Report to: **Audit Committee**

Date of Meeting: **18 November 2021**

Report Title: **Treasury Management Outturn Report for 2020-21**

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

Purpose of Report

This report provides the opportunity for the Cabinet, Audit Committee 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 2020-21.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management covering a review of the current financial year i.e. the Mid-year review.

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 2020/21. 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 2 February 2021 and prior to that on 15 January 2020 in order to support members' scrutiny role.

6. The figures provided in this report for 2020/21 are as yet unaudited and still subject to change.

7. This annual Treasury report covers

a. capital expenditure and financing 2020-21
b. overall borrowing need (the Capital Financing Requirement)
c. treasury position as at 31 March 2021
d. performance for 2020-21
e. the strategy for 2020-21
f. the economy and interest rates in 2020-21
g. borrowing rates in 2020-21
h. the borrowing outturn for 2020-21
i. debt rescheduling
j. compliance with treasury limits and Prudential Indicators
k. investment rates in 2020-21
l. investment outturn for 2020-21

Capital Expenditure and Financing 2020/21

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 2020/21	**Outturn 2020/21**	
	£'000's	£'000's
Expenditure:		**10,104**
Financed By:		
Borrowing		7,855
Grants:		
Disabled Facilities Grant	1,109	
Lower Bexhill Road Housing Site	693	
Country Park Interpretive Centre	337	
Harbour Arm and New Groynes	30	
Other Grants and Contributions	76	2,246
Reserves		0
Capital Receipts		3
	Total	**10,104**

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

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	2019/20 Actual £000's	2020/21 Revised Estimate £000's	2020/21 Actual £000's
Opening balance	58,094	66,373	66,373
Add unfinanced capital expenditure	9,455	9,268	7,855
Less MRP	(1,176)	(1,499)	(1,499)
Closing balance	**66,373**	**74,142**	**72,729**

Note: Lease arrangements are excluded from the above table

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 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.

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	2019/20 Actual	2020/21 Revised Estimate	2020/21 Actual
	£000's	£000's	£000's
Capital Financing Requirement	66,373	74,142	72,729
External Borrowing	65,301	64,689	64,690
Net Internal/(External) Borrowing	***1,072***	**9,453**	**8,039**

Treasury Position as at 31 March 2021

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: -

Table 4 **Investments**	**31 March 2020 Principal**	**31 March 2021 Principal**
Managed In-House	£17.683m	£23.318m
CCLA Managed Externally	£4.515m	£4.752m
Total Investments	£22.198m	£28.07m

Table 5 Debt	1 April 2020 Principal	Start Date	Maturity Date	31-Mar 2021 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	£156,196	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	£6,889,020	2.53%
PWLB (Annuity)	£8,111,852	22/11/2017	22/11/2057	£7,987,864	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	£3,881,544	2.55%
PWLB (Annuity)	£2,463,534	31/01/2019	31/01/2059	£2,426,128	2.56%
PWLB (Annuity)	£4,365,748	31/01/2019	31/01/2059	£4,320,356	2.56%
PWLB (Annuity)	£9,262,267	20/03/2019	20/03/2059	£9,121,014	2.54%
PWLB (Annuity)	£4,770,452	02/09/2019	02/09/2069	£4,710,543	1.83%
Total Debt	**£65,301,339**			**£64,689,926**	**2.82%**

Performance Measurement (2020-21)

20. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2020-21.

Table 6 Interest	2019 -20 Actual Outturn £000's	2020-21 Revised Budget £000's	2020-21 Actual Outturn (Unaudited) £000's
Gross Interest Payable	1,810	1,854	1,848
Gross Interest Received	(596)	(551)	(521)
Fees	10	10	10
Other (e.g. PWLB Discount)	(0)	(0)	(0)
Net Cost	1,224	1,313	1,337

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 2020-21

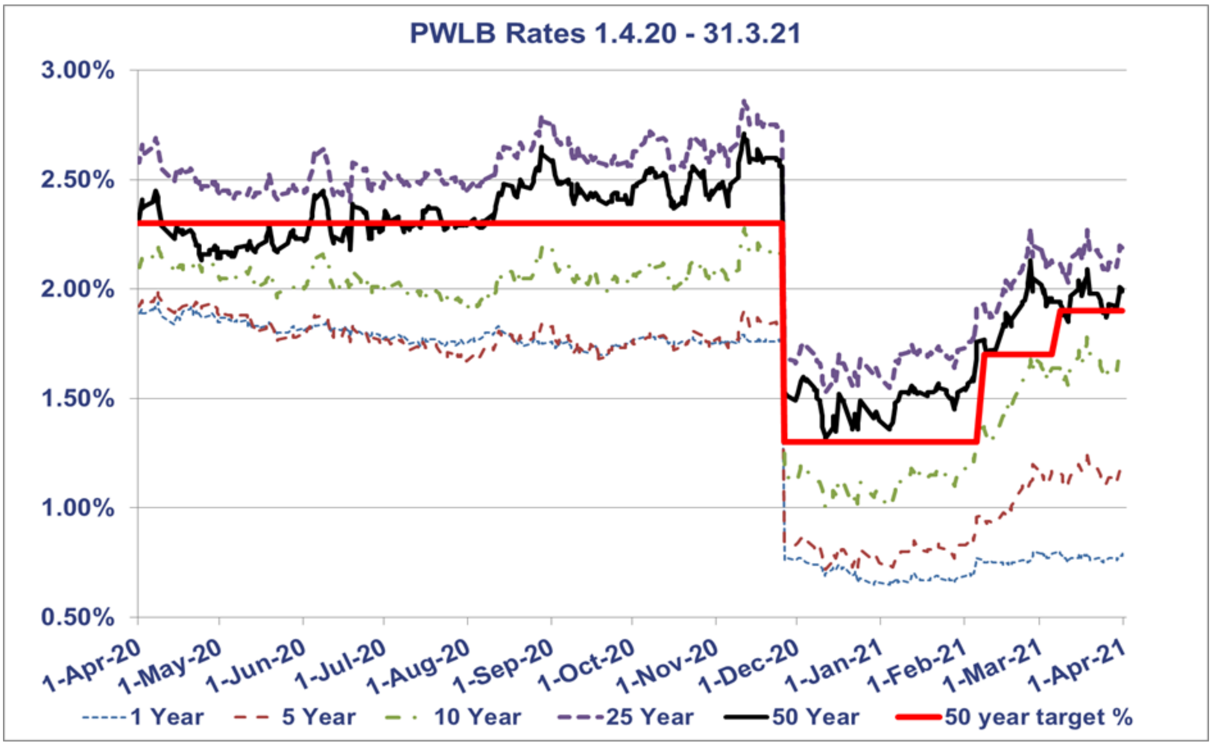
22. The general aim of the 2020-21 treasury management strategy was to minimise the costs of borrowing in both the short and longer term. In the short term it would consider avoiding new borrowing and using cash balances to finance new borrowing. However, to minimise longer term costs the Council needs to borrow when rates are at historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

23. Given that rates did not look set to increase it was recommended that new borrowing was only taken when necessary and internal balances were used to temporarily finance long life assets. If rates decreased, then opportunities to borrow may be taken. Given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.

24. The strategy proved very effective for 2020/21 in that the Council had borrowed successfully in past years and had cash backed reserves in place with little internal borrowing as at March 2020 when the Covid-19 pandemic struck. This enabled the Council to avoid having to borrow at high rates of interest to cover day to day expenses and avoided any cash flow difficulties. It also enabled the Council to avoid borrowing for the whole of 2020/21. The Council can not avoid borrowing for long and will need to take advantage of the historically low interest rates currently in place.

Borrowing Rates in 2020-21

25. 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.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.65%	0.72%	1.00%	1.53%	1.32%
Date	04/01/2021	11/12/2020	11/12/2020	11/12/2020	11/12/2020
High	1.94%	1.99%	2.28%	2.86%	2.71%
Date	08/04/2020	08/04/2020	11/11/2020	11/11/2020	11/11/2020
Average	1.43%	1.50%	1.81%	2.33%	2.14%
Spread	1.29%	1.27%	1.28%	1.33%	1.39%

26. HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes.

27. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital

programme.

The new margins over gilt yields are as follows: -.

PWLB Standard Rate is gilt plus 100 basis points (G+100bps)

PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)

28. There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

Borrowing Outturn for 2020/21

29. No new long term borrowing was taken during the year, given the expectation of continuing low rates of interest. The Council has effectively used its reserves and balances to fund the Capital programme in 20/21 but will need to borrow in the near future. The investment rate achievable during the year was low, and whilst the borrowing rates are still low historically , they are high compared to the investment rates. The policy of “internal borrowing has saved the Council considerable monies in 2020-21 (every 1% difference on £7.855m is worth £78,550).

30. During 2020/21 there were debt repayments of £611,413 resulting in a total balance outstanding with the PWLB of £64,689,926 as at 31 March 2021.

Borrowing in advance of need

31. 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.

32. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2021.

Debt Rescheduling

33. 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

34. 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 2020-21

35. Investment rates for 3 months and longer were stable throughout most of the year with Bank Rate staying the same throughout 2020-21.

36. The Bank Rate was last reduced to 0.25% on 11 March 2020 and then to 0.1% on 19 March 2020.

37. 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

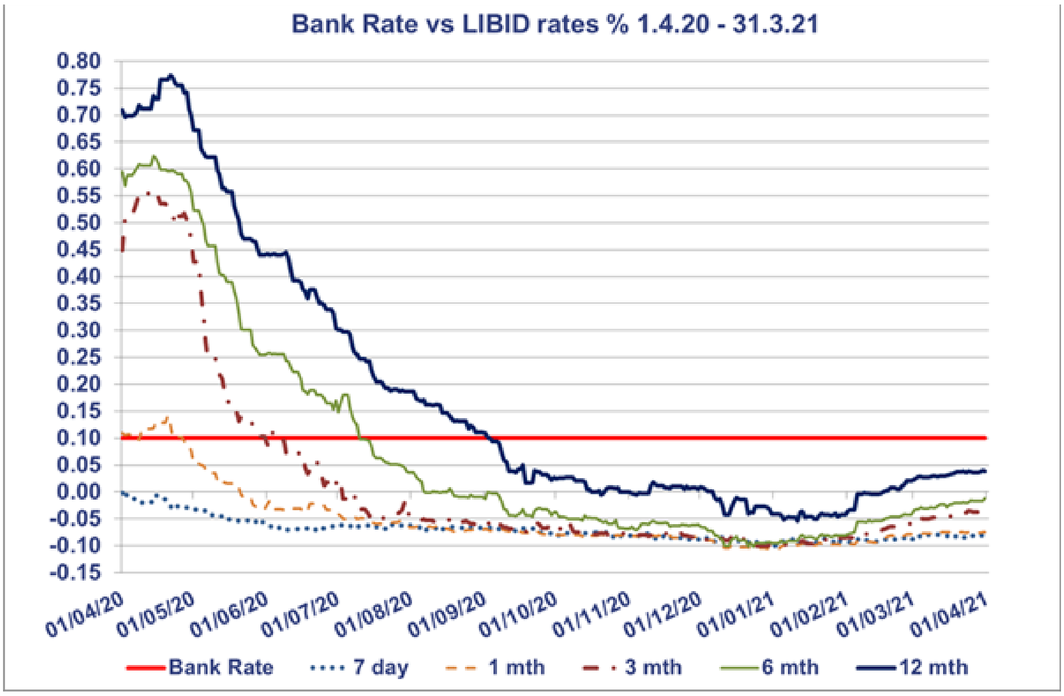
38. The strategy for 2020/21 was agreed at the Council meeting in February 2020. The Investment strategy did not change during the year given the already low interest rates, other than investing money for shorter periods to ensure there was sufficient monies available for cash flow purposes.

39. Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/2,1 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%.

40. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown.

41. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much

more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

42. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

43. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

44. The revised budget in February 2021 forecast investment returns (including loans) of £551,000 whilst the actual outturn was £521,000. This is considered to be a very good outcome given the impact of Covid-19 and the reduction in the base rate to 0.1%.

45. 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.

46. **Investments: Property Fund & Diversified Income Fund (DIF)**

The return on the Property Fund investment (£2m with CCLA) was 11.73% net of fees to the end of June 2021 i.e. Capital gains and dividends. This compares to negative returns in the previous year. The net dividends received amounted to £84,002 in the financial year. The table below highlights the overall performance compared to previous years.

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

	2021	2020	2019	2018	2017
The Local Authorities' Property Fund	+11.73%	-3.47%	+5.46%	+9.36%	+7.24%
Comparator Benchmark	+8.49%	-2.48%	+4.05%	+10.23%	+5.67%

The comparator 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 reliable indicator of future results and future returns are not guaranteed.
Source: CCLA & MSCI/AREF

47. In addition to the £2m invested in the CCLA Property Fund the Council invested £3m in the CCLA Diversified Income Fund (DIF) during 2019/20. The net dividends received amounted to £90,138 in 2020-21.

48. At the 31st March 2021 the Property Fund had a capital value (Mid-Market price) of £1.911m and the DIF £2.84m. The yields have continued to be high, with the DIF yielding some 2.86% (July 2021) and the Property Fund 4.12% (July 2021).

49. The Property Fund and DIF are both longer term investments (5 years plus) and it has always been well understood that the capital values can go up as well as down. The impact of Covid-19 on the values and the subsequent recovery has been reported previously. Since March 2021 the Capital value of the DIF has recovered even further to £2.997m (a gain of £156,764 since March). The Property Fund capital value has also recovered further since March 2021 from £1.911m to £2.03m (a gain of £92,060).

Investment Outturn for 2020-21

50. Cash balances fluctuated widely during the year. The Council, at times received considerable additional monies from the government to distribute to businesses and this was held in readily accessible bank accounts but gained little or no

interest. Whilst much of the money was distributed, the Council still has some balances to distribute e.g. Test and Trace and, at the time of writing, the Additional Restrictions Grant, whilst some balances have been returned to the government.

51. The average rate of return for the year on the investments made was 0.53% (excluding CCLA investments). The higher return reflecting investments made prior to Covid-19 and reductions in base rates. The total interest earned for the year was £26,086 (excluding the CCLA monies). The comparable performance indicator is the uncompounded 7-day LIBID rate which was – 0.0706% (Minus). These returns also exclude the interest received on loans e.g. Hastings Housing company, Optivo, Foreshore Trust.

52. The table below provides a snapshot of the investments/deposits held at 31 March 2021 (excluding those with CCLA).

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.05			6,147	Call
Australia and NZ BCG Ltd	0.05	14/01/2021	14/04/2021	5,000,000	Fixed
DBS Bank ltd , London	.04	14/01/2021	14/04/2021	5,000,000	Fixed
Flintshire County Council	0.15	23/03/2021	23/06/2021	5,000,000	Fixed
Barclays				4,999,995	Call
Lloyds Gen				3,311,947	Call
			Total	**23,318,089**	

53. In addition to the investments the Council has a few loans in place, namely as at 31 March 2021: -

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	13,253	Fixed
Foreshore Trust	1.66	21/03/2016	20/03/2026	156,196	Annuity

*Note: these are the balances outstanding – assuming all repayments are made

Loans to Hastings Housing Company Ltd

54. Hastings Housing Company, wholly owned by the Council, has two loan facilities 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 – this loan has now been repaid to the Council.

55. 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 capital loan was £5,489,398 at the end of March 2021. The interest rates are determined in accordance with EU rules.

56. The debt costs (principal and interest) incurred by the Council in making advances to the housing company are covered by the interest repayments from the housing company. The interest receivable by the Council amounted to £249,581in 2020-21 (unaudited).

Other Issues

Local Authority Capital Finance Framework & CIPFA Codes

57. The government published a policy paper on 28 July 2021 entitled "Local Authority Capital Finance Framework; planned improvements". This paper outlines the ways in which government will look to increase scrutiny and also the control over the capital system.

58. 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.

59. A new Capital Strategy was considered and agreed by full council in February 2021. High value projects, such as the Town Deal and development on the lower tier site on Bexhill Road are likely to necessitate wholesales changes to the Council's Capital Strategy and the Treasury Management Strategy, this will be at the same time as the government are looking to increase controls and potentially set limits on what levels authorities can prudently borrow up to.

Minimum Revenue Provision (MRP) guidance

60. 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.

61. The government have advised that they will be reviewing the legislation to ensure that adequate provisions are made to repay all debt incurred. Consultation is expected in the early autumn of 2021.

Public Work Loans Board (PWLB) – Changes to Lending criteria

62. The government announced changes to lending criteria in November 2020. In brief it resulted 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.

63. Further announcements have been made this summer by both the Government and Cipfa in terms of further legislation and guidance with regard to the Prudential Code, and potential caps on borrowing. The information supplied to the government is increasing and from September 2021 there will be increased complexity and a longer application process to secure loans from the PWLB.

Financial Implications

64. 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.

65. No new borrowing was undertaken in the year, albeit that the Capital expenditure incurred will need to be funded through borrowing shortly. The use of the Council's reserves and balances to temporarily fund the Capital expenditure has resulted in significant savings to the Council.

66. The Council has acquired some property assets in the year that will result in ongoing financing costs, but these will be offset by increased income or reductions in costs that the Council would otherwise incur e.g. by reducing temporary accommodation costs by more than the costs of borrowing.

67. 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 potentially reduce – as unfortunately tested by the recent Covid-19 crisis. At no time during the year has cash flow been an issue for the Council.

68. The effective management of the Council's cash flow, reserves, and investments remains of critical importance. The increasing governance in this area, as well as the increasing sums involved will necessitate more staff resources being required to manage and report on this critical area.

69. The forthcoming changes to the Prudential Code (Cipfa), and potentially new borrowing limits as well as further changes to Treasury Management will increase the controls and reporting requirements. Any limits on borrowing could potentially impact significantly on the Council's plans.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Audit Committee	Report	18 November 2021	Chief Finance Officer
Cabinet	Report	6 September 2021	Chief Finance Officer
Full Council	Report	13 October 2021	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:

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 2020/21
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code
Appendix 1 – Prudential Indicators
Appendix 2 – Capital Expenditure 2020-21 (and amounts financed by borrowing)

Officer to Contact

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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	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	95,000	110,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	100,000	115,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	85,000	105,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	90,000	110,000	110,000	110,000	110,000

The Council's external borrowing at 31 March 2021 amounted to £64,689,926 which is well within approved borrowing limits.

Interest Rate Exposures	**2020/21**	**2021/22**	**2022/23**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2020/21		
	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 2020/21		
	lower	**Upper**
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

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

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

Prudential Indicator: Financing Cost to Net Revenue Stream	2019/20 Actual	2020/21 Rev.Est	2020/21 Outturn	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,810	1,854	1,848	2,115	2,326	2,414
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	0
4. Interest and Investment Income	-580	-551	-521	-608	-671	-660
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. MRP, VRP	1,176	1,499	1,499	1,723	1,873	2,533
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
Total	2,406	2,802	2,826	3,230	3,528	4,287
Net Revenue Stream						
Amount to be met from government grants and local taxpayers	13,329	13,063	14,845	14,018	13,156	13,372
Ratio						
Financing Cost to Net Revenue Stream	**18%**	**21%**	**19%**	**23%**	**27%**	**32%**

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.

Appendix 2

Capital Expenditure financed by borrowing in 2020-21 (unaudited)

Capital Expenditure 2020-21	**2020-21 Actual**	**Financed By Borrowing**
	£	**£**
Private Sector Renewal Support	4,973	
Disabled Facilities Grant	1,109,385	
Restoration of Pelham Crescent/ Pelham Arcade	8,693	1,586
Work on Harbour Arm and New Groynes	29,924	
Public Realm	14,914	
Country Park - Interpretive Centre	562,306	224,923
Playgrounds Upgrade Programme	43,943	31,943
Conversion of 12/13 York Buildings	418,616	418,616
Buckshole and Shornden Reservoirs	113,935	113,935
Development of 311-323 Bexhill Rd (Aldi & Others)	5,063,796	5,063,796
Priory Street Multi Storey Car Park	145,049	145,049
Temporary Homelessness Accommodation	1,691,544	1,691,544
DSO Waste and Cleansing service - Depot Works & Equipment	2,870	2,870
Lower Bexhill Road	692,822	
Churchfields Business Centre	40,612	
Development / Furbishment of Lacuna Place	32,825	32,825
Cornwallis Street Development	30,000	30,000
Harold Place Restaurant Devt	5,250	5,250
Electric Vehicle Infrastructure	42,043	42,043
Priory Street Works (LED lighting/Gates/rewiring)	50,365	50,365
Totals	**10,103,864**	**7,854,744**