Hastings.gov.uk
Borough Council

Report to: **Cabinet**

Date of Meeting: **8 July 2019**

Report Title: **Treasury Management Outturn Report for 2018-19**

Report By: **Peter Grace (Chief Finance Officer)**

Purpose of Report

This report provides the opportunity for the Cabinet and Council to scrutinise the Treasury Management activities and performance of the last financial year.

Recommendation(s)

1. **To consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this particular review.**

Reasons for Recommendations

To ensure that members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2018-19.

Under the Code adopted the Full Council are required to consider the report and any recommendations made.

Introduction

1. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2. The primary requirements of the Code are as follows:

   a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
   b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
   c. Receipt by the Full Council of an annual treasury management strategy report - including the annual investment strategy report for the year ahead, a mid-year review report (as a minimum) and an annual review report of the previous year.
   d. 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.
   e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

3. Treasury management in this context is defined as:

   "The management of the organisation'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".

4. 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 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

5. Member training on treasury management issues was last undertaken on 30 January 2019 and training on the medium term financial strategy on 10 September 2018 in order to support members' scrutiny role.

6. This annual Treasury report covers

   a. capital expenditure and financing 2018-19
   b. overall borrowing need (the Capital Financing Requirement)
   c. treasury position as at 31 March 2019;
   d. performance for 2018-19;
   e. the strategy for 2018-19;
   f. the economy and interest rates in 2018-19;
   g. borrowing rates in 2018-19;
   h. the borrowing outturn for 2018-19;
   i. debt rescheduling;
   j. compliance with treasury limits and Prudential Indicators;
   k. investment rates in 2018-19;
   l. investment outturn for 2018-19;

Capital Expenditure and Financing 2018/19

7. The Council undertakes capital expenditure on long-term assets. These activities may either be:

   - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
   - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

8. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Capital Programme Financing 2018/19	Outturn 2018-19	
	£000's	£000's
Expenditure :		24,247
Borrowing		19,396
Grants:		
Disabled Facilities Grant	1,254	
Coastal Communities	219	
Harbour Arm and New Groynes	1,556	
Other Grants and Contributions	18	
		3,047
Reserves		0
Capital Receipts		1,804
Total		24,247

Overall Borrowing Need (Capital Financing Requirement (CFR))

9. 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.

10. 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.

11. 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.

12. 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).

13. 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.

14. The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need (albeit no borrowing of cash is actually required).

Table 2 CFR: General Fund	2017/18 Actual £000's	2018/19 Estimate £000's	2018/19 Actual £000's
Opening balance	30,078	41,175	39,493
Add unfinanced capital expenditure	11,160	27,160	19,396
Less repayments (e.g.LAMS)	(1,028)	(0)	(0)
Less MRP	(717)	(1,116)	(795)
Less finance lease arrangements	(0)	(0)	(0)
Closing balance	39,493	67,219	58,094

Note: Finance lease arrangements are excluded

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

16. 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. The table below 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.

Table 3 Internal Borrowing Level	2017/18 Actual	2018/19 Estimate	2018/19 Actual
	£000's	£000's	£000's
Capital Financing Requirement	39,493	67,219	58,094
External Borrowing	41,013	65,629	61,069
Net Internal Borrowing	(1,520)	1,590	(2,975)

Treasury Position as at 31 March 2019

17. The Council's debt and investment position at the beginning and the end of the year was as follows:

Table 4 Debt	1 April 2018 Principal	Rate	Maturity	31-Mar-19 Principal	Rate
PWLB Loan 1	£7,500,000	4.80%	2033	£7,500,000	4.80%
PWLB Loan 2	£2,000,000	0.61% (*Variable)	2019	£0	
PWLB Loan 3	£909,027	3.78%	2044	£909,027	3.78%
PWLB Loan 4	£1,788,235	3.78%	2044	£1,788,235	3.78%
PWLB Loan 5 (Annuity)	£243,901	1.66%	2026	£215,148	1.66%
PWLB Loan 6	£1,000,000	2.92%	2056	£1,000,000	2.92%
PWLB Loan 7	£1,000,000	3.08%	2046	£1,000,000	3.08%
PWLB Loan 8	£1,000,000	3.01%	2036	£1,000,000	3.01%
PWLB Loan 9	£1,000,000	2.30%	2026	£1,000,000	2.30%
PWLB Loan 10	£2,000,000	2.80%	2054	£2,000,000	2.80%
PWLB Loan 11	£1,000,000	2.42%	2028	£1,000,000	2.42%
PWLB Loan 12	£2,000,000	2.53%	2057	£2,000,000	2.53%
PWLB Loan 13	£2,000,000	2.50%	2059	£2,000,000	2.50%
PWLB Loan 14	£2,000,000	2.48%	2060	£2,000,000	2.48%
PWLB Loan 15 (Annuity)	£7,221,917	2.53%	2057	£7,113,729	2.53%
PWLB Loan 16 (Annuity)	£8,350,000	2.72%	2057	£8,232,534	2.72%
PWLB Loan 17			2028	£2,000,000	1.98%
PWLB Loan 18			2058	£4,000,000	2.55%
PWLB Loan 19			2059	£2,500,000	2.56%
PWLB Loan 20			2069	£4,410,000	2.56%
PWLB Loan 21			2059	£9,400,000	2.54%
Total Debt	**£41,013,080**	**3.01%**		**£61,068,673**	**2.89%**

* Rate at January 2018 (rates change every 3 months)

Table 5 **Investments**	31 March 2018 Principal	31 March 2019 Principal
Managed In-House	£29.7m	£25m
Total Investments	£29.7m	£25m

Performance Measurement (2018-19)

18. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2018-19.

Table 6 Interest	2017 -18 Actual Outturn £000's	2018-19 Revised Budget £000's	2018 -19 Actual Outturn £000's
Gross Interest Payable	1,090	1,310	1,323
Gross Interest Received	(305)	(366)	(396)
Fees	9	10	10
Other (e.g. PWLB Discount)	(19)	(0)	(0)
Net Cost	775	954	937

19. The Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources are detailed below, and were in line with budget expectations.

20.

Table 7 Reserves	31 March 2018	31 March 2019
	£000's	£000's
General Fund Balance	500	500
Earmarked Reserves	10,374	10,905
General Reserve	7,668	7,714
Total	£18,542	£19,119

It should be noted that Earmarked Reserves includes £349,000 (£585,000 at 31 March 2018) of Clinical Commissioning Group monies

The Strategy for 2018-19

21. The expectation for interest rates within the Treasury Management Strategy for 2018/19 anticipated that the historically low Bank Rate would be subject to gradual rises in medium and longer term and as such fixed borrowing rates would increase slowly during 2018/19. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. However the continued uncertainty in the aftermath of the 2008 financial crisis and the uncertainty over the terms of Brexit promoted a cautious approach for the year. As a result of increasing borrowing requirements for 18/19 and years ahead the strategy promoted the taking of new borrowing rather than reliance on internal borrowing and the risk that borrowing rates would increase. Investment rates were viewed as providing relatively low returns compared to borrowing rates.

22. During 2018/19 PWLB rates were volatile with short term PWLB rates on a rising trend during the second half of the year.

23. The general aim of the treasury management strategy has been to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing. However to minimise longer term costs it needs to borrow when rates are a historically low levels. Given also that the Council's ambitions are to generate future income streams, which would involve future borrowing, the opportunities were taken to secure new borrowing in the year. The timing of new borrowing continues to be important to minimise the overall costs to the Council and to lock in returns where the Council has purchased housing, temporary accommodation, solar energy panels and commercial property.

The Economy and Interest Rates

24. UK. After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

25. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the

broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

26. As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

27. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. 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.

28. Brexit: There is an extension to the 31 October, and with a new prime minister to be elected (at the time of writing) by the conservatives, considerable uncertainty remains. Should a general election occur in 2019, 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.

29. USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

30. EUROZONE. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the

downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels “at least through the end of 2019”, but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of Targeted longer-term refinancing operations (**TLTROs**), which are one of the ECB’s non-standard monetary policy tools. This provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans.

31. 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.

32. 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.

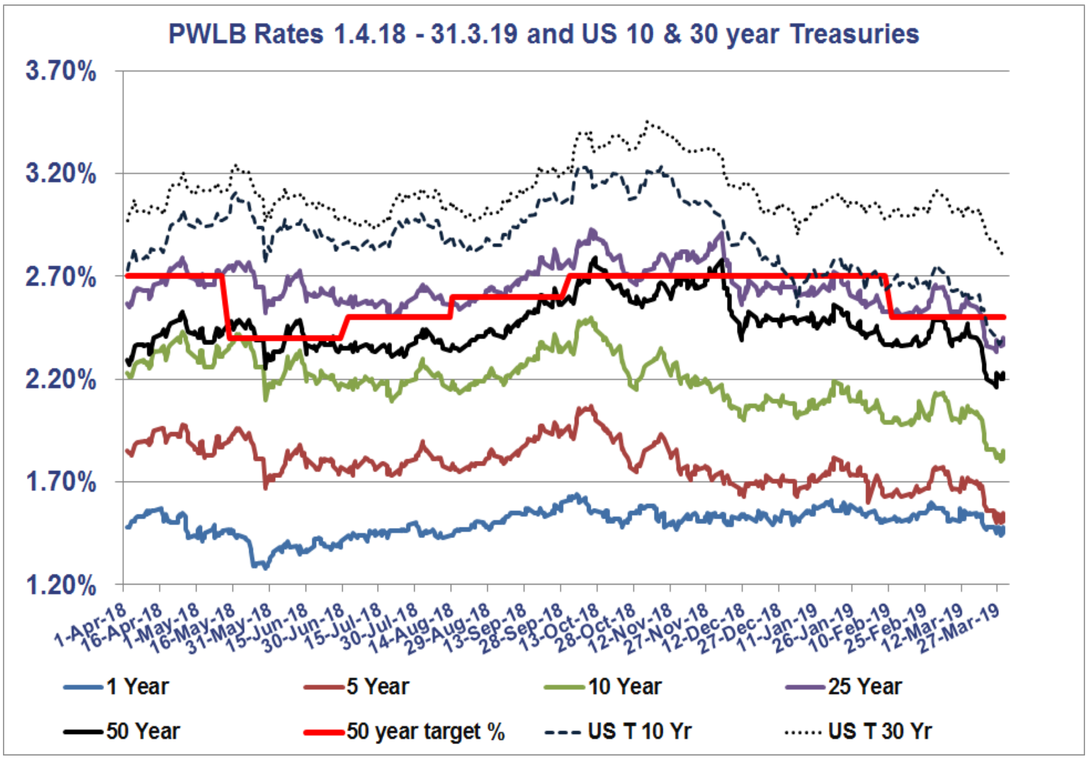
33. WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US.

Borrowing Rates in 2018-19

34. PWLB borrowing rates - the graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.

Table 9: PWLB rates

Link Asset Services Interest Rate View	12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



35. The table above highlights the fluctuation in borrowing rates throughout the year for different borrowing periods (in years).

Borrowing Outturn for 2018/19

36. Additional long term borrowing of £22.310m was undertaken in 2018/19 along with the repayment of a £2m loan and £254,407 annuity repayments resulting in a total balance outstanding with the PWLB of £61,068,673 as at 31 March 2019.

Borrowing in advance of need

37. The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

38. The Council did have a higher level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2019. The Council had expected to complete the purchase of a major housing company portfolio prior to year end. Borrowing rates had fallen to a point where it was considered optimal to borrow in order to finance the forthcoming capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

Debt Rescheduling

39. The Council examined the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. No rescheduling was undertaken during the year as the

differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. When last reviewed on the 27 September 2017 the early repayment cost of the £7.5m PWLB loan, maturing in 2033, would have amounted to £3,177,343. Given the reduction in rates the redemption premiums payable are likely to have increased.

Compliance with Treasury Limits

40. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1.

Investment Rates in 2018-19

41. Investment rates for 3 months and longer have been on a rising trend during the second half of the year with the increase in Bank Rate

42. The Bank Rate was raised from 0.5% to 0.75% on 2 August 2018 and remained at that level for the rest of the year. However, further increases are expected over the next few years, but some commentators are now predicting a short term fall in early 2020.

43. The funds invested during the year were often available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment Strategy

44. The strategy was agreed at the Council meeting in February 2018. The Investment strategy did not change during the year. The revised budget forecast investment returns of £366,000 whilst the actual outturn was £396,000.

45. The overall return on the Property Fund investment (£2m with CCLA) was 5.99% net of fees i.e. Capital growth and dividends. The net dividends received amounted to £85,172 - a very satisfactory 4.26% return.

Investment Outturn for 2018-19

46. Investments held by the Council - the Council maintained an average balance in the year of £30.712m. The average rate of return for the year was 0.81%. The comparable performance indicator is the average 7-day LIBID rate (un-compounded), which was 0.51%.

47. The table below provides a snapshot of the investments/deposits held at 31 March 2019.

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.05			1,771	Call
Birmingham City Council	1.05	30/08/2018	28/08/2019	3,000,000	Fixed
DBS Bank Ltd	0.97	04/12/2018	04/04/2019	3,000,000	Fixed
Eastleigh Borough Council	0.91	28/02/2019	31/05/2019	5,000,000	Fixed
London Borough of Harrow	0.75	10/09/2018	10/04/2019	3,000,000	Fixed
Landesbank Berlin	1.14	30/01/2019	30/01/2020	5,000,000	Fixed
Barclays	0.40			2,998,425	Call
Lloyds Gen	0.40			2,570,536	Call
			Total	24,570,732	

48. In addition to the investments the Council has a few loans in place, namely as at 31 March 2019:-

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
Amicus	3.78	04/09/2014	02/09/2044	1,793,235	Fixed
The Source	2.43	17/12/2015	17/12/2025	19,304	Fixed
Foreshore Trust	1.66	21/03/2016	20/03/2026	215,147	Annuity

49. It should be noted that the Council agreed on 9 April 2018 to lend monies (£134,037.60) to Freedom leisure for investments in the Council's leisure centre. The loan to be for a period of 5 years at 7%. This has not yet been taken up.

Other Issues

50. **Markets in Financial Instruments Directive II (MiFID II)**

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority and for each type of investment instrument we use, apart from for cash deposits with banks.

51. **Revised CIPFA Codes**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments.

52. A new Capital Strategy was considered and agreed by full council in February 2019. A mid-year treasury management report will provide an overall update on the Strategy and may necessitate some significant revisions given the ambitions of the Council for further economic and regeneration projects.

53. **Minimum Revenue Provision (MRP) guidance**

New government (MHCLG) MRP guidance was issued on 2 February 2018. This has focused particularly on expenditure relating to purchasing non-financial asset investments i.e. commercial property, but has also had impacts on investments – particularly where equity and loans are involved.

Financial Implications

54. The security of the Council's monies remains the top priority within the strategy. Investment rates available in the market have continued at historically low levels during the last year. There has been significant new borrowing of £22.31m in the year – all at fixed rates and generally for long periods. The annual borrowing costs are more than offset by the income received and the Council has carefully considered the overall levels of borrowing being undertaken against the size of the Council's budget and unencumbered assets, along with the affordability of the debt commitments as and when income streams reduce.

Timetable of Next Steps

55. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Cabinet		8 July	Peter Grace
Full Council		24 July	Peter Grace
Audit Committee		30 July	Peter Grace

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

Implications

Relevant project tools applied? N/A

Have you checked this report for plain English and readability? Yes. This has been done as much as possible considering the complex financial issues involved.

Climate change implications considered? N/A

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	No
Environmental Issues	No
Economic/Financial Implications	Yes.
These are detailed in paragraph 54 above.	
Human Rights Act	No
Organisational Consequences	No
Local People’s Views	No
Anti-Poverty	No

Additional Information

Treasury Management and Annual Investment Strategy 2018/19
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators

Officer to Contact

Officer Name Peter Grace
Officer Email Address pgrace@hastings.gov.uk
Officer Telephone Number 01424 451503

APPENDIX 1 Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below. The Authorised limit for external borrowing in 2017/18 was changed to £80m at the February Council meeting.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2017/18*	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	£75,000	£85,000	£95,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
TOTAL	£80,000	£90,000	£100,000	£100,000	£100,000
Operational Boundary for external debt -					
borrowing	£65,000	£75,000	£85,000	£85,000	£85,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
TOTAL	£70,000	£80,000	£90,000	£90,000	£90,000

2017/18* - proposed revision to authorised boundary from £70m to £80m. Operational boundary unaltered.

Interest Rate Exposures	2018/19	2019/20	2020/21
	Upper	Upper	Upper
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%
Maturity Structure of fixed interest rate borrowing 2018/19			
		lower	**Upper**
Under 12 Months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%
Maturity Structure of variable interest rate borrowing 2018/19			
		lower	**Upper**
Under 12 Months		0%	30%
12 months to 2 years		0%	30%
2 years to 5 years		0%	30%
5 years to 10 years		0%	30%
10 years to 20 years		0%	10%
20 years to 30 years		0%	10%
30 years to 40 years		0%	10%
40 years to 50 years		0%	10%

Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator: Financing Cost to Net Revenue Stream	2017/18 Actual	2018/19 Rev.Est	2018/19 Outturn	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	925	1,366	1,323	1,950	2,296	2,394
2. Interest Payable under Finance Leases and any other long term liabilities	-	-		-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-19			0	0	0
4. Interest and Investment Income	-305	-366	-396	-553	-834	-1,062
5. Amounts payable or receiveable in respect of financial derivatives	-	-		-	-	-
6. MRP, VRP	717	795	795	1,184	1,628	1,775
6. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-		-	-	-
Total	1,318	1,795	1,722	2,581	3,090	3,107
Net Revenue Stream						
Amount to be met from government grants and local taxpayers	13,373	13,459	13,697	13,369	13,216	13,578
Ratio						
Financing Cost to Net Revenue Stream	**10%**	**13%**	**13%**	**19%**	**23%**	**23%**

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council has an income generation strategy that has identified an additional £50m of Capital expenditure over the period 2017/18 to 2020/21. The above ratio does not currently take into account the income that will be generated from the Capital investment.