Appendix A Treasury Management Update Quarter 3 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 31 December 2024 and projects forward for the remainder of the financial year.

1.5. The Council's treasury advisers, Link Treasury Services Ltd, are now part of MUFG Pension & Market Services and, as such, have rebranded as MUFG Corporate Markets (MUFG) with effect from 20 January 2025. There is no change or disruption to the service the Council receives for Treasury Management Consultancy Services under the existing contract.

2. Economic forecast: interest rates

2.1. The Council's treasury advisers, MUFG, provided an update to its interest rate forecasts for the Bank of England base rate and PWLB (Public Works Loan Board) on 11 November 2024:

%	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Bank Rate	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
5yr PWLB rate	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10r PWLB rate	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10

2.2. The Bank of England base rate (bank rate) started the year at 5.25% and has since decreased twice so far to 5.00% on 1 August, and to 4.75% on 7 November. The latest forecast expects a further decrease to 4.50% by the end of the year. The budget was set with the expectation that interest rates would decrease more sharply than this, to 3.75% by the end of the year.

2.3. Forecast PWLB and intra-local authority external borrowing interest rates also remain higher than anticipated originally, by around 0.80%. This continues to restrict the opportunity to lock external debt as the cost remains high. The practice continues to 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 £18.6million. The Council's investment portfolio at the end of the quarter totalled £19million:

Counterparty	**Country of Domicile**	**Amount**	**Interest rate at end of period**	**Maturity period**	***MUFG counterparty limit***
Money Market Funds	UK	£6,000,000	4.70%	instant access	*12 months*
Standard Chartered	UK	£5,000,000	4.57-4.67%	30-62 days	*12 months*
Santander	UK	£2,500,000	5.00%	180 day notice	*6 months*
Handelsbanken	UK	£2,000,000	4.10%	instant access	*12 months*
Barclays	UK	£1,500,000	4.75-4.80%	65-95 days	*6 months*
Lloyds Corporate Markets (NRFB)	UK	£1,500,000	4.84%	94 days	*12 months*
NatWest Bank*	UK	£594,000	2.75%	instant access	*12 months*
Total		**£19,094,000**			
ESG proportion of portfolio	18.33%	£3,500,000			
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'.*				

<table>
<tr><th>Counterparty</th><th>Country of Domicile</th><th>Amount</th><th>Interest rate at end of period</th><th>Maturity period</th><th>MUFG counterparty limit</th></tr>
<tr><td>Standard Chartered</td><td colspan="5">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'.</td></tr>
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3.3. The main rating agencies used in the MUFG 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 of the Council's financial investments have an element of ESG consideration applied. The Council invests in products that have specific ESG merits directly 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:

	Budget	Q1 actuals	Q2 actuals	Q3 actuals
>364 days	n/a	n/a	n/a	n/a
<364 days	5.49%	5.49%	5.22%	4.87%
instant access	4.30%	4.95%	4.83%	4.60%
Total average	**4.86%**	**5.17%**	**4.99%**	**4.75%**
Bank of England base rate at end of period		5.25%	5.00%	4.75%

3.5. The Council 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 small shortfall of £5,850 is forecast against this budget. This remains subject to change depending on the average portfolio size, internal borrowing, and 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 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. Capital Programme

5.1. The table below provides current projections for capital expenditure and funding in relation to the Capital Financing Requirement (CFR):

	TMSS 2024/25 Estimate	Current Estimate (inc. prior year carry forward)
	£'000	£'000
Total Capital Expenditure	**23,327**	**13,957**
Funded by:		
External Contributions	18,001	10,065
S106 Contribution	25	25
Reserves	17	17
Capital Receipts		
Net financing need for the year	**5,284**	**3,850**
Capital Financing Requirement (CFR)		
Opening CFR	12,497	10,515
Plus Net Financing Requirement	5,284	3,850
Less Minimum Revenue Provision	(264)	(225)
Closing CFR	**17,517**	**14,140**

5.2. The Net Financing Requirement on 2024/25 capital expenditure is now estimated at £3,850,000. The reprofiling of programmes compared to those presented in the Treasury Management Strategy Statement (TMSS) are reported in the Third Quarter Financial, Procurement and Performance Review 2024-25 Appendix A and Medium Term Financial Plan Appendix A, reported to the Finance and Performance Committee on 4 February: https://democracy.highpeak.gov.uk/ieListDocuments.aspx?CId=398&MId=3244&Ver=4.

5.3. The impact of this in the current year coupled with a smaller opening balance than anticipated means that the forecast closing CFR will be below that set in the Treasury Strategy Statement. 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. A prudential indicator for CFR is set to ensure that the Council's capital investment plans are affordable. Based on the latest forecasts the Council's capital investment plans remain affordable.

6. Borrowing Position

6.1. 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.

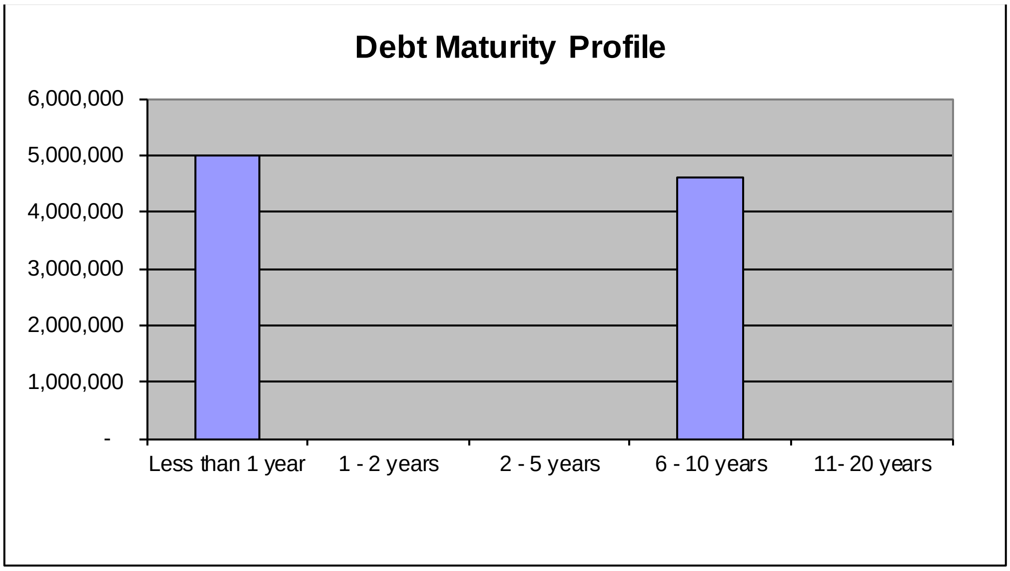
6.2. The Council's external borrowing outstanding at 31 March 2024 was £7.6million. A local authority loan of £3million with an interest rate of 5.70% matured at the end of July. New local authority loans were taken in the year: £3.5million at 5.20% from a May to August and £5million at 5.05% from the end of July, maturing at the end of January 2025. Therefore, borrowing at the end of the year is forecast to be £4.6million, utilising temporary internal borrowing whilst intra-local authority external borrowing interest rates are very high during quarter four.

6.3. 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.

6.4. The Council budgeted to incur £588,020 in net interest charges in 2024/25, which included new and refinanced borrowing. An underspend of £35,980 is forecast owing to a smaller Minimum Revenue Provision (MRP) charge in the year due to a reduced borrowing requirement in the previous year.

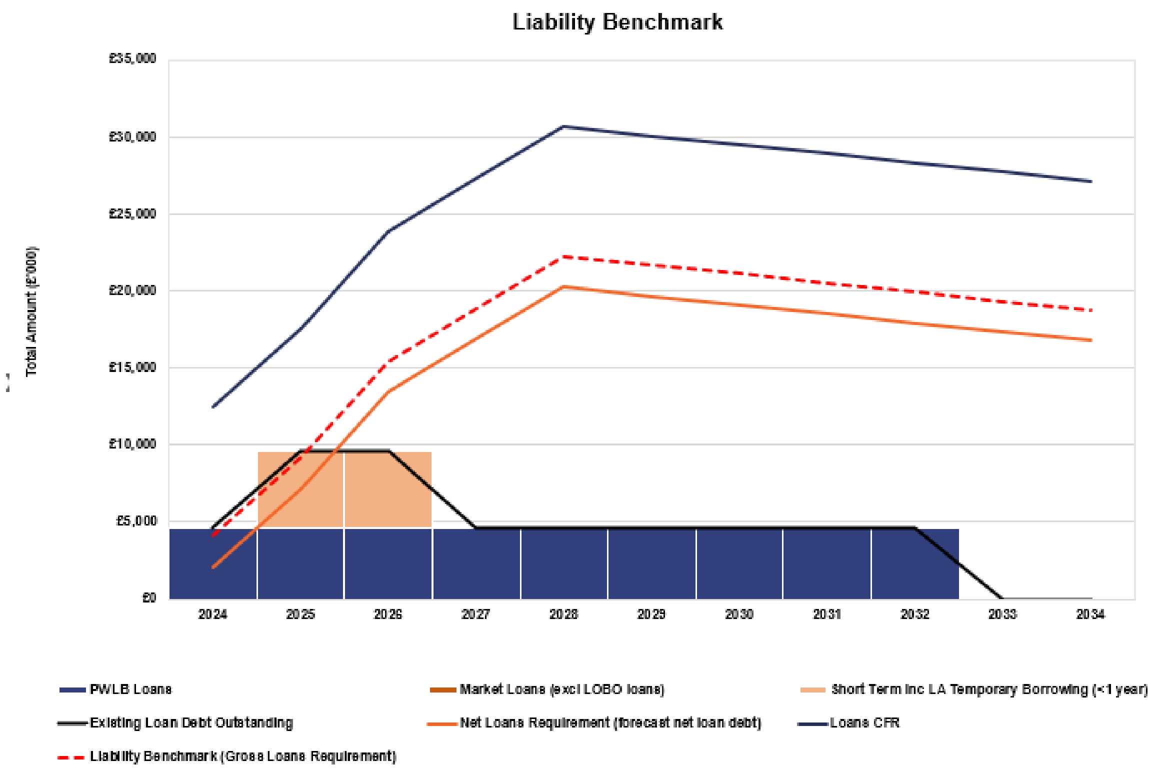
6.5. The 'operational boundary' (£24,424,000) and 'authorised limit' (£26,424,000) indicators govern the maximum level of external borrowing to fund the capital programme. The current level of borrowing is well within prudential limits.

6.6. 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 including the loan due to mature in January.



6.7. The treasury team, along with MUFG, 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.

6.8. The updated liability benchmark chart shows that the Council maintains a forecast under-borrowed position compared to the CFR over the life of the existing loan debt.



7. Prudential Indicators

7.1. 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.