

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

18 APRIL 2023

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|--|---|-------|----------|---------------|
| Report Title | 3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2022/23 | | | |
| Purpose of Report | To provide an update on treasury management activity as at 31/12/2022. | | | |
| Decision(s) | The Audit and Standards Committee ACCEPTS the treasury management activity third quarter report for 2022/2023. | | | |
| Consultation and Feedback | Link Asset Services (LAS). | | | |
| Report Author | Maxine Bell, Snr Accounting Officer Tel: 01453 754134 E-mail: maxine.bell@stroud.gov.uk | | | |
| Options | None | | | |
| Background Papers | None | | | |
| Appendices | A – Prudential Indicators as of 31 December 2022 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 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 2022/23
 - A review of the Council’s borrowing strategy for 2022/23
 - A review of compliance with Treasury and Prudential Limits for 2022/23.
 - Other Treasury Issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2022/23 was approved by Council on 17th February 2022. 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 2022-23 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 of 31 December 2022 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 2022/23

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 is shown in 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 were withdrawn at the end of 2021. As set out in the Council's 2022-23 Strategy specified investments, from 2022-23 financial year, 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 | 01/04/2022 - 30/06/2022 | 111,045 | 56.503 | 0.788% |
| | | 74,900 | 10.000 | 3.004% |
| | | 185,945 | 66.503 | 1.121% |
| Internally Managed Specified Property Fund / Multi-Asset Fund | 01/07/2022 - 30/09/2022 | 243,109 | 61.142 | 1.552% |
| | | 70,730 | 10.000 | 2.90% |
| | | 313,839 | 71.142 | 1.750% |
| Internally Managed Specified Property Fund / Multi-Asset Fund | 01/10/2022 - 31/12/2022 | 406,304 | 61.095 | 2.656% |
| | | 74,282 | 10.000 | 2.92% |
| | | 480,586 | 71.095 | 2.682% |
| YTD TOTAL | 01/04/2022 - 31/12/2022 | 980,370 | 69.593 | 1.87% |

TABLE 2: Funds Performance – Quarter 3 2022-23

| Fund | Initial Investment £m | Value as at 30/06/22 £m | Return Apr - Jun 2022 | Value as at 30/09/22 £m | Return Apr - Sep 2022 | Value as at 31/12/22 £m | Return Apr - Dec 2022 |
|--------------------------------|--------------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| Lothbury | 4.000 | 4.542 | 3.09% | 4.324 | 1.46% | 3.447 | 2.21% |
| Hermes | 2.000 | 2.388 | 3.28% | 2.254 | 1.62% | 1.930 | 2.46% |
| TOTAL PROPERTY FUNDS | 6.000 | 6.930 | 3.15% | 6.578 | 3.01% | 5.377 | 3.04% |
| Royal London | 3.000 | 2.706 | 2.48% | 2.482 | 1.31% | 2.612 | 1.99% |
| CCLA | 1.000 | 0.988 | 3.70% | 0.966 | 1.58% | 0.958 | 2.28% |
| TOTAL MULTI-ASSET FUNDS | 4.000 | 3.694 | 2.78% | 3.448 | 2.74% | 3.570 | 2.74% |
| TOTAL FUND INVESTMENTS | 10.000 | 10.624 | 3.004% | 10.026 | 2.90% | 8.947 | 2.92% |

10. The approved limits as set out in the Treasury Management Strategy report to Council 17th February 2022 within the Annual Investment Strategy were not breached during the first 9 months of 2022/23, except for Barclays which breached the limit through the re-investment of interest and has now been 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 December 2022.

TABLE 3: Investments & Borrowing

| | Jun 2022 £'000 | Sep 2022 £'000 | Dec 2022 £'000 | ESG Dec 22 |
|---|-------------------|-------------------|-------------------|---------------|
| Aberdeen | 3,045 | 566 | 3,984 | |
| Federated Prime Rate | 3,950 | 2,421 | 1,533 | |
| Goldman Sachs | 3,927 | 1 | 16 | |
| Money Market Funds Total | 10,922 | 2,988 | 5,533 | BBB+ |
| Lloyds | 2,000 | 7,000 | 4,000 | |
| Lloyds Banking Group Total | 2,000 | 7,000 | 4,000 | A |
| NatWest | 3,460 | 5,000 | 3,991 | A |
| Royal Bank of Scotland | 3,000 | 0 | 0 | |
| RBS Banking Group Total | 6,460 | 5,000 | 3,991 | |
| Standard Chartered | 3,700 | 8,000 | 7,000 | A- |
| Santander | 7,999 | 7,999 | 7,999 | BBB+ |
| Barclays Bank Plc | 7,793 | 7,800 | 7,875 | BB+ |
| Svenska Handelsbanken | 14 | 14 | 13 | AA- |
| National Bank of Canada | 3,000 | 3,000 | 3,000 | A+ |
| Debt Management Office | 4,000 | 3,000 | 0 | |
| Toronto Dominion | 5,000 | 5,000 | 5,000 | BBB- |
| Bayerische Landesbank | 3,000 | 2,000 | 5,000 | BBB+ |
| Landesbank Hessen Thuringen | | 2,000 | 6,000 | BBB+ |
| Progressive Building Society | | 1,000 | 1,000 | BBB+ |
| Goldman Sachs International | | 2,000 | 0 | |
| Bank of Montreal | | | 3,000 | A- |
| Other Banks/Building Society Total | 34,506 | 41,813 | 45,887 | |
| Thurrock District Council | 1,000 | 0 | 0 | |
| Local Authority Total | 1,000 | 0 | 0 | |
| TOTAL INVESTMENTS | £54,888 | £56,801 | £59,411 | A- |
| Lothbury | 4,000 | 4,000 | 4,000 | |
| Hermes | 2,000 | 2,000 | 2,000 | |
| TOTAL PROPERTY FUNDS | £6,000 | £6,000 | £6,000 | |
| RLAM | 3,000 | 3,000 | 3,000 | |
| CCLA | 1,000 | 1,000 | 1,000 | |
| TOTAL MULTI ASSET FUNDS | £4,000 | £4,000 | £4,000 | |
| BLENDED PORTFOLIO RATING | | | | A- |
| PWLB | 102,717 | 102,717 | 102,717 | |
| TOTAL BORROWING | £102,717 | £102,717 | £102,717 | |

Environmental Social Governance (ESG) Ratings

| | | | | | | | | | | | | | | | |
|------------|----|-----|-----|---|----|--------|-----|------|------|----|-----|--------|---|----|------|
| 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 December 2022.

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% |

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% |

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% | | | 3.80% |
| Q2 21/22 | 3.06% | | | 4.30% |
| Q3 21/22 | 3.85% | 4.62% | 8.47% | 6.70% |
| Q4 21/22 | 2.71% | 5.11% | 7.82% | 6.10% |
| Q1 22/23 | 3.15% | 4.07% | 7.22% | 4.00% |
| Q2 22/23 | 3.01% | -5.87% | -2.86% | -3.70% |
| Q3 22/23 | 3.04% | -20.02% | -16.98% | -14.00% |

External Borrowing

14. The Council's Capital Financing Requirements (CFR) for 2022/23 is £130,644m. 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 of 31 December 2022.

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 31 December 2022 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

A change in value of the long term investment funds has no impact on the revenue position of the Council until the point that the investments are redeemed and the difference realised. The Council also holds an Investment Risk Reserve of £310k, put aside as a precaution for fluctuation in value.

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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.

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.