Report to:	**Audit and Standards Committee**
Date:	**27 September 2021**
Title:	**Treasury Management**
Report of:	**Chief Finance Officer**
Ward(s):	**All**
Purpose of report:	**To present details of recent Treasury Management activity.**
Officer recommendation(s):	**To note and recommend that Cabinet accepts that Treasury Management Activity for the period 1 April to 31 July 2021 has been in accordance with the approved Treasury Strategies.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.**
Contact Officer(s):	**Name: Ola Owolabi** **Post title: Deputy Chief Finance Officer** **E-mail: ola.owolabi@lewes-eastbourne.gov.uk** **Telephone number: 01273 485083**

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1. Introduction

1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report detailing the recent Treasury Management activity before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

2. Treasury Management Activity

2.1 The timetable for reporting Treasury Management activity in 2021/22 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
26 July 2021	2020/21 Annual Report (up to 31 March 2021)

27 September 2021	1 April to 31 July 2021
16 November 2021	1 August to 31 October 2021
18 January 2022	1 November to 31 December 2021
8 March 2022	1 January to 28 February 2022

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between 1 April to 31 July 2021 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria the minimum rating required for deposits made in terms of long-term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
250221	Warrington BC	07 Jun 21	17 Aug 21	71	5,000,000	0.02	*
250721	Royal Borough of Windsor & Maidenhead	30 Jul 21	29 Oct 21	91	5,000,000	0.03	*
251221	DMO	29 Jul 21	26 Aug 21	28	9,000,000	0.01	*

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured between 1 April to 31 July 2021, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £116.5m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
249321	Surrey County Council	08 Mar 21	08 Apr 21	31	5,000,000	0.05%	*
249421	Debt Management Office	01 Apr 21	08 Apr 21	7	5,000,000	0.01%	*
249521	Debt Management Office	07 Apr 21	13 Apr 21	6	6,000,000	0.01%	*
249621	Debt Management Office	09 Apr 21	30 Apr 21	21	9,000,000	0.01%	*
249721	Debt Management Office	30 Apr 21	21 May 21	21	9,000,000	0.01%	*
249821	Debt Management Office	04 May 21	11 May 21	7	7,000,000	0.01%	*
249921	Debt Management Office	12 May 21	18 May 21	6	7,000,000	0.01%	*
250021	Debt Management Office	18 May 21	01 Jun 21	14	8,000,000	0.01%	*
250121	Debt Management Office	01 Jun 21	07 Jun 21	6	15,000,000	0.02%	*
250321	Debt Management Office	07 Jun 21	28 Jun 21	21	11,500,000	0.02%	*
250421	Debt Management Office	08 Jun 21	29 Jun 21	21	3,500,000	0.02%	*
250521	Debt Management Office	15 Jun 21	18 Jun 21	3	3,500,000	0.02%	*
250621	Debt Management Office	21 Jun 21	12 Jul 21	21	1,500,000	0.02%	*
250821	Debt Management Office	28 Jun 21	29 Jul 21	31	11,500,000	0.01%	*
250921	Debt Management Office	01 Jul 21	08 Jul 21	7	5,000,000	0.01%	*
251021	Debt Management Office	08 Jul 21	15 Jul 21	7	5,000,000	0.01%	*

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
251121	Debt Management Office	15 Jul 21	29 Jul 21	14	4,000,000	0.01%	*
	Total				116,500,000		
	*UK Government body and therefore not subject to credit rating						

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 April to 30 July 2021 was 0.015%, which was below the average bank base rate for the period of 0.10%.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.905m generating interest of approximately £0.9k.

	Balance at 31 July 2021 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	0.02
Lloyds Bank Corporate Account	£2,781	£1,216	0.00
Lloyds Bank Call Account	£2,310	£2,498	0.01

2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 31 July 2021 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£0,000	0,000	0.00
Deutsche Managed Sterling Fund	£0,001	0,001	0.00

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held as at 31 July 2021, and there was no activity in the period.

2.7 Secured Investments

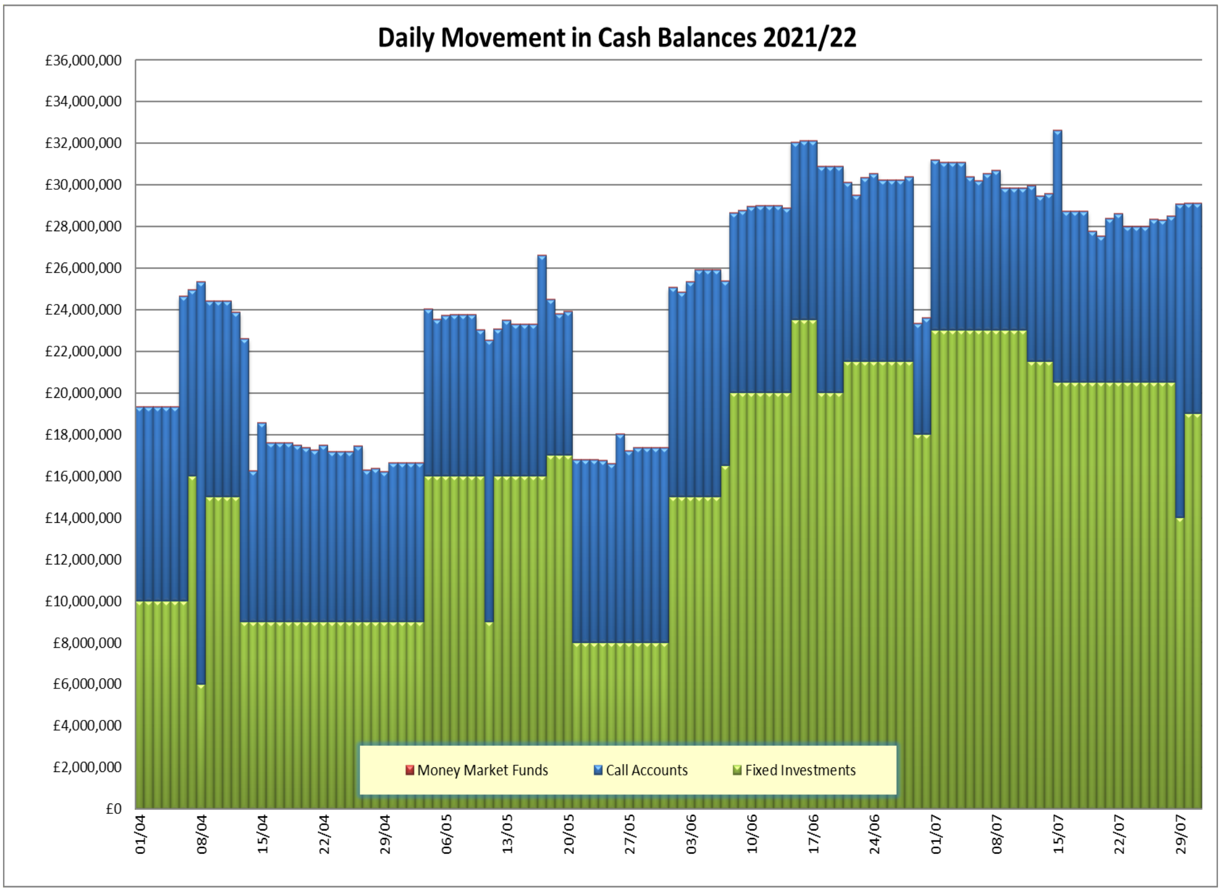
There were no Secured Investments as at 31 July 2021.

2.8 Tradeable Investments

There were no Tradeable Investments as at 31 July 2021, and there was no activity in the period.

3. Overall investment position

3.1 The chart below summarises the Council's investment position over the period 1 September to 31 July 2021. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit accounts and Money Market Funds.



4. Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 22 February 2021. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 July 2021, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 13 days during the period.

4.2 Investment rates available in the market have continued at historically low levels. Investment funds are available on a temporary basis and arise mainly from the timing of the precept payments, receipts of grants and the progress of the capital programme.

4.3 As shown by the interest rate forecasts, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risky environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

Negative investment rates

4.4 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on.

4.5 As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market.

4.6 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

5. Borrowing

5.1 The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:

Exceptions:

1 April to 31 July 2021 – excess funds of between £1m and £9m.

The Council's long term borrowing in the reporting period is £56.673m.

Interest Rate Forecast

5.2 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecasts on 10th May is shown below. A comparison of forecasts shows that PWLB rates have increased marginally and there is also now a first increase in Bank Rate from 0.10% to 0.25% in quarter 2 of 2023/24.

Link Group Interest Rate View 10.5.21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

5.3 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.

5.4 As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been penciled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

5.5 **Significant risks to the forecasts**

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The lockdowns cause major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC raises tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.

- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections.

5.6 **GILT YIELDS / PWLB RATES**. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

5.7 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10-year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

5.8 Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields initially spiked upwards in March, yields fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply.

5.9 The current PWLB rates are set as margins over gilt yields as follows: -.

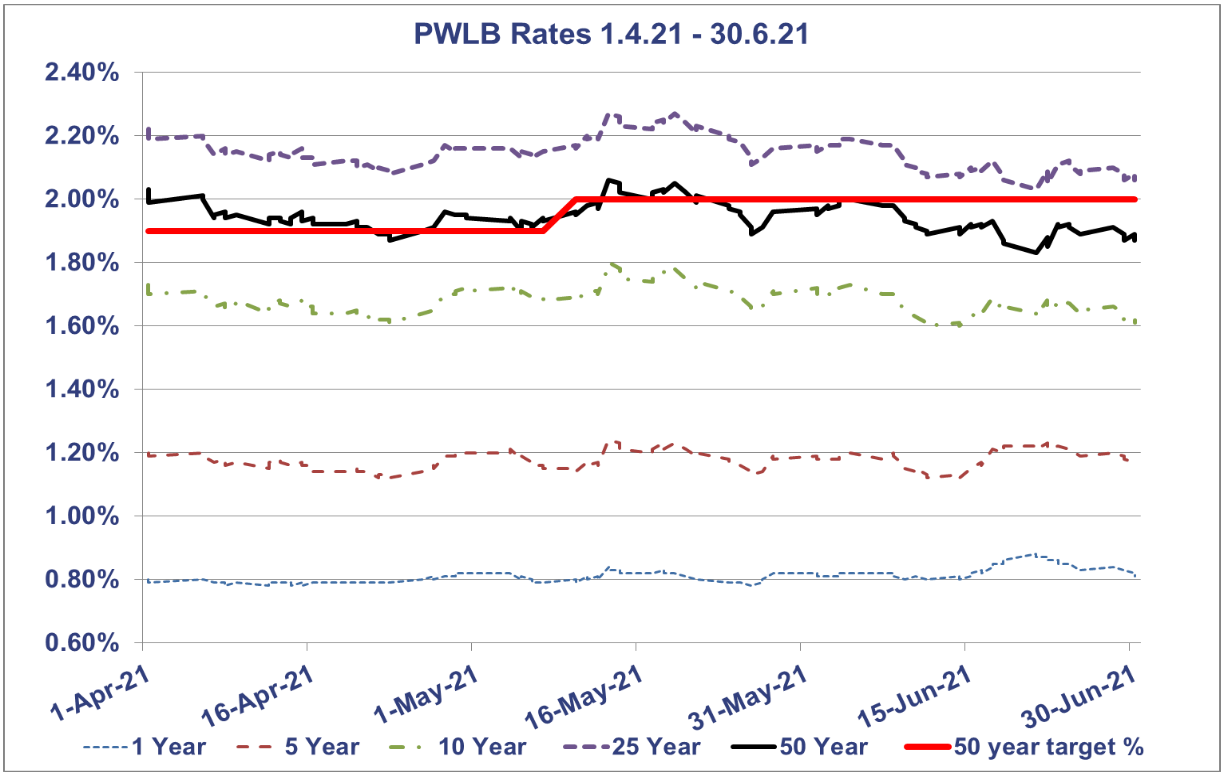
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.10 As the interest forecast table for PWLB certainty rates, (gilts plus 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as the Bank of England is not expected to raise Bank Rate above 0.25% during that period as inflation is not expected to be sustainably over 2%.

PWLB maturity certainty rates year to date to 30th June 2021

5.11 Gilt yields and PWLB rates rose sharply during the first three months of 2021 but have lacked any consistent direction since then over the last three months to 30th

June. The 50-year PWLB target certainty rate for new long-term borrowing started at 1.90% in this quarter but then rose to 2.00% in May.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.12%	1.60%	2.03%	1.83%
Date	08/04/2021	22/04/2021	11/06/2021	21/06/2021	21/06/2021
High	0.88%	1.24%	1.80%	2.27%	2.06%
Date	21/06/2021	13/05/2021	13/05/2021	13/05/2021	13/05/2021
Average	0.81%	1.18%	1.68%	2.14%	1.94%
Spread	0.10%	0.12%	0.20%	0.24%	0.23%

Outlook for the remainder of 2021/22

5.12 The medium-term global economic outlook has continued to improve with the rollout of vaccination programmes. The UK has continued to benefit from its initial rapid vaccine rollout and has shifted focus onto second vaccinations to increase protection to counter a third wave of COVID-19 variant.

5.13 The opening up of the UK economy in Q2/Q3 will continue to prompt a sharp increase in GDP. While downside risks seem to have fallen somewhat after recent trends in GDP and labour, the upside risks remain relatively balanced with the MPC reiterating its commitment not to tighten policy until there is clear evidence that the recovery is eliminating spare capacity in the economy.

5.14 Inflation has moved above the Bank of England's 2% target. Alongside the increase in commodity prices, the MPC has acknowledged the prospect of a sharper upturn in inflation, with the potential CPI could rise above 3% in the coming months. However, the nature of the commodity price rise and the base effect easing, this is likely a more transitory effect. Upward pressure on gilt yields could continue in the short term due to the preponderance of strong data, but this is likely to ease once inflation fears recede as the effect of weak base effects subsides and growth figures return to more normal levels. Bank Rate is expected to remain at the current 0.10% level. The risk of movement in Bank Rate in the short term is low.

5.15 Gilt yields could continue to increase in the short term but will begin to plateau and reduce once the market's expectation of rises in Bank Rate and inflation fears subside. Longer term yields may face upward pressure towards the end of the forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

5.16 Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.

6 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. As at 31 July 2021, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	**2021/22 Estimate Indicator**	**31 July Actual Indicator**	**RAG Status/Reason**
Authorised limit for external debt (CS 4.2.4)	£143.3m	£143.3m	
Operational boundary for external debt (CS 4.2.4)	£130.2m	£130.2m	
Gross external debt (CS 4.2.2)	£91.7m	£56.67m	
Capital Financing Requirement (CS 2.3.4)	£119.7m	£89.9m	
Debt vs CFR under/(over) borrowing	£28.0m	£33.23m	
Investments (Average)	£2.9m	£0.9k	
Investment returns expectations	0.10%	0.015%	
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	25%	25%	
12 months to 2 years	40%	40%	
2 years to 5 years	50%	50%	

Treasury Prudential Indicators	2021/22 Estimate Indicator	31 July Actual Indicator	RAG Status/Reason
5 years to 10 years	75%	75%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.3)			
General Fund	£11.1m	£1.4m	
HRA	£23.8m	£3.3m	
Commercial Activities/ non-financial investments	£15.9m	£1.0m	
Ratio of financing costs to net revenue stream (CS 8.1.1):			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	5.9%	5.9%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	10.08%	10.08%	

Key: CS – 2020/21 Capital Strategy Appendix 1

7. Non-treasury investments

The non-treasury investment activity includes loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

7.1 **Lewes Housing Investment Company** - a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was set up to acquire, improve and let residential property at market rents. The 2021/22 Capital programme includes £2.4m as commercial loan funding to facilitate property purchases. At 31 August 2021, there had been no draw drawn of the loan facility.

A working capital facility of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 August 2021, £1,065 of the working capital facility had been drawn down to cover administrative expenses.

7.2 **Aspiration Homes LLP** - a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. The Capital programme includes £17.4m as commercial loan funding to AH to facilitate the purchase and construction of property. At 31 August 2021, £2,965,808 had been drawn down.

A working capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 30 September 2021, £20,000 of the working capital facility had been drawn down.

8. Environmental, Social and Governance Investment - update

8.1 The Cabinet at its meeting on 4 February 2021 approved the 2021/22 Treasury Management and Investment Strategy, which include Non-Specified investments in

Green Energy Bonds and/or other ESG products that met the Council's internal and external due diligence criteria.

8.2 While a wide range of ESG investment are currently limited, there are expectation to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with the treasury management advisor (Link Asset Services) will continue to monitor ESG investment opportunities within the parameters of the Council's counterparty criteria and in compliance with the MHCLG Investment Guidance (i.e., prioritising security, liquidity before yield).

8.3 Potential Approach to ESG Investing - The Council might consider options for various investments of up to £2 million in short/medium-term investments with institutions that will ring fence the use of such funds for ESG related matters and/or continue to explore alongside its treasury advisors other ethical investing options, including -

- Green Bond Purchasing Programme.
- Green and Sustainable Product Framework.
- Sustainability Notice Account - a deposit comprising the green and social projects.
- Multi-asset pooled funds - 'all in one' solution for most long-term investors, offering:
  - long-term growth in capital and income.
  - efficient access to a wide range of investments.
  - low cost/simple administration.
  - well established ethical and responsible policies.

9. Economic Background

9.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged and a detailed economic commentary on developments during period ended 31 June 2021 is attached as **Appendix A**.

10. Financial Appraisal

10.1 All relevant implications are referred to in the above paragraphs.

11. Risk Management Implications

11.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

12. Equality Analysis

12.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

13. Legal Implications

13.1 There are no legal implications from this report.

14. Environmental sustainability implications

14.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

15. Appendices

15.1 Appendix A - Detailed economic commentary

16. Background Papers

16.1 Treasury Strategy Statements 2021/22