Appendix A

STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
ACHIEVING · EXCELLENCE

Treasury Management Update
31st October 2023

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1. Introduction

1.1. Treasury Management is defined as "The management of the 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".

1.2. This report is delivered in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management, which recommends that members be updated on treasury management activities regularly (annual, mid-year and quarterly reports).

1.3. The Audit & Accounts Committee has delegated responsibility for scrutinising the treasury function. The Committee's role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Accounts Committee are reported to full Council.

1.4. The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 22nd February 2023. This report details treasury management performance up to the 31st October 2023 and projects forward for the remainder of the financial year.

2. Economic Forecast – Interest Rates

2.1. The Council's treasury advisers, Link Asset Services ('Link'), provided an update to their interest rate forecasts for the Bank of England base rate and PWLB (Public Works Loan Board) on 25th September:

%	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
5yr PWLB rate	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10r PWLB rate	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50

2.2. The Bank of England base rate (bank rate) increased from 4.25% at the start of the year to 4.50% on 11th May, to 5.00% on 22nd June, and to 5.25% on 3rd August. There have been no increases since and current expectations are that it will remain at this level for the remainder of the year.

2.3. The Council's investment income budget was set with the expectation of a peak at 4.50%, returning to 4.00% by Spring 2024. Therefore, there is the potential of improved investment income, but this will also be influenced by the size of the investment portfolio available and decisions on cash flow and use of reserves and other funding.

2.4. Forecast PWLB and Intra-Local Authority external borrowing interest rates are high in the context of the last 10 years. Therefore, wherever possible, the

Council will avoid medium to long term borrowing commitments by utilising spare cash balances as internal funding, or short-term borrowing with a view to reviewing borrowing requirements should the rates begin to decrease. The practice of internal borrowing has served well over recent years to make net savings on financing costs with loss of interest income being smaller than external borrowing costs, which is still the case. However, this is kept under constant review in the climate of rises and fluctuations.

3. Investment Activity & Performance

3.1. The Council has budgeted to receive £796,440 in investment income in 2023/24 based on the high Bank of England base rate environment as described above. The outturn is currently forecast to be on target.

3.2. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria as detailed in the Treasury Management Strategy for the year; and investment priorities of Security of Capital, Liquidity and Yield (SLY). Average balances for the year to date were £16.7million. The Council's investment portfolio at 31st October totalled £20.1million:

Counterparty	**Country of Domicile**	**Amount**	**Interest rate at end of period**	**Maturity period**	***Link counterparty limit***
Standard Chartered	UK	£4,500,000	5.26-5.93%	92-183 days	*6 months*
Handelsbanken	UK	£4,500,000	4.60%	instant access	*12 months*
Money Market Funds	UK	£1,270,000	5.35%	instant access	*12 months*
Nationwide Building Society	UK	£2,000,000	5.51-5.52%	153-182 days	*6 months*
Barclays	UK	£1,500,000	5.25-5.30%	65-95 days	*6 months*
Lloyds RFB	UK	£1,000,000	5.60%	183 days	*6 months*
NatWest Bank*	UK	£5,363,000	1.70%	instant access	*12 months*
Total		**£20,133,000**			
ESG proportion of portfolio	29.80%	£6,000,000			
Barclays	*Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.*				
Standard Chartered	*Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.*				

** higher month end balance than the average preparing for large outgoings at the start of the following month*

3.3. Average investment performance from this activity is shown in the table below. Investment returns are increasing with a general short lag behind the fast-paced base rate increases as improved investment opportunities emerge. Average duration of investment is kept short to take advantage of these increases.

	Q1 Apr-Jun	**Q2 Jul-Sept**
>364 days	-	-
<364 days	4.25%	5.00%
instant access	3.62%	4.38%
Total	**3.93%**	**4.64%**
Bank of England base rate at end of period	*5.00%*	*5.25%*

4. Capital loan (Service investment – Housing)

4.1. There is a capital loan (service investment – housing) of £10million to Your Housing Limited to support the maintenance of and provision of affordable housing within the Staffordshire Moorlands District. The loan has a maturity of 10 years (due February 2032). Interest is chargeable at 3.07% (including a 0.80% risk premium), therefore £307,000 is receivable in the year.

5. Borrowing Position

Capital Programme Update

5.1. The table below provides current projections for capital expenditure and funding:

	TMSS 2023/24 Estimate	**Current Estimate (includes 22/23 carry forwards)**
Total Capital Expenditure	**£7,107,000**	**£8,298,480**
Funded by:		
Capital Receipts	£0	£0
External Funding	£3,946,000	£3,753,540
Levelling Up Funding (LUF)	£0	£734,940
S106	£0	£83,560
Reserves & Balances	£926,000	£86,640
Net Financing Requirement	**£2,235,000**	**£3,639,800**
Capital Financing Requirement		
Opening CFR	**£11,164,000**	**£10,678,730**
PLUS Net Financing Requirement	£2,235,000	£3,639,800
LESS Minimum Revenue Provision	(£233,000)	(£223,400)

	TMSS 2023/24 Estimate	Current Estimate (includes 22/23 carry forwards)
Closing CFR	**£13,166,000**	**£14,095,130**

5.2. The Net Financing Requirement on 2023/24 forecast expenditure is now estimated at £3,639,800: the increase is due to the commencement of the projects at Nicholson Institute, Leek Markets and Brough Park Leisure Centre with the associated Levelling Up Funding. More detail on the capital programme forecast outturn is presented as part of the Quarter 2 Finance Report during this committee cycle.

5.3. The Capital Financing Requirement (CFR) is a prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow to finance capital expenditure and is derived by aggregating specified items for the Council's balance sheet. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

Borrowing Position

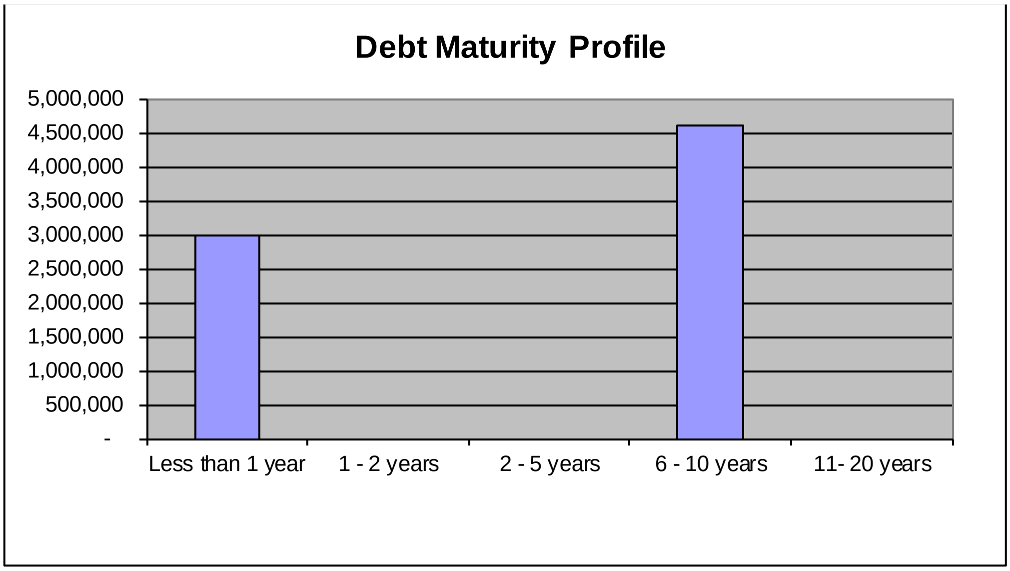
5.4. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes ‘affordable borrowing limits’ as part of the prudential indicators within the approved Treasury Management Strategy Statement.

5.5. The Council’s external borrowing at the start of the year was £7.6million. A £3million local authority loan matured at the end of July. New short term borrowing of £3million commenced at the end of October 2023 for nine months at a rate of 5.70%. The budget included £4.5million of new and refinanced borrowing during the year to support the general fund underlying borrowing need. The requirement for any further borrowing will be kept under review for the remainder of the year as the capital programme is carried out, alongside views about cash flow and interest rate changes.

5.6. The borrowing cost budget was set at £549,510 for the year. Although interest rates have increased, arranging borrowing in the later half of the year is forecast to realise savings on borrowing costs of £123,110.

5.7. The ‘operational boundary’ (£20,687,000) and ‘authorised limit’ (£22,687,000) indicators govern the maximum level of external borrowing to fund the capital programme. The current level of borrowing is well within prudential limits.

5.8. The maturity profile of the loans is considered when undertaking external borrowing to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates could be high. The graph below details the maturity profile of current loans.



5.9. The treasury team, along with Link, monitors opportunities to reschedule debt, i.e. reorganise existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, in order to manage risk and achieve overall financial benefit to the Council taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings. No debt rescheduling has taken place during the year.

6. Prudential Indicators

6.1. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices and within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2023/24. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indictors.