APPENDIX ‘A’

Treasury Management Strategy, Annual Investment Strategy, Capital Strategy and Minimum Revenue Provision Policy

2023/24

CONTENTS

1. INTRODUCTION

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing investments and for giving priority to the security and liquidity of those investments.

This strategy is updated annually to reflect changes in circumstances that may affect the strategy.

2021 revised CIPFA Treasury Management Code and Prudential Code

CIPFA has published the revised Codes and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management
Arising from the Council's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

There are a number of changes to be implemented for CIPFA Code revisions for the 2023/24 financial year as follow:

- **a.** **Adopting a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- **b.** **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;
- **c.** **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year; (*Pooled funds is a term used to collectively refer to a set of money from individual investors combined, i.e., "pooled" together for investment purposes. The funds are combined with the intention of benefiting from economies of scale through cost minimisation);*
- **d.** Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;
- **e.** **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

f. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices.

2. TREASURY MANAGEMENT REPORTING

The Council/Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

a. **Annual treasury strategy** (issued February and includes);
   a. A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time);
   b. The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits;
   c. An investment strategy (the parameters on how investments are to be managed).

b. **Mid-year update** – (issued November / December and provides);
   a. an update for members with the progress of the treasury management activities undertaken for the period April to September and
   b. an opportunity for amending prudential indicators and any policies if necessary.

c. **Annual outturn** – (issued June and contains);
   a. details of actual treasury operations undertaken in the previous financial year.

Each of the above 3 reports are required to be adequately scrutinised by the Lewes District Council Audit and Standards Committee before being recommended to the Cabinet and Council for final approval. This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer;

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (Revised 2018) including the creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities.

3. TREASURY MANAGEMENT POLICY STATEMENT

The policies and objectives of the Council's treasury management activities are as follows:

a. This Council defines its treasury management activities as - *'The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.*

b. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

c. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

4. CAPITAL STRATEGY

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report (Appendix E) which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, CIPFA Prudential Property Investment and CIPFA Prudential Code have not been adhered to. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Most of the capital expenditure incurred by authorities requires risks to be managed, particularly in relation to whether the assets acquired will provide the benefits projected for them and whether estimates of acquisition and running costings and income generation will be reliable. These considerations will impact on decisions regarding whether it would be prudent to borrow to fund such expenditure. Reductions in government funding have meant that local authorities have been under growing pressure to incur capital expenditure with the objective of generating revenue income that will compensate for reductions in government funding.

CIPFA concerns relating to the rapid expansion of acquisitions of commercial property and its relationship with CIPFA's statement in its Prudential Code that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Where authorities exceed the limits of the Prudential Code and the wider Prudential Framework this places a strain on the credibility of the Prudential Framework to secure the prudent management of local authority finances.

The Prudential Framework (including statutory guidance and the Prudential Code itself) allows local authorities the flexibility to take their own decisions; provided that the decisions taken are prudent, affordable and sustainable and that they have regard to the statutory guidance. However, local authorities will need to ensure if they acquire commercial property (without borrowing from the PWLB) with substantial investment returns that they have a clear rationale for such acquisitions. If after having regard to the statutory guidance and the Prudential Code local authorities decide to depart from such guidance, they can only do so where a robust and reasonable argument can be put that an alternative approach will still meet the authority's various duties under Chapter 1 of the Local Government Act 2003.

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2023/24

5.1 Borrowing Strategy for 2023/24

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Capital Investment can be paid for using cash from one or more of the following sources:

- Cash from existing and/or new capital resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves);
- Cash raised by borrowing externally;
- Cash being held for other purposes (e.g. earmarked reserves or working capital) but used in the short term for capital investment. This is known as 'internal borrowing' as there will be a future need to borrow externally once the cash is required for the other purposes.
- use of innovative or more complex sources of funding such as green bond issues, private placements and sale and leaseback structures

Under the CIPFA Prudential Code an authority is responsible for deciding its own level of affordable borrowing within set prudential indicator limits (see section 6). Borrowing does not have to take place immediately to finance its related capital investment and may be deferred or borrowed in advance of need within policy. The Council's primary objective when borrowing is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required.

When MRP is not required to repay debt, it will accumulate as cash balances which will then be invested. Investment balances will increase by MRP each year until the debt is repaid. The Council's Draft Revenue Budget and Capital Programme 2023/24 to 2025/26 forecasts £151.5m (HRA of £60.0m and GF of £91.5m) of capital investment over the next three years with £83.6m met from existing or new resources. The amount of new borrowing required over this period is 0therefore £67.9m (HRA of £31.7m and GF of £36.2m) as shown in Table 2a below.

Table 2a	**2022/23 Forecast**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
	£m	**£m**	**£m**	**£m**
Capital Expenditure				
General Fund (GF)	17.4	39.1	25.8	11.1
Housing Revenue Account (HRA)	12.6	16.5	14.0	29.5
Loans (including Subsidiary Companies)	0.5	2.0	1.0	1.0
Commercial Investments	0.6	0.3	-	-
Service Delivery Investments	7.6	11.2	-	-
Total	**38.7**	**69.2**	**40.8**	**41.6**
GF Financed by:				
Capital Receipts	-	(1.6)	(3.6)	(4.0)
Capital Grants & Contributions	(8.1)	(20.0)	(12.3)	(2.3)
Earmarked Reserves	(2.0)	(0.4)	(0.4)	(0.4)
Revenue Contributions	-	-	-	-
Borrowing Need	**(7.4)**	**(17.2)**	**(9.5)**	**(4.3)**
HRA Financed by:				
Capital Receipts	(7.5)	(4.9)	(0.8)	(2.4)
Capital Grants & Contributions	-	(1.9)	-	(3.1)
Major Repairs Reserve (MRR)	(5.0)	(5.0)	(5.0)	(5.0)
Revenue Contributions	(0.1)	(0.1)	(0.1)	(0.1)
Borrowing Need	**-**	**(4.6)**	**(8.2)**	**(18.9)**
Loans Financed by:				
Borrowing Need	**(0.5)**	**(2.0)**	**(1.0)**	**(1.0)**
Commercial Investments Financed by:				
Capital Receipts	(0.6)	(0.3)	-	-
Service Delivery Investments Financed by:				
Capital Grants & Contributions	(4.4)	(9.9)	-	-
Borrowing Need	**(3.1)**	**(1.3)**	**-**	**-**

As existing and forecast future resources are insufficient to meet the level of spend, the borrowing need of £67.9m will be met from both internal and external borrowing. This is to use the Council's own surplus funds until external borrowing is required. Internal borrowing reduces borrowing costs and risk as there is less exposure of external investments. The benefits of internal borrowing need to be monitored and weighed against deferring new external borrowing into future years when long-term borrowing rates could rise.

Table 2b Capital Financing Requirement	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	£m	£m	£m
General Fund	31.6	51.3	60.4	63.9
HRA	75.0	79.6	87.8	106.7
Total CFR	**106.6**	**131.0**	**148.1**	**170.6**
Movement in CFR		**24.4**	**17.2**	**22.5**
Movement in CFR represented by:				
Net financing needed for the year (as above)	11.0	25.1	18.7	24.2
Less: MRP	(0.4)	(0.7)	(1.5)	(1.7)
Movement in CFR	**10.6**	**24.4**	**17.2**	**22.5**

The amount that notionally should have been borrowed is known as the **capital financing requirement (CFR)**. The CFR and actual borrowing may be different at a point in time and the difference is either an under or over borrowing amount. The Council is required to repay an element of the CFR each year through a revenue charge. This is known as the minimum revenue provision (MRP) and is currently estimated to be £0.7m for 2023/24. MRP will cause a reduction in the CFR annually.

Table 3 below includes the figures from Table 2 and shows the actual external borrowing against the capital financing requirement, identifying any under or over borrowing.

Table 3	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	£m	£m	£m
GF Borrowing at 1 April HRA Borrowing at 1 April	- 51.7	2.0 51.7	7.0 48.3	17.0 54.5
Borrowing at 1 April	51.7	53.7	55.3	71.5
GF new borrowing HRA new borrowing less: loan maturities	2.0 - -	5.0 4.6 (8.0)	10.0 8.2 (2.0)	21.3 18.9 -
Net Borrowing Total	2.0	1.6	16.2	40.2
Borrowing at 31 March	**53.7**	**55.3**	**71.5**	**111.7**
CFR at 1 April Net Capital Expenditure MRP	96.0 11.0 (0.4)	106.6 25.1 (0.7)	131.0 18.7 (1.5)	148.1 24.2 (1.7)
CFR at 31 March	**106.6**	**131.0**	**148.1**	**170.6**
Under / (Over) borrowing	**52.9**	**75.7**	**76.7**	**59.0**

The Council is currently maintaining an under-borrowing position. As at the end of 2023/24, the Council is projected to be under- borrowed by 75.7m, in 2023/24, £76.7m in 2024/25 and £59.0m by 2025/26.

5.2 PWLB Loans

It is important to state that borrowing is only used to fund the capital programme so the level of borrowing should not exceed the CFR for any meaningful amount of time. As previously stated, the CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by internal or external borrowing. The current assumption is that internal borrowing is prioritised over externalising debt. However, officers will monitor external rates of borrowing and the sustainability of using internal borrowing to determine if it becomes more beneficial to externalise the debt and invest core cash in deposits or investment funds.

The PWLB can lend for up to 50 years and also for the short term to Local Government. The PWLB is the source of loans/funds, if no other lender can provide finance. PWLB will not lend to an authority that plans to buy investment assets primarily for yield that is identified in their capital programme. The Chief Finance Officer will be expected by the PWLB to certify that no such purposes are planned.

From a Treasury Management perspective, it is recommended that the PWLB should be retained as a borrowing option and therefore the purchase of investment properties primarily for yield should be excluded from the capital programme.
This is recommended not only due to the reduced rates now available through PWLB but due to the backstop accessibility of this source of borrowing. The Council will not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.

If the Council wishes to on-lend money to deliver objectives in an innovative way, the government would expect that spending to be reported in the most appropriate category (service spending, housing, economic regeneration, preventative action, or treasury management) based on the eventual use of the money.

5.3 Borrowing other than with the PWLB

The Council has previously borrowed mainly from the PWLB, but will continue to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. Any new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The UK Municipal Bond Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

5.4 Policy on Borrowing in Advance of Need

The Council will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

5.5 Debt Rescheduling

Officers continue to regularly review opportunities for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The reasons for any rescheduling to take place will include:

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

5.6 New financial institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Therefore, the strategy is to continue to seek opportunity to reduce the overall level of Council’s debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayments costs, and potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be agreed by the S151 Officer, and our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5.7 Community Municipal Investments

Community Municipal Investments are a form of debt/loan-based crowdfunding. Community Municipal Investments (CMIs) are issued by a council corporate body, with residents and general public investors providing capital on the basis of receiving a financial return. The majority of CMIs are typically linked in some form to environmental or social criteria and provide tangible benefit to the local community beyond just financial.

The Council is currently considering the launch of a CMI. Communities can invest money, with £5 being the minimum investment, for a fixed period (the initial bond is expected to be for a five-year period) and will receive income at regular intervals. The Council is expected to benefit through this offering as a cheaper alternative to PWLB borrowing. The Council would pay a small initial and annual fee to the organisation responsible for setting up and administering the bonds. The

funds raised by these bonds would be used to finance capital spend in respect of the installation of electric vehicle charging points, local energy schemes, etc across the district in support of the Council's 'responding to the challenges presented by the climate crisis' priority. CMIs have a higher social value than mainstream borrowing as a result of increased community engagement and directing the cost of borrowing (interest payments) back
into the local area.

The Council will continue to monitor market developments and will seek to use and develop other funding solutions if better value may be delivered. This may include other sources of long term borrowing if the terms are suitable, including listed and private placements, bilateral loans from banks, local authorities or others and sale and leaseback arrangements.

The Treasury Management Strategy must be flexible to adapt to changing risks and circumstances. The strategy will be kept under review by the Chief Finance Officer in accordance with treasury management delegations.

5.8 Continual Review

Treasury officers continue to review the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Chief Finance Officer will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

6. PRUDENTIAL AND TREASURY INDICATORS 2022/23 to 2025/26

6.1 Prudential and Treasury Indicators

The Council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditures plan are reflected in prudential indicators. Local Authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2022/23 to 2025/26 are set out in **Table 4** below:

Table 4	**2022/23 Forecast**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Capital Expenditure (gross) £m Council's capital expenditure plans (including HRA)	£38.7	£69.2	£40.8	£41.6
Capital Financing Requirement £m *Measures the underlying need to borrow for capital purposes*	£106.6	£131.0	£148.1	£170.6
Ratio of financing costs to net revenue stream - General Fund % *Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream*	-1.6%	0.7%	9.8%	16.4%
Ratio of financing costs to net revenue stream - HRA % *Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream*	11.1%	10.4%	11.4%	14.4%
Proportion of net income from commercial and service investments to net revenue stream	12.1%	11.6%	11.6%	11.2%

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2021/22 to 2025/26 are set out in **Table 5** below:

Table 5	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Authorised Limit for external debt	**£m**	**£m**	**£m**	**£m**
Borrowing – GF & HRA	139.3	166.1	185.0	209.7
Other long-term liabilities	-	-	-	-
Total	**139.3**	**166.1**	**185.0**	**209.7**
The Authorised Limit - The authorised limit represents a limit beyond which external debt is prohibited and it is the maximum amount of debt that the Council can legally owe. This limit is set by Council and can only be revised by Council approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer. The current limit is set at 10% above the Operational Boundary. *Note – excludes any required allowances for IFRS 16 – Leasing change from 2024/25.*				
Operational boundary for external debt	**£m**	**£m**	**£m**	**£m**
Borrowing – GF & HRA	126.6	151.0	168.1	190.6
Other long-term liabilities	-	-	-	-
Total	**126.6**	**151.0**	**168.1**	**190.6**

Table 5	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
The Operational Boundary - This is the expected borrowing position of the Council during the year, taking account of the timing of various funding streams. The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. This indicator may be breached temporarily for operational reasons.				
Upper limit for fixed interest rate exposure* Identifies a maximum limit for fixed interest rates for borrowing and investments.	100%	100%	100%	100%
Upper limit for variable interest rate exposure* Identifies a maximum limit for variable interest rates for borrowing and investments.	20%	20%	20%	20%
Maturity Structure of Borrowings* The Council needs to set upper and lower limits with respect to the maturity structure of its borrowing:				
Upper limit for under 12 months	*25%*	*25%*	*25%*	*25%*
Lower limit for under 12 months	*0%*	*0%*	*0%*	*0%*
Upper limit for 12 months to 2 years	*40%*	*40%*	*40%*	*40%*
Lower limit for over 12 months to 2 years	*0%*	*0%*	*0%*	*0%*
Upper limit for 2 years to 5 years	*50%*	*50%*	*50%*	*50%*
Lower limit for 2 years to 5 years	*0%*	*0%*	*0%*	*0%*
Upper limit for 5 years to 10 years	*75%*	*75%*	*75%*	*75%*
Lower limit for 5 years to 10 years	*0%*	*0%*	*0%*	*0%*
Upper limit for over 10 years	*100%*	*100%*	*100%*	*100%*
Lower limit for over 10 years	*25%*	*25%*	*25%*	*25%*

<u>Note-</u>
**the Treasury Indicators above have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice.*

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

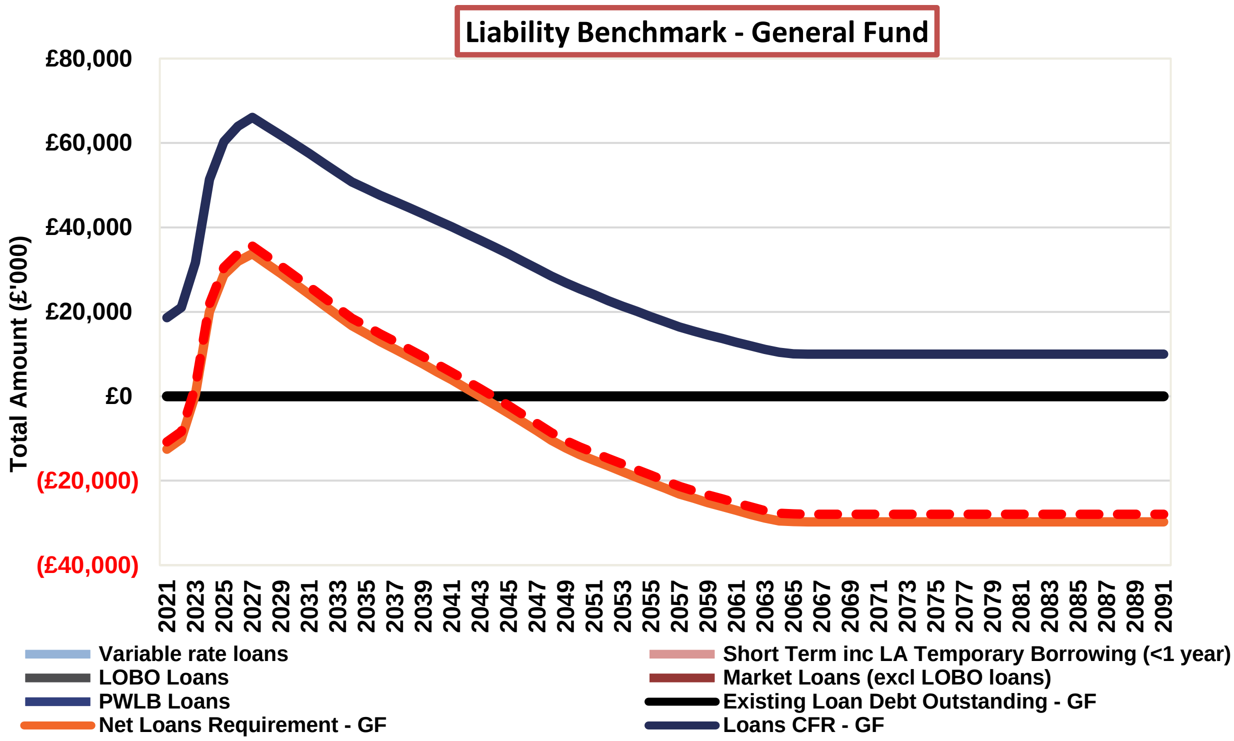
6.2 Liability Benchmark

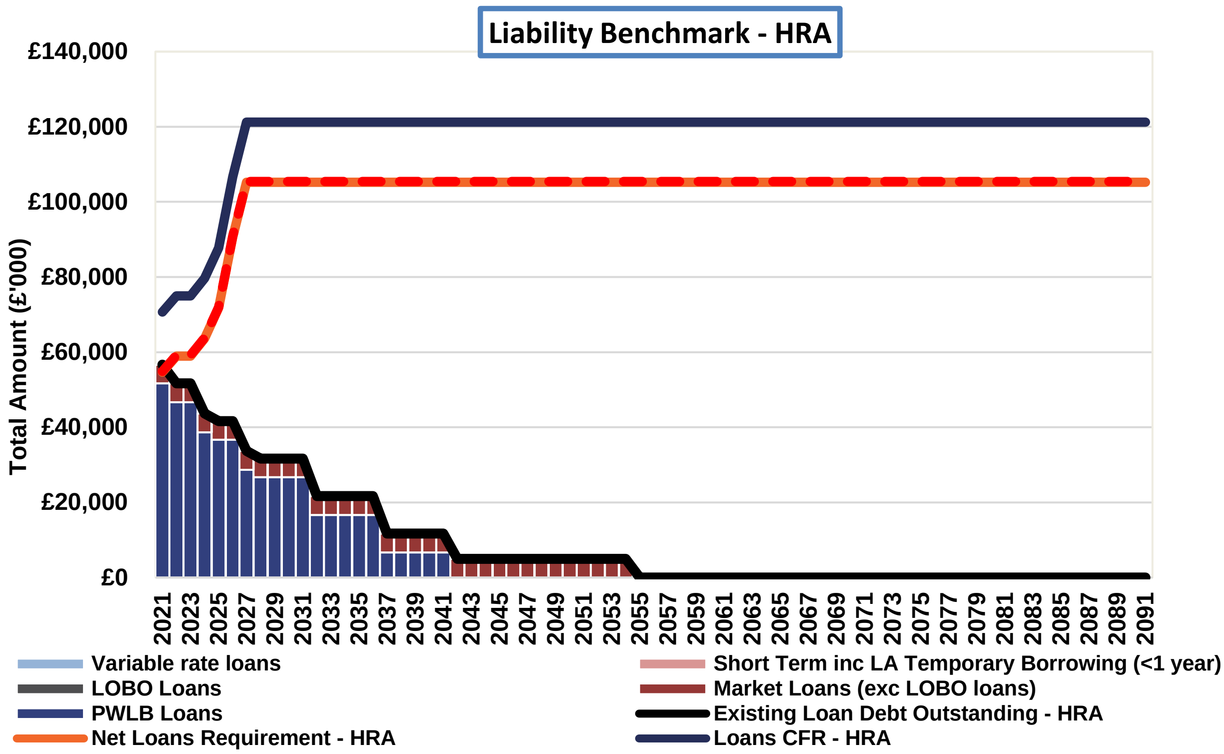
The Liability Benchmark / Gross Loans Requirement is determined by taking the projected Net Loans Requirement, then adding an element representing the average balance that the Council need to keep liquid to meet the peaks and troughs of the Cashflow movements. It is an additional prudential indicator introduced to identifies the minimum future borrowing needs, compared to the capital financing requirement and the actual level of external debt.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the

Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to day cash flow.

Please note that the balance sheet resources figures are based on the 2021/22 unaudited accounts which are yet to be audited. Therefore, it is subject to change.





The GF and HRA liability benchmark (graph above as at 31 March 2022) show the level of expected external borrowing given current projections for capital investment up to year 2025/26. The projected borrowing levels show what the Council expects it level to be. Where the aggregate borrowing level is below the benchmark, the Council will be in an under-borrowed position, and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates and this can be used as a tool for scheduling future borrowing requirements.

7. ANNUAL INVESTMENT STRATEGY

7.1 Investment Policy

The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (Appendix E). The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code");
- CIPFA Treasury Management Guidance Notes 2021;
- CIPFA Prudential Property Investment.

The Council's investment priorities will be security first, portfolio liquidity second, then yield, (return) and the social impact. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

  To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

7.2 Investment Strategy for 2023/24

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.3 Investment returns expectations.

The current forecast and the MPC meeting minutes indicated concerns over the sudden recent rise in multiple inflationary pressures, which could well mean a further increase in Bank Rate is now possible ahead of the start of the financial year covered by this Strategy. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows.:

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Long term later years	2.80%

The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

7.4 Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set regarding the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days			
	2023/24	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£4m	£4m	£4m

For its cash flow generated balances, the Council will seek to utilise its current account, call accounts and short-dated deposits (overnight to three months) to benefit from the compounding of interest.

7.5 Specified and Non-Specified Investments

This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use, under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

An investment is a **specified investment** if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long-term investment (i.e. up to 365 days);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (i.e. a minimum credit rating as outlined in this strategy) or with one of the following public-sector bodies:
  - The United Kingdom Government;
  - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;

7.6 Creditworthiness Policy

The Treasury Management Strategy needs to set limits on the amount of money and the time period the Council can invest with any given counterparty. In order to do this the Council uses the Credit Rating given to the counterparty by the three main Credit Rating Agencies (Fitch, Moody's and Standard and Poor's). This forms part of the consistent risk based approach that is used across all of the financial strategies.

Treasury Officers regularly review both the investment portfolio and counterparty risk and make use of market data to inform their decision making. The officers are members of various benchmarking groups to ensure the investment portfolio is current and performing as other similar sized Local Authorities.

The Council as part of its due diligence in managing creditworthiness, uses amongst other information, a tool provided by treasury management advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three credit rating agencies and by using a risk weighted scoring system, does not give undue reliance to just one agency's ratings.

This modelling approach combines credit ratings with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- credit default swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This weighted scoring system then produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Council (in addition to other due diligence consideration) will use counterparties within the following durational bands provided they have a minimum AA+ soverign rating from three rating agencies:

- Yellow *5 years*
- *Purple 2 years*
- *Blue 1 year (only applies to nationalised or semi nationalised UK Banks)*
- *Orange 1 year*
- *Red 6 months*
- *Green 100 days*
- *No Colour Not to be used.*

Y	***P***	***B***	***O***	***R***	***G***	***N/C***
Up to 5yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 months*	*Up to 100 days*	*Not to be used*

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of a treasury management advisors service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings, the Council will be advised of information re movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
The counterparties in which the Council will invest its cash surpluses is based on officer's assessment of investment security, risk factors, market intelligence, a diverse but manageable portfolio and their participation in the local authority market.

Table 7 below summarises the types of specified investment counterparties available to the Council, and the maximum amount and maturity periods placed on each of these. Further details are contained in Appendix C.

7.7 Criteria for Specified Investments:

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TD)	unlimited	1 yr
Government Treasury bills	UK	TD	unlimited	1 yr
UK Local Authorities	UK	TD	£10m	1 yr
Lloyds Banking Group • Lloyds Bank • Bank of Scotland	UK	TD (inclugding callable deposits), Certificate of Deposits (CD's)	£5m	1 yr
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK		£5m	1 yr
HSBC	UK		£5m	1 yr
Barclays	UK		£5m	1 yr
Santander	UK		£5m	6 mths
Goldman Sachs Investment Bank	UK		£5m	6 mths
Standard Chartered Bank	UK		£5m	6 mths
Nationwide Building Society	UK		£5m	6 mths
Coventry Building Society	UK		£5m	6 mths
Money Market Funds (MMF)	UK/Ireland/ EU domiciled	AAA rated Money Market Funds	£10m per fund	Instant access
Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+				
Australia & New Zealand Banking Group	Australia	TD / CD's	£5m	1 yr
Commonwealth Bank of Australia	Australia	TD / CD's	£5m	1 yr
National Australia Bank	Australia	TD / CD's	£5m	1 yr
Westpac Banking Corporation	Australia	TD / CD's	£5m	1 yr
Royal Bank of Canada	Canada	TD / CD's	£5m	1 yr
Toronto-Dominion Bank	Canada	TD / CD's	£5m	1 yr
Development Bank of Singapore	Singapore	TD / CD's	£5m	1 yr
Overseas Chinese Banking Corp	Singapore	TD / CD's	£5m	1 yr
United Overseas Bank	Singapore	TD / CD's	£5m	1 yr
Svenska Handelsbanken	Sweden	TD / CD's	£5m	1 yr

Table 7	Country/ Domicile	Instrument	Maximum investments	Max. maturity period
Nordea Bank AB	Sweden	TD / CD’s	£5m	1 yr
ABN Amro Bank	Netherlands	TD / CD’s	£5m	1 yr
Cooperative Rabobank	Netherlands	TD / CD’s	£5m	1 yr
ING Bank NV	Netherlands	TD / CD’s	£5m	1 yr
DZ Bank AG	Germany	TD / CD’s	£5m	1 yr
UBS AG	Switzerland	TD / CD’s	£5m	1 yr
Credit Suisse AG	Switzerland	TD / CD’s	£5m	1 yr
Danske Bank	Denmark	TD / CD’s	£5m	1 yr

7.8 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in **Table 8** below:

Table 8	Minimum credit criteria	Maximum investments	Period
UK Local Authorities	Government Backed	£2m	2 years
Green Energy Bonds	Internal and External Due Diligence	£2m	2-5 years

The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer. A detailed list of specified and non-specified investments that form the counterparty list is shown in Appendix C.

UK Local Authorities - Should a suitable opportunity in the market occur to lend to other Local Authorities of more than a 1-year duration, at a reasonable level of return the deal would be classed as a low risk Non-Specified Investment.

Alternative investments - it is proposed that a new class of “alternative investments” be added to the Councils list of non-specified investment instruments. The motivation for this is increased diversification from the current concentration of credit risk on financial institutions along with the potential for increased returns in the current low interest rate environment whilst still meeting the DHLUC requirements regarding security, liquidity and yield.

A variety of products are available that are secured against real assets such as green energy, timber, commercial properties, and private real estates. Thorough due diligence will need to be undertaken on any such products before any investment is made. The need for due diligence will likely involve legal advice, the Council treasury management advisors and that of external auditors.

7.9 Non treasury management investments

This Council invests in non-treasury management (policy) investments. These do not form part of the treasury management strategy.

7.10 Retrofit Loan Scheme in Lewes in Partnership with Lendology CIC

The Council is currently considering the launch of an initiative that provides loans via a partner agency Lendology CIC. Lendology is a Social Enterprise lender with full Financial Conduct Authority permissions and operates closely in partnership with their council partners to deliver loans to homeowners for repairs, adaptations, energy efficiency measures and renewables. They provide a bespoke service distributing council funds as loans, recovering the funds to re-lend again and again.

Council partner may choose to operate the scheme on a 'loans first' basis, meaning Lendology acts as a grant screening partner on their behalf. Loans are provided as per the council partner policy, meaning that Lendology can operate according to local needs and priorities. Loans are available at an interest rate of 4.2% APR, which is lower than many loan companies and specialises in assisting people who may not normally be able to access a loan on the high street.

The Council subsidises the interest for the period of all loans. This ensures a reasonable fixed rate of interest is offered to make funding available for certain improvements. Loan products are constantly being reviewed, and Lendology have a variety of loan products to meet individual need. Lendology financial assessment will determine the most appropriate loan product to meet individual need. In some circumstances, applicants may require a combination of loan products and a variation of interest rate to ensure responsible and affordable lending. Lendology may insist on loans being protected at the land registry by a Title Restriction.

The funds provided by the Council are held by Lendology CIC in a ringfenced account under an agreement signed by the Council. The repayment from these loans is re-cycled and made available to be lent again, so has become a self-sustaining funding source.

7.11 Risk and Sensitivity Analysis

Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the Council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

Treasury Officers, in conjunction with the treasury advisers, will monitor these risks closely and particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate;
- Counterparty risk – the Council follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

7.12 Lending to third parties

The Council has the power to lend monies to third parties subject to several criteria. These are not treasury type investments rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken. Loans of this nature will be approved by Cabinet. The primary aims of the Investment Strategy are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan. In order to ensure security of the Council's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where necessary, additional guarantees deemed will be sought. This will be via security against assets and/or through guarantees from a parent company.

7.13 The Climate Change and Sustainability Strategy

The Climate Change and Sustainability Strategy was produced following the Climate Emergency declaration made at Full Council in July 2019 and sets out the district wide strategy and vision for a net zero carbon district by 2030. The visions and actions contained within the strategy have been developed in response to the urgency of the climate emergency being faced. The strategy will enable the Council to work with the community to co-ordinate its response into meaningful and long-lasting action. With limited financial resources the Council needs to ensure it prioritises the right actions to have a lasting positive impact on the district in relation to carbon reduction, sustainability, and a green economic recovery.

The current Corporate Plan prioritises Sustainability and Community Wealth Building. Community wealth building is a key part of the sustainability strategy and forms part of action area 7 Circular Economy and Community Wealth. The Council is considered 'an anchor institution' and can use its substantial spending power and influence to drive investment into the local economy to enable a green economic recovery and local job creation and retention. Community wealth is a thread that runs throughout the climate change and sustainability strategy particularly in relation to procurement but also training and skills. The action plan and strategy refer directly to the 'Reimagining Lewes District Action Plan' that was subject to a cabinet paper in December 2020.

7.14 The Council's Approach to Ethical Investments

Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield, and that ethical issues must play a subordinate role to those priorities.

Historically, the council has not included ethical criteria when determining its investment criteria. The investment environment can be very fast moving, so there is a need to ensure that any investment criteria are objective, such as credit ratings. It is difficult to gain an objective assessment of the ethical standing of a potential counterparty, particularly to a tight timescale.

Ethical considerations are difficult to evaluate subjectively and would also need to be applied to the counterparty list after taking into account security and liquidity issues. The council's current counterparty list is, due to the high credit quality criteria used by the council, very small, and therefore does not encompass solely those organisations which promote themselves as ethical. However, none of the organisations on the counterparty list have given cause for concern regarding the ethical nature of their business.

Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

A small, but growing, number of financial institutions are promoting ESG products and Link Asset Services are currently looking at how these can be incorporated into its creditworthiness assessment service. This is still very much an evolving area and should any investment in ESG products be undertaken by the Council, this would require to be within the approved counterparty and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

ESG criteria attached to investments can include a range of different factors depending on the region where their core activities take place and the commercial sector they occupy. The following are criteria that the Fitch Rating Agency takes into consideration:

- **Environmental Category:** Emissions and Air Quality; Energy and Waste Management; Waste and Hazardous Material; Exposure to Environmental Impact;
- **Social Category:** Human Rights; Community Relations; Customer Welfare; Labour Relations; Employee Wellbeing; Exposure to Social Impacts;
- **Governance Category:** Management Structure; Governance Structure; Group Structure; Financial Transparency.

The Council does not invest in equities and therefore does not have influence over the activities of companies that part-ownership might provide. However, as an investor the council can take the following approach:

a. For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have 'Responsible Investment Policies or Environmental, Social and Governance (ESG) policies' in place prior to investing.
b. For indirect investments, the council will seek to ensure that any fund managers used have their own responsible investment policies or have signed up to widely recognised policies such as the United Nations Principles for Responsible Investment.
c. The Council recognises that it has no control or influence over where its counterparties themselves lend money or invest once an investment has been made by the Council.

The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity, and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

8. MINIMUM REVENUE PROVISION POLICY STATEMENT 2023/24

The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment. A variety of options is provided to councils to determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous requirement that the minimum sum should be 4% of the Council's Capital Financing Requirement (CFR).

A Statement on the Council's policy for its annual MRP should be submitted to the Full Council for approval before the start the financial year to which the provision relates. The Council is therefore legally obliged to have regard to DLUHC MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DLUHC guidance on Investments.

The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management Policy and Strategy.

The International Financial Reporting Standards (IFRS) involves some leases (being reclassified as finance leases instead of operating leases) coming onto the Council's Balance Sheet as long-term liabilities. This accounting treatment impacts on the Capital Financing Requirement with an annual MRP provision being required. To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments.

The policy from 2023/24 and in future years is therefore as follows: -

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 50 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 50 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For leases that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

These options provide for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place). Repayments included in finance leases are applied as MRP. It is important to note that changes in the Local Government Financial Regulations means that in the future operating leases will be treated in a manner consistent with financial leases.

For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

Half-yearly review of the Council's MRP Policy will be undertaken and reported to Members as part of the Mid-Year Treasury Management Strategy report.

9. SCHEME OF DELEGATION

9.1 Full Council

In line with best practice, Full Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

i. Treasury Management Policy and Strategy Report

The report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

ii. A Mid-Year Review Report and a Year End Stewardship Report

These will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision. The reports also provide details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

9.2 Cabinet

- Approval of the Treasury Management quarterly update reports;
- Approval of the Treasury Management outturn report.

9.3 Lewes District Council Audit and Standards Committee

- Scrutiny of performance against the strategy.

9.4 Training

Treasury Management training for committee members will be delivered as required to facilitate more informed decision making and challenge processes. The Council further acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them. To assist with this undertaking, a Member training event was provided in October 2021 and similar events will be provided when required. Officers will continue to attend courses/seminars presented by CIPFA and other suitable professional organisations.

10. OTHER TREASURY ISSUES

10.1 Banking Services

Lloyds Bank currently provides banking services for the Council.

10.2 Policy on the use of External Service Providers

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review.

10.3 IFRS16 - Leasing

The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1.4.24, the 2024/25 financial year.

10.4 IFRS9 – English Local Authorities

The DLUHC enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 following the introduction of IFRS 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.23: this was intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans. At the time of writing, we are still waiting to hear whether the application of IFRS9 will be deferred for a further period.

APPENDIX 'B'

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Role extended by the revised CIPFA Treasury Management and Prudential Codes 2021 as set out below:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

APPENDIX ‘C’ - COUNTERPARTY LIST

2023/24 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Belgium	SB	AA-			SB	Aa3		SB	AA		Not Applicable	Not Applicable	22.62	12.81%	13.26%	121.33%	£5m
BNP Paribas Fortis	SB	A+	F1	a+	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths					£5m
KBC Bank N.V.	SB	A+	F1	a	PO	A1	P-1	SB	A+	A-1	R - 6 mths	O - 12 mths					£5m
Canada	SB	AA+			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	39.24	-0.02%	-0.05%	0.69%	£5m
Bank of Montreal	NO	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Bank of Nova Scotia	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
National Bank of Canada	SB	A+	F1	a+	SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
Royal Bank of Canada	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Toronto-Dominion Bank	SB	AA-	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Denmark	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	13.01	-13.20%	-7.00%	42.49%	£5m
Danske A/S	SB	A	F1	a	SB	A2	P-1	NO	A+	A-1	R - 6 mths	R - 6 mths	60.52	-0.83%	-28.46%	-16.90%	£5m
Finland	SB	AA+			SB	Aa1		SB	AA+		Not Applicable	Not Applicable	20.00	-11.11%	-11.07%	10.74%	£5m
Nordea Bank Abp	SB	AA-	F1+	aa-	SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
OP Corporate Bank plc		WD	WD		SB	Aa3	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
France	NO	AA			SB	Aa2		NO	AA		Not Applicable	Not Applicable	15.01	0.06%	-24.95%	24.77%	£5m
BNP Paribas	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	61.22	3.29%	-29.70%	-14.05%	£5m
Credit Agricole Corporate and Investment Bank	SB	A+	F1	WD	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	40.32	6.80%	-34.93%	-17.01%	£5m

2023/24 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Credit Agricole S.A.	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	53.77	6.81%	-34.91%	-17.00%	£5m
Credit Industriel et Commercial	SB	A+	F1	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Societe Generale	SB	A-	F1	a-	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	66.24	4.64%	-31.72%	-18.90%	£5m
Germany	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	15.01	0.06%	-14.17%	49.65%	£5m
Bayerische Landesbank	SB	A-	F1	bbb	PO	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths					£5m
Commerzbank AG		WD	WD	WD	SB	A1	P-1	SB	BBB+	A-2	G - 100 days	G - 100 days	81.65	0.57%	-40.66%	-18.35%	£5m
Deutsche Bank AG	PO	BBB+	F2	bbb+	SB	A1	P-1	SB	A-	A-2	G - 100 days	G - 100 days	117.90	5.34%	-25.12%	-5.49%	£5m
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+		SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Landesbank Baden-Wuerttemberg	SB	A-	F1	bbb	SB	Aa3	P-1		NR	NR	R - 6 mths	R - 6 mths					£5m
Landesbank Berlin AG					SB	Aa3	P-1				O - 12 mths	O - 12 mths					£5m
Landesbank Hessen-Thueringen Girozentrale	SB	A+	F1+		SB	Aa3	P-1		NR	NR	O - 12 mths	O - 12 mths	63.32	-0.04%	-0.06%	3.53%	£5m
Landwirtschaftliche Rentenbank	SB	AAA	F1+		SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths					£5m
Norddeutsche Landesbank Girozentrale	SB	A-	F1	bb	SB	A3	P-2		NR	NR	G - 100 days	G - 100 days					£5m
NRW.BANK	SB	AAA	F1+		SB	Aa1	P-1	SB	AA	A-1+	P - 24 mths	P - 24 mths					£5m
Netherlands	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	14.65	-3.10%	4.79%	60.10%	£5m
ABN AMRO Bank N.V.	SB	A	F1	a	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
Bank Nederlandse Gemeenten N.V.	SB	AAA	F1+		SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths					£5m
Cooperatieve Rabobank U.A.	SB	A+	F1	a+	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	23.74	0.00%	0.00%	0.00%	£5m

2023/24 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
ING Bank N.V.	SB	AA-	F1+	a+	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	43.27	-6.62%	-21.73%	-16.53%	£5m
Nederlandse Waterschapsbank N.V.					SB	Aaa	P-1	SB	AAA	A-1+	P - 24 mths	P - 24 mths					£5m
Norway	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	13.01	-13.20%	-7.00%	29.71%	£5m
DNB Bank ASA					PO	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
Sweden	SB	AAA			SB	Aaa		SB	AAA		Not Applicable	Not Applicable	15.44	-7.04%	-6.65%	17.14%	£5m
Skandinaviska Enskilda Banken AB	SB	AA-	F1+	aa-	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
United Kingdom	NO	AA-			NO	Aa3		NO	AA		Not Applicable	Not Applicable	22.63	12.86%	-49.76%	131.62%	£5m
Collateralised LA Deposit*											Y - 60 mths	Y - 60 mths					£5m
Debt Management Office											Y - 60 mths	Y - 60 mths					£5m
Multilateral Development Banks											Y - 60 mths	Y - 60 mths					£5m
Supranationals											Y - 60 mths	Y - 60 mths					£5m
UK Gilts											Y - 60 mths	Y - 60 mths					£5m
Al Rayan Bank Plc					SB	A1	P-1				R - 6 mths	R - 6 mths					£5m
Bank of Scotland PLC (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	53.87	-2.77%	8.52%	8.71%	£5m
Barclays Bank PLC (NRFB)	SB	A+	F1	a	NO	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	100.00	-9.01%	-30.83%	-12.92%	£5m
Barclays Bank UK PLC (RFB)	SB	A+	F1	a	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths					£5m
Close Brothers Ltd	SB	A-	F2	a-	SB	Aa3	P-1				R - 6 mths	R - 6 mths					£5m
Clydesdale Bank PLC	SB	A-	F2	bbb+	SB	A3	P-2	SB	A-	A-2	G - 100 days	G - 100 days					£5m
Co-operative Bank PLC (The)	SB	B+	B	b	PO	Ba1	NP				N/C - 0 mths	N/C - 0 mths					£5m

2023/24 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Goldman Sachs International Bank	SB	A+	F1		SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	98.94	0.68%	-30.57%	-24.93%	£5m
Handelsbanken Plc	SB	AA	F1+					SB	AA-	A-1+	O - 12 mths	O - 12 mths					£5m
HSBC Bank PLC (NRFB)	SB	AA-	F1+	a	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	59.20	-6.41%	-34.27%	-13.22%	£5m
HSBC UK Bank Plc (RFB)	SB	AA-	F1+	a	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths					£5m
Lloyds Bank Corporate Markets Plc (NRFB)	SB	A+	F1		SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
Lloyds Bank Plc (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	58.21	-4.99%	-38.74%	-17.68%	£5m
National Bank Of Kuwait (International) PLC	SB	A+	F1					SB	A	A-1	R - 6 mths	R - 6 mths					£5m
NatWest Markets Plc (NRFB)	SB	A+	F1	WD	SB	A1	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths	80.62	-7.42%	-42.27%	-25.97%	£5m
Santander Financial Services plc (NRFB)	SB	A+	F1		NO	A1	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths					£5m
Santander UK PLC	SB	A+	F1	a	NO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths					£5m
SMBC Bank International Plc	SB	A-	F1		SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	31.18	0.00%	0.00%	0.00%	£5m
Standard Chartered Bank	SB	A+	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	56.22	-5.92%	-33.93%	-15.76%	£5m
Coventry Building Society	SB	A-	F1	a-	SB	A2	P-1				R - 6 mths	R - 6 mths					£5m
Leeds Building Society	SB	A-	F1	a-	SB	A3	P-2				G - 100 days	G - 100 days					£5m
Nationwide Building Society	SB	A	F1	a	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths					£5m
Principality Building Society	SB	BBB+	F2	bbb+	SB	Baa2	P-2				N/C - 0 mths	N/C - 0 mths					£5m
Skipton Building Society	SB	A-	F1	a-	SB	A2	P-1				R - 6 mths	R - 6 mths					£5m
West Bromwich Building Society					SB	Ba3	NP				N/C - 0 mths	N/C - 0 mths					£5m

2023/24 Counterparty/Bank List	Fitch Rating Long Term Status	Long Term	Short Term	Viability	Moody's Ratings Long Term Status	Long Term	Short Term	S&P Ratings Long Term Status	Long Term	Short Term	Suggested Duration	Suggested Duration (Watch/Outlook Adjusted)	CDS Price	1 Month % Change	3 Month % Change	6 Month % Change	Invest. Limit
Yorkshire Building Society	SB	A-	F1	a-	SB	A3	P-2				G - 100 days	G - 100 days					£5m
National Westminster Bank PLC (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A	A-1	B - 12 mths	B - 12 mths					£5m
The Royal Bank of Scotland Plc (RFB)	SB	A+	F1	a	SB	A1	P-1	SB	A	A-1	B - 12 mths	B - 12 mths					£5m
United States	SB	AAA				Aaa		SB	AA+		Not Applicable	Not Applicable	19.58	-12.07%	-4.95%	16.40%	£5m
Bank of America N.A.	SB	AA	F1+	aa-	PO	Aa2	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths					£5m
Bank of New York Mellon, The	SB	AA	F1+	aa-	SB	Aa1	P-1	SB	AA-	A-1+	P - 24 mths	P - 24 mths	40.35	0.00%	0.00%	0.00%	£5m
Citibank N.A.	SB	A+	F1	a	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	94.68	1.68%	-28.67%	-22.73%	£5m
JPMorgan Chase Bank N.A.	SB	AA	F1+	aa-	SB	Aa1	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths					£5m
Wells Fargo Bank, NA	SB	AA-	F1+	a+	SB	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	78.61	6.38%	-28.24%	-23.53%	

Yellow	*Purple*	*Blue*	*Orange*	*Red*	*Green*	*No Colour*
Up to 5yrs	*Up to 2yrs*	*Up to 1yr (semi nationalised UK bank NatWest/RBS)*	*Up to 1yr*	*Up to 6 months*	*Up to 100 days*	*Not to be used*

Watches and Outlooks: *SB- Stable Outlook; NO- Negative Outlook; NW- Negative Watch; PO- Positive Outlook; PW- Positive Watch; EO- Evolving Outlook; EW- Evolving Watch; WD- Rating Withdrawn.*

Non-Specified Investments:

	Minimum credit Criteria	Maximum Investments	Period
UK Local Authorities	Government Backed	£2m	2 years
Green Energy Bonds	Internal and External Due Diligence	£2m	2-5 years

APPENDIX ‘D’

Link Treasury Services Limited Economic Background & Interest Rate Forecast

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators’ misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen’s passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia’s invasion of Ukraine on 22nd February 2022.

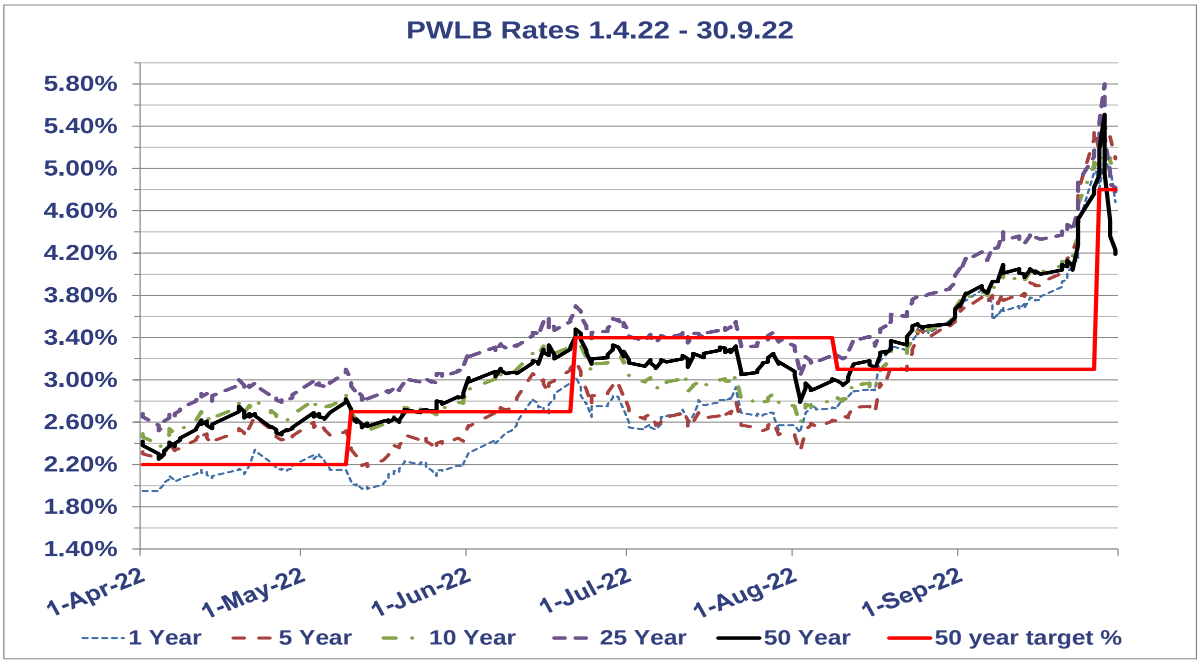
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the COVID-19 lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Interest Rate Forecast

Comparison of forecasts for Bank Rate today v. previous forecast													
Bank Rate	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
19.12.22	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
08.11.22	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

- The Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate to 3.50% from 3%. The increase was made in line with expectations. However, there was a range of views within the Committee, with six members voting for a 50 basis points increase, one for 75 basis points and two for no increase at all.
- Over recent weeks, relative calm has returned to the gilt markets and the £ has now risen from a historic low of \$1.03 to \$1.22, and the cumulative movement in gilt yields over the course of 2022 remains broadly in line with that seen in the Euro-zone bond markets but somewhat higher than the US (40bps).
- Market expectations remain for Bank Rate to peak at between 4.5% and 4.75% by mid-2023, and it has been announced that the Chancellor's Budget will take place on 15 March,

accompanied by analysis from the Office for Budget Responsibility, and followed on 23 March by the planned MPC meeting.

- Market views remain similar to those of Link Group's Interest Rate Strategy Group (IRSG). IRSG still sees the peak in Bank Rate at 4.5%, although there are several challenges ahead that could see the Bank leave rates at an elevated level for longer, once the peak is reached.
- The first of those challenges is the tight labour market (unemployment is at a near 48 year low 3.7%), and average wage increases are now above 6% y/y, against the backdrop of a significant number of high profile strikes throughout December and January (the Bank would broadly want wages to be in the range of 3% - 3.5%). There is also the prospect that unless the workforce participation rate increases and/or immigration policies are relaxed, there is no clear route that would give rise to sustainable increases in economic growth.
- So much of the eventual numbers will also be guided by what happens in Ukraine too, particularly the implications for further need for energy subsidies for UK households and businesses. The current Government support is due to be extended from April, but households can typically expect to pay £3,000 per annum under the revised scheme compared to the current £2,500.
- Regarding forecast for PWLB rates, investors will likely remain a little nervous over the UK's future fiscal policy and foreign investors may require a "confidence premium" until it is clear that the Sunak Government is able to meet most of its spending commitments within acceptable financial constraints. However, in addition, the OBR forecasts the Central Government Net Cash Requirement is £650bn between 2023/24 and 2027/28 and maturing gilts will swell that figure to >£1.2trillion, and Quantitative Tightening will potentially push the eventual number even higher. So, the Bank and the Government will need to tread carefully in their messaging to markets and the way that funding requirements are met.
- As for the housing market, the most recent surveys by Halifax and Nationwide Building Society show house prices falling. Historically, the MPC has appeared reluctant to tighten monetary policy in a falling housing market, but it looks like it is going to have to at least for a further three to six months whilst unemployment remains low and wages are rising fast.
- From a practical standpoint those clients looking to borrow will, most probably, need to continue to focus on optimising their cashflow forecasts, and given the (still) relatively elevated level of rates right across the curve at present, seek to fund either temporarily from local authorities or with short-dated loans from the PWLB. The forecast expects both short- and longer-term rates to be somewhat lower over the duration of the forecast.
- On the flipside, if an authority is fully funded or wishes to reduce its exposure to long-dated debt, there may still be scope to repay loans prematurely (both market and PWLB) whilst the high discount rates prevail.
- In terms of forecast, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months. The forecasts 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.

The current and previous 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 November 2012.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

A Summary overview of the future path of the bank rate

- **The** central forecast for interest rates was previously updated on 8 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.
- Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us - but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiraling upwards in what is evidently a very tight labour market.
- Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower

income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- View the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements - if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea, and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.
- The Government acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than currently forecast.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields consequently.

APPENDIX 'E'

Capital Strategy

1) Introduction

1.1 This Capital Strategy provides high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Lewes District Council (LDC), along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas, and the key objectives are to deliver a capital programme that:

- Ensure the Council's capital assets are used to support the Council's vision;
- Reduce ongoing commitments/schemes;
- Reduce the current and projected level of borrowing;
- Reduce borrowing impacts on the Council's revenue budget;
- Increase capital programme partnership/support opportunities;
- Links with the Council's asset management/disposal plan;
- Is affordable, financially prudent and sustainable;
- Ensure the most cost-effective use of existing assets and new capital investment.

1.2 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. The Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management/disposal plans are regularly reviewed and revised to meet the changing priorities and circumstances of the Council.

1.3 The strategy provides an important link between the ambitions set out in the Council's longer-term vision and Council Plan and the important investment in infrastructure that will help turn that vision into a reality. The economic climate and financial challenges due to COVID-19 are thought-provoking. However, the Council is committed to investing now for the longer term and financing that commitment will be made possible by the Council's financial resilience that continue to be developed through various themes and ongoing initiatives, including –

- Recovery and Reset Programme/Best use of Assets review;
- Medium Term Financial Strategy;
- Prudential Code/Treasury Management Strategy

2. Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below a de-minimis level are not capitalised and are charged to revenue in year.

2.1.2 Further details on the capitalisation policy can be found in the Council's Statement of Accounts.

2.1.3 In 2023/24, the Council is planning capital expenditure of £69.2million (and £151.5million over the next three years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
	£m	**£m**	**£m**	**£m**
General Fund	17.4	39.1	25.8	11.1
HRA	12.6	16.5	14.0	29.5
Loans (including Subsidiary Companies)	0.5	2.0	1.0	1.0
Commercial Investments	0.6	0.3	-	-
Service Delivery Investments	7.6	11.2	-	-
TOTAL	**38.7**	**69.2**	**40.8**	**41.6**

2.1.4 The main General Fund capital projects scheduled for 2023/24+ are as follows:

- New Business Unit, Avis Way Newhaven
- Local Energy Schemes
- New Crematorium & Green Burial Facility
- Waste Vehicle Repalcement

The main Service Delivery Investment capital projects scheduled for 2023/24+ are as follows:

- Newhaven (Levelling Up Fund)
- Marine Workshops, Newhaven
- The Friars, Lewes

2.1.5 Investments for service purposes are taken or held primarily and directly for the delivery of public services rather than commercial gain. Some future projects will include elements of both purposes, so judgments are taken on the primary purpose.

2.1.6 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

2.2 Governance

2.2.1 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that added schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority).

2.2.2 The draft Capital Programme is subject to formal scrutiny prior to setting the budget (and followed by Cabinet and Full Council approval).

2.3 Financing

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in **Table 2** below.

Table 2: Capital Financing Sources

Description	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£m	£m	£m	£m
External sources (Grants and Contributions)	12.5	31.8	12.3	5.4
Own resources (Capital Receipts, MRR, Reserves, Revenue)	15.2	12.3	9.9	11.9
Borrowing	11.0	25.1	18.7	24.2
TOTAL	**38.7**	**69.2**	**40.8**	**41.6**

2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "Minimum Revenue Provision" (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are presented in **Table 3** below.

Table 3: Repayment of Debt Finance

	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
	£m	£m	£m	£m
MRP	0.4	0.7	1.5	1.7

2.3.3 The Council's annual MRP statement can be found within **Appendix A (Section 8)** above.

2.3.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £24.4 million in 2023/24. Based on the above figures for expenditure and financing, the Council's estimated CFR is presented in **Table 4** below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	31 March 2023	31 March 2024	31 March 2025	31 March 2026
	£m	£m	£m	£m
General Fund	31.6	51.3	60.4	63.9
HRA	75.0	79.6	87.8	106.7
TOTAL CFR	**106.6**	**131.0**	**148.1**	**170.6**

3. Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially in a rapidly changing operational and technological backdrop. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) is under development. Led by the Asset Management team and backed by a comprehensive review of Council assets, the AMS will take a longer-term view comprising:

- ‘Good’ information about existing assets;
- The optimal asset base for the efficient delivery of Council objectives;
- The gap between existing assets and optimal assets;
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds (known as capital receipts) can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council takes a prudent approach of assuming future capital receipts only when there is a high probability of realisation.

4. Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is not cash rich as it utilises all its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December 2022, the Council had borrowing of £51.7 million at an average interest rate of 3.31% and cash balances of £33.3 million including money market funds, local authority and bank deposits with an average rate of 1.76%.

4.2 Borrowing

4.2.1 The Council’s main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently around 4.3%) and long-term fixed rate loans where the future cost is known but higher (e.g. 4.8% for a 25-year term).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in **Table 5**, compared with the Capital Financing Requirement (Table 4 above).

Table 5: Prudential Indicator: Estimates of Gross Debt and the Capital Financing Requirement

	31 March 2023	**31 March 2024**	**31 March 2025**	**31 March 2026**
	£m	**£m**	**£m**	**£m**
External Debt	53.7	55.3	71.5	111.7
Capital Financing Requirement	106.6	131.0	148.1	170.6

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from **Table 5**, the Council expects to comply with this in the medium term.

Affordable Borrowing Limit

4.2.4 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2022/23 limit	**2023/24 limit**	**2024/25 limit**	**2025/26 limit**
	£m	**£m**	**£m**	**£m**
Authorised limit	139.3	166.1	185.0	209.7
Operational boundary	126.6	151.0	168.1	190.6

4.2.5 Further details on borrowing are contained in the Treasury Management Strategy.

4.3 PWLB Loan

4.3.1 The government recognises the valuable contribution that local authorities make to the social and economic infrastructure and supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB).

4.3.2 In compliance with the HM Treasury guidance, the Council need to ensure that the capital programme/investments are compliant with the ongoing access to the PWLB lending terms, which include an assurance from the Chief Finance Officer (Section 151 Officer) that the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

4.3.4 The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in the following areas –

- Service spending, i.e. activities that would normally be captured in the following areas in the DLUHC Capital Outturn Return (COR): culture & related services, environmental & regulatory services, etc.
- Housing, i.e., activities normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company.
- Regeneration projects would usually have one or more of the following characteristics:
    - the project is addressing an economic or social market failure by providing services, facilities, or other amenities;
    - the Council is making a significant investment in the asset beyond the purchase price:
    - the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention;
    - the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.
- Preventative action with the following characteristics - intervention that prevents a negative outcome, there is no realistic prospect of support from a source other than the Council; has an exit strategy, and does not propose to hold the investment for longer than is necessary; the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.
- Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.

4.3.5 Individual projects and schemes may have characteristics of several different categories. In these cases, the CFO would use professional judgment to assess the main objective of the investment and consider which category is the best fit.

4.3.6 If the Council wishes to on-lend money to deliver objectives in an innovative way, the government expects that spending to be reported in the most appropriate category based on the eventual use of the money. The Council must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.

4.3.7 Under the prudential code, the Council cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield, which would usually have one or more of the following characteristics:

- buying land or existing buildings to let out at market rate;
- buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;

- buying land or existing buildings other than housing which generate income and are intended to be held indefinitely.

4.3.8 The decision over whether a project complies with the terms of the PWLB is for the Chief Finance Officer. This decision will be final unless the Treasury has concerns that issuing the loan is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.

4.4 Investments

4.4.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

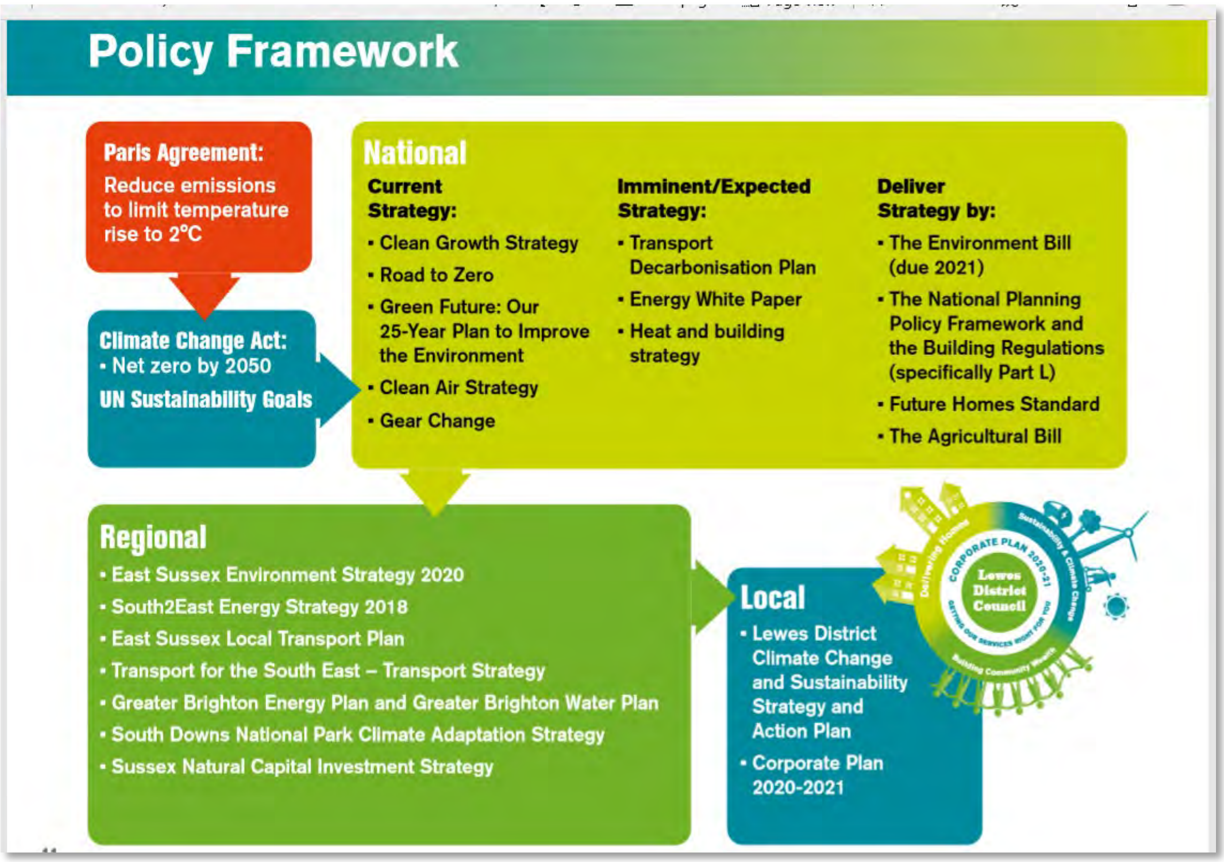
4.4.2 The Council's Investment Strategy is to prioritise security and liquidity over yield and social/ethical impact, focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk of loss.

4.5 The Climate Change and Sustainability Strategy

4.5.1 The Climate Change and Sustainability Strategy was produced following the Climate Emergency declaration made at Full Council in July 2019 and sets out the district wide strategy and vision for a net zero carbon district by 2030. The visions and actions contained within the strategy have been developed in response to the urgency of the climate emergency being faced. The strategy will enable the Council to work with the community to co-ordinate its response into meaningful and long-lasting action. With limited financial resources the Council needs to ensure it prioritises the right actions to have a lasting positive impact on the district in relation to carbon reduction, sustainability and a green economic recovery.

4.5.2 The current Corporate Plan prioritises Sustainability and Community Wealth Building. Community wealth building is a key part of the sustainability strategy and forms part of action area 7 Circular Economy and Community Wealth. The Council is considered 'an anchor institution' and can use its substantial spending power and influence to drive investment into the local economy to enable a green economic recovery and local job creation and retention. Community wealth is a thread that runs throughout the climate change and sustainability strategy particularly in relation to procurement but also training and skills.

4.5.3 The policy framework below provides insight into major pieces of policy and how they link to our climate change and sustainability strategy.



4.6 The Council's Approach to Ethical Investments

4.6.1 Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield and that ethical issues must play a subordinate role to those priorities.

4.6.2 Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- o Human rights abuse (e.g. child labour, political oppression);
- o Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- o Socially harmful activities (e.g. tobacco, gambling).

4.6.3 The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

4.7 Governance

4.7.1 Treasury management decisions are made daily and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Standard Committee), whereas mid-year updates are reported exclusively to the Audit and Standard Committee. Quarterly performance reports are also submitted to Cabinet.

5. Investments for Service Purposes

5.1 Investments for service purposes' (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

- Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.
- For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.

5.2 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so, for example the new Waste Company. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council will benefit.

5.2 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

Investments for Treasury Management purposes

5.3 Investments for treasury management purposes' (or treasury management investments) are those investments that arise from the Council's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

- Treasury investments may include an allowance for a reasonable level of short-term treasury investments to provide access to liquidity.
- Treasury investments may also include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, e.g. in order to reduce financing and interest rate risks.
- Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- Treasury management investments should always be on commercial terms and will rarely constitute capital expenditure for local authorities.
- For authorities with long-term surplus cash, this category may include long-term investments such as equities, bonds and property, whether accessed through a fund or directly, but unless there is a link to cash flow management or treasury risk management activity, it is likely that such investments would be for commercial purposes, i.e. primarily for financial return.

6. Commercial Investments

6.1.1 Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.

6.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both incomes driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return.

6.1.3 Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield commercial investments in any of the three years. Commercial activity must be secondary priority to economic regeneration and housing provision. There will be more monitoring of what it is that local authorities are delivering by way of a capital scheme and Section 151 officers are required to formally validate those policies to HM Treasury/PWLB.

6.1.4 The Council can fund the purchase of investment property through various means **excluding borrowing** money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant/annual surplus then supports the council's budget position and enables the council to continue to provide services for local people. The reasons for buying and owning property investments are primarily

- Financial returns to fund services to residents
- Market and economic opportunity.
- Economic development and regeneration activity in the District.

6.1.5 Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

6.2 Current Investments

6.2.1 In recent years, the Council has invested in commercial property in the District on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services.

6.3 Commercial Investment Strategy

6.3.1 However, in recognition of the continued shortfall in local government funding and commitments, the Council Commercial Investment Strategy will support achieving a step change increase in commercial investment and trading by the Council.

6.3.2 CIPFA has made clear that Councils should not borrow to invest commercially, and their Capital Investment Strategy must make it clear as to where they depart from this principle and why. However, it has been recognised that local investments that are primarily designed for regeneration or service delivery purposes and which have a knock-on positive impact to the revenue budgets are not intended to be covered by this principle.

6.3.3 Councils must demonstrate that such investments are “proportionate” to their resources. The Council’s approach will incorporate the revised CIPFA guidance when it is published; this will enhance the other risk management features that are being developed, which includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and ‘voids’. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to its prudent treasury investment that has primarily focused to date on protecting the principal.

6.3.4 The Council considers investing in housing properties and commercial investments within the District to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to the services it provides or to build and strengthen the local economy, with the related benefit of increased business rates.

6.4 Governance

6.4.1 The Governance arrangements are stipulated within the Commercial Investment Strategy.

6.5 Deciding whether investments are for treasury, service or commercial purposes

6.5.1 It is the purpose of an investment that identifies whether it is for treasury management, service or commercial purposes. Any individual investment or class of investments can be in any of these three categories. The chief finance officer will need to make a professional judgement about which category a given investment falls into.

6.5.2 For example, pooled investment funds are widely used for treasury management purposes to invest sums until the time required to meet future cash flows. But if they were to be used by authorities that have a borrowing need as long-term investments primarily for the purpose of earning a profit above the cost of borrowing, they should be classed as investments for commercial purposes. The authority would be borrowing in order to invest primarily for financial return.

6.5.3 The boundary between treasury management use of pooled funds and commercial use of pooled funds is for the chief finance officer and treasury teams to judge. For example, it might be appropriate for an authority to hold a low-risk, short-duration bond fund, even if it forecasts a likely need to borrow within the duration of the fund, as part of its liquidity strategy, with limited risk to capital and no net cost to the revenue account. As part of a short-to-medium-term treasury management strategy to manage the authority’s liquidity needs and borrowing costs, such investments might be considered to be treasury investments.

6.5.4 A truly long-term fund, for example of equities or property, is unlikely to meet this purpose for a borrowing authority, as the risks to capital are too high to make sense as part of liquidity management. The authority’s investment strategy could set out the reasoning for judging such funds to be for treasury management purposes rather than being primarily for financial profit.

7. Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- The Council has also set aside £0.14 million at 31st March 2022 to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

7.2 Guarantees

7.2.1 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt. However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2022 was £51.7 million).

7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules credit arrangements, such as leasing agreements, cannot be entered into without the prior approval of the CFO.

8. Revenue Implications

8.1 Financing Cost

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

Table 7a: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Financing Costs (£m)	-0.22	0.10	1.49	2.53
Proportion of Net Revenue Stream	-1.6%	0.7%	9.8%	16.4%

Table 7b: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (HRA)

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Financing Costs (£m) [excluding depreciation]	1.76	1.77	2.09	2.78
Proportion of Net Revenue Stream	11.1%	10.4%	11.4%	14.4%

Table 7c: Prudential Indicator: Proportion of Net Income to Net Revenue Stream (Commercial & Service Delivery)

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Financing Costs (£m) [excluding depreciation]	1.65	1.73	1.75	1.73
Proportion of Net Revenue Stream	12.1%	11.6%	11.6%	11.2%

8.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many years into the future.

8.2 Prudence, Affordability and Sustainability

8.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable and sustainable based on the following:

Prudence

- Prudential indicators 7 and 8 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 7 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term.
  - *Prudential Indicator 8 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost-effective manner.

Affordability

- The estimated 'revenue consequences' of the Capital Programme (£151.5 million over three years) have been included in the 2023/24 Budget and Medium-Term Financial Strategy (MTFS), extending to 2025/26; and
- The MTFS includes a reserves strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority.

- As explained in Section 3.1 above, the Asset Management Strategy will represent an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

9. Prioritisation Principles and Obligations to deliver a scheme

9.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects in order to prioritise expenditure and continue to allow schemes to be ranked according to Council's need, while ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.

9.2 Therefore, it is important that there is a strict definition of what is included within the scheme. Demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council and rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be delivered. New resource development bids will need to be prioritised as follows:

Projects Prioritisation for Capital Programme Inclusion	
Priority 1	Projects which enable compliance with Health & Safety and the Council's legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance.
Priority 2	Projects that generate revenue savings through the delivery of a new business strategy or service transformation proposals or invest to save and cost avoidance.
Priority 3	Projects where a major proportion of the capital funding from external sources will be lost if the project fails to go ahead but subject to consideration of future revenue requirements.
Priority 4	Projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working.
Priority 5	Projects that facilitate improvement, economic development, regeneration and housing growth
Priority 6	Projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income.

9.3 The Council's financial and service planning process need to ensure decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The funding of capital schemes is via the following hierarchy:

- External grants and contributions;
- Capital receipts from the disposal of fixed assets;
- Leasing finance; (where applicable);
- Revenue contributions;
- External Borrowing.

9.4 The strategy will be to employ 'Whole Life Costing' that will demonstrate the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset, i.e., encourages decision-making that takes account of the initial capital cost, running cost, maintenance cost, refurbishment requirements and disposal cost.

10. Knowledge and Skills

10.1 Officers

10.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Chief Finance Officer (CFO) and the Deputy Chief Finance Officers (DCFO's) are qualified (ACCA/ CIPFA) accountants with many years of public and private sector experiences. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also supports training courses and conferences across all aspects of accounting.

- *Property* – the Head of Property and Facilities Shared Service (PFSS) – a qualified property expert - is responsible for Asset Management within the Council. PFSS comprises the Asset Development, Building and Maintenance, Corporate Landlord and development functions of the Council. Each area has appropriately qualified professionals within their individual specialism. The Head of PFSS plays a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

10.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the District.

10.2 External Advisors

10.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Link Asset Services as advisers, and the Asset Management team will commission advisors as appropriate (e.g. development managers, valuers etc.) to support their work where required to ensure that the Council has access to knowledge and skills commensurate with risk.

10.3 Councillors

10.3.1 May 2023 is the next date for district council elections. Duly elected councillors will receive training appropriate to their role in the new Council.

10.3.2 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills and information to effectively undertake their role. To this end, newly elected Lewes councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Link Asset Services).

11. CFO Statement on the Capital Strategy

11.1 Prudential Code

11.1.1 Paragraph 24 of the recently updated Prudential Code determines that…." the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

11.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

11.2 Affordability

11.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2024/25 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.

- *Asset Management* – as presented above (in Section 3.1) a new Asset Management Strategy is under development, which is taking a strategic longer-term (i.e. beyond 2025/26) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which will be reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets.

- *Commercial Investment* – as presented above (in Section 6.3) the Commercial Investment Strategy is also under development. The primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

11.3 Risk

11.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management St*rategy – the Council will formally approve the Treasury Management Strategy for 2023/24, at the Lewes District Council – Full Council meeting on 20 February 2023, in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2021". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Link Asset Services and other relevant and extant professional guidance.

- *Investment Strategy* – the Council will also formally approve an Investment Strategy for 2023/24, at the Council meeting on 20 February 2023, in accordance with DLUHC's "Statutory Guidance on Local Government Investments (3rd Edition) 2021". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Link Asset Service and other relevant and extant professional guidance.

- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to significantly expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings with its additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arm's length trading activities, strictly in accordance with HM Treasury's 'five-case model' ("The Green Book: Central Government Guidance on Appraisal and Evaluation").

12.0 Capital Programme Oversight Board

12.1 Objectives –

- The Capital Programme Oversight Board (CPOB) will provide strategic direction, oversight and corporate assurance for the General Fund capital programme and Housing Revenue Account (HRA) Business Plan across Lewes District and Eastbourne Borough Councils.
- The CPOB will have an oversight and stewardship role for the delivery of both Councils Capital expenditure including, the Council General Fund Capital Plan, the Council's Housing Capital (HRA), Commercial Activities/non-commercial investments, capital financing/funding, etc.
- The CPOB is also responsible for addressing programme issues and reviewing risk and financial implications for LECs.
- The CPOB will drive through the Assurance Review recommendations in respect of the capital programme and move towards a fully sustainable capital programme and asset release.

12.2 Responsibilities - The responsibilities of the CPOB are to:

- Be responsible and accountable for feeding into the annual Service & Financial Planning process
- Establish and embed a robust and effective governance framework through which all Councils capital projects will be evaluated, prioritised for development and delivery, subject to Member approval
- Provide oversight of the capital programme and the Housing Revenue Account (HRA) Business Plan
- Agree recommendations to relevant Committee(s), as required, to ensure the programme achieves its objectives in-line with initial proposals, Business Cases and options appraisals assessed through PRSOP and RAMP
- Scrutinise and challenge programmes and projects at a strategic level in relation to budgets, actual spend, timing, and overall financial strategy
- Monitor the achievement of the capital programme's core aims and objectives
- Monitor the HRA Business Plan assumptions in line with Section 76 of the Local Government and Housing Act 1989
- Continually monitor any potential impacts upon the HRA as they evolve i.e., Social Housing White Paper, Covid-19 etc
- Monitor the critical path for delivery across the capital programme
- Take timely decisions as the capital programme evolves
- Ensure the capital programme is delivered in a joined-up way across Council departments.
- Assist with resolving issues across Council departments
- Ensuring appropriate resources, capacity and capability are in place to deliver the capital programme across LECs, and where necessary, commit resources as required
- Ensure risks are being effectively managed and updated, and mitigations are identified appropriately required

Appendix F

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
A (Fitch) Rating	Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments. *A: High credit quality*. 'A' rating denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
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.
CFR	Capital Financing Requirement. 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 MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').

Terms	Descriptions
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.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DLUHC	Department for Levelling Up, Housing and Communities (*formerly known as Ministry of Housing, Communities and Local Government - MHCLG*).
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two

Terms	Descriptions
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
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. Phased out in 2022.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
MPC	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
OBR	The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.
PMI	Purchasing Managers' Index (PMI) - A composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added).
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').

Terms	Descriptions
PWLB	Public Works Loan Board – 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. Not available in Northern Ireland.
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.
S & P 500	The S&P 500 (also known as the Standard & Poor's 500) is a registered trademark of the joint venture S&P Dow Jones Indices. It is a stock index that consists of the 500 largest companies in the U.S. and is generally considered the best indicator of how U.S. stocks are performing overall.
SME	SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
TMSS	Approved Council's Treasury Management Strategy Statement
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.