Appendix A Treasury Management Update Quarter 2 2024/25

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 2024/25 was approved by Council on 21 February 2024. This report details treasury management performance up to the 30 September 2024 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 11 November 2024:

%	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Bank Rate	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
5yr PWLB rate	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10r PWLB rate	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10

2.2. The Bank of England base rate (bank rate) started the year at 5.25% and has since decreased twice so far to 5.00% on 1 August, and to 4.75% on 7 November. The latest forecast expects a further decrease to 4.50% by the end of the year. The budget was set with the expectation that interest rates would decrease more sharply than this, to 3.75% by the end of the year.

2.3. Forecast PWLB and intra-local authority external borrowing interest rates also remain higher than originally anticipated by around 0.80%. This continues to restrict the opportunity to lock external debt as the cost remains high. The practice continues to 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.

3. Investment activity & performance

3.1. 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).

3.2. The average balances for the year to date were £20.3million. The Council's investment portfolio at the end of the quarter totalled £23.9million:

Counterparty	**Country of Domicile**	**Amount**	**Interest rate at end of period**	**Maturity period**	***Link counterparty limit***
Money Market Funds	UK	£11,850,000	5.06%	instant access	*12 months*
Standard Chartered	UK	£4,000,000	4.85%	60-92 days	*6 months*
Santander	UK	£2,500,000	5.00%	180 day notice	*6 months*
Handelsbanken	UK	£2,000,000	4.60%	instant access	*12 months*
Nationwide Building Society	UK	£2,000,000	5.02%	92 days	*6 months*
Barclays Green deposit	UK	£1,000,000	5.00%	65 day notice	*6 months*
NatWest Bank	UK	£551,000	3.00%	instant access	*12 months*
Total		**£23,901,000**			
ESG proportion of portfolio	20.92%	£5,000,000			
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'.*				

3.3. 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 all of the Council's financial investments have an element of ESG consideration applied. The Council directly invests in products which have specific ESG merits where they meet the priority SLY investment criteria. The balance of specific ESG linked investments at the end of the quarter was £5million.

3.4. Average investment performance in the quarter compared to expectations in the budget is shown in the table below:

	Budget	**Q1 actuals**	**Q2 actuals**
>364 days	n/a	n/a	n/a
<364 days	5.47%	5.41%	5.19%
instant access	4.01%	4.99%	4.86%
Total average	**4.58%**	**5.16%**	**5.00%**
Bank of England base rate at end of period		5.25%	5.00%

3.5. The Council had budgeted to receive £1,121,170 in investment income in 2024/25 based on the improved investment return opportunities while the Bank of England base rate remains high. A shortfall of £100,410 is currently forecast against this budget as the average portfolio size is smaller than anticipated partly due to continued internally borrowing as well as other cash flow fluctuations. However the shortfall is an improvement from the first quarter forecast due to the slowing of interest rate decreases.

4. Capital Programme

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

	TMSS 2024/25 Estimate	**Current Estimate (inc. prior year carry forward)**
	£'000	£'000
General Fund	10,925	12,302
HRA	9,749	10,649
Total Capital Expenditure	**20,674**	**22,951**

	TMSS 2024/25 Estimate	Current Estimate (inc. prior year carry forward)
	£'000	£'000
Funded by:		
External Contributions	1,660	1,805
S106 Contribution	82	82
Reserves		0
Capital Receipts	2,214	2,214
HRA Major Repairs Reserve	2,289	2,289
HRA Revenue Contribution	3,489	4,388
Net financing need for the year	**10,940**	**12,173**
Capital Financing Requirement (CFR)		
Opening CFR	90,760	87,976
Net Financing Requirement	10,940	12,173
Minimum Revenue Provision	(1,591)	(1,536)
Closing CFR	**100,109**	**98,613**

4.2. The Net Financing Requirement on 2024/25 capital expenditure is now estimated at £12,173,000. The increases in programmes compared to those presented in the Treasury Management Strategy Statement (TMSS) are reported in the Second Quarter Financial, Procurement and Performance Review 2024-25, Appendix A reported to the Corporate Select Committee on 4 November (https://democracy.highpeak.gov.uk/ieListDocuments.aspx?CId=143&MId=3137&Ver=4) and include increases in programmes related to Affordable Housing, Asset Management, Leisure Centres, Play investment, and HRA Decarbonisation; and variances to budgets for Property services, Fleet, and Leisure services.

4.3. The impact of this will increase the Capital Financing Requirement (CFR), the prudential indicator set to ensure that the Council's capital investment plans are affordable. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow to finance capital expenditure and is derived by aggregating specified items for the Council's balance sheet. The forecast closing CFR is below that set in the Treasury Strategy Statement due to a smaller opening balance. On the basis of the latest forecasts, the Council's capital investment plans remain affordable.

5. Borrowing Position

5.1. 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.

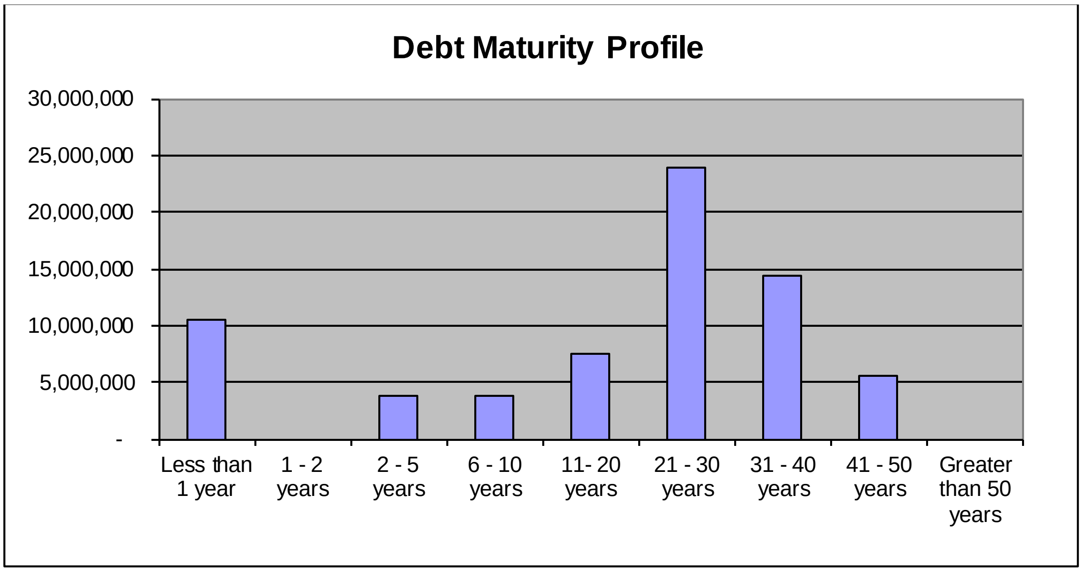
5.2. The Council's total outstanding debt at the end of the quarter is £69,277,304. Movements on local authority loans have taken place: £5,000,000 of short-term borrowing at 4.40% was repaid in April, replaced by £5,000,000 on the same day with a term of 9 months at 5.35%, a new loan of £3,000,000 for one year at 5.35% also started in April, and a new 3 month loan of £2,500,000 at 5.30% commenced in May, which was refinanced in August at 4.85%.

Lender	External borrowing	Average Interest Rate	Remaining Maturity period
Public Works Loan Board	£50,277,304	3.87%	between 2 and 38 years
Market Loans	£8,500,000	4.25%	between 41 and 43 years
Local Authority Loans	£10,500,000	5.25%	Less than 1 year
Total	**£69,277,304**	**4.10%**	

5.3. The 'operational boundary' (£107,235,000) and 'authorised limit' (£109,885,000) 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.

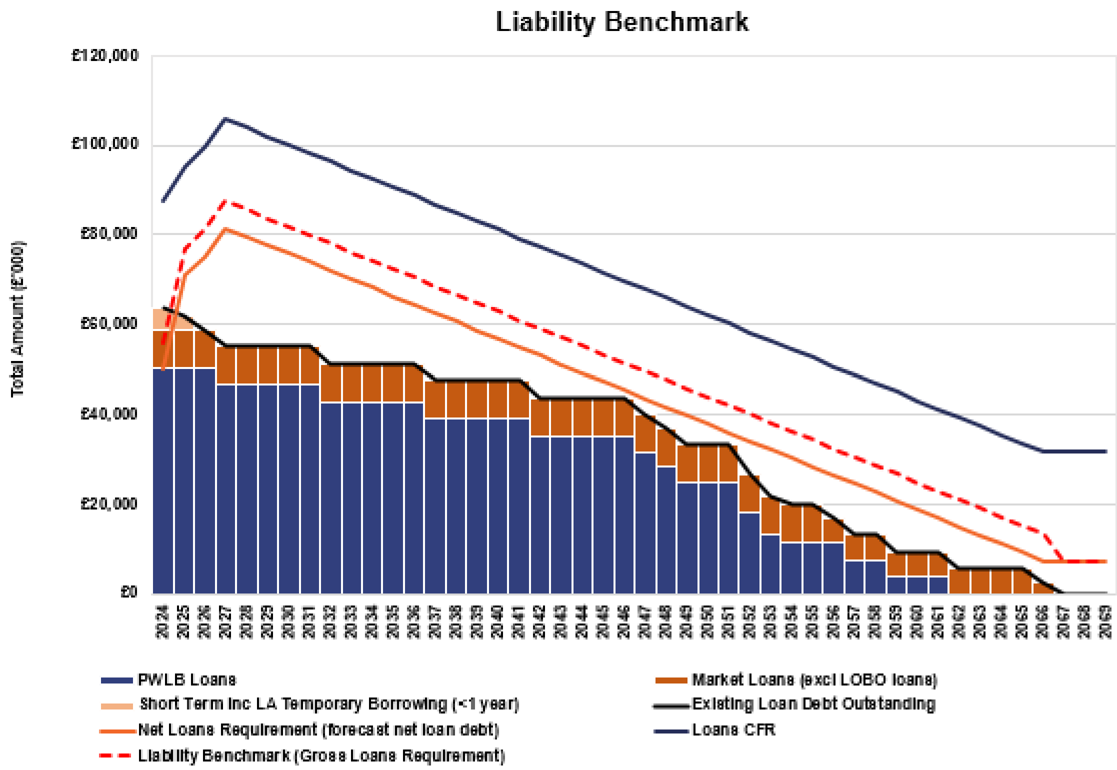
5.4. The budget for borrowing costs was based on £9million of new and refinanced external borrowing half way through the year to fund the capital borrowing requirement. The Council adopts a 'one pool' approach to borrowing whereby investments and borrowing are managed centrally with the proportional income and expenditure then split between the general fund and HRA. The Council has budgeted for interest charges and other financing costs of £1,484,870 to the general fund and £2,064,600 to the HRA in 2024/25. The general fund is forecast to be £493,150 overspent due to increased external borrowing costs and a larger credit to the HRA of £258,000 from an increase in the investment income apportionment based on the forecast reserves positions of the general fund and HRA.

5.5. The treasury team will continue to monitor external borrowing 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.



5.6. 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.

5.7. The updated liability benchmark chart shows that the Council maintains a forecast under borrowed position compared to the CFR over the life of the existing loan debt.



6. Prudential Indicators

6.1. 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 2024/25. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.