Report to: **Cabinet**

Date of Meeting: **1 September 2020**

Report Title: **Treasury Management Outturn Report for 2019-20**

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

Purpose of Report

This report provides the opportunity for the Audit Committee, 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 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 2019-20.

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

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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 2019/20. 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 15 January 2020 and training on the Medium Term Financial Strategy on 9 September 2019 in order to support members' scrutiny role.

6. The figures provided in this report for 2019/20 are as yet unaudited.

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7. This annual Treasury report covers

   a. capital expenditure and financing 2019-20
   b. overall borrowing need (the Capital Financing Requirement)
   c. treasury position as at 31 March 2020
   d. performance for 2019-20
   e. the strategy for 2019-20
   f. the economy and interest rates in 2019-20
   g. borrowing rates in 2019-20
   h. the borrowing outturn for 2019-20
   i. debt rescheduling
   j. compliance with treasury limits and Prudential Indicators
   k. investment rates in 2019-20
   l. investment outturn for 2019-20

Capital Expenditure and Financing 2019/20

8. 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.

9. 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 2019/20	**Outturn 2019-20**	
	£000's	£000's
Expenditure:		12,089
Borrowing		9,423
Grants:		
Disabled Facilities Grant	1,121	
Coastal Communities	238	
Harbour Arm and New Groynes	179	
Other Grants and Contributions	1,051	
		2,589
Reserves		59
Capital Receipts		18
Total		12,089

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Overall Borrowing Need (Capital Financing Requirement (CFR))

10. 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.

11. 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 enough 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), the money markets, or by using temporary cash resources from within the Council.

12. 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.

13. 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).

14. 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.

15. 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 required).

Table 2 CFR: General Fund	2018/19 Actual £000's	2019/20 Estimate £000's	2019/20 Actual £000's
Opening balance	39,493	58,094	58,094
Add unfinanced capital expenditure	19,396	15,876	9,423
Less MRP	(795)	(1,184)	(1,176)
Closing balance	**58,094**	**72,572**	**66,341**

Note: Finance lease arrangements are excluded from the above table

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

17. 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

18. The table below highlights the Council's gross borrowing position (External Borrowing) against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Table 3 CFR vs Borrowing Level	2018/19 Actual	2019/20 Estimate	2019/20 Actual
	£000's	£000's	£000's
Capital Financing Requirement	58,094	74,843	66,341
External Borrowing	61,069	74,000	65,301
Net Internal/(External) Borrowing	**(2,975)**	**843**	**1,040**

Treasury Position as at 31 March 2020

19. The Council's debt and investment position at the beginning and the end of the year is shown in the tables that follow, namely: -

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Table 4 Debt	1 April 2019 Principal	Start Date	Maturity Date	31-Mar 2020 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£215,148	21/03/2016	20/03/2026	£185,915	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	09/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	23/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£7,113,729	01/06/2017	01/06/2057	£7,002,787	2.53%
PWLB (Annuity)	£8,232,534	22/11/2017	22/11/2057	£8,111,852	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£4,000,000	13/12/2018	13/12/2058	£3,941,522	2.55%
PWLB (Annuity)	£2,500,000	31/01/2019	31/01/2059	£2,463,534	2.56%
PWLB (Annuity)	£4,410,000	31/01/2019	31/01/2059	£4,365,748	2.56%
PWLB (Annuity)	£9,400,000	20/03/2019	20/03/2059	£9,262,267	2.54%
PWLB (Annuity)	-	02/09/2019	02/09/2069	£4,770,452	1.83%
Total Debt	**£61,068,673**			**£65,301,339**	**2.82%**

Table 5 Investments	31 March 2019 Principal	31 March 2020 Principal
Managed In-House	£25m	£17.683m
CCLA Managed Externally	£2m	£4.515m
Total Investments	£27m	£22.198m

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Performance Measurement (2019-20)

20. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2019-20.

Table 6 Interest	2018 -19 Actual Outturn £000's	2019-20 Revised Budget £000's	2019 -20 Actual Outturn (Unaudited) £000's
Gross Interest Payable	1,323	1,914	1,810
Gross Interest Received	(396)	(545)	(596)
Fees	10	10	10
Other (e.g. PWLB Discount)	(0)	(0)	(0)
Net Cost	937	1,379	1,224

21. 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.

The Strategy for 2019-20

22. The expectation for interest rates within the Treasury Management Strategy for 2019/20 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 2019/20. 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 2019/20 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.

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 at 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

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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. Brexit**. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

25. **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three-monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak.** It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

26. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as

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there is, and will be, insufficient demand for their services. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this should also help the economy to recover. Provided the coronavirus outbreak is kept under control, then it is hoped that there would be a sharp recovery, but one that could take a prolonged time to fully recover the previous lost momentum.

27. **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

28. **Employment** had been growing healthily through the last year, but it is likely to increase significantly throughout 2020/21. Over the last year wage inflation was significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, the Covid-19 crisis stopped a large proportion of high street spend that may never fully recover – with consequent unemployment implications.

29. **USA**. Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

30. The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition, there will be $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

31. However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%.

32. **EUROZONE.** The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing (QE) purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world

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financial markets by purchases of debt. However, the downturn in EZ 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. At its March 2019 meeting it announced a third round of assistance - this provided banks with cheap two-year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more liquidity measures. Once coronavirus started having a major impact in Europe, the ECB acted in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth.

33. **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

34. **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. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus impact has been increasing.

35. **WORLD GROWTH**. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which has swept around the world and is having a major impact in causing a world recession in growth in 2020.

Borrowing Rates in 2019-20

36. PWLB borrowing rates - the graph for PWLB maturity rates below shows, for a selection of maturity periods, the fluctuations in rates during the last financial year.

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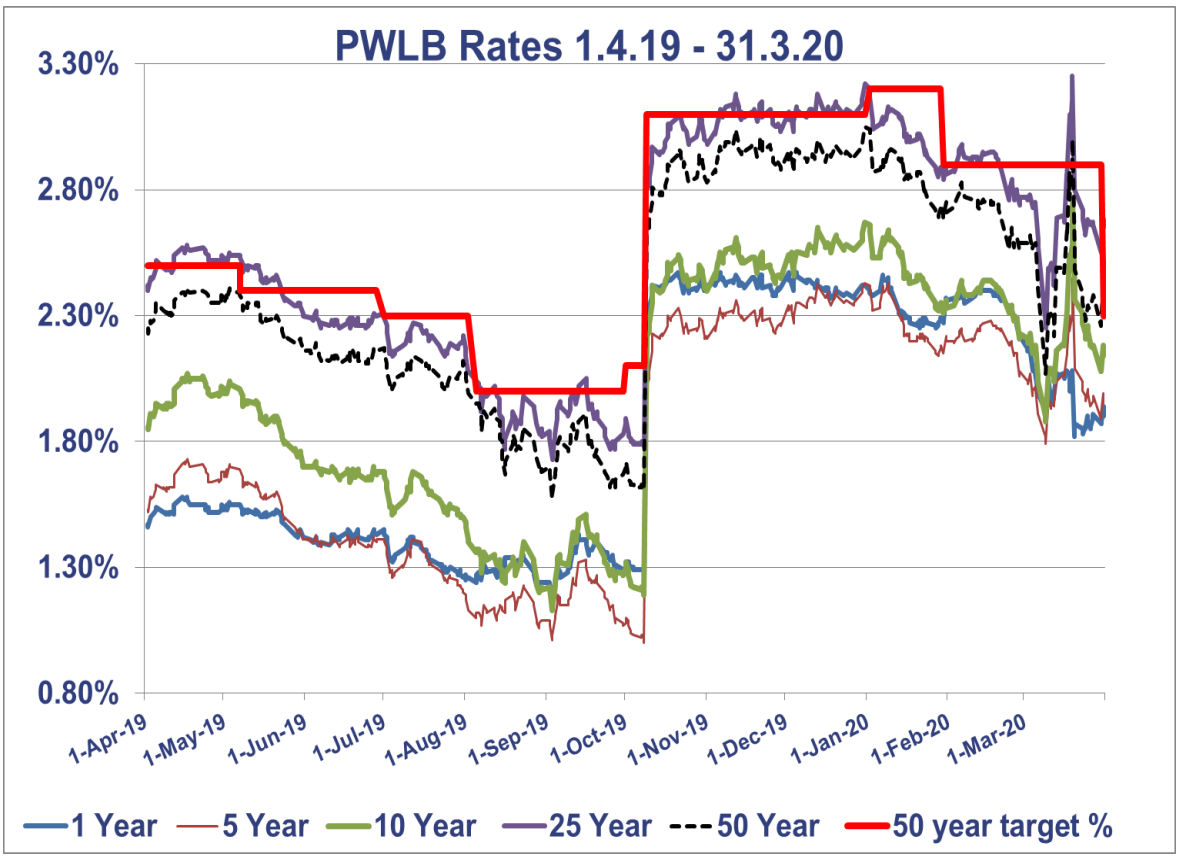

Borrowing Outturn for 2019/20

37. Additional long term borrowing of £4.77m was undertaken just prior to the 1% hike in the rates. During 2019/20 there were debt repayments of £567,334 resulting in a total balance outstanding with the PWLB of £65,301,339 as at 31 March 2020.

Borrowing in advance of need

38. 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.

39. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2020.

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Debt Rescheduling

40. The Council has examined in the past 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.

Compliance with Treasury Limits

41. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (Appendix 1).

Investment Rates in 2019-20

42. Investment rates for 3 months and longer were stable throughout most of the year with Bank Rate staying the same until March 2020.

43. The Bank Rate was 0.75% from 2 August 2018 and remained at that level until it fell to 0.25% on 11 March 2020 and then to 0.1% on 19 March 2020.

44. 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

45. The strategy was agreed at the Council meeting in February 2019. The Investment strategy did not change during the year. The revised budget in February 2020 forecast investment returns (including loans) of £545,000 whilst the actual outturn was £596,000.

46. The impact of Covid-19 has been significant on all investments and particularly the stock markets around the world. Hastings BC has not been immune, but the strategy of limiting the level of investments with different institutions, with different countries, and the amounts invested in property and other funds has stood the Council in a good position. Losses have been limited and the Council has had no issues in managing its cash flow.

47. The return on the Property Fund investment (£2m with CCLA) was -3.47% net of fees to the end of June 2020 i.e. Capital loss and dividends. This compares to positive returns in previous years. The net dividends received amounted to £84,942 in the financial year. The table below highlights the overall performance compared to previous years.

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Long-term performance
Total return performance (net) 12 months to 30 June

	2020	2019	2018	2017	2016
The Local Authorities' Property Fund	-3.47%	+5.46%	+9.36%	+7.24%	+5.85%
Benchmark	-3.08%	+4.05%	+10.23%	+5.67%	+8.85%

The benchmark is the MSCI/AREF UK Other Balanced Quarterly Property Fund Index.
Performance shown after management fees and other expenses. Past performance is not a guide to future performance and future returns are not guaranteed.
Source: CCLA & MSCI/AREF

48. In addition to the £2m invested in the CCLA Property Fund the Council invested a further £3m in the CCLA Diversified Income Fund (DIF) during 2019/20. These are both longer term investments (5 years plus) and it was always well understood that the capital value could go up as well as down.

49. At the 31st March 2020 the Property Fund had a capital value of £1.895m (£1.82m at 1 June 2020) and the DIF £2.620m (£2.81m at 31 July 2020). The yields have continued to be high, with the DIF yielding some 3.39% (July 2020) and the Property Fund 4.49% (July 2020).

50. Since March 2020 the Capital value of the DIF has recovered to £2.81m (some £190,534). The funds are expected to continue to gain in value over the longer term.

Investment Outturn for 2019-20

51. Investments held by the Council - the Council maintained an average balance in the year of £31.115m. The average rate of return for the year was 0.87% (1.09% including CCLA). The comparable performance indicator is the average 7-day LIBID rate which was 0.53%. These returns exclude the interest received on loans.

52. The table below provides a snapshot of the investments/deposits held at 31 March 2020.

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.05			6,153	Call
Rotherham Metropolitan Borough Council	0.90	12/12/2019	02/06/2020	5,000,000	Fixed
Luton Borough Council	1.00	09/03/2020	09/07/2020	5,000,000	Fixed
Warrington Borough Council	1.05	17/03/2020	14/04/2020	5,000,000	Fixed
Barclays	0.40			99,990	Call
Lloyds Gen	0.40			2,577,670	Call
			Total	**17,683,813**	

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53. In addition to the investments the Council has a few loans in place, namely as at 31 March 2020: -

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
Amicus/Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Fixed
The Source	2.43	17/12/2015	17/12/2025	15,718	Fixed
Foreshore Trust	1.66	21/03/2016	20/03/2026	186,147	Annuity

Loans to Hastings Housing Company Ltd

54. 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 4.69% at the end of March 2020. 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 £89,330 and for the capital loan £5,490,010 at the end of March. The interest rates are determined in accordance with EU rules. The company is now able to be able to repay the revenue loan in full. Currently the debt costs incurred by the Council in making advances to the housing company are covered by the interest repayments. The interest receivable by the Council amounted to £206,677.

Other Issues

CIPFA Codes

55. 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 in 2017. A new Financial Management Code has been issued which applies to all authorities. There is a requirement that Council's comply with the Code from 1 April 2021; much of the Code relates to proper financial management arrangements being in place across the authority. The adherence to the various codes relating to treasury management form an important aspect of complying with the Financial Management Code.

56. A new Capital Strategy was considered and agreed by full council in February 2020. A future treasury management report will provide an overall update on the Strategy and may necessitate some significant revisions given the Covid-19 crisis and revised priorities.

Minimum Revenue Provision (MRP) guidance

57. The last government (MHCLG) MRP guidance was issued on 2 February 2018. This focused particularly on expenditure relating to purchasing non-financial asset investments and the periods over which debt was required to be repaid.

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Public Work Loans Board (PWLB) Consultation

58. The government consulted on borrowing from the PWLB – ended 31 July 2020. In brief it is expected to result in the prevention of borrowing purely for monetary gain/yield. This has arisen as a number of authorities have been viewed as taking to high a level of borrowing and risk and therefore acting imprudently given their size and responsibilities. It is expected that this will result in borrowing being controlled more closely with a stop on borrowing for commercial property purchases where yield is the prime objective. The new rules are expected to be introduced in 2021, but this could potentially be earlier.

Financial Implications

59. The security of the Council's monies remains the top priority within the strategy, along with liquidity – being able to access sufficient money as and when required. Investment rates available in the market have continued to be at historically low levels during the last year.

60. New borrowing amounted to £4.77m in the year and was at a historically low fixed rate. The annual borrowing costs (interest and principal) are more than offset by the income received from the assets, or from reductions in costs that the Council would otherwise incur (reduced temporary accommodation costs).The Council has carefully considered the overall levels of borrowing being undertaken against the size of the Council's budget and its unencumbered assets, along with the affordability of the debt commitments as and when income streams reduce – as unfortunately the Covid-19 crisis has evidenced.

61. The effective management of the Council's cash flow, reserves, and investments remains of critical importance.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Audit Committee	Report	November 2020	Chief Finance Officer
Cabinet	Report	1 September 2020	Chief Finance Officer
Full Council	Report	21 October 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

Implications

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

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

Additional Information

Treasury Management and Annual Investment Strategy 2019/20
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

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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.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	85,000	95,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	90,000	100,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	75,000	85,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	80,000	90,000	110,000	110,000	110,000

The Council's external borrowing at 31 March 2020 amounted to £65,301,339 which is well within approved borrowing limits.

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Interest Rate Exposures	2019/20 Upper	2020/21 Upper	2021/22 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 · Investments only	 100% 100%	 100% 100%	 100% 100%
Limits on variable interest rates · Debt only · Investments only	 30% 100%	 30% 100%	 30% 100%

Maturity Structure of fixed interest rate borrowing 2019/20

	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 2019/20

	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%

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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.

Affordability Prudential indicator - Ratio of Financing Costs to Net Revenue Stream

Prudential Indicator Financing Cost to Net revenue Stream

Prudential Indicator: Financing Cost to Net Revenue Stream	2018/19 Actual	2019/20 Rev.Est	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,218	1,914	1,810	2,315	2,869
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	0	0	0	0	0
4. Interest and Investment Income	-303	-544	-596	-693	-787
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. MRP, VRP	795	1,176	1,176	1,624	1,884
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	1,710	2,546	2,390	3,246	3,966
Net Revenue Stream					
Amount to be met from government grants and local taxpayers	13,373	13,329	13,329	13,063	13,392
Ratio					
Financing Cost to Net Revenue Stream	**13%**	**19%**	**18%**	**25%**	**30%**

Note: Outturn figures are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is generally increasing. This is not unexpected given that the Council agreed a programme for over £50m of Capital expenditure over the period 2017/18 to 2021/22 - thus increasing borrowing costs.

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