Agenda Item No:

Report to:	CAP Cabinet
Date of Meeting:	17 December 2018 7 January 2019
Report Title:	**Treasury Management - Mid Year Report 2018-19**
Report By:	Peter Grace Chief Finance Officer

Purpose of Report

This report advises the Cabinet of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Council to take account of any issues or concerns that have arisen since approving it in February 2018.

Recommendations

1. **Cabinet agree the Mid Year report.**

Reasons for Recommendations

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2018). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet and full Council.

The Council has increased its levels of income generation and this entails new borrowing over potentially long periods, with consequent risks in terms of asset valuations, credit worthiness, cash and reserve fund availability. Such risks cannot be considered in isolation of all the issues facing the Council now and potentially in the future.

Background

1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure in combination with funding from reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

2. 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 needs of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3. Accordingly, treasury management is defined as:

   "The management of the local 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."

Introduction

4. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by this Council In February 2018.

5. The primary requirements of the Code are as follows:
   - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
   - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
   - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
   - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
   - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

6. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
   - An economic update for the first part of the 2018/19 financial year;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

7. The Committee will need to determine whether there are any issues that require the amendment of the Council's Treasury Management Strategy or Investment Policy and that they therefore wish to draw to the attention of Council. The Audit Committee will consider a similar report at their meeting on 23 January 2019.

Economic Update (at 30 September 2018)

8. UK. The first half of 2018/19 saw UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

9. Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets in September were pricing in the next increase in Bank Rate for the second half of 2019.

10. As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

11. In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

12. USA. President Trump’s massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries’ exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

13. **EUROZONE.** Growth was unchanged at 0.4% in quarter 2, but undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany was mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

14. CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

15. **JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest rate forecasts

16. The Council's treasury advisor, Link Asset Services, provided the following forecast in September:

Interest rate Forecasts – September 2018 to March 2021

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

17. The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. Link Asset Services do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. They also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The Council's Treasury Position – 30 September 2018

Borrowing

18. The Council's debt and investment position at the 30 September 2018 was as follows:

Table 1 – Borrowing

Debt	1 April 2018 Principal	Rate	Maturity	30 Sept 2018 Principal	Rate
PWLB	£7,500,000	4.80%	2033	£7,500,000	4.80%
PWLB	£2,000,000	0.61% (Var)	2019	£2,000,000	0.74% (Variable)
PWLB	£909,027	3.78%	2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	3.78%	2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£243,901	1.66%	2026	£229,583	1.66%
PWLB	£1,000,000	2.92%	2056	£1,000,000	2.92%
PWLB	£1,000,000	3.08%	2046	£1,000,000	3.08%
PWLB	£1,000,000	3.01%	2036	£1,000,000	3.01%
PWLB	£1,000,000	2.30%	2026	£1,000,000	2.30%
PWLB	£2,000,000	2.80%	2054	£2,000,000	2.80%
PWLB	£1,000,000	2.42%	2028	£1,000,000	2.42%
PWLB	£2,000,000	2.53%	2057	£2,000,000	2.53%
PWLB	£2,000,000	2.50%	2059	£2,000,000	2.50%
PWLB	£2,000,000	2.48%	2060	£2,000,000	2.48%
PWLB (Annuity)	£7,221,917	2.53%	2057	£7,168,163	2.53%
PWLB (Annuity)	£8,350,000	2.72%	2057	£8,291,664	2.72%
Total Debt	**£41,013,080**	**3.01%**		**£40,886,672**	**3.01%**

19. At the 30 September 2018 the Council had debt amounting to £40.89m (PWLB debt).

20. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.

21. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public

Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

22. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

23. The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

24. The Council's 2018/19 MRP Policy was approved as part of the Treasury Management Strategy Report for 2018/19 by Council in February 2018.

25. The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leased items on the balance sheet, which increase the Council's borrowing need (albeit no additional borrowing is actually required against such items).

Table 2 CFR: General Fund	**2017/18 Actual £000's**	**2018/19 Revised Estimate £000's**
Opening balance	30,078	39,493
Add unfinanced capital expenditure	11,160	23,973
Less Repayments (LAMS)	-1,028	0
Less MRP	-717	-1,304
Closing balance	39,493	62,162

26. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

27. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2018/19 plus the expected changes to the CFR over 2019/20 and 2020/21 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19.

Table 3 Internal Borrowing	2017/18 Actual £000's	2018/19 (Est) As at 30.9.18 £000's
Capital Financing Requirement	39,493	62,162
External Borrowing	41,013	40,887
Net Internal Borrowing	**(1,520)**	**21,275**

28. The table above highlights the Council's gross borrowing position against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Investments in 2018-19

29. The table below provides a snapshot of the investments and deposits held on 30 September 2018. The level of investments can fluctuate significantly on a day to day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

Table 4 – Investments and deposits

Counterparty	Rate/ Return	Start Date	End Date	Principal	Term
Australia & NZ BCG Ltd	0.90%	29/08/2018	29/11/2018	5,000,000	Fixed
Birmingham City Council	1.05%	30/08/2018	28/08/2019	3,000,000	Fixed
Blackpool Borough Council	0.80%	28/09/2018	28/01/2019	2,000,000	Fixed
Blaenau Gwent CBC	0.50%	25/06/2018	03/10/2018	2,000,000	Fixed
DBS Bank Ltd London	0.77%	18/09/2018	18/10/2018	3,000,000	Fixed
Eastleigh Borough Council	0.65%	24/08/2018	25/02/2019	5,000,000	Fixed
London Borough of Harrow	0.75%	10/09/2018	10/04/2019	2,000,000	Fixed
Barclays Corporate	0.40%			2,998,426	Call
NAT West	0.05%			1,720	Call
Santander	0.40%			505	Call
			Total	**25,000,651**	

30. As at 30 September 2018 three longer term loans are outstanding to other organisations.

Table 5 – Loans to Other Organisations

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal £	Term
Amicus /Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Fixed
The Foreshore Trust	1.66	21/03/2016	20/03/2026	229,583	Annuity
The Source	2.43	17/12/2015	16/12/2024	22,763	Annuity
			Total	2,040,581	

31. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235- Maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed – Annuity loan); these correspond to PWLB loans in Table 1 above.

32. The overall investment performance for the first 6 months of 2018/19 provided an average return of 0.78% (2017/18 0.35%).

33. The total interest receivable for the first 6 months is £82,944 (2017/18 £45,000) These figures exclude the interest receivable in respect of the three loans to other organisations and income from the Property Fund investment.

The Council's Capital Position (Prudential Indicators)

34. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

35. This table shows the revised estimates for capital expenditure for 2018/19.

Table 6 : Forecast Capital Expenditure (Net)

Capital Expenditure (Net) by Service	2018/19 Original Estimate (net) £'000	2018/19 Revised Estimate (net) £'000
Corporate Resources	20,907	17,180
Operational Services	7,784	6,793
Total Capital Expenditure	28,691	23,973

36. Capital Expenditure – Financing
The new Capital schemes, approved since the budget, will generally be financed by borrowing, unless Capital receipts from the sale of assets are available.

37. The Cabinet approved the Income Generation Strategy on the 11 September 2017. This includes Capital expenditure of £50m spread over a period of 3 years being financed from borrowing in the absence of other resources..

38. The larger schemes in the capital programme which are expected to require financing in 2018/19 from borrowing are:-

    (1) Commercial property purchases estimated at £16,595m

    (2) Loans to Hastings Housing Company Ltd estimated at £5.7m

    (3) Country Park Visitors Centre estimated at £163,000

    (4) ERP system estimated at £465,000

    (5) Temporary accommodation estimated at £620,000

39. Impact on the prudential indicators

The Capital Financing Requirement has increased significantly over the last 18 months. It is expected to reach some £75m by 2021/22 (based on the capital programme approvals to date). The position at 30 September 2018 is shown in Table 3 above, and highlights that there was an underlying financing requirement of some £21.275m.

40. Compliance with the limits in place for borrowing activity.

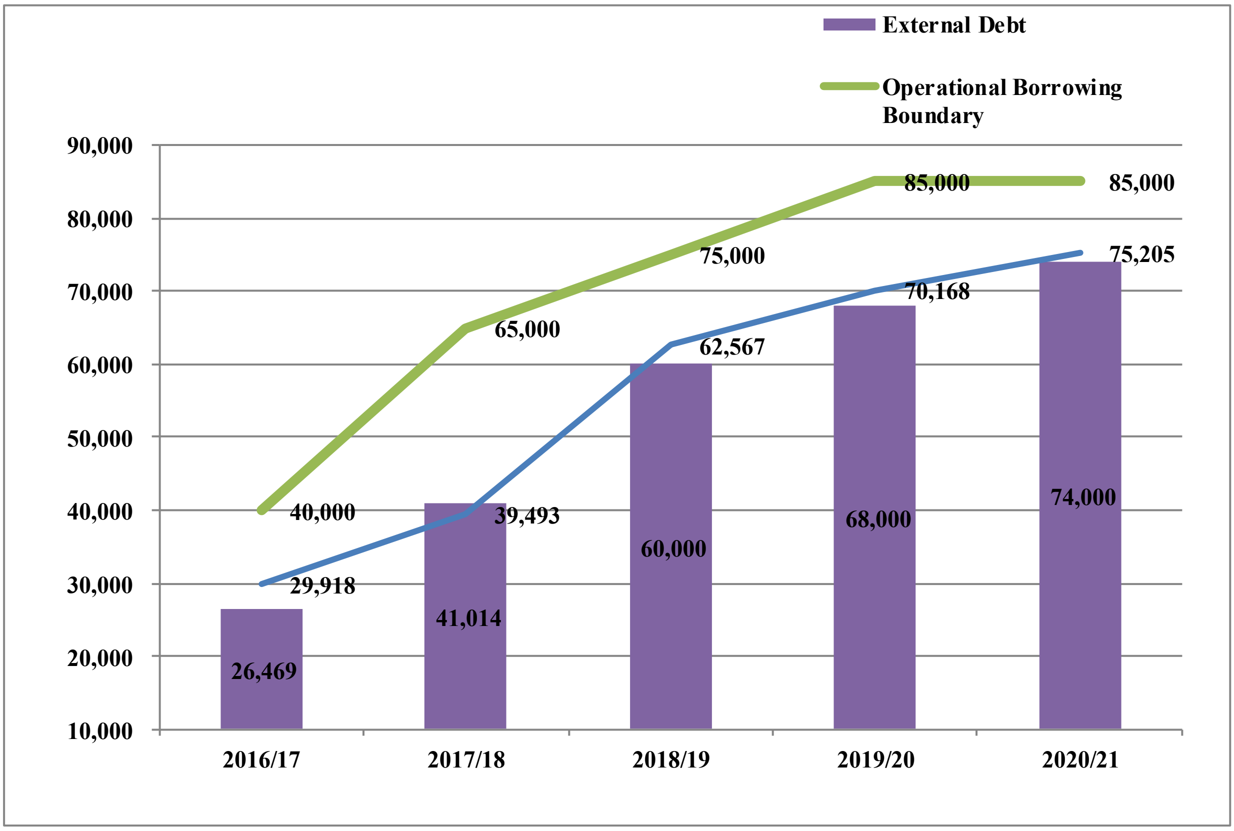
The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years.

41. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

42. In February 2018 the Authorised limit was increased by £10m to allow for temporary borrowing for cash flow purposes, lease liabilities and any debt rescheduling or guarantees agreed by Council. The Operational Boundary limits remained unaltered.

PRUDENTIAL INDICATOR	2018/19	2019/20	2020/21
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£85,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000
TOTAL	£90,000	£100,000	£100,000
Operational Boundary for external debt -			
borrowing	£75,000	£85,000	£85,000
other long term liabilities	£ 5,000	£ 5,000	£ 5,000
TOTAL	£80,000	£90,000	£90,000

18. **Graph: Estimated CFR/ Debt and Operational Debt Boundary at year end**



Borrowing Strategy

43. The Council had some £40.89m of PWLB debt at 30 September, and could potentially borrow up to a level of £62.5m (estimated CFR at 31 March 2019). This figure does not take account of any new capital spending in future years which could potentially be funded by new borrowing. It should be noted that a £2m variable rate PWLB loan is due to be repaid in January 2019. Additional borrowing has taken place in December 2018 (further £6m as at 12 December 2018)

44. The interest rate forecasts from the Council's treasury advisers identify that it is unlikely that the base rate will increase until September 2019. Borrowing rates available increased by some 10bps from the beginning of April until the end of September. Whilst the borrowing rates are attractive on a historical basis the difference between the return on investment and the cost of borrowing remains – the additional revenue cost falling on the Council taxpayer.

45. New borrowing has been taken over the last 18 months, to not only take advantage of the historically low rates, but to ensure that the Council's own reserves are cash backed should restrictions be placed on the amount and levels of borrowing that authorities can undertake (particularly from the PWLB) and a balanced view will continue to be taken.

46. The plans for income generation require substantial new borrowing by the Council in the future and play a part in the consideration as to when to borrow and the level of internal borrowing. Given the historically low interest rates and the ability of the Council to look at other investment opportunities which are providing higher returns than the cost of borrowing e.g. property funds, there has been a much stronger case for reducing the level of internal funding in order to ensure a lower level of borrowing risk in the future.

Debt Rescheduling

47. The Council keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. When reviewed on the 27 September 2017 the early repayment cost of the £7.5m (4.8%) PWLB loan, maturing in 2033, would amount to £3,177,343. No debt rescheduling is being contemplated at present as the interest rate differences are similar to that of a year ago.

Investment Strategy

48. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent.

49. The Council has a limit of £5m with any one institution (rated A or above, supported by Government, and given a blue (12 month) rating by Link Asset Services). This generally represents a level of up to 15% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

50. The Eurozone and Brexit have led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits if necessary to ensure that monies can be placed with appropriate institutions.

51. The net cost to the Council of borrowing, investment interest and fees will be reviewed as part of the budget setting process.

Property Fund

52. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance is detailed below:

CCLA - LA's Property Prices and Dividend yields						
End of	**Aug-18**	**Jun-18**	**Mar-18**	**Dec-17**	**Sep-17**	**Apr-17**
Offer Price p	324.40	324.10	322.40	319.44	314.48	307.19
Net Asset Value p	303.89	303.61	302.01	299.24	294.60	287.77
Bid Price p	299.18	298.90	297.33	294.60	290.03	283.31
Dividend* on XD Date p		3.28	3.21	3.38	3.34	
Dividend* - Last 12 Months p	13.64	13.64	13.70	13.71	13.13	13.19
Dividend Yield on NAV %	4.49	4.49	4.54	4.58	4.46	4.58
Fund Size £m	1,046.5	1,027.7	976.3	930.8	836.2	710.2

53. The dividend yield is around 4.9% on the net asset value, which results in quarterly cash dividends of around £21,000. Full year dividends are estimated at around £84,000.

54. Capital Value

Units (651,063)	**Aug-18**	**Jun-18**	**Mar-18**	**Dec-17**	**Sep-17**	**Apr-17**
Mid Market Price(£)	1,978,515.35	1,976,692.37	1,966,275.37	1,948,240.92	1,918,031.60	1,873,564.00
Bid Price (£)	1,947,850.28	1,946,027.31	1,935,805.62	1,918,031.60	1,888,278.02	1,844,526.59

The Capital value increased by some 4.95% per annum between April 2017 and March 2018 and that trend is currently continuing. It is important that this is continued to be viewed as a longer term investment (5 years plus) if the original Capital value is to be recovered.

Compliance with Treasury Limits

55. During the financial year to date there have again been a few occasions where it has not been possible to find institutions to take the Council's money given the strict criteria in place. In these circumstances the Council will place money in its existing call accounts and this can thus result in the investments exceeding general limits. Where such an occasion looks likely to arise the approval of Chief Finance officer is required in compliance with the Council's Treasury Management Practices. The Prudential Indicators have been complied with - reproduced in Appendix 1 for reference.

Financial Implications

56. The Council's 2018/19 budget estimated a 0.50% return on investments. With the 0.25% increase in Bank Base Rate in August 2018 interest rates on investments rose

slightly and the Council's actual average rate of return to 30 September was 0.78% (excluding Property Fund and other loans made).

Future Changes

57. The Treasury Management Code of Practice (Cipfa) and the Prudential Code for Capital Finance were revised in late 2017/18, and the requirement for a new strategic planning document introduced – the "Capital Strategy" which seeks to bridge the perceived gaps in understanding between the Capital programme, funding thereof and Treasury Management. This will need to be agreed by full council prior to the start of 2019/20.

58. The 2019/20 Treasury Management Strategy suite of reports will be considered by the Audit Committee on the 23 January 2019 and thereafter considered by Cabinet and then by full Council on 20 February 2019 in conjunction with the budget papers.

Risk Management

59. The additional risks that the Council is taking on with commercial property, housing and energy investments will need to be considered in the context of the totality of risk that the Council faces e.g. Pier claims, Business Rate claims and appeals, robustness of income streams, economic downturns, etc. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient cash backed reserves to ensure the Council's ability to deliver key services is not jeopardised.

60. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Link Asset Services) ratings advice.

61. The security of the principal sum remains of paramount importance to the Council.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Officer to Contact

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