

## TREASURY STRATEGY UPDATE

REPORT OF: Head of Corporate Resources  
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Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
10<sup>th</sup> September 2019

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### PURPOSE OF REPORT

1. The report updates Members on the Council's treasury investment strategy.

### SUMMARY

2. The full strategy is set out in the Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (approved by Council on the 27th March 2019). This report sets out the key principles which are used to minimise the risk to the Council's investments.

### RECOMMENDATIONS

3. The Committee is requested to note the contents of the report and advise Council on any proposed changes.
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### BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst providing resilience through a larger team. The full details of the treasury strategy and prudential indicators are submitted to the Audit Committee and the Council for approval prior to the start of the financial year. Weekly reports and investment recommendations are sent to the Head of Corporate Resources and annual and half year reports compare the forecast performance with the actual.
5. The shared service receives real time information from the treasury advisors, Link Asset Services, regarding changes to counterparty ratings and receives daily, weekly and monthly economic updates, including interest forecasts, as well as regular training seminars. The service also uses a specialist cash flow system, Logotech, which produces cash flow forecasts and related reports as well as monitoring the adherence to counterparty investment limits and providing a clear audit trail.
6. The previous Council was content with the risk appetite proposed by the previous Audit Committee. In fact, this appetite has been consistent for many years and for many previous Councils at Mid Sussex. Members are invited to consider their stance and to consider their appetite for risk as outlined within the appendix to this report.
7. To assist with this, the Group Accountant would welcome questions and queries from Members using the contact details above.

## **POLICY CONTEXT**

8. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

## **OTHER OPTIONS CONSIDERED**

9. None – this report was requested by Members.

## **FINANCIAL IMPLICATIONS**

10. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

## **RISK MANAGEMENT IMPLICATIONS**

11. This report has no specific implications for the risk profile of the Council.

## **EQUALITY & CUSTOMER SERVICE IMPLICATIONS**

12. None

## **BACKGROUND PAPERS**

- Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (Council on 27th March 2019)
- The CIPFA code of Practice on Treasury Management (the Code)
- CIPFA Treasury Management Guidance Notes
- MHCLG's Guidance on Local Government Investments

## 1. SUMMARY

- 1.1 This report summarises the Council's treasury investment strategy. It does not cover the Council's borrowing strategy, the Capital Financing Requirement and the Minimum Revenue Provision policy, all of which are detailed in the Treasury Management Strategy Statement (TMSS).

## 2. INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as:

"The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

- 2.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. It is therefore important that members approve the management of risk contained in the treasury strategy.

- 2.3 This report does **not** include non-treasury investments – the shared service manages only fixed term and money market investments. The Council is able to invest in non-treasury assets such as:

- property within the district (eg the Orchard Shopping Centre), which may offer both rental income and economic regeneration benefits through the support of local businesses and control over key sites
- property outside the district for rental income
- investment in energy assets, such as the construction of solar farms
- loans to third parties

- 2.4 To maximise income during this period of low interest rates on bank accounts, the Council has placed £6m in the Local Authorities' Property Fund. As its name suggests, the Fund is aimed at local authorities and is considered to be a suitable investment – it has been achieving income returns in excess of 4% per year. The shared service does **not** make decisions about investment in the Fund.

## 3. TRAINING

- 3.1 Training has been provided to members by Link Asset Services and Link is willing to offer additional training at a cost. Link offers regular seminars in London and the shared service is entitled to free places, which are open to officers or Members of Mid Sussex District Council by arrangement. Officers at Adur and Worthing would also be willing to discuss or demonstrate the treasury operations.
- 3.2 CIPFA also offers training courses – for example a Treasury Management and Capital Conference in London on the 6th November, which is free to public sector delegates and is aimed at, amongst others, Members with treasury or capital responsibilities. However they usually charge for courses.

## 4. TREASURY INVESTMENTS

- 4.1 Following the guidance from CIPFA and the MHCLG, the Council's investment priorities are:
- Security
  - Liquidity, then

- Yield

4.2 Security of the Council's capital is the most important element of the investment strategy and the shared service has adopted a prudent approach to managing risk using a variety of controls:

- Counterparties such as banks must hold a **minimum credit rating** (banks - A minus, money market funds - AAA) or, in the case of building societies, have assets in excess of £1 billion. However, other information is also considered in addition to ratings.
- The Council may invest with other local authorities, although some care is taken that the counterparty will be able to repay on the due date (there is no expectation that a local authority will be unable to meet its debts).
- The Council maintains lists of **Specified Investments** and **Non-Specified Investments**, including lists of suitable counterparties and the treasury advisors, Link, send real time updates for any changes in rating.
- **Lending limits** are set for each counterparty.
- **Investment durations** are set for each counterparty.
- A maximum of 50% of funds is invested for **more than 365 days**.
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**. The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.
- The shared service takes note of the minimum credit ratings and maximum investment durations suggested by Link, but the Head of Corporate Resources, under delegated powers, undertakes the most appropriate investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. For example, Link does not suggest investments in many building societies, but, in order to achieve a higher rate of return, the Council places investments with building societies holding assets in excess of £1 billion.

Full details can be found in the Treasury Management Strategy Statement.

4.3 Liquidity is the second priority – through careful cash flow forecasting using information provided by the Council, the shared service makes recommendations as to when funds are available for investment. This ensures that the Council has sufficient funds for day to day expenditure and other commitments. If necessary, due to unexpected changes such as a property purchase, the shared service arranges short term borrowing to cover any shortfall either from the other local authorities within the shared service, or from neighbouring authorities e.g. West Sussex County Council.

4.4 The shared service also pursues value for money in treasury management and monitors the yield from investment income against appropriate benchmarks supplied by Link for investment performance. Daily reconciliations are performed to maximise the balance that can be placed in the money market funds overnight and weekly strategy reviews consider the cash flow forecast to determine when longer term deposits can be placed. There is a limit on the maximum investment in money market funds, to ensure that the Council's cash achieves the highest possible rates through longer term investments.

- 4.5 Link Asset Services and investment brokers provide regular interest rates and forecasts and these are used in determining the timing and duration of investments. For example, if rates are falling, investments are placed promptly and fixed for a reasonable duration. However a decision may be delayed if it is felt that rates may rise in the immediate future.
- 4.6 A monthly investment report is prepared showing the historic risk of default of each of the Council's investments and the total average risk of default:

### Investments held at 31 July 2019

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Handelsbanken Plc	10,000	0.50%		Call0	AA-	0.000%
MMF CCLA	1,710,000	0.73%		MMF	AAA	0.000%
MMF Federated Investors (UK)	2,485,000	0.74%		MMF	AAA	0.000%
MMF Invesco	10,000	0.72%		MMF	AAA	0.000%
MMF BlackRock	10,000	0.74%		MMF	AAA	0.000%
Goldman Sachs International Bank	10,000	0.72%		MMF	A	0.000%
Nottingham Building Society	2,000,000	0.95%	05/09/2017	05/09/2019	BBB+	0.015%
Progressive Building Society	2,000,000	1.05%	27/09/2018	27/09/2019	Not Rated	
Newcastle Building Society	1,000,000	1.15%	07/11/2018	07/11/2019	Not Rated	
Saffron Building Society	2,000,000	1.25%	15/03/2019	16/03/2020	Not Rated	
Close Brothers Ltd	2,000,000	1.25%	29/03/2019	30/03/2020	A	0.035%
National Counties Building Society	2,000,000	1.26%	11/04/2019	14/04/2020	Not Rated	
Newcastle Building Society	1,000,000	1.25%	17/04/2019	17/04/2020	Not Rated	
Lloyds Bank Plc (RFB)	1,000,000	1.25%	10/05/2019	11/05/2020	A+	0.041%
National Counties Building Society	1,000,000	1.26%	16/05/2019	18/05/2020	Not Rated	
Newcastle Building Society	1,000,000	1.30%	23/05/2019	22/05/2020	Not Rated	
Saffron Building Society	1,000,000	1.25%	30/05/2019	29/05/2020	Not Rated	
Lloyds Bank Plc (RFB)	1,000,000	1.25%	05/06/2019	05/06/2020	A+	0.045%
Nottingham Building Society	1,000,000	1.15%	13/06/2019	12/06/2020	BBB+	0.133%
Cambridge Building Society	2,000,000	1.25%	26/06/2019	25/06/2020	Not Rated	
Lloyds Bank Plc (RFB)	1,000,000	1.25%	27/06/2019	29/06/2020	A+	0.048%
Cambridge Building Society	1,000,000	1.20%	10/07/2019	10/07/2020	Not Rated	
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>		
Local Authorities Property Fund	6,000,000	4.00%	30/07/2015	30/07/2020		
<b>Total Investments</b>	<b>£32,235,000</b>	<b>1.66%</b>				
<b>Total Investments - excluding Funds</b>	<b>£26,235,000</b>	<b>1.12%</b>				<b>0.014%</b>
<b>Total Investments - Funds Only</b>	<b>£6,000,000</b>	<b>4.00%</b>				

## 5. THE COUNCIL'S ATTITUDE TO RISK

- 5.1 The Council is prudent with its investments and applies the guidance from CIPFA, the MHCLG and advice from Link Asset Services. The view is expressed, often by companies offering more risky investments, that Councils who do not achieve at least the same rate as inflation on their portfolios are effectively losing money. However, given the relatively low returns on most acceptable investments, the risk of loss of capital should carry more weight than potentially receiving an extra percentage or two, as emphasised by the "Security, Liquidity, Yield" policy.
- 5.2 Due to the size of its portfolio, which is significantly larger than the other Councils in the shared service, Mid Sussex District Council feels confident in investing in a larger number of building societies, in order to secure a higher rate of return. The £6m investment in the Local Authorities' Property Fund also gives a considerable boost to the total return on the portfolio – there is exposure to fluctuation in the value of the units in the fund, but this is considered to be a long term investment and the risk is balanced by the rental income streams received by the fund.
- 5.3 The Treasury Management Strategy Statement lists a large number of potential investments

which the Council may use. At the “no risk” end, there is the Debt Management Account Deposit Facility, which gives a direct claim on the government, but offers very low rates, so should only be used if confidence is lost in other institutions. The Council may also use less “vanilla” investments such as bonds, which carry greater risk.