Report to: Cabinet

Date of Meeting: 05 September 2022

Report Title: Treasury Management Outturn Report for 2021-22

Report By: Simon Jones (Senior Finance Projects 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 2021-22.

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 2021/22. 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. During 2021/22 the minimum reporting requirements were that the Full Council should receive the following reports:

   - an annual treasury strategy in advance of the year (Council 17/02/2021)
   - a mid-year, (minimum), treasury update report (Audit Committee 18/11/2021, Council 6/01/2022)
   - an annual review following the end of the year describing the activity compared to the strategy, (this report)

5. 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.

6. Member training on treasury management issues was last undertaken on 10 January 2022 and prior to that on 2 February 2021 in order to support members' scrutiny role.

7. The figures provided in this report for 2021/22 are as yet unaudited and still subject to change.

8. This annual Treasury report covers

    a. capital expenditure and financing 2021-22
    b. overall borrowing need (the Capital Financing Requirement)
    c. treasury position as at 31 March 2022
    d. performance for 2021-22
    e. the strategy for 2021-22
    f. the economy and interest rates in 2021-22
    g. borrowing rates in 2021-22
    h. the borrowing outturn for 2021-22
    i. debt rescheduling
    j. compliance with treasury limits and Prudential Indicators
    k. investment rates in 2021-22
    l. investment outturn for 2021-212

Capital Expenditure and Financing 2021/22

9. 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.

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

	Outturn 2021/22	
	£'000's	£'000's
Expenditure:		**4,844**
Financed By:		
Borrowing		1,097
Grants:		
Disabled Facilities Grant	1,275	
Country Park Interpretive Centre European Funding	23	
Harbour Arm and New Groynes - Contribution from DEFRA	132	
Further Sea Defence works	116	
Lower Bexhill Rd	580	
Churchfields Business Centre	938	
Restoration Pelham Crescent & Pelham Arcade	43	
Private Sector Renewal Support - Regional Housing Board & LEP Funding	2	
Towns Fund	125	
		3,232
CPO Provision - 21 Devonshire Rd		191
S106 - Playgrounds Upgrade		12
Reserves		254
Capital Receipts		60
		4,844

Overall Borrowing Need (Capital Financing Requirement (CFR)

11. 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.

12. 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.

13. 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.

14. 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).

15. The Council's 2021/22 MRP Policy was approved as part of the Treasury Management Strategy Report for 2021/22 by Council in February 2021.

16. 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	**2020/21 Actual £000's**	**2021/22 Revised Estimate £000's**	**2021/22 Actual £000's**
Opening balance	66,372	72,683	72,683
Add unfinanced capital expenditure	7,811	3,418	1,097
Less MRP	(1,500)	(1,668)	(1,668)
Closing balance	**72,683**	**74,433**	**72,112**

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

18. 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 2021/22 plus the expected changes to the CFR over 2022/23 and 2023/24 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

19. 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	**2020/21 Actual £000's**	**2021/22 Revised Estimate £000's**	**2021/22 Actual £000's**
Capital Financing Requirement	72,683	74,433	72,112
External Borrowing	64,690	69,737	66,063
Net Internal/(External) Borrowing	**7,993**	**4,696**	**6,049**

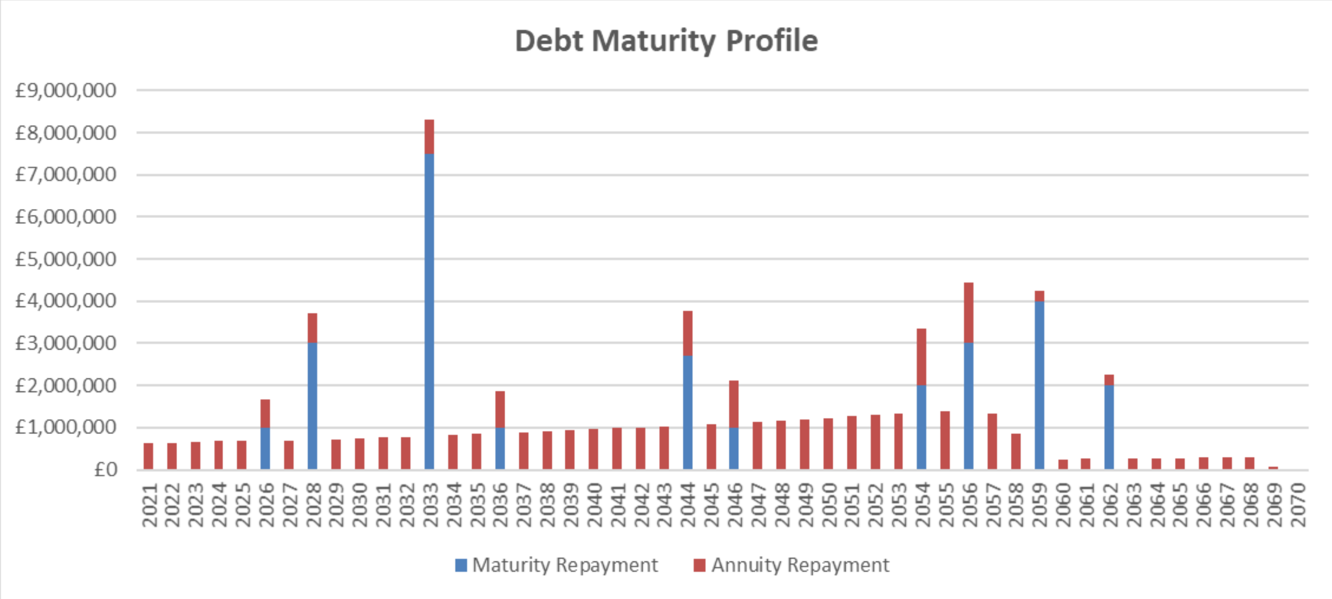
Treasury Position as at 31 March 2022

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

Table 4 Investments	31 March 2021 Principal £m	31 March 2022 Principal £m
Managed In-House	23.318	26.240
CCLA Managed Externally	4.752	5.219
Total Investments	**28.070**	**31.459**

Table 5 Debt	1 April 2021 Principal	Start Date	Maturity Date	31 March 2022 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)	£156,196	21/03/2016	20/03/2026	£125,981	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	11/05/2036	£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	24/06/2028	£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)	£6,889,020	01/06/2017	01/06/2057	£6,772,356	2.53%
PWLB (Annuity)	£7,987,864	22/11/2017	22/11/2057	£7,860,481	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,881,544	13/12/2018	13/12/2058	£3,820,026	2.55%
PWLB (Annuity)	£2,426,128	31/01/2019	31/01/2059	£2,387,758	2.56%
PWLB (Annuity)	£4,320,356	31/01/2019	31/01/2069	£4,273,795	2.56%
PWLB (Annuity)	£9,121,014	20/03/2019	20/03/2059	£8,976,150	2.54%
PWLB (Annuity)	£4,710,543	02/09/2019	02/09/2069	£4,649,533	1.83%
PWLB	£0	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	**£64,689,926**			**£66,063,342**	**2.74%**

21. The maturity structure of the debt portfolio is as shown in the chart below:



Performance Measurement (2021-22)

22. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2021-22.

Table 6 Interest	**2020-21 Actual Outturn (Unaudited) £000's**	**2021-22 Revised Budget £000's**	**2021-22 Actual Outturn (Unaudited) £000's**
Gross Interest Payable	1,849	1,843	1,813
Gross Interest Received	(522)	(504)	(540)
Fees	10	10	10
Other (e.g. PWLB Discount)	0	0	0
Net Cost	**1,337**	**1,349**	**1,283**

23. 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 2021-22

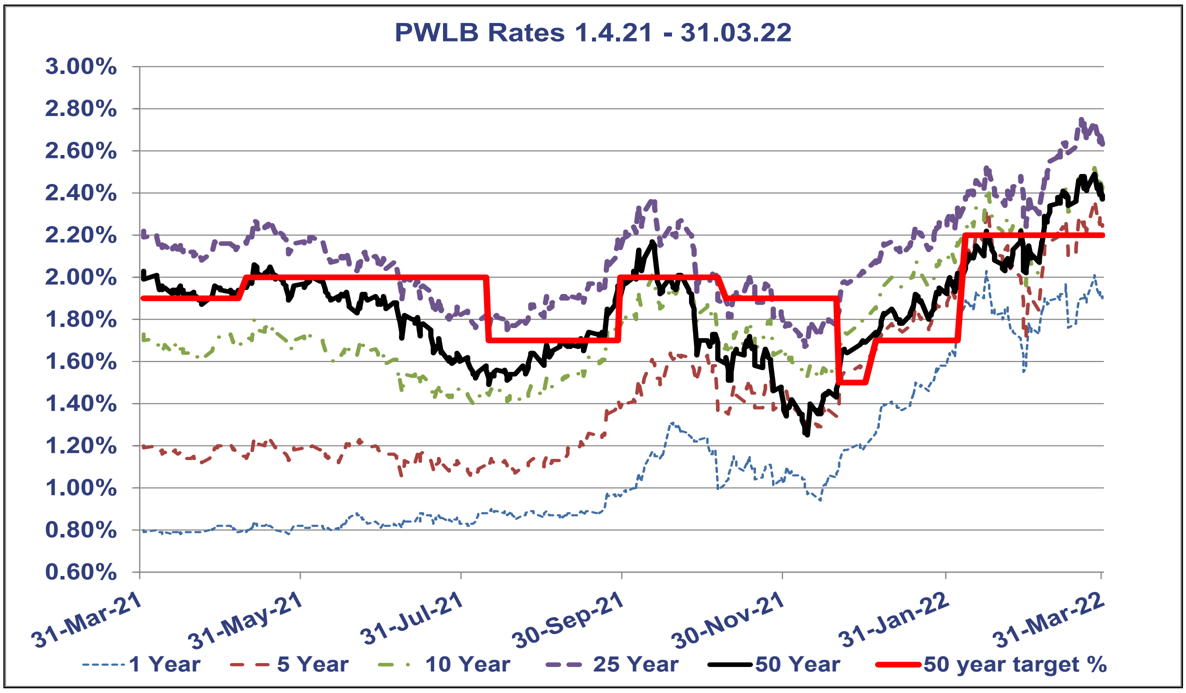
24. The general aim of the 2021-22 treasury management strategy was to minimise the costs of borrowing in both the short and longer term. In the short term it would consider avoiding new borrowing and using cash balances to finance new borrowing. However, to minimise longer term costs the Council needs 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.

25. 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.

26. The strategy proved very effective for 2020/21 and 2021/22 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 and most of 2021/22. The Council can not avoid borrowing for long and will need to take advantage of the historically very low interest rates currently in place.

Borrowing Rates in 2021-22

27. 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
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

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28. PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

29. Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

30. At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

31. Regarding PWLB borrowing rates, the various margins attributed to their pricing 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)

32. There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years.

Borrowing Outturn for 2021/22

33. Additional long-term borrowing of £2m was undertaken in early January 2022 to take advantage of the low rates on offer.

34. The Council has effectively used its reserves and balances to fund the Capital programme in 2021/22 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, albeit rising, they are high compared to the investment rates. The policy of “internal borrowing has saved the Council considerable monies in 2021-22 (every 1% difference on £6.156m is worth £60,156).

35. During 2021/22 there were debt repayments of £626,585 resulting in a total balance outstanding with the PWLB of £66,063,342 as at 31 March 2022.

Borrowing in advance of need

36. 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.

37. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2022.

Debt Rescheduling

38. No debt rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

39. 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

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

Investment Rates in 2021-22

41. Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

42. The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. 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

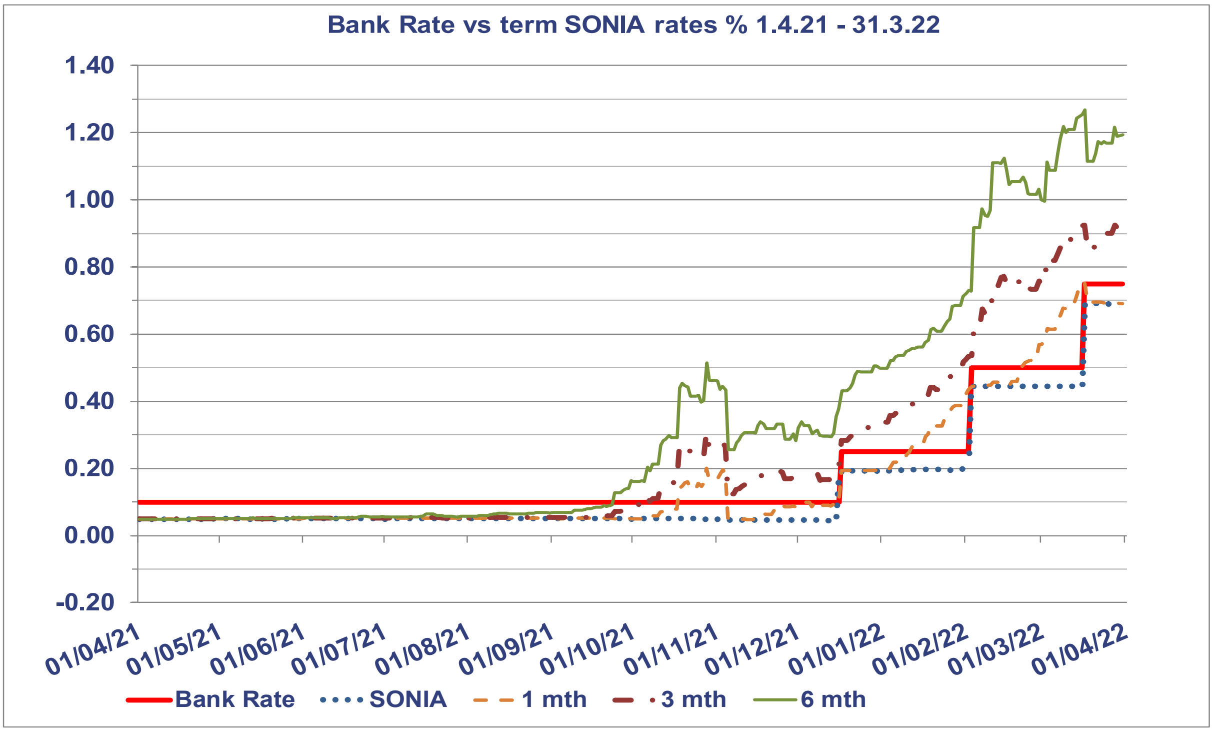
that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

43. 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.

44. 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 counterparty risk exposure, by having fewer investments placed in the financial markets.

45. 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.

46. The chart below shows the bank rate against the Sterling Overnight Index Average (SONIA) over the course of 2021/22. Previously the London Interbank Bid Rate (LIBID) data has been reported but LIBID has been phased out and replaced with SONIA.



	Bank Rate	SONIA	1 mth	3 mth	6 mth
High	0.75	0.69	0.75	0.93	1.27
High Date	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
Low	0.10	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
Average	0.19	0.14	0.17	0.24	0.34
Spread	0.65	0.65	0.71	0.88	1.22

Investment Strategy

47. The strategy for 2021/22 was agreed at the Council meeting in February 2021. 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.

48. 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 remained very low.

49. 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.

50. 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.

51. The revised budget in February 2022 forecast investment returns (including loans) of £504,000 whilst the actual outturn was £540,000. 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% for three quarters of the year.

52. 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, with values now increasing, and the Council has had no issues in managing its cash flow.

Investments: Property Fund & Diversified Income Fund (DIF)

53. The return on the Property Fund investment (£2m with CCLA) was 21.82% net of fees to the end of March 2022 i.e. capital gains and dividends. This compares to returns of 3.75% in the previous year. The net dividends received amounted to £73,039 in the financial year. The table below highlights the overall performance compared to previous years.

Discrete year total return performance

12 months to 31 March	2022	2021	2020	2019	2018
The Local Authorities' Property Fund	+21.82%	+3.75%	+0.66%	+5.99%	+9.72%
Comparator Benchmark	+22.52%	+2.46%	+0.12%	+5.69%	+10.46%

Annualised total return performance

Performance to 31 March 2022	1 year	3 years	5 years
The Local Authorities' Property Fund	+21.82%	+8.36%	+8.15%
Comparator Benchmark	+22.52%	+7.92%	+7.97%

Net performance shown after management fees and other expenses. Comparator Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Past performance is not a reliable indicator of future results. Source: CCLA

54. 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 £70,972 in 2021-22.

55. At the 31st March 2022 the Property Fund had a capital value (Mid-Market price) of £2.247m and the DIF £2.972m. The yields have continued to be high, with the DIF yielding some 2.39% (March 2022) and the Property Fund 3.25% (March 2022).

56. 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. Capital value of both funds are continuing to grow and make up the losses from the impact of Covid-19. The Property Fund capital value is now in positive territory, having made back the initial costs of investment, and the DIF now sits only just below the original investment amount.

Investment Outturn for 2021-22

57. 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.

58. The average rate of return for the year on the investments made was 0.25% (excluding CCLA investments). The total interest earned for the year was £46,489 (excluding the CCLA monies). The comparable performance indicator is the uncompounded 7-day SONIA rate which was 0.1355%. These returns also exclude the interest received on loans e.g. Hastings Housing Company, Optivo, Foreshore Trust.

59. The table below provides a snapshot of the investments/deposits held at 31 March 2022 (excluding those with CCLA).

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.01			6,147	Call
Australia and NZ BCG Ltd	0.43	14/10/2021	14/10/2022	5,000,000	Fixed
Goldman Sachs	0.52	31/12/2021	30/06/2022	5,000,000	Fixed
Barclays	0.40			5,003,194	Call
Lloyds Gen	0.01			11,230,360	Call
			Total	**26,239,701**	

60. In addition to the investments the Council has a few loans in place, namely as at 31 March 2022: -

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal O/S * (£)	Type
Amicus/Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Maturity
The Source	2.43	17/12/2015	17/12/2025	10,730	Annuity
Foreshore Trust	1.66	21/03/2016	20/03/2026	125,981	Annuity
			Total	**1,924,946**	

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

Loans to Hastings Housing Company Ltd

61. 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.

62. 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. Three separate loans have been made as per the table below.

Counterparty	Interest Rate	Start Date	End Date	Principal O/S 31/03/2022	Term		Annual Interest
HHC Ltd - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Fixed	Maturity Loan	£35,153
HHC Ltd - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Fixed	Maturity Loan	£16,689
HHC Ltd - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Fixed	Maturity Loan	£211,020
				£5,489,398			**£262,862**

63. The value of the capital loans was £5,489,398 at the end of March 2022 and as the loans are maturity loans the principal outstanding will not reduce annually but be repaid or refinanced in one lump upon maturity 40 years after the loan was issued. The interest rates are fixed and were determined in accordance with EU rules.

64. 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 £262,862 in 2021-22 (unaudited).

65. It should be noted that due to cashflow difficulties related to the Covid-19 pandemic the Housing Company is a year behind on its interest repayments to the council. The overdue amount owed is £262,862. The late payment of interest from the Housing Company will attract additional interest charges. A separate briefing paper on this issue has been prepared.

Other Issues

The Economy and Interest Rates

66. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022, 0.75% in March 2022 and then to 1.0% in April 2022.

67. The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

68. Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

69. Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

IFRS 9 fair value of investments

70. Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG] (now renamed the Department of Levelling Up, Housing & Communities) on IFRS 9 the Government previously introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the

override in order for the Government to keep the override under review and to maintain a form of transparency.

IFRS 16 Leases

71. The implementation of IFRS 16 bringing currently off-balance sheet leased assets onto the balance sheet has again been delayed until 2024/25. The Council has work to do on implementing this change, although now has an additional 2 years to prepare.

Financial Implications

72. 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 very low levels during the last year.

73. Minimal new borrowing (£2m) was undertaken in the year, albeit that the capital expenditure incurred and future capital programme plans may necessitate further 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.

74. 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.

75. 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.

76. Recent changes to the Prudential Code and Treasury Management Code has increase the controls and reporting requirements. Any further limits on borrowing could potentially impact significantly on the Council's plans.

77. On 11 May 2022, the government announced new measures to address excessive risk stemming from borrowing and investment practices. The measures, to be taken forward through the Levelling Up and Regeneration Bill, will put in place statutory powers allowing the government to investigate local practices and, where necessary, require remedial action by an authority where there is excessive risk to financial stability from capital practices. The intent of the powers is to provide the government with the ability to take targeted and precise action where it has concerns, without the need for further reform to the Prudential Framework as a whole. The Councils current treasury management, investment and capital expenditure plans are unlikely to see us impacted by this new legislation.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Cabinet	Report	4 July 2022	Chief Finance Officer
Full Council	Report	13 July 2022	Chief Finance Officer
Audit Committee	Report	28 July 2022	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

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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 2021/22
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code
Appendix 1 – Prudential Indicators
Appendix 2 – Capital Expenditure 2021-22 (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	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	105,000	105,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	110,000	110,000	110,000

The Council's external borrowing at 31 March 2022 amounted to £66,063,342 which is well within approved borrowing limits.

Interest Rate Exposures	**2021/22 Upper**	**2022/23 Upper**	**2023/24 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 2022/23	**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 2022/23	**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	2020/21 Actual	2021/22 Revised Estimate	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,836	1,843	1,813	2,137	2,320	2,494
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	-	-	-	-	-	-
4. Interest and Investment Income	-522	-504	-540	-503	-513	-505
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,500	1,668	1,668	1,711	1,946	2,246
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
Total	2,814	3,007	2,941	3,345	3,753	4,235
Net Revenue Stream Amount to be met from government grants and local taxpayers	16,332	14,253	14,253	14,245	13,960	13,821
Ratio **Financing Cost to Net Revenue Stream**	**17%**	**21%**	**21%**	**23%**	**27%**	**31%**

Note: Outturn figures for 2019/20, 2020/21 and 2021/22 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.

Appendix 2 - Capital Expenditure financed by borrowing in 2021-22

Capital Expenditure 2021/22	2021/22 Actual £	Finance by Borrowing £
RP16 CPO property	190,519	0
Private Sector Renewal Support	2,000	0
Disabled Facilities Grant	1,274,675	0
Restoration of Pelham Crescent/ Pelham Arcade	614	0
RP16 Road at Pelham Arcade	42,081	0
Work on Harbour Arm and New Groynes	131,505	0
ES36 Further Sea Defence works	115,763	0
Country Park -Interpretive Centre	37,606	15,042
Playgrounds Upgrade Programme	47,397	0
Conversion of 12/13 York Buildings	335,994	129,994
Buckshole and Shornden Reservoirs	290,445	290,445
Priory Street Multi Storey Car Park	3,150	0
Temporary Homelessness Accommodation	141,342	141,342
Lower Bexhill Road	579,540	0
Churchfields Business Centre	937,812	0
Development / Furbishment of Lacuna Place	172,918	172,918
Cornwallis Street Development	236,169	236,169
Harold Place Restaurant Development	47,630	0
Electric Vehicles	12,992	12,992
Electric Vehicle Infrastructure	4,439	0
Priory Street Works	92,662	92,662
Castleham Car Park Resurfacing	21,845	4,950
Towns Fund Capital	125,000	0
	4,844,097	**1,096,514**