Appendix A

Treasury Management Update
31st August 2021

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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. The Council has adopted CIPFA's revised Code of Practice for Treasury Management which recommends that Members should be briefed on Treasury Management activities at least twice a year.

1.3. The Audit & Regulatory 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 & Regulatory Committee are reported to full Council.

1.4. The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 10th February 2021. This report details treasury management performance up to the 31st August 2021 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'), provide the latest base rate and PWLB (Public Works Loan Board) forecast:

%	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.50
5yr PWLB rate	1.20	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.50	1.50
10r PWLB rate	1.60	1.60	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00
25yr PWLB rate	1.90	2.00	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.40	2.50
50yr PWLB rate	1.70	1.80	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.30

2.2. Link's interest rate forecast has brought the Bank of England base rate increase to 0.25% forward by one quarter to the quarter ending June 2023, but still does not anticipate any rate rises during the current or next financial year. PWLB rates are also forecast to remain relatively constant, with a slow increase. The Council's budgets were set anticipating this economic environment.

3. Covid-19 impact on Treasury Management

3.1. High volumes of income and expenditure are still flowing through the Council's instant access accounts while the Council continues to act as an agent of central government in the delivery of the various Business Grant schemes. The counterparty limits in the 2021/22 Treasury Management Strategy Statement were set to be flexible to respond to this situation specifically; the current account balance has remained within the set limit up to the end of August.

4. Investment Income

4.1. Interest earned on investment deposits up to 31st August 2021 totalled £21,030. The Council has budgeted to receive £40,290 in investment income in 2021/22. The budget was set with an expectation of very low interest rates of near zero, therefore the forecast outturn against the budget remains on target.

4.2. The average interest rate achieved on the Council's investments is boosted by the better rates achieved in the Council's notice accounts, average 0.33%, compared to the instant access average of 0.01%.

Average interest rate period	Average Rate Apr-Jun	Average Rate Jul-Aug
Overall	**0.16%**	**0.17%**
Long-term fixed (>364 days)	n/a	n/a
Short-term fixed/ notice accounts (<364 days)	0.31%	0.33%
Instant access	0.01%	0.01%
Bank of England Base Rate	0.10%	0.10%

Crescent Development

4.3. The Council provided a loan of £250,000 to the Buxton Crescent Heritage Trust as part of the Crescent development. Interest is charged on the loan at 6% which amounts to £15,000 during 2021/22. This income is in additional to the investment income forecast outturn reported above.

5. Investment Portfolio

5.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 31st August 2021 totalled £25,031,000:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Interest rate at end of period	Average Maturity
NatWest Bank	UK	£10,790,000*	**BLUE (12 months)**	0.01%	Instant access
Santander	UK	£6,300,000	**RED (6 months)**	0.58%	180 day notice
Aberdeen MMF	UK	£5,000,000	**WHITE (12 months)**	0.01%	Instant access
Federated MMF	UK	£3,500,000	**WHITE (12 months)**	0.01%	Instant access
Lloyds Bank	UK	£3,000,000	**RED (6 months)**	0.05%	95 day notice
Barclays 'Green'	UK	£3,000,000	**RED (6 months)**	0.30%	95 day notice
Barclays 'Green'	UK	£2,200,000	**RED (6 months)**	0.10%	65 day notice

Standard Chartered 'Sustainable'	UK	£1,000,000	**RED (6 months)**	0.13%	184 days
TOTAL		**£34,790,000**			

MMF = Money Market Fund
** Higher balances than usual held in the current account at month end due to the timing of income direct debits before month end and outgoing precept payments after.*

5.2. The average level of funds available for investment up to 31st August 2021 was £29.7million. Both average balances for the year and the total portfolio at the end of August 2021 are larger than usual due Covid 19 grants being held whilst business grant schemes are administered. The net balance of funds held at the end of August was £2.4million.

Ethical investing

5.3. The Council currently holds £6.2million in financial investments with Environmental, Social and Governance (ESG) links, sometimes known as Ethical Investing and encompassing the Climate Change agenda. These are included in the investment portfolio table above, but are also highlighted here:

Product	Amount	ESG merits
Barclays 'Green' (95 day notice account)	£3,000,000	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'.
Barclays 'Green' (65 day notice account)	£2,200,000	
Standard Chartered 'Sustainable' Deposit (6 month fixed term)	£1,000,000	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'.
TOTAL	**£6,200,000**	**17.82% of total portfolio**

5.4. A Notice of Motion relating to Climate Change was presented and supported at Full Council on 16th February 2021 which has implications on the Council's treasury management investment portfolio. Each point of action in the Notice of Motion is responded to here with updates as to the work or progress being undertaken to address the resolutions. Progress will continue to be monitored in each Treasury Management update report.

Notice of Motion Action	Action Update / Response
Develop a plan by September 2021 to cease investing in companies involved directly or indirectly with the fossil fuel industry.	In order to put a plan into place to cease investing / replace investment funds, the Council would need to have a mechanism in place to easily assess investment funds in order to determine which meet the criteria. The criteria would also need to be established – this will possibly

	need to be jointly agreed via the Audit Committee / Climate Change working group. This criteria can then be inputted into a scoring mechanism to determine eligible funds. Ultimately, the Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily. Link, the Council's Treasury advisors, are currently developing a service which will be a vital input into the suitability assessment of any potential investment in terms of its Environmental, Social and Governance (ESG) merits. This could be either as an overlay to the creditworthiness system which protects the SLY criteria with a general score weighting; or a more detailed service with specific focuses to suit the Council's objectives. We are awaiting a survey from Link where we will have the opportunity to assign relevance scores to each ESG risk factor which will feed into the service's outputs. These relevance scores will be informed by the criteria to be established as discussed above.
Add a clear statement to their published strategy, at the next review date, regarding their approach to investments at risk from climate change, including those at risk due to the actions of other investors and governments.	A statement in regard to investments and the increased use of ESG investments particularly was included in the 2021/22 Treasury Management Strategy. This will be updated and enhanced annually and will, in future, incorporate any changes made to the creditworthiness systems as detailed above.
Draw up a plan to replace HPBC's investment funds which include environmentally harmful investments with investment funds that have positive societal and environmental benefits, by September 2021.	As above – see first action response. The Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily. Positive societal and environmental benefits would need to be defined, with input from the Audit Committee/ Climate Change working group as appropriate.
Replace HPBC's environmentally harmful investments and funds with investments that have positive societal and environmental benefits, towards achieving a portfolio of assets with net zero carbon emissions by 2025 (with consideration of the council's Treasury Management Strategy and principals around security, liquidity and yield priorities when investing funds).	As above – see first action response. The Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily. Positive societal and environmental benefits would need to be defined, with input from the Audit Committee/ Climate Change working group as appropriate.
Explore non-financial investments, such as in renewable energy generation	This will need to be assessed as a specific project as part of the Climate Change action plan, with a full business case required to determine viability. This action point will need to be monitored outside Treasury Management reporting, in the appropriate arena for the projects undertaken.
Include risks associated with specific types of investment, such as in extractive industries, in its risk assessments	Many of the counterparties regularly used by Councils do not have ESG "scores" assigned to them as yet. It is growing, but by no means universal. Once Link have developed their enhanced creditworthiness service to incorporate a scoring system for ESG investments, the Audit Committee / Climate Change working group will need to work through how funds will be assessed, both at the selection stage and then monitoring thereafter.
Include progress on Environmental,	The Treasury Management update reports and Treasury

Social and Governance investing in regular reports to the Audit and Regulatory Committee.	Management Strategy now include specific updates in regard to ESG investments.
Write to the Derbyshire Pensions and Investment Committee requesting that they divest pension funds from investment funds that include fossil fuels by 2025.	**Response received from the Chair of the Pensions & Investment Committee:** The Fund's Climate Strategy was approved by Committee in November 2020, following consultation with the Pension Fund's stakeholders. It sets out support for the Paris Agreement and includes clear targets for reducing the carbon emissions of the whole investment portfolio and for increasing investment in low carbon and sustainable investments. A Responsible Investment Framework was also approved at the same time, setting out the Pension Fund's commitment to integrating Environmental, Social and Governance factors into investment decisions and engaging with companies to influence behaviour and enhance value, influence that would be lost through a divestment approach. Collaborative and co-ordinated engagement with other like-minded investors, has the potential to drive positive changes to companies' business models as they adapt for the transition to a low carbon economy. The Pension Fund's Climate Strategy includes a target for reducing the carbon footprint of the Fund's listed equity portfolio by at least 30% by the end of 2025 and a target to invest at least 30% of the Fund's portfolio in low carbon and sustainable investments by the end of 2025. These targets will be reviewed on at least a three yearly basis. I am pleased to note that the first phase of increasing the equity allocation to sustainable and low carbon investments took place earlier this year, with further transitions planned for later this year. Also, Committee recently approved a further commitment to a renewable energy infrastructure fund which will help towards the target of having 50% of the Fund's 10% allocation to infrastructure invested in renewable energy assets. These assets will include investments in: onshore wind; offshore wind; solar; hydro; and battery storage. Progress against the targets set out in the Fund's Climate Strategy will be presented to the Pensions and Investments Committee, and the Pension Fund's approach to managing the risks and opportunities presented by climate change will stay firmly on Committee's agenda.

5.5. There has been no further progress on the action points since the last report. Link continue to work on the service they may be able to deliver to the Council; part of the delay due to waiting for the outcome of the Cipfa consultation and its potential impact on this area. They still aim to be developing a service by the end of the financial year. The treasury management team remains in dialogue to see how they may assist the Council in achieving its aims.

5.6. The Treasury Management team continue to consider investments with ESG links where available and appropriate. After this reporting period a further £1million has been invested in Standard Chartered Sustainable fixed term at 0.08% for six months which increases the overall proportion of ESG linked investments in the portfolio to 20%. No new ESG linked products have emerged in the local authority market at this time.

6. Capital Programme Update & Borrowing Position

Capital Programme Update

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

	TMSS 2021/22 Estimate	**Current Estimate (includes 20/21 carry forwards)**
General Fund	£8,399,000	£8,443,000
HRA	£6,292,000	£7,879,000
Total Capital Expenditure	**£14,691,000**	**£16,322,000**
Funded by:		
Capital Receipts	£636,000	£855,000
External Funding	£3,762,000	£4,006,000
Reserves	£2,099,000	£2,149,000
HRA Revenue	£4,193,000	£5,077,000
2021/22 Net Financing Requirement	**£4,001,000**	**£4,235,000**
Capital Financing Requirement		
Opening CFR	**£80,871,000**	**£80,541,000**
PLUS Net Financing Requirement	£4,001,000	£4,235,000
LESS Minimum Revenue Provision	(£1,845,000)	(£1,836,000)
Closing CFR	**£83,027,000**	**£82,705,000**

6.2. The Net Financing Requirement on 2021/22 spend is now estimated at £4,235,000: the variance is due to the reprofiling of elements of the capital programme from the previous year, some due to delays resulting from the Covid 19 situation.

6.3. 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. The closing CFR is in line with the Capital Financing Requirement set in the Treasury Strategy Statement. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

Borrowing Position

6.4. 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.

6.5. The Council's total outstanding debt as at 31st August 2021 is £66,825,404, as detailed in the table below:

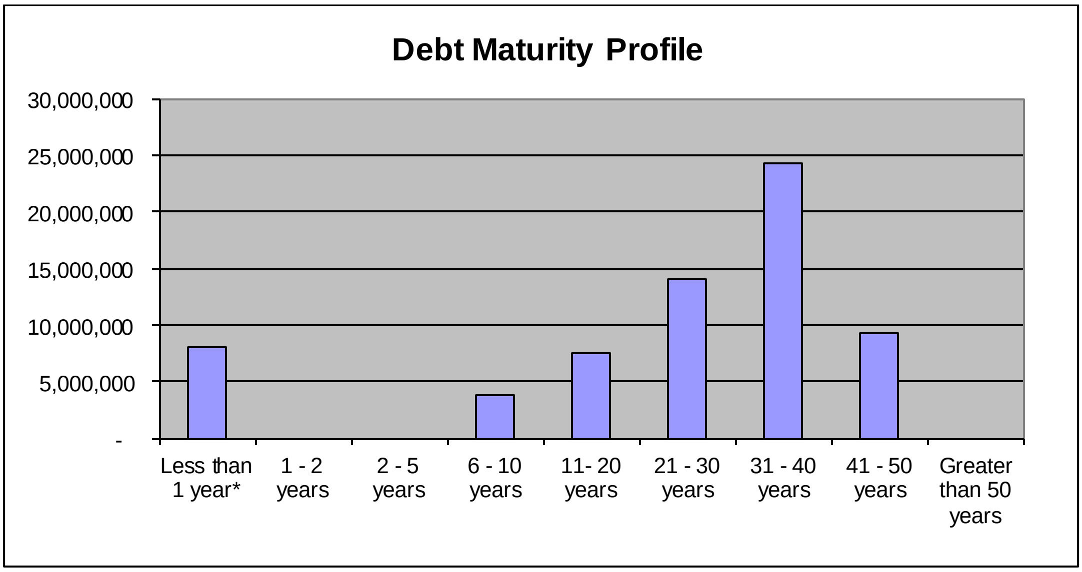
Lender	External Borrowing	Average Interest Rate	Maturity period
Public Works Loan Board	£54,025,404	3.76%	between 1 and 42 years
Market Loans	£12,800,000	4.57%	between 2 and 47 years
Total	**£66,825,404**	**3.92%**	

6.6. The ‘operational boundary’ (£89,960,000) and ‘authorised limit’ (£92,460,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.

6.7. The Council adopts a ‘one pool’ approach to borrowing whereby investments and borrowing are managed centrally with the proportional income and expenditure then split between the general fund and HRA. The Council has budgeted for interest charges and other financing costs of £1,824,340 to the general fund and £1,693,060 to the HRA in 2021/22. The forecast outturn shows a favourable variance on the general fund of £17,000, partly due to a £9,000 smaller MRP charge than predicted and partly due to an additional charge to the HRA of £8,000 for its share of net borrowing costs due to the change in share of the pool.

6.8. The budget for borrowing costs was based on the existing external debt. There has been no ‘new’ borrowing thus far during the current year and the Council continues to maintain a level of internal borrowing as anticipated. The treasury team will continue to monitor the appropriate time to externally borrow based on the profile of spend and opportunities to ‘internally’ borrow, considering the movement in interest rates and the cost of carry of any borrowings taken.

6.9. Attention must also be given to the maturity profile of the loans 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 are high. The graph below details the maturity profile of current loans.



*In accordance with guidance, the maturity date of LOBO's is deemed to be the next call date. Loans of £4.3m showing as 'less than 1 year' have a full maturity date of £1m 2023/24, £3.3m 2064/65.

6.10. Debt rescheduling is the reorganisation of 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, thus managing the risk. The treasury team, along with Link, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

6.11. No rescheduling has taken place during 2021/22 to date. The Council will work with Link to identify any potential debt rescheduling options – taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings.

7. Prudential Indicators

7.1. The Council complies with the Council's Treasury Management Practices and has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2021/22.