

**STROUD DISTRICT COUNCIL**  
**AUDIT AND STANDARDS COMMITTEE**

**30 JANUARY 2024**

<b>Report Title</b>	<b>Half Year Treasury Management Report 2023/24</b>			
<b>Purpose of Report</b>	To provide an update on Treasury Management activity as at 30/09/2023			
<b>Decision(s)</b>	<b>The Audit and Standards Committee RESOLVES to accept the Treasury Management half year report.</b>			
<b>Consultation and Feedback</b>	Link Asset Services (LAS)			
<b>Report Author</b>	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: <a href="mailto:graham.bailey@stroud.gov.uk">graham.bailey@stroud.gov.uk</a>			
<b>Options</b>	None			
<b>Background Papers</b>	None			
<b>Appendices</b>	Appendix A – Prudential Indicators as at 30 September 2023 Appendix B – Explanation of the Prudential Indicators Appendix C – Economic Update			
<b>Implications (further details at the end of the report)</b>	Financial	Legal	Equality	Environmental
	No	No	No	No

**1. Background**

- 1.1 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.’
- 1.2 This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the first half of the financial year, and to report on prudential indicators and compliance with treasury limits.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in 2021, originally adopted by this Council on 21 January 2010. This half year 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

## **2. Treasury Management Strategy Statement And Investment Strategy Update**

2.1 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
2. Liquidity
3. Yield
4. Environmental, Social and Governance (ESG)

2.2 In 2023-24 the Council will continue to invest in the specified investment category for varying 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 will select the investment with the best ESG rating. The length of investments permitted will vary, if necessary, in line with LAS advice subject to the Council's 3-year upper limit.

2.3 In February 2023 the Strategy set out an interest rate forecast peaking at 4.5% and reducing to 2.5% by September 2025. Rates in November 2023 have since climbed to 5.5% and the current forecast is that this is the peak of the interest rate cycle, falling to 5% in September 2024 and 2.75% by December 2025.

2.4 The composition of the Council's investment portfolio as at 30 September 2023 is shown in Table 3 of this report. Investments and borrowing during the year have been in line with the strategy.

2.5 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.

## **3. Investment Portfolio**

3.1 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 Council will also consider the ESG rating of a financial institution as a fourth local consideration. The investment portfolio yield for the first half year is shown in Table 1 below:

**TABLE 1: Investment Performance Quarters 1 and 2 2023/24**

	Period	Investment Interest Earned £	Average Investment £m	Rate of Return
<b>Internally Managed Specified</b> <b>Property Fund / Multi-Asset Fund</b> <b>Total Quarter 1</b>	01/04/2023 – 30/06/2023	504,477	45.151	4.482%
		83,404	10.000	3.345%
		<b>587,881</b>	<b>55.151</b>	<b>4.276%</b>
<b>Internally Managed Specified</b> <b>Property Fund / Multi-Asset Fund</b> <b>Total Quarter 2</b>	01/07/2023 – 30/09/2023	621,782	49.474	4.993%
		76,785	10.000	3.20%
		<b>698,567</b>	<b>59.474</b>	<b>4.666%</b>
<b>HALF YEAR TOTAL</b>	01/04/2023 – 30/09/2023	<b>1,286,448</b>	<b>57.324</b>	<b>4.476%</b>

- 3.2 Performance of the Property Fund and Multi-Asset Funds is shown in Table 2. The quarter 2 return for Hermes is estimated as the figures are not available at the time of producing this report.

**TABLE 2: Property and Multi-Asset Fund Performance Quarters 1 and 2 2022/23**

Fund	Initial Investment £m	Value as at 30/06/23 £m	Return Apr - Jun 2023	Value as at 30/09/23 £m	Return Apr - Sep 2023
Lothbury	4.000	3.343	3.03%	3.288	2.87%
Hermes	2.000	1.920	3.45%	1.859	3.31%
<b>TOTAL PROPERTY FUNDS</b>	<b>6.000</b>	<b>5.263</b>	<b>3.17%</b>	<b>5.147</b>	<b>3.02%</b>
Royal London	3.000	2.625	3.41%	2.634	3.37%
CCLA	1.000	0.958	4.22%	0.948	3.75%
<b>TOTAL MULTI-ASSET FUNDS</b>	<b>4.000</b>	<b>3.583</b>	<b>3.61%</b>	<b>3.582</b>	<b>3.46%</b>
<b>TOTAL FUND INVESTMENTS</b>	<b>10.000</b>	<b>8.845</b>	<b>3.345%</b>	<b>8.729</b>	<b>3.20%</b>

3.3 Table 3 below shows the investments and borrowing position at the end of September 2023.

**TABLE 3: Investment and Borrowing at the end of Quarters 1 and 2 2023/24**

	Jun 2023 £'000	ESG Jun 23	Sep 2023 £'000	ESG Sep 23
Aberdeen	3,941	A-	1	A-
Federted Prime	-	A-	3,645	A-
Goldman Sachs	1,000	A-	1	A-
Deutsche	5	A	0	A
<b>Money Market Funds Total</b>	<b>4,946</b>		<b>3,647</b>	
Lloyds	7,927	A-	7,959	A-
<b>Lloyds Banking Group Total</b>	<b>7,927</b>		<b>7,959</b>	
NatWest	189		386	
<b>RBS Banking Group Total</b>	<b>189</b>		<b>386</b>	
Standard Chartered	2,000	BBB+	3,000	BBB+
Santander	7,999	A-	7,999	A-
Barclays Bank Plc	8,032	BBB-	93	BBB-
Svenska Handelsbanken	2,014	A+	4,013	A+
Toronto Dominion	4,000	BBB	2,000	BBB
Landesbank Hessen Thuringen	6,000	BBB+	6,000	BBB+
Goldman Sachs international	-		4,000	
DMO	-		1,000	
National Bank of Canada	-		2,000	
Bank of Montreal	3,000	A+	3,000	A+
<b>Other Banks Total</b>	<b>33,045</b>		<b>33,105</b>	
<b>TOTAL INVESTMENTS</b>	<b>£46,107</b>	<b>A-</b>	<b>£45,097</b>	<b>A-</b>
Lothbury	4,000		4,000	
Hermes	2,000		2,000	
<b>TOTAL PROPERTY FUNDS</b>	<b>£6,000</b>		<b>£6,000</b>	
RLAM	3,000		3,000	
CCLA	1,000		1,000	
<b>TOTAL MULTI ASSET FUNDS</b>	<b>£4,000</b>		<b>£4,000</b>	
PWLB	100,717		100,717	
<b>TOTAL BORROWING</b>	<b>£100,717</b>		<b>£100,717</b>	

### ESG Grading Scale

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

- 3.4 The approved limits as set out in the Treasury Management Strategy report to Council 16 February 2023 within the Annual Investment Strategy were not breached during the first 6 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.
- 3.5 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). At 30 September the Council has invested £10m into Property and Multi-Asset Funds with the objective of longer term investments helping to improve the overall rate of return.
- 3.6 **Lothbury Property Fund** is currently suspended by Lothbury Fund Managers due to level of redemption requests reaching 97%. In October the Lothbury Fund Managers served a Notice of Fund Termination to unitholders. The Lothbury Property Fund will terminate 31 December 2023. The termination of the fund does not mean the loss of the current investment value as the Trustee will proceed to pay distributions to the unitholders on the register, pro rata to their holding in the Fund as at the Termination Date. This will take place as the property assets are disposed of in an orderly fashion. However, the fund manager will continue to consider viable options up to the Termination Date and any proposal would be put to unitholders in an Extraordinary General Meeting.
- 3.7 Tables 4, 5 and 6 below shows the benchmarked quarter by quarter Returns on Specified Investments and Funds at the end of September 2023.

**TABLE 4: Quarterly Benchmark – Specified Investments**

Quarter	Specified Investments % return	Benchmark 7 day SONIA Compound ed	Benchmark 90 day SONIA Compound ed
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%
Q2 23/24	4.99%	5.19%	5.05%

**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%
Q2 23/24	3.46%	-0.02%	3.44%	-0.78%

**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%
Q2 23/24	3.02%	-1.92%	1.10%	1.30%

## **4. External Borrowing**

- 4.1 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 external PWLB borrowing of £100.717m as of 30 September 2023.

## **5. Compliance With Treasury And Prudential Limits**

- 5.1 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.
- 5.2 During the period to 30 September 2023 the Council has operated within treasury limits and Prudential Indicators set out in the Council's TMSS and with the Council's Treasury Management Practices, except for breaching the £8m investment limit with Barclays. That investment is now terminated. The Prudential and Treasury Indicators are shown in Appendix A.

## **6. Other Treasury Issues**

- 6.1 ESG rating reports from Camdor Global Advisors covering quarters 1 and 2 have been received and circulated to Audit and Standards committee members. A presentation of the quarter 3 report by Camdor Global Advisors is arranged for 30<sup>th</sup> January 2024 before the committee meeting.

## **7. Implications**

### **7.1 Financial Implications**

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

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### **7.2 Legal Implications**

There are no specific legal implications arising from the recommendation of this report.

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### **7.3 Equality Implications**

There are not any specific changes to service delivery proposed within this decision.

### **7.4 Environmental Implications**

There are no significant implications within this category.