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23 September 2019

Dear Councillor

I am now able to enclose, for consideration at the meeting of the **GOVERNANCE COMMITTEE** on Thursday 26 September 2019 at 6.00 pm, the following reports that were unavailable when the agenda was printed.

6 **TREASURY MANAGEMENT REPORT QUARTER ONE 2019/20** (Pages 4 - 18)

To consider the report of the Strategic Director (Corporate Resources).

This report was previously marked in the agenda as 'to follow'.

6(a)-(d) **ADDITIONAL AGENDA ITEMS**

In accordance with the provisions of Section 100(B)(4)(b) of the Local Government Act 1972, the Chairman agreed that agenda items 6(a)-(d), which were not detailed on the agenda at the time of publication, should be considered as a matter of urgency for the following reasons:

- the auditors were late starting and completing their work and they are only recently in a position to finalise the audit;
- the Council have been discussing a technical accounting adjustment with them and have been unable to complete the audit without agreeing a way forward. The Council has now agreed to use their recommended treatment; and
- the PSAA are advising they will publish the list of local authorities whose accounts are not completed by the end of September 2019. The Council does not want to be on this list as it could have a negative reputational impact and possible impact on future funding.

a **AUDIT FINDINGS REPORT (Page 19)**

To consider the report of the Strategic Director (Corporate Resources).

This report is to follow.

b **FINANCIAL OUTTURN 2018/19 (Pages 20 - 35)**

To consider the attached report of the Strategic Director (Corporate Resources).

c **STATEMENT OF ACCOUNTS 2018/19 (Page 36)**

To consider the report of the Strategic Director (Corporate Resources).

This report is to follow.

d **TREASURY MANAGEMENT YEAR END REPORT 2018/19 (Pages 37 - 52)**

To consider the attached report of the Strategic Director (Corporate Resources).

Yours sincerely

Chief Executive

Subject:	**TREASURY MANAGEMENT QUARTER ONE REPORT 2019/20**
Meeting and Date:	**Governance Committee – 26 September 2019**
Report of:	**Helen Lamb – Head of Finance and Housing**
Portfolio Holder:	**Councillor Stephen Manion – Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30 June 2019 (Q1) and an update of activity to date.
Recommendation:	That the report is received.

1. Summary

1.1 The Council's investment return for the period to June was 3.74% (annualised), which outperformed the benchmark[1] by 2.98%. The total forecast interest and dividends income for the year £1,734k, which is £90k less than the original budget estimate of £1,824k. This reduction is due to not investing anything further in pooled investment funds during the first quarter due to a reduction in cashflow funds..

1.2 The Council has remained within its Treasury Management guidelines and has complied with the Prudential Code guidelines during the period.

2. Introduction and Background

2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

2.2 Council adopted the 2019/20 Treasury Management Strategy (TMS) on 6th March 2019 as part of the 2019/20 Budget and Medium Term Financial Plan.

2.3 In order to comply with the CIPFA code referred to above, a brief summary is provided below and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.

2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.74 at the end of the quarter.

3. Economic Background

3.1 The report attached (Appendix 1) contains information up to the end of June 2019; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

"Main points since June:

I. *The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.*

II. *There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.*

III. *New UK Prime Minister Boris Johnson has pledged to exit the EU on 31st October with or without a deal. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline. The probability of a no-deal EU exit has therefore increased, which has implications for the future path of interest rates.*

IV. *UK economic growth has stalled after a relatively strong Q1 2019. The ONS reported a Q2 growth rate of -0.2%. The MPC has downgraded its growth forecasts for future years.*

V. *While the potential for divergent paths for UK monetary policy remain in the event of a withdrawal agreement, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy.*

VI. *Inflation remains around target. The tight labour market risks medium-term domestically-driven inflationary pressure. Slower global growth should reduce the prospect of externally driven inflationary pressure, although political turmoil could push up oil prices.*

VII. *Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets."*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of June 2019, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £49.6m, increasing to £55.3m at the end of Aug (see Appendix 4). The increase reflects normal cash-flow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

4.2 As at 30 June 2019, the Council's investment portfolio totalled £48m (see Appendix 2). Cashflow funds were lower than anticipated (£1.7m at 30 June 2019). No further investments have been made in the quarter.

4.3 Cashflow funds have since increased (to £7.3m at 31 August 2019) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2019 the Council had £17 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

6. Debt Rescheduling

6.1 At this time it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

7. Compliance with Treasury and Prudential Limits

7.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

8. Appendices

Appendix 1 – Arlingclose Treasury Management Report for Quarter One 2019/20

Appendix 2 – Investment portfolio as at 30 June 2019

Appendix 3 – Borrowing portfolio as at 30 June 2019

Appendix 4 – Investment portfolio as at 31 August 2019

9. Background Papers

Medium Term Financial Plan 2019/20 – 2022/23

Contact Officer: Dani Loxton, extension 2285

Treasury Management Report Q1 2019/20

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2019/20 was approved by full Council on 6th March 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 6th March 2019.

External Context

Economic background: UK Consumer Price Inflation (CPI) for June 2019 was 2.0% year/year, coming in at consensus and meeting the Bank of England's inflation target. The most recent labour market data for the three months to May 2019 showed the unemployment rate remain at a low of 3.8% while the employment rate of 76.0% dipped by 0.1%, the first quarterly decrease since June to August 2018. The 3-month average annual growth rate for pay excluding bonuses was 3.6% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.7%.

There was a rise in quarterly GDP growth in the first calendar quarter for 2019 to 0.5%, from 0.2% in Q4 2018 with stockpiling ahead of the (now delayed) 29th March Brexit distorting data. Production and construction registered positive output and growth, however at the end of June 2019, seasonally adjusted Markit UK Construction PMI (Purchasing Manager's Index) logged a record-low figure of 43.1, suggesting that construction has suffered a largest contraction in output since April 2009. GDP growth was 1.8% year/year, however with the service sector slowing and a weaker global backdrop the outlook was for subdued growth.

Politics has been a big driver over the last quarter. The 29th March Brexit deadline was extended to 12th April and then to 31st October 2019: there is still no clear consensus as to the terms on which the UK will leave the EU. Theresa May announced her resignation as Prime Minister and leader of the Conservative Party in May and the leadership contest for her successor is ongoing with Boris Johnson the current favourite.

The struggling British high street has continued to dominate headlines with the Arcadia group being saved from collapse in June following an agreement for rent reductions from landlords. The car industry has also struggled in the UK and beyond with announcements of cuts to 12,000 jobs across Europe by Ford.

With the deterioration in the wider economic environment, compounded by Brexit-related uncertainty and the risk of a no-deal Brexit still alive, the speech by Bank of England Governor Mark Carney in early July signalled a major shift to the Bank's rhetoric and increased the

possibility of interest rate cuts, rather the Bank's erstwhile 'gradual and limited' rate hike guidance.

Globally, tensions between the US and China became progressively more fraught with US President Donald Trump threatening to more than double tariffs on some Chinese goods. There were also moves in both the US and UK to block or restrict access to markets by Chinese telecoms giant Huawei. Amid low inflation and a weak economy in the Eurozone Mario Draghi signalled in late June that another round of stimulus (QE) may be likely. The US and EU have also carved the path for interest rates to be cut in the future.

Financial markets: 2018 was a year to forget in terms of performance of riskier asset classes, most notably equities. However, since the beginning of 2019 markets have rallied, and the FTSE 100 is up over 10% in pure price terms for the first 6 months of the calendar year. Nearly all of these gains were realised in the last quarter of FY 2018/19, as Q1 2019/20 has only seen a modest increase of around 2%.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. Gilt yields fell - the 5-year benchmark gilt yield falling to 0.63% at the end of June from 0.75% at the start of April. There were falls in the 10-year and 20-year gilts over the same period dropping from 1.00% to 0.83% and from 1.47% to 1.35% respectively. Money markets rates stabilised with 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.60%, 0.68% and 0.92% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. The US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) in March 2019 and this relationship remained and broadened throughout the period. History has shown that a recession hasn't been far behind a yield curve inversion. Germany sold 10-year Bunds at -0.24% in June, the lowest yield on record. Bund yields had been trading at record lows in the secondary market for some time, however the negative yield in the primary market suggests that if investors were to hold until maturity, they are guaranteed to sustain a loss - highlighting the uncertain outlook for Europe's economy.

Credit background: Credit Default Swap (CDS) spreads fell slightly across the board during the quarter, continuing to remain low in historical terms. After hitting around 97bps at the start of the period, the spread on non-ringfenced bank NatWest Markets plc fell back to around 82bps at the end of June, while for the ringfenced entity, National Westminster Bank plc, the spread fell from 67bps to 58bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 28 and 59bps at the end of the period.

S&P upgraded RBS Group and its subsidiaries, including National Westminster Bank PLC, Natwest Markets PLC, The Royal Bank of Scotland and Ulster Bank Ltd. S&P raised the long-term issuer ratings by one notch due to RBS Group's strengthened credit fundamentals following a long period of restructuring. S&P believes the group and its subsidiaries have enhanced their capacity to manage the current UK political and economic uncertainties.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Barclays Bank PLC to positive from stable to reflect the bank's progress in its restructuring plans, including de-risking the balance sheet, improving its risk profile and profitability and resolving litigation issues in the US. Moody's also revised the outlook to stable from negative for Goldman Sachs International Bank, reflecting a slowdown in loan growth as well as a stronger revenue growth for sales and trading.

Local Context

On 31st March 2019, the Authority had net borrowing of £52m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £000
General Fund CFR	57,865
HRA CFR	71,912
Total CFR	**129,777**
Less: Usable reserves	(69,514)
Less: Working capital	(7,951)
Net borrowing	**52,312**

The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th June 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £000	**Movement £000**	**30.6.19 Balance £000**	**30.6.19 Rate %**
Long-term borrowing	77,999	0	77,999	
Short-term borrowing	25,794	(6,500)	19,294	
Total borrowing	**103,793**	**(6,500)**	**97,293**	**3.36%**
Long-term investments	47,496	504	48,000	
Short-term investments	4	1	5	
Cash and cash equivalents	3,981	(2,301)	1,680	
Total investments	**51,481**	**(4,796)**	**46,685**	**3.74%**
Net borrowing	**(52,312)**		**(50,608)**	

£6.5m of short term borrowing repaid in the quarter. The long term investments are valued at their fair value at 31.3.19 for accounting purposes; the adjustment of £504k is added back to the investments for 30.6.19. The reduction in cash and cash equivalents is due to normal cash flow fluctuations.

Borrowing Strategy during the period

At 30th June 2019 the Authority held £97.3m of loans, a decrease of £6.5m since 31st March 2019, as part of its cashflow management strategy for funding previous years' capital programmes. Outstanding loans on 30th June are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.19 Balance £000	Net Movement £000	30.6.19 Balance £000	30.6.19 Weighted Average Rate %
Public Works Loan Board	80,293	0	80,293	3.36%
Local authorities (short-term)	23,500	6,500	17,000	0.85%
Total borrowing	**103,793**		**97,293**	

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In keeping with these objectives, no new borrowing was undertaken in the quarter. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead.

As the Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

Treasury Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £47.9 and £49.7 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.19 Balance £000	Net Movement £000	30.6.19 Balance £000	30.6.19 Income Return %
Banks & building societies (unsecured)	347	9	356	0.10%
Money Market Funds	3,638	(2,309)	1,329	0.71%
Other Pooled Funds:				
- Short-dated bond funds	7,981	19	8,000	0.97%
- Strategic bond funds	7,908	92	8,000	4.74%
- Property funds	5,834	166	6,000	4.07%
- Multi asset income funds	25,773	227	26,000	5.00%
Other Pooled Funds Sub-Total	47,496	504	48,000	
Total investments	**51,481**	**(1,796)**	**49,685**	

The balance of the other pooled funds at 31.3.19 includes accounting adjustments of £504k for unrealised losses, which were included at year-end for statutory reporting purposes (and separately reversed out through a non-useable reserve, as permitted).

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into more secure and/or higher yielding asset classes as shown in table 4 above. £48m that is available for longer-term investment was moved from bank and building society deposits into pooled Investment funds. As a result, investment risk was diversified.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
31.03.2019	4.46	AA-	100%	1	3.19
30.06.2019	4.52	A+	100%	1	3.71
Similar LAs	**4.28**	**AA-**	**63%**	**81**	**1.74%**
All LAs	**4.31**	**AA-**	**62%**	**28**	**1.41%**

£48m of the Authority's investments are held in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 4.74%, comprising a 3.82% income return which is used to support services in year, and 0.92% of capital growth.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates. In light of their performance and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

Readiness for Brexit: The scheduled leave date for the UK to leave the EU is now 31st October 2019 and there remains little political clarity as to whether a deal will be agreed by this date, the potential of a no-deal Brexit has not been ruled out. Particularly as this new leave date approaches the Authority will ensure there are enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

Following the approval of the Property Investment Strategy in November 2016, work continues to identify and progress suitable investments to deliver economic regeneration and to generate additional income streams for the future. Additionally, the Property Investment team continues to work on a number of residential developments both utilising DDC owned properties and land, as well as with external developers.

In 2018/19 total income (rent and service charges) of £1.97m was received from the investments made to date, including B&Q, Whitfield Court, Castle Street, garages and shops. Costs including management costs, minimum revenue provision and short term borrowing of £880k were incurred resulting in retained income for the General Fund of £1.1m. These costs were £360k lower than the 2018/19 budget as no long term borrowing has yet been undertaken to fund the investments with the costs being covered by cash flow and short term borrowing as required. This saving was transferred to earmarked reserves in 2018/19 to allow for possible future void periods and support further investment opportunities.

The 2019/20 budget includes a forecast of total income (rent and service charges) of £1.97m. Costs including management costs, minimum revenue provision and term borrowing of £1.37m are forecast resulting in retained income for the General Fund of £600k.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £000	Budget £000	Over/ under	Actual %	Benchmark %	Over/ under
Interest Received	1,734	1,824	(90)	3.74	0.76	2.98
Interest Payable	2,762	2,762	0	3.36	3.36	0

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	30.6.19 Actual £m	2019/20 Operational Boundary £m	2019/20 Authorised Limit £m	Complied?
Borrowing	97.3	333	338.5	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

	30.6.19 Actual	2019/20 Limit	Complied?
Any single organisation, except the UK Government	<£1m	£8m per bank	✓
Any group of organisations under the same ownership	**0**	£16m per group	✓
Negotiable instruments held in a broker's nominee account	**0**	£15m	✓
UK Government	**0**	Unlimited	✓
Unsecured investments with building societies	**0**	£8m	✓
Pooled Investment Funds	£48m	£10m per fund	✓
Operation bank	<£1m	£20m	✓
Money Market Funds	£1.3m	£10m per fund	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.6.19 Actual	2019/20 Target	Complied?
Portfolio average credit rating	4.52	6	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing excluding deposits due back < 3 months.

	30.6.19 Actual	2019/20 Target	Complied?
Total cash available within 3 months	£9.7m	£8m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.6.19 Actual £000	2019/20 Limit £000	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	496	600	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	496	600	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.6.19 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	£19.3m	25%	0%	✓
12 months and within 24 months	£3.5m	50%	0%	✓
24 months and within 5 years	£7.7m	50%	0%	✓
5 years and within 10 years	£15.5m	100%	0%	✓
10 years and above	£51.2m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Outlook for the remainder of 2019/20

Having increased interest rates by 0.25% in November 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) is now expected to maintain Bank Rate at this level for the foreseeable future. There are, however, upside and downside risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

The resignation of Theresa May has added further political uncertainty. Boris Johnson appears to be the frontrunner to become Prime Minister and also appears to favour exiting the EU on 31st October. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline.

With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently and global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process engender more uncertainty for business and consumer confidence and for economic activity.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Gilt yields have fallen to recent lows. Resolution of global political uncertainty would see yields rise but volatility arising from both economic and political events continue to offer longer-term borrowing opportunities for those clients looking to lock in some interest rate certainty.

In-house as at 30/06/19

APPENDIX 2

Organisation	Issue Date	Book cost	Market yield %	Government Sovereign Debt rating	Options available
In-house investments - Long Term					
CCLA Property investment Fund	30/06/2017	3,000,000	4.36%	UK - Gov 'AA'	*5 Years* +
CCLA Property investment Fund	31/07/2017	3,000,000	4.37%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/2017	6,000,000	4.57%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/2017	6,000,000	4.42%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/2018	8,000,000	0.85%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/2018	2,000,000	4.57%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/2018	2,000,000	4.57%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/2018	8,000,000	3.06%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/2018	2,000,000	3.23%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/2019	8,000,000	5.00%	UK - Gov 'AA'	5 Years +
		48,000,000			
		48,000,000	**Total Portfolio**		

Cashflow:		**Rate**
Call Accounts/MMF (as at 30/06/19)		
Global Treasury Fund (Goldman Sachs Money Market Fund)	810,106	0.71%
Standard Life Investments (Money Market Fund)	519,000	0.76%
Natwest SIBA	316,127	0.20%
Santander	502	0.05%
Bank of Scotland	5,038	0.65%
HSBC Business Acc	0	0.00%
Barclays	34,270	0.00%
Total Cash flow	**1,685,043**	
Total Portfolio and Cashflow	**49,685,043**	

Dover District Council Borrowing - 2019/20 **APPENDIX 3**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-19	Interest Rate %	Principal To Be Repaid 2019/20	Principal Balance 31-Mar-20	Interest Payable 2019/20	Lender	Type of loan
Long Term Borrowing											
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	290	2.50	45	245	7	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	54	2.50	8	45	1	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	76,291,758	3.18	2,293,822	73,997,937	2,407,986	PWLB	Annuity (HRA Financing)
					80,292,102		**2,293,875**	**77,998,227**	**2,670,494**		
Short Term Borrowing											
Fixed	17/12/2018	16/12/2019	On Maturity		5,000,000	1.10	5,000,000	0	39,178	Hampshire County Council	Short term loan for Strategic cash flow purposes
Fixed	05/05/2019	03/07/2019	On Maturity		0	0.80	4,000,000	0	5,348	Middlesbrough Council	Short term loan for Strategic cash flow purposes
Fixed	17/06/2019	03/07/2019	On Maturity		0	0.65	8,000,000	0	2,279	Middlesbrough Council	Short term loan for Strategic cash flow purposes
					5,000,000		**17,000,000**	**0**	**46,805**		*Sub-total*
Fixed	01/05/2012	01/11/2027	MAY-NOV		69,676	0.00	8,710	60,966	0	Lawn Tennis Association	Interest free
					80,361,778		**2,302,584**	**78,059,194**	**2,717,300**		

In-house as at 31/8/19

APPENDIX 4

Organisation	Issue Date	Book cost	Market yield	Government	Options available
In-house investments - Long Term					
CCLA Property investment Fund	30/06/2017	3,000,000	4.36%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/2017	3,000,000	4.37%	UK - Gov 'AA'	*5 Years +*
Investec Diversified Income Fund	15/12/2017	6,000,000	5.09%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/2017	6,000,000	4.74%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/2018	8,000,000	0.97%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/2018	2,000,000	5.09%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/2018	2,000,000	5.09%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/2018	8,000,000	3.85%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/2018	2,000,000	4.74%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/2019	8,000,000	6.06%	UK - Gov 'AA'	5 Years +
		48,000,000			
		48,000,000	**Total Portfolio**		

Cashflow:

Call Accounts/MMF (as at 31/08/19)	**Rate**	
Global Treasury Fund (Goldman Sachs Money Market Fund)	5,320,106	0.67%
Standard Life Investments (Money Market Fund)	1,619,000	0.74%
Natwest SIBA	350,281	0.20%
Santander	503	0.05%
Bank of Scotland (BOS)	5,017	0.65%
HSBC Business Acc	0	0.00%
Barclays	34,314	0.00%
Total Cash flow	**7,329,220**	
Total Portfolio and Cashflow	**55,329,220**	

GOVERNANCE COMMITTEE – 26 SEPTEMBER 2019

AUDIT FINDINGS REPORT

Report to follow.

(In accordance with the provisions of Section 100(B)(4)(b) of the Local Government Act 1972, the Chairman agreed that this item, which was not detailed on the agenda at the time of publication, should be considered as a matter of urgency for the following reasons: (a) the auditors were late starting and completing their work and they are only recently in a position to finalise the audit; (b) the Council have been discussing a technical accounting adjustment with them and have been unable to complete the audit without agreeing a way forward. The Council has now agreed to use their recommended treatment; (c) the PSAA are advising they will publish the list of local authorities whose accounts are not completed by the end of September 2019. The Council does not want to be on this list as it could have a negative reputational impact and possible impact on future funding.)

Subject:	**FINANCIAL OUTTURN 2018/19**
Meeting and Date:	**Cabinet – 2 September 2019** **Governance – 26 September 2019**
Report of:	**Helen Lamb, Head of Finance and Housing**
Portfolio Holder:	**Councillor Steve Manion, Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the financial outturn for 2018/19.
Recommendation:	Members receive and note the report.

1. **Summary**

1.1 This report has been produced in order to provide Members with:
- An explanation of the outturn and the financial standing of the Council;
- Details of changes to the accounts; and
- A condensed version of the information included in the accounts.

1.2 The report should be considered in conjunction with both the Statement of Accounts and the Audit Findings Report (to be included in full on the 26th September Governance agenda). Due to a peak period of work during June and July 2019, when all local government accounts are audited, our auditor, Grant Thornton, has been unable to conclude the audit. Grant Thornton has confirmed that it takes full responsibility for this, and is aiming to conclude its work by 30 September 2019, using specialists in local government audit. This means that this update is being presented to Cabinet prior to the completion of the audit process and hence based on the draft, unaudited Statement of Accounts. Some changes may be required to the Governance version of the report following the completion of the audit process.

1.3 The accounts are a long and complex document that Members may not find easily accessible. The key points in the financial outturn for the year are:
- The General Fund outturn was broadly balanced for the year, showing a surplus of £12k after the following transfers to reserves;
  - £820k to the Special Projects reserve from the additional income retained as part of the one-off NNDR Kent Pilot scheme. This has been part allocated to fund the Town Centre Business Grant Scheme.
  - £700k to the Special Projects Reserve and £175k to the ICT reserve from in-year savings including:
    - Reduced interest payable flowing the redemption of the LOBO loan;
    - Increased interest received from further investment in pooled funds;
    - Additional retained NNDR income;
    - Additional Council Tax prior year income recovery;
    - Savings over budgeted target from reduction in use of temporary accommodation for Homelessness;
    - Savings from staff turnover and vacancies;
    - See table at paragraph 4.3 for further details.
- This leaves the year-end General Fund balance at £2.5m;
- In 2018/19 the Housing Revenue Account (HRA) outturn was a surplus £21k resulting in a HRA of balance of £1.03m;

- The Council invested £29.7m in major projects in 2018/19, the most significant of which were: £11m on Housing Revenue Account projects, £15.86m on the construction of the new Dover District Leisure Centre. Overall, the capital programme is within budget;
- The total interest received for the year was approximately £1.2m. This was due to the Council investing a total of £48m into pooled investment funds which generate a higher rate of interest than call accounts and fixed term deposits;
- No new long term borrowing was undertaken. Short term borrowing was undertaken for strategic treasury management purposes.
- The Council has remained within its Treasury Management guidelines, and has complied with the Prudential Code during the year.
- When considering this report and the Statement of Accounts, Members are reminded that the final accounts, budget and Medium Term Financial Plan (MTFP) should not be considered in isolation. Together they form a continuous process of financial management, and so the outturn will feed into budget monitoring and the next MTFP.

2. Purpose of the Accounts

2.1 The accounts are a statutory requirement and have a role in providing information to stakeholders and interested parties on the stewardship and management of public monies.

2.2 However, the accounts are a long and complex document which may not be easily accessible to Members, the public and other stakeholders. Therefore, in order to further promote accountability, this outturn report is also produced.

3. Changes to the Accounts

3.1 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The Code is based on a hierarchy of approved accounting standards. There have been no very few changes to the presentation of the accounts for 2018/19, with only IFRS 9 Financial Instruments affecting this Council.

4. General Fund Revenue Outturn

4.1 The starting point for considering the financial outturn is the 2018/19 Original budget which is shown, together with the 2018/19 Projected Outturn and the 2018/19 Outturn, at Appendix 1.

4.2 In March 2018 the Council approved the 2018/19 budget, forecasting a surplus of £99k. During the year the forecast budget surplus was increased to £236k. Overall the year-end position resulted in a £12k surplus for the year, which is £224k less than the forecast position.

4.3 The main variances during the year are as follows:

	£000
Original Budget Surplus	**(99)**
NNDR Pilot Scheme one-off income - Financial Sustainability Fund element	(820)
Transfer one-off NNDR Income to Special Projects Reserve	820
Recharges - Reduction in recharges to HRA and Projects, resulting in higher charges to General Fund, partly offset by salary vacancy provision below	424
NNDR Income – additional income from Enterprise Zone Relief grant (prior year element) and S31 Grant for other reliefs, incl. extra grant for small business rates relief 'threshold changes'	(258)
Transfer to ICT Reserve for future ICT improvements and digitisation	175

	£000
Homelessness - Temporary accommodation costs - reduction above target (£369k), less transfer to Periodic Ops Reserve (£150k) for future projects	(219)
Investment income - increase due to further investments and better returns from pooled funds, less cost of additional treasury advice and short term borrowing	(201)
Off-Street Parking income - Reduction mainly due to partial implementation of Sunday charging & free parking at St. James' development until Dec 2018	199
Grounds Maintenance – additional income from works rechargeable to third parties	(100)
Salary Vacancy Provision - Savings in excess of vacancy provision budgeted, due to maternity savings, vacant posts, etc. less restructure costs	(91)
Licensing - Higher income from cabs/private hire vehicles, premises, gambling, etc.	(71)
Port Health - Improved income, mainly from Endorsement of Organic Certificates	(54)
Increased cost of waste recycling contract mainly due to higher property numbers	50
Other net variances – adverse	9
Revised Budget Surplus	**(236)**
NNDR Pilot Scheme one-off income - £1,003k Growth Fund and further £160k Financial Sustainability Fund elements	(1,163)
Transfer one-off NNDR Income to Dover Regeneration Reserve (£1,003k) and Special Projects Reserve (£160k)	1,163
Transfer to Special Projects Reserve – extra transfer from in-year savings	700
Interest Payable - reduced cost following redemption of LOBO loan	(127)
Investment income - reduced income, net of treasury management fee savings	71
Costs Recovery - Additional Council Tax recovery work by Civica on old debts, resulting in additional recovery of costs, after allowance for potential bad debts	(92)
Staff vacancy savings - further savings at year-end due to vacant posts, etc.	(63)
Waste - mainly reduced contract inflation for refuse and recycling, reduced special collection charges, increased contributions for bins at developments, and further County street cleansing contribution for weed spraying	(50)
Internal Recharge variances - additional net favourable variance	(45)
The Dover Gateway (Castle Street) - contribution towards operating costs from KCC (first year's revenue contribution)	(39)
Non-Service Specific Grants - £30k New Burdens; £8k Other	(38)
Contingency not used after 'Carry Forward' requests	(34)
NNDR/Business Rates income – other net increase in income	(24)
Bad Debts - reduced provision on corporate debts (excl. NNDR and Council tax)	(22)
Beaches & Foreshores – reduced income due to beach huts at St. Margaret's awaiting repair and additional beach hut purchases not progressed	20
Homelessness – further reduction in net emergency accommodation spend	(18)
Licensing - Hackney Car & Private Hire vehicles, Premises, Gambling, Animal Establishments, etc. - increased licence income	(18)
Miscellaneous other variances (net)	3
Actual Budget Surplus	**(12)**

5. General Fund Reserves and Balances

5.1 The Council maintains both general and earmarked reserves. General reserves are to meet general future expenditure and earmarked reserves are for identified purposes.

5.2 General Balances are held at a prudent level in order that the Council can cope with unanticipated variations in spend. Earmarked General Reserves are funds set aside for planned purposes. The protocols for the application of these reserves is set out in the MTFP, and their anticipated use is generally included in the revenue or capital budgets.

5.3 As reported above, the 2018/19 Outturn was a surplus of £12k. This was after transfers made to earmarked reserves and the use of those reserves for agreed purposes.

Movement in General Fund Balances	
	£000
Balance at start of the year	**(2,527)**
Surplus for 2018/19	(12)
Balance at the end of the year	**(2,539)**

5.4 The Opening Balance of £2,527k and the year-end balance of £2,539k can be found in Appendix 1 to this report and also within the Statement of Accounts (in the "Movement in Reserves Statement").

5.5 Note 26 to the Core Financial Statements in the draft Statement of Accounts provides a complete breakdown of the Earmarked Reserves, also shown at Appendix 2 to this report. Contributions to and from the Earmarked Reserves have been managed in order to ensure there are sufficient reserves to meet anticipated commitments. The reserves held are:

- Special Projects & Events Reserve – This reserve is set aside to continue to fund one-off General Fund projects as they arise and to support major events in the district. It is used for both revenue and capital projects.
- Periodic Operations Reserve - This reserve is to cover costs of cyclical / periodic events such as elections, "carry forward requests" and to hold grants or other income streams for specific purposes, such as the Homelessness grant and On-Street parking surpluses.
- Urgent Works Reserve - This reserve is set aside to fund urgent works on corporate assets and for other urgent business requirements, for example for future restructures to meet likely on-going grant reductions. The need for this reserve is greater than ever due to the ageing nature of our assets and the reduced levels of investment in them as reflected in the reduced revenue budget.
- Regeneration Reserve - In order to support the Local Development Framework process and associated regeneration projects a Dover Regeneration Reserve has been established.
- ICT Equipment & Servers Reserve – The current ICT Equipment & Servers reserve is held in order to support the requirements of the current and future ICT Strategies.
- Business Rates & Council Tax Support Reserve – This reserve has been established to allow for the risk of unforeseen pressures from the Redistribution of Business Rates and the new Council Tax Support scheme and future changes for Universal Credit.
- District Regeneration & Economic Development Reserve - This reserve is to be applied to support the Council's regeneration plans. An element of the reserve has been allocated to fund new Leisure Centre provision and improvements to Dover Town Hall.

5.6 In considering the earmarked reserves and general balances, Members are reminded that there is an "opportunity cost" of maintaining these reserves and balances when the resources could be applied to meet service or capital investment requirements. At the same time, maintaining cash backed reserves generates additional income from interest on cash balances, which is used as an additional income stream. However, the key judgement is to ensure that the reserves are set at

levels that facilitate the prudent financial management of the authority, provide sufficient resources to meet anticipated future demands, and to provide for a margin for unanticipated variation.

5.7 It is the view of the Strategic Director (Corporate Resources) (Section 151 officer) that the estimated General Fund balances and reserves are adequate for the Council's current spending plans. However, these remain under regular review due to the ongoing changes to Local Government finance and the uncertain economic climate.

6. Housing Revenue Account Outturn

6.1 In 2018/19 the HRA outturn was a surplus balance of £1,033k compared to the original budget forecast of a surplus of £1,016k, a favourable variance of £16k. The main reasons for the variance are as follows:

- Funding of affordable housing projects from Housing Initiatives Reserve – (£5,077k)
- Increased contribution to Housing Initiatives Reserve – £4,100k
- Reduction in internal recharges - (£531k)
- Reduction in spend on revenue maintenance budgets - (£654k)
- Direct revenue financing - adjustment to capital financing – £2,562k

6.2 The HRA working balance was maintained at £1m.

6.3 In 2018/19 £727k was transferred to the Housing Initiatives Reserve to provide investment for housing initiatives in the district.

6.4 With effect from 1 April 2012 Housing Finance Reform brought the housing subsidy system to an end and replaced it with a self-financing system. This change required a one off payment to Central Government of £90,473k on 28 March 2012. To fund this payment the Council borrowed the same sum from the Public Works Loan Board (PWLB) on a 30 year repayment basis at a fixed interest rate. £2,223k was paid off the PWLB loan principle sum during 2018/19.

7. Collection Fund Outturn

7.1 This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates (NDR) and Council Tax, and illustrates the way in which these have been distributed to precepting authorities and the General Fund. These are explained in more detail in the Collection Fund section of the Statement of Accounts. The surpluses and deficits on the collection account are shared between the major preceptors (KCC, Police, Fire and DDC for Council Tax; KCC, Fire, DDC and Central Govt. for NDR) in their respective proportions, and so are not borne totally by DDC and do not have a direct or immediate impact on DDC's finances.

7.2 The Collection Fund shows a total surplus of £964k at 31 March 2019. This is split between Council Tax (a surplus of £1,928k) and NDR (a deficit of £964k). Any surplus balance on the fund is distributed to the precepting authorities in proportion to their respective precept amounts (for Council Tax) and statutorily defined shares (for NDR). However surpluses are on an accruals basis and are not fully cash backed and calculations for distribution of any surpluses form part of the following year's budget, initially based on an earlier estimate of the distributable balance expected at 31 March 2019. Separately, deficits have to be contributed back to the fund by preceptors, also based on an earlier estimate of the expected deficit at 31 March 2019.

7.3 The Council Tax surplus of £1.93m will be distributed to preceptors during future years, of which £0.79m will be distributed in 2019/20 based on the amount estimated in January 2019, as required under legislation (DDC's share £112k or 14.2%). The remaining undistributed amount of £1.14m, which was not represented fully by

available cash at that time, will form part of the surplus estimate to be calculated in January 2020 for distribution in 2020/21 and subsequent years.

7.4 The calculation and forecasting of NDR income, and the accounting treatment for it, have to reflect the legislative and other government requirements, which are complex.

7.5 The changes between the budget for NDR for 2018/19 (based on the NNDR1 form) and final outturn are shown in the table below:

Business Rates Collection Fund	**Budget per NNDR1 2018/19**	**Changes during 2018/19**	**Actual Outturn 2018/19**
	£000	**£000**	**£000**
Estimated / Final Rateable Value	**108,388**	**(262)**	**108,126**
Gross Rates Yield	**(52,026)**	**28**	**(51,998)**
Enterprise Zone Relief given	1,522	1,141	2,663
Net Transitional Supplement received	(867)	286	(581)
Small Business Rates Relief given	3,750	383	4,133
Small Business Rates Supplement	(1,050)	23	(1,027)
Other Reliefs	4,453	22	4,475
Net Rates billed to NDR Payers	**(44,218)**	**1,883**	**(42,335)**
Enterprise Zone Relief from Govt.	(1,522)	(1,202)	(2,724)
Transitional Protection from Govt.	0	0	0
Total Income	**(45,740)**	**681**	**(45,059)**
Precepts Payable	40,106	0	40,106
Prior year est. deficit contributed	(1,513)	0	(1,513)
Total Precepts & Shares	**38,593**	**0**	**38,593**
Enterprise Zone Relief Payable	1,522	1,202	2,724
Transitional Supplement to Govt.	867	(286)	581
Other Payments & Provisions	3,245	(1,053)	2,192
Total Other Payments & Provisions	**5,634**	**(137)**	**5,497**
Total Expenditure	**44,227**	**(137)**	**44,090**
(Surplus)/Deficit for the year	**(1,513)**	**544**	**(969)**
Balance Brought Forward at 1st April	1,513	420	1,933
Balance Carried Forward 31st March	**0**	**964**	**964**

7.6 The increase in Enterprise Zone Relief compensation arises from new tenancies at the designated Enterprise Zone in Feb/Mar 2018, which has led to fresh claims for the relief before the 31/03/2018 deadline for making claims expired. This was not anticipated at the time the NNDR1 return for Business Rates was prepared and on which the income for 2018/19 was estimated. Under statutory regulations, Dover's share of additional compensation grant (£962k incl. S31 'inflation cap' grant) is reversed through the MIRS and will not be formally recognised until 2019/20.

7.7 Non-domestic rates are set on a national basis, but the Council is responsible for collecting rates due from the ratepayers in its area. The Government specifies an amount of 'rate poundage' of 49.3p (47.9p) for large businesses or 48.0p (46.6p) for small businesses in 2018/19 (2017/18) and, subject to the effects of transitional

arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

7.8 On 1 April 2013 the Business Rates Retention Scheme (BRRS) was introduced. Under the BRRS, cash collected by the billing authority from NNDR debtors belongs proportionately to the government (50%), the billing authority (40%) and the major precepting authorities, being Kent County Council (9%) and Kent & Medway Fire and Rescue Authority (1%).

7.9 However, from April 2013 the Ministry of Housing, Communities and Local Government has calculated a tariff payable by the billing authority (Dover District Council) that reduces its retained funding significantly from the 40% share (18/19 tariff £11.8m). Nevertheless, Dover would have been in a levy position for 2018/19 and, under normal circumstances, would have needed to pay a levy of £839k on growth above its baseline need level determined by Government. Similar arrangements exist for the other major preceptors.

7.10 As an exception for 2018/19, the Kent Authorities were permitted to form a 'Pilot Scheme' for one year only, under which business rates growth is retained 100% by the Pilot Scheme members, meaning that no levy is payable by any of the Kent authorities to Government for 2018/19. Separate governance arrangements exist for the Pilot Scheme with complex arrangements for apportioning the additional county-wide business rates growth between the authorities for the year. Tariffs are still payable to Government as normal, as it is only the growth above aggregate baseline need that is permitted to be fully retained for the year.

7.11 Under the Pilot Scheme, the Government's proportional share decreased from 50% in 2017/18 to 0% for 2018/19, KCC's share increased from 9% to 59%, while district shares remained at 40% for both years and the Kent & Medway Fire and Rescue Authority share remained at 1% for both years.

7.12 Under the agreed Pilot Scheme arrangements, the first 50% of growth was treated in accordance with existing local pooling arrangements, with Dover as 'shadow' pool members enjoying the same effective reward from levy savings as other pool members for 2018/19 (although Dover was not a pool member in 2017/18). The remaining 50% of growth under the pilot scheme was distributed by way of a Financial Sustainability Fund element (70%) and a Growth Fund element (30%). The total favourable impact of being in a Pilot Scheme during 2018/19 for Dover District Council, based on its retained shares, was £2.45m, as shown below:

		2017/18		2018/19
	£000	£000	£000	£000
Levy:				
Levy Payable to Pool (50% x Growth)	0		(839)	
Direct share of levy saving from pooling	0		232	
Growth Fund share of levy saving	0		232	
Pool Admin Fee	0		(1)	
Effective net levy under pooling		**0**		**(376)**
Levy Payable to Govt. (50% x Growth) - 2018/19 is balance re 2017/18		(237)		(22)
Total Levy to Govt./Pool		**(237)**		**(398)**
Additional Growth from Pooling/Pilot:				
Levy due without pooling	(237)		(839)	
Effective net levy payable	(237)		(376)	
Extra growth retained (pooling element)		0		463
Pilot Scheme – Financial Sustainability Fund		0		980
Pilot Scheme – Growth Fund		0		1,003
Additional Growth from Pooling/Pilot		**0**		**2,446**

7.13 The additional growth from the Pilot Scheme has been transferred to earmarked reserves, being £980k to the Special Projects & Events reserve and £1,235k to the Dover Regeneration reserve, to provide funding for future projects and initiatives, of which £1/2m is earmarked for the Town Centre Business Grants Scheme (25% of this has been awarded to applicants and a new green energy grant will shortly be added to the scheme).

7.14 The Pilot Scheme is not permitted to continue in 2019/20, but Dover will remain a 'shadow' member of the Kent-wide Business Rates pool instead, meaning it can make levy savings while there is net growth, and thereby retain more locally than when acting alone.

7.15 The total NNDR income after reliefs (and before sharing between preceptors) was £42.335m for 2018/19 (£37.620m for 2017/18). This was based on the total rateable value for the Council's area, which at the year-end was £108.126m (£104.991m in 2017/18).

7.16 Under the localisation of business rates, the Council is required to calculate a provision for successful appeals made against NNDR debts based on disputes over rateable value, which includes an estimate based on appeals currently lodged against 2018/19 and prior years.

7.17 The increase in the appeals provision is mainly due to the revaluation at 1st April 2017, whereby the rateable values of businesses have been recalculated by the Valuation Office Agency (VOA) and therefore requires a specific additional provision to be made relating to both the 2017/18 and 2018/19 years, on top of the provision for those appeals already lodged under the prior 2010 valuation.

Summary of Appeals Provision:	**2017/18 £000**	**2018/19 £000**
Provided against 2010 valuation appeals	2,771	2,639
Provision for 2017 valuation appeals	2,205	3,591
Total	**4,976**	**6,230**

7.18 The likely reduction in business rates income arising from appeals is difficult to estimate accurately, as decisions by both the Valuation Office Agency (VOA) and Valuation Tribunal Service are difficult to predict. The current provision includes an estimate for the Council's largest ratepayer that remains the subject of negotiation between VOA and the ratepayer (and its agent), with no decision yet made in relation to its 2010 valuation still under dispute, but for which the impact could be significant.

7.19 The lack of appeals lodged so far against the 2017 valuation does not mean that they will not be lodged later, when the VOA 'appeals system' has been improved and activity from Ratings Agents (who pursue appeals on behalf of businesses for a fee) increases, which is expected further down the line when backdating of appeals to 1st April 2017 is likely to increase the fees they can charge on amounts refunded to businesses.

7.20 However, for 2018/19, alongside the other Kent Authorities, we have taken into account changes to reliefs, such as those arising from increased thresholds for Small Business Rates reliefs, beneath which more businesses are exempt from paying business rates from 1 April 2017, as well as those significant charitable and other reliefs granted to businesses which we think are likely to discourage appeals.

8. Capital Investment

8.1 The Council invested £29.7m in major projects in 2018/19, the most significant of which were:

- £11m on Housing Revenue Account projects including £2.26m on Housing Stock projects; £4.34m on the purchase of property for social housing; £114k on the refurbishment of Folkestone Rd properties for social housing; £728k on

the Norman Tailyour sheltered upgrade; and £962k on the redevelopment of William Muge and Snelgrove site;
- £15.86m on the construction of the new Dover District Leisure Centre;
- £1,135k on disabled facility grants;
- £746k on Deal Pier refurbishment works;
- £569k on Tides Leisure Centre refurbishment works;
- £145k on coast protection works in Deal;
- £119k on DTIZ enhancement works;
- The remainder has been spent on a number of smaller projects.

The main sources of capital financing applied in the year were:
- £15.47m internal borrowing;
- £2.12m in grants from external bodies including KCC Better Care Fund, Sport England, and the Environment Agency;
- £2.4m from the Major Repairs Reserve;
- £610k from earmarked reserves;
- £5.08m from the Housing Revenue Account (revenue financing);
- £3.39m from capital receipts, including Private Sector Housing loan receipts and excess right to buy receipts.

8.2 Right-to-buy sales also continued at high levels, in 2018/19 27 sales were completed.

8.3 Overall, the capital programme is within budget.

9. **Special Projects Outturn**

9.1 The Special Projects reserve is mainly used to finance major one-off revenue projects, because, as revenue projects, they cannot be financed from the various capital financing sources listed in the section above. It is also used to provide a source of additional financing for a small number of capital projects.

9.2 The expenditure on Special Projects in the year was £799k. The major projects were:
- £154k on Corporate property maintenance;
- £134k on resurfacing DDC car parks and access roads;
- £95k on ICT infrastructure projects;
- £82k on Dover Regeneration enabling costs; and
- £78k on the Local Development Framework plan.

9.3 The Special Projects programme is dynamic, and is adjusted as new projects are approved. These changes are reported to Members during the year, however, “in year” variations in spend against approved budget for individual projects are mainly due to timing changes. There are no material variations to individual projects’ total budget, and the whole programme is fully financed.

9.4 The main sources of financing for the programme in the year were as follows:
- £406k – Special Project Reserve;
- £84k – ICT Reserve;
- £309k – other reserves and contributions;

10. **Treasury Management**

10.1 The Council adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) revised Code of Practice for Treasury Management in November 2009.

10.2 At 31 March 2019 the Council had investment balances and day-to-day cash balances managed in-house of approximately £51.4m.

10.3 The Council’s in-house investments outperformed their benchmark (LIBID) and achieved an average return of 2.04% for the year.

10.4 The total interest received for the year was approximately £1,159k. This was higher than the original budget of £999k, which is a favourable variance of £160k. This is due to the Council investing a total of £48m into pooled investment funds which generate a higher rate of interest than call accounts and fixed term deposits. These investments are classed as long term as it is anticipated they will be held for a minimum of five years.

10.5 The Council has just under £80.3m of borrowing from the Public Works Loans Board.

10.6 In December 2018 the Council repurchased the £3m LOBO (Lender Option Borrower Option) loan from KA Finanz as they sold their loan portfolio. The cost was £3.6m.

10.7 During 18/19 the Council employed the services of Arlingclose Limited as treasury management advisers.

11. Assets and Liabilities

11.1 At the end of each year a Balance Sheet is drawn up that represents how much the Council's land and buildings are worth, how much is owed to others, how much others owe the Council and the amount of cash the Council has:

As at 31 March	**2018**	**2019**
	£000	**£000**
Value of land, property and other assets	328,209	342,896
Investments held and cash at bank	46,452	51,487
Money owed to DDC for goods and services	10,955	12,408
Loans owed to DDC (short and long term)	2,101	2,196
Money owed by DDC for goods and services	(22,155)	(19,241)
Loans owed by DDC (short and long term)	(85,738)	(103,988)
Grants for assets received but not yet used	(727)	(929)
Share of pension scheme liabilities owed by DDC	(81,053)	(76,157)
Total Assets less Total Liabilities	**198,044**	**208,672**
Financed by:		
Usable reserves[1]	66,899	69,798
Unusable reserves[2]	131,145	138,874
Net Worth of Council	**198,044**	**208,672**

[1] Usable reserves are made up of:

Capital receipts and grants	22,762	21,644
Revenue balances	3,539	3,572
Earmarked reserves	40,598	44,582
	66,899	**69,798**

[2] Unusable reserves mainly comprise revaluations of assets from their original purchase value and the Pensions Reserve.

11.2 The main points to note against the prior year comparative are:

- Value of land, property and other assets
  The main changes in the values are due to:
  - Disposals – council house and other sales.
  - Revaluations –
    - Council has a policy of revaluing its property assets on a rolling programme, such that the intervals between valuations do not exceed 5 years as detailed in the accounting policies. From 1 April 2014 assets valued at over £1m will be revalued on an annual basis.
    - All properties held for investment are revalued annually. The basis for valuation is the Fair Value as there is sufficient evidence of market transactions. Housing stock is valued using existing use value – social housing.

- Impairments – events and changes in circumstances include:
  - A significant decline in market value during the period;
  - Evidence of obsolescence or physical damage;
  - A significant adverse change in the statutory or other regulatory environment in which the Council operates; and
  - A commitment by the Council to undertake a significant reorganisation.

There were no significant impairments in the year.

- Investments held and cash at bank
  - The increase in investments and cash at bank reflects a net increase in cash, mainly due a decrease on property purchases made as part of the property investment strategy and use of short term borrowing to fund capital expenditure.

- Money Owed to DDC for Goods and Services
  - The net increase in debtors incorporates:
    - A decrease in payments in advance due to precept payments to the parish councils (£2.3m);
    - An increase in rent arrears due to Universal Credit (£352k);
    - The decrease in the Central Government debts (General Fund) is due to a decrease in the Business Rates Tariff Adjustment (£1.1m);
    - The increase in local authority debtors is made up of:
      - £1.9m increase due to the Business Rates Pilot Scheme
      - £861k increase in debtors relating to the waste contract
      - £333k increase in other Local Authority debtors.
    - The increase also incorporates a £1.1m increase in the collection fund debtors due to higher NNDR debts and other pilot scheme related debtors.
  - See Note 27 of the Statement of Accounts for an analysis of this total.

- Money owed by DDC for Goods and Services
  - The net decrease in creditors is due to changes in both General Fund and Collection Fund creditors. The changes in General Fund Creditors include:
    - £1.08m decrease in the amount owed to DWP for Housing Benefit subsidy,
    - £341k increase in Local Authority creditors,
    - £141k increase in Housing Rents creditors,
    - £215K reduction in revenue creditors,
    - £141k increase in HRA sundry creditors,
    - £278 decrease in sundry capital creditors.
  - Additionally, there are Collection Fund decreases due to:
    - The discontinuation of pilot Government NDR pooling scheme (£5.1m),
    - A £2.6m increase in the Collection Fund cash owed to Government
      - £3m increase for additional share of collection fund cash owed to KCC based on their increased share under the NNDR pilot scheme of 59% verses only 9% for 2017/18
      - £340K decrease in DDC share of NDR collection fund.
  - See Note 29 of the Statement of Accounts for an analysis of this total.

- Loans owed by DDC (short and long term)
  - The net increase relates to the principal repaid on the PWLB loan for “HRA self-financing” (£2.2m) and the repurchase of the LOBO (£3m), offset by temporary short term borrowing for strategic treasury management purposes (£23.5m).

- Pension Scheme Liabilities
  - The Pension Scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, on behalf of Kent County Council based upon the full valuation of the scheme as at 31 March 2016. The Council’s

annual contribution to the scheme is in line with the levels recommended by the actuaries.
    - The net liability at 31 March 2019 was £76m (£81m at 31 March 2018).
    - The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits.
    - The total liability has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

- Usable Reserves
    - The main reason for the increase in usable reserves in 2018/19 relates to the increase in General Fund Earmarked Reserves. The main reasons for this increase are:
        - Additional NNDR Pilot scheme income allocated to Special Projects and Regeneration Reserves;
        - Surplus Property Investment income allocated to Periodic Operations Reserve;
        - Grants received in year for future projects allocated to Periodic Operations Reserve;
        - Additional allocations made to the Special Revenue and ICT Equipment & Servers reserves to support future projects.
        - See Appendix 2 for further details of General Fund Earmarked Reserves.

12. **Production of the Accounts**

12.1 Governance Committee requires assurance that the accounts are robust and that they can place reliance upon them. The Council's auditors, Grant Thornton, are responsible for reviewing the Council's procedures which ensure that money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. In addition, a summary of the controls operated by the Director of Finance, Housing and Community is provided at Appendix 3.

13. **The Future**

13.1 The Council, in common with others, will need to continue to make progress on, or give consideration to the on-going impacts of :

- The economic climate and the impact of the EU Referendum outcome;
- Development and regeneration of the local economy;
- The ongoing impact of the Government's budget deficit reduction programme on the Council's finances;
- Welfare Reform and cessation of the administration of housing benefits for working age claimants;
- The sustainability of the NHB scheme;
- The ongoing impact of the localisation of council tax support;
- The ongoing impact of the Business Rates Retention scheme and the implementation of 75% business rates retention; and
- Developing partnership arrangements with others in order to achieve cost efficiencies.

14. **Corporate Implications**

14.1 Comment from the Section 151 Officer: Finance have produced this report and have no further comments to make.

14.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

14.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15.

15. **Appendices**

Appendix 1 – General Fund Budget Summary

Appendix 2 – General Fund Earmarked Reserves Summary

Appendix 3 - Summary of the Main Controls Applied in Production of the Accounts

16. **Background Papers**

The draft version of the Statement of Accounts is available at: https://www.dover.gov.uk/Corporate-Information/PDF/Dover-Statement-18-19-310519.pdf. This version remains subject to audit, the final version will be published for the Governance 26th September 2019 agenda.

Contact Officer: Helen Lamb, extension 2063

APPENDIX 1

General Fund Summary – 2018/19 Outturn

2017/18 Actual £000		2018/19 Original Budget £000	2018/19 Revised Budget £000	2018/19 Actual £000
	Directorate			
1,411	Chief Executive	1,916	1,751	797
2,479	Governance	2,775	2,530	2,056
7,495	Finance, Housing & Community	8,336	8,129	8,014
3,434	Environment & Corporate Assets	3,492	3,379	3,129
172	Non-distributed costs	(356)	187	159
516	Special Revenue Projects	1,324	1,138	729
15,507	**Directorate Service Costs**	**17,487**	**17,114**	**14,884**
70	River Stour Drainage Board	71	71	71
39	Council Tax Support Funding to Towns & Parishes	0	0	0
(1,424)	Recharge Income from HRA & Capital Projects	(2,029)	(1,263)	(1,203)
0	Contingency	227	136	0
	Contribution to/(from) Reserves:			
(353)	- Special Projects & Events Reserve	(629)	432	2,523
1,467	- Periodic Operations Reserve	334	16	1,830
130	- Dover Regeneration Reserve	160	187	1,382
55	- IT Equipment Reserve	115	268	182
466	- Business Rates & Council Tax Reserve	(605)	(609)	(598)
15,957	**Net Service Expenditure**	**15,131**	**16,352**	**19,071**
	Financing Adjustments			
(507)	Interest Receivable	(979)	(1,230)	(1,138)
236	Interest Payable	238	263	136
9	Borrowing / Minimum Revenue Provision	949	949	560
(665)	Revenue Expenditure Funded by Capital Under Statute	(950)	(950)	(1,180)
15,030	**Total Budget Requirement**	**14,389**	**15,384**	**17,449**
	Financed by:			
4,013	Non-Domestic Rates	4,394	5,419	6,614
1,153	Business Rates - Enterprise Zone Relief Retained	618	724	1,332
84	Business Rates - Renewable Energy Retained	330	331	331
1,027	Revenue Support Grant	568	568	568
6,600	Council Tax	6,922	6,922	6,922
236	Council Tax - Collection Fund Surplus	141	141	141
1,874	New Homes Bonus	1,515	1,515	1,515
37	New Burdens & Other Grants	0	0	38
15,024	**Total Financing**	**14,488**	**15,620**	**17,461**
6	**General Fund Deficit/(Surplus) for the Year**	**(99)**	**(236)**	**(12)**
(2,533)	**General Fund Balance at Start of Year**	**(2,412)**	**(2,527)**	**(2,527)**
(2,527)	**Leaving Year End Balances of**	**(2,511)**	**(2,763)**	**(2,539)**

APPENDIX 2

Earmarked General Reserves (2018/19 Year End Position)

	Opening Balance £000	Receipts in year £000	Applied in year £000	Closing Balance £000
Special Projects & Events	2,262	2,959	(406)	4,815
Periodic Operations	5,373	4,057	(2,212)	7,218
Urgent Works	1,080	138	(68)	1,150
Regeneration	2,121	1,771	(624)	3,268
ICT Equipment & Servers	756	292	(131)	917
Business Rates & Council Tax	1,804	42	(640)	1,206
District Regeneration & Economic Development	12,507	0	(468)	12,039
Total	25,903	9,259	(4,549)	30,613

APPENDIX 3

Summary of the Main Controls Applied in Production of the Accounts

Production of the accounts in accordance with the Code of Practice on Local Authority Accounting requires a large number of tasks to be undertaken, and controls to be applied.

These include:

- Preparation of a closedown plan, communication with budget managers as appropriate and monitoring progress.
- Staff preparing the accounts have attended seminars / briefings with CIPFA and with the auditors.
- Staff preparing the accounts have access to the Code Practitioners Guidance Notes.
- The Council's financial feeder systems have been reconciled to the General Ledger.
- The General Ledger has been balanced.
- The value of fixed assets in the accounts has been reconciled to the asset register.
- The cash balance in the General Ledger has been reconciled to the Council's bank accounts.
- All significant variances have been explained in the Outturn Report.
- Service expenditure in the Outturn report has been reconciled to the Income and Expenditure Account.
- The entries on the Collection Fund have been reconciled to the Council Tax set by the Council and the other precepting authorities.
- The cash movement on the balance sheet is reconciled.
- The balances on reserves reported in the Movement in Reserves Statement has been reconciled to the balance sheet.
- An analytical review has been undertaken and major variances have been explained.

GOVERNANCE COMMITTEE – 26 SEPTEMBER 2019

STATEMENT OF ACCOUNTS 2018/19

Report to follow.

(In accordance with the provisions of Section 100(B)(4)(b) of the Local Government Act 1972, the Chairman agreed that this item, which was not detailed on the agenda at the time of publication, should be considered as a matter of urgency for the following reasons: (a) the auditors were late starting and completing their work and they are only recently in a position to finalise the audit; (b) the Council have been discussing a technical accounting adjustment with them and have been unable to complete the audit without agreeing a way forward. The Council has now agreed to use their recommended treatment; (c) the PSAA are advising they will publish the list of local authorities whose accounts are not completed by the end of September 2019. The Council does not want to be on this list as it could have a negative reputational impact and possible impact on future funding.)

Subject:	**TREASURY MANAGEMENT YEAR END REPORT 2018/19**
Meeting and Date:	**Cabinet – 2 September 2019** **Governance Committee – 26 September 2019**
Report of:	**Mike Davis – Strategic Director (Corporate Resources)**
Portfolio Holder:	**Councillor Stephen Manion – Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 31 March 2019 (Q4) and an update of activity to date.
Recommendation:	That the report is received.

1. Summary

1.1 The Council's investment return for the period to March was 2.16% (annualised), which outperformed the benchmark[1] by 1.49%. The total interest and dividends income received for the year was £1,159k, which is £160k better than the original budget estimate of £999k. This improvement is due to additional funds being invested in pooled investment funds, as detailed below.

1.2 The Council has remained within its Treasury Management guidelines and has complied with the Prudential Code guidelines during the period.

2. Introduction and Background

2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

2.2 Council adopted the 2018/19 Treasury Management Strategy (TMS) on 7th March 2018 as part of the 2018/19 Budget and Medium Term Financial Plan.

2.3 In order to comply with the CIPFA code referred to above, a brief summary is provided below and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.

2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.74 at the end of the quarter.

3. **Economic Background**

3.1 The report attached (Appendix 1) contains information up to the end of March 2019; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

"Main points since March:

i. *In August 2019 the Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. In the last few months, global trade tensions have intensified, leading to a decline in forward interest rates in the UK. An increase in the perceived likelihood of a no-deal Brexit has further lowered UK interest rates and has led to a depreciation of the sterling exchange rate.*

ii. *After growing by 0.5% in 2019 Q1, GDP is expected to have been flat in Q2, slightly weaker than anticipated in May. Brexit-related developments, such as stock building ahead of previous deadlines, are making UK data volatile. In addition, Brexit-related uncertainties have been weighing on business investment.*

iii. *CPI inflation was at the 2.0% target in June and is expected to decline below the MPC's 2% target in the near term, due to energy prices declining. The unemployment rate fell slightly in the three months to May, to 3.8%, a little lower than expected in the May Report. Annual pay growth has been relatively strong in recent months.*

iv. *The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction.*

Key issues in the Bank of England Inflation Report

i. ***MPC's key judgements:*** *While global activity has weakened and sentiment has deteriorated, looser financial conditions support the return of world growth to its potential rate in the medium term. On the conditioning assumption that there is a smooth Brexit, UK demand growth recovers after softening in the near term. As GDP growth recovers to above the subdued rate of potential supply growth, excess demand and domestic inflationary pressures build.*

ii. ***Global economic and financial market developments:*** *The outlook for global growth has deteriorated a little, in part reflecting escalating trade tensions. The market path for interest rates has fallen further in the UK since May, as in other advanced economies. The probability that market participants attach to a no-deal Brexit has increased. This has contributed to the lower path for UK interest rates and the 4% depreciation of sterling.*

iii. ***Demand and output:*** *Output growth was volatile in 2019 Q1, largely driven by Brexit-related stock building. Looking through the volatility, underlying output growth appears to have slowed relative to 2018, reflecting the impact of Brexit-related uncertainties and weaker global growth. UK GDP growth has been driven largely by consumption growth. Underlying UK GDP growth has softened to*

below-potential rates, reflecting weaker global growth as well as the impact of Brexit-related uncertainties. Growth is expected to remain subdued in coming quarters, as those uncertainties have intensified over the past few months and are assumed to remain elevated in the near term.

iv. ***The labour market and supply:*** *While employment growth has softened, the labour market remains tight. Pay growth has risen to its highest rate since 2008. Productivity growth has remained weak,*

v. ***Outlook for inflation:*** *CPI inflation was at the 2.0% target in June. CPI inflation is projected to fall temporarily below the MPC's 2% target over the second half of 2019 as energy prices decline. Conditioned on a smooth withdrawal of the UK from the EU, Brexit-related uncertainties are assumed to subside over the forecast period. Together with a boost from looser monetary conditions, the decline in uncertainties leads to a recovery in demand growth to robust rates. As a result, excess demand and domestic inflationary pressures build. CPI inflation picks up to materially above the MPC's 2% target by the end of the forecast period. In the event of a Brexit deal, sterling would be likely to appreciate and market interest rates and UK-focused equity prices to rise.*

4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of March 2019, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £51.7m, increasing to £52.6m at the end of July (see Appendix 4). The increase reflects normal cash-flow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

4.2 As at 31 March 2019, the Council's investment portfolio totalled £48m (see Appendix 2). Cashflow funds were higher than anticipated (£3.7m at 31 March 2019). A £5m fixed-term deposit matured in January, and £8m was invested in Kames Capital Monthly Diversified Income Fund. It is proposed that the extra income generated from these additional investments is transferred to the Special Projects reserve to support future funding for projects.

4.3 Cashflow funds have since increased (to £4.6m at 31 July 2019) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of March 2019 the Council had £23.5 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives. As at 31st July the Council held £17m in short term borrowing.

6. Debt Rescheduling

6.1 During the year the Council was invited to submit a bid to repurchase its LOBO (Lender Option Borrower Option) loan as KA Finanz had decided to sell their LOBO portfolio. The LOBO was held at an interest rate of 4.75% and had 25 years

remaining on the loan. An assessment of the long term costs of the LOBO compared to alternative borrowing options was undertaken and a bid of £3.6m was submitted to the auction process. This bid was successful and the Council no longer holds any LOBO loans.

6.2 At this time it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

7. Compliance with Treasury and Prudential Limits

7.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

8. Corporate Implications

8.1 Comment from the Section 151 Officer: Finance have produced this report and have no further comments to add. (DL)

8.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

8.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15.

9. Appendices

Appendix 1 – Arlingclose treasury management report for quarter four 2018/19

Appendix 2 – Investment portfolio as at 31 March 2019

Appendix 3 – Borrowing portfolio as at 31 March 2019

Appendix 4 – Investment portfolio as at 31 July 2019

10. Background Papers

Medium Term Financial Plan 2018/19 – 2021/22

Contact Officer: Dani Loxton, extension 2285

Treasury Management Q4 Outturn Report 2018/19

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2018/19 was approved at a meeting on 7 March 2018. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 6 March 2019 as part of the 2019/20 budget-setting process.

External Context

Economic background: After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the

third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ring fenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ring fenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ring fenced and non-ring fenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ring fencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ring fenced) and investment

banking (non-ring fenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Local Context

On 31st March 2018, the Authority had net borrowing of £39m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.18 Actual £m
General Fund CFR	42,923
HRA CFR	74,134
Total CFR	**117,057**
Less: Usable reserves	(66,899)
Less: Working capital	(11,034)
Net borrowing	**39,124**

The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 31st March 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.18 Balance £m	**Movement £m**	**31.3.19 Balance £m**	**31.3.19 Rate %**
Long-term borrowing	83,292	(5,293)	77,999	
Short-term borrowing	2,223	23,571	25,794	
Total borrowing	**85,515**	**18,278**	**103,793**	**3.39%**
Long-term investments	25,564	21,932	47,496	
Short-term investments	17,410	(17,406)	4	
Cash and cash equivalents	3,417	564	3,981	
Total investments	**46,391**	**5,090**	**51,481**	**2.16%**
Net borrowing	**(39,124)**		**(52,312)**	

During the year the Council has increased its investment in long term strategic pooled funds by £22m, bringing the total invested to £48m.

At the beginning of December the Council was able to repurchase its LOBO loan which has resulted in a £3m reduction in long term borrowing. A short term loan of £5m has been taken out with Hampshire County Council to offset the LOBO repurchase and for strategic cash management purposes. A further £18.5m in short term borrowing was taken out with a number of other local authorities for strategic cash management purposes.

Borrowing Strategy during the year

At 31st March 2019 the Authority held £103.8m of loans (an increase of £18.3m from 31st March 2018), as part of its strategy for funding previous years' capital programmes. This increase is made up of £23.5m temporary borrowing used to finance the repurchase of the LOBO loan (£3m) and for strategic cash management purposes, less a £2.2m annual repayment of the HRA self-financing loan. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.18 Balance £m	**Net Movement £m**	**31.3.19 Balance £m**	**31.3.19 Weighted Average Rate %**
Public Works Loan Board	82,515	(2,222)	80,293	3.39
Banks (LOBO)	3,000	(3,000)	0	
Local authorities (short-term)	0	23,500	23,500	0.96
Total borrowing	**85,515**		**103,793**	

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In keeping with these objectives, no new long term borrowing for capital purposes was undertaken; instead short term borrowing has been undertaken when required. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use short-term loans instead.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account useable reserves and working capital.

Treasury Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £46 and £52 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.18 Balance £m	Net Movement £m	31.3.19 Balance £m	31.3.19 Income Return %
Banks & building societies (unsecured)	383	(36)	347	0.20
Government (incl. local authorities)	17,410	(17,410)	0	
Money Market Funds	3,034	604	3,638	0.75
Other Pooled Funds:				
- Short-dated bond funds	8,000	19	7,981	0.96
- Strategic bond funds	5,900	2,008	7,908	3.27
- Property funds	5,744	90	5,834	4.21
- Multi asset income funds	5,920	19,853	25,773	4.00
Other Pooled Funds Sub-Total	25,564	21,970	47,496	
Total investments	**46,391**	**5,090**	**51,481**	

The balance of the other pooled funds at 31.3.18 includes accounting adjustments of £436k for unrealised losses, which were included at year-end for statutory reporting purposes (and separately reversed out through a non-useable reserve, as permitted). As at 31.3.19 the fair value of the pooled funds was £47.5m with an unrealised loss of £500k. During the year a further £22m has been invested in pooled funds. This is made up of a further £4m invested in the Investec Diversified Income fund and another £2m in the Colombia Threadneedle Strategic Bond fund. New accounts were opened with the CCLA Diversified Income fund and the KAMES Diversified Monthly Income fund and £8m was deposited into each one.

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into more secure and/or higher yielding asset classes as shown in table 4 above. £48m that is available for longer-term investment was moved from bank and building society deposits into pooled investment funds. As a result, investment risk was diversified.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2018	3.63	AA-	15%	34	-0.23
31.03.2019	4.46	AA-	100%	1	3.19
Similar LAs	4.13	AA-	53%	86	1.75
All LAs	4.22	AA-	55%	29	1.45

£48m of the Authority's investments are held in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 3.86%, comprising a 3.42% income return which is used to support services in year, and 0.18% of unrealised capital loss.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance and the Authority's latest cash flow forecasts, investment in these funds has been increased. In February 2019 £8m was invested in KAMES capital monthly diversified income fund.

Readiness for Brexit: With little by way of political clarity as to the exact date on whether there would be an agreed deal prior to leaving the EU and to be prepared for the outside chance of a particularly disruptive Brexit (such as last-minute no-deal) on 29th March, the Authority ensured there were enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

In 2018/19 total income (rent and service charges) of £1.97m was received from the investments made to date, including B&Q, Whitfield Court, Castle Street, garages and shops. Costs including management costs, minimum revenue provision and short term borrowing of £880k were incurred resulting in retained income for the General Fund of £1.1m. These costs were £360k lower than the 2018/19 budget as no long term borrowing has yet been undertaken to fund the investments with the costs being covered by cash flow and short term borrowing as required. This saving was transferred to earmarked reserves in 2018/19 to allow for possible future void periods and support further investment opportunities.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £000	Budget £000	Over/ (under)	Actual %	Benchmark %	Over/ (under)
Interest Received	1,159	999	160	2.16	0.67	1.49
Interest Payable	2,771	2,884	113	3.39	3.40	0.01

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	2018/19 Maximum £m	31.3.19 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied?
Borrowing	107.8	107.8	333	338.5	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

	31.3.19 Actual	2018/19 Limit	Complied?
Any single organisation, except the UK Government	<£1m	£8m per bank	✓
Any group of organisations under the same ownership	0	£16m per group	✓
Negotiable instruments held in a broker's nominee account	0	£15m	✓
UK Government	0	Unlimited	✓
Unsecured investments with building societies	0	£8m	✓
Pooled Investment Funds	£48m	£10m per fund	✓
Operation bank	<£1m	£20m	✓
Money Market Funds	£3.6m	£10m per fund	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.19 Actual	2018/19 Target	Complied?
Portfolio average credit rating	4.46	6	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing excluding deposits due back < 3 months.

	31.3.19 Actual	2018/19 Target	Complied?
Total cash available within 3 months	£11.7m	£8m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

	31.3.19 Actual	2018/19 Limit	Complied?
Upper limit on fixed interest rate exposure	£103.7m	£300m	✓
Upper limit on variable interest rate exposure	0	£90m	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.19 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	£25.8m	25%	0%	✓
12 months and within 24 months	£3.5m	50%	0%	✓
24 months and within 5 years	£7.7m	50%	0%	✓
5 years and within 10 years	£15.5m	100%	0%	✓
10 years and above	£51.2m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19	**2019/20**	**2019/21**
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

In-house as at 31/03/19

APPENDIX 2

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
In-house Investments - Portfolio:								*Duration*
In-house investments - Long Term								
CCLA Property investment Fund			30/06/2017		4.36%	3,000,000	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund			31/07/2017		4.37%	3,000,000	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund			15/12/2017		4.57%	6,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			15/12/2017		4.42%	6,000,000	UK - Gov 'AA'	5 Years +
Payden and Rygel			28/02/2018		0.85%	8,000,000	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund			01/08/2018		4.57%	2,000,000	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund			03/09/2018		4.57%	2,000,000	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund			20/09/2018		3.06%	8,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			13/12/2018		3.23%	2,000,000	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund			28/02/2019		5.00%	8,000,000	UK - Gov 'AA'	5 Years +
						48,000,000		
				Total Portfolio		**48,000,000**		

Cashflow:

Call Accounts/MMF (as at 31/03/19)		**Rate**
Global Treasury Fund (Goldman Sachs Money Market Fund)	1,479,106	0.71%
Standard Life Investments (Money Market Fund)	2,159,000	0.79%
Natwest SIBA	50,697	0.20%
Santander	502	0.05%
Bank of Scotland	5,034	0.65%
HSBC Business Acc	0	0.00%
Barclays	34,259	0.00%
Total Cash flow	**3,728,596**	
Total Portfolio and Cashflow	**51,728,596**	

Dover District Council Borrowing - 2018/19

APPENDIX 3

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-18	Interest Rate %	Principal To Be Repaid 2018/19	Principal Balance 31-Mar-19	Interest Payable 2018/19	Lender	Type of loan	
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity	
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity	
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	379	2.50	45	379	9	PWLB	Equal Instalment of Principal *(EIP)*	
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	71	2.50	8	71	2	PWLB	Equal Instalment of Principal *(EIP)*	
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity	
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	78,514,340	3.18	2,222,582	76,291,758	2,479,225	PWLB	Annuity	HRA Financing
Fixed	17/12/2018	16/12/2019			0	1.10	0	5,000,000	15,671	Hampshire County Council	Short term loan for stragetic cash flow purposes	
Fixed	05/03/2019	10/05/2019				0.95		1,500,000	1,015	Ceredigion County Council	Short term loan for stragetic cash flow purposes	
Fixed	08/03/2019	19/06/2019				1.00		5,000,000	3,151	Basingstoke Borough Coun	Short term loan for stragetic cash flow purposes	
Fixed	18/03/2019	18/06/2019				1.00		3,000,000	1,068	Baslidon Council	Short term loan for stragetic cash flow purposes	
Fixed	20/03/2019	03/04/2019				0.84		5,000,000	1,266	Middlesbrough Council	Short term loan for stragetic cash flow purposes	
Fixed	21/03/2019	03/04/2019				0.84		4,000,000	921	Middlesbrough Council	Short term loan for stragetic cash flow purposes	
					82,514,790		**2,222,635**	**103,792,208**	**2,764,828**		*Sub-total*	
Fixed	01/05/2012	01/11/2027	MAY-NOV		78,386	0.00	8,710	69,676	0	Lawn Tennis Association	Interest free	
					82,593,176		**2,231,344**	**103,861,884**	**2,764,828**			

In-house as at 31/7/19

APPENDIX 4

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government	Options available
In-house Investments - Portfolio:								***Duration***
In-house investments - Long Term								
CCLA Property investment Fund			30/06/2017		4.360	3,000,000	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund			31/07/2017		4.370	3,000,000	UK - Gov 'AA'	*5 Years +*
Investec Diversified Income Fund			15/12/2017		4.570	6,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			15/12/2017		4.420	6,000,000	UK - Gov 'AA'	5 Years +
Payden and Rygel			28/02/2018		0.850	8,000,000	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund			01/08/2018		4.570	2,000,000	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund			03/09/2018		4.570	2,000,000	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund			20/09/2018		3.060	8,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			13/12/2018		3.230	2,000,000	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund			28/02/2019		5.000	8,000,000	UK - Gov 'AA'	5 Years +
						48,000,000		
				Total Portfolio		**48,000,000**		

Cashflow:

Call Accounts/MMF (as at 31/07/19)		**Rate**
Global Treasury Fund (Goldman Sachs Money Market Fund)	2,048,106	0.68%
Standard Life Investments (Money Market Fund)	2,019,000	0.75%
Natwest SIBA	535,281	0.20%
Santander	503	0.05%
Bank of Scotland (BOS)	5,038	0.65%
HSBC Business Acc	0	0.00%
Barclays	34,266	0.00%
Total Cash flow	**4,642,193**	
Total Portfolio and Cashflow	**52,642,193**	