Appendix A

STAFFORDSHIRE
moorlands
DISTRICT COUNCIL
ACHIEVING · EXCELLENCE

Treasury Management Update
31st December 2022

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's (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 2022/23 was approved by Council on 23rd February 2022. This report details treasury management performance up to the 31st December 2022 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'), most recently provided their latest base rate and PWLB (Public Works Loan Board) forecast on 19th December:

%	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Bank Rate	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
5yr PWLB rate	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10r PWLB rate	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30

2.2. The Bank of England base rate has increased several times in quick succession throughout the year so far: to 1.00% on 5th May 2022 (from 0.75% previously); then again to 1.25% on 16th June; to 1.75% on 4th August, to 2.25% on 22nd September, to 3.00% on 3rd November, and again to 3.50% on 15th December.

2.3. The latest rate forecast release shows the base rate reaching 4.25% by the end of the financial year. The forecast is being reviewed by Link constantly during the year due to the extreme volatility in the current climate with so many outside influences impacting decisions of the Monetary Policy Committee in setting interest rates.

2.4. The Council's investment income budget was set against a much more modest forecast with base rate only reaching 0.75% by the end of 2022/23, therefore it is likely there will be significant surpluses achieved against the budget.

2.5. Forecast PWLB and Intra-Local Authority borrowing rates are also greater than were anticipated at budget, but this has not impacted the Council during the year as no external borrowing has been undertaken, nor is anticipated to be at this point.

3. Investment Activity & Performance

3.1. The Council has budgeted to receive £79,390 in investment income in 2022/23, based on the modest interest rate rise forecast as described above. The quick pace of the Bank of England base rate rises has resulted in much improved investment opportunities for the Council. Overall, a surplus of £329,430 is forecast against the budget.

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 31st December were £23.9million. The Council's investment portfolio at 31st December totalled £23,838,000:

Counterparty	**Country of Domicile**	**Amount**	**Interest rate at end of period**	**Maturity period**	***Link counterparty limit***
Money Market Funds	UK	£8,540,000	c.3.27%	instant access	*12 months*
Standard Chartered	UK	£5,500,000	2.63-4.22%	179-184 days	*6 months*
Handelsbanken	UK	£2,500,000	2.95%	instant access	*12 months*
Santander	UK	£2,400,000	2.03-3.38%	95-181 days	*6 months*
NatWest Bank	UK	£2,398,000	0.80%	instant access	*12 months*
Barclays	UK	£1,500,000	3.50-3.550%	65-95 days	*6 months*
Nationwide Building Society	UK	£1,000,000	3.15%	90 days	*6 months*
Total		**£23,838,000**			
ESG proportion of portfolio	29.36%	£7,000,000			
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'.*

3.3. Average investment performance from this activity is shown in the table below. Whilst investment returns are increasing, they lag behind the fast-paced base rate increases as improved investment opportunities emerge.

	Q1 Apr-Jun	**Q2 Jul-Sept**	**Q3 Oct-Dec**	**Average Q1-3**
>364 days	-	-	-	-
<364 days	0.83%	1.53%	2.43%	1.49%
instant access	0.64%	1.23%	2.45%	1.54%
Total	**0.76%**	**1.42%**	**2.44%**	**1.51%**
Bank of England base rate at end of period	*1.25%*	*2.25%*	*3.50%*	

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 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. This is a small shortfall of £1,000 against the budget. Borrowing costs of £214,350 to support this are included in the borrowing costs forecast outturn below.

5. Borrowing Position

5.1. 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.

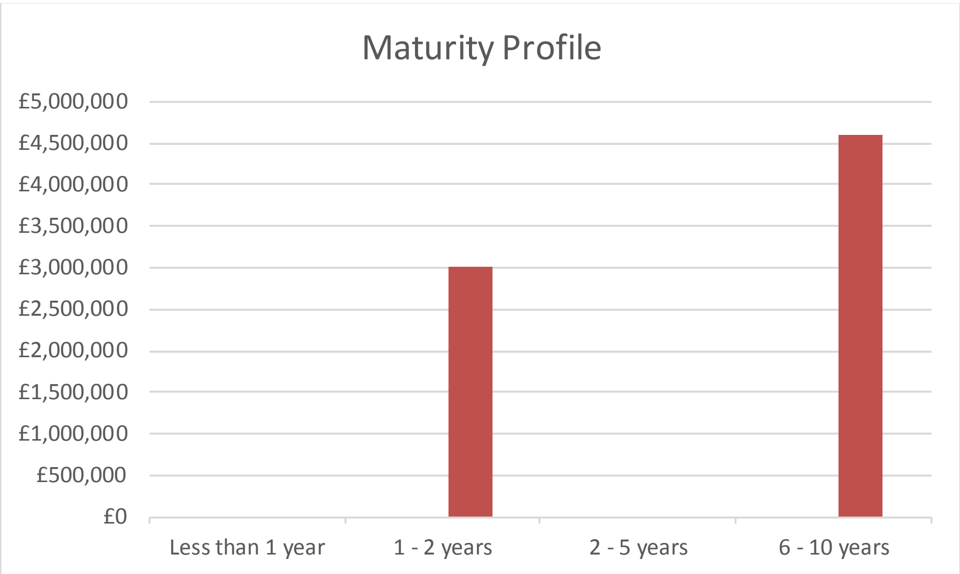
5.2. The Council’s external borrowing at the start of the year was £12.6million. £1.5million local authority borrowing has matured in May, £1.5m in July, and £2m in October. The current forecast does not anticipate any new borrowing will be required in the year to support the general fund underlying borrowing need.

5.3. The requirement and refinancing 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.

5.4. Average borrowing during the year is anticipated to be £9.4million with interest at 1.57%. The budget included new borrowing of £2.5million mid-year. The reduced forecast borrowing outturn therefore means borrowing costs are forecast to be underspent by £49,000. However, this is subject to change if external borrowing does take place.

5.5. The 'operational boundary' (£28,408,000) and 'authorised limit' (£29,908,000) indicators govern the maximum level of external borrowing to fund the capital programme, plus any short-term liquidity requirements. They were set through the Treasury Management Strategy Statement to account for the general fund borrowing requirement; an allowance for borrowing to cover short-term liquidity; and funding of the Capital loan (service investment – housing). The current level of borrowing is well within prudential limits.

5.6. 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.



5.7. 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 2022/23. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indictors.