Appendix A

High Peak Borough Council
working for our community

Treasury Management Update
31st August 2023

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1. Introduction

1.1. Treasury Management is defined as "The management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.2. 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 2023/24 was approved by Council on 21st February 2023. This report details treasury management performance up to the 31st August 2023 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'), provided an update to their interest rate forecasts for the Bank of England base rate and PWLB (Public Works Loan Board) on 26th June:

%	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Bank Rate	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
5yr PWLB rate	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10r PWLB rate	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40

2.2. The Bank of England base rate (bank rate) increased from 4.25% at the start of the year to 4.50% on 11th May, to 5.00% on 22nd June, and to 5.25% on 3rd August. Expectations are that it will increase further, to 5.50%, during the year and remain at this relatively high level throughout the financial year. Link's revised expectations from May include the bank rate moving higher from the previously predicted peak of 5.00% and staying at elevated levels for longer in light of the more persistent inflation backdrop.

2.3. The Council's investment income budget was set with the expectation of a peak at 4.50%, returning to 4.00% by Spring 2024. Therefore there is the potential of improved investment income, but this will also be influenced by the size of the investment portfolio available and decisions on cash flow and use of reserves and other funding.

2.4. Forecast PWLB and Intra-Local Authority external borrowing interest rates are high in the context of the last 10 years. Therefore wherever possible the Council will avoid medium to long term borrowing commitments by utilising spare cash balances as internal funding, or short-term borrowing with a view to reviewing borrowing requirements should the rates begin to decrease. The practice of internal borrowing has served well over recent years to make net savings on financing costs with loss of interest income being smaller than external borrowing costs, which is still the case. However, this is kept under constant review in the climate of rises and fluctuations.

3. Investment Activity & Performance

3.1. The Council had budgeted to receive £699,260 in investment income in 2023/24 based on the high Bank of England base rate environment as described above. A surplus of £143,000 is forecast as rates continue to increase.

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 the investment priorities of Security of Capital, Liquidity and Yield (SLY). The average balances for the year to date were £18.6million. The Council's investment portfolio at 31st August 2023 totalled £24,625,000:

Counterparty	**Country of Domicile**	**Amount**	**Interest rate at end of period**	**Maturity period**	***Link counterparty limit***
Money Market Funds	UK	£8,090,000	c.5.21%	instant access	*12 months*
Standard Chartered	UK	£5,000,000	5.46-5.88%	92-184 days	*6 months*
NatWest Bank	UK	£4,135,000*	1.45%	instant access	*12 months*
Handelsbanken	UK	£3,400,000	4.25%**	instant access	*12 months*
Nationwide Building Society	UK	£2,000,000	5.52%	153 days	*6 months*
Goldman Sachs	UK	£1,000,000	5.68%	92 days	*6 months*
Lloyds Bank	UK	£1,000,000	5.60%	183 days	*6 months*
Total		**£24,625,000**			
ESG proportion of portfolio	20.30%	£5,000,000			
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'.*				

*balance higher than normal due to precept cash flow timings at the start of the next month
**rate under review with counterparty

3.3. Average investment performance from this activity is shown in the table below. Investment returns are increasing with a general short lag behind the fast paced base rate increases as improved investment opportunities emerge. Average duration of investment is kept short to take advantage of these increases.

	Q1 Apr-Jun	Q2 Jul-Aug
>364 days	-	-
<364 days	4.17%	5.34%
instant access	3.87%	4.52%
Total	**4.00%**	**4.75%**
Bank of England base rate at end of period	*5.00%*	*5.25%*

3.4. A Notice of Motion relating to Climate Change was supported at Full Council on 16th February 2021 which included actions with potential impact on the Council's treasury management investment portfolio relating to the exclusion of any investment funds which include environmentally harmful investments and the inclusion of investment funds which have positive societal and environmental benefits.

3.5. The main rating agencies used in the Link Creditworthiness model, which is used by the Council, incorporate ESG (Environmental, Social, Governance) risks alongside the more traditional financial risk metrics when assessing counterparty ratings, therefore there is an element of ESG consideration already being applied. The Council directly invests in products which have specific ESG merits where they meet all other investment criteria. The proportion of these of the portfolio as a whole is highlighted on all reports. The Council's investments with Barclays of £5.2million linked to Barclays' Green Bond Purchasing Programme matured in June and July.

3.6. With regards to any financial investments CIPFA and statutory investment guidance make absolutely clear that all financial investments must adopt the 'SLY' principals, whereby Security of investments is always the priority, followed by Liquidity, then Yield. Investment opportunities with positive ESG merits would not be selected if the SLY criteria were not satisfied.

3.7. No new ESG linked products have emerged in the local authority market recently, but the treasury team continue to talk to Link, brokers and other counterparties to keep up to date.

3.8. Any non-financial investments related to this subject, e.g. renewable energies, are not included in this report and, as with all Council priorities and decisions, would need to be considered in the wider context including reference to the corporate plan, full business cases and due diligence.

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 2023 is £63,777,304. £2,000,000 of short-term borrowing was repaid on 16th May, replaced by £5,000,000 with a term of 11 months at 4.40%. A LOBO (Lender Option Borrower Option) loan of £1,000,000 was repaid upon maturity on 3rd April. Therefore, the Council no longer has any LOBO loans. There are no further maturities due during the year.

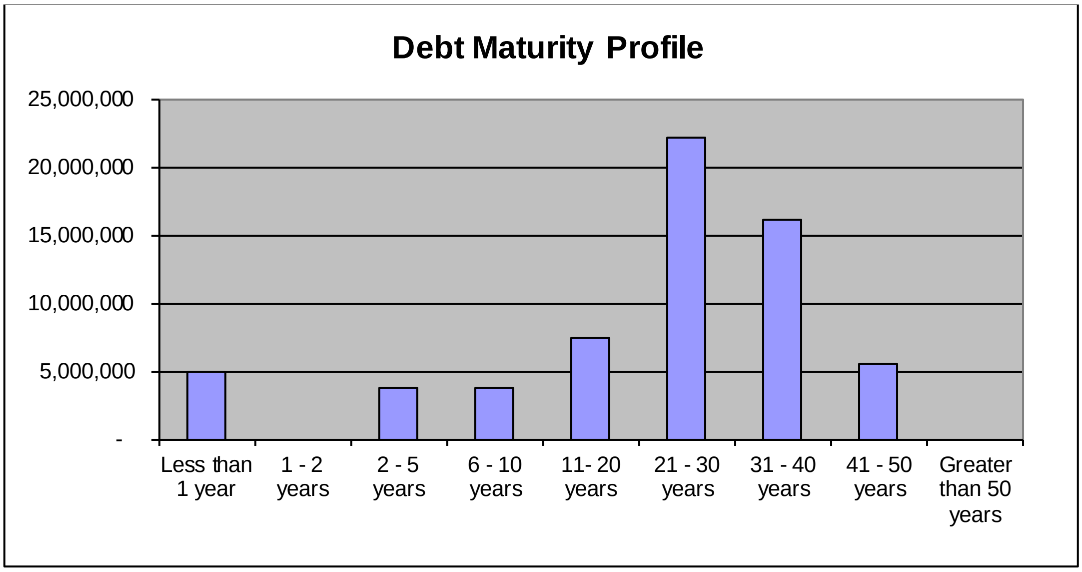
Lender	Forecast External Borrowing 2022/23	Average Interest Rate	Remaining Maturity period
Public Works Loan Board	£50,277,304	3.87%	between 4 and 39 years
Market Loans	£8,500,000	4.25%	between 32 and 43 years
Local Authority Loans	£5,000,000	4.41%	Less than 1 year
Total	**£63,777,304**	**3.96%**	

4.3. The 'operational boundary' (£99,816,000) and 'authorised limit' (£102,466,000) 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 £5million external borrowing during the year to fund the general fund capital expenditure. There could be further borrowing where necessary to support a proportion of previous year's capital expenditure which is currently internally funded.

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 £1,460,670 to the general fund and £1,944,580 to the HRA in 2023/24. The general fund is forecast to be £71,400 underspent due to a smaller capital borrowing requirement in 2022/23, the impact of which is a smaller MRP charge than anticipated, and a larger charge to the HRA of £43,830 from the resulting decrease in the general fund proportion of the pool.

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.



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, particularly as opportunities for rescheduling are becoming more likely in the current rising interest rate climate.

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 2023/24. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indictors.