

## **Appendix A Treasury Management Update Quarter 1 2024/25**

### **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 2024/25 was approved by Council on 28 February 2024. This report details treasury management performance up to quarter ended 30 June 2024 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 29 May 2024:

%	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>Bank Rate</b>	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
<b>5yr PWLB rate</b>	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
<b>10r PWLB rate</b>	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90

- 2.2. The Bank of England base rate (bank rate) has remained at 5.25% during the year. The forecast shows a decrease towards the latter half of the year, which is in line with the Council’s expectations at budget setting time.
- 2.3. Forecast PWLB and intra-local authority external borrowing interest rates remain 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.

### 3. Investment activity & performance

3.1. 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).

3.2. The average balances for the year to date were £15.96million. The Council's investment portfolio at the end of the quarter totalled £15.99million:

Counterparty	Country of Domicile	Amount	Interest rate at end of period	Maturity period	Link counterparty limit
Standard Chartered	UK	£2,500,000	5.09-5.14%	30-61 days	6 months
Handelsbanken	UK	£2,000,000	4.60%	instant access	12 months
Santander	UK	£2,500,000	5.95%	180 day notice	6 months
NatWest Bank*	UK	£932,000	3.25%	instant access	12 months
Money Market Funds	UK	£5,560,000	5.24-5.25%	instant access	12 months
Nationwide Building Society	UK	£1,000,000	5.10%	91 days	6 months
Barclays	UK	£1,500,000	5.25-5.30%	65-95 days	6 months
<b>Total</b>		<b>£15,992,000</b>			
ESG proportion of portfolio	21.89%	£3,500,000			
Barclays	<i>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'.</i>				
Standard Chartered	<i>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'.</i>				

3.3. The main rating agencies used in the Link Creditworthiness model, which is used by the Council, incorporate ESG (Environmental, Social, Governance) risks alongside the more traditional financial risk metrics when assessing

counterparty ratings, therefore, all the Council's financial investments have an element of ESG consideration applied. The Council directly invests in products that have specific ESG merits where they meet the priority SLY investment criteria. The balance of specific ESG linked investments at the end of the quarter was £3.5million.

- 3.4. Average investment performance in the quarter compared to expectations in the budget is shown in the table below:

	<b>Budget</b>	<b>Q1 actuals</b>
<b>&gt;364 days</b>	n/a	n/a
<b>&lt;364 days</b>	5.49%	5.49%
<b>instant access</b>	4.30%	4.98%
<b>Total</b>	<b>4.86%</b>	<b>5.20%</b>
Bank of England base rate at end of period		5.25%

- 3.5. The Council has budgeted to receive £912,140 in investment income in 2024/25 based on the improved investment return opportunities while the Bank of England base rate remains high. A shortfall of £82,500 is forecast against this budget as the average portfolio size is smaller than anticipated partly due to continued internally borrowing as well as other cash flow fluctuations.

#### **4. Capital loan (service investment – housing)**

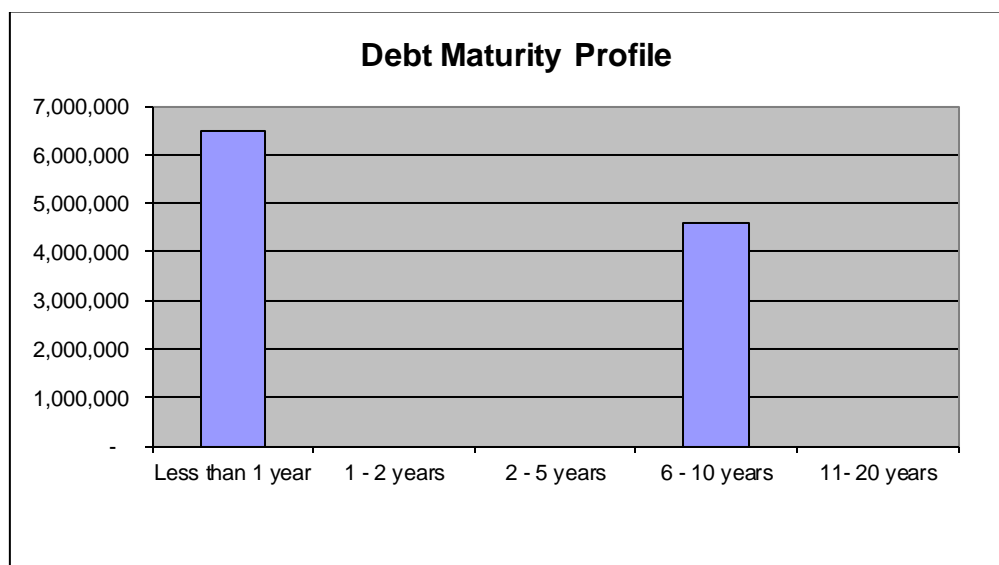
- 4.1. There is a capital loan (service investment – housing) of £10million to Your Housing Limited to support the maintenance of and provision of affordable housing within the Staffordshire Moorlands District. The loan has a maturity of 10 years (due February 2032). Interest is chargeable at 3.07% (including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

#### **5. Borrowing position**

- 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 £7.6million. A £3million local authority loan with an interest rate of 5.70% is due to mature at

the end of July. New short term borrowing of £3.5million commenced in May for three months at a rate of 5.20%. The budget included an average of £5million 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.

- 5.3. The borrowing cost budget was set at £588,020 for the year. An underspend of £50,000 is forecast owing to a smaller MRP charge in the year due to a reduced borrowing requirement in the previous year.
- 5.4. The 'operational boundary' (£24,424,000) and 'authorised limit' (£26,424,000) indicators govern the maximum level of external borrowing to fund the capital programme. The current level of borrowing is well within prudential limits.
- 5.5. 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.



- 5.6. 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 2024/25. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.