

**SOUTH STAFFORDSHIRE COUNCIL****AUDIT AND RISK COMMITTEE 28 NOVEMBER 2023****QUARTERLY TREASURY MANAGEMENT REPORT: QUARTER 2 – 010723 TO 300923****REPORT OF THE FINANCE TEAM MANAGER AND DEPUTY S151 OFFICER****PART A – SUMMARY REPORT****1. SUMMARY OF REPORT**

1.1 The report presents the 2<sup>nd</sup> quarter summary information relating to treasury management activities and interest during 2023/24. The Council's position at the beginning and end of the quarter was as follows.

- Total on deposit at the start of the quarter £16,850,000
- Total on deposit at the end of the quarter £21,800,000
- Interest earned in the quarter was £312,512 against a budget of £140,500
- Total Borrowing at the start of the quarter was £15,000,000 (long-term borrowing over 40-50 years)
- Total borrowing at the end of the quarter was £15,000,000
- Borrowing costs in the quarter were £59,233 against a budget of £58,750

**2. RECOMMENDATIONS**

2.1 Members are asked to note the position as set out in the report.

**3. SUMMARY IMPACT ASSESSMENT**

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The reporting of financial information on a regular basis contributes to providing value for money and quality services.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	This proposed decision does not give rise to any change in policy nor does it give rise to any new expenditure and it is not considered to have any adverse implications.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	Not applicable	

FINANCIAL IMPACT	Yes	<p>The Council makes assumptions about the level of investment income over the financial year based on the Council's expected cash position and interest rates forecasts provided by its treasury advisors. Delays in the delivery of the capital programme will have an impact on the council's cash position and therefore interest earned, and interest paid. Likewise increases or decreases in interest rates will affect interest earned and paid on investments and borrowings.</p> <p>During the 2<sup>nd</sup> quarter rates have continued to increase past what we had budgeted for, moving from 5.00% at the start of the quarter to 5.25% by the end. In addition to this cash balances remain higher than anticipated due to slippage within the capital programme. As a result, at the end of Q2 year-to-date interest earned was £525,010 against a year-to-date budgetary target of £281,000.</p> <p>The Council has a borrowing portfolio of £15m, all sourced through the PWLB. Year to date interest paid is £117,822 against a year-to-date budget of £117,500 up to the end of Q1.</p> <p>For monitoring purposes, assumptions are made based on the strategies agreed by Council. The Capital Programme for 2023/24 and future years was approved by Council 21 February 2023.</p>
LEGAL ISSUES	Yes	The proposed actions are in accordance with the Council's Constitution and Financial Procedure Rules.
OTHER IMPACTS, RISKS & OPPORTUNITIES	None	
IMPACT ON SPECIFIC WARDS	No	

## **PART B – ADDITIONAL INFORMATION**

- 4.1** CIPFA (the Chartered Institute of Public Finance and Accountancy) in its Code of Practice for Treasury Management recommends that members should be updated on treasury management activities at least twice a year. This report therefore ensures this council is implementing best practice in accordance with the Code.

The following items are set out in the report below:

- annual investment strategy/the Council's current treasury position;
- interest earned for Quarter 2;
- the borrowing outturn for Quarter 2;
- compliance with treasury limits;

#### 4.2 Annual Investment Strategy/Current Treasury Position

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, is approved by the Council. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on investments while considering levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in higher rates in periods up to 12 months or in some circumstances beyond, with highly credit rated financial institutions.

The Council's position at the beginning and end of quarter dates was as follows:

<b>Investments</b>	<b>30 Jun 2023 £</b>	<b>30 Sep 2023 £</b>
<b>Money Market Funds:</b>		
Federated Investors LLP	3,850,000	5,800,000
CCLA	11,000,000	11,000,000
<b>Total</b>	<b>14,850,000</b>	<b>16,800,000</b>
<b>Internal Investments:</b>		
First Abu Dhabi Bank (ATS)	2,000,000	0
Lloyds Bank (ATS)	0	1,000,000
National Bank of Kuwait (ATS)	0	1,000,000
Standard Chartered Bank (ATS)	0	1,000,000
Lanbesbank Hessem Frankfurt (ATS)		2,000,000
<b>Total</b>	<b>2,000,000</b>	<b>5,000,000</b>
<b>Grand Total</b>	<b>16,850,000</b>	<b>21,800,000</b>

\*ATS is a service provided by our treasury advisors. By using this facility, it allows us to access investments at higher interest rates and a wider list of counterparties than we would be able to get by going directly to the market.

Investments in Money Market Funds are held to manage the daily cash flows. Surplus funds are placed on short term deposit to meet predicted outflows of funds for example the precept payments to the County, Fire and Police authorities.

Internally managed funds are used to generate a higher return on investments when funds are not required in the very short term. In most cases these investments are kept relatively short term up to a maximum of 1 year.

Due to the timings of these cashflows, balances generally build up during the first three quarters of the year and then fall significantly in quarter 4 due to the profiled collection of taxation revenues for council tax and business rates.

#### 4.3 Details of Investments and Interest during Quarter 2

Due to inflationary pressures over the last 18 months the Bank of England has continued to raise interest rates to combat this, as a result interest rates have risen from 5.00% at the start of the quarter up to 5.25% at the end of Q2.

This has had a positive impact on the interest earning potential of our investments. Interest earned during Quarter 2 2023/24 was £312,512, £170,012 above budget (£140,500).

A breakdown of interest earnings is detailed in the table below:

Interest Earned	Quarterly Budget £	Quarterly Actual £
Investment Income Budget	140,500	
<b>Money Market Funds:</b>		
Federated Investors LLP		115,099
CCLA		138,236
Internal Investments		45,395
Bank Accounts		13,782
<b>Grand Total</b>	<b>140,500</b>	<b>312,512</b>

#### 4.4 Borrowing Outturn for Quarter 2 2023/24

During Q3 of 2021/22 the council made the decision to take out some longer term borrowing to fund the capital programme. Due to the impending rate raise that was expected it was felt that this was the right time to take out a portion of borrowing to take advantage of the historically low rates on offer and reduce the risk of the council undertaking borrowing at much higher rates in the future. As a result, the council took the option to borrow £15,000,000 over 40-50 years at fixed rates ranging from 1.51%-1.62%.

Loan Amount	Interest Rate	Loan Length	Annual Interest	Repayment Date
5,000,000.00	1.62%	40 years	81,000.00	14/11/2061
5,000,000.00	1.57%	45 years	78,500.00	12/11/2066
5,000,000.00	1.51%	50 years	75,500.00	13/11/2071
			235,000.00	

Additional borrowing may be required in the future to fund further aspects of the capital programme however some of this borrowing may not be required for some time and so whilst rates are still volatile it was felt prudent to leave a portion of the borrowing requirement until a time where we feel it would be most beneficial to the council's long-term finances. With that in mind the council will continue to monitor the markets and take advice from our professional advisors to take advantage of any changes in market conditions. It is likely that once further spend on the capital programme is undertaken further long-term borrowing will be taken in accordance with the approved treasury management strategy.

Details of the Councils borrowing position at the beginning and end of the quarter are detailed as follows:

	30 Jun 23 £	30 Sep 23 £
PWLB	15,000,000	15,000,000
<b>Grand Total</b>	<b>15,000,000</b>	<b>15,000,000</b>

#### 4.5 Compliance with Treasury Limits

Compliance with the Council's Treasury Management Limits as set out in the Treasury Management Strategy, underpins all investment and borrowing decisions made at all times.

The Table below details the applicable lending limits for investments made during the 2<sup>nd</sup> quarter of 2023/24.

Investments	Institute Rating (at time of investment)	Highest value During Quarter	Monetary Limit (As per TMSS)	Period of Investment	Time Limit as per TMSS
Federated	AAA+	12,850,000	15,000,000	Liquid	Liquid
CCLA	AAA+	15,000,000	15,000,000	Liquid	Liquid
Lloyds Bank (ATS)	A+	1,000,000	1,000,000	6 months	6 months
National Bank of Kuwait (ATS)	A+	1,000,000	1,000,000	6 months	6 months
Standard Chartered Bank (ATS)	A+	1,000,000	1,000,000	6 months	6 months
Lanbesbank Hessem Frankfurt (ATS)	A+	2,000,000	3,000,000	1 year	1 year

The Table below details the applicable limits between fixed and variable rate borrowing during the 2<sup>nd</sup> quarter of 2023/24.

<b>Borrowing</b>	<b>Borrowing in Quarter</b>	<b>Monetary Limit (As per TMSS)</b>
<b>Fixed</b>	15,000,000	44,000,000
<b>Variable</b>	0	15,000,000

**5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

None

**6. PREVIOUS MINUTES**

None

**7. BACKGROUND PAPERS**

Appendix A – Link Asset Services Q2 2023/24 Report

Report by: John Mayhew, Finance Team Manager (Deputy s151 Officer)  
Steven Johnson, Senior Accountant