

Report To:	Audit and Governance Committee
Date:	4 September 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 April to June 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 Governance 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 Governance 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 (CIPFA).
- 1.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit & Governance Committee before they were reported to the Full Council.
- 1.4 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.

1.5 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. Economic Background

2.1 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 30 June 2023 is attached as **Appendix A**.

3. Interest Rate Forecast

3.1 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.

3.2 The latest forecast (made on 26th June), 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, against a backdrop of a stubbornly robust economy and a tight labour market.

3.3 The forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

3.4 Link’s forecast of bank rate and PWLB borrowing rates are set out below.

Link Group Interest Rate View 26.06.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Note

- 1) LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- 2) The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

4. Annual Investment Strategy

- 4.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes in December 2021. 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 2023/24 which includes the Annual Investment strategy (AIS), was approved by the Full Council on 20 February 2023. It sets out the Council’s investment priorities as being:
- Security (of Capital);
 - Liquidity;
 - Yield.
- 4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council’s risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.
- 4.4 As per the interest rate forecasts in section 3 above, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.
- 4.5 There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.
- 4.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 30 June 2023, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 3 days during the period.

5. Treasury Management Activity

- 5.1 The timetable for reporting Treasury Management activity in 2023/24 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 Governance Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
3 July 2023	2022/23 Annual Report (up to 31 March 2023)
4 September 2023	1 April to 30 June 2023

13 November 2023	1 July to 30 September 2023
January 2024	1 October to 31 December 2023
March 2024	1 January to 28 February 2024

5.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 30 June 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 Chartered - Sustainable	17/04/23	17/07/23	91	5,000	4.39%	A+
Bayerische Landesbank	15/06/23	15/08/23	61	5,000	4.77%	A-

5.3 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 30 June 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
Standard Chartered - Sustainable	03/03/23	03/04/23	31	5,000	3.80%	A+
Debt Management Office (DMO)	30/03/23	06/04/23	7	1,000	4.05%	*
DMO	03/04/23	12/04/23	9	5,000	4.05%	*
DMO	06/04/23	12/04/23	6	2,000	4.05%	*
Bayerische Landesbank	30/03/23	13/04/23	14	5,000	4.07%	A-
Standard Chartered - Sustainable	03/04/23	17/04/23	14	5,000	4.05%	A+
Bayerische Landesbank	13/04/23	15/05/23	32	5,000	4.09%	A-
DMO	02/05/23	22/05/23	20	7,000	4.20%	*
DMO	17/04/23	23/05/23	36	2,000	4.14%	*
DMO	15/05/23	23/05/23	8	2,000	4.38%	*
Bayerische Landesbank	15/05/23	15/06/23	31	5,000	4.29%	A-
DMO	15/06/23	19/06/23	4	2,300	4.38%	*
DMO	01/06/23	28/06/23	27	6,700	4.44%	*
DMO	24/05/23	29/06/23	36	2,000	4.43%	*

* UK Government body and therefore not subject to credit rating

The weighted average rate of interest earned on deposits held in the period 1 April to 30 June 2023 was 4.35%, which was below the average bank base rate for the period of 4.65%.

5.4 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 £2.53m generating interest of £36k.

	Balance at 30/06/23 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£4,885	2.78%
Lloyds Bank Current Account	£3,126	£1,171	1.70%
Lloyds Bank Call Account	£10	£1,513	0.70%

5.5 Money Market Funds

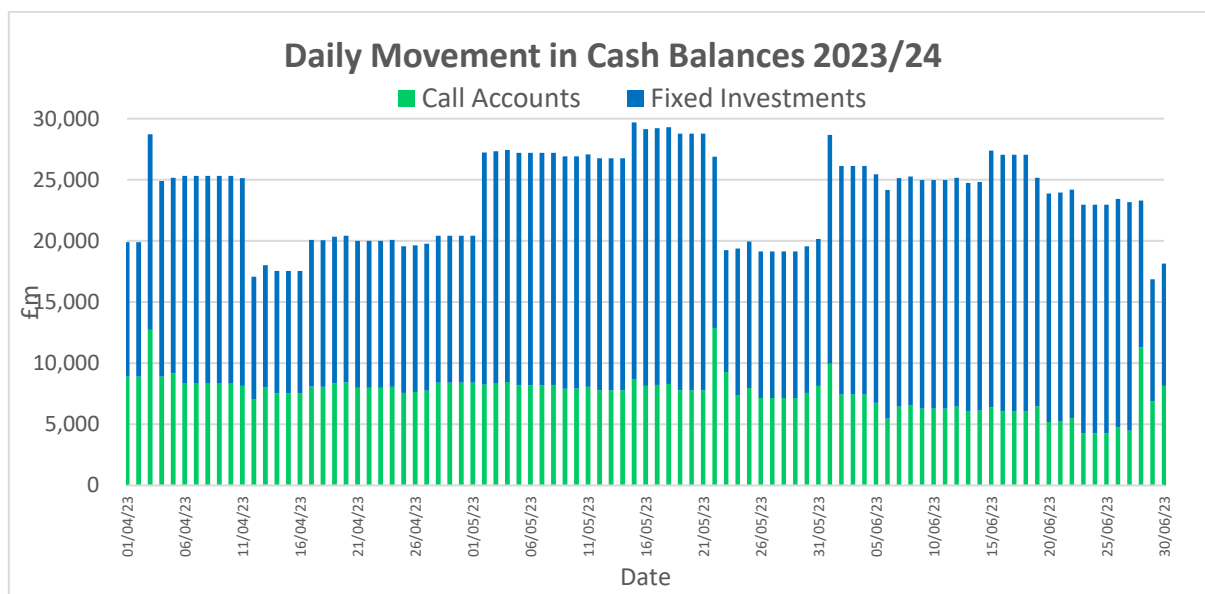
There were no funds Money Market Funds held at 30 June 2023, and there was no activity in the period.

5.6 Bond Funds, Multi-Asset Income Funds and Property Funds

There were no Short Dated Bond Funds, Multi-Asset Income Funds or Property Funds held at 30 June 2023, and there was no activity in the period.

6. Overall investment position

6.1 The chart below summarises the Council's investment position over the period 1 April to 30 June 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts.



6.2 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.

6.3 During the Covid-19 pandemic with unexpected calls on cash flow, significant balances were held in call accounts which are highly liquid. Since then, more funds are being held as fixed term investments and less in call accounts.

7. Borrowing

7.1 The current account with Lloyds Bank generally remained within credit limits throughout most of the period. The Council's long term borrowing at 30 June is £51.7m (£46.7m Public Works Loan Board (PWLB) and £5m Barclays loan). The General Fund has made internal loans of £24.2m to the Housing Revenue Account.

8. PWLB Rates

8.1 Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since the previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%. The view is that markets have built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

8.2 Link's core debt management advice remains unaltered, to continue 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.

9. Debt Rescheduling

9.1 Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. The Council will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio. This is dependent on levels of investment balances. No debt rescheduling has currently been undertaken in the financial year.

10. Compliance with Treasury and Prudential Limits

10.1 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 Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs).

10.2 The table below shows the RAG status of the Treasury and Prudential Indicators comparing the Budget position to the Forecast for the year.

10.3 As at June 2023, all indicators have a green status with the exception of financing costs. The % of GF financing costs has increased as the GF pays interest on HRA balances. Average investment rates received will increase as base rates rise. The % of HRA financing costs has increased as the HRA pays interest on loans provided by the GF. The interest rate payable will increase as base rate and PWLB rates rise.

Treasury and Prudential Indicators	2023/24 Budget	2023/24 Forecast	RAG Status
Authorised limit for external debt	£166m	£166m	GREEN
Operational boundary for external debt	£151m	£151m	GREEN
Gross external debt	£55m	£52m	GREEN
Capital Financing Requirement	£131m	£131m	GREEN
Debt vs CFR under / (over) borrowing	(£76m)	(£79m)	GREEN
Investments (Average)	£22m	£22m	GREEN
Investment returns expectations	2.3%	4.0%	GREEN
Upper limit for principal sums invested for longer than 365 days	100%	100%	GREEN
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 Programme - see Appendix B			
General Fund (GF)	£39.1m	£53.9m	GREEN
Housing Revenue Account (HRA)	£16.5m	£20.5m	GREEN
Commercial Activities / non- financial investments	£13.5m	£15.1m	GREEN
Financing costs:			
Proportion of GF Financing Costs to Net Revenue Stream	6.7%	7.8%	AMBER
Proportion of HRA Financing Costs to Rental Income	11.4%	13.9%	AMBER
Commercial and Service investments			
Proportion of net income from commercial and service investments to net revenue stream	11.6%	11.6%	GREEN

11. Revisions to CIPFA Codes

11.1 CIPFA published revised Prudential and Treasury Management Codes in December 2021. The main changes from the previous codes were:

- 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.

11.2 The code changes came in with immediate effect, although detailed reporting requirements could be deferred until 2023/24. Some of the requirements were implemented in the previous financial year. Full compliance will be achieved and reported by Quarter 2.

12. Non-treasury investments

12.1 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. Capital allocations would need to be approved as potential commercial loan funding to facilitate property purchases. No loans have been made to-date.

12.2 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. As at 31 March 2023, loans outstanding were £3.04m relating to two schemes (Grays School, Newhaven and Caburn Field, Lewes). In addition, £20k of working capital loans have been made. No loans have been made in quarter one of 2023/24.

13. Environmental, Social and Governance (ESG) Investment

13.1 The Cabinet at its meeting on 2 February 2023 approved the 2023/24 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.

13.2 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).

13.3 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.

13.4 These loan and project assets include green financing, sustainable infrastructure projects, micro-finance, 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.

Sustainable Development Goals



14. Financial Appraisal

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

15. Risk Management Implications

15.1 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.

16. Equality Analysis

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

17. Legal Implications

17.1 There are no legal implications from this report.

18. Environmental sustainability implications

- 18.1 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.

19. Appendices

- 19.1 Appendix A - Detailed Link's economic commentary
- 19.2 Appendix B - LDC Capital Programme
- 19.3 Appendix C - Glossary of Treasury Management terms

20. Background Papers

- 20.1 Treasury Strategy Statement 2023/24