Report To:	**Audit and Governance Committee**
Date:	**28 November 2023**
Report Title:	**Treasury Management**
Report of:	**Director of Finance and Performance (Chief Finance Officer - S151 Officer)**
Ward(s):	**All**
Purpose of report:	**To present details of recent Treasury Management activities.**
Officer Recommendations:	**The Committee is recommended to note that Treasury Management Activities for the period April to September 2023 have been in accordance with the approved Treasury Strategies.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code).**
Contact Officer(s):	**Name: Ross Sutton** **Post title: Head of Financial Reporting** **E-mail: ross.sutton@lewes-eastbourne.gov.uk** **Telephone number: 07591 988346**

1. Introduction

1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

1.2 A requirement of the Code is the creation and maintenance of a Treasury Management Policy Statement (TMSS) which sets out the policies and objectives of the Council's treasury management activities. Regular monitoring reports are required to meet the Treasury Management governance and scrutiny aspects. The Audit and Governance Committee are to review details of treasury transactions against the criteria set out in the TMSS and make recommendations to Council as appropriate.

1.3 The timetable for reporting Treasury Management activity in 2023/24 is shown in the table below and takes into account the timescale for the publication of each Committee agenda. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Governance Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
5 October 2023	April to June 2023
28 November 2023	April to September 2023 (Mid Year Review)
28 February 2024	April to December 2023
June 2024	2023/24 Annual Report (up to 31 March 2024)

1.4 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years matter, performance is best viewed over a medium to long term basis. The action taken in respect of the debt portfolio in recent years has been beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

1.5 The criteria for lending to Banks are derived from the list of approved counter parties provided by the Council's Treasury Management advisors, Link Group (Link). The list is updated regularly to reduce the risk to the Council by removing lower rated counterparties and reducing maximum loan durations.

2. Economic Background

2.1 The Bank of England's Monetary Policy Committee increased the Bank Rate to 5.25% in August (5.00% in June) but there have been no subsequent increases. An economic commentary by Link during the first half of the year is attached as Appendix A.

3. Interest Rate Forecasts

3.1 Link assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1/11/12.

3.2 The latest forecast, made on 7/11/23, sets out a view that short to medium term interest rates will be elevated for some time further, as the Bank of England seeks to squeeze inflation out of the economy. Rates are expected to start falling in September 2024.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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

4. Annual Investment Strategy

4.1 CIPFA published a revised 'Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes' in December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2 The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy (AIS), was approved by the Full Council on 23 February 2023. It sets out the Council's investment priorities as being:

- Security (of Capital);
- Liquidity;
- Yield.

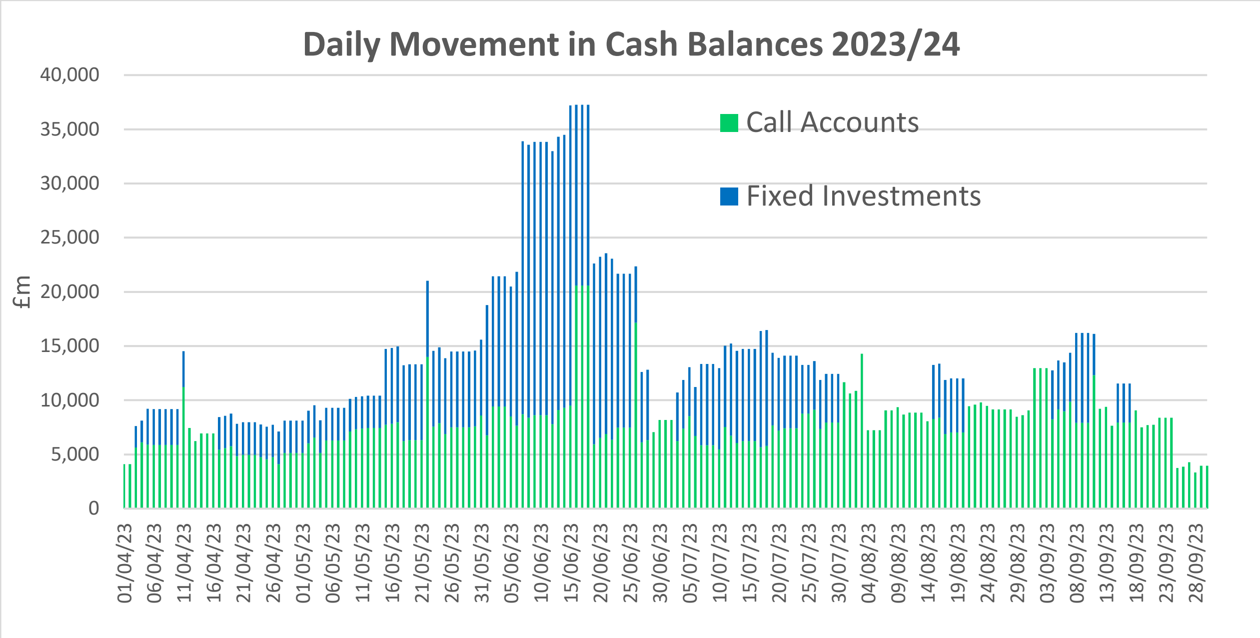
4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

4.4 There are no policy changes to the TMSS. The details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4.5 There have been some changes to individual counterparty credit ratings over the period. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

5. Treasury Management Activity

5.1 The chart below summarises the Council's investment position over the period 1 April to 30 September 2023. It shows the total sums invested each day split between Fixed Term investments and amounts held in Call accounts. The average is £13.1m comprising £5.3m Fixed and £7.8m Call.



5.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 30 September 2023 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria, the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
None at 30/9/23	-	-	-	-	-	-

5.3 Fixed Term Deposits which have matured in the reporting period

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

Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Debt Management Office (DMO)	03/04/23	12/04/23	9	2,000,000	4.05%	*
DMO	05/04/23	12/04/23	7	1,300,000	4.05%	*
DMO	17/04/23	02/05/23	15	3,000,000	4.07%	*
DMO	02/05/23	27/06/23	56	3,000,000	4.32%	*
DMO	15/05/23	26/06/23	42	4,000,000	4.41%	*
DMO	01/06/23	26/06/23	25	5,000,000	4.42%	*
DMO	06/06/23	29/06/23	23	2,200,000	4.45%	*
DMO	07/06/23	16/06/23	9	11,000,000	4.38%	*
DMO	15/06/23	23/06/23	8	2,500,000	4.40%	*

DMO	27/06/23	29/06/23	2	4,300,000	4.88%	*
DMO	03/07/23	31/07/23	28	4,500,000	4.88%	*
DMO	07/07/23	12/07/23	5	3,000,000	4.88%	*
DMO	12/07/23	19/07/23	7	4,000,000	4.88%	*
DMO	17/07/23	24/07/23	7	2,200,000	4.88%	*
DMO	15/08/23	21/08/23	6	5,000,000	5.13%	*
DMO	04/09/23	11/09/23	7	4,500,000	5.13%	*
DMO	08/09/23	12/09/23	4	3,800,000	5.13%	*
DMO	15/09/23	18/09/23	3	3,600,000	5.18%	*

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

The weighted average rate of interest earned on deposits held in the period 1 April to 30 September 2023 was 4.49% (4.34% Q1). The average bank base rate for the period was 4.80%.

5.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following liquidity accounts in the period covered by this report, with the average amount held being £2.57m (£2.47m Q1), generating interest of £99k.

Counterparty	Balance at 30/9/23 £000	Average Balance £000	Interest Rate %
Santander Business Reserve Account	£2,900	£4,372	3.36%
Lloyds Bank Current Account	£458	£1,927	2.10%
Lloyds Bank Call Account	£610	£1,423	5.14%

5.5 Money Market Funds

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

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

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

6. Capital Position

6.1 This table shows the revised estimates for capital expenditure and the changes since the 2023/24 capital programme was agreed at the Budget. Appendix B provides further details.

	Original Budget £000	Revised Budget £000	Forecast Outturn £000
HRA	13,591	17,291	15,759
General Fund	28,010	32,421	16,263
Total Capital Expenditure	**41,601**	**49,712**	**32,022**

6.2 The original budget has been updated for carry over underspends from the previous financial year and any supplementary budgets approved during the year. The Revised Budget has increased to £49.7m. The Forecast for the year is £32.0m as there has been significant deferral of schemes to 2024/25 and later years.

6.3 The financing of the capital programme has been updated in line with the changes in the table above (see Appendix B). The borrowing element will increase the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt, the Minimum Revenue Provision (MRP).

7. Borrowing

7.1 The Council's capital financing requirement (CFR) for 2023/24 is forecast as £198.0m (GF £143.7m and HRA £54.3m). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (i.e. internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

PWLB Rates

7.2 Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%. July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September. Link forecast rates to fall back over the next two to three years as inflation dampens.

7.3 Link's core debt management advice remains unaltered, to continue to reappraise any capital expenditure plans/profiles, and internally/temporarily borrow for any financing and re-financing. Only seek longer-dated debt if there is absolute certainty on the long-term rates and can conclude it is affordable, sustainable and prudent if funded at prevailing levels.

External Debt

7.4 The Council's long term borrowing at 30 September was £112.6m (£112.6m Q1) from the Public Works Loan Board (PWLB). Debt at the start of the year was £113.7m and £1.1m of loans have been repaid. A further £1.1m will mature in March 2024. The long term borrowing is at fixed rates of interest ranging from 1.6% to 5.0%. No new long term borrowing has been undertaken this year to-date. This is a prudent and cost-effective approach in the current economic climate but the position is continually monitored.

7.5 The table below details short term (less than one year) borrowing from other local authorities. As at 30 September 2023, £67m of loans were held (£67m at Q1). During the second quarter, £10m of loans matured and were repaid on time.

Lender	Principal £000	Date From	Date To	Days	Rate %
Loans held					
Barrow Borough Council	3,000	20 Jan 23	20 Nov 23	304	3.85%
Warwickshire County Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Salford City Council	5,000	8 Feb 23	7 Feb 24	364	4.00%
Tameside MBC	5,000	13 Feb 23	15 Jan 24	336	4.20%
Gwent Police	4,000	11 Apr 23	29 Dec 23	262	4.40%
West of England Combined Authority	10,000	28 Apr 23	26 Apr 24	364	4.85%
West Yorkshire Combined Authority	5,000	9 May 23	9 Feb 24	276	4.25%
Bolton MBC	10,000	22 May 23	20 May 24	364	4.35%
Wokingham BC	10,000	7 Jun 23	28 Mar 24	295	4.50%
West Midlands Combined Authority	5,000	27 Jul 23	29 Jan 24	186	4.10%
Kent Police and Crime Commissioner	5,000	3 Aug 23	1 Dec 23	120	5.30%
Loans repaid					
North Northamptonshire Council	5,000	27 Jan 23	27 Jul 23	181	4.00%
Tendring DC	5,000	1 Nov 22	1 Aug 23	273	3.90%

8. Debt Rescheduling

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

9. Capital Financing Costs Summary

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

General Fund	Original Budget £000	Forecast Outturn £000	Q2 Actual £000
Interest Payable - Borrowing	2,750	4,643	1,504
MRP	649	603	-
Interest Receivable – Treasury Investments	(99)	(463)	(255)
Interest Receivable – Loans	(1,299)	(1,450)	(53)
Net Interest Cost	**2,001**	**3,333**	**1,196**

9.2 The forecast outturn has increased by £1.3m to £3.3m. Interest payable includes a £1.6m increase on short term borrowing and £0.3m increase on interest payable by the general fund on HRA reserves and balances. The increase is due to (i) base rates have increased from 3.5% in January to 5.25% currently and (ii) the level of short term borrowing is higher than the estimated position for the year made in January.
The estimated position assumed a fall in short term borrowing but the current forecast of £67m is an increase. Regarding the Q2 actual position, interest on PWLB

loans is repayable in September 2023 and March 2024 and interest on Short Borrowing is due on maturity. MRP is calculated at the end of the financial year.

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

HRA	Original Budget £000	Forecast Outturn £000	Q2 Actual £000
Interest Payable	1,781	1,593	-
Interest Receivable	(57)	(339)	-
Net Interest Cost	**1,724**	**1,254**	**-**

9.4 Interest receivable has increased due a change in which of the HRA reserves and balances interest is now paid on and also the base rate rises to 5.25%. The actual amounts are calculated at the end of the financial year.

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement and Treasury Management Practices (TMPs).

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

Prudential Indicators	2023/24 Budget	2023/24 Forecast
Authorised Limit for external debt	£241m	£241m
Operational Boundary for external debt	£219m	£219m
Capital Financing Requirement (CFR) - GF	£146m	£145m
Capital Financing Requirement (CFR) - HRA	£53m	£53m
Gross External debt – GF (including loans to Housing Companies £30m)	£118m	£129m
Gross External debt - HRA	£47m	£51m
Total Debt compared to CFR under / (over) borrowing	£34m	£18m
Proportion of GF Financing Costs to Net Revenue Stream	25.4%	29.4%
Proportion of HRA Financing Costs to Rental Income (excluding depreciation)	10.7%	10.2%
Proportion of net income from commercial and service investments to Net Revenue Stream	16.1%	16.1%
Investment returns %	2.5%	4.23%

Note - Section 6 and Appendix B provide the requirements for a Capital Expenditure indicator.

Treasury Indicators	2023/24 Budget	2023/24 Forecast
Upper limit for principal sums invested for longer than 365 days	£2m	£2m
Maturity structure of fixed rate borrowing - upper limits		
Under 12 months	75%	75%
12 months to 2 years	75%	75%
2 years to 5 years	75%	75%
5 years to 10 years	75%	75%
1 0 years and above	75%	75%

Note – Paragraphs 10.7 to 10.9 and Appendix C provide the requirements for a Liability Benchmark indicator.

10.3 As at 30 September 2023, indicators are on target or remain within acceptable parameters with the exception of Gross External Debt and the Proportion of GF Financing Costs to Net Revenue Stream.

10.4 Gross External Debt (GF and HRA) is forecast at £180m, an increase of £15m on the estimated (January 2023) position of £165m but remains within the Council's Operational Debt Boundary for debt. The debt total at 31 March 2023 was £177m and so the current forecast is £3m higher. Linked to debt, is the Proportion of GF Financing Costs (gross of interest receivable) to Net Revenue Stream which has increased to 29.4%. Paragraph 9.2 above provides an explanation of why interest payable has increased and the table in paragraph 7.5 shows how variable interest rates on short term borrowing have increased. Higher rates are payable on replacement debt as existing debt matures.

10.5 The Capital Financing Requirement (CFR) has reduced by £1m from an estimated £199m (Feb 2023) to a Forecast £198m. The reduction is due to lower capital expenditure which is financed through borrowing.

10.6 Approved limits within the Annual Investment Strategy were not breached during the period ending 30 September 2023, except for the balance held with Lloyds Bank (the Council's own bank), which exceeded the £5m limit for 11 days during the first half of the year (4 days Q1). Exceptions normally occur where (i) other investments have been recalled back to Lloyds a day early in readiness for larger than usual outgoings the following day or (ii) other investments are received back too late in the day to reinvest so remain with Lloyds overnight. During August there was also a period of 4 days where the Lloyds limit was exceeded, due to annual leave and limited staff resources, as balances were kept higher than normal.

Liability Benchmark

10.7 There is a requirement to provide a comparison of the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas:

i. Existing Loan Debt = current borrowing portfolio;
ii. Capital Financing Requirement (loans only);

iii. Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;

iv. Liability Benchmark = Net Loans Requirement plus short term liquidity allowance.

10.8 Appendix C includes liability benchmark charts for both the General Fund and HRA. Only approved expenditure and financing budgets for the period to 2025/26 are to be included although the charts cover the full debt maturity profile and MRP to 2068/69.

10.9 The GF chart shows the CFR, Loan Debt Outstanding and Liability Benchmark reducing in line over time. The HRA chart shows the CFR and Liability Benchmark increasing and then levelling out as there are no MRP payments or capital receipts. The HRA PWLB Loan Debt reduces over time as debt matures. Any gaps between actual loan debt outstanding and the liability benchmark will need to be managed in the future.

11. Non-treasury investments

11.1 The non-treasury investment activity includes the Council provision of a financial guarantee through its subsidiary company, Investment Company Eastbourne Limited (ICE) Limited. The principal activity of the company is to guarantee an external financial liability with Canada Life and the future rental income of Infrastructure Investments Leicester Limited by virtue of contractual arrangement. In return for providing the above Guarantee (including rental guarantee) in 2018, ICE receives a £0.3m annual guarantee fee (indexed pa). The ICE Board of Directors meet regularly and review key financial monitoring (including the guarantee fees payment schedule) in line with the agreed governance arrangements/agreement.

11.2 The Council provide loans to its two subsidiary companies Eastbourne Housing Investment Company Limited and South East Environmental Services Limited and Aspiration Homes LLP which is a joint venture with Lewes District Council. As at 31 March 2023, £28.8m of loans had been provided and a further £3.9m is forecast for 2023/24. Interest received on those loans is forecast at £1.4m in 2023/24.

12. Environmental, Social and Governance (ESG) Investment

12.1 The Cabinet at its meeting on 8 February 2023 approved the 2023/24 Treasury Management and Investment Strategy, which included Non-Specified investments such as ESG products that meet the Council’s internal and external due diligence criteria.

12.2 While a wide range of ESG investments are currently limited, there are expectations to see more banks and funds providing specific products over the coming years. As this area continues to develop and become more prominent, the Council in conjunction with Link will continue to monitor ESG investment opportunities within the parameters of the Council’s counterparty criteria and in compliance with the DLUHC Investment Guidance (i.e. prioritising security, liquidity before yield).

12.3 There were no green deposits held at 30 September 2023, and there was no activity in the period.

13. Financial Appraisal

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

14. Risk Management Implications

14.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

15. Equality Analysis

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

16. Legal Implications

16.1 There are no legal implications from this report.

17. Environmental sustainability implications

17.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report that would affect the Council's sustainability policy. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

18. Appendices

18.1 Appendix A - Link Group - Economic Commentary
18.2 Appendix B - EBC Capital Programme 2023/24
18.3 Appendix C - Liability Benchmarks
18.4 Appendix D - Glossary of Terms

19. Background Papers

19.1 Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Cabinet 8/2/23)