19 implications). The actual forecast reported in the 2021/22 treasury management strategy was based on £320m cash balances being available for investment, and Bank Rate remaining 0.10% throughout the year, resulting in the County Council receiving investment income totalling £2.1m; representing an average 0.66% return given the higher yielding long-term investments held by the County Council. Additionally, the investment income forecast included an estimate of £0.3m in respect of interest payable to internal and external reserve balances held by the County Council; including school accumulating funds, PFI/MRMC reserves and cash held on behalf of the Chichester Harbour Conservancy.

7.2 As a consequence, the County Council originally forecast a £1.2m investment income shortfall against the approved Revenue Budget (£3m). This was due to the ongoing impact of the Bank of England's monetary policy decisions at the outset of the pandemic. Originally this anticipated shortfall due to the uncertainty on future returns arising from the pandemic was to be funded either from a contribution from the interest smoothing reserve or from the un-ringfenced Covid-19 grant:

Investment Income (2021/22)	£'m
Original gross forecast: Interest receipts (February 2021)	2.1
Interest payable (internal/external balances held)	-0.3
Contribution from Covid-19 Government Grant	1.2
Investment Income (Revenue Budget)	**3.0**

7.3 During 2021/22 the County Council actually maintained average investment balances of £428.1m (as compared with the £320m original estimate); slightly higher than average balances held throughout 2020/21 (£407.1m). At 31 March 2022 the County Council's gross investment income amounted to £2.6m (£3.1m in 2020/21) at an average rate of return of 0.61%. In accordance with the approved Treasury Management Strategy performance can be shown by three separate investment types representing liquidity, short-term investments (up to one year duration) and long-term investments (greater than one year). The performance of these investment types during 2021/22 is shown below:

Investment Type	Average £'m	Interest £'m	Rate of Return
Liquidity	127.4	0.1	0.05%
Short-Term Investments	232.5	0.5	0.23%
Long-Term Investments	68.2	2.0	2.96%
Total	**428.1**	**2.6**	**0.61%**

7.4 In line with forecasts, £0.3m interest was paid to third parties and other internal balances held by the County Council during 2021/22. As a result the actual performance of investment income throughout 2021/22 as compared against the revised Revenue Budget forecast (paragraph 7.3) is summarised below:

Interest Receipts (2021/22)	£'m
Expected Gross Interest Receipts	**2.1**
Higher average investment portfolio than assumed (at 0.66%)	0.7
Lower rate of return than revised budgeted rate (-0.05%)	-0.2
Actual Interest Received	**2.6**
Interest paid to third parties and internal reserves	-0.3
Contribution from Covid-19 Government Grant	1.2
Investment Income (2021/22)	**3.5**
Revenue Budget 2021/22 (Paragraph 7.1)	3.0
Additional Interest/Shortfall(-)	**0.5**

7.5 The Director of Finance and Support Services approved holding the 2021/22 investment income surplus in the Interest Smoothing Reserve to mitigate future market value fluctuation risks on the County Council's long-term pooled investment funds. As a consequence, the Interest Smoothing reserve balance at 31 March 2022 totalled £2.8m (£2.3m at 31 March 2021).

7.6 **Externally Managed Pooled Funds**: At 31 March 2022 the County Council held investments within the following pooled funds, all of which being confirmed signatories to the UN's Principles of Responsible Investment (UNPRI). This includes an additional £12m investment into the Council's Multi-Asset Income

Funds (Fidelity and Ninety-One; £6m per fund) which was approved by the Director of Finance and Support Services during the first quarter of 2021/22:

Fund	Type	Original Investment	Market Valuation (31/03/21)	Additional Investment (2021/22)	Market Valuation (31/03/22)
Fidelity	MAIF	£7.5m	£7.8m	£6.0m	£13.0m
Ninety-One	MAIF	£7.5m	£7.5m	£6.0m	£12.8m
CCLA	Property	£10.0m	£9.4m	n/a	£11.1m
Hermes	Property	£10.0m	£9.1m	n/a	£10.6m
Lothbury	Property	£5.0m	£4.5m	n/a	£5.1m

7.7 An overview of the investment activity in the County Council's externally managed pooled funds (including ultra-short dated bond funds) during 2021/22 is shown below:

Fund	Invested (£'m)	Sold (£'m)	Unrealised Gains / Losses(-) (£'m)	Market Valuation 31/03/22 (£'m)	Dividends & Realised Gains (£'000)	Rate of Return (%)
Fidelity	6.0	0.0	-0.8	13.0	563.3	4.44
Ninety-One	6.0	0.0	-0.7	12.8	461.6	3.58
CCLA	0.0	0.0	1.7	11.1	365.7	3.66
Hermes	0.0	0.0	1.5	10.6	341.2	3.42
Lothbury	0.0	0.0	0.6	5.1	127.8	2.56
Total	**12.0**	**0.0**	**2.3**	**52.6**	**1,859.6**	**3.65**

7.8 The County Council's investments in Property Funds (paragraphs 7.6 and 7.7) are valued on an ongoing basis at the "bid/redemption price"; the price at which units can be sold back to the fund manager. The resulting market valuation of the County Council's total externally managed pooled fund investments at 31 March 2022 (£52.6m) is higher than the original invested amounts (£52.0m). Statutory regulations in force however currently mean that the County Council accounts for the impact of unrealised pooled fund gains and losses (£0.6m total unrealised gain) through a Pooled Investment Funds reserve held on the Balance Sheet.

8. Non-Treasury Investments

8.1 A schedule of the County Council's non-treasury investments is attached below:

Non-Treasury (Commercial) Activity	2020/21 £'m	2021/22 £'m
Historic Investment Property *(i)*	34.1	33.2
Broadbridge Heath Park	1.4	4.7
Churchill Court, Crawley (Commercial Property)	11.4	11.4
City Park, Hove (Commercial Property)	23.7	26.3
Horsham Enterprise Park	17.0	15.6
Solar Panels (Installed from 2014/15)	7.7	7.9
Sompting Battery Storage (Halewick Lane)	0.3	0.7
Tangmere Solar Farm	7.3	9.3
Westhampnett Solar Farm	12.7	21.5
Total Non-Treasury Investments	**115.6**	**130.6**

(i) *As per the County Council's 2021/22 draft Balance Sheet; including smallholdings and other land/properties held for investment return.*

8.2 During 2021/22 rental income totalling £2.3m in respect of the County Council's investment property (£2.4m in 2020/21) and £2.7m income generated by solar farms and other Your Energy Sussex schemes (£1.6m in 2020/21) were both recognised in the County Council's revenue budgets (as reported in the 2021/22 Statement of Accounts).

9. Risk Implications and Mitigations

Covered in main body of report.

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Background Papers: None