Report To:	**Audit and Standards Committee**
Date:	**20 March 2023**
Report Title:	**Treasury Management**
Report of:	**Director of Finance and Performance** **(Chief Finance Officer - S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To present details of recent Treasury Management activities.**
Officer Recommendations:	**The Committee is recommended to note the report of the Director of Finance and Performance and the assurances contained within and agree that Treasury Management Activities for the period 1 January to February 2023 have 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.**
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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, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

1.3 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.

1.4 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. Treasury Management Activity

2.1 The timetable for reporting Treasury Management activity in 2022/23 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
4 June 2022	2021/22 Annual Report (up to 31 March 2022)
12 September 2022	1 April to 30 June 2022
14 November 2022	1 July to 30 September 2022
16 January 2023	1 October to 31 December 2022
20 March 2023	1 January to 28 February 2023

2.2 Fixed Term Deposits pending maturity.

The following table shows the fixed term deposits held between 1 January to February 2023 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).

Counterparty	Date From	Date To	Days	Principal £'000	Int Rate %	Long-term Rating
Standard Charter Sustainable	03/01/2023	03/03/2023	59	5,000	3.530	A+
DMO	05/01/2023	06/03/2023	60	1,000	3.460	*
DMO	16/01/2023	16/03/2023	59	2,500	3.580	*
Link - Bayerische Landesbank	23/02/2023	23/03/2023	28	5,000	3.820	A-
DMO	24/02/2023	13/03/2023	17	4,500	3.820	*

*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 January to February 2023 in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Date From	Date To	Days	Principal £'000	Int. Rate %	Long-term rating
DMO	06/09/2022	06/02/2023	153	1,000	2.500	*
DMO	27/09/2022	27/01/2023	122	2,000	2.960	*
DMO	22/11/2022	07/02/2023	77	5,000	2.960	*

Counterparty	Date From	Date To	Days	Principal £'000	Int. Rate %	Long-term rating
Link - Standard Charter sustainable	30/11/2022	03/01/2023	34	5,000	3.020	A+
Link- Bayerische Landesbank	16/12/2022	16/01/2023	31	5,000	3.220	A-
DMO	22/12/2022	03/01/2023	12	6,500	3.160	*
DMO	03/01/2023	17/01/2023	14	6,000	3.300	*
Link - Bayerische Landesbank	16/01/2023	16/02/2023	31	5,000	3.500	A-
DMO	17/01/2023	08/02/2023	22	4,000	3.360	*
DMO	27/01/2023	27/02/2023	31	2,000	3.650	*
DMO	01/02/2023	10/02/2023	9	3,000	3.660	*
DMO	08/02/2023	28/02/2023	20	2,000	3.820	*
DMO	15/02/2023	16/02/2023	1	9,000	3.820	*
DMO	16/02/2023	20/02/2023	4	9,000	3.820	*
Link - Bayerische Landesbank	16/02/2023	23/02/2023	7	5,000	3.820	A-
DMO	20/02/2023	24/02/2023	4	9,000	3.820	*

*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 January to February 2023 was 2.11%, which was below the average bank base rate for the period of 2.14%.

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 £3.01m generating interest of approximately £0.19k.

	Balance at 28 February 2023 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£5,000	2.18
Lloyds Bank Corporate Account	£1,418	£1,568	0.01
Lloyds Bank Call Account	£2,510	£2,455	0.50

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 28 February 2023 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Res. 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 28 February 2023, and there was no activity in the period.

2.7 Secured Investments

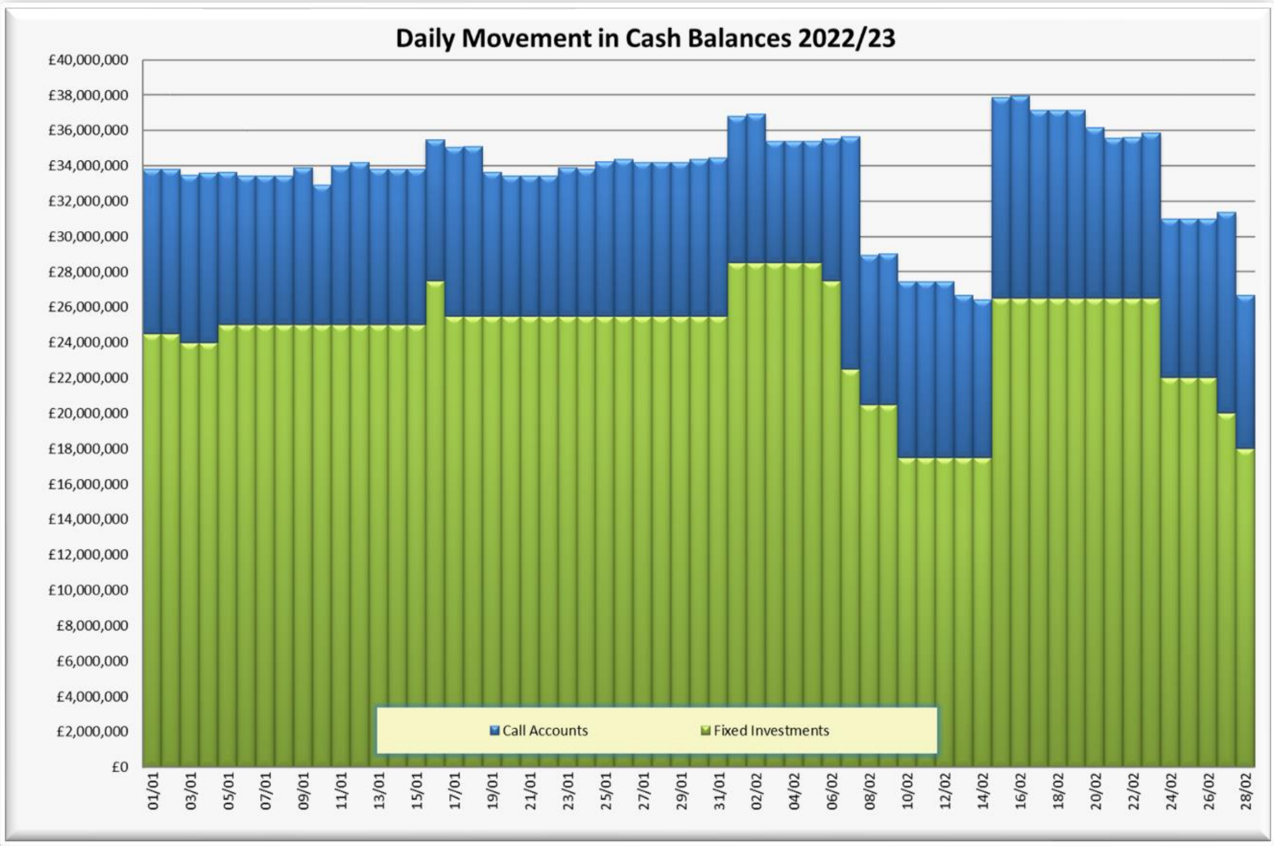
There were no Secured Investments as at 28 February 2023.

2.8 Tradeable Investments

There were no Tradeable Investments as at 28 February 2023, 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 January to 28 February 2023. It shows the total sums invested each day as Fixed Term deposits, amounts held in Deposit/call accounts.



3.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.3 In the light of the pandemic crisis and the likelihood of unexpected calls on cash flow the Council continues to hold significant balances in bank call accounts, which have same day availability. This liquid cash was diversified over several fixed term deposit/call accounts to manage both credit and liquidity risks.

4. Annual Investment Strategy

4.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2022. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business

4.2 The Treasury Management Strategy Statement (TMSS) for 2022/23 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 21 February 2022. 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 December 2022, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 5 days during the period.

4.3 Investment rates available in the market have moved up from the historically low levels. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

4.4 As shown by the interest rate forecasts in section 5.2, it is anticipated that the Council might be able to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have started to move toward the right trajectory. Given this environment and the fact that Bank Rate may only rise marginally before the second half of 2023, investment returns are expected to increase.

4.5 As for money market funds (MMFs) and the Inter-local authority lending, borrowing rates have 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.

5. Borrowing

5.1 The current account with Lloyds Bank generally remained within credit limits throughout most of the period and the Council's long term borrowing in the reporting period is £51.7m.

Interest Rate Forecast

5.2 The Council appointed Link Group as its treasury advisors 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.

5.3 The latest forecast sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. The MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

5.4 The data released in the UK continues to show consumers are keeping their heads up, the housing market is weakening, and in Europe inflation is still rife and will require more monetary policy tightening for some time to come.

5.5 The house prices fell 0.5% m/m, and for the year we are now down 1.1%. The fall will keep optimism based on reports that demand has recovered. Indeed, even if buyer volumes have recovered, the amount they can spend on a new home has been reduced by higher mortgage rates. Capital Economics sees annual house price inflation staying negative until the second half of 2024, which will drag on sentiment and house price expectations. Since the peak in August, house prices are already off by 3.7%, albeit 20% higher than in January 2020. But in real terms (deflated by the RPIX index) prices have fallen by 11% and are below their pre-pandemic level. That compares to a fall in real values of 19% in 2007-09 and 33% 1989-92.

5.6 The level of house prices in February and the average quoted mortgage rate of 5.0% in January (latest BoE data), leaves the monthly cost of a new mortgage at 53% of median disposable salary, well above the long run average of 41%. So prices are still high for the higher mortgage rate environment. With yields shifting higher again over the last month, mortgage rates will not be falling further in the near term, indeed they are likely to rise. Capital Economics forecasts that nominal prices will fall by a further 8% on top of the 4% seen to date.

5.7 January's UK money and credit figures release suggest that although higher interest rates are continuing to act as a drag on the housing market, they appear to be having less influence in other areas of the economy so far. Mortgage approvals fell for the fifth consecutive month, from 40,500 in December to 39,600 in January. Excluding the pandemic, that's the lowest level since January 2009 (32,400). That leaves mortgage approvals around 40% below pre-pandemic levels. But higher interest rates appear to be less effective elsewhere in the economy so far. The rebound in retail sales volumes in January suggests households continued to spend in January, partly financed by increasing borrowing. The monthly rise in consumer credit rebounded from £0.8bn in December to £1.6bn in January (consensus forecast +£0.8bn).

5.8 February's increase in core inflation in the Eurozone will reinforce ECB policymakers' conviction that significant rate increases are needed. The decline in headline inflation in the euro-zone from 8.6% in January to 8.5% in February came as something of a surprise given that it rose in Germany, France, and Spain. But the data released show that these increases were offset by declines in Italy and some smaller countries. Commentators, nonetheless, focused on the rise in core inflation, from 5.3% in January to a new record high of 5.6%, which looks broad based as both core goods and services inflation increased. Moreover, the labour market remains exceptionally tight. Other data published showed that the region's unemployment rate was unchanged at 6.7% in January, and the surveys point to continued gains in employment.

5.9 There has been movement in the bond markets, including the gilt market, with yields rising a bit further still, particularly at the medium to longer end of the curve. This can only realistically be expected to fall back once the labour and inflation data starts to weaken materially – later in the year - so PWLB Certainty rates are as follows v our Q1 2023 forecast.

5 years 4.51% (4.00%)
10 years 4.62% (4.20%)
25 years 5.04% (4.60%)
50 years 4.75% (4.30%)

5.10 Link's forecast and that of Capital Economics is set out below. (The market is now pricing in a peak in Bank Rate of 4.75% by September.)

Bank Rate														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	4.00%	4.25%	4.50%	4.50%	4.25%	4.00%	3.75%	3.25%	3.00%	2.75%	2.75%	2.50%	2.50%	2.50%
Capital Economics	4.00%	4.25%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%	-	-	-	-	-
5yr PWLB Rate														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	4.50%	4.00%	4.00%	3.90%	3.80%	3.70%	3.60%	3.50%	3.40%	3.30%	3.20%	3.10%	3.10%	3.10%
Capital Economics	4.50%	3.80%	3.70%	3.60%	3.50%	3.50%	3.40%	3.30%	3.30%	-	-	-	-	-
10yr PWLB Rate														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	4.54%	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.50%	3.40%	3.30%	3.30%	3.20%
Capital Economics	4.54%	3.80%	3.70%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%	-	-	-	-	-
25yr PWLB Rate														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	4.90%	4.60%	4.60%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%
Capital Economics	4.90%	4.20%	4.00%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-	-
50yr PWLB Rate														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	4.60%	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.60%	3.60%	3.40%	3.30%	3.20%	3.20%	3.10%
Capital Economics	4.60%	3.80%	3.80%	3.80%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-	-

5.11 Regarding core debt management advice, it remains unaltered. Link's core advice continues to be to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels. Indeed, with the highest PWLB premature repayment discount rates is at 4.12% (21.5 to 25.5 years).

Debt Rescheduling

5.12 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt.

5.13 However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings.
- Helping to fulfil the treasury strategy.
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt. No debt rescheduling has therefore been undertaken to date in the current financial year.

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 28 February 2023, 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	2022/23 Estimate Indicator	2022/23 Projected Outturn	RAG Status
Authorised limit for external debt (CS 4.2.4)	£143.0m	£143.0m	GREEN
Operational boundary for external debt (CS 4.2.4)	£130.0m	£130.0m	GREEN
Gross external debt (CS 4.2.2)	£78.0m	£51.67m	GREEN
Capital Financing Requirement (CS 2.3.4)	£109.7m	£96.0m	GREEN

Treasury Prudential Indicators	2022/23 Estimate Indicator	2022/23 Projected Outturn	RAG Status
Debt vs CFR under/(over) borrowing	£31.7m	£44.3m	GREEN
Investments (Average)	£3.0m	£3.01m	GREEN
Investment returns expectations	1.0%	2.11%	GREEN
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	25%	25%	GREEN
12 months to 2 years	40%	40%	GREEN
2 years to 5 years	50%	50%	GREEN
5 years to 10 years	75%	75%	GREEN
10 years and above	100%	100%	GREEN
*Capital expenditure – *Appendix B*			
General Fund	£23.9m	6.2m	AMBER
HRA	£13.3m	5.1m	AMBER
Commercial Activities/ non- financial investments	£2.1m	1.6m	AMBER
Ratio of financing costs to net revenue stream (CS 8.1.1):			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	4.2%	4.2%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	11.0%	11.0%	GREEN

*Key: CS – 2022/23 Capital Strategy; *Revised Capital Programme include the 2021/22 slippages and exclude projected carry forward into 2023/24 - details attached as Appendix B.*

Revisions to CIPFA Codes

6.2 CIPFA published revised Prudential and Treasury Management Codes, which takes immediate effect, although detailed reporting requirements may be deferred until the 2023/24 financial year. The main changes from previous codes include:

- Additional reporting requirements for the Capital Strategy.
- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the Authority's overall financial capacity.
- Forward looking prudential code indicators must be monitored and reported to members at least quarterly.
- A new indicator for net income from commercial and service investments to net revenue stream.

- Inclusion of the liability benchmark as a treasury management prudential indicator.
- Excluding investment income from the definition of financing costs.
- Credit and counterparty policies should set out the Authority's policy and practices relating to Environmental, Social and Governance (ESG) investment considerations.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making.

7. Non-treasury investments

7.1 **Lewes Housing Investment Company**
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.

7.2 **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.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 28 February 2023, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 January 2023 to 28 February 2023.

8. Environmental, Social and Governance Investment - update

8.1 The Cabinet at its meeting on 3 February 2022 approved the 2022/23 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 investments are currently limited, there are expectations 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 DLUHC Investment Guidance (i.e., prioritising security, liquidity before yield).

8.3 The Council holds a £5m deposit balance within the Standard Chartered Bank Sustainable Time Deposit, which functions 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.

8.4 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.

8.5 **Sustainable Development Goals**

9. Economic Background

9.1 As expected, the Bank of England's Monetary Policy Committee continue to increase the Bank Rate and a detailed economic commentary on developments during period ended 31 December 2022 is attached as **Appendix B**.

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 a 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 - LDC Q3 Capital Programme.
15.2 Appendix B - Detailed Link's economic commentary.
15.3 Appendix C - Glossary/Local Authority Treasury Management Terms.

16. Background Papers

16.1 Treasury Strategy Statements 2022/23.