

# STROUD DISTRICT COUNCIL

## AUDIT AND STANDARDS COMMITTEE

16 APRIL 2024

<b>Report Title</b>	<b>3rd Quarter Treasury Management Activity Report 2023/24</b>			
<b>Purpose of Report</b>	To provide an update on treasury management activity as at 31/12/2023.			
<b>Decision(s)</b>	<b>The Audit and Standards Committee ACCEPTS the treasury management activity third quarter report for 2023/2024.</b>			
<b>Consultation and Feedback</b>	Link Asset Services (LAS).			
<b>Report Author</b>	Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk			
<b>Options</b>	None			
<b>Background Papers</b>	None			
<b>Appendices</b>	A – Prudential Indicators as of 31 December 2023 B – Explanation of prudential indicators			
<b>Implications (Further details at the end of the report)</b>	Financial	Legal	Equality	Environmental
	No	No	No	No

### Background

1. Treasury management 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 third 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 third 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, some 2023/24 prudential indicators were revised in the TMSS for 2024/25 approved by Council on 22<sup>nd</sup> February 2024. The Council's Investment Strategy, 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 was in line with LAS advice subject to the Council's 3-year upper limit. Interest rates are forecast to be cut in the Summer, so it would be good housekeeping to invest longer locking in higher rates where possible, whilst also taking advantage of short term high Local Authority rates on offer.
6. A breakdown of the Council's investment portfolio as of 31st December 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 third quarter as 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
<b>Internally Managed Specified Property Fund / Multi-Asset Fund</b>		1,788,284	48.203	4.908%
	01/04/2023 - 31/12/2023	242,726	10.000	3.220%
	<b>Total Quarter 3</b>	<b>2,031,011</b>	<b>58.203</b>	<b>4.632%</b>

**TABLE 2: Funds Performance – Quarter 3 2023-24**

<b>Fund</b>	<b>Initial Investment £m</b>	<b>Value as at 31/12/23 £m</b>	<b>Return Apr - Dec 2023</b>
Lothbury	4.000	3.089	2.98%
Hermes	2.000	1.808	3.35%
<b>TOTAL PROPERTY FUNDS</b>	<b>6.000</b>	<b>4.897</b>	<b>3.10%</b>
Royal London	3.000	2.811	3.37%
CCLA	1.000	1.004	3.50%
<b>TOTAL MULTI-ASSET FUNDS</b>	<b>4.000</b>	<b>3.815</b>	<b>3.40%</b>
<b>TOTAL FUND INVESTMENTS</b>	<b>10.000</b>	<b>8.712</b>	<b>3.222%</b>

10. As has been previously reported, we have been notified that the Lothbury property fund will be terminating. It can now be reported that this will happen on or by 30 June 2024. This means that any loss in investment value will be realised in the 2024/25 financial year. An Investment Risk earmarked reserve is held to alleviate the revenue impact of losses in investment value, which has been funded from past investment income. The amount held in this reserve will be reviewed as part of the closedown of the 2023/24 financial year.
11. 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 9 months of 2023/24, except for Barclays which breached the limit through the re-investment of interest. In accordance with the account, after giving Barclays 95 days' notice the breach was resolved in September 2023.
12. Funds were available for investment on a temporary basis. The level of funds available was 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.
13. Table 3 below shows the investments and borrowing position at the end of December 2023.

**TABLE 3: Investments & Borrowing**

	Dec 2023	£'000	ESG Dec 23
Aberdeen	-		A
Goldman Sachs	615		A
Deutsche	1		A
Federated Prime	3,519		A
<b>Money Market Funds Total</b>		<b>4,135</b>	
Lloyds	4,574		A-
<b>Lloyds Banking Group Total</b>		<b>4,574</b>	
NatWest	2,405		A-
<b>RBS Banking Group Total</b>		<b>2,405</b>	
Standard Chartered	3,600		BBB+
Santander	7,999		BBB
Barclays Bank Plc	93		BBB+
Svenska Handelsbanken	7,037		A+
Toronto Dominion	4,000		BBB+
National Bank of Canada	2,000		A+
Goldman Sachs International	4,000		
<b>Other Banks Total</b>		<b>28,729</b>	
Cheltenham Borough	3,000		
Central Bedfordshire	4,000		
Salford City	3,000		
Leeds City	2,000		
<b>Local Authorities</b>		<b>12,000</b>	
<b>TOTAL INVESTMENTS</b>		<b>£51,843</b>	<b>A</b>
Lothbury	4,000		
Hermes	2,000		
<b>TOTAL PROPERTY FUNDS</b>		<b>£6,000</b>	
RLAM	3,000		
CCLA	1,000		
<b>TOTAL MULTI ASSET FUNDS</b>		<b>£4,000</b>	
PWLB		100,717	
<b>TOTAL BORROWING</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			

14. Tables 4, 5 and 6 below show the benchmarked Quarter by Quarter Returns on Specified Investments and Funds at the end of December 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%
Q2 23/24	4.99%	5.19%	5.05%
Q3 23/24	5.26%	5.19%	5.22%

**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%
Q3 23/24	3.40%	5.82%	9.22%	3.52%

**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	3.18%	-1.92%	1.26%	1.30%
Q3 23/24	3.10%	-4.17%	-1.07%	-0.60%

**External Borrowing**

15. The Council's Capital Financing Requirements (CFR) for 2023/24 is £123,811m. 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 31st December 2023.

**Compliance with Treasury and Prudential Limits**

16. 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.

17. During the period to 31st December 2023 the Council has operated within treasury limits (subject to the technical breach noted in paragraph 11) 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.

**18. IMPLICATIONS****18.1 Financial Implications**

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

An investment risk earmarked reserve is held to provide some cover against fluctuating investment values. This reserve has been funded from investment income, and the level of the reserve will be reviewed at the end of the financial year.

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## 18.2 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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## 18.3 Equality Implications

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

## 18.4 Environmental Implications

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