

Crawley Borough Council

Report to Overview and Scrutiny Commission 26 June 2017

Report to Cabinet 28 June 2017

Treasury Management Outturn for 2016/17

Report of the Head of Finance, Revenues and Benefits – FIN/412

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 2016/17. 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 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:
- an Annual Treasury Strategy in advance of the year (Council 24/02/2016)
 - a mid-year treasury update report (Council 14/12/2016)
 - 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 2016/17 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2016/17.

3. The Economy and Interest Rates

- 3.1 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2016 to quarter 4 2016. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 3.2 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.
- 3.3 The strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 24/02/2016 was subject to revision during the year due to the addition of Housing Associations and Repurchase Agreements as counterparty categories at the mid-year update.

4. Overall Treasury Position as at 31 March 2017

- 4.1 At the beginning and the end of 2016/17 the Council's treasury position was as follows:

	31 March 2016 Principal £'000	Rate/ Return	Average Life yrs	31 March 2017 Principal £'000	Rate/ Return	Average Life yrs
Total debt	260,325	3.2%	15.03	260,325	3.2%	14.03
CFR	260,325			260,325		
Over / (under) borrowing	0			0		
Total investments	117,963	0.92%	0.68	118,183	0.68%	0.48
Net debt	142,362			142,142		

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).

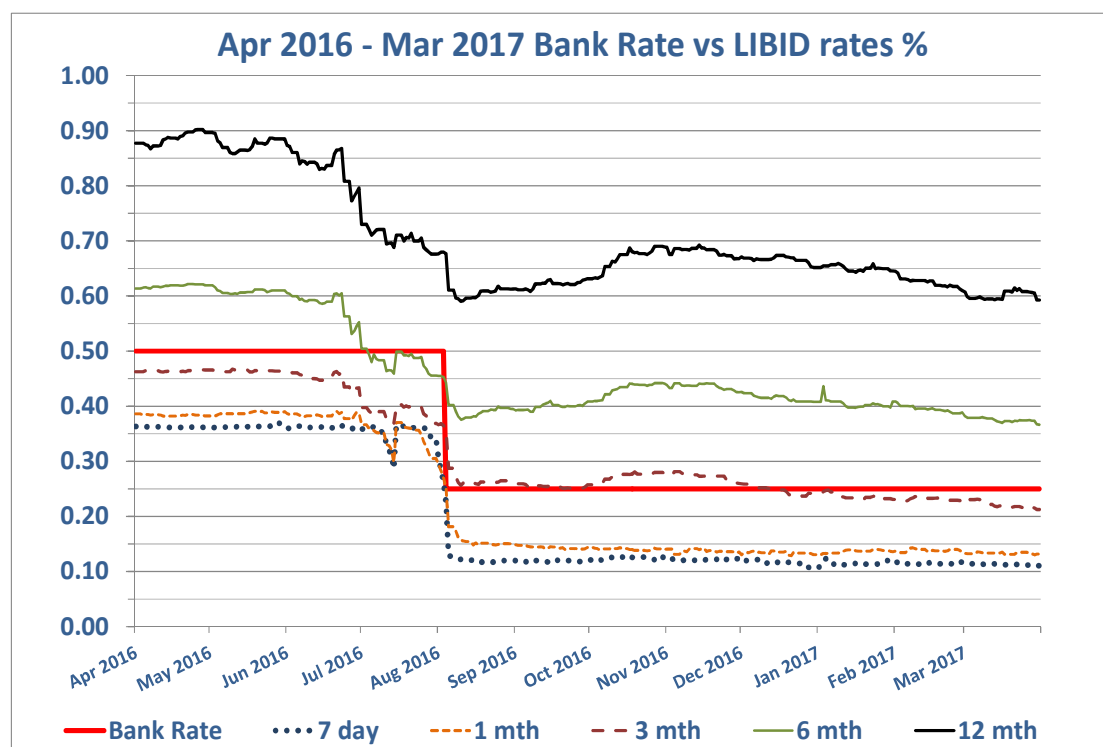
	31 March 2016 Actual £'000	31 March 2017 Budget £'000	31 March 2017 Actual £'000
CFR General Fund (£000)	0	-207	0
CFR HRA (£000)	260,325	260,147	260,325
Total CFR	260,325	259,940	260,325

6. Borrowing Outturn for 2016/17

- 6.1 No borrowing was undertaken during the year.

7. Investment Rates in 2016/17

- 7.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



8. Investment Outturn for 2016/17

- 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 24/02/2016. 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. The strategy was revised in the mid-year update by Council on 14/12/2016.
- 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 £128,050,803 of internally managed funds. The internally managed funds earned an average rate of return of 0.81%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20%. This compares with a budget assumption of £109,766,000 investment balances earning an average rate of 1.04%. See appendix 2 for a list of investments held at 31 March 2017.
- 8.4 Investments balances are higher than forecast in the strategy due to slippage in the capital programme. The rate of return achieved has been directly affected by the decision to leave the European Union and the Bank of England reducing base rate to 0.25% following this decision.

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 2016/2017 – Cabinet, 10 February 2016; OSC, 8 February 2016 \[FIN/381 refers\]](#)

[Treasury Management Mid-Year Review 2016/2017 – Cabinet, 30 November 2016; OSC, 28 November 2016 \[FIN/396 refers\]](#)

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Appendix 1: Prudential and Treasury Indicators

During 2016/17, 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	2015/16 Actual £000	2016/17 Original £000	2016/17 Actual £000
Capital expenditure			
• General Fund	8,205	23,751	14,823
• HRA	20,789	35,837	16,294
• Total	28,994	59,588	31,117
Capital Financing Requirement:			
• General Fund	0	(207)	0
• HRA	260,325	260,147	260,325
• Total	260,325	259,940	260,325
Gross borrowing	260,325	260,325	260,325
External debt	260,325	260,325	260,325
Investments			
• Longer than 1 year	11,000		5,000
• Under 1 year	106,963		113,183
• Total	117,963	96,691	118,183
Net borrowing	142,362	163,634	142,142

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 2016/17.

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 2016/17 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.

	2016/17 £000
Authorised limit	270,325
Maximum gross borrowing position	260,347
Operational boundary	260,325
Average gross borrowing position	260,325

Ratio of financing costs to net revenue stream	31 March 2016 actual	2016/17 original	31 March 2017 actual
Non - HRA	-8.53%	-7.50%	-8.03%
HRA	16.89%	17.39%	17.18%

	31 March 2016 Principal £000	Rate/Return	Average Life yrs	31 March 2017 Principal £000	Rate/Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	15.03	260,325	3.2%	14.03
-Market	0	0%		0	0%	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	260,325	3.2%	15.03	260,325	3.2%	14.03
CFR	260,325			260,325		
Over/ (under) borrowing	0			0		
Total investments	117,963	0.92%	0.68	118,183	0.68%	0.48
Net debt	142,362			142,362		

The maturity structure of the debt portfolio was as follows:

	Lower limit	Upper limit	31 March 2017 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%	£64.00m (25%)
10 years to 20 years	0%	80%	£179.00m (69%)
20 years to 30 years	0%	25%	£17.33m (6%)
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 2016 actual	2016/17 original limits	31 March 2017 actual
Fixed rate	260,325	270,325	260,325
Variable rate	0	10,000	0

Investment portfolio £000	31 March 2016 actual	2016/17 original limits	31 March 2017 Actual
Fixed rate	105,931	140,000	111,996
Variable rate	12,032	40,000	7,187

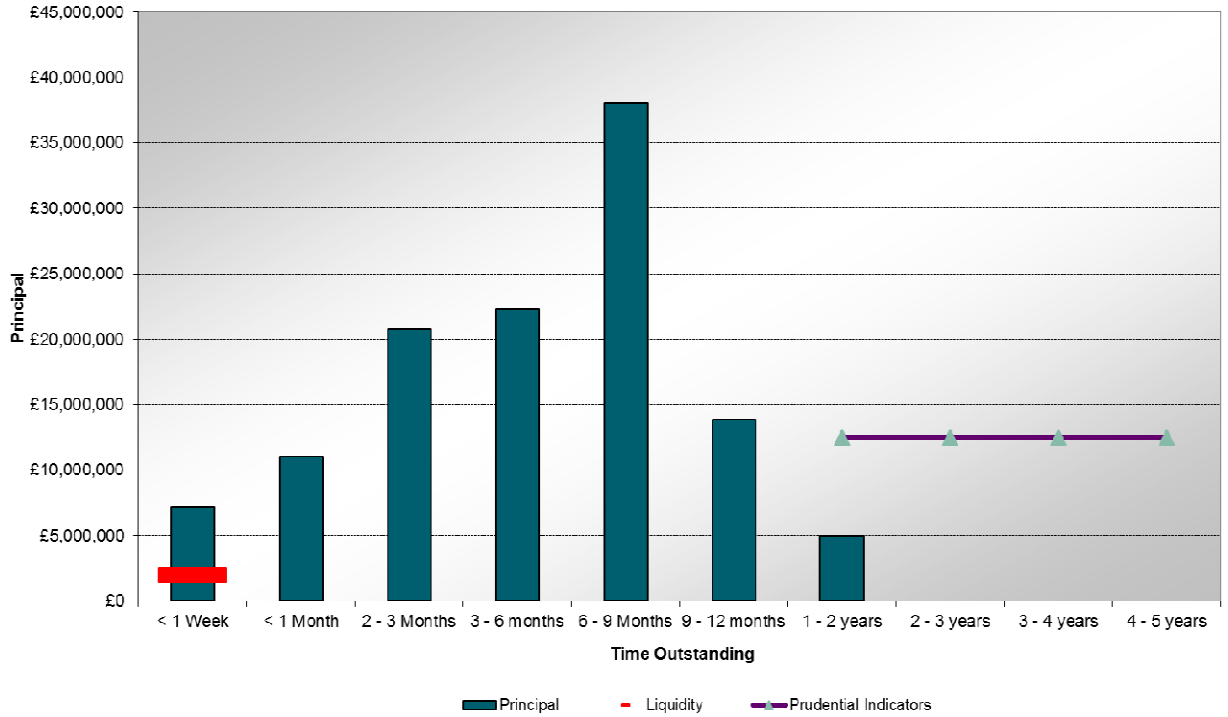
Detailed holdings at 30 September 2016

APPENDIX 2

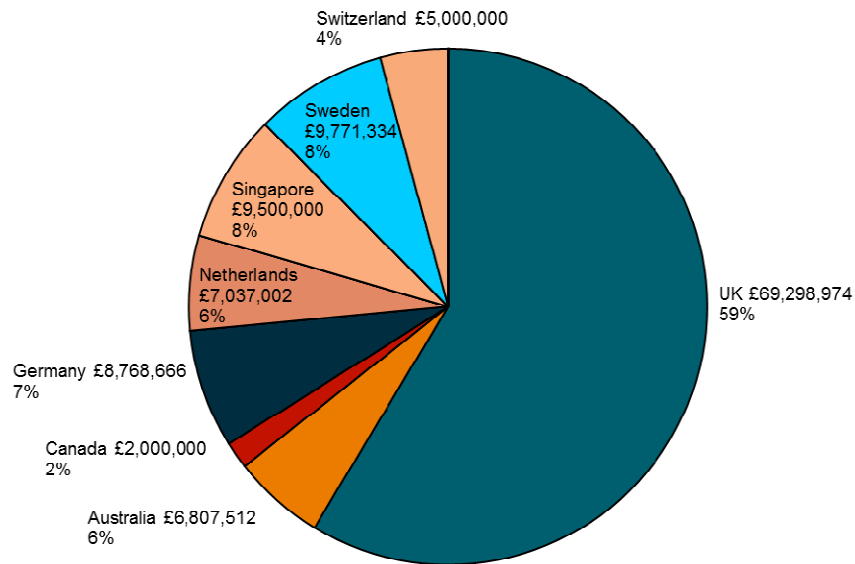
Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
AUSTRALIA BANKS									
Commonwealth Bank of Australia	2364	01/06/2016	24/05/2017	54	0.985%	5.000	5.000	10.000	AA-
UK BANKS									
Goldman Sachs International Bank	2391		01/04/2017	1	0.755%	2.000	2.000	10.000	A
Lloyds Bank plc	20		01/04/2017	1	0.150%	1.886	1.886	10.000	A+
Sumitomo Mitsui Banking Corporation	2400	02/12/2016	02/06/2017	63	0.510%	3.000	3.000	10.000	A
UK BUILDING SOCIETIES									
Nationwide BS	2379	09/08/2016	08/08/2017	130	0.620%	2.000			
	2395	14/11/2016	15/05/2017	45	0.420%	1.500	3.500	10.000	A+
CANADA BANKS									
Toronto Dominion Bank	2381	16/08/2016	16/05/2017	46	0.580%	2.000	2.000	10.000	AA-
CORPORATE BONDS									
BG Energy Capital plc	2403	14/12/2016	07/12/2017	251	0.591%	1.996	1.996	2.000	A
Daimler AG	2399	05/12/2016	08/11/2017	222	0.703%	2.000	2.000	2.000	A-
Deutsche Bahn Finance BV	54	11/08/2016	30/10/2017	213	0.389%	1.769	1.769	2.000	AA-
National Australia Bank Ltd	2409	17/01/2017	08/11/2017	222	0.547%	1.808	1.808	5.000	AA-
National Grid Gas plc	2376	06/07/2016	07/06/2017	68	0.759%	1.216	1.216	2.000	A-
Prudential plc	2411	25/01/2017	19/01/2018	294	0.658%	1.410	1.410	2.000	A
Rabobank Group	2404	15/12/2016	01/11/2017	215	0.604%	1.517			
	2406	05/01/2017	01/11/2017	215	0.559%	0.520	2.037	5.000	AA-
Svenska Handelsbanken	55	12/08/2016	29/08/2017	151	0.554%	0.755			
	56	15/08/2016	29/08/2017	151	0.612%	1.006	1.761	10.000	AA-
GERMANY BANKS									
Landesbank Hessen-Thuringen Giroze	2378	01/08/2016	31/07/2017	122	0.600%	2.000			
	2392	01/11/2016	31/10/2017	214	0.660%	3.000	5.000	10.000	A
LOCAL AUTHORITIES									
Dundee City Council	2401	15/12/2016	14/12/2017	258	0.450%	3.000	3.000	15.000	AA+
East Dunbartonshire Council	2397	24/11/2016	23/11/2017	237	0.420%	2.000	2.000	15.000	AA+
Glasgow City Council	2393	05/12/2016	04/12/2017	248	0.410%	5.000	5.000	15.000	AA+
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2021	1707	2.750%	5.000	5.000	15.000	AA+
London Borough of Enfield	2396	28/11/2016	27/11/2017	241	0.440%	5.000	5.000	15.000	AA+
North Tyneside MDC	2402	13/12/2016	12/12/2017	256	0.480%	3.000	3.000	15.000	AA+

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
Peterborough City Council	33	11/03/2013	12/03/2018	346	1.750%	4.000	4.000	15.000	AA+
City of Salford MDC	2354	11/04/2016	10/04/2017	10	0.650%	2.000			
	2414	20/03/2017	20/09/2017	173	0.450%	2.000	4.000	15.000	AA+
Slough Borough Council	2413	20/02/2017	19/02/2018	325	0.600%	2.000	2.000	15.000	AA+
Staffordshire Moorlands District Co	42	03/11/2014	03/11/2017	217	1.600%	2.000	2.000	15.000	AA+
Telford & Wrekin Council	2417	31/03/2017	13/04/2017	13	0.400%	4.000	4.000	15.000	AA+
Thurrock Borough Council	2405	06/01/2017	05/01/2018	280	0.450%	2.000			
	2408	06/01/2017	05/01/2018	280	0.450%	2.000	4.000	15.000	AA+
Warrington Borough Council	2398	29/11/2016	28/11/2017	242	0.450%	3.000	3.000	15.000	AA+
West Dunbartonshire Council	2353	19/04/2016	18/04/2017	18	0.550%	5.000	5.000	15.000	AA+
MONEY MARKET FUNDS									
Standard Life Investments LF	4		01/04/2017	1	0.286%	1.175	1.175	6.000	AAA
Federated Prime Rate Cash Man	1		01/04/2017	1	0.271%	2.115	2.115	6.000	AAA
NETHERLANDS BANKS									
Rabobank Group	2390	13/10/2016	12/10/2017	195	0.600%	2.500			
	2407	05/01/2017	04/01/2018	279	0.490%	2.500	5.000	10.000	AA-
SINGAPORE BANKS									
DBS Bank Ltd	2382	26/08/2016	26/05/2017	56	0.450%	5.000			
	2416	28/03/2017	28/09/2017	181	0.480%	2.000	7.000	10.000	AA-
United Overseas Bank Ltd	2410	20/01/2017	20/07/2017	111	0.410%	2.500	2.500	10.000	AA-
SWEDEN BANKS									
Svenska Handelsbanken	17		01/04/2017	1	0.100%	0.010	0.010	10.000	AA-
Nordea Bank AB	2394	14/11/2016	15/05/2017	45	0.400%	3.000	3.000	10.000	AA-
Skandinaviska Enskilda Banken	2385	08/09/2016	07/09/2017	160	0.510%	2.000			
	2389	03/10/2016	07/09/2017	160	0.510%	3.000	5.000	10.000	A+
SWITZERLAND BANKS									
UBS AG	2373	05/07/2016	04/07/2017	95	0.685%	3.000			
	2386	12/09/2016	11/09/2017	164	0.700%	2.000	5.000	10.000	A
							118.183		
INVESTMENT PROPERTIES							14.124		
						221	132.307		

Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification

