

# **Chichester District Council**

**Corporate Governance and Audit Committee**

**24 October 2019**

## **2019-2020 Treasury Management half yearly update**

### **1. Contacts**

#### **Report Author**

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### **2. Recommendation**

**The Corporate Governance and Audit Committee is requested to consider the Treasury activity summarised in this report and provide comments to the Cabinet as necessary.**

### **3. Background and Outcomes**

- 3.1. This report provides the Committee with a summary of Treasury Management activity undertaken for the year to date. The objective is to provide Members with assurance over the effectiveness of Treasury activities undertaken during the reporting period.

### **4. Treasury management activity**

- 4.1. On 31 March 2019, the Council had investments of £64.3m with no external borrowing (table 1, below). Since that date the Council's investments have risen to in excess of £80m, reflecting the normal cyclical pattern of increasing until the new calendar year and falling back in February and March due to lower Council Tax receipts.
- 4.2. To help the Council manage risk, benchmarks and red/ amber/ green risk ratings continue to be used across a series of indicators focussed on measuring security, liquidity and return. These are shown at appendix B with a short commentary against each.
- 4.3. During 2019-20 the Council continued to balance short-term investments between high credit quality banks, local authorities and money market pooled funds. Alongside this, work has progressed to make further investments in external pooled funds in line with the Council's 2019-20 Treasury strategy.

Table 1: Treasury Management Summary

Investments £000	Balance 01/04/2019	Movement	Balance 30/09/19
Short term Investments Money Market Funds	39,000 4,350	6,000 11.850	45,000 16,200
<b>Total liquid investments</b>	<b>43,350</b>	<b>17.850</b>	<b>64,200</b>
Long term Investments Pooled Funds – External Pooled funds – Local Authority Property fund	3,000 7,950 10,000	- - -	3,000 7,950 10,000
<b>Total investments</b>	<b>64,300</b>	<b>17,850</b>	<b>82,150</b>

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

- 4.4. The overall performance and return of our external pooled investments is shown in table 2. The Council is considering increasing its investments in external pooled funds to a total of £35m in the third quarter of 2019-20 and further details of this is provided in paragraph 7.2.

Table 2: Gains and losses from external pooled funds (£000) – September 2019

Fund	Type of fund	Invested £000	Capital gain (loss)	Latest Market Value	Return (Income %)
Local Authority Property Fund	Property	10,000	(224)	9,776	4.1
Investec Diversified Income Fund	Multi Asset	3,650	(141)	3,509	4.3
Columbia Threadneedle Strategic Bond Fund	Bonds	2,650	(13)	2,637	2.4
M&G Optimal Income Fund	Bonds	1,650	1	1,651	3.2
<b>Totals</b>		<b>17,950</b>	<b>(377)</b>	<b>17,573</b>	

- 4.5. Outside of the Local Authority property fund, the main driver for the movements in overall value is the Investec multi-asset fund. This fund's value fell both due to its strategy for limiting volatility performing poorly in early 2018 and because the fund manager takes its fees from capital whereas our other fund managers take theirs from income.
- 4.6. From a wider perspective, prices continue to be affected by the expectation of monetary stimulus from central banks and interest rate forecasts highlighting that weaker economic growth remains a global risk
- 4.7. Despite the wider economic uncertainty, all three funds showing a capital loss have distributed income in excess of the loss, so that the total return has been positive. Further information on the individual movements in these funds can be found in appendix A.

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

- 5.1. Although not classed as treasury management activity, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management.
- 5.2. The Authority continues to hold approximately £15m of investments in directly owned property. Investment properties are valued annually, with the next valuation date scheduled as 31st March 2020; to date there have not been any indicators to suggest income levels or capital values for those properties have changed significantly.
- 5.3. Further information on the performance of the Council's non-treasury investments is contained in appendix D.

## **6. Compliance Report**

- 6.1. How Treasury activities complied with the Council's main 2019-20 Treasury limits is disclosed at Appendix C. There are no exceptions for the reporting period.

## **7. Other Developments during 2019-2020**

- 7.1. This section updates the Committee on relevant developments since the last report in earlier this year.

### **Review of external pooled fund investments**

- 7.2. During August and September the Council, supported by Arlingclose Ltd, completed a review of its present external fund investments. The key conclusions were:
  - The investments have earnt £1.97m income at an average rate of 3.85%. This return has been very stable through-out.
  - The investments were valued at 1.68% below cost at the end of July (£300,000), in part due to the ongoing unwinding of the bid-offer spread on CCLA property fund purchases in 2016.
  - Compared to other Local Authorities, only 7% of the Council's investments were held in equities across the pooled funds, compared to an Arlingclose average of 19%.

- 7.3. Following careful consideration of cashflow projections, the Council is considering increasing its total investments in external pooled funds during the final quarter of 2019 as permitted by the approved Treasury Management Policy.

### **Proportionality of Commercial Income**

- 7.4. One follow-up item that has been deferred until next year is the request made by the Corporate Governance and Audit Committee that officers investigate whether to set an indicator to measure the proportionality of commercial income generated by Chichester District Council. Work on this issue has commenced

but awaits the final guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA) on prudential property investment. The Society of District Council Treasurers responded to a draft of this guidance in July and the Council now awaits the final document.

### **Readiness for Brexit**

- 7.5. The Authority has arrangements in place to hold sufficient liquidity over any BREXIT period with UK domiciled banks and Money Market Funds and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

## **8. Outlook for remainder of 2019-20**

- 8.1. The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.
- 8.2. At the date this report was drafted, our treasury advisor, Arlingclose, expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.75</b>												
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

## **9. Consultation**

- 9.1. Not relevant.

## **10. Community impact and corporate risks**

- 10.1. 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.

## **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

<b>Health and Wellbeing</b>		X
<b>Other</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
- 12.4. D - Non Treasury investments

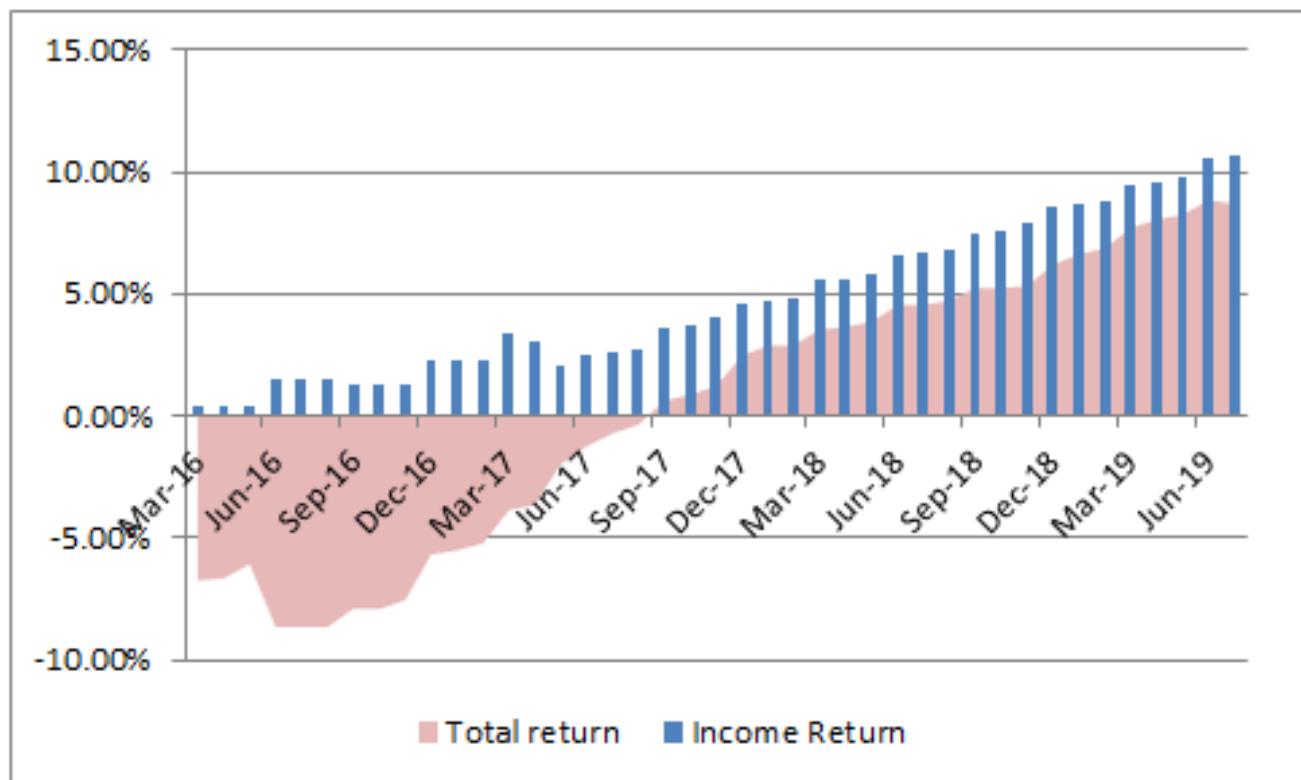
## **13. Background Papers**

- 13.1. None.

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

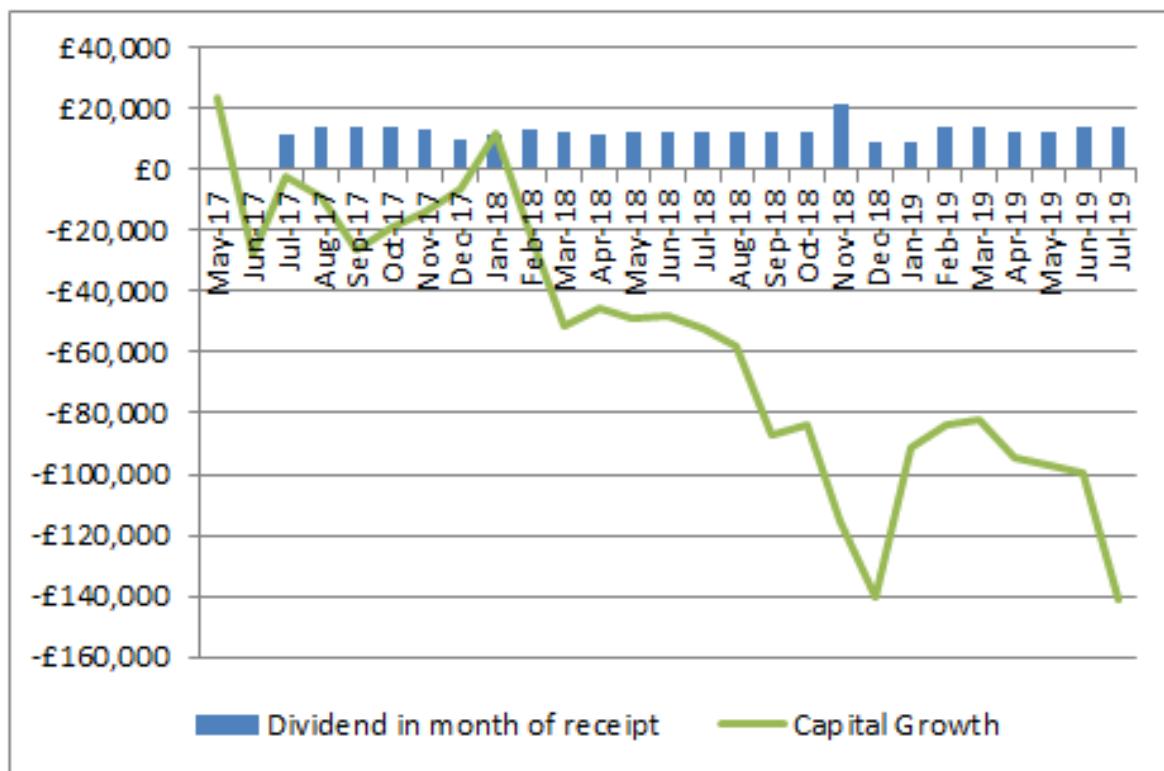
Combined position (all funds)

Cumulative returns – total and income only.

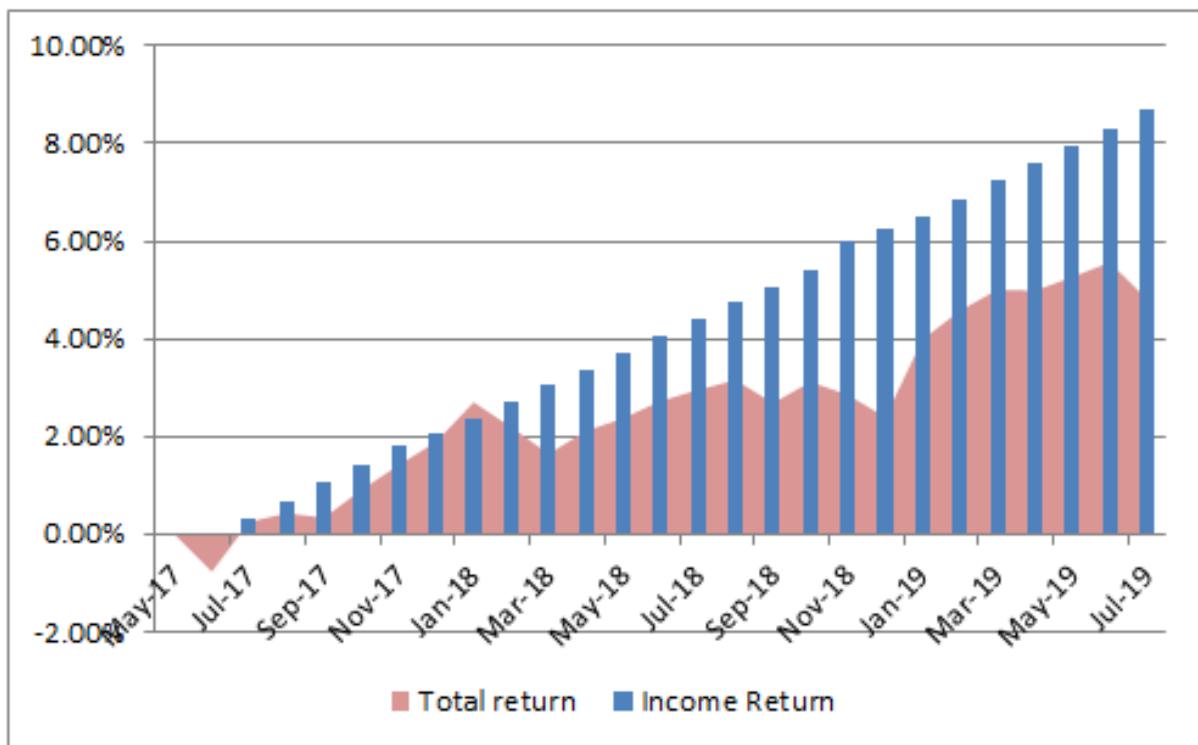


Investec: Total Investment £3,650,000

Month by Month

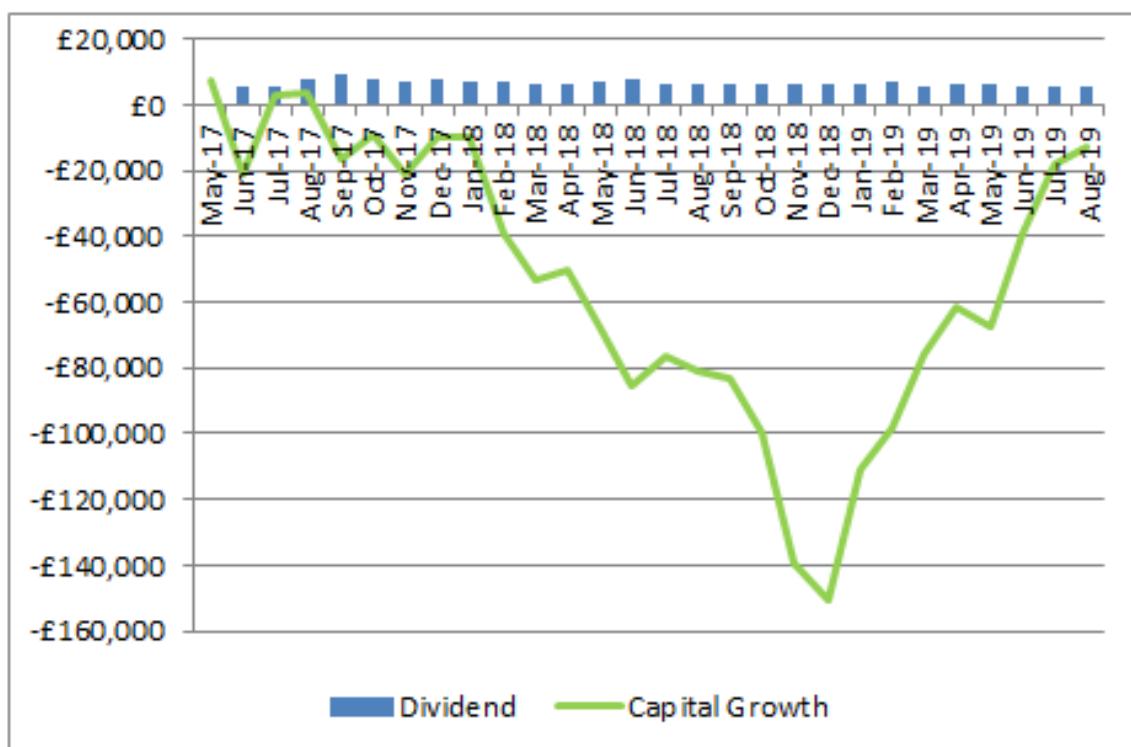


Cumulative

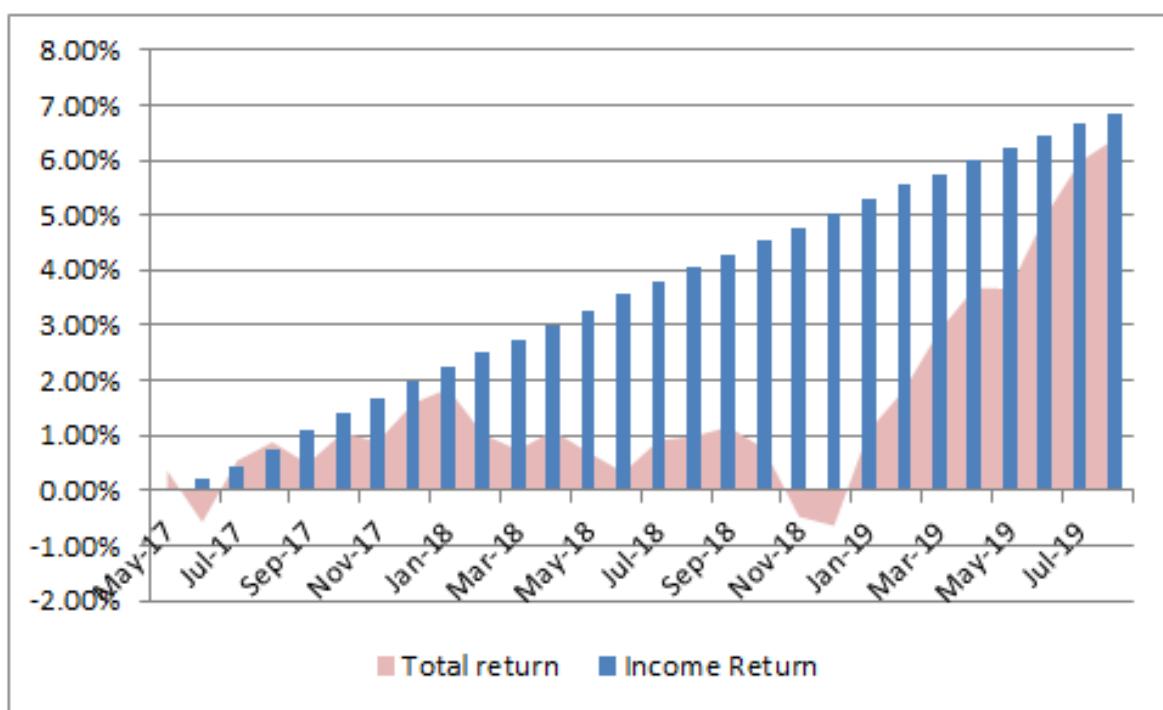


Columbia Threadneedle: Total Investment £2,650,000

Month by Month

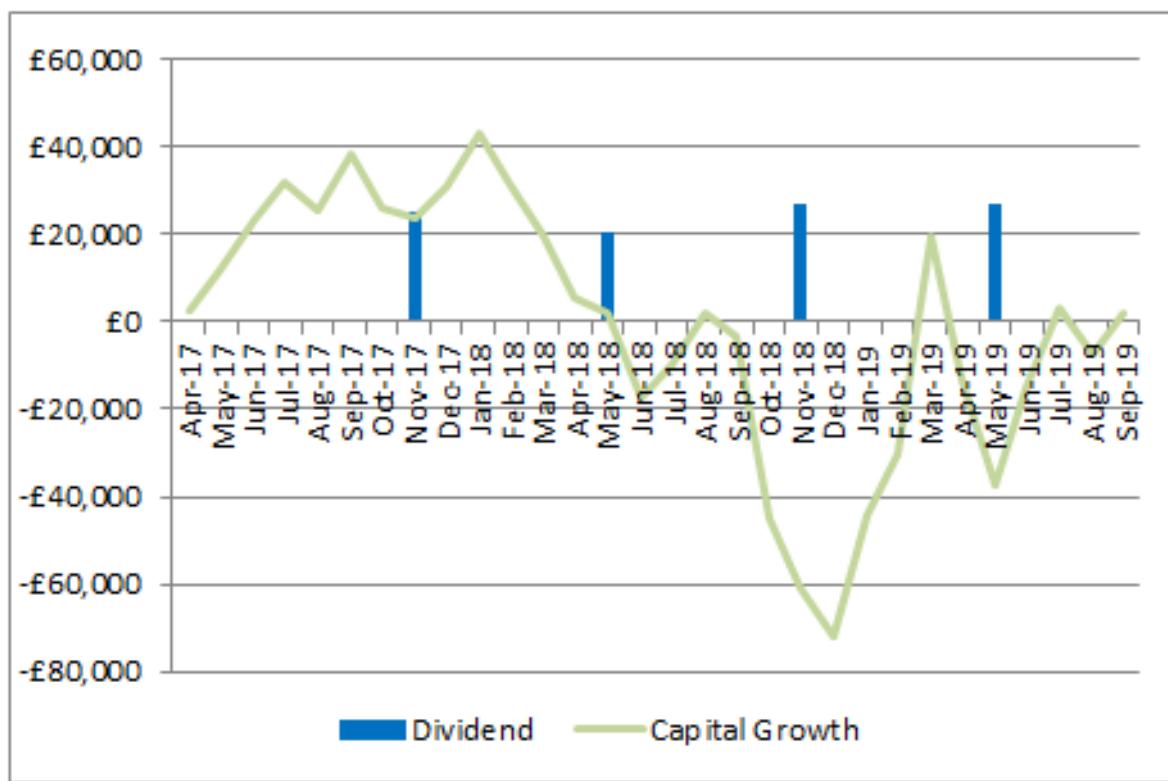


Cumulative

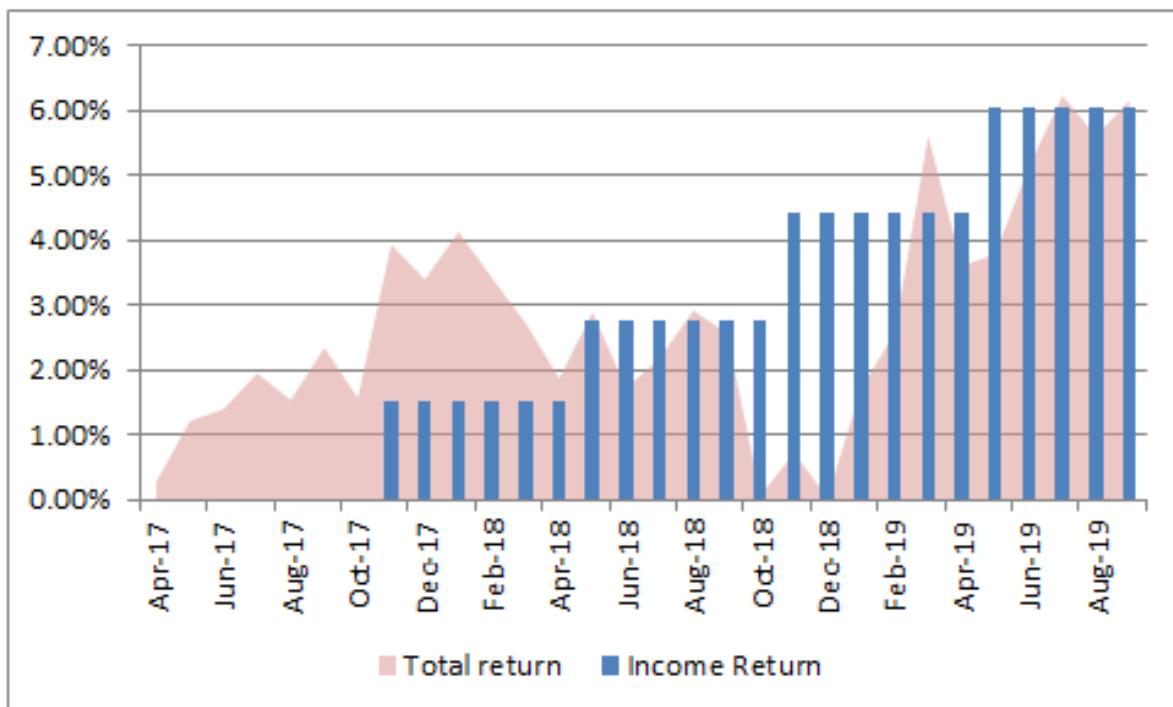


M&G: Total Investment £1,650,000

### Month By Month

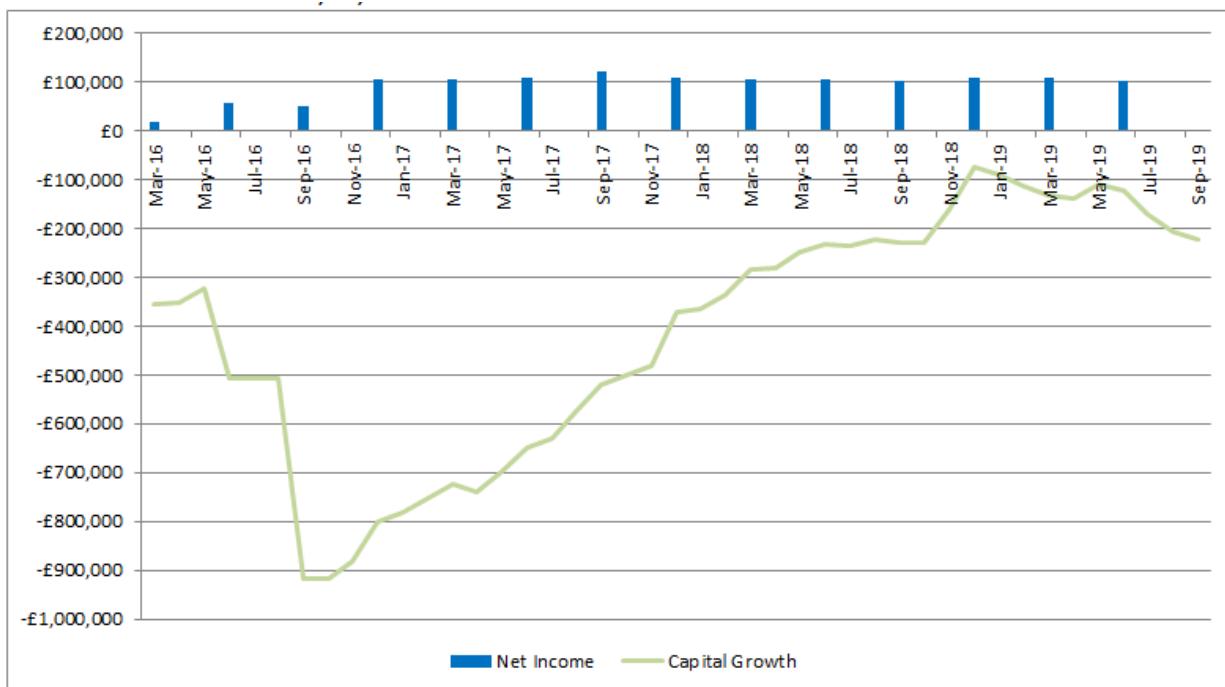


### Cumulative

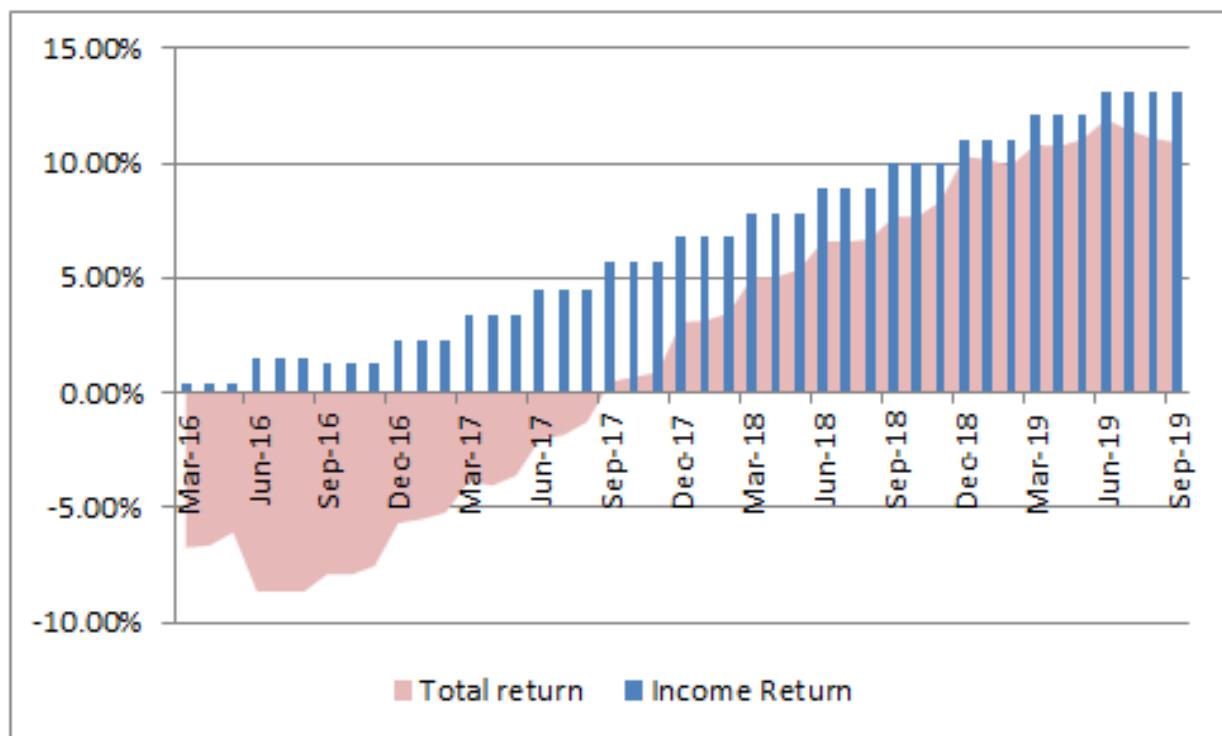


## Local Authority Property Fund: Total Investment £10,000,000

### Month by Month



### Cumulative



## Appendix B: Treasury Management – Benchmarking indicators

### Return – to 30 September 2019

Measure	Qtr. 3 18-19	Qtr4 18-19	Qtr 1 19-20	Qtr. 2 19-20	Non-met districts Q2 average	Rating
Internal investment return %	0.88	0.99	0.95	0.89	0.86	<b>GREEN</b>
External funds – income return %	3.97	4.07	4.08	3.86	3.71	<b>TBC – note 1</b>
External funds – capital gains/losses %	(0.53)	0.30	0.83	0.33	(0.55)	<b>GREEN</b>
Total treasury Investments – income return %	1.67	1.83	1.70	1.52	1.68	<b>TBC - note 1</b>

1. The overall portfolio return is subject to further investigation and a verbal update will be provided to the Committee.

### **Security**

	Average Credit Score (higher = better)	Average Credit Rating	Bail-in exposure (lower = better)	
31 March 2019	4.16	AA-	31%	
30 Sept 2019	4.19	AA-	44%	<b>GREEN</b>
Similar Local Authorities	4.26	AA-	61%	

The Council continues to be less exposed to bail-in than the benchmark however the use of bank deposits has risen due to a lack of investment opportunities with other Local Authorities.

### **Liquidity**

	7 day liquidity	100 day liquidity	Average maturity	
31 March 2019	15%	51%	101 days	
30 Sept 2019	28%	64%	67 days	<b>GREEN</b>
Similar Local Authorities	33%	55%	80 days	

The increase in relative liquidity reflects preparations for possible long term external investments in strategic pooled funds.

## Appendix C – Compliance report

### Compliance with investment limits

	2019/20 Limit	Complied/ Exception Ref
Banks unsecured, total	£30m	Complied
Corporates, total	£10m	Complied
Local Authority property fund, total	£10m	Complied
Other pooled investment funds, total	£25m	Complied
Council's own bank, total max 7 days	£2.5m	Complied
Money market Funds, total	£24m	Complied
Counterparty ratings	various	Complied

### Interest rate exposure

This indicator is set to control the Authority's exposure to interest rate risk.

To measure this, the Council calculates the effect of a 1% change in interest rates and has set a reportable exception level where the impact of this exceeds 50% of the Council's individual counterparty limit (£3m).

	30.9.19 Actual	2019/20 Limit	
Upper limit on one-year revenue impact of a 1% change in interest rates	0.22m	£3m	Complied

The figure above excludes any effect on returns from the external pooled fund which are subject to a large diverse asset base of differing securities and investments.

### 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 long-term principal sums invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£20.95m	£17.95m	£17.95m
Limit on principal invested beyond year end	£50m	£50m	£50m
	Complied	Complied	Complied

The limits above allow for the further planned investments in external pooled funds during 2019.

## **Appendix D: Non-Treasury investment indicators**

The Council has set the following indicators to measure its exposure to risk associated with non-treasury investments.

Measure	Description	30 September 2019
Commercial income to net service expenditure	This indicator measures the Council's dependence on income from its commercial investments to deliver core services	Work is ongoing to define a suitable indicator as set out above in paragraph 7.5.
Net operating surplus	This indicator measures the contribution received from the investment portfolio at a net level (income less costs) over time.	This information is not available until the end of the financial year.
Vacancy levels and tenant exposure	Monitoring vacancy levels to ensure the property portfolio is being managed productively.	Void level for the investment properties is currently at 9.8%. This is monitoring and managed by the Council's Property and Growth team.
Exposure to credit default events for loans made	This will measure the Council's exposure to loss through default for non-treasury loans made to third parties	There have been 4 credit default events for car purchase loans made to employees totalling £13.5k.  Debtor levels for investment properties remain materially unchanged; monthly monitoring of debtors is undertaken, designed to provide an early flag of any potential debt issues.  The Council has also incurred a small loss on an assisted house purchase loan made under the Council's recruitment and retention policy.
Market value of commercial properties	This indicator will track the Council's ability to recover its investment in any commercial investment should the need arise.	The latest market valuation for the Council's investment properties was undertaken as at 31 March 2019 and the next update will be 31 March 2020.