

## Treasury Management Monitoring Q1 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	30 Jun 23
	£m	£m
<b>Debt Portfolio</b>		
General Fund	143.007	135.688
HRA	327.801	327.801
<b>Total</b>	<b>470.808</b>	<b>463.489</b>
<b>Investments</b>	<b>30.704</b>	<b>84.062</b>
<b>Net Debt (Treasury)</b>	<b>440.104</b>	<b>379.427</b>

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 held have increased from £30.7m to £84.1m in line with expected cash flows. The large increase is primarily due to grants and contributions received at the start of the year in advance of expenditure being incurred. This compares to £72.0m held in investments at the same period last year.

- 1.2. A £10m 4.34% Fixed Term Deposit with Lloyds Bank matured in April. Cash flow forecasts only allowed for £5m of this to be re-invested and this was done at a rate of 4.97% for 6 months to lock in at rates higher than offered with Money Market Funds.
- 1.3. 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.
- 1.4. A summary of the treasury activity and portfolio by investment type is summarised in the tables below:

Investment Portfolio Movements	Cash Manager (Bank)	Money Market Funds	Fixed Interest	Total Invested	Portfolio Yield at Qtr End
	£m	£m	£m	£m	%
31 Mar 2023	0.620	19.834	10.250	30.704	4.15%
<b>Q1 Activity</b>					
Withdrawals/ Maturities	(4.623)	(161.918)	(10.000)		
New Deposits	4.707	220.192	5.000		
30 Jun 2023	0.704	78.108	5.250	84.062	4.34%

	Portfolio as at 30 June 2023		Average year to date	
	Investment	Yield	Average Investment	Average Yield
	£m	%	£m	%
MMFs	78.108	4.35%	43.249	4.39%
Cash Mgr	0.704	1.15%	0.651	1.08%
Variable	-	0.00%	-	0.00%
Fixed Interest (Short [365 days or less])	5.000	4.97%	5.385	4.80%
Fixed Interest (Long [>365 days])	0.250	0.00%	0.250	0.00%
<b>Grand Total</b>	<b>84.062</b>	<b>4.34%</b>	<b>49.534</b>	<b>4.35%</b>

- 1.5. The comparable benchmark (7 day SONIA) was 4.34% as at end June 2023 and therefore the performance achieved by the Treasury Services team is in line with this having achieved 4.35% for the first 3 months of the year with average investment balances of £49.5m.
- 1.6. 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 quarter of the year:

	General Fund			HRA			Grand Total £m
	Fixed Rate	Variable Rate	Total GF	Fixed Rate	Variable Rate	Total HRA	
	£m	£m	£m	£m	£m	£m	
<b>31 Mar 23</b>	<b>103.074</b>	<b>39.933</b>	<b>143.007</b>	<b>327.801</b>	<b>-</b>	<b>327.801</b>	<b>470.808</b>
<b>Q1 Activity</b>							
Fixed Rate Maturities	(35.297)			-			
New Fixed Rate Loans	25.000			-			
Net Movement in Variable Rate Loans		2.978			-		
<b>30 Jun 23</b>	<b>92.777</b>	<b>42.911</b>	<b>135.688</b>	<b>327.801</b>	<b>-</b>	<b>327.801</b>	<b>463.489</b>

2.4. £35m of the maturities relate to short term loans from other local authorities, £20m 1 year funding and £15m 2 to 3 months funding over year end to manage cash flows. The remaining £297k are scheduled repayments of interest free loans.

2.5. To ensure sufficient cash balances were maintained over the quarter, £25m of new short-term funding was taken, all from other Local Authorities:

- £5m 2 month at 4.56%
- £5m 6 month at £4.65%
- £5m 1 year at 4.85%
- £10m 1 year at £5.35%

2.6. The variation in 1 year rates above reflect the market volatility in the debt markets and a decision was taken to secure funding now before they spiked further as the cash flows identified a certain need for further funding later in the year.

2.7. 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		30 Jun 23	
	Principal £m	Avg Rate	Principal £m	Avg Rate
<b>Fixed Rate Debt</b>				
General Fund	103.074	3.83%	92.776	4.62%
HRA	327.801	4.91%	327.801	4.91%
<b>Total</b>	<b>430.875</b>	<b>4.65%</b>	<b>420.577</b>	<b>4.84%</b>

2.8. 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.

2.9. 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)	844.617
Operational Boundary (Debt)	475.588
Maximum Treasury Debt to 30 Jun 23	476.547
Average Treasury Debt to 30 Jun 23	454.483

*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.

### 4. Economic Update

4.1. The first quarter of 2023/24 saw:

- A 0.2% month on month rise in real GDP in April, partly due to fewer strikes;
- CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;

- Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
- 10-year gilt yields nearing the “mini-Budget” peaks, as inflation surprised to the upside.