Annex 1

Report To:	**Cabinet**
Date:	**11 July 2024**
Report Title:	**Treasury Management Annual Report 2023/24**
Report of:	**Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)**
Cabinet member:	**Councillor Zoe Nicholson, Leader of the Council and Cabinet member for finance, assets and community wealth building**
Ward(s):	**All**
Purpose of report:	**To present the Annual Treasury Management Report for 2023/24**
Decision type:	**Budget and policy framework**
Officer Recommendations:	**To recommend to Full Council:** **(1) To approve the Annual Treasury Management report 2023/24.** **(2) To approve the 2023/24 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 has to be reported to Full Council.**
Contact Officer(s):	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **e-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 07591 988346**

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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
11 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 March 2024 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 1st November 2012.

3.2 The latest forecast on 28 May 2024 sets out a view that the MPC are preparing the market for near term interest rate cuts. With falling inflation, a cut of 0.25% before the end of September is expected.

3.3 Link's forecast of bank rate and PWLB borrowing rates are set out below.

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

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.

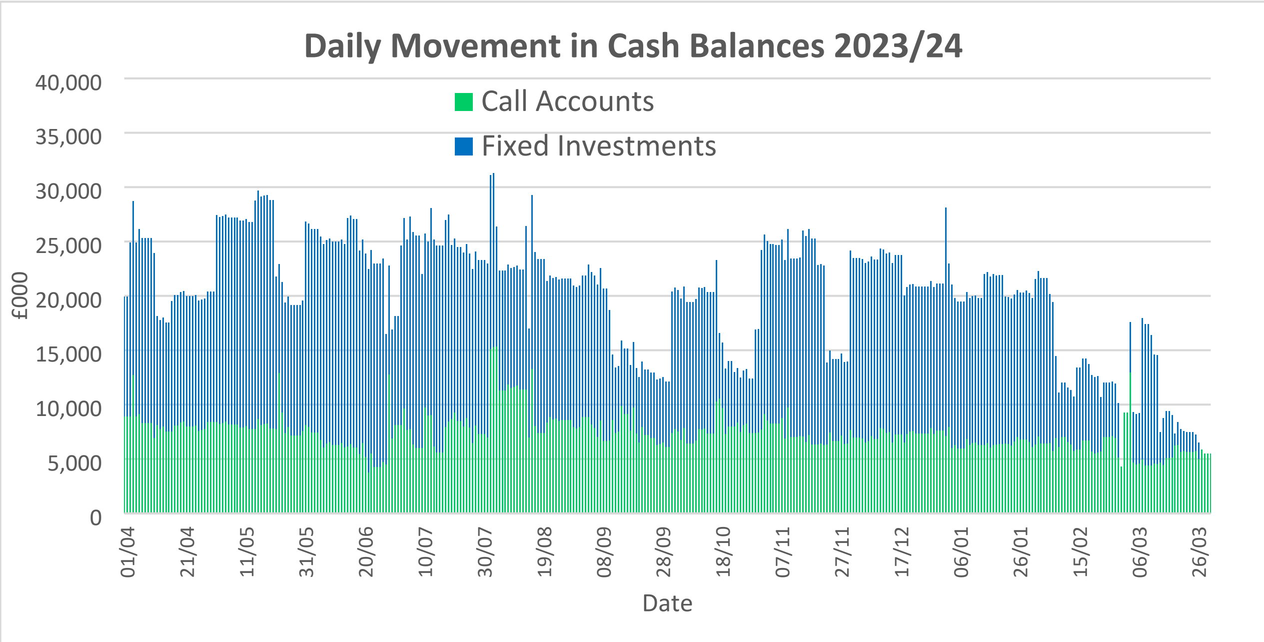
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit 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 March 2024. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. Cash balances at 1 April were £19.9m and £5.5m at 31 March. The average balance over the year was £20.1m (£12.7m Fixed Term and £7.4m Call). Investments have been used to finance the capital programme (internal borrowing) and repay debt.



5.2 Fixed Term Deposits pending maturity

The following table shows there were no fixed term deposits held at 31 March 2024 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
Debt Management Office (DMO)	-	-	-	-	-	A+

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

5.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured in quarter 4 in maturity date order. It is important to note that the table includes sums reinvested.

Counterparty	Principal	Date From	Date To	Days	Rate %	Long Term Rating
Debt Management Office (DMO)	£6,000,000	19/12/23	03/01/24	15	5.19%	*
DMO	£7,500,000	02/01/24	05/01/24	3	5.19%	*
DMO	£6,000,000	05/01/24	19/01/24	14	5.19%	*
DMO	£5,800,000	19/01/24	22/01/24	3	5.19%	*
DMO	£3,800,000	22/01/24	29/01/24	7	5.19%	*
DMO	£1,500,000	01/02/24	06/02/24	5	5.19%	*
DMO	£2,200,000	15/01/24	08/02/24	24	5.19%	*
DMO	£4,000,000	29/01/24	08/02/24	10	5.19%	*
Standard Chartered sustainable	£5,000,000	17/01/24	16/02/24	30	4.95%	A+
DMO	£2,500,000	15/02/24	19/02/24	4	5.19%	*
Standard Chartered sustainable	£5,000,000	16/02/24	23/02/24	7	4.87%	A+
DMO	£2,000,000	19/02/24	23/02/24	4	5.19%	*
Standard Chartered sustainable	£5,000,000	23/02/24	01/03/24	7	4.87%	A+
DMO	£4,600,000	04/03/24	08/03/24	4	5.19%	*
DMO	£13,000,000	08/03/24	11/03/24	3	5.19%	*
DMO	£12,000,000	11/03/24	12/03/24	1	5.19%	*
DMO	£10,000,000	12/03/24	14/03/24	2	5.19%	*
DMO	£1,500,000	15/03/24	18/03/24	3	5.19%	*
DMO	£2,800,000	14/03/24	19/03/24	5	5.19%	*
DMO	£1,100,000	18/03/24	22/03/24	4	5.19%	*
DMO	£1,000,000	20/03/24	22/03/24	2	5.19%	*
DMO	£1,800,000	22/03/24	26/03/24	4	5.19%	*
DMO	£1,500,000	26/03/24	28/03/24	2	5.19%	*

The weighted average rate of interest earned on deposits held in the period 1 April to 31 March 2024 was 4.89% (4.86% at Q3). The average bank base rate over the period was 5.03%. 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 £2.461m (£2.596 Q3), generating interest of £332k.

Counterparty	Balance at 31/03/24 £000	Average Balance £000	Average Interest Rate %	Current Interest Rate %
Santander Business Reserve Account	£1,300	£3,977	0.93%	3.23%
Lloyds Bank Current Account	£982	£1,308	0.94%	2.10%
Lloyds Bank Call Account	£3,210	£2,100	1.21%	5.14%

5.5 Money Market Funds

There were no funds Money Market Funds held at 31 March 2024, and there was no activity in the year.

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 March 2024, and there was no activity in the year.

6. Capital Position

6.1 This table shows the capital expenditure outturn compared to the revised budget and the forecast outturn. **Appendix B** provides further details. Note – the July Revenue and Capital Outturn report to Cabinet provides full capital scheme details.

	Original Budget £000	Revised Budget £000	Forecast Outturn £000	Actual Outturn £000
HRA	16,549	19,109	18,722	11,409
General Fund	52,607	32,745	19,651	16,311
Total Capital Expenditure	**69,156**	**51,854**	**38,373**	**27,720**

6.2 The budget has been updated for carry over underspends from the previous financial year, supplementary budgets approved during the year and schemes now deferred and reprofiled to 2024/25. The actual outturn for the year is £27.72m as compared to the forecast outturn at Q3 of £38.37m, a movement of £10.65m.

6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix B). 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. The amount of unfinanced capital expenditure (i.e. borrowing) in the year for the GF was £7.129m. There was no unfinanced HRA expenditure in the year.

7. Borrowing

7.1 The Council’s capital financing requirement (CFR) for 2023/24 is forecast as £106.2m (GF £28.2m 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 yields PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

7.3 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

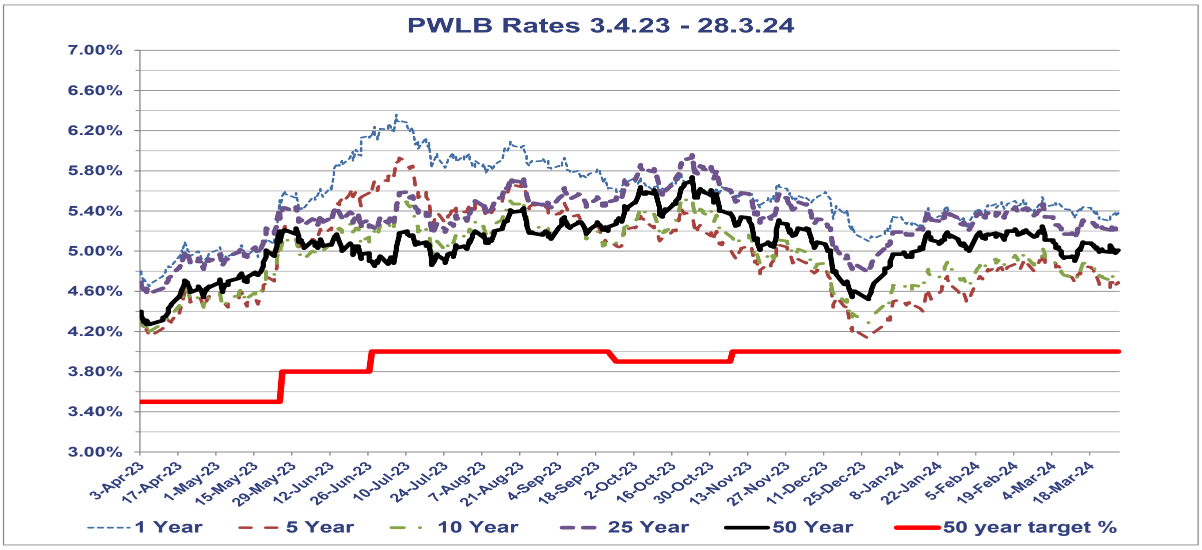
7.4 Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%. At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

Graph of 10-year UK gilt yields v. US treasury yields (inclusive of Link's and Capital Economics' forecasts)

7.5 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **HRA Borrowing rate** is gilt plus 40 40bps (G+40bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.



HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

7.6 The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is currently an unknown.

7.7 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

7.8 The Council's long term borrowing at 31 March 2024 was £43.7m (£47.7m Q3) including £38.7m Public Works Loan Board (PWLB) and £5m Barclays loan. Debt at the start of the year was £51.7m and £8m of loans have matured during the year. Long term borrowing is at fixed rates of interest ranging from 2.63% to 4.50%.

7.9 Short term borrowing at 31 March 2024 was £8m. The General Fund makes internal loans to the Housing Revenue Account and the balance at 31 March 2024 was £24.2m. Total GF and HRA debt at the start of the year was £80.9m and remains at £80.9m at 31 March 2024.

7.10 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 Q3 £000**	**Actual Outturn £000**
Interest Payable - Borrowing	-	-	-
MRP	703	467	467
Interest Receivable – Treasury Investments	(495)	(744)	(860)
Net Interest Cost	**208**	**(277)**	**(393)**

9.2 There are no external GF loans and interest payable. Interest receivable has increased due to base rate rises from 3.5% in January 2023 (budget setting) 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 Q3 £000**	**Actual Outturn £000**
Interest Payable (PWLB, Market & GF loans)	2,376	2,967	3,005
Interest Receivable (on HRA Balances)	(143)	(900)	(894)
Net Interest Cost	**2,233**	**2,067**	**2,111**

9.4 HRA Interest payable has increased, compared to the budget, due to a higher rate of interest on the borrowing from the general fund. Interest receivable has increased due a change in which HRA reserves and balances interest is now paid on and also base rate rises to 5.25%.

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 Q3	2023/24 Actual	RAG Status
Authorised Limit for external debt	£166m	£146m	£146m	GREEN
Operational Boundary for external debt	£151m	£140m	£140m	GREEN
Capital Financing Requirement (CFR)	£131m	£117m	£106m	GREEN
Gross External debt (Note 1)	£79m	£76m	£76m	GREEN
Debt compared to CFR (under) / over borrowing	(£52m)	(£41m)	(£30m)	GREEN
Proportion of GF Financing Costs to Net Revenue Stream (Note 2)	4.7%	3.1%	3.4%	GREEN
Proportion of HRA Financing Costs to Rental Income (Note 3)	44.3%	50.2%	48.5%	AMBER
Proportion of net income from Commercial and Service investments to Net Revenue Stream	12.9%	11.2%	15.8%	AMBER

Notes -

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	2023/24 Actual	RAG Status
Upper limit for principal sums invested for longer than 365 days	100%	100%	100%	GREEN
Maturity structure of fixed rate borrowing - upper limits:				
Under 12 months	25%	25%	25%	GREEN
12 months to 2 years	40%	40%	40%	GREEN
2 years to 5 years	50%	50%	50%	GREEN
5 years to 10 years	75%	75%	75%	GREEN
10 years and above	100%	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 March 2024, all indicators have a green status with the exception of (i) Proportion of HRA Financing Costs to Rental Income and (ii) Proportion of net income from Commercial and Service investments to Net Revenue Stream. The percentage of HRA financing costs has increased to 48.5% as the HRA pays interest on loans provided by the GF. The interest rate payable will increase as base rate and PWLB rates rise. The proportion of net income from Commercial and Service investments has increased to 15.8% due to an increase in income and also a reduction in the outturn position of the net revenue stream.

10.4 The Capital Financing Requirement (CFR) has reduced by £25m from an estimated £131m (Feb 2023) to an actual outturn of £106m. 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 March 2024, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 2 days during the fourth quarter (average 6.3 days Q1-Q3). 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 at 31 March 2024 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 new 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 During the year, the Council has held balances with 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

Appendix A - Link Treasury Services Economic Commentary

Appendix B – LDC Capital Programme 2023/24

Appendix C - Liability Benchmark

Appendix D – Glossary of Terms

19. Background Papers

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

Annex 1

Appendix A

Link Group – Economic commentary

UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2% y/y)	+0.0%q/q Q4 (0.1% y/y)	2.0% Q1 annualised
Inflation	3.4%y/y (Feb)	2.4%y/y (Mar)	3.2%y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

USA Economy

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025…but how many and when?

Euro-Zone Economy

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

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Appendix B

Capital Programme 2023/24	Original Budget £000	Revised Budget £000	Forecast Outturn (at Q3) £000	Actual Outturn £000
HOUSING REVENUE ACCOUNT (HRA)				
Development – New Acquisitions and New Build	11,501	12,444	12,252	6,718
Major Works and Improvements	4,998	6,615	6,462	4,670
Housing Estates Recreation and Play Areas	50	50	8	21
Total HRA	**16,549**	**19,109**	**18,722**	**11,409**
GENERAL FUND (GF)				
Housing Grants	1,135	1,486	1,101	1,888
Loans to Housing Companies	2,000	-	-	-
Stabilisation and Growth	20	-	-	-
Regeneration (see Note)	35,223	16,195	7,248	6,546
Asset Management	2,930	775	669	470
Indoor Leisure Facilities	2,159	2,527	924	1,016
Energy Schemes	500	500	-	-
Community Infrastructure Levy	900	900	414	273
Service Delivery (see Note)	6,331	6,225	5,499	4,599
Flood Protection and Coastal Defence	236	705	209	326
Parks & Pavilions	200	1,053	230	15
Open Spaces & Biodiversity	610	789	846	246
Information Technology	213	397	405	333
Digital Transformation	-	607	607	599
Finance Transformation	150	-	-	-
Total General Fund	**52,607**	**32,745**	**19,651**	**16,311**
Total Capital Expenditure	**69,156**	**51,854**	**38,373**	**27,720**

Note: Regeneration includes Newhaven Levelling Up Fund, Future High Streets Fund and Town Deal projects.
Service Delivery includes Vehicle and Wheel Bin replacement.

HRA Financing				
Capital Receipts	4,901	9,697	9,505	6,046
Grants & Contributions	1,935	2,653	2,653	621
Major Repairs Reserve	4,965	6,665	6,470	4,662
Revenue	100	94	94	80
Reserves	-	-	-	-
Borrowing Need	4,468	-	-	-
Total HRA	**16,549**	**19,109**	**18,722**	**11,409**

GF Financing				
Capital Receipts	1,859	-	-	243
Grants & Contributions	29,888	14,759	8,320	7,753
Revenue	436	-	-	150
Reserves	-	-	-	946
Borrowing Need	20,434	17,986	11,331	7,219
Total GF	**52,607**	**32,745**	**19,651**	**16,311**

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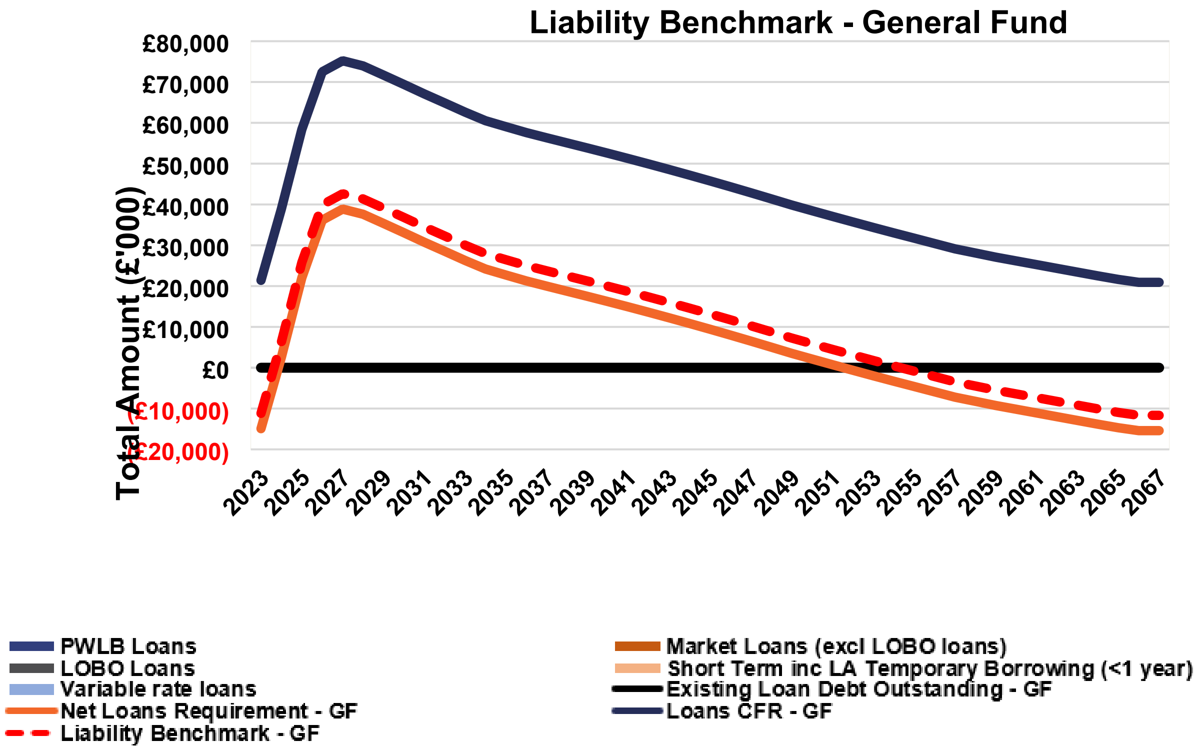
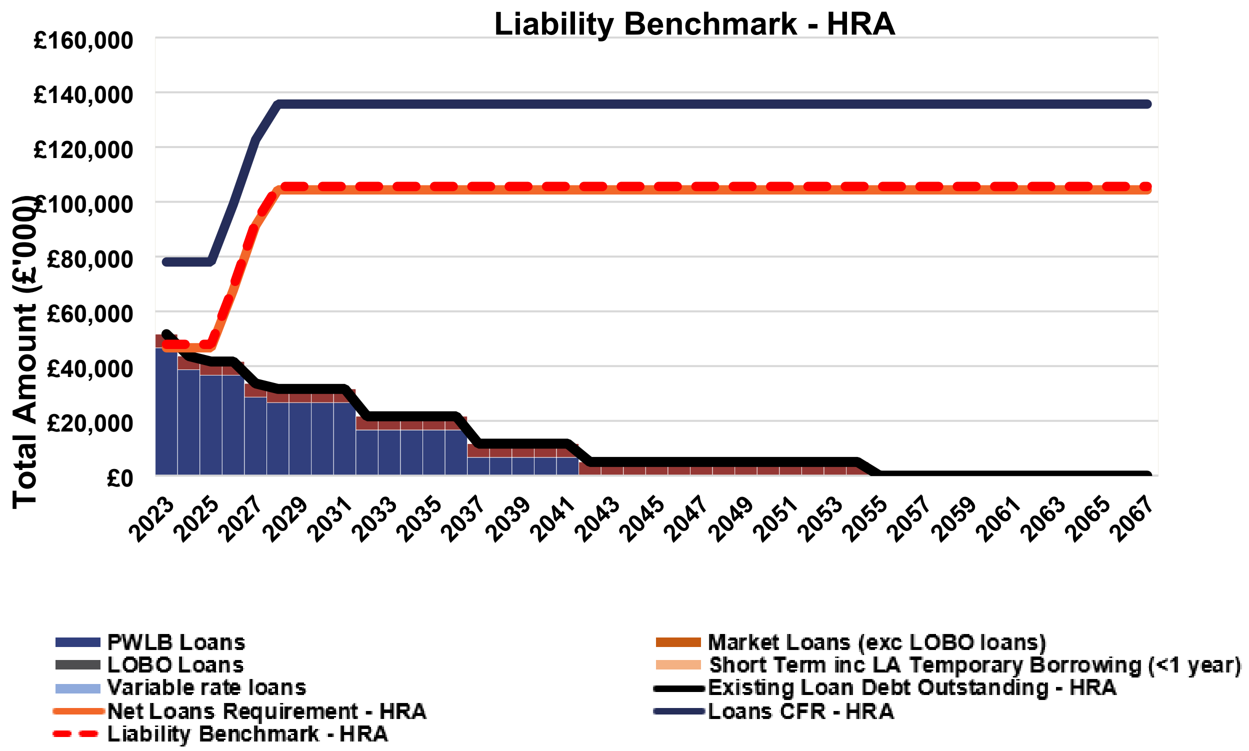
Appendix C

Liability Benchmark Charts





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Appendix D

GLOSSARY

Local Authority Treasury Management Terms

Term	Description
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.
Capital Financing Requirement (CFR)	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 Minimum Revenue Provision (MRP).
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body.
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.
CPI	Consumer Price Index - the main measure of inflation for macroeconomic purposes.
Deposit	A regulated placing of cash with a financial institution.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DLUHC	Department for Levelling Up, Housing and Communities supports communities across the UK to thrive.
DMO	Debt Management Office is an executive agency of HM Treasury responsible for debt and cash management for the UK Government lending to local authorities and managing certain public funds.
Equity	An investment which usually confers ownership and voting rights.
FTSE	Financial Times Stock Exchange – an important indicator of the health of the UK stock market and economy. The FTSE100 is an index made up of shares from the biggest 100 companies by market capitalisation.
GDP	Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country in a specific time period.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
Gilts	A gilt is a UK government liability denominated in sterling, issued by HM Treasury and listed on the stock exchange.

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Term	Description
LIBID and LIBOR	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than 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. No longer in use, see SONIA below.
LOBO	Lender's Option Borrower's option.
MMF	A Money Market Fund is a type of mutual fund that invests in cash, cash equivalents and short term debt securities.
MPC	The Bank of England's Monetary Policy Committee (MPC) are responsible for making decisions about the bank rate.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme.
OBR	The Office for Budget Responsibility gives independent and authoritative analysis of the UK's public finances. OBR is an executive non-departmental public body, sponsored by HM Treasury.
PMI	Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. Market conditions can be expanding, staying the same or contracting.
PWLB	Public Works Loan Board is 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.
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.
TMSS	Treasury Management Strategy Statement.