Report To:	**Audit and Governance Committee**
Date:	**10 December 2024**
Report Title:	**Treasury Management 2024/25 Q2**
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 September 2024 (Mid Year) 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 is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

i. Prudential and treasury indicators and treasury strategy
ii. A mid-year treasury management report
iii. An annual treasury report

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by Cabinet and the Audit and Governance Committee.

1.2 In addition to the three major reports above, quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee.

1.3 The Treasury Management Strategy covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury Management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Authority
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

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 Market 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) reduced the Bank Rate from 5.0% to 4.75% on 7 November 2024. The rate had previously been reduced from 5.25% to 5.0% on 1 August 2024, the 5.25% rate being in place since August 2023. A detailed economic update, provided by Link, for the second quarter is attached as **Appendix A**.

3. Interest Rate Forecasts

3.1 Link, as treasury advisors, will help 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. The lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (see also paragraph 7.2).

3.2 Link’s forecast of bank rate, earnings and PWLB borrowing rates are set out below for the period to December 2027.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Note

Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months. The 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.

3.3 The 11/11/24 forecast (updated from 29/5/24) sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market. The next rate cut is now expected in March 2025. The bank rate is then expected to continue fall and reach 3.5% by December 2026.

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 represent 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 2024/25 which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 28 February 2024. It sets out the Council’s investment priorities as being:

- Security (of Capital)
- Liquidity
- Yield

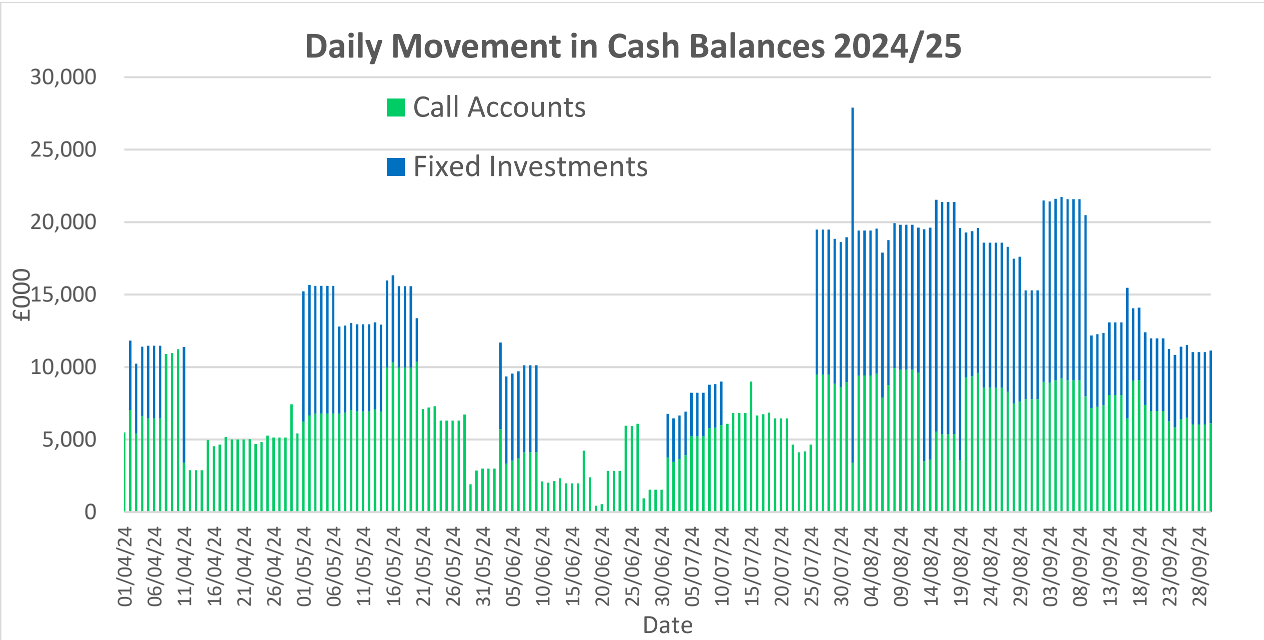
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council’s risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit 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 30 September 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 £5.5m and had increased to £11.1m by 30 September. The average balance over the quarter was £11.0m (£6.2m Fixed Term and £4.8m Call). Investments (cash) are used to finance the capital programme (i.e. internal borrowing) and repay debt.



5.2 Fixed Term Deposits pending maturity

The following table shows there were £5m fixed term deposits held at the end of the 30 September 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 considered 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
Standard Chartered (Sustainable)	27/9/24	4/10/24	7	5,000,000	4.75	A+
Debt Management Office (DMO)	-	-	-	-	-	*

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 the second quarter (Jul-Sep) 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
DMO	£3,000,000	01/07/24	11/07/24	10	5.20%	*
DMO	£14,500,000	01/08/24	02/08/24	1	5.07%	*
DMO	£10,000,000	26/07/24	13/08/24	18	5.12%	*
DMO	£16,000,000	13/08/24	14/08/24	1	4.94%	*
DMO	£16,000,000	14/08/24	20/08/24	6	4.94%	*
DMO	£5,000,000	20/08/24	30/08/24	10	4.94%	*
DMO	£2,500,000	30/08/24	10/09/24	11	4.94%	*
DMO	£5,000,000	02/09/24	10/09/24	8	4.94%	*
DMO	£4,000,000	16/09/24	17/09/24	1	4.94%	*
Standard Chartered - Sustainable	£5,000,000	20/08/24	20/09/24	31	4.83%	A+
Standard Chartered - Sustainable	£5,000,000	20/09/24	27/09/24	7	4.75%	A+

The weighted average rate of interest earned on deposits held in the period 1 April to 30 September 2024 was 5.01%. The average Bank of England bank rate over the period was 5.17%.

5.4 Use of Call accounts

In addition to the fixed term deposits, the Council has made use of the following accounts in the period covered by this report, with the average amount held being £2.068m, generating interest to-date of £127k.

Counterparty	Balance at 30/9/24 £000	Average Balance £000	Average Interest Rate %	Current Interest Rate %
Santander Business Reserve Account	£0	£284	3.19%	2.98%
Lloyds Bank Current Account	£432	£1,786	2.10%	2.10%
Lloyds Bank Call Account	£5,710	£4,134	5.06%	4.88%

5.5 Money Market Funds

There were no funds Money Market Funds held at 30 September 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 30 September 2024, and there was no activity in the year.

6. Capital Position

6.1 This table shows the capital expenditure to-date compared to the revised budget. **Appendix B** provides further details. Note – the 'Revenue and Capital Outturn' report to Cabinet 5 December 2024 Cabinet provides full capital scheme details.

	Original Budget £000	Revised Budget £000	Actual Q2 £000
HRA	17,023	28,292	6,622
General Fund	45,945	50,103	5,388
Total Capital Expenditure	**62,968**	**78,395**	**12,010**

6.2 The budget has been updated for scheme expenditure deferred from the previous year. The programme is currently under review as part of the Medium Term Financial Strategy (MTFS) process which will inform the projected outturn and revised budget for 2024/25 and reprofiling of the future years.

6.3 The financing of the capital programme will be updated in line with expenditure forecast changes. The borrowing element of this 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 current updated budget amount of unfinanced capital expenditure (i.e. borrowing) in the year for the GF is £24.49m and HRA £9.30m. This will be updated as part of the revised budget review.

7. Borrowing

7.1 The Council's capital financing requirement (CFR) for 2024/25 is forecast as £138.7m (GF £51.4m and HRA £87.3m) based on the budget position for the Programme as a whole. 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.

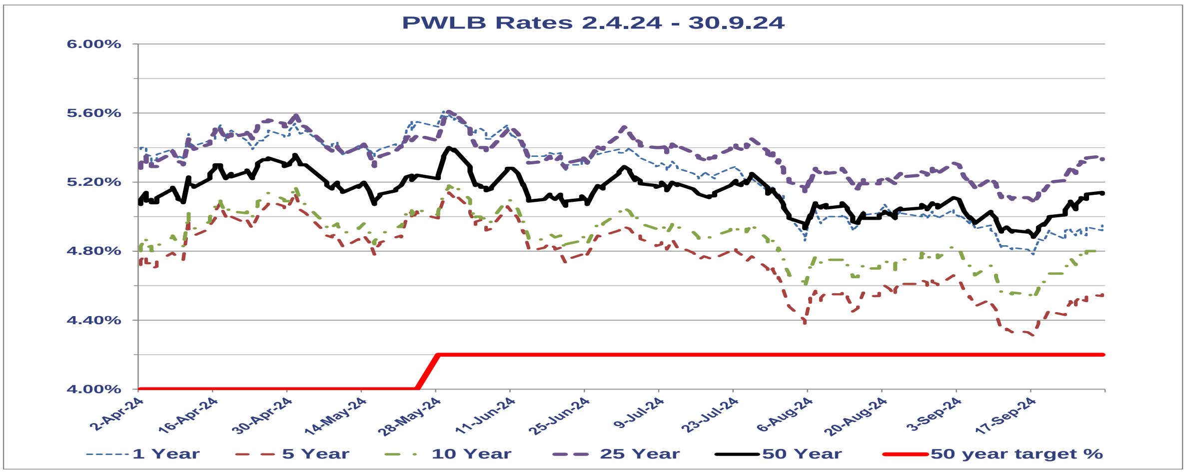
PWLB Rates

7.2 Regarding PWLB borrowing rates, the margins attributed to their pricing are:

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

7.3 Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April. At the beginning of April, the 5-year rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%.

May saw yields at their highest across the whole curve. Conversely, 17 September saw the low point for the whole curve, with the 5-year rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.



HIGH/LOW/AVERAGE PWLB RATES FOR 2/4/24 – 30/9/24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

7.4 As can be seen, with rates remaining elevated across the whole of the curve, it is advised to not borrow long-term unless the Council wants certainty of rate and judges the cost to be affordable. 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

7.5 The Council's long term borrowing at 30 September 2024 was £41.7m (£43.7m at Q1) including £36.7m Public Works Loan Board (PWLB) and £5m Barclays loan. Debt at the start of the year was £43.7m. £2m of PWLB loans have matured in the year tod-date. Long term borrowing is at fixed rates of interest ranging from 2.63% to 4.50%.

7.6 Short term (temporary) borrowing at 30 September 2024 was £10m (£16m at Q1). Total external debt at 30 September 2024 was £53.7m (£59.7m at Q1). The General

Fund makes internal loans to the Housing Revenue Account and the balance at 30 September 2024 was £36.4m (£34.4m at Q1).

7.7 No new long term borrowing has been undertaken this year to-date and will depend on future PWLB rates subject to future base rate cuts. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if upside risk to gilt yields prevails.

8. Debt Rescheduling

8.1 Debt rescheduling opportunities have increased significantly in the year. The premature repayment of long-dated PWLB borrowing is attractive with discount rates at a high of 4.64% (26.5 - 27.5 years). However, this mainly applies where there is significant surplus cash and no new borrowing need. No debt rescheduling has been undertaken in the financial year to-date.

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 Q2 £000**
MRP	925	926
Interest Payable	1,387	1,300
Interest Receivable	(1,389)	(2,162)
Net Cost	**923**	**64**

9.2 MRP is charged at the end of the financial year as is interest payable on HRA balances and interest receivable on GF loans to the HRA.

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 Q2 £000**
Interest Payable (PWLB, Market & GF loans)	2,954	3,362
Interest Receivable (on HRA Balances)	(549)	(600)
Net Interest Cost	**2,405**	**2,762**

9.4 HRA Interest payable on PWLB and market loans is payable twice yearly in September and March. Interest on GF loans is charged at the end of the financial year as is interest receivable on HRA balances.

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 and Treasury Management Practices (TMPs).

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

Prudential Indicators	**2024/25 Budget**	**2024/25 Forecast Q2**	**RAG Status**
Authorised Limit for external debt	£180m	£180m	GREEN
Operational Boundary for external debt	£172m	£172m	GREEN
Capital Financing Requirement (CFR)	£145m	£139m	GREEN
Gross External debt [Notes 1 & 2]	£80m	£90m	AMBER
Debt compared to CFR under / (over) borrowing	£69m	£49m	GREEN
Proportion of GF Financing Costs to Net Revenue Stream (Note 2)	7.4%	8.5%	AMBER
Proportion of HRA Financing Costs to Rental Income	48.2%	49.6%	GREEN
Proportion of net income from Commercial and Service investments to Net Revenue Stream	10.3%	10.3%	GREEN

Notes

1. Higher Q2 forecast figures are caused by the deferral of capital schemes from the previous year which are now included within 2024/25.
2. Includes GF loans to HRA.

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

Treasury Indicators	**2024/25 Budget**	**2024/25 Forecast Q2**	**RAG Status**
Upper limit for principal sums invested for longer than 365 days	£2m	£2m	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 10.5 to 10.7 and Appendix C include details of the requirement for a Liability Benchmark indicator.

10.3 As at 30 September 2024, all indicators have a green status with the exception of gross external debt which is amber and linked to this the proportion of GF financing costs to net revenue stream. Gross external debt has increased due to £10m additional short term borrowing. The Capital Financing Requirement (CFR) has reduced by £20m from an estimated £145m (Jan 2024) to a forecast of £139m. The reduction is due to lower capital expenditure in the previous year (financed through borrowing).

10.4 Approved limits within the Annual Investment Strategy were not breached during the period ending 30 September 2024. Daily balances with Lloyds Bank did not exceed the £10m investment limit and no Council bank accounts were overdrawn.

Liability Benchmark

10.5 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.

10.6 Appendix C includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2027/28 are to be included although the charts cover the full debt maturity profile and MRP to 2066/67.

10.7 The GF chart shows the CFR reducing over time due to MRP payments. The liability benchmark line moves negative in 2055 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 over time.

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. Loans outstanding total £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 the year to-date.

11.3 Total interest from loans is forecast to be £172k in the year.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 1 February 2024 approved the 2024/25 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 ESG 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.

12.3 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 Market 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.

12.4 When treasury balances allow, the Council holds investments with the Standard Chartered Bank Sustainable Time Deposit where the deposits are referenced against qualifying sustainable loans and projects that meet their Green and Sustainable Product Framework.

12.5 In June, Cabinet agreed in principle to provide financial support in the form of a loan to the Wave Community Bank. This is a not-for-profit cooperative which offers ethical, affordable loans and savings accounts to people in the local area. The Council are also exploring a proposal of providing loans to homeowners and landlords in the district through a Community Interest Company (CIC).

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 Market Services Economic Update

Appendix B - LDC Capital Programme 2024/25

Appendix C - Liability Benchmark

Appendix D - Glossary of Terms

19. Background Papers

19.1 Treasury Management and Prudential Indicators 2024/25, Capital Strategy & Investment Strategy (Cabinet 1/2/24)