Agenda Item No:

Report to: **Cabinet**

Date of Meeting: **4 January 2021**

Report Title: **Treasury Management Mid-Year Report 2020-21**

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

Purpose of Report

This report advises the Cabinet of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Council to take account of any issues or concerns that have arisen since approving it in February 2020.

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 2020). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet, Audit Committee and full Council.

.

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."

   Covid-19 has highlighted the need to have proper and effective Treasury Management Practices and Policies in place. The Council has been able to sustain its services throughout this period, has not experienced undue difficulties in managing major cash flows, and retains sufficient reserves (given government assistance).

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 2020/21 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 2020/21;
   - A review of the Council's borrowing strategy for 2020/21;
   - A review of any debt rescheduling undertaken during 2020/21;
   - A review of compliance with Treasury and Prudential Limits for 2020/21.

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 over the last few years and this has entailed 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. The Council strengthened its reserves when taking on these additional risks and the level of reserves have to date proven more than adequate to cope with the immediate effects of Covid-19.

9. The Audit Committee will consider a similar report at their meeting on 21 January 2021.

Economic Update

10. As expected, the Bank of England's Monetary Policy Committee (MPC) has kept Bank Rate unchanged since reducing them to 0.1% in March 2020. Its forecasts have been optimistic in terms of three areas (as at Mid-year):

    i. The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

    ii. The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

    iii. It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even

if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

11. It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including Quantitative Easing.

12. The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

13. In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term.

14. Brexit uncertainties remain a significant issue for recovery. The wind down of the initial generous furlough scheme through to the end of October was another development that caused the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce that were still on furlough in mid September.

15. Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020/21 are now unlikely to show growth unless there is a positive outcome of the UK/EU trade negotiations.

16. There are expected to be some painful longer term adjustments e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are an area that has already seen significant growth.

17. One key addition to the Bank’s forward guidance was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

Interest rate forecasts

18. The Council's treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20										
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

19. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it has left Bank Rate unchanged. The Governor of the Bank of England has made it clear that he currently thinks that a move to negative interest rates would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

The Council's Treasury Position – 30 September 2020

Borrowing

20. The Council's debt and investment position at the 30 September 2020 was as follows

Table 1 – Borrowing

Debt	1 April 2020 Principal	Start Date	Maturity Date	30 Sept 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)	£185,915	21/03/2016	20/03/2026	£171,117	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)	£7,002,787	01/06/2017	01/06/2057	£6,946,261	2.53%
PWLB (Annuity)	£8,111,852	22/11/2017	22/11/2057	£8,050,277	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,941,522	13/12/2018	13/12/2058	£3,911,723	2.55%
PWLB (Annuity)	£2,463,534	31/01/2019	31/01/2059	£2,444,950	2.56%
PWLB (Annuity)	£4,365,748	31/01/2019	31/01/2069	£4,343,197	2.56%
PWLB (Annuity)	£9,262,267	20/03/2019	20/03/2059	£9,192,086	2.54%
PWLB (Annuity)	£4,770,452	02/09/2019	02/09/2069	£4,740,634	1.83%
Total Debt	**£65,301,339**			**£64,997,506**	2.82%

21. At the 30 September 2020 the Council had debt amounting to £64.99m (PWLB debt). The Council has not taken on any more debt in the year – pending the outcome of the Treasury's review into Public Works Loan Board (PWLB) lending – the results of which were announced on 25 November; New lending terms from the PWLB applying from the 26 November 2020

22. 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.

23. 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.

24. 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.

25. 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).

26. The Council's 2020/21 MRP Policy was approved as part of the Treasury Management Strategy Report for 2020/21 by Council in February 2020.

27. 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	**2019/20 Actual £000's**	**2020/21 Estimate £000's**
Opening balance	58,094	66,373
Add unfinanced capital expenditure	9,455	9,067
Less MRP	(1,176)	(1,499)
Closing balance	**66,373**	**73,941**

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

29. 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 2020/21 plus the expected changes to the CFR over 2021/22 and 2022/23 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21.

Table 3 Internal Borrowing	2019/20 Actual £000's	2020/21 Estimate As at 30/11/20 £000's
Capital Financing Requirement	66,373	73,941
External Borrowing	65,301	64,998
Net Internal Borrowing	**1,072**	**8,943**

30. 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 2020-21

31. The table below provides a snapshot of the investments and deposits held on 30 September 2020. 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.

32. In addition to the investments there was £20,719,445 in the Lloyds current account which was being held for Business Grant payments (and repayments back to the government) and other funding potentially required at short notice during COVID-19.

33. The Council also had longer term investments with CCLA in a property fund and Diversified Income Fund

Table 4 – Investments and deposits (Other than Lloyds)

Counterparty	Rate/ Return	Start Date	End Date	Principal	Term
Barclays Corporate	0.40%			**5,000,000**	Call
NAT West	0.05%			**6,155**	Call

34. As at 30 September 2020 three longer term loans are outstanding to other organisations.

Table 5 – Loans to Other Organisations

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal O/S (£)	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	171,117	Annuity

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 2020/21 provided an average return of 0.66% (1.48% including CCLA) (2019/20 0.91%).

37. The total interest receivable for the first 6 months is £43,628 (£134,422 including CCLA) (2019/20 £120,348) These figures exclude the interest receivable in respect of the three loans to other organisations.

Loans to Hastings Housing Company Ltd

38. Hastings Housing Company repaid the revenue loan and interest due to the Council in September 2020. It still has a capital loan of £5,489,398 outstanding. The capital loan interest rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. The borrowing 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 provide updates on:

- 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 2020/21.

Table 6 Capital Expenditure (Net) by Service	2020/21 Original Estimate (net) £'000	2020/21 Revised Estimate (net) £'000
Corporate Resources	13,379	6,053
Operational Services	3,557	3,199
Total Capital Expenditure (Net)	**16,936**	**9,252**

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 2020/21 from borrowing include:-

    (1) Buckshole Reservoir Works

    (2) Temporary accommodation incl Next Steps Accommodation Pathway property purchases

    (3) Country Park – Visitor Centre

    (4) Priory Street Car Park – concrete works/lighting

    (5) Electric vehicles and infrastructure

    (6) 12/13 York Buildings

    (7) Lacuna Place

Impact on the prudential indicators

43. The Capital Financing Requirement has increased over the last 18 months. It is expected to reach some £73.9m by April 2021. The position at 30 September 2020 is shown in Table 3 above, and highlights that there would be an underlying financing requirement of some £8.9m by the year end if no further borrowing is undertaken in 2020/21.

Compliance with the limits in place for borrowing activity.

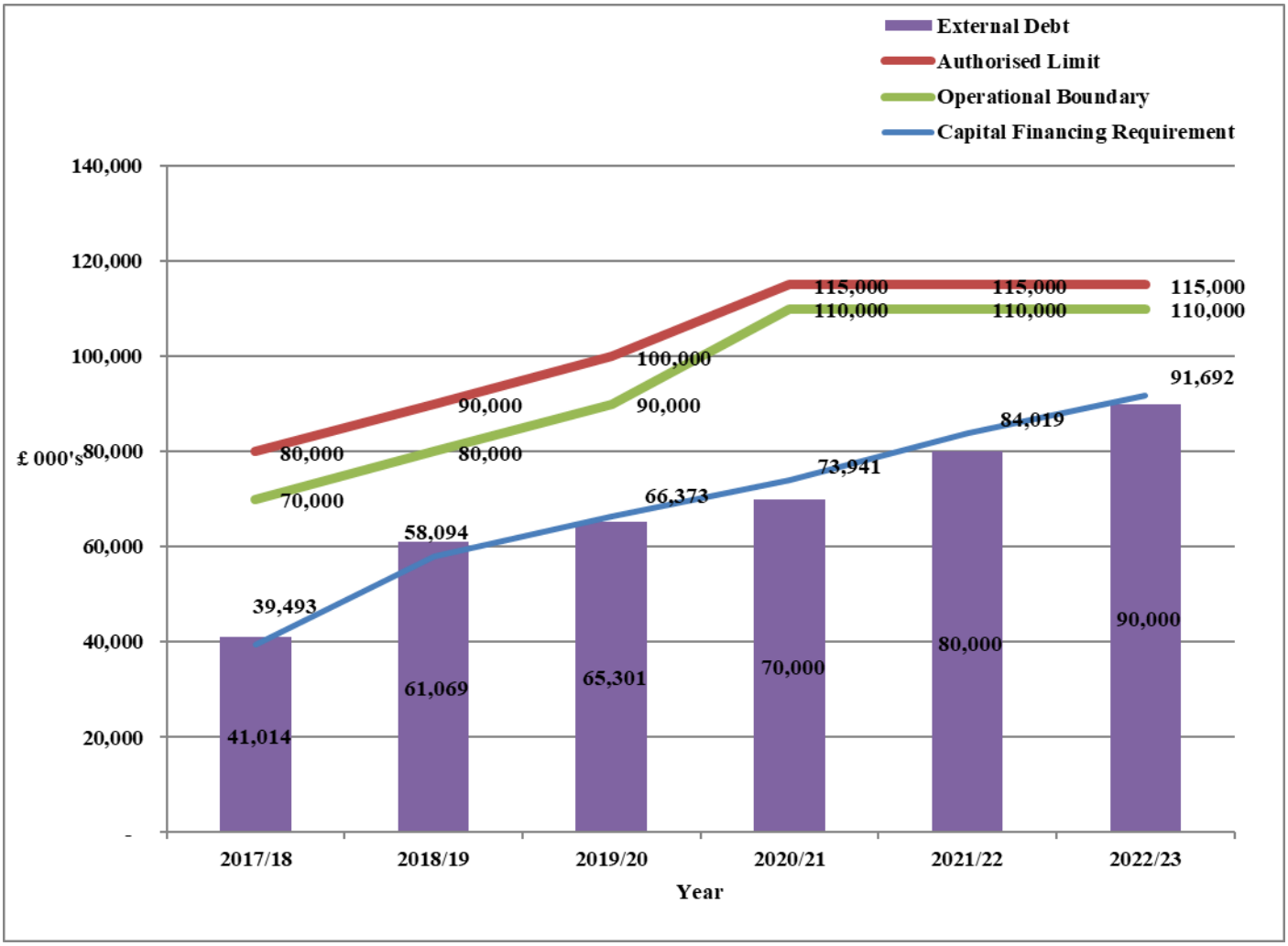
44. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 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; this is set by full Council and can only be revised by full Council. 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:

Table 7	2020/21	2021/22	2022/23
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£110,000	£110,000	£110,000
other long term liabilities	£5,000	£5,000	£5,000
TOTAL	£115,000	£115,000	£115,000
Operational Boundary for external debt -			
borrowing	£105,000	£105,000	£105,000
other long term liabilities	£5,000	£5,000	£5,000
TOTAL	£110,000	£110,000	£110,000

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



Borrowing Strategy

47. The Council now has some £64.99m of PWLB debt and could potentially borrow up to a level of £73.9m (estimated CFR at 31 March 2021). 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 after March 2023. 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. 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.

50. 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. It had suspected this might be a possibility given the government's concern at the level of borrowing by a few councils for commercial property investments. The Council did undertake borrow in September 2019 and has not borrowed since on the basis that once the treasury review was concluded and further restrictions were put in place rates would be decreased. This has proven to be the case with rates being reduced by 1% on the 26 November 2020. This announcement was earlier than anticipated.

Debt Rescheduling

51. 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 even greater than when last considered. It is understood that the Treasury may review their policy in this area.

Investment Strategy

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

53. 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.

54. 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.

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

Property Fund

56. 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 from June 2019 is detailed below:

CCLA – LA's Property Prices and Dividend yields

End of	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Dec-19	Sep-19	Jun-19
Offer Price p	302.56	301.67	302.10	303.14	305.90	310.33	315.70	322.70	324.35	327.66
Net Asset Value p	283.43	282.60	283.00	283.97	286.55	290.71	295.74	302.30	303.84	306.94
Bid Price p	279.04	278.22	278.61	279.57	282.11	286.20	291.15	297.61	299.13	302.19
Dividend* on XD Date p	3.10	-	-	2.80	-	-	3.25	3.21	3.45	3.15
Dividend* - Last 12 Months p	12.07	12.72	12.72	12.72	13.06	13.06	13.06	13.12	13.22	12.94
Dividend Yield on NAV %	4.26	4.50	4.49	4.48	4.56	4.49	4.41	4.34	4.35	4.22
Fund Size £m	1,155.80	1,152.40	1,154.10	1,158.00	1,168.60	1,185.50	1,206.00	1,200.10	1,173.10	1,178.20

57. The dividend yield is around 4.4% on the net asset value, which results in quarterly cash dividends of around £19,250. Full year dividends are estimated at around £78,000.

Property Fund Capital Value

Units (651,063)	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Dec-19	Sep-19	Jun-19
Mid Market Price(£)	1,845,308	1,839,904	1,842,508	1,848,824	1,865,621	1,892,705	1,925,454	1,968,163	1,978,190	1,998,373
Bid Price (£)	1,816,726	1,811,387	1,813,927	1,820,177	1,836,714	1,863,342	1,895,570	1,937,629	1,947,525	1,967,447

58. The Capital value has decreased by 1.51% between April 2017 and September 2020. 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. At the end of November 2020 the mid-market value is £1.848,628.

Diversified Income Fund

59. 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.

60. The capital value has decreased by 5.05% from the initial investment and was valued at £2,848,617 at the end of November 2020. The quarterly dividend yield was 3.46% for September (£23,744). It should be remembered that this is a long term investment and prices can go up and down – as the impact of the pandemic has highlighted.

Compliance with Treasury Limits

61. As a result of Covid-9, the potential unknown impacts on foreign countries, their economies and banks along with the high levels of funding for business rate grants being provided by the government, the limits for balances held with Lloyds bank were raised substantially – approved by the Chief Finance officer in compliance with the Council's Treasury Management Practices. The council was thus able to manage, for example the £27,782,000 received in respect of business support grants for the first lockdown period. The money was held in either a call account or the general bank account. Exceeding the normal approved limits is a decision that is not taken lightly, and whilst the investment return achieved will have been lower than otherwise may have been the case, the need for security was considered to be more important – as was the ability to use the funds as and when necessary i.e. to pay out the grants.

62. The Prudential Indicators have been complied with - reproduced in Appendix 1 for reference.

Financial Implications

63. The Council's 2020/21 budget included an estimated return on investments of 0.75%. The Bank Base 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. Since then interest rates on investments have changed significantly. The Council's actual average rate of return to 30 September was 0.66% (1.48% including the CCLA investments).

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 2020 and will be reviewed and updated annually.

65. The 2021/22 Treasury Management Strategy suite of reports will be considered by the Audit Committee on the 21 January 2021 and thereafter considered by Cabinet and then by full Council on 09 February 2021 in conjunction with the budget papers.

Risk Management

66. The Council continues to face serious risks in terms of volatility in its income streams, expenditure and future funding. Business rates and property income are susceptible

during economic recessions and business rate appeals for example can have sudden and significant impacts. The Council has seen a massive increase in its homelessness expenditure this year, along with significant reductions in collection rates for Council tax and business rates, let alone sales fees and charges e.g. car park income. 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 fact that the Council's reserves were cash backed meant that there was no need to borrow at high interest rates when funds were required.

70. 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. However, there are no reasons to sell the current investments at this time.

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 & Capital Strategy	Setting of 2021/21 Budget	February 2021	Chief Finance Officer
Treasury Management Outturn Report to Cabinet	Close of 2020/21 accounts	July 2021	Chief Finance Officer

Wards Affected - None

Area(s) Affected

None

Implications

Relevant project tools applied?N/A

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 13.7.

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

Peter Grace
Chief Finance Officer
pgrace@hastings.gov.uk

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 30 September 2020 amounted to £64,997,506 which is well within approved borrowing limits.

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%

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.