Report To:	**Cabinet**
Date:	**7 July 2022**
Report Title:	**Treasury Management Annual Report 2021/22**
Report of:	**Homira Javadi, Chief Finance Officer**
Cabinet member:	**Councillor Zoe Nicholson, Leader of the Council and Cabinet Member for Finance**
Ward(s):	**All**
Purpose of report:	**To present the Annual Treasury Management Report for 2021/22**
Decision type	**Budget and Policy Framework**
Officer Recommendations:	**To recommend to Full Council:** **(1) Agree the Annual Treasury Management report for 2021/22.** **(2) Approve the 2021/22 Prudential and Treasury Indicators included in the report.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this must 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**

1 Introduction

1.1 The Council is required, under the Local Government Act 2003, to produce an annual review of Treasury Management activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2021/22, the Full Council received the annual Treasury Management Strategy Statement (TMSS), whilst Cabinet were presented with the 2021/22 Treasury Management Update Report in relation to the sources and methods of borrowing and approved organisations for lending temporarily surplus funds.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of TM policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

2 Treasury Management 2021/22

2.1 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium/long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

2.2 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Asset Services. The list is amended to reduce the risk to the Council by removing the lowest rated counterparties and reducing the maximum loan duration.

2.3 In addition, Treasury Management updates are included within the quarterly performance management reports, considered by both the Cabinet and the Policy and Performance Advisory. The regulatory environment places a much greater responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. This report was considered by the Audit and Standards Committee at its meeting on 4 July 2022.

2.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Audit & Standard Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 21 October 2021, which is to support Members' scrutiny role and further training is expected to take place in 2022-23.

This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement (CFR));
- Reporting of the required prudential and treasury indicators and changes to be approved;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Debt activity and investment activity.
- Economic and Interest Rates

2.5 An economic commentary for the year provided by the Council's treasury management advisors is provided at Appendix D to this report. Bank Rate was 0.1% at the beginning of the year and despite the economy gathering momentum after pandemic restrictions eased, market expectation was for rises to be delayed until

2022. Rising, persistent inflation changed that with Bank Rate rising to 0.75% at the end of the year.

2.6 During 2021 CIPFA published changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes.

2.7 In addition, HM Treasury issued, in May 2022, updated guidance on PWLB lending to authorities where there is more than a negligible risk of non-repayment. In the same month the Levelling Up and Regeneration Bill announced in the Queens Speech gives government more oversight of the Prudential Framework.

2.8 The main points of these new Codes, PWLB guidance and Levelling Up and Regeneration Bill are summarised at Appendix C.

2.9 On the debt portfolio, no new loans were taken, and external debt is around £51.673m. The MTFS 2021-22 capital programme includes a funding requirement of £95.2m to be funded from borrowing. However, due to the strength of the Council's balance sheet, it is expected to be possible to use internal balances to fund this on a temporary basis instead of raising new loans.

2.10 The loan portfolio has produced a level of performance in the period in which performance figures have been calculated. Adding significant value in a period of extremely low interest rates is very difficult. Given that interest rates are unlikely to rise for the next two years, low levels of returns are likely to continue and the cost of getting investment decisions wrong is unlikely to be significant.

3 Treasury Management Activity

3.1 The timetable for reporting Treasury Management activity in 2021 and 2022 are 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
27 September 2021	1 April to 31 July 2021
15 November 2021	1 August to 31 October 2021
14 March 2022	1 November to 31 December 2021
4 July 2022	2021/22 Annual Report (up to 31 March 2022)

4. Overall Summary of Activity 2021/22

4.1 The table below lists the key elements of the 2021/22 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£95.249 million	£96.005 million	-
External Debt	£62.793 million	£51.673 million	-
Under borrowing at year end	£32.456 million	£44.331 million	-
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.71 million	£1.71 million	✓
Investments			
Minimum counterparty credit ratings for unsecured investments	Long-term BBB+- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.100 million	£0.021 million	✓
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Link Treasury Services Limited retained as Treasury Adviser	Link Treasury Services Limited retained as Treasury Adviser	✓
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every regular meeting	Every regular meeting	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training 21 21 October 2021	✓

5. Detailed Analysis – Borrowing

5.1 During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

5.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

5.3 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy.

5.5 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment.

5.6 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. ‘External borrowing’ is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively, it is possible to ‘internally borrow’ the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.

5.7 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2021/22, the revised position reported at the time of producing the Treasury Strategy 2022/23 (February 2022) and the final position for the year are shown in the table below. The variation between the revised and final position reflects the changing profile of capital spend across financial years, particularly allocations in the capital programme in respect of facilitating loans to Lewes Housing investment Company, and Aspiration Homes LLP.

	2021/22 Original	2021/22 Revised	2021/22 Outturn
	£m	£m	£m
Opening CFR	88.387	89.268	**89.268**
Capital expenditure in year	50.917	27.219	**14.229**
Less financed	(19.188)	(20.902)	**(7.158)**
Less amount set aside for debt repayment	(0.376)	(0.336)	**(0.334)**
Closing CFR	**119.740**	**95.249**	**96.005**

5.8 The overall CFR can be split between the General Fund and the Housing Revenue Account as follows:

Description	2021/22 Revised	2021/22 Outturn
	£m	£m
General Fund	23.699	**20.096**
Housing Revenue Account	71.550	**75.909**
Total	**95.249**	**96.005**

5.9 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held, pending their use).

5.10 The Council's long-term loan portfolio at 31 March 2022 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.000	2.70	01-03-2024
PWLB	Fixed	5.000	3.30	01-03-2032
PWLB	Fixed	2.000	3.05	01-09-2027
PWLB	Fixed	2.000	2.76	01-09-2024
PWLB	Fixed	4.000	2.97	01-09-2026
PWLB	Fixed	5.000	3.28	01-09-2031
PWLB	Fixed	4.000	2.63	01-09-2023
PWLB	Fixed	5.000	3.44	01-03-2037
PWLB	Fixed	6.673	3.50	01-03-2042
PWLB	Fixed	5.000	3.43	01-09-2036
PWLB	Fixed	4.000	3.01	01-03-2027
	Sub-total	**46.673**		
Barclays	Fixed	5.000	4.50	06-04-2054
	Sub-total	**5.000**		
	Total	**51.673**		

5.11 The Council's objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

5.12 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. In June 2016, the bank decided to permanently waive its contractual right to vary the interest rate on this loan, which was effectively fixed at the rate of interest applicable at that time, 4.5%.

5.13 Total interest paid on external long-term borrowing in the year was £1.71m, which was consistent with the revised budget for the year. No new long-term borrowing was undertaken. The Council remained eligible to access the

Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.2% on the Standard Rate.

5.14 Through the year, officers, supported by Link Treasury Services Limited, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified, and the loan portfolio remained unchanged through the year.

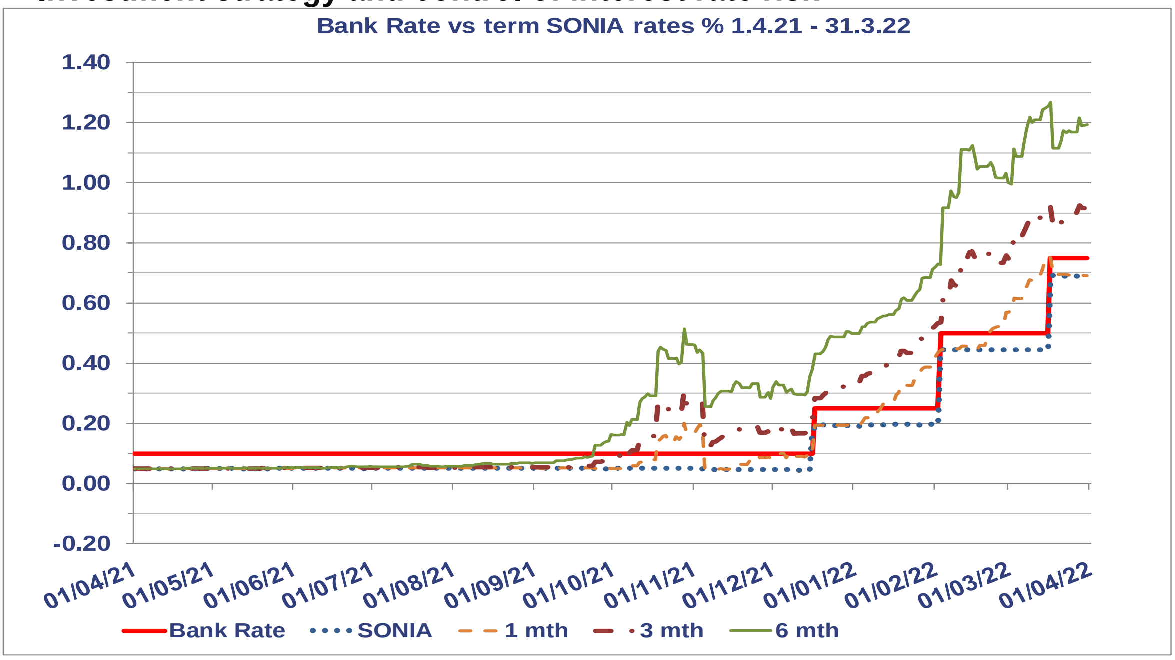
5.15 As determined by the Council, two separate Loans Pools operated in 2021/22, for the General Fund and HRA, respectively. At 31 March 2022 the balance on internal loans from the General Fund to the Housing Revenue Account (HRA) was £19.236m, an increase of £4.360m compared with the previous year, which comprised new lending as funding for the construction of new homes. Interest was charged on internal borrowing at 0.99% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

5.16 No temporary borrowing was undertaken during the course of the financial year and consequently, there were no temporary loans outstanding at 31 March 2021.

6.0 Detailed Analysis - Investments

6.1 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses, and individuals.

Investment strategy and control of interest rate risk



	Bank Rate	SONIA	1 mth	3 mth	6 mth
High	0.75	0.69	0.75	0.93	1.27
High Date	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
Low	0.10	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
Average	0.19	0.14	0.17	0.24	0.34
Spread	0.65	0.65	0.71	0.88	1.22

6.2 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

6.3 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

6.4 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.5 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

6.6 The Council held an average of £31.99m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending their use.

6.7 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2021/22, the Council's investment priorities continued to be:

Highest priority - Security of the invested capital;

Followed by - Liquidity of the invested capital;

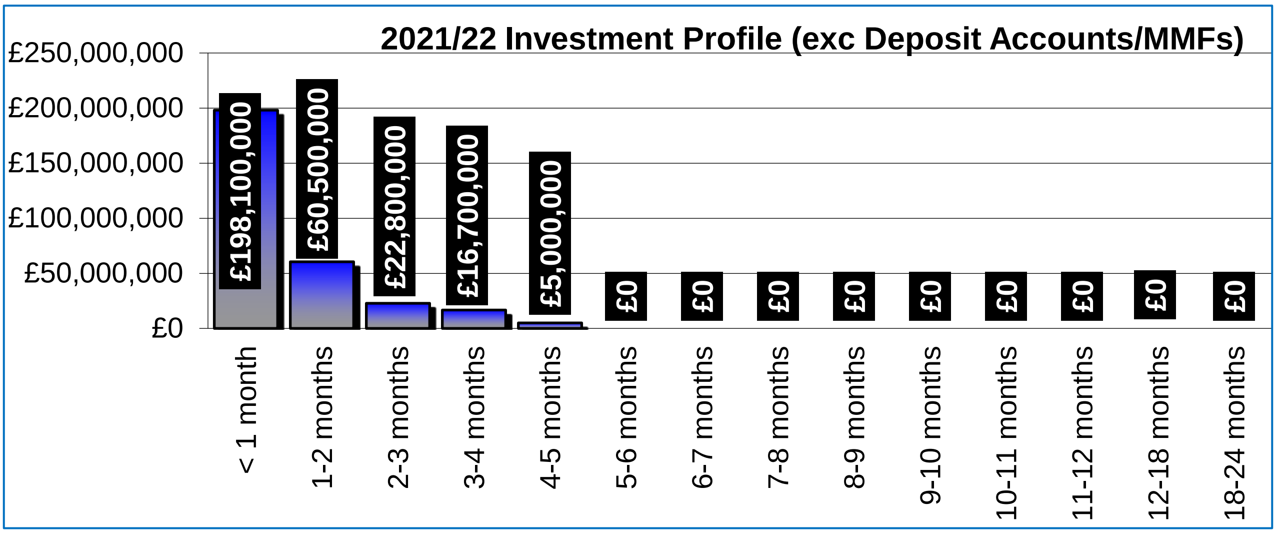
Finally - An optimum yield commensurate with security and liquidity.

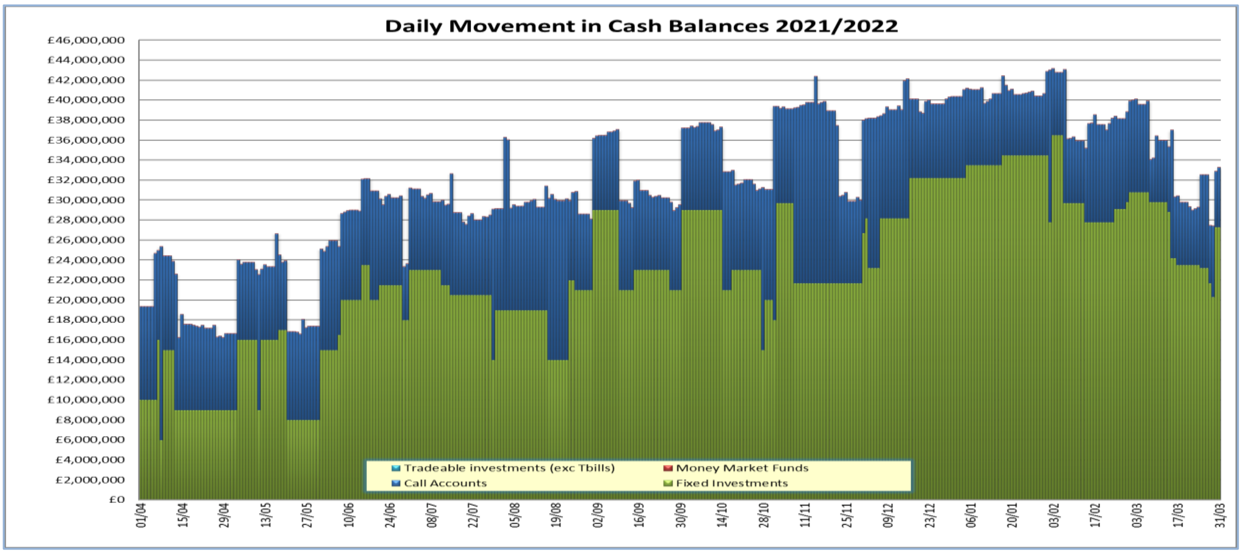
6.8 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2021/22. Investments made during the year included:

- Fixed Term Deposits with the Debt Management Office (DMO) (a total of £258.1 million – 44 occasions);
- Fixed Term Deposits with other Local Authorities (a total of £20 million – 4 occasions);
- Fixed Term Deposits with UK Banks and Building Societies (a total of £10 million – 2 occasions);
- Fixed Term Deposit with overseas Banks and Building Societies (a total of £15 million – 3 occasions)
- Investments in Money Market Funds (MMFs) (average daily balance held in year £0.001 million);
- United Kingdom Treasury Bills (none);
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (none);
- Deposit accounts with UK Banks (average daily balance held in year £7.29 million);
- Deposit accounts with UK Building Societies (none);
- Overnight deposits with the Council's banker, Lloyds Bank (average daily balance held in year £1.9 million).

6.9 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds (MMF), overnight deposits and deposit accounts, the average daily balance held being £0.001 million.

6.10 A full list of investments (excluding deposit account or MMF transactions) made or maturing in the year is given at Appendix B. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The first chart below gives an analysis of aggregate fixed term deposits by duration. The second chart shows how the total amount invested varied from day to day over the course of the year, from a low of £16.21m to a high of £43.16m. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.





6.11 The income return generated from investments in the year was £0.021 million, below the total budget for investment income of £0.100 million. This position arose as a result of the requirement to re-profile major projects within the approved capital programme, ensuring an increase in the short-term availability of additional cash for investment.

6.12 The average rate of return from investments at the end of each quarter in 2021/22 is shown in the table below, along with comparative benchmark information, SONIA rate.

Average rate of investments in:	Lewes District Council	SONIA
Quarter 1 ending 30 June 2021	0.01%	0.047%
Quarter 2 ending 30 September 2021	0.00%	0.048%

Quarter 3 ending 31 December 2021	0.02%	0.08%
Quarter 4 ending 31 March 2022	0.27%	0.19%
Whole year 2021/22	0.14%	0.14%

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has complied with its Prudential Indicators for 2021/22. A detailed review of each of the Prudential Indicators is at Appendix A.

8. Investment Consultants

8.1 The Council has recently appointed Link Treasury Services Limited as its Treasury Adviser for an initial two-year term expiring on 30 May 2023, with the Council having the option to extend, if required. The Link Treasury Services has been appointed to support both the Lewes District Council and Eastbourne Borough Council, given that a shared finance team (with treasury management responsibility) has been established.

9. Reporting and Training

9.1 The Chief Finance Officer reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2021/22. A mid-term summary report was issued in November 2021.

9.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended, where appropriate, Links workshops alongside colleagues from other local authorities during 2021/22. In 2021/22, Link Asset Services continue to meet with Council officers to explain developments within the sector, as well as review the Council's own investment and debt portfolios.

10 Other

10.1 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

10.2 **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Chief Finance Officer intends for the Council to adopt the new standard on 1st April 2024, if resources permit adoption from April 2023 will be considered

11. Non-treasury investments

11.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity e.g. loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

11.2 **Lewes Housing Investment Company Limited**

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was established to acquire, improve, and let residential property at market rents. A capital allocation of £2.5m was approved as potential commercial loan funding to facilitate property purchases. At 31 March 2022, a total of £2,065 working capital has been drawn down. The balance has been rolled forward into 2022/23. There have been no transactions during the period 1 April 2022 to 30 June 2022.

11.3 **Aspiration Homes LLP**

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 31 March 2022, a total of £3,043,855 has been drawn down for the purchase of Gray's School, Newhaven, and Caburn Field, Ringmer. The balance has been rolled forward into 2022/23.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2022, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2022 to 30 June 2022.

12. 2021/22 Environmental, Social and Governance (ESG) – updates.

12.1 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. Following this meeting, the Council external treasury management advisors (Link Asset Services) has been requested to conduct a review looking into what potential investment options would be available to the Council that would fulfil the Council's objective of supporting climate related activities including investing with regard to Environmental, Social and Governance concerns (ESG).

12.2 In terms of typical local authority investments, there is not a wide range of products in this area at the moment, although we expect 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 will continue to monitor it and make best use of ESG opportunities when they become available within the parameters of the Council's counterparty criteria and the requirement of the DLUHC Investment Guidance to prioritise security, liquidity before yield in that order of importance.

12.3 The Council now uses the **Standard Chartered Bank Sustainable Time Deposit**, which function just like a normal Time Deposit. The difference is in the sustainable impact where the deposits are referenced against qualifying sustainable loans and projects of Standard Chartered that meet their Green and Sustainable Product Framework. These loan and project assets include green financing, sustainable infrastructure projects, microfinance and access to finance for SME business banking. It addresses the long-term environmental challenges such as climate change, health and financial inclusion plus being dedicated towards financing sustainable loans and projects aligned to the United Nation's Sustainable Development Goals.

12.4 **Sustainable Development Goals**

13 Corporate plan and council policies

13.1 The priority themes were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

14 Financial appraisals

14.1 Financial appraisals were considered as part of the overall Capital Programme, which forms part of the Treasury Management Strategy.

15 Legal implications

15.1 Comment from the Legal Services Team is not necessary for this routine monitoring report.

16 Risk management implications

16.1 Risks relating to the timing of borrowing and terms of borrowing are considered and advice is provided by Link. Risk management is considered for each of the schemes within the Capital Programme.

17 Equality analysis

17.1 Equality issues are considered

18 Appendices

- Appendix A – Prudential Indicators 2021/22
- Appendix B – List of Investments made and/or maturing in 2021/22
- Appendix C - Revised CIPFA Codes, Updated PWLB Lending Facility Guidance
- Appendix D - The Economy and Interest Rates
- Appendix E – Glossary - Local Authority Treasury Management Terms

19 Background papers

The Background Papers used in compiling this report were as follows:

CIPFA Treasury Management in the Public Services code of Practice (the Code)

Cross-sectorial Guidance Notes

CIPFA Prudential Code

Treasury Management Strategy and Treasury Management Practices.

Link Asset Services Citywatch and interest rate forecasts

Appendix A – Prudential Indicators 2021/22

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme. These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Chief Finance Officer reports that the Council has had no difficulty meeting this requirement in 2021/22, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans, and the proposals in the budget for 2022/23.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2021/22 Original £m	2021/22 Revised £m	2021/22 Actual £m
1a	General Fund	27.086	11.062	8.576
1b	HRA	23.381	16.157	5.653
	Total	**50.917**	**27.219**	**14.229**

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2021/22 Original %	2021/22 Revised %	2021/22 Actual %
2a	General Fund	5.90	1.97	0.12
2b	HRA	10.80	11.09	12.39

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing. The amounts shown are as at 31 March.

No	Capital Financing Requirement	2021/22 Original £m	2021/22 Revised £m	2021/22 Actual £m
3a	Non-HRA	52.393	23.699	20.096
3b	HRA	67.347	71.550	75.909
	Total CFR	**119.740**	**95.249**	**96.005**

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2021/22 Original £m	2021/22 Revised £m	2021/22 Actual £m
Balance B/F	88.387	89.268	89.268
Capital expenditure financed from borrowing	31.729	6.137	7.071
Revenue provision for Debt Redemption.	(0.376)	(0.336)	(0.334)
Balance C/F	**119.740**	**95.429**	**96.005**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. The Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 7 below).

No.	Actual External Debt as at 31/03/22	Revised £m	Actual £m
4a	Borrowing	62.793	51.673
4b	Other Long-term Liabilities	0.000	0.000
4c	**Total**	**62.793**	**51.673**

7. Authorised Limit and Operational Boundary for External Debt

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases.

7.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2021/22 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Authorised Limit for External Debt	2021/22 Original £m	2021/22 Actual £m
5a	Borrowing	143.204	126.774
5b	Other Long-term Liabilities	0.600	0.330
5c	**Total**	**143.804**	**127.104**

7.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

7.6 The Chief Finance Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet. The 2021/22 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Operational Boundary for External Debt	2021/22 Original £m	2021/22 Actual £m
6a	Borrowing	130.190	115.249
6b	Other Long-term Liabilities	0.500	0.300
6c	**Total**	**130.690**	**115.549**

8. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
7	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010. Further revisions to the code were made in 2017 and 2021, which have been adopted by the Council.

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

9.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums i.e. fixed rate debt net of fixed rate investments.

9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2021/22 Original %	2021/22 Revised %	2021/22 Actual %
8	**Upper Limit for Fixed Interest Rate Exposure**	100	100	100
9	**Upper Limit for Variable Interest Rate Exposure**	20	20	20

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

9.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

10. Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
10a	under 12 months	0	25	0
10b	12 months and within 2 years	0	40	16
10c	2 years and within 5 years	0	50	19
10d	5 years and within 10 years	0	75	23
10e	10 years and above	0	100	42

11. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2021/22.

No.	Upper Limit for total principal sums invested over 364 days	2021/22 Original £m	2021/22 Revised £m	2021/22 Actual £m
11	Upper limit	2	2	2

12. HRA Limit on Indebtedness

The indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA 'Debt Cap' specified by the Government. The Government has removed the 'debt cap' and the Council has retained the indicator 2021/22 for reporting to show the position if the 'debt cap' had remained in place.

No	Capital Financing Requirement	2021/22 Original £m	2021/22 Revised £m	2021/22 Actual £m
12a	HRA CFR	67.347	71.550	75.509
12b	HRA Debt Cap	75.248	75.248	75.248
	Difference	**(7.901)**	**(3.698)**	**0.661**

Appendix B

List of Investments made and/or maturing in 2021/22

Counterparty	Principal £	From / To		Interest/Return £
Surrey County Council	5,000,000	08/03/2021	08/04/2021	212.33
DMO	5,000,000	01/04/2021	08/04/2021	9.59
DMO	6,000,000	07/04/2021	13/04/2021	9.86
DMO	9,000,000	09/04/2021	30/04/2021	51.78
DMO	9,000,000	30/04/2021	21/05/2021	51.78
DMO	7,000,000	04/05/2021	11/05/2021	13.42
DMO	7,000,000	12/05/2021	18/05/2021	11.51
DMO	8,000,000	18/05/2021	01/06/2021	30.68
DMO	15,000,000	01/06/2021	07/06/2021	49.32
Warrington BC	5,000,000	07/06/2021	17/08/2021	194.52
DMO	11,500,000	07/06/2021	28/06/2021	132.33
DMO	3,500,000	08/06/2021	29/06/2021	40.27
DMO	3,500,000	15/06/2021	18/06/2021	5.75
DMO	1,500,000	21/06/2021	12/07/2021	17.26
Royal Borough of Windsor and Maidenhead	5,000,000	30/07/2021	29/10/2021	373.97
DMO	11,500,000	28/06/2021	29/07/2021	97.67
DMO	5,000,000	01/07/2021	08/07/2021	9.59
DMO	5,000,000	08/07/2021	15/07/2021	9.59
DMO	4,000,000	15/07/2021	29/07/2021	15.34
DMO	9,000,000	29/07/2021	26/08/2021	69.04
DMO	8,000,000	24/08/2021	10/09/2021	37.26
DMO	8,000,000	26/08/2021	09/09/2021	30.68
DMO	8,000,000	01/09/2021	15/10/2021	96.44
DMO	8,000,000	09/09/2021	28/09/2021	41.64
DMO	2,000,000	15/09/2021	27/09/2021	6.58
DMO	8,000,000	28/09/2021	28/10/2021	65.75
DMO	8,000,000	01/10/2021	25/10/2021	52.6
Royal Borough of Windsor and Maidenhead	5,000,000	29/10/2021	28/02/2022	501.37
DMO	2,000,000	18/10/2021	01/11/2021	7.67
DMO		25/10/2021	08/11/2021	30.68

Counterparty	Principal £	From / To		Interest/Return £
	8,000,000			
DMO	5,000,000	29/10/2021	03/12/2021	95.89
DMO	11,700,000	02/11/2021	02/02/2022	1,474.52
Standard Chartered (Link)	5,000,000	01/12/2021	01/03/2022	1,356.16
DMO	1,500,000	02/12/2021	02/03/2022	73.97
Bayerische Landesbank (Link)	5,000,000	07/12/2021	07/03/2022	986.3
DMO	4,000,000	17/12/2021	17/01/2022	169.86
DMO	1,300,000	05/01/2022	05/04/2022	320.55
DMO	5,000,000	17/01/2022	17/03/2022	889.04
DMO	5,000,000	02/02/2022	04/04/2022	2,089.04
DMO	8,700,000	03/02/2022	07/02/2022	181.15
DMO	1,900,000	07/02/2022	14/02/2022	109.32
DMO	1,300,000	24/02/2022	28/02/2022	42.74
DMO	7,000,000	28/02/2022	14/03/2022	805.48
Standard Chartered Sustainable (Link)	5,000,000	01/03/2022	29/04/2022	5,172.6
DMO	1,000,000	01/03/2022	08/03/2022	57.53
DMO	1,500,000	02/03/2022	28/03/2022	400.68
Bayerische Landesbank (Link)	5,000,000	07/03/2022	14/03/2022	354.79
DMO	6,000,000	14/03/2022	15/03/2022	49.32
Bayerische Landesbank (Link)	5,000,000	14/03/2022	14/04/2022	2,547.95
DMO	1,400,000	15/03/2022	29/03/2022	279.23
DMO	4,300,000	17/03/2022	25/03/2022	518.36
DMO	4,000,000	25/03/2022	25/04/2022	1868.49
DMO	7,000,000	30/03/2022	01/04/2022	210.96

Appendix C

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements and Lewes District Council will implement the new Code fully commencing from the 2023/24 financial year. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

The Council will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 strategy year.

Public Works Loan Board (PWLB) – updated guidance for applicants

On 12th May 2022 HM Treasury issued an update to PWLB lending guidance, addressing lending to authorities where there is more than a negligible risk of non-repayment. The update states that where HM Treasury considers that a local authority may be at risk of being unable to repay PWLB lending, it will engage with that local authority to establish the extent of the risk of non-repayment. **Loans will not generally be advanced where there is a more than negligible risk of non-repayment.**

HM Treasury will generally consider that where a local authority is actively and constructively engaged with Government on addressing financial risk, that local authority is sufficiently managing risk of non-repayment. This includes where a local authority is working with the government as part of ongoing financial support measures. In such cases, HM Treasury will work with the relevant department to assess any risks to the PWLB.

The Department for Levelling Up, Housing and Communities (DLUHC) has announced plans to bring forward measures to provide the government with appropriate powers to directly address excessive risk arising from local government investing and borrowing practices. Where DLUHC believes it to be probable that a local authority would fall within the scope of the powers, it will be engaging with them immediately to get a better understanding of their risk positions in advance of the powers coming into force and to reach agreement on any actions needed to address government concerns.

Levelling Up and Regeneration Bill

The Levelling Up and Regeneration Bill that was included in the Queen's Speech in May 2022 proposes to introduce new powers into the Local Government Act 2003 for capital finance risk management. The proposals would represent an increase in the Government's oversight of the Prudential Framework and its ability to intervene.

Under the proposals, the Secretary of State would be able to issue risk mitigating directions to an authority if a trigger event has occurred. A direction will be able to place borrowing limits on an authority or require it to take specified action, which could include disposing of an identified asset.

One such trigger event is if a risk threshold is breached. For the assessment of risk thresholds, there will be a range of capital risk metrics, whose basis of calculation will be specified, as will the thresholds against which breaches are to be measured. The metrics specified in the Bill are:

- the total debt (including credit arrangements) as compared to the financial resources of the authority
- the proportion of the total capital assets which are investments made, or held, wholly or mainly to generate financial return
- the proportion of the total debt (including credit arrangements) in relation to which the counterparty is not central government or a local authority
- the amount of minimum revenue provision charged to a revenue account for a financial year
- any other metric specified by regulations.

The Secretary of State will have the power to appoint an independent expert to review the level of an authority's financial risk. Authorities will be required to co-operate with the expert in any way that they consider necessary or expedient for the purposes of the conduct of the review, as far as this is practicable.

Appendix D

The Economy and Interest Rates by Link Treasury Services Limited

UK. Economy. Over the last two years, 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 until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contracts prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank’s forward guidance in August 2020 was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That mantra now seems very dated. Inflation is the “genie” that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia’s invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

Appendix E

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DLUHC	Department for Levelling Up, Housing and Communities (*formerly known as Ministry of Housing, Communities & Local Government - MHCLG*).
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.

Terms	Descriptions
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.