

Treasury Management Monitoring Q3 2023/24

Purpose

As required by the CIPFA 2021 Prudential and Treasury Management Codes, Cabinet are required to receive quarterly updates on the Treasury activities of the Council. This report meets those requirements.

Executive Summary

This report focuses on the treasury debt and investment activity of the Council and therefore excludes capital expenditure, as this is reported separately, and other long term liabilities as these are instruments for specific capital financing and do not impact on the day to day treasury portfolio.

The key movements in the debt and investment portfolios are summarised below with additional detail throughout this report.

	31 Mar 23	31 Dec 23
	£m	£m
Debt Portfolio		
General Fund	143.007	121.170
HRA	327.801	314.850
Total	470.808	436.020
Investments	30.454	91.173
Net Debt (Treasury)	440.354	344.847

The Director of Finance can confirm that there have been no breaches of the approved treasury and prudential indicators and all deposits have been placed in accordance with the approved counterparty selection criteria.

Recommendations

That Cabinet note the contents of this treasury monitoring report.

1. Investment Portfolio

- 1.1. The investment balances at end December 2023 were £91.1m, a reduction of £24.5m compared to end of previous quarter. This movement is as anticipated from cash flow forecasts and is predicted to reduce further to approximately £35m at the financial year end. This compares to investment balances of £87.4m at the same period last year.

1.2. A summary of the treasury activity and portfolio by investment type as at 31st December 2023 is summarised in the tables below:

Investment Portfolio Movements	Cash Manager (Bank)	Money Market Funds	Other Variable Rate Deposits	Fixed Interest	Total Invested	Portfolio Yield at Qtr End
	£m	£m	£m	£m	£m	%
31 Mar 2023	0.620	19.834	-	10.000	30.454	4.15%
Q1 Activity						
Withdrawals/ Maturities	(4.623)	(156.912)		(10.000)		
New Deposits	4.707	215.186	-	5.000		
30 Jun 2023	0.704	78.108	-	5.000	83.812	4.36%
Q2 Activity						
Withdrawals/ Maturities	(6.317)	(181.489)		-		
New Deposits	6.195	213.549	-	-		
30 Sep 2023	0.582	110.168	-	5.000	115.750	5.26%
Q3 Activity						
Withdrawals/ Maturities	(12.493)	(219.825)		(5.000)		
New Deposits	27.582	180.159	-	5.000		
31 Dec 2023	15.671	70.502	-	5.000	91.173	5.00%

Portfolio as at	31 December 2023		Average year to date	
	Investment	Yield	Average Investment	Average Yield
	£m	%	£m	%
MMFs	70.502	5.34%	86.915	5.09%
Cash Mgr	15.671	3.25%	0.924	1.91%
Fixed Interest (Short [365 days or less])	5.000	5.62%	5.127	5.08%
Grand Total	91.173	5.00%	92.966	5.05%

1.3. The third quarter of the financial year did not see any changes to the fixed term deposits held with all investment movements being managed within the Money Market Funds and general bank account.

1.4. The cash manager balance (the Council's bank account) was £15.7m as at end of December compared to £0.5m the previous quarter. This is higher than previous quarters and is due to the council offices being closed during the Christmas period and therefore any credits received in this period were held in the Council's bank account until staff returned in January. The balances held were within approved limits and the council does receive a yield on this cash at 3.25%.

1.5. Due to the amount of cash held in cash manager at a yield lower than money market funds at the end of December this did have a negative impact on yield at quarter end with the portfolio only yielding 5.00% compared to 5.25% the previous quarter end. However, this reduced yield would only have been for the latter period of December due to the inability to place treasury investment deals referred to above.

1.6. The comparable benchmark (overnight SONIA) was 4.89% as at end December 2023 and therefore the performance achieved by the Treasury Services team are above benchmark with returns being 5.05% for the first 9 months of the year on average investment balances of £93m.

- 1.7. Due to interest rates remaining higher than originally budgeted for (4.4% yield budgeted for 2023/24), and are expected to remain elevated for some time, this is generating a surplus of investment income compared to the budget. This is reflected in the monitoring report and mitigates some of the general fund overspend.
- 1.8. The majority of the Council's investment portfolio is held in Money Market Funds and these are proactively managed to ensure that sufficient liquid resources are available to service day to day expenditure commitments such as salaries, general creditor payments and housing benefit payments.
- 1.9. The approved counterparty selection criteria as approved by Council in February 2023 is currently fit for purpose and no proposed amendments are therefore required.

2. Debt Portfolio

- 2.1. The Council's debt portfolio is mostly long dated fixed rate loans from PWLB or other markets. A small proportion of the debt portfolio consists of loans from other local authorities which assist with short term debt management and cash flow requirements.
- 2.2. Another element of the debt portfolio consists of amounts deposited with the Council from the Fire Authority, Sandwell Leisure Trust and Children's Trust. These are at agreed variable rate terms in line with either actual Council treasury investment performance or Bank Rate as published by Bank of England. These amounts are held as liquid as they are repayable on demand as and when required.
- 2.3. The Council's loan portfolio has been split between the General Fund and Housing Revenue Account since 2012 when HRA Self Financing was introduced. The following table summarises the movements in the debt portfolios in the first three quarters of the year:

	General Fund			HRA		Grand Total £m
	Fixed Rate	Variable Rate	Total GF £m	Fixed Rate	Total HRA	
	£m	£m		£m	£m	
31 Mar 23	103.074	39.933	143.007	327.801	327.801	470.808
Q1 Activity						
Fixed Rate Maturities	(35.297)			-		
New Fixed Rate Loans	25.000			-		
Net Movement in Variable Rate Loans		2.978				
30 Jun 23	92.777	42.911	135.688	327.801	327.801	463.489
Q2 Activity						
Fixed Rate Maturities	(6.500)			(4.067)		
New Fixed Rate Loans	-			-		
Net Movement in Variable Rate Loans		22.094				
30 Sep 23	86.277	65.005	151.282	323.734	323.734	475.016
Q3 Activity						
Fixed Rate Maturities	(6.413)			(8.884)		
New Fixed Rate Loans	-			-		
Net Movement in Variable Rate Loans		(23.699)				
31 Dec 23	79.864	41.306	121.170	314.850	314.850	436.020

2.4. The detail of the fixed rate maturities totalling £15.3m in Q3 is listed below:

- £5m short term loan (6 month) from West Yorkshire CA at 4.65%
- £10m long term Lenders Option Borrowers Option loan (LOBO) from Commerzbank at 4.60% (original maturity date October 2042)
 - This long term LOBO loan included a clause where every 6 months the lender could indicate that they wished to increase the interest rate. (Lenders Option)
 - The Lenders Option was called early October 2023 stating they wished to increase the rate on the loan from 4.60% to 5.93%.
 - Consequently this initiated the Borrowers Option clause of the arrangement where SMBC, as the borrower, could accept the revised terms or reject and repay the loan without penalty.
 - Due to the unfavourable terms offered it was decided to repay the loan and remove the liability from the loan portfolio.
- £0.3m scheduled repayments of interest free loans and other local authority debt.

2.5. The large decrease in variable debt holdings relate to the cash we hold on behalf of the Fire Authority, Sandwell Leisure Trust and Sandwell Children's Trust. This movement is in line with expected cash flows.

2.6. The effect on the average interest rate on the fixed interest debt portfolio from the movements highlighted above is shown in the following table:

	31 Mar 23		31 Dec 23	
	Principal £m	Avg Rate	Principal £m	Avg Rate
Fixed Rate Debt				
General Fund	103.074	3.83%	79.863	4.61%
HRA	327.801	4.91%	314.851	4.87%
Total	430.875	4.65%	394.714	4.81%

2.7. Despite the sharp rise in the average debt rate on the General Fund, the lower debt levels mean that the revenue impact is not significant to give cause for concern. At the present time no variances are predicted on the debt costs to the council for 2023/24, but this will be closely monitored and reported accordingly to the Leadership Team and Cabinet.

2.8. The current strategy is to only take short dated debt due to market conditions and to refinance for longer periods at the appropriate time to prevent longer term cost burden on the council's revenue budgets.

3. Prudential Borrowing Indicators

3.1. The key prudential indicators in relation to the Council's borrowing are detailed below:

	£m
Authorised Limit (Debt)	830.696
Operational Boundary (Debt)	512.310
Maximum Treasury Debt to 31 Dec 23	493.019
Average Treasury Debt to 31 Dec 23	460.302

Note: The authorised limit and operational boundary shown above are for debt levels only and exclude other long term liabilities (as detailed in the Treasury Management Strategy Report) as these are PFI/ Finance Lease arrangements.

3.2. As can be seen from the table above, treasury debt levels are within limits and no breaches have occurred.