# HIGH PEAK BOROUGH COUNCIL

**Audit & Regulatory Committee**

**15 June 2022**

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|---|---|
| TITLE: | **Treasury Management Update** |
| EXECUTIVE COUNCILLOR: | **Councillor Barrow - Executive Councillor for Corporate Services and Finance** |
| CONTACT OFFICER: | **Keith Pointon – Head of Finance**<br>**Emily Bennetts – Finance Business Partner** |
| WARDS INVOLVED: | **(All Wards);** |

**Appendices Attached – Appendix A: Treasury Management Mid-Year Update Report, 31st May 2022.**

## 1. Reason for the Report

1.1 The purpose of the report is to allow the robust scrutiny of the Council's Treasury Management performance in 2022/23 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and generally accepted good practice.

## 2. Recommendation

2.1 That Members note the current Treasury Management position as at 31st May 2022.

## 3. Executive Summary

3.1 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).

3.2 This report comprises the following:

- The latest interest rate forecast;
- The current investment portfolio and investment income projected for the year;
- Projected borrowing requirements to support the capital programme with

associated borrowing costs for the year; and

- Compliance against Prudential and Treasury indicators set in the Treasury Management Strategy 2022/23.

3.3 The main headlines are:

- The Bank of England base rate increase from 0.75% to 1.00% in May 2022.

- Due to subsequent increases in investment interest rates, a surplus of £113,270 is forecast against the investment interest income budget.

- The Council's investment portfolio totalled £27.6million spread across seven separate institutions as at 31st May 2022.

- The Council's total level of debt as at 31st May was £63.1million at an average annual borrowing rate of 4.01%.

- The borrowing costs budget forecasts a total saving of £20,900 to the general fund and an increased charge of £25,180 to the HRA.

## 4. How this report links to Corporate Priorities

4.1 An effective Treasury Management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

## 5. Alternative Options

5.1 This report sets out the Treasury Management position for High Peak Borough Council for 2022/23 to date and the projected outturn. As such it is a statement of fact and there are no options.

Martin Owen
**Executive Director (Finance and Customer Services)**

**Web Links and Background Papers**

'Treasury Management Strategy Statement 2022/23' (Audit & Regulatory Committee, February 2022)

**Contact details**

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**Appendix A**

# Treasury Management Update
# 31st May 2022

1. Introduction
2. Economic Forecast – Interest Rates
3. Investment Activity
4. Borrowing Position
5. Prudential Indicators

## 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 & 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 2022/23 was approved by Council on 22nd February 2022. This report details treasury management performance up to the 31st May 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’), provide the latest base rate and PWLB (Public Works Loan Board) forecast:

| % | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank Rate** | 1.25 | 1.50 | 1.75 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| **5yr PWLB rate** | 2.50 | 2.50 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.60 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| **10r PWLB rate** | 2.80 | 2.80 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |

2.2. The Bank of England base rate increased to 1.00% on 5th May 2022 (from 0.75% previously). The medium term forecast shows continuing rises throughout 2022, peaking at 2.00%, then a small reduction in the latter half of 2024 to 1.75%. The forecast will be reviewed by Link during the year as they comment that financial markets are pricing in 2.50% by April 2023.

2.3. 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 surpluses achieved against the budget.

2.4. Forecast PWLB rates are also greater than were anticipated at budget setting and the Local Authority market will be impacted by all these factors plus the levels of liquidity in the market which may be returning to more normal trends as the levels of grant cash flowing through Councils from central government to businesses and residents potentially reduce.

## 3. Investment Activity

3.1. The Council has budgeted to receive £103,670 in investment income in 2022/23, based on the modest interest rate rise forecast as described above. At this early stage in the year a surplus of £113,270 is forecast against the budget.

3.2. The budget includes interest receivable from the £250,000 loan to the Buxton Crescent Heritage Trust as part of the Crescent development at a rate of 6%, which is to be reviewed.

3.3. 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). The Council's investment portfolio at 31st May 2022 totalled £27,599,000:

| **Counterparty** | **Country of Domicile** | **Amount** | **Interest rate at end of period** | **Maturity period** | ***Link counterparty limit*** |
|---|---|---|---|---|---|
| Santander | UK | £6,300,000 | 0.87% | 180 days | *6 months* |
| Barclays | UK | £5,200,000 | 0.75-0.80% | 65-95 days | *6 months* |
| Standard Chartered | UK | £4,000,000 | 0.25-1.62% | 92-184 days | *6 months* |
| Nationwide Building Society | UK | £4,000,000 | 0.79-1.25% | 153-154 days | *6 months* |
| Handelsbanken | UK | £3,650,000 | 0.59% | instant access | *12 months* |
| Money Market Funds | UK | £2,950,000 | 0.89% | instant access | *12 months* |
| NatWest Bank Certificate of Deposit | UK | £1,000,000 | 1.30% | 184 days | *12 months* |
| NatWest Bank | UK | £499,000 | 0.10% | instant access | *12 months* |
| **Total** | | **£27,599,000** | | | |
| ESG proportion of portfolio | 33.33% | £9,200,000 | | | |
| *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'.* | | | | |

3.4. 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. The Action points and responses from this are included at Annex A. Link continue to work on a potential service they may be able to offer to the Council to assist in achieving its aims. The treasury management team consider any new investment opportunities with ESG links where available and appropriate with regard to the SLY principals; though no new ESG linked products have emerged in the local authority market recently.

## 4. Borrowing Position

4.1. 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.

4.2. The Council's total outstanding debt as at 31st May 2022 is £63,077,304, as detailed in the table below. There are no maturities due during the year:

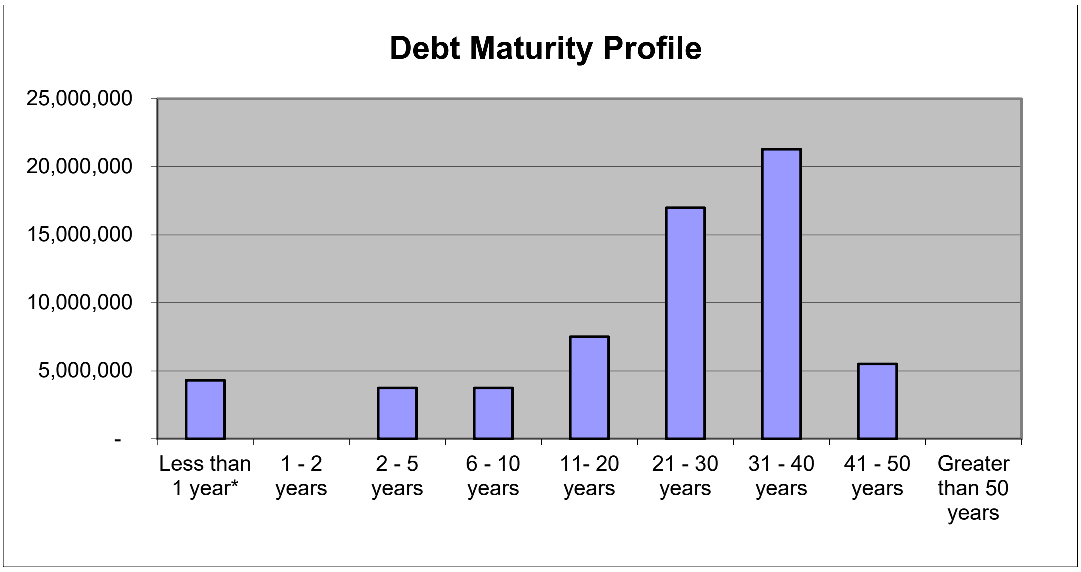
| Lender | External Borrowing | Average Interest Rate | Maturity period |
|---|---|---|---|
| **Public Works Loan Board** | £50,277,304 | 3.87% | between 4 and 40 years |
| **Market Loans** | £12,800,000 | 4.57% | between 1 and 45 years |
| **Total** | **£63,077,304** | **4.01%** | |

4.3. The 'operational boundary' (£92,956,000) and 'authorised limit' (£95,456,000) 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.

4.4. The budget for borrowing costs was based on the existing external debt with £6.8million external borrowing mid-year to fund the general fund capital expenditure. There has been no 'new' borrowing thus far during the current year The Council also continues to maintain a level of internal borrowing as anticipated.

4.5. 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 £1,711,950 to the general fund and £1,629,210 to the HRA in 2022/23. Charges to the HRA are forecast to be a net £25,180 greater, with additional interest receivable by the HRA (from increased interest rates) offset by a larger share of the interest payable per the current share of the pool. External borrowing costs are forecast to be increased by £23,590 if mid-year borrowing takes place at forecast interest rates. This is offset in part by a £19,310 smaller MRP charge in the year. This represents an overall underspend on the general fund of £20,900.

4.6. 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. 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.

4.7. 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.

4.8. No rescheduling has taken place during 2022/23 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.

4.9. The Treasury Management Strategy 2022/23 included in its Minimum Revenue Provision (MRP) Policy Statement a change in the method of calculating MRP to a straight line method over 50 years for historic supported borrowing incurred before 1 April 2008. There was no change to unsupported borrowing from 1 April 2008 which continues to be calculated using the 'Asset Life Method'. The Committee asked for more detail on this change to be included in this, the next treasury management update report. A briefing note is included at Annex B.

## 5. Prudential Indicators

5.1. 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.

## Annex A

| 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.<br>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.<br>Ultimately, the Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily.<br><br>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.<br>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.<br><br>The Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily.<br>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.<br><br>The Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily.<br>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:**<br><br>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.<br><br>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.<br><br>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. |

**Annex B**

**Briefing Note to Audit & Regulatory Committee:**

**Minimum Revenue Provision Policy and Application 2022/23**

1. The application of Minimum Revenue Provision (MRP) is the method by which Councils are required to set aside an element of their revenues each year as a provision for debt repayment; this in turn reduces the Capital Financing Requirement (CFR) which is the cumulative capital expenditure which has not yet been fund~~ing~~ed by capital or revenue resources.

2. The Treasury Management Strategy Statement for 2022/23, as presented at and recommended to Full Council at Audit & Regulatory Committee 9 February 2022, includes in its MRP Policy Statement: *for historic supported borrowing incurred before 1 April 2008, the Council will apply a straight line method over 50 years; and for unsupported borrowing from 1 April 2008 (including finance leases), the Council will apply the 'Asset Life Method' under which MRP is based on the estimated life of the asset for which the borrowing is undertaken. These provide a reduction in the borrowing need over the asset's life.*

3. As this represented a change from the previous year's MRP policy in respect of historic supported borrowing incurred before 1 April 2008, more detail is provided here about the change in method.

4. Comparison of MRP methods:

4.1. The previous method used was an MRP charge of 4% on the remaining balance of historic supported borrowing each year, i.e. a 'reducing balance' (shown in the table below in column c). The new adopted method is a straight line equal charge of MRP in each year for 50 years (shown in the table in column d). The table shows that the reducing balance (c) method takes much longer to 'repay' the historic supported borrowing than the straight line method (d). After 50 years, where the straight line method (d) has repaid the debt in full, under the reducing balance method (c), 13% of the debt remains and would not be repaid in full until after more than 100 years. This place burdens on future tax payers for much longer than the straight line method (d).

4.2. Column e shows the increase or decrease in MRP when comparing the two methods side by side and what represents savings in the revenue budget for MRP from year 1- 17 and from year 51 onwards. These increases/ decreases are then shown as a net present value (NPV) in column f using a discount of 3.5% (this is the discount rate used in the HM Treasury Green Book). This NPV forecasts what those increases and decreases will be worth in the future taking in to account the 'time value of money', ie because of the effects of inflation, £1 in the future is worth less than £1 today. Therefore although from year 19 to 50 the MRP charge will be greater in cash terms under the new method, the value of that increase will be less in real terms (NPV) and represent a saving to the Council and, as a result, to taxpayers of £519,000 over the full period.

| a | b | c | d | e | f |
|---|---|---|---|---|---|
| **Year** | **Financial year** | **4% reducing balance method** | **50 year straight line method** | **Increase/ (decrease) in MRP** | **NPV at 3.5%** |
| | | **£'000** | **£'000** | **£'000** | **£'000** |
| 1 | **2022/23** | 325 | 162 | (162) | (157) |
| 2 | **2023/24** | 312 | 162 | (149) | (139) |
| 3 | **2024/25** | 299 | 162 | (137) | (123) |
| 4 | **2025/26** | 287 | 162 | (125) | (109) |
| 5 | **2026/27** | 276 | 162 | (113) | (95) |
| 6 | **2027/28** | 265 | 162 | (102) | (83) |
| 7 | **2028/29** | 254 | 162 | (92) | (72) |
| 8 | **2029/30** | 244 | 162 | (82) | (62) |
| 9 | **2030/31** | 234 | 162 | (72) | (53) |
| 10 | **2031/32** | 225 | 162 | (62) | (44) |
| 11 | **2032/33** | 216 | 162 | (54) | (37) |
| 12 | **2033/34** | 207 | 162 | (45) | (30) |
| 13 | **2034/35** | 199 | 162 | (37) | (23) |
| 14 | **2035/36** | 191 | 162 | (29) | (18) |
| 15 | **2036/37** | 183 | 162 | (21) | (13) |
| 16 | **2037/38** | 176 | 162 | (14) | (8) |
| 17 | **2038/39** | 169 | 162 | (7) | (4) |
| 18 | **2039/40** | 162 | 162 | 0 | 0 |
| 19 | **2040/41** | 156 | 162 | 7 | 3 |
| 20 | **2041/42** | 149 | 162 | 13 | 6 |
| 21 | **2042/43** | 143 | 162 | 19 | 9 |
| 22 | **2043/44** | 138 | 162 | 25 | 12 |
| 23 | **2044/45** | 132 | 162 | 30 | 14 |
| 24 | **2045/46** | 127 | 162 | 35 | 15 |
| 25 | **2046/47** | 122 | 162 | 40 | 17 |
| 26 | **2047/48** | 117 | 162 | 45 | 19 |
| 27 | **2048/49** | 112 | 162 | 50 | 20 |
| 28 | **2049/50** | 108 | 162 | 54 | 21 |
| 29 | **2050/51** | 104 | 162 | 59 | 22 |
| 30 | **2051/52** | 99 | 162 | 63 | 22 |
| 31 | **2052/53** | 95 | 162 | 67 | 23 |
| 32 | **5053/54** | 92 | 162 | 71 | 24 |
| 33 | **2054/55** | 88 | 162 | 74 | 24 |
| 34 | **2055/56** | 84 | 162 | 78 | 24 |
| 35 | **2056/57** | 81 | 162 | 81 | 24 |
| 36 | **2057/58** | 78 | 162 | 85 | 24 |
| 37 | **2058/59** | 75 | 162 | 88 | 25 |
| 38 | **2059/60** | 72 | 162 | 91 | 25 |
| 39 | **2060/61** | 69 | 162 | 93 | 24 |
| 40 | **2061/62** | 66 | 162 | 96 | 24 |
| 41 | **2062/63** | 63 | 162 | 99 | 24 |
| 42 | **2063/64** | 61 | 162 | 101 | 24 |
| 43 | **2064/65** | 58 | 162 | 104 | 24 |
| 44 | **2065/66** | 56 | 162 | 106 | 23 |

| | | | | | |
|---|---|---|---|---|---|
| 45 | **2066/67** | 54 | 162 | 108 | 23 |
| 46 | **2067/68** | 52 | 162 | 111 | 23 |
| 47 | **2068/69** | 50 | 162 | 113 | 22 |
| 48 | **2069/70** | 48 | 162 | 115 | 22 |
| 49 | **2070/71** | 46 | 162 | 117 | 22 |
| 50 | **2071/72** | 44 | 162 | 118 | 21 |
| | | | | | |
| | **Years 51-100** | 917 | 0 | (917) | (98) |
| | **Years 100+** | 137 | | (137) | |
| | | | | | |
| | **TOTAL** | **8,115** | **8,115** | **0** | **(519)** |

5. Prudent application of MRP:

5.1. The overriding requirement regarding MRP in the Local Government Act 2003 and the 2018 guidance issued by MHCLG, now DLUHC, is that the Council must set a prudent provision (MRP) which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

5.2. This change therefore supports this notion as the supported historic debt will be repaid in a much shorter time period than under the previous method of MRP calculation.

**HIGH PEAK BOROUGH COUNCIL**

**Audit & Regulatory Committee**

**14 September 2022**

| | |
|---|---|
| TITLE: | **Treasury Management Update** |
| EXECUTIVE COUNCILLOR: | **Councillor Barrow - Executive Councillor for Corporate Services & Finance** |
| CONTACT OFFICER: | **Keith Pointon – Head of Finance<br>Emily Bennetts – Principal Finance Officer** |
| WARDS INVOLVED: | **All Wards** |

**Appendices Attached – Appendix A: Treasury Management Mid-Year Update Report, 31st August 2022**

## 1. Reason for the Report

1.1. The purpose of the report is to allow the robust scrutiny of the Council's Treasury Management performance in 2022/23 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and generally accepted good practice.

## 2. Recommendation

2.1. That Members note the current Treasury Management position as at 31st August 2022.

## 3. Executive Summary

3.1. 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).

3.2. This report comprises the following:

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- The current investment portfolio and investment income projected for the year;
- Projected borrowing requirements to support the capital programme with associated borrowing costs for the year; and
- Compliance against Prudential and Treasury indicators set in the Treasury Management Strategy 2022/23.

3.3. The main headlines are:

- The Bank of England base rate increase from 0.75% to 1.00% in May 2022; then to 1.25% in June; and again to 1.75% in August.

- Due to subsequent increases in investment interest rates, a surplus of £246,000 is forecast against the investment interest income budget.

- The Council's investment portfolio totalled £36.97million spread across eight separate institutions as at 31st August 2022.

- The Council's total level of debt as at 31st August was £63.07million at an average annual borrowing rate of 4.01%.

- The borrowing costs budget forecasts a total saving of £181,870 to the general fund and an increased charge of £226,830 to the HRA.

## 4. How this report links to Corporate Priorities

4.1. An effective Treasury Management function is critical in safeguarding and effectively managing the financial resources at the Council's disposal. Sufficient financial resources are required to deliver and underpin all of the Council's main priorities.

## 5. Alternative Options

5.1. This report sets out the Treasury Management position for High Peak Borough Council for 2022/23 to date and the projected outturn. As such it is a statement of fact and there are no options.

**Martin Owen**
**<u>Executive Director (Finance & Customer Services)</u>**

**Web Links and Background Papers**

'Treasury Management Strategy Statement 2022/23' (Audit & Regulatory Committee, February 2022)

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**Appendix A**

# Treasury Management Update
# 31st August 2022

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## 1. Introduction

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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.

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## 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 9th August:

| % | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank Rate** | 2.25 | 2.50 | 2.75 | 2.75 | 2.75 | 2.50 | 2.50 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.00 |
| **5yr PWLB rate** | 2.80 | 3.00 | 3.10 | 3.10 | 3.00 | 3.00 | 2.90 | 2.90 | 2.80 | 2.80 | 2.80 | 2.70 | 2.70 |
| **10r PWLB rate** | 3.00 | 3.20 | 3.30 | 3.30 | 3.20 | 3.10 | 3.10 | 3.00 | 3.00 | 3.00 | 2.90 | 2.90 | 2.80 |

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; and to 1.75% on 4th August. The medium term forecast from Link shows continuing rises throughout 2022 and into 2023, peaking at 2.75%, with a reduction back to 2.00% by September 2025. The forecast is being constantly reviewed by Link 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.

2.3. 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.

2.4. Forecast PWLB rates are also greater than were anticipated at budget setting and the Local Authority market will be impacted by all these factors plus the levels of liquidity in the market which may be returning to more normal trends as the levels of grant cash flowing through Councils from central government to businesses and residents potentially reduce.

## 3. Investment Activity

3.1. The Council had budgeted to receive £103,670 in investment income in 2022/23, based on the modest interest rate rise forecast as described above. Following the quick pace of the Bank of England base rate rises and the consequent improved investment opportunities, a surplus of c.£246,000 is forecast against the budget.

3.2. The budget includes interest receivable from the £250,000 loan to the Buxton Crescent Heritage Trust as part of the Crescent development at a rate of 6%, which is to be reviewed.

3.3. 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). The Council's investment portfolio at 31st August 2022 totalled £36,971,000:

| **Counterparty** | **Country of Domicile** | **Amount** | **Interest rate at end of period** | **Maturity period** | ***Link counterparty limit*** |
|---|---|---|---|---|---|
| Money Market Funds | UK | £8,800,000* | c.1.70% | instant access | *12 months* |
| Santander | UK | £6,300,000 | 1.01% (on notice) | 180 days | *6 months* |
| Barclays | UK | £5,200,000 | 1.75%-1.80% | 65-95 days | *6 months* |
| NatWest Bank | UK | £4,671,000** | 0.10% | instant access | *12 months* |
| Lloyds Bank RFB Certificate of Deposit | UK | £4,000,000 | 1.74%-1.99% | 123-183 days | *6 months* |
| Standard Chartered | UK | £4,000,000 | 1.62%-2.08% | 177 to 184 days | *6 months* |
| Nationwide Building Society | UK | £2,000,000 | 1.25% | 154 days | *6 months* |
| Handelsbanken | UK | £1,000,000 | 1.05% | instant access | *12 months* |
| NatWest Bank Certificate of Deposit | UK | £1,000,000 | 1.30% | 184 days | *12 months* |
| **Total** | | **£36,971,000** | | | |
| ESG proportion of portfolio | 24.88% | £9,200,000 | | | |
| *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'.* |

* High levels of instant access cash are being held to support imminent cash flow due in the capital programme.
** Higher NatWest balances were held at the end of the month due to Direct Debit income pending Precept outgoing payments at the start of the following month.

3.4. 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. The Action points and responses from this are included at Annex A. Link continue to work on a potential service they may be able to offer to the Council to assist in achieving its aims. The treasury management team consider any new investment opportunities with ESG links where available and appropriate with regard to the SLY principals; though no new ESG linked products have emerged in the local authority market recently.

## 4. Borrowing Position

4.1. 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.

4.2. The Council's total outstanding debt as at 31st August 2022 is £63,077,304, as detailed in the table below. There are no maturities due during the year:

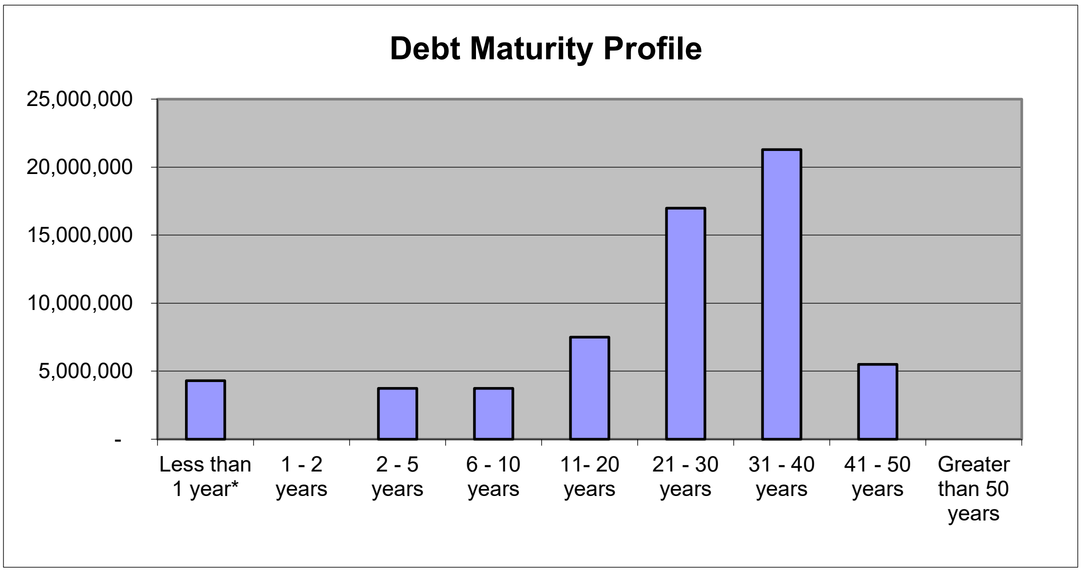
| Lender | External Borrowing | Average Interest Rate | Maturity period |
|---|---|---|---|
| **Public Works Loan Board** | £50,277,304 | 3.87% | between 4 and 40 years |
| **Market Loans** | £12,800,000 | 4.57% | between 1 and 45 years |
| **Total** | **£63,077,304** | **4.01%** | |

4.3. The 'operational boundary' (£92,956,000) and 'authorised limit' (£95,456,000) 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.

4.4. The budget for borrowing costs was based on the existing external debt with £6.8million external borrowing mid-year to fund the general fund capital expenditure. There has been no 'new' borrowing thus far during the current year. The Council also continues to maintain a level of internal borrowing as anticipated.

4.5. 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 £1,711,950 to the general fund and £1,629,210 to the HRA in 2022/23. The share of charges to the HRA are forecast to be a net £226,830 greater, with additional interest receivable by the HRA (from increased interest rates) offset by a larger share of the interest payable per the current share of the pool following the reduction in Voluntary Revenue Provision. External borrowing costs are forecast to be increased by £64,270 if mid-year borrowing takes place at expected interest rates. This is offset in part by a £19,310 smaller general fund Minimum Revenue Provision (MRP) charge in the year. Combined, these represent an overall underspend on the general fund of £181,870.

4.6. 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. 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.

4.7. 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.

4.8. Link is working on behalf of the Council currently with a view to exploring any options and offers to exit market loans early, where the premium payable is less than the net present value (NPV) of the saving on interest payments due for the remaining term of the loan. This is becoming a viable option again in the climate of increasing interest rates. If the Council were able to repay a market loan in full without having to externally borrow to replace the funding, then the Council could achieve significant NPV savings over the remaining life of the loan. If the Council had to replace a repaid loan in part or in full with a new PWLB loan, then the Council could still achieve savings but considerably smaller. The Treasury team will therefore continue to review any offers and pursue where savings can be maximised.

4.9. The net savings are achieved by the nil interest payment ongoing on the repaid loan, offset by a premium paid upon redemption which is written back under accounting regulations in the year of redemption and unwound over the life of the remaining loan had it run its course, which is discounted to the net present value in those years.

4.10. Any net saving would be shared between the general fund and the HRA in accordance with the proportions of the pool (currently: general fund 40.86%, HRA 59.14%).

4.11. There is an additional fee payable for this service from Link. The fee is only payable if the Council decides to go ahead with the rescheduling – there is no up-front fee for the investigation work. The fee is equal to 25 basis points of the loan principal repaid or restructured.

## 5. Prudential Indicators

5.1. 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.

**Annex A**

| 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.<br>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.<br>Ultimately, the Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily.<br><br>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.<br>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.<br><br>The Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily.<br>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.<br><br>The Council would need to ensure that when investing, the principles of SLY (security, liquidity, yield) are accounted for primarily.<br>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:**<br><br>The Fund's Climate Strategy was approved by Committee in November 2020, following consultation with the Pension Fund's stakeholders. It sets |

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| | 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.<br><br>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.<br><br>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. |