

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

26 SEPTEMBER 2023

Report Title	1st Quarter Treasury Management Activity Report 2023/24			
Purpose of Report	To provide an update on treasury management activity as at 30/06/2023.			
Decision(s)	The Committee RESOLVES to accept the treasury management activity first quarter report for 2023/2024.			
Consultation and Feedback	Link Asset Services (LAS).			
Report Author	Maxine Bell, Senior Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk			
Options	None			
Background Papers	None			
Appendices	A – Prudential Indicators as of 30 June 2023 B – Explanation of prudential indicators			
Implications (Further details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	No

Background

1. Treasury management is defined as: ‘The management of the local authority’s investments and cash flows, 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. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the first quarter of the financial year, and to report on prudential indicators and compliance with treasury limits.

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the latest Code in December 2021, originally adopted by this Council on 21 January 2010. This first quarter report has been prepared in compliance with CIPFA’s Code of Practice, and covers the following:
 - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
 - A review of the Council’s investment portfolio for 2023/24
 - A review of the Council’s borrowing strategy for 2023/24
 - A review of compliance with Treasury and Prudential Limits for 2023/24.
 - Other Treasury Issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2023/24 was approved by Council on 16th February 2023. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
 1. Security of Capital
 2. Liquidity
 3. Yield
 4. Environmental, Social and Governance (ESG)
5. In 2023-24 the Council will continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security, or liquidity. In cases where two investments of similar credit rating would generate the same return the Council selected the investment with the best ESG rating. Otherwise, the length of investments were in line with LAS advice subject to the Council's 3-year upper limit. Whilst interest rates are rising it is good housekeeping to have regular maturities to reinvest at higher rates.
6. A breakdown of the Council's investment portfolio as of 30 June 2023 is shown in Table 3 of this report.
7. Current advice from Link is to invest for no more than a year with UK banks, or up to a maximum of five years with government or local government provided they are sufficiently highly-rated on Link's weekly list.

Investment Portfolio 2023/24

8. In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the first quarter is shown in Table 1 below.
9. As set out in the Council's 2023-24 Strategy specified investments are to be benchmarked against the SONIA (Sterling Overnight Index Average) compounded 7-day and 3-month rates, see Table 4. The Council's multi-assets will be benchmarked against the 0 – 35% shares index see Table 5, and the UK other balance open-ended property fund index for the property funds see Table 6.

TABLE 1: Average Interest Rate

	Period	Investment Interest Earned £	Average Investment £m	Rate of Return
Internally Managed Specified Property Fund / Multi-Asset Fund	01/04/2023	504,477	45.151	4.482%
	- 30/06/2023	83,404	10.000	3.345%
Total Quarter 1		587,881	55.151	4.276%

TABLE 2: Funds Performance – Quarter 1 2023-24

Fund	Initial Investment £m	Value as at 30/06/23 £m	Return Apr - Jun 2023
Lothbury	4.000	3.343	3.03%
Hermes	2.000	1.920	3.45%
TOTAL PROPERTY FUNDS	6.000	5.263	3.17%
Royal London	3.000	2.625	3.41%
CCLA	1.000	0.958	4.22%
TOTAL MULTI-ASSET FUNDS	4.000	3.583	3.61%
TOTAL FUND INVESTMENTS	10.000	8.845	3.345%

10. The approved limits as set out in the Treasury Management Strategy report to Council 16th February 2023 within the Annual Investment Strategy were not breached during the first 3 months of 2023/24, except for Barclays which breached the limit through the re-investment of interest. Funds have now been withdrawn in full from that Barclays account as a result of its lower ESG rating. The money has been redistributed across the rest of the investment portfolio.
11. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The authority holds £15m core cash balances for investment purposes (i.e., funds that potentially could be invested for more than one year). The Council has invested £10m into Property and Multi-Asset Funds with the objective of longer-term investments improving the overall rate of return in future years.
12. Table 3 below shows the investments and borrowing position at the end of June 2023.

TABLE 3: Investments & Borrowing

	Jun 2023 £'000	ESG June 23
Aberdeen	3,941	A-
Goldman Sachs	1,000	A-
Deutsche	5	A
Money Market Funds Total	4,946	
Lloyds	7,927	A-
Lloyds Banking Group Total	7,927	
NatWest	189	A-
RBS Banking Group Total	189	
Standard Chartered	2,000	BBB+
Santander	7,999	A-
Barclays Bank Plc	8,032	BBB-
Svenska Handelsbanken	2,014	A+
Toronto Dominion	4,000	BBB
Landesbank Hessen Thuringen	6,000	BBB+
Bank of Montreal	3,000	A+
Other Banks Total	33,045	
TOTAL INVESTMENTS	£46,107	A-
Lothbury	4,000	
Hermes	2,000	
TOTAL PROPERTY FUNDS	£6,000	
RLAM	3,000	
CCLA	1,000	
TOTAL MULTI ASSET FUNDS	£4,000	
PWLB	100,717	
TOTAL BORROWING	£100,717	

ESG Grading Scale

AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+
Negligible		Low				Medium			High			Severe			

13. Tables 4, 5 and 6 below show the benchmarked Quarter by Quarter Returns on Specified Investments and Funds at the end of June 2023.

Table 4: Quarterly Benchmark - Specified Investments

Quarter	Specified Investments % return	Benchmark 7 day SONIA Compounded	Benchmark 90 day SONIA Compounded
Q1 21/22	0.18%		
Q2 21/22	0.18%		
Q3 21/22	0.19%		
Q4 21/22	0.22%		
Q1 22/23	0.79%	0.87%	0.64%
Q2 22/23	1.55%	1.51%	1.19%
Q3 22/23	2.66%	2.70%	2.12%
Q4 22/23	3.80%	3.97%	3.66%
Q1 23/24	4.48%	4.53%	4.29%

Table 5: Quarterly Benchmark - Multi-Asset Funds

Quarter	Fund Investments % return	Capital deficit / surplus %	Return including capital %	Benchmark 0-35% Shares
Q1 21/22	2.72%		2.72%	
Q2 21/22	2.60%		2.60%	
Q3 21/22	2.51%	2.27%	4.78%	1.00%
Q4 21/22	1.89%	-6.69%	-4.80%	-3.74%
Q1 22/23	2.78%	-9.37%	-6.59%	-6.06%
Q2 22/23	2.74%	-6.15%	-3.41%	-3.69%
Q3 22/23	2.74%	3.05%	5.79%	2.27%
Q4 22/23	2.77%	1.79%	4.56%	1.62%
Q1 23/24	3.61%	-1.46%	2.15%	-0.99%

Table 6: Quarterly Benchmark - Property Funds

Quarter	Fund Investments % return	Capital deficit / surplus %	Return including capital %	Benchmark 3 mth Property Fund Index (Other)
Q1 21/22	3.00%			
Q2 21/22	3.06%			
Q3 21/22	3.85%	4.62%	8.47%	4.30%
Q4 21/22	2.71%	5.11%	7.82%	6.70%
Q1 22/23	3.15%	4.07%	7.22%	6.10%
Q2 22/23	3.01%	-5.87%	-2.86%	4.00%
Q3 22/23	3.04%	-20.02%	-16.98%	-3.70%
Q4 22/23	3.07%	-0.95%	2.12%	-14.00%
Q1 23/24	3.17%	-0.95%	2.22%	-0.20%

External Borrowing

14. The Council's Capital Financing Requirements (CFR) for 2023/24 is £134,902m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has borrowing of £100.717m as of 30 June 2023.

Compliance with Treasury and Prudential Limits

15. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits." Council's approved Treasury and Prudential Indicators are outlined in the approved TMSS.

16. During the period to 30 June 2023 the Council has operated within treasury limits (subject to the technical breach noted in paragraph 10) and Prudential Indicators set out in the Council's TMSS and with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix A.

17. Implications

17.1 Financial Implications

There are no financial implications arising from the decision. The whole report is of a financial nature.

The position on the capital value of pooled funds, and the existence of the investment risk reserve, has previously been reported to both this Committee and Council. The ongoing position of the funds will continue to be reported in each subsequent Treasury Management update.

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17.2 Legal Implications

There are no significant legal implications in respect of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance provides assurance that investments are, and will continue to be, within its legal powers.

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17.3 Equality Implications

There are no equality implications arising from the recommendations made in this report.

17.4 Environmental Implications

There are no environmental implications arising from the recommendations made in this report.