

Crawley Borough Council

Report to Overview and Scrutiny Commission 3 October 2016

Report to Cabinet 5 October 2016

Treasury Management Outturn for 2015/16

Report of the Head of Finance, Revenues and Benefits – FIN/393

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 2015/16. 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 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:
 - an Annual Treasury Strategy in advance of the year (Council 25/02/2015)
 - a mid-year treasury update report (Council 16/12/2015)
 - 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 2015/16 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2015/16.

3. The Economy and Interest Rates

- 3.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.
- 3.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.
- 3.3 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

4. Overall Treasury Position as at 31 March 2016

- 4.1 At the beginning and the end of 2015/16 the Council's treasury position was as follows:

£000	31 March 2015 Principal	Rate/ Return	Average Life yrs	31 March 2016 Principal	Rate/ Return	Average Life yrs
Total debt	260,325	3.2%	16.03	260,325	3.2%	15.03
CFR	259,940			260,325		
Over / (under) borrowing	385			0		
Total investments	112,356	1.05%	0.70	117,963	0.92%	0.68
Net debt	147,969			142,362		

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).

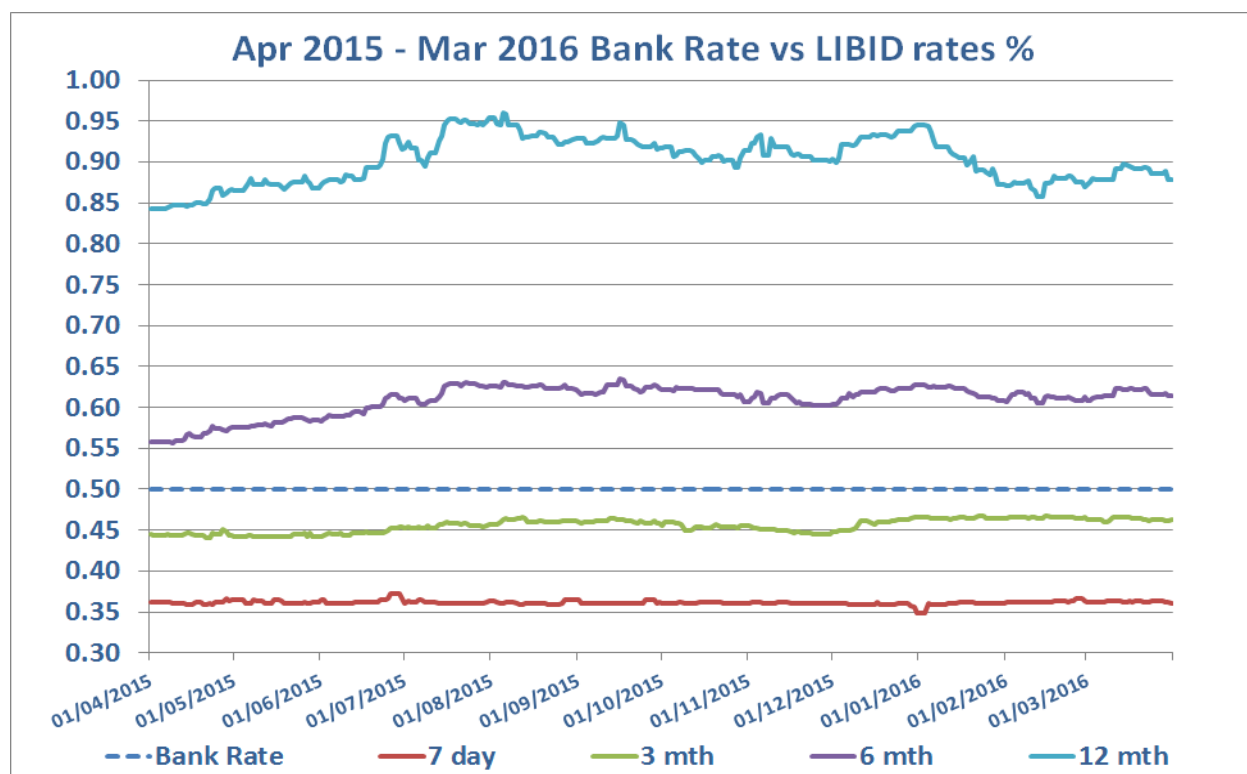
	31 March 2015 Actual	31 March 2016 Budget	31 March 2016 Actual
CFR General Fund (£000)	-207	-330	0
CFR HRA (£000)	260,147	260,273	260,325
Total CFR	259,940	259,943	260,325

6. Borrowing Outturn for 2015/16

6.1 No borrowing was undertaken during the year.

7. Investment Rates in 2015/16

7.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 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 and due to the continuing weak expectations as to when Bank Rate would start rising.



8. Investment Outturn for 2015/16

8.1 **Investment Policy** – the Council's investment policy is governed by Government guidance, which was implemented in the annual investment strategy approved by the Council on 25/02/2015. 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 £127,329,503 of internally managed funds. The internally managed funds earned an average rate of return of 0.96%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.36%. This compares with a budget assumption of £106,786,000 investment balances earning an average rate of 0.99%.
- 8.4 Investments balances are higher than forecast in the strategy due to slippage in the capital programme.

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 2015/2016 – Cabinet, 11 February 2015](#)
[\[FIN/355 refers\]](#)

[Treasury Management Mid-Year Review 2014/2015 – Cabinet, 2 December 2015](#)
[\[FIN/376 refers\]](#)

Report author and contact officer: Paul Windust, Corporate Accounting and Treasury Services Manager (01293 438693)

Appendix 1: Prudential and Treasury Indicators

During 2015/16, 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	2014/15 Actual £000	2015/16 Original £000	2015/16 Actual £000
Capital expenditure			
• General Fund	21,962	22,989	8,205
• HRA	16,340	21,349	20,789
• Total	38,302	44,338	28,994
Capital Financing Requirement:			
• General Fund	-207	-330	0
• HRA	260,147	260,273	260,325
• Total	259,940	259,943	260,325
Gross borrowing	260,325	260,325	260,325
External debt	260,325	260,325	260,325
Investments			
• Longer than 1 year	18,000		11,000
• Under 1 year	94,356		106,963
• Total	112,356	96,379	117,963
Net borrowing	147,969	163,946	142,362

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 (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) 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 2015/16.

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 2015/16 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.

	2015/16 £000
Authorised limit	270,325
Maximum gross borrowing position	260,339
Operational boundary	260,325
Average gross borrowing position	260,328

Ratio of financing costs to net revenue stream	31 March 2015 actual	2015/16 original	31 March 2016 actual
Non - HRA	-9.90%	-7.68%	-8.53%
HRA	17.28%	17.31%	16.89%

	31 March 2015 Principal £000	Rate/ Return	Average Life yrs	31 March 2016 Principal £000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	16.03	260,325	3.2%	15.03
-Market	0	0%		0	0%	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	260,325	3.2%	16.03	260,325	3.2%	15.03
CFR	259,940			260,325		
Over/ (under) borrowing	385			0		
Total investments	112,167	1.05%	0.70	117,963	0.92%	0.68
Net debt	148,158			142,362		

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%	£49.00m (19%)
10 years to 20 years	0%	80%	£177.00m (68%)
20 years to 30 years	0%	25%	£34.33m (13%)
30 years to 40 years	0%	10%	£0.00m (0%)
40 years to 50 years	0%	10%	£0.00m (0%)

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 2015 actual	2015/16 original limits	31 March 2016 Actual
Fixed rate	106,201	140,000	105,931
Variable rate	11,155	40,000	12,032

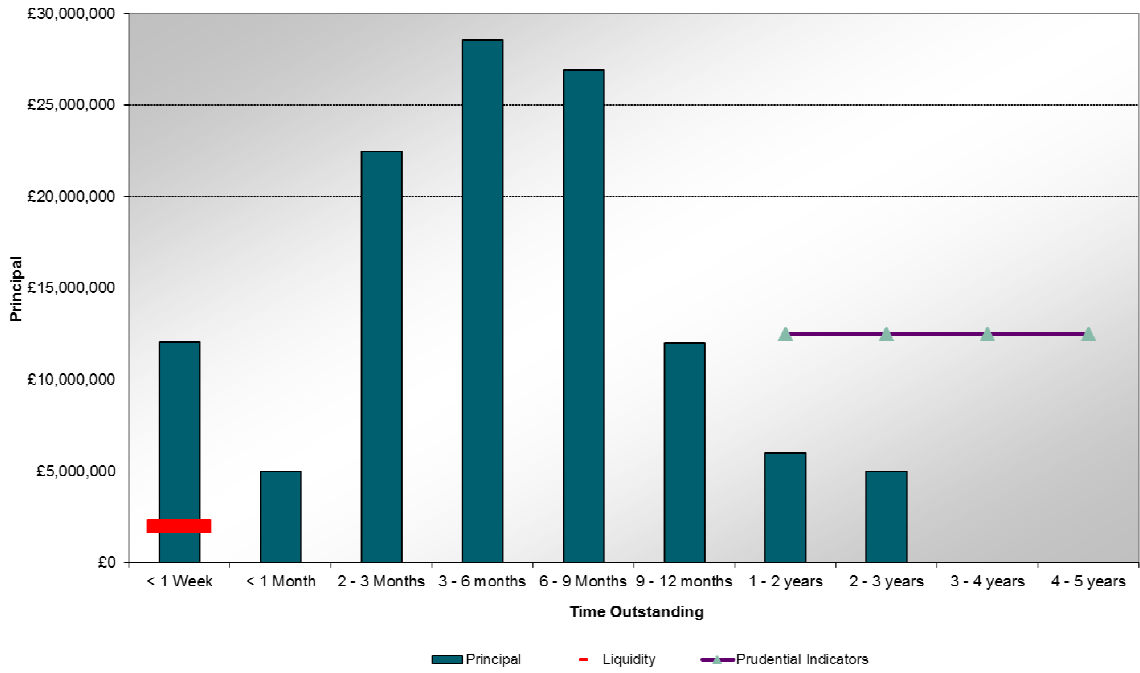
Detailed holdings at 31 March 2015

	Total	Limit	Rating
<u>Local Authorities</u>			
City of Salford MDC	£2.00m	£15.00m	AA+
Dundee CC	£2.00m	£15.00m	AA+
East Dunbartonshire Council	£1.00m	£15.00m	AA+
Fife Council	£5.00m	£15.00m	AA+
Kingston Upon Hull CC	£5.00m	£15.00m	AA+
Lancashire County Council	£3.00m	£15.00m	AA+
North Tyneside MDC	£3.00m	£15.00m	AA+
Peterborough CC	£4.00m	£15.00m	AA+
Staffordshire Moorlands	£2.00m	£15.00m	AA+
Thurrock Council	£2.00m	£15.00m	AA+
Woking Borough Council	£3.00m	£15.00m	AA+
<u>UK Banks</u>			
Close Brothers	£4.50m	£10.00m	A
Goldman Sachs	£4.00m	£10.00m	A
HSBC	£3.00m	£10.00m	AA-
Lloyds Bank	£3.54m	£10.00m	A
Royal Bank of Scotland	£5.00m	£15.00m	BBB+
Santander UK Plc	£2.00m	£10.00m	A
<u>UK Building Societies</u>			
Coventry Building Society	£2.00m	£10.00m	AA+
Leeds Building Society	£3.00m	£10.00m	A-
Nationwide Building Society	£4.00m	£10.00m	A
<u>Money Market Funds</u>			
Federated Prime Rate	£2.23m	£15.00m	AAA
Standard Life	£0.11m	£15.00m	AAA
<u>Corporate Bonds</u>			
Daimler AG	£1.91m	£2.00m	A-
Motability Operations Group	£1.02m	£2.00m	A+
Municipality Finance	£2.01m	£5.00m	AA+
Places for People Capital	£0.91m	£2.00m	A
<u>Supranational</u>			
European Investment Bank	£3.08m	unlimited	AAA
<u>Overseas Banks</u>			
Credit Suisse	£3.50m	£10.00m	A
Credit Industriel et Commercial	£2.00m	£10.00m	A
DBS Bank Ltd	£7.00m	£10.00m	AA-
Helaba	£5.00m	£10.00m	A
Nordea Bank	£5.00m	£10.00m	AA-

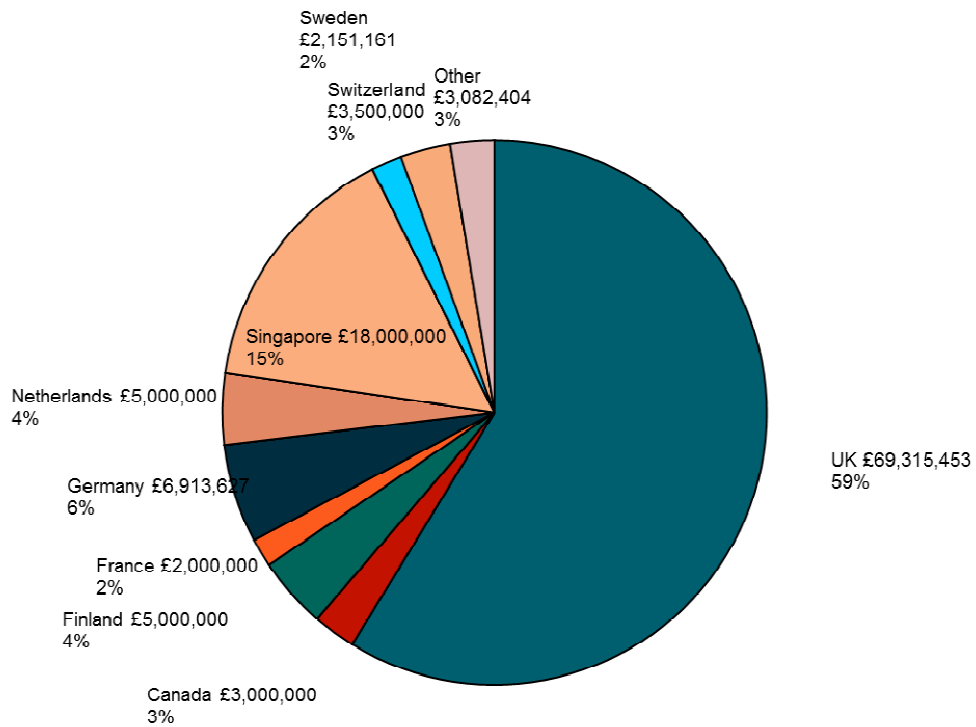
Overseas Chinese Banking Corporation	£5.00m	£10.00m	AA-
Rabobank	£5.00m	£10.00m	A+
Skandinaviska Enskilda	£2.00m	£10.00m	A+
Svenska Handelsbanken	£0.15m	£10.00m	AA-
Toronto Dominion	£3.00m	£10.00m	AA-
United Overseas Bank	£6.00m	£10.00m	AA-

£117.96m

Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification

