

**Report To:** Audit and Governance Committee

**Date:** 4 March 2024

**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 December 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 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
4 September 2023	Q1 April to June 2023
13 November 2023	Q2 April to September 2023 (Mid Year Review)
04 March 2024	Q3 April to December 2023
July 2024	2023/24 Annual Treasury Report

- 1.4 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.
- 1.5 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.
- 1.6 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 The Bank of England's Monetary Policy Committee (MPC) have continued to hold the Bank Rate at 5.25% (since 3/8/23). A detailed economic commentary for the period to 31 December 2023 is attached as **Appendix A**.

## 3. Interest Rate Forecasts

- 3.1 The Council has 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 1<sup>st</sup> November 2012.
- 3.2 The latest forecast on 8 January 2024 sets out a view that the MPC are keen to further demonstrate their anti-inflation credentials by keeping Bank Rate at 5.25% until at least September 2024.
- 3.3 Link's forecast of bank rate and PWLB borrowing rates (at 8/1/24) are set out below.

Link Group Interest Rate View		08.01.24												
		Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>		5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings		5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings		5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings		5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB		4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB		4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB		5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB		5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

## Note

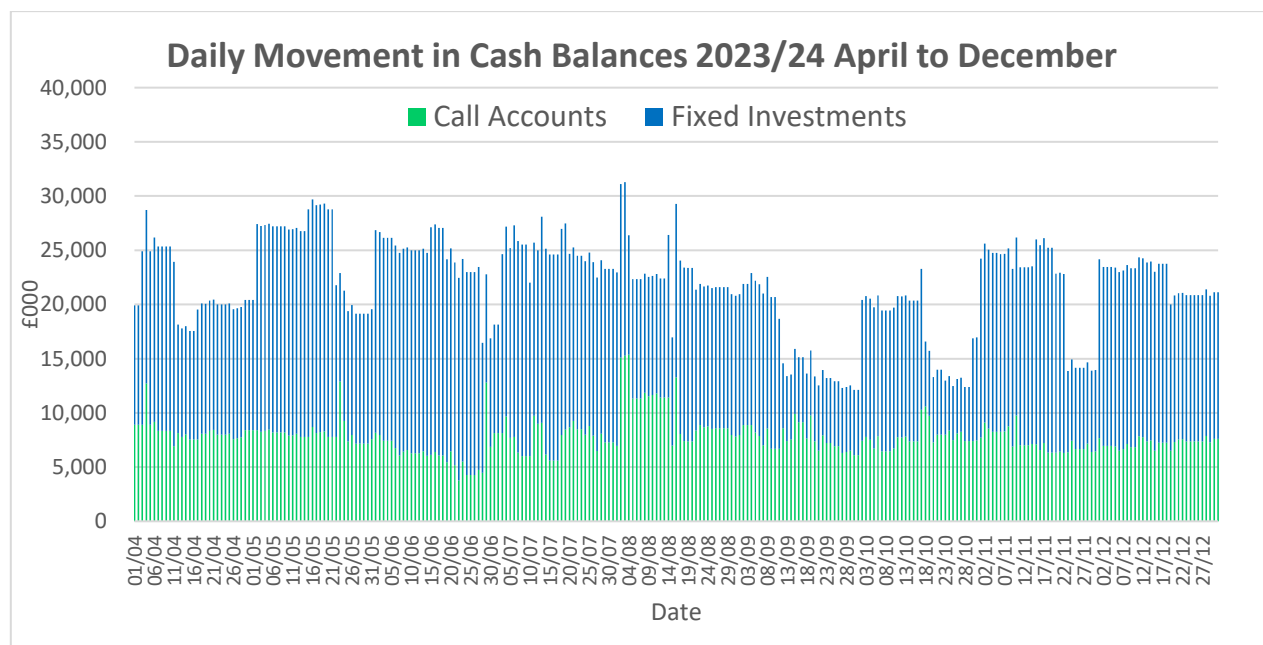
- 1) LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- 2) The Link forecast for average earnings are averages i.e., rates offered by individual banks may 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 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.
- 4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

## 5. Treasury Management Activity

- 5.1 The chart below summarises the Council's investment position over the period 1 April to 31 December 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average balance over the period is £21.8m (£14.0m Fixed and £7.8m Call).



## 5.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 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 £	Rate %	Long Term Rating
Link - Standard Charter sustainable	17/10/23	17/1/24	92	5,000,000	5.32%	A+

## 5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured in the third quarter, between 1 September to 31 December 2023, in maturity date order.

Counterparty	Principal	Date From	Date To	Days	Rate %	Long Term Rating
DMO	£1,000,000	04/07/2023	04/09/2023	62	5.06%	*
DMO	£2,000,000	04/09/2023	11/09/2023	7	5.13%	*
DMO	£6,000,000	16/08/2023	12/09/2023	27	5.13%	*
Standard Charter sustainable	£5,000,000	17/07/2023	17/10/2023	92	5.45%	A+
DMO	£7,000,000	02/10/2023	18/10/2023	16	5.17%	*
DMO	£1,000,000	21/08/2023	23/10/2023	63	5.28%	*
DMO	£4,500,000	30/10/2023	06/11/2023	7	5.17%	*
DMO	£4,400,000	06/11/2023	20/11/2023	14	5.17%	*
DMO	£7,000,000	01/11/2023	23/11/2023	22	5.18%	*
DMO	£2,000,000	20/11/2023	23/11/2023	3	5.17%	*
DMO	£9,000,000	01/12/2023	08/12/2023	7	5.17%	*
DMO	£9,000,000	08/12/2023	19/12/2023	11	5.19%	*

Note: \* indicates UK Government body and therefore not subject to a credit rating.

The weighted average rate of interest earned on deposits held in the period 1 April to 31 December 2023 was 4.86% (4.72% at Q2). The average bank base rate over the period was 4.95%. DMO deposits can fluctuate below the base rate.

#### 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 £3.200m (£2.664m Q2), generating interest of £172k.

Counterparty	Balance at 31/12/23 £000	Average Balance £000	Current Interest Rate %
Santander Business Reserve Account	£3,000	£4,589	3.23%
Lloyds Bank Current Account	£1,601	£1,388	2.10%
Lloyds Bank Call Account	£3,010	£1,811	5.14%

#### 5.5 Money Market Funds

There were no funds Money Market Funds held at 31 December 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 31 December 2023, and there was no activity in the period.

## 6. Capital Position

- 6.1 This table shows the revised estimates for capital expenditure and the changes since the 2023/24 capital programme was agreed at the Budget.

	<b>Original Budget £000</b>	<b>Revised Budget £000</b>	<b>Forecast Outturn £000</b>
HRA	16,549	19,109	18,722
General Fund	52,607	32,745	19,651
<b>Total Capital Expenditure</b>	<b>69,156</b>	<b>51,854</b>	<b>38,373</b>

- 6.2 The Forecast Outturn for the year is £38.373m as there has been significant deferral of schemes to 2024/25 and later years from the Revised Budget position . Appendix 2 provides further details.
- 6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix 2). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

## 7. Borrowing

- 7.1 The Council's capital financing requirement (CFR) for 2023/24 is forecast as £116.9m (GF £38.9m and HRA £78.0m). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

### PWLB Rates

- 7.2 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 4.5% to 5.2%. 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.
- 7.3 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.

## External Debt

- 7.4 The Council's long term borrowing at 31 December was £47.7m (£47.7m Q2) including £42.7m Public Works Loan Board (PWLB) and £5m Barclays loan. Debt at the start of the year was £51.7m and a £4m loan has matured during the year. A further £4m will mature in March 2024.
- 7.5 Long term borrowing is at fixed rates of interest ranging from 2.63% to 4.50%. There was no short term borrowing as at 31 December 2023. The General Fund makes internal loans to the Housing Revenue Account and the balance at the start of the financial year was £24.2m.
- 7.6 No new borrowing has been undertaken this year to-date and it is anticipated this will remain the position for the remainder of the year. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if further upside risk to gilt yields prevails.

## 8. Debt Rescheduling

- 8.1 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.

## 9. Capital Financing Costs Summary

- 9.1 The table below summaries the General Fund (GF) interest payable, minimum revenue provision (MRP) and interest receivable forecast for the year.

General Fund	Original Budget £000	Forecast Outturn £000	Q3 Actual £000
Interest Payable - Borrowing	-	-	-
MRP	703	467	-
Interest Receivable – Treasury Investments	(495)	(744)	(578)
<b>Net Interest Cost</b>	<b>208</b>	<b>(277)</b>	<b>(578)</b>

- 9.2 There are no external GF loans and interest payable. MRP is calculated at the end of the financial year. Interest receivable has increased due to base rate rises from 3.5% in January to 5.25% currently.

- 9.3 The table below summaries the Housing Revenue Account (HRA) interest payable and interest receivable forecast for the year.

HRA	Original Budget £000	Forecast Outturn £000	Q3 Actual £000
Interest Payable (PWLB, Market & GF loans)	2,376	2,967	707
Interest Receivable (on HRA Balances)	(143)	(900)	-
<b>Net Interest Cost</b>	<b>2,233</b>	<b>2,067</b>	<b>707</b>

9.4 HRA Interest payable has increased due to a higher rate on the borrowing from the general fund. Interest receivable has increased due a change in which HRA balances interest is now paid and also to base rate rises from 3.5% in January to 5.25% currently. Interest payable on GF loans and receivable on HRA Balances is calculated and paid at the end of 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 tables below shows the RAG status of the Prudential and Treasury Indicators comparing the Budget position to the Forecast for the year.

Prudential Indicators	2023/24 Budget	2023/24 Forecast	RAG Status
Authorised Limit for external debt	£166m	£146m	GREEN
Operational Boundary for external debt	£151m	£140m	GREEN
Capital Financing Requirement (CFR)	£131m	£117m	GREEN
Gross External debt (Note 1)	£79m	£76m	GREEN
Debt compared to CFR (under) / over borrowing	(£52m)	(£41m)	GREEN
Proportion of GF Financing Costs to Net Revenue Stream (Note 2)	2.9%	2.9%	GREEN
Proportion of HRA Financing Costs to Rental Income (Note 3)	44.3%	50.2%	AMBER
Proportion of net income from commercial and service investments to Net Revenue Stream	11.6%	11.2%	GREEN
Total Investments (average)	£22m	£22m	GREEN
Investment returns %	2.3%	4.9%	GREEN

Note:

1. Includes GF loans to HRA;
2. Excluding interest on HRA Balances;
3. Includes HRA depreciation.



Section 6 and Appendix B includes details of the requirement for a Capital Expenditure indicator.

Treasury Indicators	2023/24 Budget	2023/24 Forecast	RAG Status
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

Paragraphs 10.6 to 10.8 and Appendix C include details of the requirement for a Liability Benchmark indicator.

- 10.3 As at 31 December 2023, all indicators have a green status with the exception of financing costs. The percentage 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 percentage 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.
- 10.4 The Capital Financing Requirement (CFR) has reduced by £14m from an estimated £131m (Feb 2023) to a forecast £117m. The reduction is due to lower capital expenditure in 2022/23 (financed through borrowing) reducing the opening balance at 1/4/23 and lower forecast capital expenditure in 2023/24 (financed through borrowing).
- 10.5 Approved limits within the Annual Investment Strategy were not breached during the period ending 31 December 2023, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 3 days during the period (13 days Q2). Breaches normally occur where (i) other investments have been recalled back to Lloyds a day early in readiness for larger than usual outgoings the following day or (ii) other investments are received back too late in the day to reinvest so remain with Lloyds overnight. During August there was a period of 10 days where the Lloyds limit was breached due to annual leave and limited staff resources. The balances were therefore kept higher than normal.

## **Liability Benchmark**

- 10.6 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas
- i. Existing Loan Debt = current borrowing portfolio;
  - ii. Capital Financing Requirement (loans only);
  - iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
  - iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.
- 10.7 Appendix C includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2026/27 are to be included although the charts cover the full debt maturity profile and MRP to 2066/67.
- 10.8 The GF chart shows the CFR reducing over time due to MRP payments. The liability benchmark line moves negative in 2044 when MRP exceeds loan debt. The HRA chart shows the CFR increasing and then levelling out as there are no MRP payments or capital receipts set aside. PWLB debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

## **11. Non-treasury investments**

### **11.1 Lewes Housing Investment Company**

Lewes Housing Investment Company is a wholly owned subsidiary of the Council incorporated in July 2017. It 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.

### **11.2 Aspiration Homes LLP**

Aspiration Homes LLP is a limited liability partnership owned jointly by Lewes District Council and Eastbourne Borough Council incorporated in June 2017. It was established for the purpose of developing housing to be let at affordable rent. To-date, loans outstanding are £3.04m relating to two schemes (Grays School, Newhaven and Caburn Field, Ringmer). In addition, £20k of working capital loans have been made. No loans have been made during 2023/24.

## 12. Environmental, Social and Governance (ESG) Investment

- 12.1 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.
- 12.2 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.
- 12.3 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.
- 12.4 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



## 13. Financial Appraisal

- 13.1 All relevant implications are referred to in the above paragraphs.

## 14. Risk Management Implications

- 14.1 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.

## **15. Equality Analysis**

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

## **16. Legal Implications**

- 16.1 There are no legal implications from this report.

## **17. Environmental sustainability implications**

- 17.1 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.

## **18. Appendices**

- 18.1 Appendix A - Link Treasury Services Economic Commentary
- 18.2 Appendix B - LDC Capital Programme 2023/24
- 18.3 Appendix C - Liability Benchmark
- 18.4 Appendix D - Glossary of Terms

## **19. Background Papers**

- 19.1 Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 2/2/23)