Appendix A

High Peak Borough Council
working for our community

Annual Treasury Management Report

2021/22

June 2022

1. Introduction and Background

1.1. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for the year. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2. During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 16th February 2021)
- a mid-year treasury update report (Council 12th October 2021)
- an annual treasury report (this report).

In addition, this Council has received quarterly treasury management update reports (Audit & Accounts Committee 23rd June 2021 and 9th February 2022). Scrutiny to all treasury management reports was provided by the Audit & Regulatory Committee before being reported to the full Council.

1.3. The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.4. This report covers:

- Capital expenditure and the overall borrowing need
- The Council's treasury position at the end of the year
- Strategy & Economy for the year
- Borrowing outturn
- Investment performance & portfolio, including Ethical investing

1.5. Treasury Limits and Treasury management and Prudential Indicators were set within the Treasury Management Strategy 2021/22. The Council has complied with all indicators. Details of these are embedded throughout this report.

2. The Council's Capital Expenditure & Borrowing Requirement 2021/22

2.1. The Council undertakes capital expenditure on long-term assets. These activities may either be financed:

- through the application of capital or revenue resources (including capital receipts, capital grants, revenue contributions etc.); this form of financing does not impact on the Council's borrowing need; or
- by external borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

2.2. Capital expenditure constitutes one of the required prudential indicators. The table below shows actual capital expenditure for 2021/22 and how this was financed:

	31st March 2021	**2021/22**	**31st March 2022**
	Actual	Budget	Provisional Outturn*
General Fund	£2,817,647	£8,399,090	£4,168,164
Housing Revenue Account (HRA)	£3,731,138	£6,292,000	£6,180,822
Total Capital expenditure	**£6,548,785**	**£14,691,090**	**£10,348,986**
Financed by:			
External contributions	£1,088,727	£3,762,090	£2,439,465
Capital & earmarked reserves	£100,000	-	£856,500
Capital Receipts	£218,049	£636,500	£1,019,249
Minimum Repairs Reserve (HRA)	£2,099,030	£2,099,030	£2,099,030
HRA contribution	£1,632,108	£4,192,970	£3,381,589
Unfinanced capital expenditure/ borrowing need	**£1,410,871**	**£4,000,500**	**£553,153**

** Subject to change as Closure of Accounts process ongoing at time of writing*

2.3. The decrease in the provisional outturn and associated borrowing need compared to the budget is largely owing to the re-profiling to future years of: AMP works (£2.2million), vehicle acquisitions (£1million), and expenditure on the Fairfield roundabout (£1m).

2.4. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the cumulative capital activity of the Council in the current and previous years which is as yet unfinanced, i.e. has not yet been paid for by revenue or other resources.

2.5. The 2021/22 capital expenditure (provisional outturn) is largely funded by reserves, external contributions, capital receipts and the HRA contribution; the remainder has created a provisional outturn borrowing need of £553,153, which increases the CFR. This all relates to the general fund activity

2.6. The Treasury Management team plans the Council's cash position to ensure sufficient cash is available to meet capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Public Works Loan Board or the money markets), or utilising temporary cash resources within the Council.

2.7. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment via revenue of the cumulative borrowing need.

2.8. The CFR can also be reduced by the application of additional capital financing resources, such as unapplied capital receipts; or charging more than the statutory revenue charge (MRP) through a Voluntary Revenue Provision (VRP).

2.9. The Council's 2021/22 MRP Policy was approved (as required by the Department of Levelling Up, Housing and Communities (DLUHC) guidance) as part of the Treasury Management Strategy Statement 2021/22 on 16th February 2021.

2.10. The Council's CFR for the year is shown below, and represents a key prudential indicator.

	31st March 2021	**2021/22**	**31st March 2022**
Capital Financing Requirement	Actual	Budget	Provisional Outturn*
Opening balance	£80,951,387	£80,871,024	£80,540,585
Unfinanced capital expenditure/ borrowing need	£1,410,871	£4,000,500	£553,153
Less MRP/VRP	-£1,821,673	-£1,844,654	-£1,835,802
Closing balance	**£80,540,585**	**£83,026,870**	**£79,257,936**

** Subject to change as Closure of Accounts process ongoing at time of writing*

2.11. Borrowing activity is constrained by Prudential Indicators for gross borrowing and the CFR, and by the Authorised Limit. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the current year (2021/22) plus the estimates of any additional CFR for the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

2.12. The table below highlights the Council's borrowing position against the CFR:

	31st March 2022	**31st March 2023**	**31st March 2024**
	Provisional	Forecast*	Forecast*
Gross borrowing position	£63,077,304	£69,877,304	£68,877,304
CFR	£79,257,936	£84,454,657	£85,874,483
Over/ (under) borrowed	**-£16,180,632**	**-£14,577,353**	**-£16,997,179**

** Per MTFP February 2022, updated for current year provisional outturn borrowing need*

2.13. The Council is in an 'under-borrowed' position of £16,180,632 as at 31st March 2022, therefore is complying with the prudential indicator.

2.14. The Authorised Limit is set in the Treasury Management Strategy in advance of each year, as required by s3 of the Local Government Act 2003; once set the Council does not have power to borrow above this level. The Operational Boundary, also set in the Treasury Management Strategy, is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The table below shows the Council has maintained gross borrowing within its authorised limit and operational boundary.

2.15. The 'financing costs as a proportion of net revenue stream' is used as an indicator to identify the trend in the cost of capital (borrowing costs, net of investment income) against the net revenue stream of the Council.

	2021/22	**31st March 2022**
	Budget	Provisional Outturn*
Authorised limit	**£92,460,000**	**£92,460,000**
Maximum gross borrowing position during the year	£67,077,704	£66,825,404
Operational boundary	**£89,960,000**	**£89,960,000**
Average gross borrowing position	£66,951,554	£66,784,329
Financing costs as a proportion of net revenue stream	16.61%	13.91%
HRA Ratio of financing costs to net revenue stream	11.17%	11.40%

3. The Current Treasury Position

3.1. The Council's treasury management debt and investment position is organised by the treasury team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity in accordance with the Council's Treasury Management Practices. The table below shows the Council's treasury position at the end of 2021/22 and a comparison with the previous year:

	2021/22			**2020/21**		
	Principal at 31st March	*Average annual principal*	Average annual interest rate/ return	Principal at 31st March	*Average annual principal*	Average annual interest rate/ return
Debt						
PWLB	£50,277,304	£53,984,329	3.77%	£54,025,404	*£54,025,404*	3.76%
Market Loans	£12,800,000	£12,800,000	4.57%	£12,800,000	*£12,800,000*	4.57%
Total	**£63,077,304**	*£66,784,329*	**3.92%**	**£66,825,404**	*£66,825,404*	**3.92%**
*Capital Financing Requirement**	*£79,257,936*			*£80,540,585*		
Over/ (under) borrowed	*-£16,180,632*			*-£13,715,181*		
**current year subject to change as Closure of Accounts process ongoing at time of writing*						
Treasury management investments	**-£30,112,000**	*-£32,648,369*	**0.21%**	**-£26,859,317**	*-£32,427,025*	**0.26%**
Net Debt/	**£32,965,304**			**£39,966,087**		

4. The 2021/22 Treasury Management Strategy & Economic Conditions

4.1. The expectation for interest rates amongst forecasters at the time of setting the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.10% following the emergency cut at the start of the Covid-19 pandemic for the medium term and therefore returns on the Council's balances would be very low, with borrowing rates similarly depressed.

4.2. This was indeed the case for much of the year with the average interest rate achieved in the first three quarters being 0.16%, boosted only by the Council's notice accounts. Towards the end of the year, with growing inflationary pressures, the Bank of England raised the base rate three times: to 0.25% on 16th December 2021; 0.50% on 3rd February 2022; and 0.75% on 17th March 2022. The impact of this began to trickle through to the Council's investments and notice and instant access accounts resulting in an average investment income in quarter four of 0.33%, increasing the overall average for the year to 0.21%.

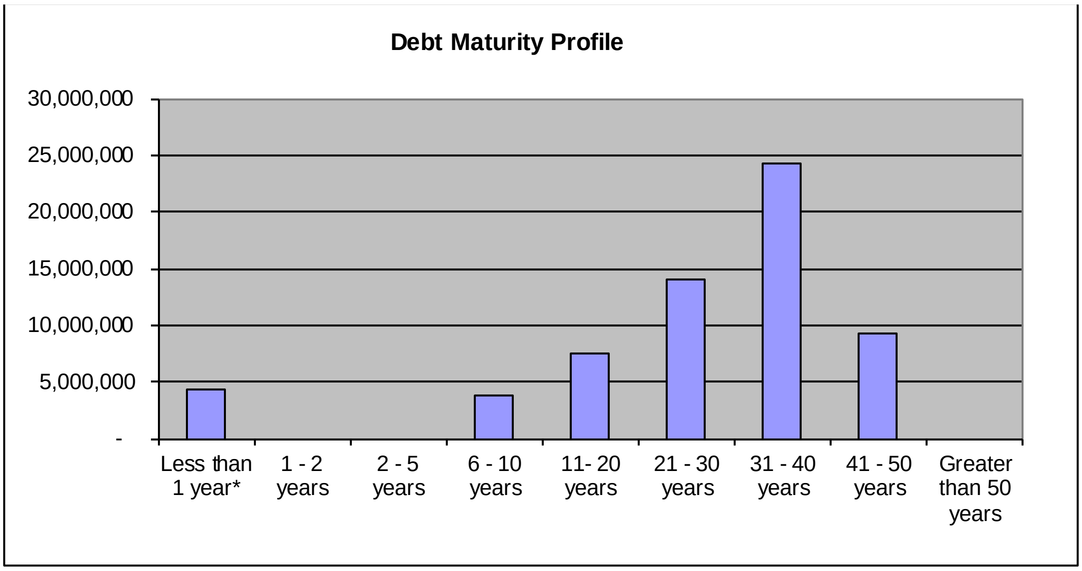
4.3. Cash balances remained high during the year whilst the Council was in receipt of Central Government funding to deliver various schemes to support residents and businesses during the Covid-19 pandemic and the current increasing inflation climate. The counterparty limits in the Treasury Management Strategy Statement for 2021/22 were set to be flexible to respond to this situation specifically; reporting any instance where the limits were exceeded in the quarterly treasury management update reports, as opposed to generally extending the limits which would have reduced the controls over counterparty risk. There were two such instances: the current account limit was exceed by 0.18% for 1 day in September; and a maximum 2.5% for 4 days in November 2021.

5. Borrowing Outturn

5.1. External borrowing activity during 2021/22 and the maturity profile at year end are shown in the tables below:

Amount	Lender	Interest Rate	Term	Month
£66,825,404	***External borrowing 1st April 2021***			
Matured Loans				**Maturing**
£3,748,100	PWLB	2.40%	10 years	March
£3,748,100	**Total**			
New Loans				**Starting**
£0				
£0	**Total**			
£3,748,100	*Net decrease in external borrowing*			
£63,077,304	***External borrowing 31st March 2022***			
£40,905,632	HRA Share 64.85%			
£22,171,672	General Fund Share 35.15%			
	Average borrowing during the year			
£53,984,329	PWLB	3.77%		
£12,800,000	Local Authority Loans	4.57%		
£66,784,329	**Total**	**3.92%**		
£43,309,637	HRA Share 64.85%			
£23,474,692	General Fund Share 35.15%			

5.2. Attention must be given to the maturity profile of the loans to ensure maturity dates are evenly spread and the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below illustrates the maturity profile of the current portfolio of loans.



*NB: in accordance with guidance, the maturity date of LOBOS 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.

Maturity structure of borrowing	Fixed rate		Variable rate	
	Upper limit set 2021/22	As at 31st March 2022	Upper limit set 2021/22	As at 31st March 2022
under 12 months	60%	7%	100%	0%
12 months to 2 years	60%	0%	50%	0%
2 to 5 years	60%	0%	0%	0%
5 to 10 years	60%	6%	0%	0%
10 to 20 years	90%	12%	0%	0%
20 to 30 years		22%	0%	0%
30 to 40 years		38%	0%	0%
40 to 50 years		15%	0%	0%

5.3. No new external borrowing was taken during 2021/22; the £553,153 borrowing requirement was instead funded using internal resources available at the time. There was one maturing PWLB loan of £3.7million which had been held for 10 years. There has been no refinancing or rescheduling of loans during the year. The Council has not borrowed in advance of need.

5.4. Currently the cost of potential new external borrowing is greater than the interest income lost through reduced investment opportunities resulting from this internal borrowing. The practice of avoiding new borrowing by utilising spare cash balances has served well over recent years in terms of making net savings on financing costs. However, this is kept under constant review, especially where there is an expectation of rate rises, to avoid higher borrowing costs in the future.

5.5. The total borrowing costs achieved a saving of £51,986 against the budget; £41,033 is due to a greater charge to the HRA under the one pool approach of borrowing, with the remaining £10,953 being due to a smaller MRP charge than budgeted.

6. Investment Performance & Portfolio

6.1. The investment performance of the Treasury Management function is dependent upon a number of factors, including the size of available investment balances; the market interest rates available; the timing of capital spend; the restrictions placed on the Council by its approved Lending List.

6.2. The Council achieved an average interest rate of 0.21% on its investment portfolio:

	Q1	Q2	Q3	Q4	2021-22
Long term investments > 364 days	n/a	n/a	n/a	n/a	n/a
Short term investments < 364 days	0.31%	0.32%	0.30%	0.44%	0.34%
Instant Access Cash	0.01%	0.01%	0.02%	0.21%	0.06%
Total	**0.17%**	**0.17%**	**0.15%**	**0.33%**	**0.21%**
Bank of England base rate at end of period	*0.10%*	*0.10%*	*0.25%*	*0.75%*	*0.75%*

6.3. The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. The Lending List is constructed based on credit ratings provided by the three main credit agencies supplemented by additional market data, using the Link Creditworthiness analysis (see Annex A for lending limits applied in 2021/22).

6.4. Money was invested during the year with nine institutions. All investments were placed in line with the Council's approved lending limits. The table below summarises the institutions that the Council invested funds with during the financial year. It also indicates the average daily investment, interest earned and the associated interest rates. Interest rates vary depending on the length and timing of investments. The investment funds include those held in the Council's instant access accounts. The average daily investment during 2021/22 was £32.6m.

Financial Institution	ESG linked	Country of Domicile	Duration	Interest earned	Average daily investment	Rate of return
Money market funds	No	UK	Instant access	£2,675	£7,949,589	0.03%
Santander	No	UK	95 & 180 day notice	£37,231	£6,319,605	0.59%
NatWest Bank	No	UK	Instant access	£546	£5,460,758	0.01%
Barclays	Yes	UK	65 and 95 day notice	£13,963	£5,208,219	0.27%

Lloyds Bank	No	UK	95 day notice	£1,501	£3,002,840	0.05%
Standard Chartered	Yes	UK	90-184 days	£3,366	£1,852,055	0.18%
Bank of Scotland	No	UK	Instant access	£4,863	£1,569,862	0.31%
Handelsbanken	No	UK	Instant access	£2,356	£1,225,167	0.19%
Nationwide Building Society	No	UK	92 to 153 days	£433	£54,795	0.79%
NatWest Bank Certificate of Deposit	No	UK	184 days	£71	£5,479	1.30%
Total				**£67,005**	**£32,648,369**	**0.21%**
ESG proportion	21.63%			£17,329	£7,060,274	0.25%
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'.*					

6.5. The average maturity of investment during the year was necessarily short to allow for continuing uncertainties over cashflow during the Covid-19 situation. The budget was set with an expectation of very low interest rate returns during the year. The investment income for the year was £67,005 against the budget of £40,290. The £26,715 surplus has been achieved as a result of the base rate rises and consequent increased interest earning investment opportunities in quarter 4.

6.6. As agreed, no interest has been charged during the year on the £250,000 loan to the Buxton Crescent Heritage Trust.

6.7. 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. Progress continues to be monitored in each Treasury Management update report. Link are developing a potential service which could assist the Council in achieving these aims.

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, Social and Governance investing in regular reports to the Audit and Regulatory Committee.	The Treasury Management update reports and Treasury 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.

6.8. Investments held at the 31st March 2022 are shown in the table below. All investments are for a period of one year or less:

Financial Institution	ESG linked	Country of Domicile	Principal invested at 31st March 2022	Fixed/ variable
Santander	No	UK	£6,300,000	Variable
Barclays	Yes	UK	£5,200,000	Variable
Money market funds	No	UK	£4,800,000	Variable
Handelsbanken	No	UK	£3,650,000	Variable
Standard Chartered	Yes	UK	£3,000,000	Fixed
Lloyds Bank	No	UK	£3,000,000	Variable
Nationwide Building Society	No	UK	£2,000,000	Fixed
NatWest Bank	No	UK	£1,162,000	Variable
NatWest Bank Certificate of Deposit	No	UK	£1,000,000	Fixed
Total			**£30,112,000**	
ESG proportion	19.80%		£5,962,000	

	2021/22	31st March 2022
	Treasury Management Strategy	Actual
Principal sums invested >365 days	£5,000,000	£0

ANNEX A

Current Lending Limits

	UK			International	
	Individual		Group	Individual	
Category (per Link's creditworthiness model)	**Principal Limit**	**Maximum Length**	**Principal Limit**	**Principal Limit**	**Maximum Length**
NatWest (the Council's main bank account)	£8.75m	1 year	n/a	n/a	n/a
Money market funds	£8.75m	1 year	£13.30m	n/a	n/a
Yellow	£8.75m	5 years	n/a	n/a	n/a
Purple	£8.75m	2 years	£13.30m	£7.00m	2 years
Orange	£7.00m	1 year	£10.50m	£6.30m	1 year
Red	£6.30m	6 months	£9.45m	£5.25m	6 months
Green	£5.25m	100 days	£8.05m	£4.20m	100 days
No colour	-	Not to be used		-	Not to be used
Local Authority	£2.00m	1 year	£8.75m	n/a	n/a