Appendix A

High Peak Borough Council

working for our community

Treasury Management Update
31st December 2022

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 December 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'), most recently provided their latest base rate and PWLB (Public Works Loan Board) forecast on 19th December:

%	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Bank Rate	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
5yr PWLB rate	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10r PWLB rate	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30

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; to 1.75% on 4th August, to 2.25% on 22nd September, to 3.00% on 3rd November, and again to 3.50% on 15th December .

2.3. The latest release shows the base rate reaching 4.25% by the end of the financial year. 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.

2.4. 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.

2.5. Forecast PWLB and Intra-Local Authority borrowing rates are also greater than were anticipated at budget, but this has not impacted the Council during the year as no external borrowing has been undertaken, nor is anticipated to be at this point.

3. Investment Activity & Performance

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. The quick pace of the Bank of England base rate rises has resulted in much improved investment opportunities for the Council. There is no interest collectable from the loan to the Buxton Crescent Heritage Trust during the year. Overall, a surplus of £442,080 is forecast against the budget.

3.2. 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 average balances for the year to 31st December were £32.45million. The Council's investment portfolio at 31st December 2022 totalled £30,639,000:

Counterparty	**Country of Domicile**	**Amount**	**Interest rate at end of period**	**Maturity period**	***Link counterparty limit***
Money Market Funds	UK	£9,600,000	c. 3.328%	instant access	*12 months*
Barclays	UK	£5,200,000	3.50-3.55%	65-95 days	*6 months*
NatWest Bank	UK	£3,839,000	0.80%	instant access	*12 months*
Handelsbanken	UK	£3,000,000	2.95%	instant access	*12 months*
Standard Chartered	UK	£3,000,000	3.38-4.06%	181 to 182 days	*6 months*
Lloyds Bank RFB Certificate of Deposit	UK	£2,000,000	1.99%	183 days	*6 months*
Nationwide Building Society	UK	£2,000,000	2.96%	120 days	*6 months*
Santander UK Plc RFB Certificate of Deposit	UK	£2,000,000	3.56%	120 days	*6 months*
Total		**£30,639,000**			
ESG proportion of portfolio	26.76%	£8,200,000			
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'.*				

Counterparty	Country of Domicile	Amount	Interest rate at end of period	Maturity period	*Link counterparty limit*
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'.*				

3.3. Average investment performance from this activity is shown in the table below. Whilst investment returns are increasing, they lag behind the fast paced base rate increases as improved investment opportunities emerge.

	Q1 Apr-Jun	Q2 Jul-Sept	Q3 Oct-Dec	Average
>364 days	-	-	-	-
<364 days	0.84%	1.52%	2.57%	1.55%
instant access	0.72%	1.33%	2.38%	1.62%
Total	**0.80%**	**1.46%**	**2.47%**	**1.58%**
Bank of England base rate at end of period	*1.25%*	*2.25%*	*3.50%*	

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 December 2022 is £63,077,304, as detailed in the table below. There are no maturities due during the year. £3.3million debt rescheduling, described below is taking place in January 2023:

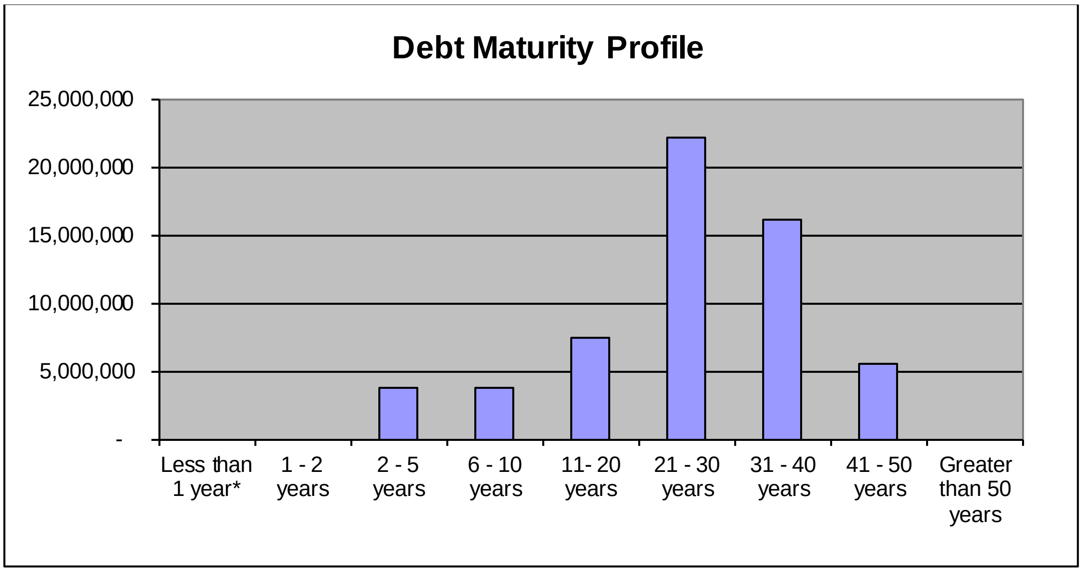
Lender	Forecast External Borrowing at 31 March	Average Interest Rate	Remaining Maturity period
Public Works Loan Board	£50,277,304	3.87%	between 4 and 40 years
Market Loans	£9,500,000	4.55%	between 1 and 44 years
Total	**£59,777,304**	**4.00%**	

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 is no 'new' borrowing now expected 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 £99,890 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. An underspend on external borrowing costs is forecast at £68,100 plus a net underspend on other borrowing costs of £8,660. Combined, these represent an overall underspend on the general fund of £176,650.

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. The loan of £1m showing as 'less than 1 year' has a full maturity date of £1m 2023/24.

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. In the current rising interest rate climate opportunities for rescheduling are becoming more likely. 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. Where the Council is 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 40.85%, HRA 59.15%).

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.

4.12. An opportunity for the extinguishment of a LOBO (Lender Option Borrower Option) held with Commerzbank of £3.3million with an original maturity date of 2065 has been pursued for repayment on 31st January 2023. This will be reported in more detail in the Treasury Management Annual report for 2022/23 as it has taken place in the fourth quarter.

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. 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

Notice of Motion Action	Action Update / Response
	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.