

# Chichester District Council

THE CABINET

4 September 2018

## 2017-2018 Treasury Management Out-turn

### 1. Contacts

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### 2. Recommendation

**The Cabinet is requested to note this summary of treasury management activities and performance for 2017-2018.**

### 3. Background and Outcomes

3.1. This report provides the Cabinet with a summary of Treasury Management activity for 2017-2018 in accordance with the Council's approved Treasury Strategy and Policy statement. The aim is to provide the Cabinet with assurance over the effectiveness of Treasury activities undertaken during the last financial year.

### 4. Treasury Position at Year End

4.1. On 31 March 2018, the Council had investments of £53.9m with no external borrowing.

Table 1: Treasury Management Summary

<b>Investments £000</b>	<b>Balance 01/04/2017</b>	<b>Movement</b>	<b>Balance 31/03/18</b>
Short term Investments	24,305	(3,305)	21,000
Money Market Funds	11,000	(1,200)	9,800
Corporate Bonds	2,020	193	2,213
<b>Total liquid investments</b>	<b>37,325</b>	<b>(4,312)</b>	<b>33,013</b>
Long term Investments	5,000	(2,000)	3,000
Pooled Funds – External	-	7,950	7,950
Pooled funds – Local Authority Property fund	10,000	-	10,000
<b>TOTAL INVESTMENTS</b>	<b>52,325</b>	<b>1,638</b>	<b>53,963</b>

Note: the figures in the table above exclude any movements in Market value.

- 4.2. To help the Council manage risk, benchmarks and red/ amber/ green risk ratings are used across a series of indicators focussed on measuring security, liquidity and return. These are shown at appendix 2 with a short commentary against each.
- 4.3. During 2017-2018, due to the increased risk and low returns from short-term unsecured bank investments, the Authority made greater use of Local Authority counterparties for short term investing and made further investments in long term external pooled funds with the aim of generating a steady income stream from classes of investment assets that are, by design, diversified.
- 4.4 The Council's internal investment return reduced very slightly over the final quarter of the year as the average duration of new investments was maintained below 6 months in anticipation of the Monetary Policy Committee's (MPC) decision on 2 August to raise the official bank rate. Following this decision, officers are now looking to rebalance the short term portfolio towards six to 12 month durations.
- 4.5 Since the end of 2017 our investments in non-property pooled funds have been affected by weaknesses on the global bond markets, driven by investor reactions to the prospects of higher inflation, interest rates and concerns about global trade and tariffs. due to market expectations of interest rate rises. More information on the individual movements in these funds can be found in appendix 1.

Table 2: Gains and losses from external pooled funds (August 2018)

Fund	Type of fund	Investment (£)	Capital gain (loss)	Market Value	Current return (Income)
Local Authority Property Fund	Property	10,000,000	(234,289)	9,765,711	4.3%
Investec Diversified Income Fund	Multi Asset	3,650,000	(52,340)	3,597,660	4.0%
Columbia Threadneedle Strategic Bond Fund	Bonds	2,650,000	(76,346)	2,573,654	3.0%
M&G Optimal Income Fund	Bonds	1,650,000	(9,883)	1,640,117	2.5%

- 4.6 Officers continue to monitor the market value of the funds, as well as the wider income return. The importance of this has been highlighted by the implementation from 1 April 2018 of IFRS9, which has the potential to increase volatility in revenue budgets if movements in fair values are required to be charged against the Council's General Fund.
- 4.7 On 29 July the Ministry of Housing, Communities and Local Government (MHCLG) released a consultation on statutory overrides relating to the introduction of IFRS9, Financial Instruments. The implications of which have previously been reported to the Cabinet.
- 4.8 The consultation recognises that the requirement that IFRS 9 may introduce more income statement volatility, impact upon balanced budget calculations and could mean less money available to fund services. It is also mindful not to be

“incentivising riskier investments”. The government therefore proposes introducing a time limited statutory override, requiring local authorities to reverse out fair value movements recognised on pooled investment funds to unusable reserves for a period of three years to 1 April 2021.

- 4.9 Officers intend to respond to this consultation before the 28 September deadline. In particular, officers do not presently see why the reasons outlined in the consultation requiring a statutory override would cease to be relevant after three years and intend to make representations to this effect to MHCLG.

## **5. Other Non-Treasury Holdings and Activity**

- 5.1. Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management.
- 5.2. The Authority holds £11.8m of investments in directly owned property. This increased during 2017-2018 due to the purchase of 2-3 East Street, Chichester.
- 5.3. These non-treasury investments generated £901k of investment income for the Authority after taking account of direct costs (but excluding fair value movements), representing a rate of return of 7.7%. This is higher than the return earned on treasury investments but reflects the additional risks to the Authority of holding such investments.

## **6. Compliance Report**

- 6.1. How Treasury activities complied with the Council's main 2017-18 Treasury limits is disclosed at Appendix C.

## **7. Other Developments during 2017-2018**

### **Revised CIPFA codes**

- 7.1. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.
- 7.2. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. The Council expects to prepare a draft strategy in time for approval alongside the 2019-2020 Treasury Management Strategy early in 2019.

### **MiFID II**

- 7.3. As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could ‘opt up’ to professional client status, providing certain criteria was met. The Council has met the conditions to opt up to professional status

and has now done so where required.

## 8. Resource and Legal Implications

- 8.1. The Council is required by the Accounts and Audit Regulations to comply with CIPFA's Code of Practice for Treasury Management and the Prudential Code for Capital Finance.

## 9. Consultation

- 9.1 A report on these matters was made to Corporate Governance and Audit Committee on 26 July 2018.

## 10. Community impact and corporate risks

- 10.1 None

## 11. Other Implications

	Yes	No
<b>Crime and Disorder</b>		X
<b>Climate Change and Biodiversity</b>		X
<b>Human Rights and Equality Impact</b>		X
<b>Safeguarding and Early Help</b>		X
<b>General Data Protection Regulations (GDPR)</b>		X

## 12. Appendices

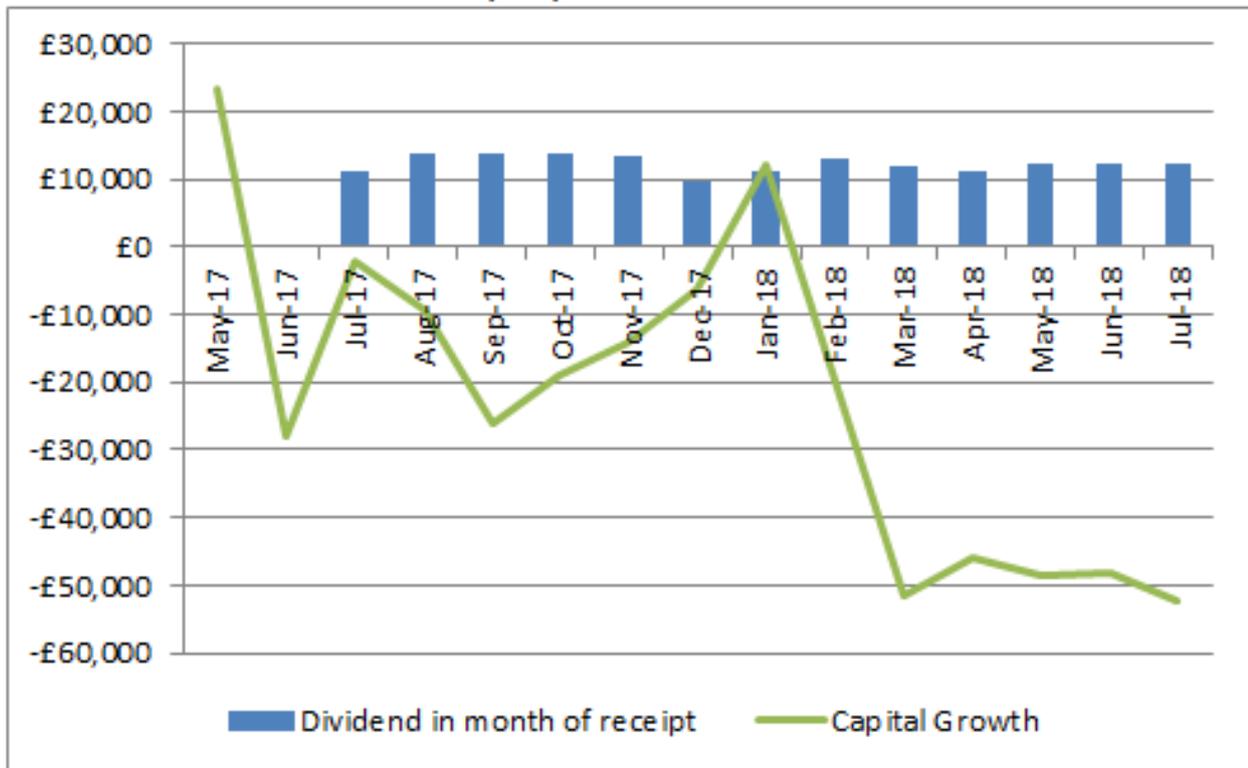
- 12.1. A - Movements in Fund fair values and income – Pooled Funds  
12.2. B - Benchmarking indicators  
12.3. C – Compliance report

## 13. Background Papers

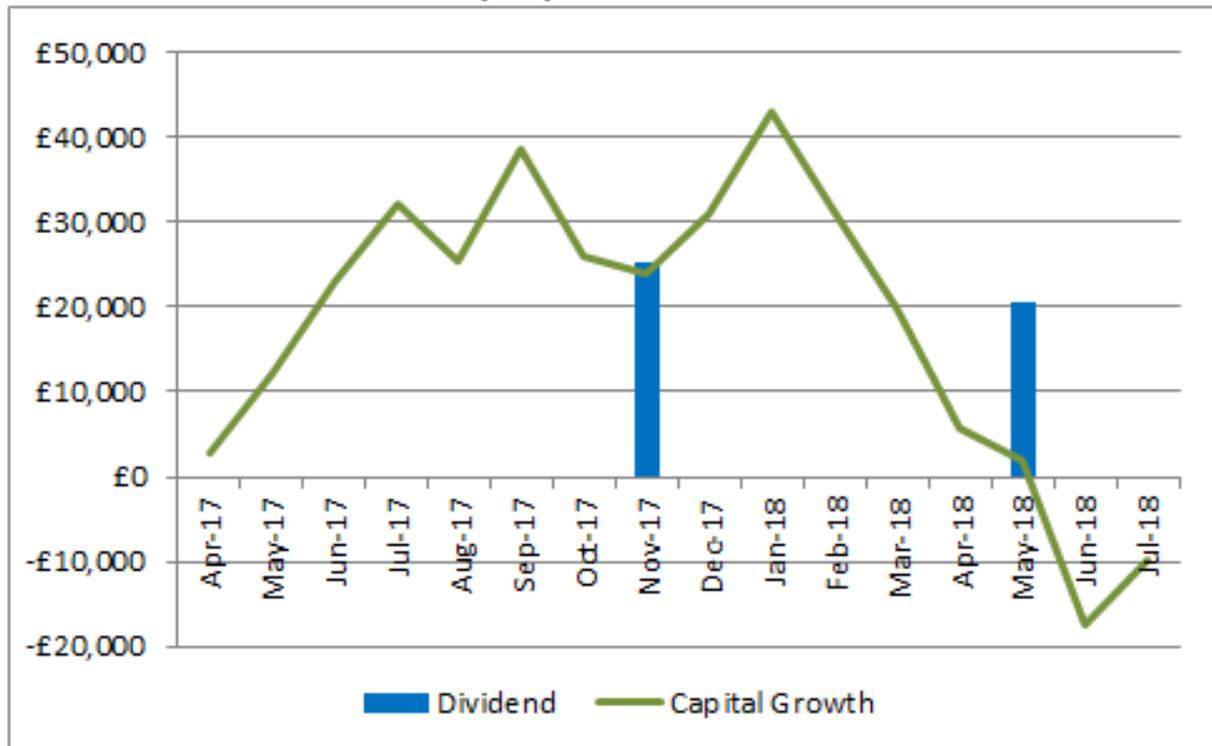
- 13.1. None.

Appendix A: Movements in Fund fair values and income – Pooled Funds

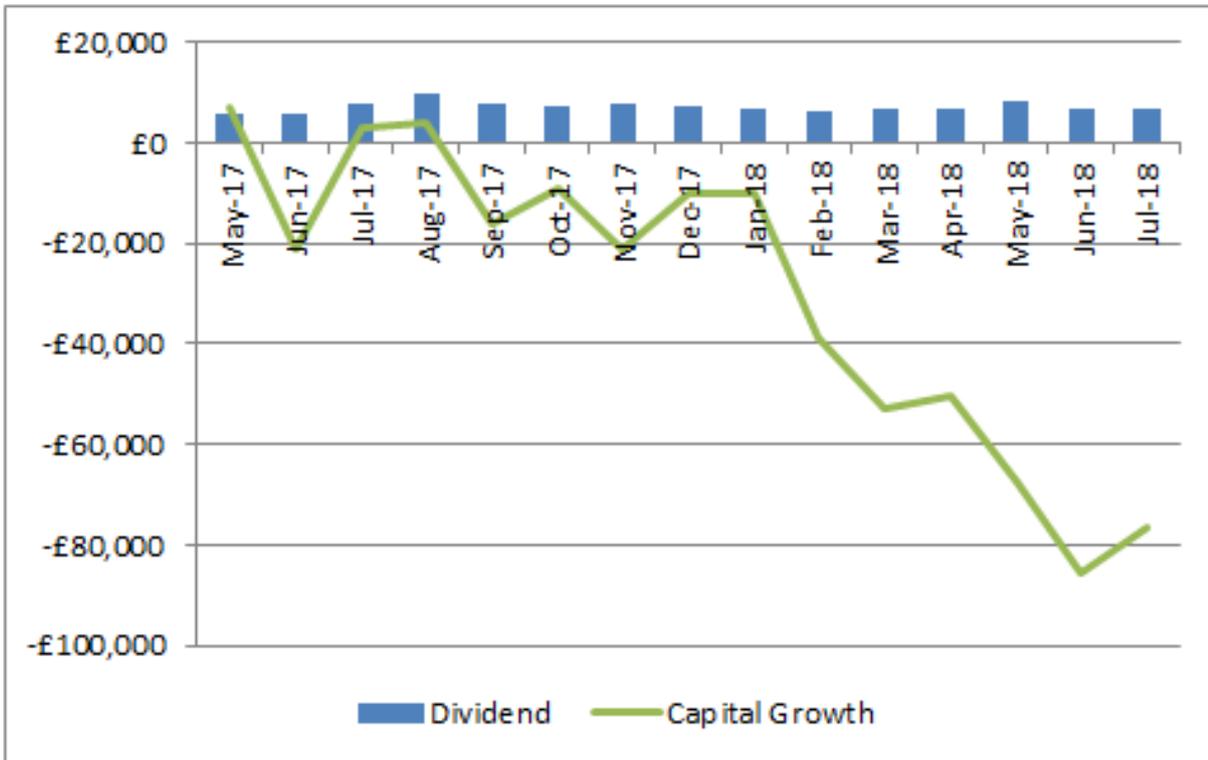
**Investec: Total investment £3,650,000**



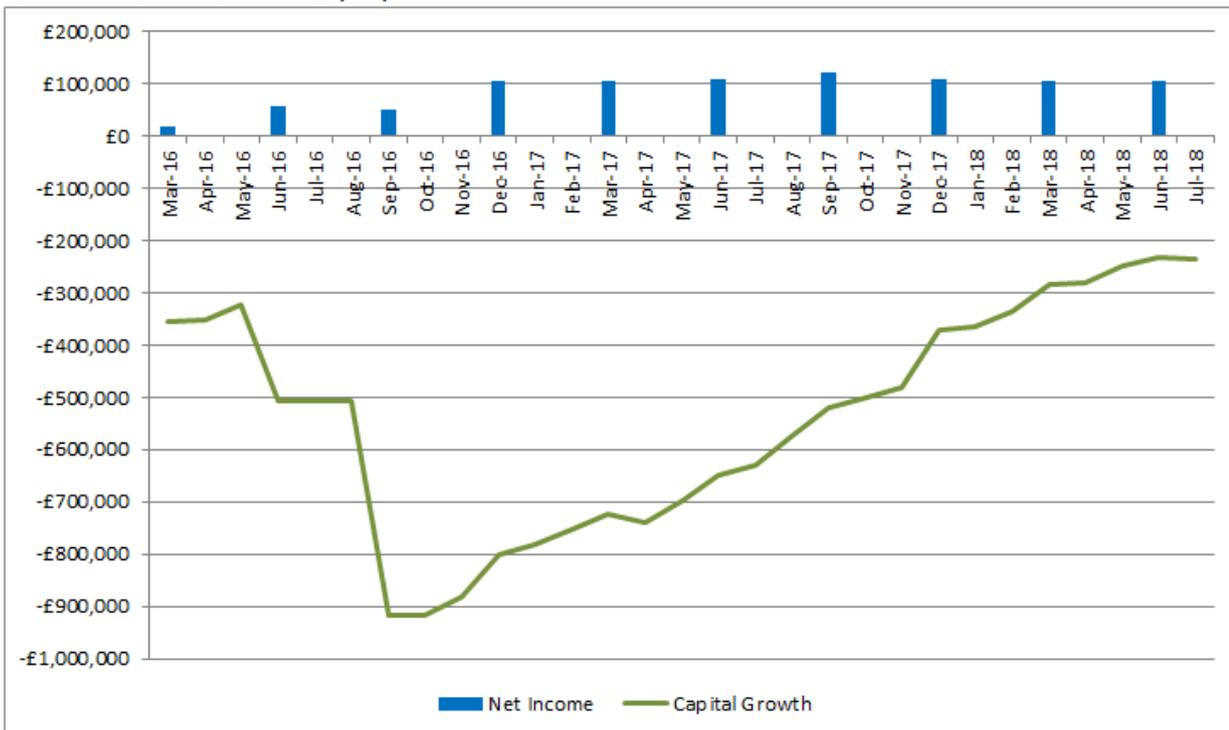
**M&G: Total Investment £1,650,000**



**Columbia Threadneedle: Total investment £2,650,000**



**LAPF: Total Investment £10,000,000**



## Appendix B: Treasury Management – Benchmarking indicators

### Return

Measure	Qtr 1 17-18	Qtr2 17-18	Qtr 3 17-18	Qtr4 17-18	Non-met districts Q4 average	Rating
Internal investment return %	0.65	0.52	0.57	0.70	0.71	GREEN
External funds – income return %	4.35	4.38	4.54	4.31	3.39	GREEN
External funds – capital gains/losses %	(0.81)	2.19	2.48	1.90	0.07	AMBER
Total treasury Investments – income return %	1.29	1.62	1.71	1.88	1.41	GREEN

The Council's internal investment return has reduced very slightly over the final quarter. Following the Bank of England's Monetary Policy Committee (MPC) February Inflation report which indicating that the MPC was keen to return inflation to the 2% target over an 18-24 month horizon, the Council has not sought to invest for periods over 6 months duration which has reduced returns slightly. Following the subsequent May MPC meeting this stance is now under review

### Security

Measure	Qtr1 17-18	Qtr2 17-18	Qtr 3 17-18	Qtr 4 17-18	Non-met District average	Rating
Average Credit Score (time-weighted)	4.18	4.27	3.95	3.88	4.08	GREEN
Average Credit Rating (time weighted)	AA-	AA-	AA-	AA-	AA-	AMBER
Proportion Exposed to Bail-in (%)	54	60	41	41	53	GREEN

The amber rating is not considered significant, but is reported here as, strictly, the formal target is to maintain the average credit rating below the time weighted average of other District Councils.

### Liquidity

	Qtr1	Qtr2	Qtr 3	Qtr 4	Non-met districts	Rating

Measure	17-18	17-18	17-18	17-18	(average)	
Proportion available within 7 days (%)	17	18	14	18	32	<b>GREEN</b>
Proportion available within 100 days (%)	48	38	46	50	59	<b>GREEN</b>
Average days to maturity	177	161	137	116	109	<b>GREEN</b>

There are two main drivers for the reduction in average days to maturity seen above.

- The Council has actively maintained a short term position following the Bank of England's Monetary Policy Committee (MPC) February Inflation report indicating that the MPC was keen to return inflation to the 2% target over an 18-24 month horizon.
- In advance of bank ring-fence restructuring, Arlingclose advised in May 2017 adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months for many counterparties.

## Appendix C – Compliance report

### Compliance with investment limits

	2017/18 Limit	Complied/ Exception Ref
Banks unsecured, total	£20m	3
Corporates, total	£10m	✓
Local Authority property fund, total	£10m	✓
Other pooled investment funds, total	£10m	✓
Council's own bank, total max 7 days	£2.5m	2, 4
Money market Funds, total	£20m	✓
Counterparty ratings	various	1

The four reportable exceptions in the financial year were as follows;

Reference	Exception	Action taken
1.	£2m was invested with National Counties Building Society. This amount exceeded the limit for unsecured building society deposits (£1m). The Council's Treasury system alerted officers to this exception but unfortunately the deal had already been confirmed with the broker and the Council was committed to honour it. The deposit was repaid in full on 13 October 2017	This issue was reported to Cabinet in December 2017 and following this meeting, procedures now require discussion with senior officer prior to verbal agreement of deals.
2	The Council's bank account was overdrawn by £54,000 overnight as a redemption requested from Standard Life did not arrive until the following day.	This issue was reported to Cabinet in December 2017. Interest paid was recovered from the third party.
3	The limit on unsecured investments (£20m) was exceeded twice during the year. Once by £1m for 7 days and by £0.5m for just under a month in October and November 2017.	This issue was reported to Cabinet in December 2017 and following this meeting, the Council's daily investment was amended to include a specific check is carried out against this limit going forward
4	The Council's bank account was left overdrawn by £585,000 as funds were not brought back from Money market funds to cover expenditure.	The Council's daily processing checklist was not fully complied with. Further training and guidance has been provided to the member of staff.

## Interest rate exposure

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures are as follows, expressed as amounts of principal.

	<b>31.3.18 Actual</b>	<b>2017/18 Limit</b>	<b>Complied</b>
Upper limit on fixed interest rate exposure*	£3m	£28m	✓
Upper limit on variable interest rate exposure	£33m	£70m	✓

## Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Actual principal invested beyond year end	£20.95m	£20.95	£17.95m
Limit on principal invested beyond year end	£35m	£30m	£25m
Complied	✓	✓	✓