

STROUD DISTRICT COUNCIL
AUDIT AND STANDARDS COMMITTEE

28 SEPTEMBER 2021

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|--|---|-------|----------|---------------|
| Report Title | 1ST QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2021/22 | | | |
| Purpose of Report | To provide an update on treasury management activity as at 30/06/2021. | | | |
| Decision(s) | The Audit and Standards Committee ACCEPTS the treasury management activity first quarter report for 2021/2022. | | | |
| 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 at 30 June 2021 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. A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2011, 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 2021/22
 - A review of the Council's borrowing strategy for 2021/22
 - A review of compliance with Treasury and Prudential Limits for 2021/22.
 - Other Treasury Issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2021/22 was approved by Council on 25th February 2021. 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
5. In 2021-22 the Council will continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security, or liquidity. In particular instances the Section 151 Officer will authorise investments in the LAS blue category for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice subject to the Council's 3-year upper limit.
6. A breakdown of the Council's investment portfolio as at 30 June 2021 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 2021/22

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 the table 1 below.
9. LIBID/LIBOR benchmarks have been subject to a review convened by the Bank of England and as part of that process they will be withdrawn in the near future. The Council will consult with Link to select appropriate benchmarks for internally managed specified investments and a separate benchmark(s) for Property Fund/Multi-Asset Funds. These benchmarks will be included in the Treasury Strategy when the changes are implemented.

TABLE 1: Average Interest Rate

| | Period | Investment Interest Earned £ | Average Investment £m | Rate of Return |
|--|-------------------------------|---------------------------------------|-----------------------------|-------------------|
| Internally Managed Specified | | 26,439 | 26,439 | 0.181% |
| Property Fund / Multi- Asset Fund | 01/04/2021 - 30/06/2021 | 71,990 | 10.00 | 2.88% |
| TOTAL | | 98,429 | 36,439 | 3.06% |

TABLE 2: Funds Performance – Quarter 1 2021-22

| Fund | Initial Investment £m | Value as at 30/06/2021 £m | Return Apr - Jun 2021 |
|--------------------------------|-----------------------------|---------------------------------|-----------------------------|
| Lothbury | 4.000 | 3.940 | 2.79% |
| Hermes | 2.000 | 2.012 | 3.40% |
| TOTAL PROPERTY FUNDS | 6.000 | 5.952 | 3.00% |
| Royal London | 3.000 | 3.175 | 2.49% |
| CCLA | 1.000 | 1.049 | 3.43% |
| TOTAL MULTI-ASSET FUNDS | 4.000 | 4.224 | 2.72% |
| TOTAL FUND INVESTMENTS | 10.000 | 10.176 | 2.88% |

10. The approved limits as set out in the Treasury Management Strategy report to Council 25th February 2021 within the Annual Investment Strategy were not breached during the first 3 months of 2021/22, with the exception of Barclays which has breached the limit through the re-investment of interest and is in the process of being resolved.
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 2021.

TABLE 3: Investments & Borrowing

| | Jun 2021 £'000 | |
|-----------------------------------|---------------------------|------------------------|
| Aberdeen | 3,042 | |
| Federated Prime Rate | 33 | |
| Money Market Funds Total | | 3,075 |
| Lloyds | 7,985 | |
| Lloyds Banking Group Total | | 7,985 |
| - | | |
| NatWest | 64 | |
| Royal Bank of Scotland | 3,007 | |
| RBS Banking Group Total | | 3,071 |
| Standard Chartered | 2,000 | |
| Santander | 7,994 | |
| Barclays Bank Plc | 8,008 | |
| Svenska Handelsbanken | 14 | |
| Dudley Metropolitan Council | 1,000 | |
| Thurrock District Council | 2,000 | |
| North Lanarkshire | 3,000 | |
| Goldman Sachs | 8,000 | |
| Qatar National Bank | 3,000 | |
| Other Banks Total | | 35,016 |
| Coventry Building Society | 4,500 | 4,500 |
| TOTAL INVESTMENTS | | £53,647 |
| Lothbury | 4,000 | |
| Hermes | 2,000 | |
| TOTAL PROPERTY FUNDS | | £6,000 |
| - | | |
| RLAM | 3,000 | |
| CCLA | 1,000 | |
| TOTAL MULTI ASSET FUNDS | | £4,000 |
| PWLB | 102,717 | |
| TOTAL BORROWING | | <u>£102,717</u> |

External Borrowing

13. The Council's Capital Financing Requirements (CFR) for 2021/22 is £111.330m. 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 £102.717m as at 30 June 2021.

Compliance with Treasury and Prudential Limits

14. 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.
15. During the period to 30 June 2021 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.

IMPLICATIONS

16. Financial Implications

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

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17. Legal Implications

There are no specific legal implications arising from this report and its recommendations.

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18. Equality Implications

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

19. Environmental Implications

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