Appendix A Treasury Management Update Quarter 3 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 31 December 2024 and projects forward for the remainder of the financial year.

1.5. The Council’s treasury advisers, Link Treasury Services Ltd, are now part of MUFG Pension & Market Services, and as such have rebranded as MUFG Corporate Markets (MUFG) with effect from 20 January 2025. There is no change or disruption to the service the Council receives for Treasury Management Consultancy Services under the existing contract.

2. Economic forecast: interest rates

2.1. MUFG provided an update to its 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 £20.2million. The Council's investment portfolio at the end of the quarter totalled £26.8million:

Counterparty	Country of Domicile	Amount	Interest rate at end of period	Maturity period	*MUFG counterparty limit*
Money Market Funds	UK	£14,060,000	4.70%	instant access	*12 months*
Standard Chartered Sustainable	UK	£4,200,000	4.57-4.67%	30-62 days	*12 months*
Santander	UK	£2,500,000	5.00%	180 day notice	*6 months*
Handelsbanken	UK	£2,000,000	4.10%	instant access	*12 months*
NatWest Bank	UK	£1,562,000	2.75%	instant access	*12 months*
Lloyds Corporate Markets (NRFB)	UK	£1,500,000	4.84%	94 days	*12 months*
Barclays Green deposit	UK	£1,000,000	4.75%	65 day notice	*6 months*
Total		**£26,822,000**			
ESG proportion of portfolio	19.39%	£5,200,000			
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	*MUFG 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. The main rating agencies used in the MUFG 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 invests in products which have specific ESG merits directly where they meet the priority SLY investment criteria. The balance of specific ESG linked investments at the end of the quarter was £5.2million.

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	Q3 actuals
>364 days	n/a	n/a	n/a	n/a
<364 days	5.47%	5.41%	5.19%	5.14%
instant access	4.01%	4.99%	4.86%	4.84%
Total average	**4.58%**	**5.16%**	**5.00%**	**4.97%**
Bank of England base rate at end of period		5.25%	5.00%	4.75%

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 £140,680 is 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.

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	10,310
HRA	9,749	10,234
Total Capital Expenditure	**20,674**	**20,544**
Funded by:		
External Contributions	1,660	2,465
S106 Contribution	82	71
Reserves		0
Capital Receipts	2,214	1,991
HRA Major Repairs Reserve	2,289	2,615
HRA Revenue Contribution	3,489	3,120
Net financing need for the year	**10,940**	**10,282**
Capital Financing Requirement (CFR)		
Opening CFR	90,760	87,976
Net Financing Requirement	10,940	10,282
Minimum Revenue Provision	(1,591)	(1,536)
Closing CFR	**100,109**	**96,722**

4.2. The Net Financing Requirement on 2024/25 capital expenditure is now estimated at £10,282,000. The reprofiling of programmes compared to those presented in the Treasury Management Strategy Statement (TMSS) are reported in the Third Quarter Financial, Procurement and Performance Review 2024-25, Appendix A and Medium Term Financial Plan Appendix A reported to the Corporate Select Committee on 3 February (https://democracy.highpeak.gov.uk/ieListDocuments.aspx?CId=143&MId=3138&Ver=4).

4.3. The impact of this in the current year coupled with a smaller opening balance than anticipated means that the forecast closing CFR will be below that set in the Treasury Strategy Statement. The CFR represents the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is 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. A prudential indicator for CFR is set to ensure that the Council's capital investment plans are affordable. Based on 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.

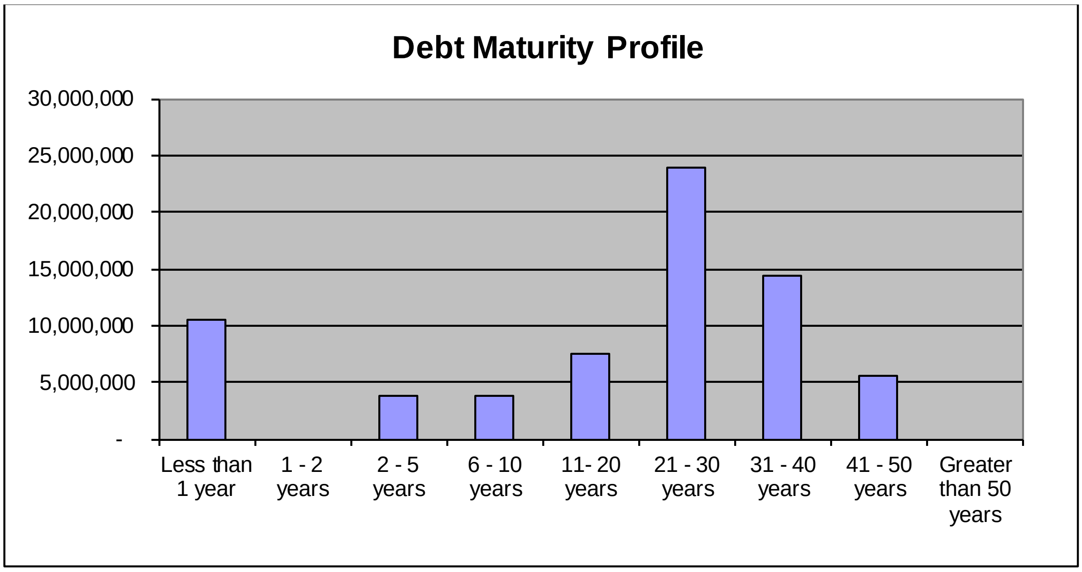
Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement. The Council's total outstanding debt at the end of the quarter is £69,277,304. Movements on local authority loans have taken place: £5,000,000 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% for a further three months.

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%**	

5.2. 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.

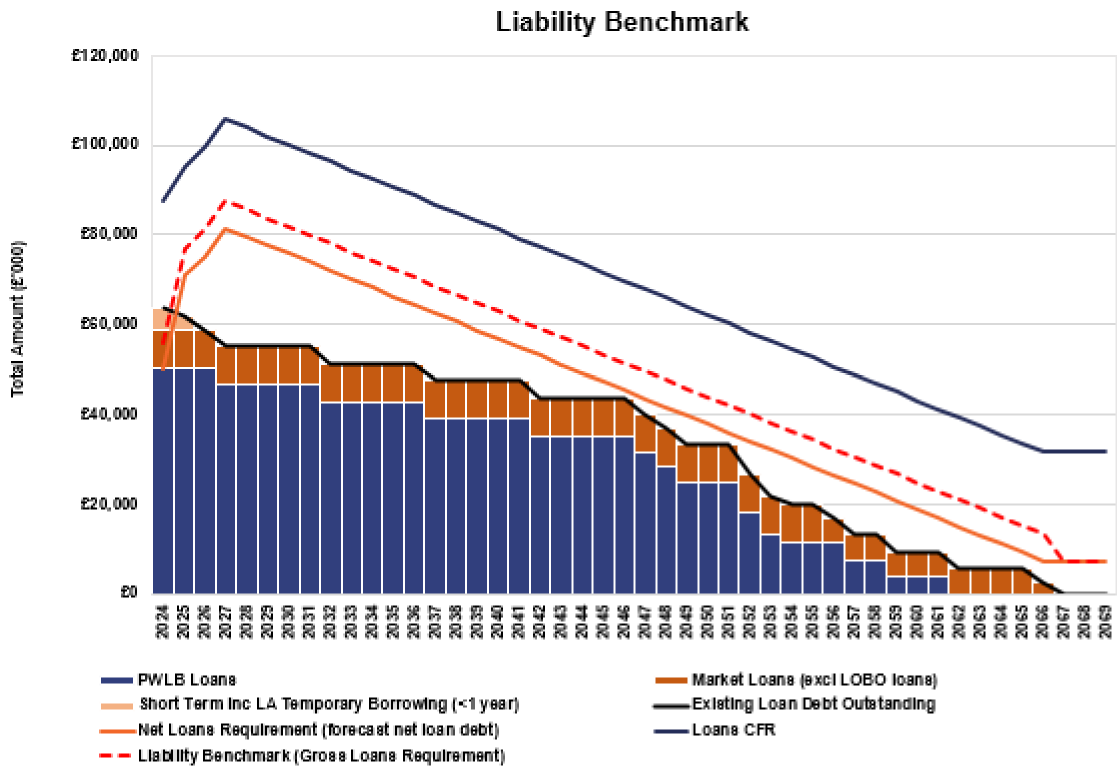
5.3. The budget for borrowing costs was based on £9million of new and refinanced external borrowing half way through the year to fund the capital borrowing requirement. The Council adopts a 'one pool' approach to borrowing whereby investments and borrowing are managed centrally with the proportional 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 £465,850 overspent due to a larger capital borrowing requirement in 2023/24, a larger borrowing cost of £156,000 from the earlier borrowing, and a larger credit to the HRA of £232,000 from an increase in the investment income apportionment based on the forecast reserves positions of the general fund and HRA.

5.4. 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 may be high. The graph below details the maturity profile of current loans.



5.5. 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 MUFG, monitor prospects for debt rescheduling continually to achieve overall financial benefit to the Council, particularly as opportunities for rescheduling are becoming more likely in the current rising interest rate climate.

5.6. The 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.