Agenda Item No:

Report to: **Cabinet**

Date of Meeting: **6 January 2020**

Report Title: **Treasury Management Mid-Year Report 2019-20**

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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 2019.

Recommendation

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 2019). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet and full Council.

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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 2019/20 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 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

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.

8. 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

9. The Audit Committee will consider a similar report at their meeting on 22 January 2020.

Economic Update

10. **UK.** Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020.

11. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January; however at the time of writing the general election on 12 December 2019 provides considerable uncertainty as to whether this will occur. Should it proceed a trade deal will need to be negotiated by the end of the transition period in December 2020.

12. While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed.

13. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%.

14. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid

recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence the MPC views inflation as causing little concern in the near future.

15. If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and both of the largest parties have made significant promises in their election manifestos to increase government spending.

16. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure. In addition, it has to be borne in mind that even if the post-election Parliament agrees the deal on 31 January 2020, the current transition period for negotiating the details of the terms of a trade deal with the EU only runs until 31 December 2020. This could prove to be an unrealistically short timetable for such major negotiations which leaves open two possibilities; one the need for an extension of negotiations, probably two years, or a no deal Brexit in December 2020.

17. As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in October to 1.5%. It is likely to remain close to or under 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

18. With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, this was about half of what had been expected. The unemployment rate fell back again to a 44 year low of 3.8% on the Independent Labour Organisation measure in September, despite the fall in numbers employed, due to numbers leaving the work force.

19. Wage inflation has been edging down from a high point of 3.9% in July to 3.8% in August and now 3.6% in September, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.9%. As 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. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Interest rate forecasts

20. The Council's treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9 October 2019 in respect of the PWLB.

Interest rate Forecasts – December 2019 to March 2022

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

21. The above forecasts have been based on an assumption that there is some sort of agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

The Council's Treasury Position – 30 September 2019

Borrowing

22. The Council's debt and investment position at the 30 September 2019 was as follows

Table 1 – Borrowing

Debt	1 April 2019 Principal	Rate	Maturity	30 Sept 2019 Principal	Rate
PWLB	£7,500,000	4.80%	2033	£7,500,000	4.80%
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)	£215,148	1.66%	2026	£200,592	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)	£7,113,729	2.53%	2057	£7,058,607	2.53%
PWLB (Annuity)	£8,232,534	2.72%	2057	£8,172,600	2.72%
PWLB	£2,000,000	1.98%	2028	£2,000,000	1.98%

PWLB (Annuity)	£4,000,000	2.55%	2058	£3,970,946	2.55%
PWLB (Annuity)	£2,500,000	2.56%	2059	£2,481,883	2.56%
PWLB (Annuity)	£4,410,000	2.56%	2069	£4,388,015	2.56%
PWLB (Annuity)	£9,400,000	2.54%	2059	£9,331,568	2.54%
PWLB (Annuity)	-	-	2069	£4,800,000	1.83%
Total Debt	**£61,068,673**	**2.90%**		**£65,601,473**	**2.82%**

23. At the 30 September 2019 the Council had debt amounting to £65.6m (PWLB debt).

24. 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.

25. 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.

26. 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.

27. 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).

28. The Council's 2019/20 MRP Policy was approved as part of the Treasury Management Strategy Report for 2019/20 by Council in February 2019.

29. 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	2018/19 Actual £000's	2019/20 Estimate £000's
Opening balance	39,493	58,094
Add unfinanced capital expenditure	19,396	15,662
Less MRP	(795)	(1,184)
Closing balance	**58,094**	**72,572**

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

31. 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 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2019/20.

Table 3 Internal Borrowing	2018/19 Actual £000's	2019/20 Estimate As at 30/11/19 £000's
Capital Financing Requirement	58,094	72,572
External Borrowing	61,069	65,601
Net Internal Borrowing	**(2,975)**	**6,971**

32. 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 2019-20

33. The table below provides a snapshot of the investments and deposits held on 30 September 2019. 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
Landesbank - Helaba	1.14%	30/01/2019	30/01/2020	**5,000,000**	Fixed
Australia & NZ BGC Ltd	0.98%	03/06/2019	03/12/2019	**5,000,000**	Fixed
DBS Bank	0.79%	04/07/2019	04/10/2019	**5,000,000**	Fixed
Credit Agricole	0.79%	03/09/2019	03/03/2020	**5,000,000**	Fixed
Goldman Sachs	0.92%	11/09/2019	11/03/2020	**5,000,000**	Fixed
Barclays Corporate	0.40%			**1,999,995**	Call
NAT West	0.05%			**6,147**	Call
			Total	**27,006,142**	

34. As at 30 September 2019 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	£200,592	Annuity
The Source	2.43%	17/12/2015	16/12/2024	£18,123	Annuity
			Total	**£2,006,950**	

35. 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.

36. The overall investment performance for the first 6 months of 2019/20 provided an average return of 0.91% (2018/19 0.78%).

37. The total interest receivable for the first 6 months is £120,348 (2018/19 £82,944) These figures exclude the interest receivable in respect of the three loans to other organisations and income from the Property Fund investment.

Loans to Hastings Housing Company Ltd

38. Hastings Housing Company has two loans outstanding with the council, a revenue loan and a capital loan. The rate chargeable on the revenue loan is calculated monthly and stood at 4.84% at the end of September 2019. The Capital loan rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. The value of the revenue loan was £94,000 and for the capital loan £5,492,000 at the end of September. The interest rates are determined in accordance with EU rules. The company expects to be able to repay the revenue loan in full at the year end. Currently

the debt costs incurred by the Council in making advances to the housing company are covered by the interest repayments.

The Council's Capital Position (Prudential Indicators)

39. 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

40. This table shows the revised estimates for capital expenditure for 2019/20.

Table 6 Capital Expenditure (Net) by Service	2019/20 Original Estimate (net) £'000	2019/20 Revised Estimate (net) £'000
Corporate Resources	5,492	6,986
Operational Services	11,164	8,676
Total Capital Expenditure	**16,656**	**15,662**

Capital Expenditure – Financing

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

42. The larger schemes in the capital programme which are expected to require financing in 2019/20 from borrowing are:-

(1) Commercial property purchases estimated at £6.09m

(2) Loans to Hastings Housing Company Ltd estimated at £4.3m

(3) Temporary accommodation estimated at £2.3m

(4) DSO Vehicles and depot works at £1.08m

(5) Conversion of 12/13 York buildings at £654,000

(6) Country Park Visitors Centre estimated at £308,000

Impact on the prudential indicators

43. The Capital Financing Requirement has increased significantly over the last 18 months. It is expected to reach some £96m by April 2021. The position at 30 November 2019 is shown in Table 3 above, and highlights that there would be an underlying financing requirement of some £6.9m by the year end if no further borrowing is undertaken in 2019/20.

Compliance with the limits in place for borrowing activity.

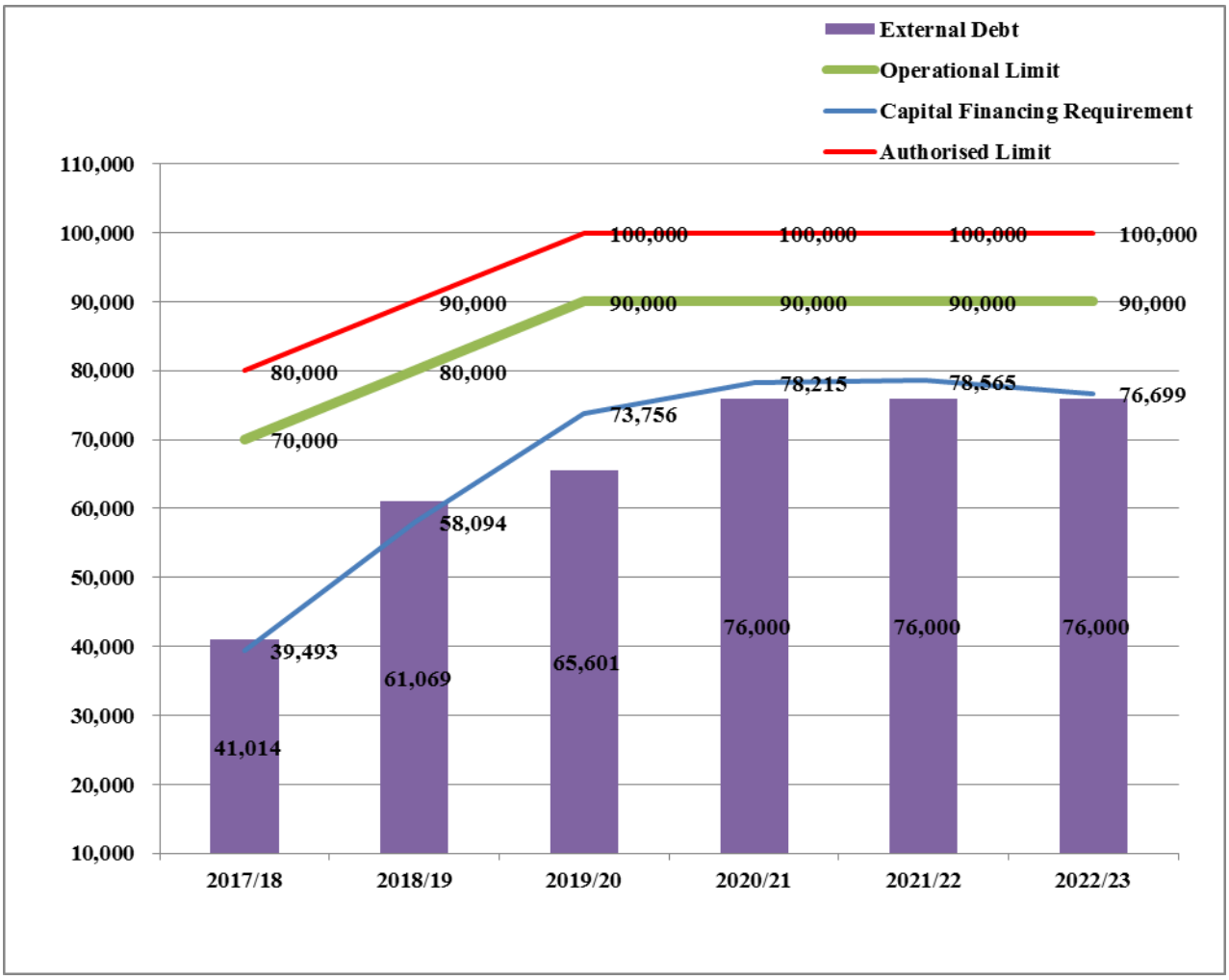
44. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years.

45. 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.

46. The current operational and authorised boundaries are as follows. They will need to be revised for 2020/21 and beyond given planned expenditure. Revised limits will be considered when determining the Treasury management Strategy for 2020/21 in February 2020 (A full Council decision).

Table 7	**2019/20**	**2020/21**	**2021/22**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£95,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000
TOTAL	£100,000	£100,000	£100,000
Operational Boundary for external debt -			
borrowing	£85,000	£85,000	£85,000
other long term liabilities	£ 5,000	£ 5,000	£ 5,000
TOTAL	£90,000	£90,000	£90,000

Graph: Estimated CFR/ Debt and Debt boundaries at year end



Borrowing Strategy

47. The Council now has some £65.6m of PWLB debt, and could potentially borrow up to a level of £73.7m (estimated CFR at 31 March 2020). This figure does not take account of any new capital spending in future years which could potentially be funded by new borrowing.

48. The interest rate forecasts from the Council's treasury advisers identify that it is unlikely that the base rate will increase until later in 2020. 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.

49. 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. This strategy was well founded given the 1% increase in borrowing rates from the PWLB in October 2019.

50. The Council's corporate plans 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.

51. On 9 October 2019 the PWLB announced it was increasing rates on new loans by 100bps (1%) with immediate effect. At the time this increased the cost of a 40 year annuity loan from 1.88% to 2.88%, an increase of 53% in the rate of interest payable. Despite the increase interest rates still remain at historically low levels. However the council will now consider other sources of borrowing when making financing decisions to ensure loans are obtained at the most advantageous rates possible.

Debt Rescheduling

52. 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 two years ago.

Investment Strategy

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

54. 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.

55. 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.

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

Property Fund

57. 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	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Apr-17
Offer Price p	324.35	327.66	327.40	329.35	324.17	324.10	322.40	319.44	314.48	307.19
Net Asset Value p	303.84	306.94	306.70	308.53	303.67	303.61	302.01	299.24	294.60	287.77
Bid Price p	299.13	302.19	301.95	303.75	298.97	298.90	297.33	294.60	290.03	283.31
Dividend* on XD Date p	3.45	3.15	3.31	3.32	3.17	3.28	3.21	3.38	3.34	
Dividend* - Last 12 Months p	13.22	12.94	13.08	12.98	13.04	13.64	13.70	13.71	13.13	13.19
Dividend Yield on NAV %	4.35	4.22	4.26	4.21	4.29	4.49	4.54	4.58	4.46	4.58
Fund Size £m	1,173.1	1,178.2	1,127.1	1,099.0	1,047.8	1,027.7	976.3	930.8	836.2	710.2

58. The dividend yield is around 4.4% on the net asset value, which results in quarterly cash dividends of around £22,000. Full year dividends are estimated at around £86,000.

Property Fund Capital Value

Units (651,063)	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18	Dec-17	Sep-17	Apr-17
Mid Market Price(£)	1,978,190	1,998,373	1,996,810	2,008,725	1,977,083	1,976,692	1,966,275	1,948,241	1,918,032	1,873,564
Bid Price (£)	1,947,525	1,967,447	1,965,885	1,977,604	1,946,483	1,946,027	1,935,806	1,918,032	1,888,278	1,844,527

59. The Capital value has increased by some 5.58% between April 2017 and September 2019 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.

Diversified Income Fund

60. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified Income Fund. Anticipated returns were around 3% with the added advantage of much higher liquidity than the property fund.

61. The capital value has already recovered from the initial investment where charges are effectively deducted, and was valued at £2,999,815 at the end of November 2019. Dividend yield is 3.17% for November (3.2% October). It should be remembered that this is a long term investment and prices can go up and down.

Compliance with Treasury Limits

62. 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

63. The Council's 2019/20 budget estimated a 0.75% return on investments. With the Bank Base Rate remaining unchanged since August 2018 interest rates on investments have not changed significantly. The Council's actual average rate of return to 30 September was slightly better than budgeted at 0.91% (excluding Property Fund and other loans made).

Future Changes

64. 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 was agreed by full council in February 2019 and will be reviewed and updated annually.

65. The 2020/21 Treasury Management Strategy suite of reports will be considered by the Audit Committee on the 22 January 2020 and thereafter considered by Cabinet and then by full Council on 19 February 2020 in conjunction with the budget papers.

Risk Management

66. 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. rates revaluation, 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 reserves to ensure the Council's ability to deliver key services is not jeopardised.

67. 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.

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

69. To date the strategy of externalising debt has been successful, particularly in the light of the sudden PWLB rate increase in October 2019. The investments made in the Property Fund (CCLA) and the Diversified Investment Fund (CCLA), totalling £5m are currently showing good returns. The risks currently faced in achieving a sustainable Council budget mean that no further long term investments can be made.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Review and revise Annual Treasury Management Strategy	Setting of 2020/21 Budget	February 2020	Chief Finance Officer
Treasury Management Outturn Report to Cabinet	Close of 2019/20 accounts	July 2020	Chief Finance Officer

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

Implications

Relevant project tools applied? Yes

Have you checked this report for plain English and readability? Yes. This has been done as far as possible considering the complex financial issues involved. Flesch-Kincaid grade level 34.4.

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	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix 1: Prudential Indicators

Officer to Contact

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APPENDIX 1