

Crawley Borough Council

Report to Overview and Scrutiny Commission 6 July 2015

Report to Cabinet 8 July 2015

Treasury Management Outturn for 2014/15

Report of the Head of Finance, Revenues and Benefits – FIN/361

1. Purpose

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:
 - an Annual Treasury Strategy in advance of the year (Council 26/02/2014)
 - a mid-year treasury update report (Council 17/12/2014)
 - an annual review following the end of the year describing the activity compared to the Strategy (this report)
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

2. Recommendations

- 2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

- 2.2 To the Cabinet

The Cabinet is recommended to:

- a) To approve the actual 2014/15 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2014/15.

3. The Economy and Interest Rates

- 3.1 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%.

4. Overall Treasury Position as at 31 March 2015

- 4.1 At the beginning and the end of 2014/15 the Council's treasury position was as follows:

£000	31 March 2014 Principal	Rate/Return	Average Life yrs	31 March 2015 Principal	Rate/Return	Average Life yrs
Total debt	260,325	3.2%	17.03	260,325	3.2%	16.03
CFR	259,943			259,940		
Over / (under) borrowing	382			385		
Total investments	119,010	1.17%	0.99	112,356	0.86%	0.70
Net debt	141,315			147,969		

5. The Borrowing Requirement and Debt

- 5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2014 Actual	31 March 2015 Budget	31 March 2015 Actual
CFR General Fund (£m)	-330	-330	-207
CFR HRA (£m)	260,273	260,325	260,147
Total CFR	259,943	259,995	259,940

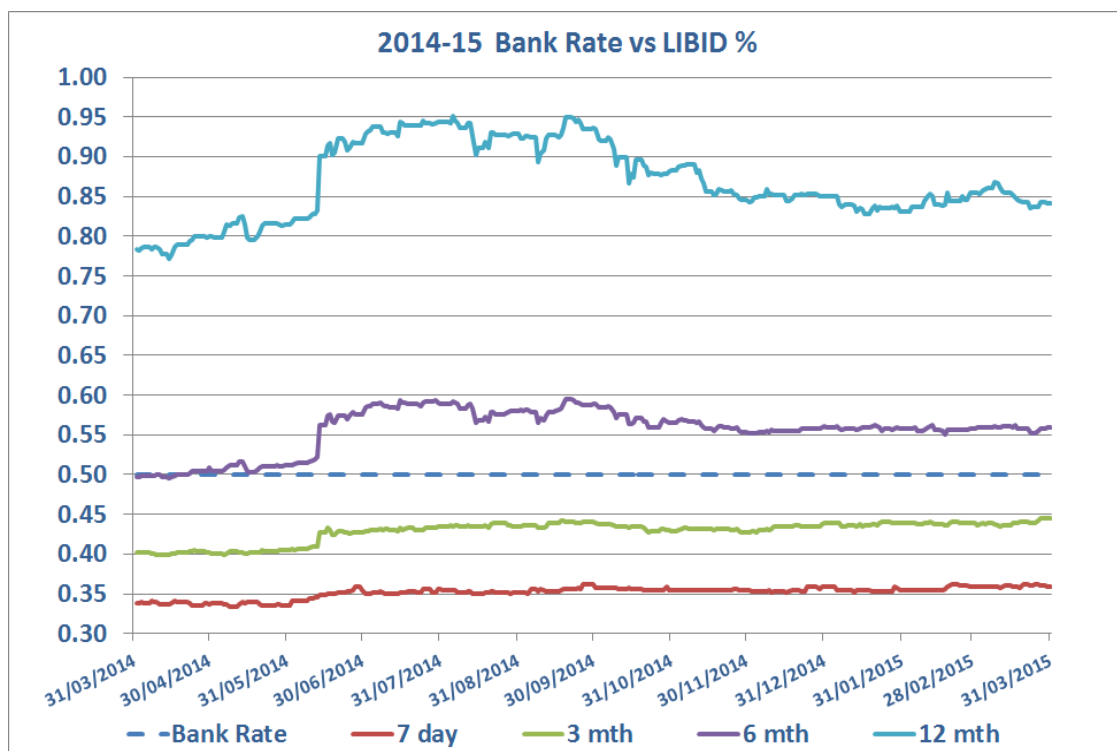
6. Borrowing Outturn for 2014/15

- 6.1 No borrowing was undertaken during the year.

7. Investment Rates in 2014/15

- 7.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to

around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



8. Investment Outturn for 2014/15

- 8.1 **Investment Policy** – the Council’s investment policy is governed by Government guidance, which was been implemented in the annual investment strategy approved by the Council on 26/02/2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks and credit default swaps.
- 8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 8.3 **Investments held by the Council** - the Council maintained an average balance of £124,642,000 of internally managed funds. The internally managed funds earned an average rate of return of 1.12%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.35%. This compares with a budget assumption of £109,830,000 investment balances earning an average rate of 1.00%.
- 8.4 Investments balances are higher than forecast in the strategy for the following reasons:
- A large collection fund surplus (business rates and council tax income) which will be distributed in 2015/16 and 2016/17 (see the outturn report elsewhere on this agenda)
 - Higher capital receipts from right-to-buy sales

9. Implications

- 9.1 The financial and legal implications are addressed throughout this report. The Council's investments were managed in compliance with the Code and the Prudential Code through the year.

10. Background Papers

[Treasury Management Strategy for 2014/2015 – Cabinet, 12 February 2014](#)
[\[FIN/323 refers\]](#)

[Treasury Management Mid-Year Review 2014/2015 – Cabinet, 12 November 2014](#)
[\[FIN/346 refers\]](#)

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Appendix 1: Prudential and Treasury Indicators

During 2014/15, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2013/14 Actual £000	2014/15 Original £000	2014/15 Actual £000
Capital expenditure			
• General Fund	4,717	13,309	21,962
• HRA	10,141	16,506	16,340
• Total	14,858	29,815	38,302
Capital Financing Requirement:			
• General Fund	-330	-330	-207
• HRA	260,273	260,325	260,147
• Total	259,943	259,995	259,940
Gross borrowing	260,325	260,325	259,940
External debt	260,325	260,325	260,325
Investments			
• Longer than 1 year	23,201		18,000
• Under 1 year	95,809		94,356
• Total	119,010	97,253	112,356
Net borrowing	141,315	163,072	147,969

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2014/15) plus the estimates of any additional capital financing requirement for the current (2015/16) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2014/15.

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2014/15 £000
Authorised limit	270,325
Maximum gross borrowing position	263,164
Operational boundary	260,325
Average gross borrowing position	260,337

Ratio of financing costs to net revenue stream	31 March 2014 actual	2014/15 original	31 March 2015 actual
Non - HRA	-1.30%	-6.30%	-9.90%
HRA	17.90%	17.71%	17.28%

	31 March 2014 Principal £000	Rate/ Return	Average Life yrs	31 March 2015 Principal £000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	17.03	260,325	3.2%	16.03
-Market	0	0%		0	0%	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	260,325	3.2%	17.03	260,325	3.2%	16.03
CFR	259,943			259,940		
Over/ (under) borrowing	382			385		
Total investments	119,010	1.17%	0.99	112,167	0.86%	0.70
Net debt	141,315			148,158		

The maturity structure of the debt portfolio was as follows:

	Lower limit	Upper limit	31 March 2015 actual
Under 12 months	0%	10%	£0.00m (0%)
12 months and within 24 months	0%	10%	£0.00m (0%)
24 months and within 5 years	0%	10%	£0.00m (0%)
5 years and within 10 years	0%	20%	£36.00m (14%)
10 years to 20 years	0%	100%	£173.00m (66%)
20 years to 30 years	0%	30%	£51.33m (20%)
30 years to 40 years	0%	10%	£0.00m (0%)
40 years to 50 years	0%	10%	£0.00m (0%)

The maturity structure of the investment portfolio was as follows:

	2013/14 Actual £000	2014/15 Original £000	2014/15 Actual £000
Investments			
Longer than 1 year	23,201		18,000
Under 1 year	95,809		94,356
Total	119,010	97,253	112,356

The exposure to fixed and variable rates was as follows:

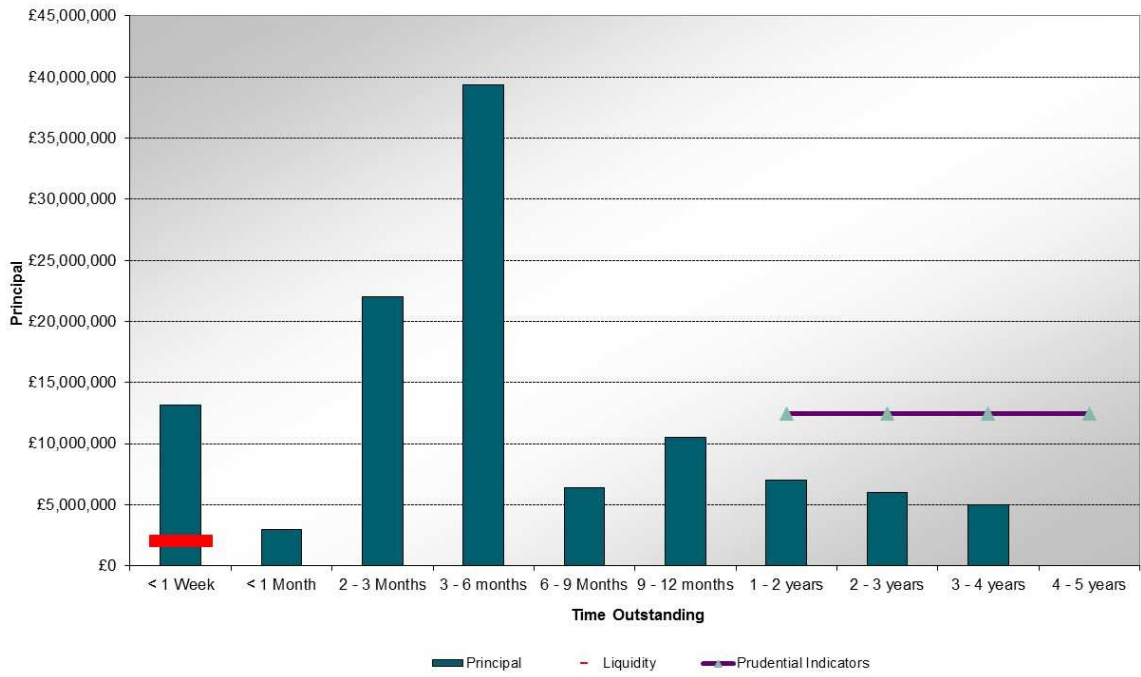
Debt portfolio £000	31 March 2014 actual	2014/15 original limits	31 March 2015 actual
Fixed rate	260,325	270,325	260,325
Variable rate	0	10,000	0

Investment portfolio £000	31 March 2014 actual	2014/15 original limits	31 March 2015 actual
Fixed rate	101,773	140,000	106,201
Variable rate	17,237	40,000	11,155

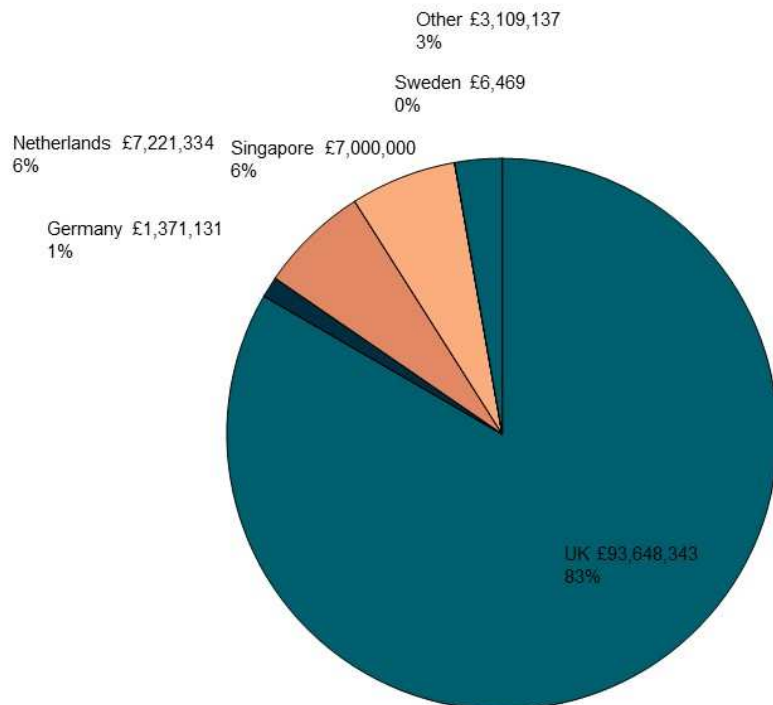
Detailed holdings at 31 March 2015

	Total	Limit	Rating
<u>Local Authorities</u>			
City of Salford MDC	£3.00m	£15.00m	AA+
Cornwall Council	£5.00m	£15.00m	AA+
Kingston Upon Hull City Council	£5.00m	£15.00m	AA+
Lancashire County Council	£13.00m	£15.00m	AA+
London Borough of Enfield	£3.00m	£15.00m	AA+
Mid Suffolk District Council	£3.00m	£15.00m	AA+
Newtownabbey Borough Council	£1.50m	£15.00m	AA+
North Lanarkshire Council	£4.00m	£15.00m	AA+
Peterborough City Council	£4.00m	£15.00m	AA+
Staffordshire Moorlands District Council	£2.00m	£15.00m	AA+
Thurrock Council	£3.00m	£15.00m	AA+
Worthing Borough Council	£5.00m	£15.00m	AA+
<u>UK Banks</u>			
Bank of Scotland	£4.02m	£10.00m	A
Lloyds Bank	£0.19m	£10.00m	A
Royal Bank of Scotland	£5.00m	£15.00m	A
Santander UK Plc	£2.00m	£10.00m	A
Standard Chartered Bank	£10.00m	£10.00m	A+
<u>UK Building Societies</u>			
Coventry Building Society	£2.00m	£10.00m	A-
Leeds Building Society	£2.00m	£10.00m	A-
Nationwide Building Society	£9.00m	£10.00m	A
Yorkshire Building Society	£2.00m	£10.00m	A
<u>Money Market Funds</u>			
Federated Prime Rate	£0.74m	£15.00m	AAA
Goldman Sachs	£0.39m	£15.00m	AAA
Ignis	£4.81m	£15.00m	AAA
<u>Corporate Bonds</u>			
Rabobank	£7.22m	£10.00m	AA-
Volkswagen International	£1.37m	£2.00m	A
<u>Supranational</u>			
European Investment Bank	£3.11m	unlimited	AAA
<u>Overseas Banks</u>			
DBS Bank	£4.00m	£10.00m	AA-
United Overseas Bank	£3.00m	£10.00m	AA-
	<u>£112.35m</u>		

Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification

