Chichester District Council

CORPORATE GOVERNANCE AND AUDIT COMMITTEE 25 July 2019

2018-2019 Treasury Management Out-turn Report

1. Contacts

Report Author:
Mark Catlow - Group Accountant
Telephone: 01243 521076 E-mail: mcatlow@chichester.gov.uk

2. Recommendation

The Corporate Governance and Audit Committee is requested to:

- **consider the 2018-2019 Treasury summarised activity and out-turn position and provide comments to the Cabinet as necessary**

- **nominate a representative to work with the Cabinet Member for Finance, Growth, Place and Regeneration and officers to complete a review the existing external pooled fund investments as requested by Cabinet.**

3. Background

3.1. This report describes the main outcomes from treasury activities undertaken during the 2018-18 financial year. These activities are undertaken within a framework set by Council's treasury management strategy for 2018-19, which was approved by Council on 6 March 2018.

3.2. During 2018-19 the Council has continued to invest substantial sums of money and is therefore manages financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Authority's treasury management strategy.

4. Outcomes to be achieved

4.1. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5. Treasury Position at Year End

5.1. On 31st March 2019, the Authority had investments of £64.3m with no external borrowing, an increase of £10.4m year on year.

Table 1: Treasury Management Summary

Investments £000	**Balance 01/04/2018**	**Movement**	**Balance 31/03/19**
Short term Investments	21,000	18,000	39,000
Money Market Funds	9,800	(5,450)	4,350
Corporate Bonds	2,213	(2,213)	-
Total liquid investments	**33,013**	**10,337**	**43,350**
Long term Investments	3,000	-	3,000
Pooled Funds – External	7,950	-	7,950
Pooled funds – Local Authority Property fund	10,000	-	10,000
TOTAL INVESTMENTS	**53,963**	**10,337**	**64,300**

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

6. Investment Activity

6.1. The Authority's objective when investing money is to comply with the Council's Treasury Strategy and Policy statement, including the Council's appetite for risk.

6.2. During 2018-19 the Council continued to balance short-term investments between high credit quality banks, Local Authorities and money market pooled funds. The uncertainty during the year relating to the impact of fair value movements on the Council's general fund meant that further investments in long term pooled funds were deferred until the position was clarified in early 2019. The Council's 2019-20 Treasury strategy allows for further long term investment in external pooled funds as appropriate.

6.3. The overall income return across the entire portfolio is shown below:

Table 2: 2018-19 Treasury Management returns

Measure	Qtr. 1	Qtr2	Qtr 3	Qtr. 4	Non-met districts Q4 average	Rating
Internal investment return %	0.77	0.83	0.88	0.99	0.86	**GREEN**
External funds – income return %	4.18	4.06	3.97	4.07	3.82	**GREEN**
External funds – capital gains/losses %	1.38	0.68	(0.53)	0.30	0.03	**AMBER**

Total treasury Investments – income return %	1.80	1.65	1.67	1.83	1.75	GREEN

6.4. The position remains broadly similar to that reported to this committee in January. Internal investment returns continue to steadily increase as the effects of the August interest rate rise feed through.

6.5. The fair value of the Council's external funds has recovered from a low point around the turn of the year. In short, December was a month to forget in terms of performance of many asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. Since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

6.6. The benchmark score in the table above has been maintained at amber and more detail of the fair value movements is provided below in Table 3 and in Appendix A.

Table 3: Gains and losses from external pooled funds (£000)

Fund	Type of fund	Invested £000	Capital gain (loss) 31-3-2019	Market Value	Current return (Income)
Local Authority Property Fund	Property	10,000	(132)	9,868	4.39%
Investec Diversified Income Fund	Multi Asset	3,650	(95)	3,555	3.97%
Columbia Threadneedle Strategic Bond Fund	Bonds	2,650	(75)	2,575	3.16%
M&G Optimal Income Fund	Bonds	1,650	(41)	1,609	3.27%
Totals		17,950	(343)	17,607	

6.7. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

6.8. In light of their performance over the medium-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained with potential to increase these investments once a review of their performance against our investment objectives has been considered by Committee and the Cabinet in the autumn.

7. Other Non-Treasury Holdings and Activity

7.1. 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. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Authority also holds £15m of investments in directly owned commercial property.

7.2. These non-treasury investments generated £848k of investment income for the Authority after taking account of direct costs (but excluding fair value movements), representing a rate of return of 5.6% on the current fair value of the investment properties. This is higher than the return earned on treasury investments but reflects the additional risks to the Authority of holding such investments.

8. Compliance Report

8.1. Compliance with the main 2018-19 Treasury limits is shown in table 4 below

Table 4: Investment Limits

	2018/19 Limit	**Complied/ Exception Ref**
Banks unsecured, total	£20m	**YES**
Corporates, total	£10m	**YES**
Local Authority property fund, total	£10m	**YES**
Other pooled investment funds, total	£10m	**YES**
Council's own bank, total max 7 days	£2.5m	**YES**
Money market Funds, total	£20m	**YES**
Counterparty ratings	various	**1**

8.2. The reportable exception in the financial year is as follows;

Table 5: Exceptions

Reference	Exception	Action taken
1. 2 Jan 19	£2.5M invested with National Counties BS - exceeding the £1M counterparty limit	Review of process undertaken – simple error that was not systematic. Investment repaid in full on time on 12 April 19.

8.3. In addition there were three instances were the balance in the Council's bank account was higher overnight than normal levels against a formal target of maintain balances below £2.5m in total across all operational accounts.

8.4. The Council's grouped bank balance not overdrawn at any point in 2018-19 and had an average overnight balance of £89,292.

Table 6: Higher than normal overnight bank balances

Reference	Explanation
15 Mar 19	Balance £684,729. £600,000 due from a developer arrived at 15:51. Too late to invest.
28 Mar 19	Balance £711,488 Several large capital transactions were planned to occur and funds maintained to cover payment.

9. Other Treasury Management indicators

9.1. The Authority measures and manages its exposures to treasury management risks using the following indicators

Table 7: Treasury Management Security indicators

	Average Credit Score (higher = better)	Average Credit Rating	Bail-in exposure (lower = better)	
31 March 2018	3.88	AA-	41%	
31 March 2019	4.16	AA-	31%	GREEN
Similar Local Authorities	4.03	AA-	53%	

9.2. The Reduction in bail-in exposure reflects a rebalancing of short term investments towards Local Authorities, away from unsecured bank deposits.

9.3. The biggest structural change affecting our investment counterparty list during the year was ring-fencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc), each segregating their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) entities.

9.4. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

9.5. There were minimal other credit rating changes during the period.

Liquidity

Table 8: Treasury Management Liquidity Indicators

	7 day liquidity	100 day liquidity	Average maturity	
31 March 2018	18%	50%	116 days	
31 March 2019	15%	51%	101 days	GREEN
Similar Local Authorities	36%	57%	86 days	

9.6. There has been little overall change in the pattern of liquidity maintained by the Council over the past year. The Council’s Treasury cash flow system is used to forecast cash balances and requirements and to ensure sufficient but not excessive liquidity is maintained. The relatively high level of funds available to the Council for investment allows greater long term investment than many other similar Councils, leading to the relative liquidity position above.

Interest rate exposure

9.7. 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.

Table 9: Treasury Management Interest rate exposure

	31.3.19 Actual	2018/19 Limit	
Upper limit on fixed interest rate exposure*	£3m	£28m	GREEN
Upper limit on variable interest rate exposure	£39m	£70m	GREEN

9.8. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate

Principal Sums Invested for Periods Longer than 364 days

9.9. 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:

Table 10: Treasury Management long term investment indicators

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£20.95m	£20.95	£17.95m
Limit on principal invested beyond year end	£40m	£35m	£30m
	GREEN	GREEN	GREEN

10. Other Developments during 2018-2019

10.1. This section updates the Committee on relevant developments since the last report in January 2019.

Revised CIPFA codes

10.2. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council approved its Capital Strategy in March 2019.

Readiness for Brexit

10.3. With little by way of political clarity as to the exact date on whether there would be an agreed deal prior to leaving the EU and to be prepared for the outside chance of a particularly disruptive Brexit (such as last-minute no-deal) on 29th March, the Authority ensured there were enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.

11. Follow-up of ongoing matters

11.1. The Council's Cabinet agreed that a review of the Council's external fund investments should be undertaken, aiming to:

(a) Review the objectives for investing in external pooled funds.
(b) Evaluate whether the existing investments have met these objectives.
(c) Investigate whether other investment options might better meet the objectives in the future.
(d) If appropriate, consider how the council would extend its investment in External Pooled Funds in terms of the type of funds and the timing of the investments.

11.2. This review will commence shortly with the aim of completing by 30 October 2019. The Director of Corporate Services has asked this Committee nominate a representative to work alongside the Cabinet Member for Finance, Growth, Place and Regeneration and officers during this period to complete this work.

12. Resource and Legal Implications

12.1. 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.

13. Consultation

14. Other Implications

	Yes	No
Crime & Disorder:		X
Climate Change and Biodiversity:		X
Human Rights and Equality Impact:		X
Safeguarding and Early Help:		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing:		X

15. Appendices

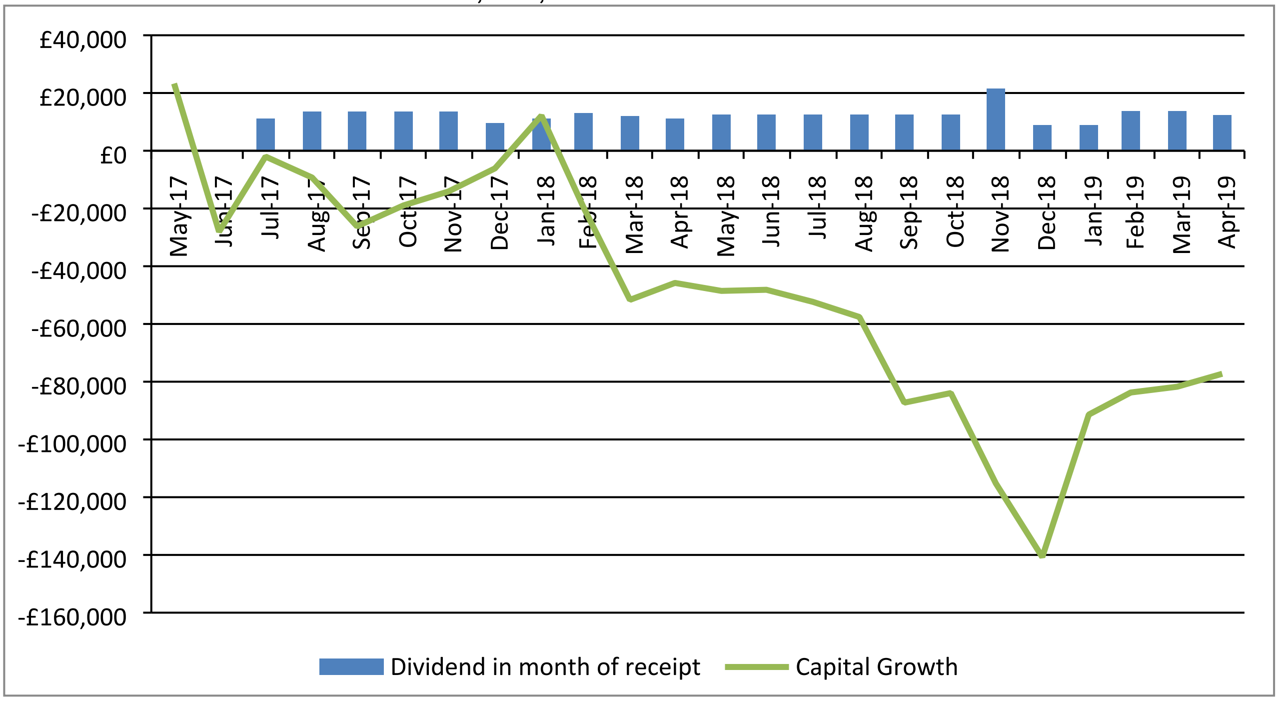
15.1. Movements in Fund fair values and income – Pooled Funds

16. Background Papers

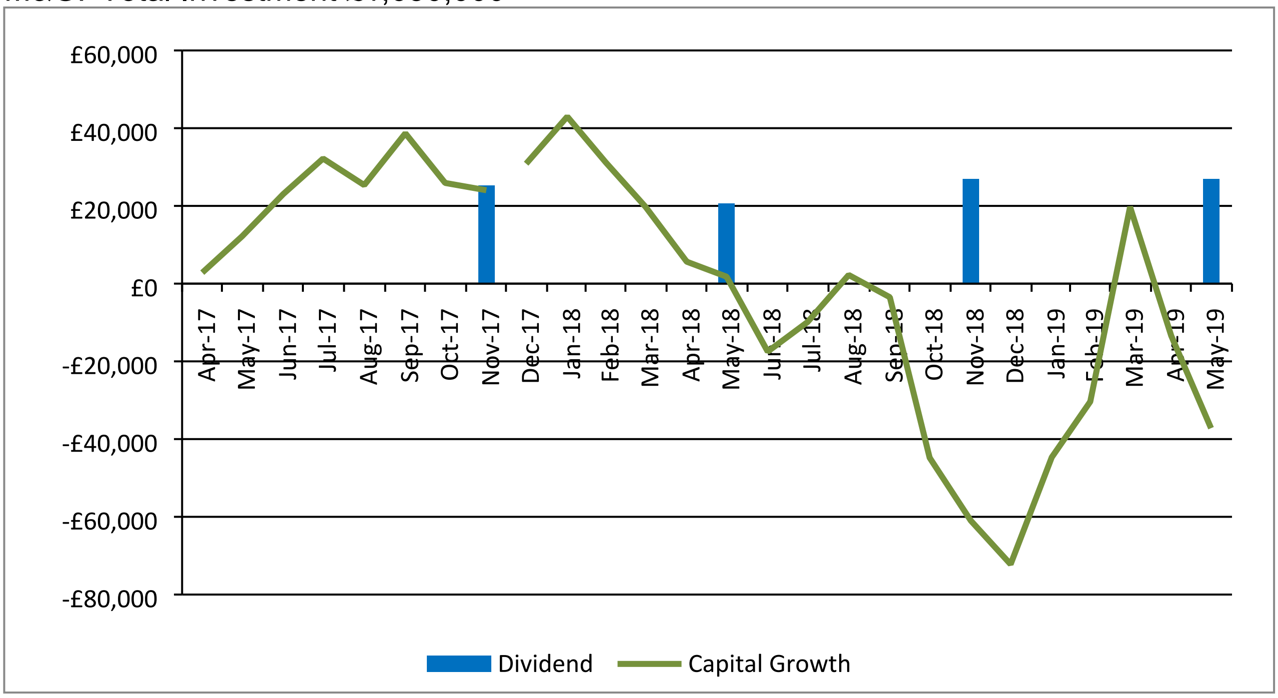
16.1. None.

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

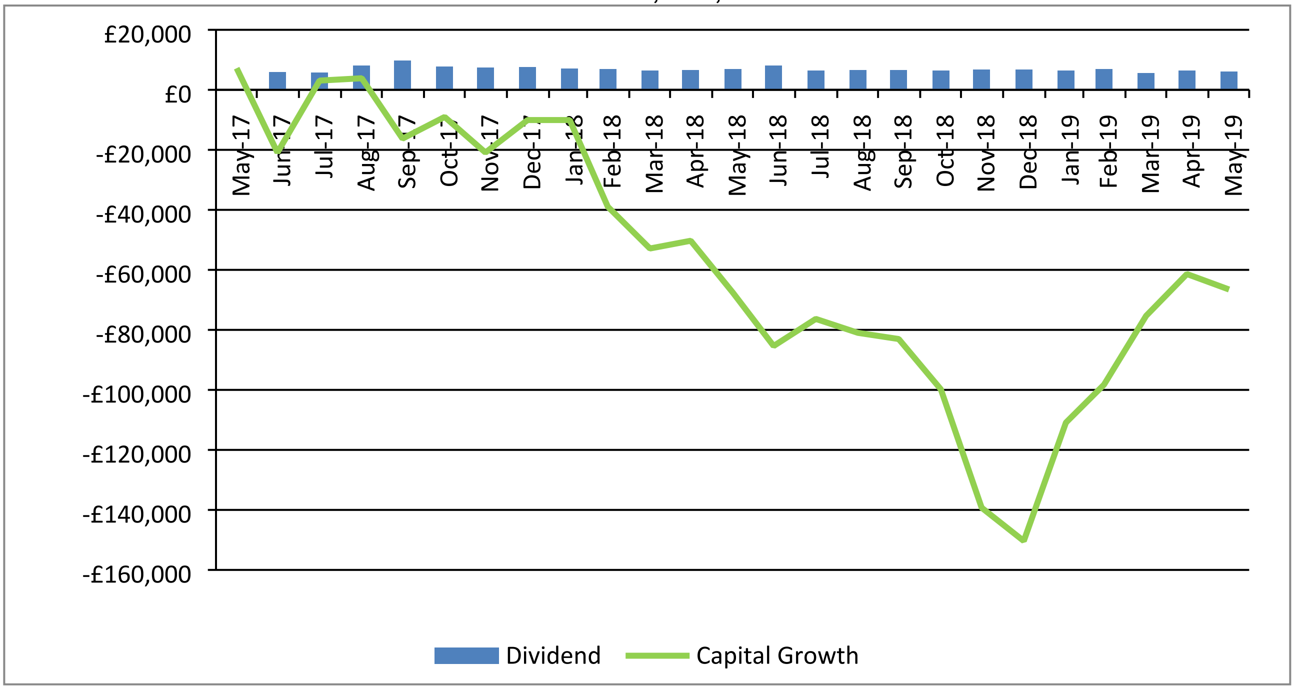
Investec: Total investment £3,650,000



M&G: Total Investment £1,650,000



Columbia Threadneedle: Total investment £2,650,000



LAPF: Total Investment £10,000,000