

Crawley Borough Council

Report to Overview and Scrutiny Commission 24 June 2019

Report to Cabinet 26 June 2019

Treasury Management Outturn for 2018/19

Report of the Head of Corporate Finance – FIN/473

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 2018/19. 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 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:
 - an Annual Treasury Strategy in advance of the year (Council 21/02/2018, FIN/433)
 - a mid-year treasury update report (Council 12/12/2018, FIN/457)
 - 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 Commission 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 2018/19 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2018/19.

3. Reasons for the Recommendations

- 3.1 The Council's financial regulations, in accordance with the CIPFA Code of Practice for Treasury Management, requires an annual review following the end of the year describing the activity compared to the Strategy. This report complies with these requirements.

4. The Council's Capital Expenditure and Financing

- 4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions, etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund £'000	2017/18 Actual	2018/19 Budget	2018/19 Actual
Capital expenditure	6,079	14,584	7,648
Financed in year	6,079	14,584	7,648
Unfinanced capital expenditure	0	0	0

HRA £'000	2017/18 Actual	2018/19 Budget	2018/19 Actual
Capital expenditure	23,375	43,802	37,562
Financed in year	23,375	43,802	37,562
Unfinanced capital expenditure	0	0	0

5. The Council's Overall Borrowing Need

- 5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
- 5.2 **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 (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£'000	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
CFR General Fund	0	0	0
CFR HRA	260,325	260,325	260,325
Total CFR	260,325	260,325	260,325
Gross borrowing position	260,325	260,325	260,325
Under / over funding of CFR	0	0	0

5.3 **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 2018/19 the Council has maintained gross borrowing within its authorised limit.

5.4 **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 are acceptable subject to the authorised limit not being breached.

5.5 **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.

General Fund £'000	2018/19
Authorised limit	10,000
Maximum gross borrowing position during the year	0
Operational boundary	0
Average gross borrowing position	0
Financing costs as a proportion of net revenue stream	-7.83%

HRA £'000	2018/19
Authorised limit	260,325
Maximum gross borrowing position during the year	260,325
Operational boundary	260,325
Average gross borrowing position	260,325
Financing costs as a proportion of net revenue stream	17.53%

6. Treasury Position as at 31 March 2019

6.1 At the beginning and the end of 2018/19 the Council's treasury position was as follows:

DEBT PORTFOLIO	31 March 2018 Principal £'000	Rate/ Return	Average Life yrs	31 March 2019 Principal £'000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	13.03	260,325	3.2%	12.03
-Market	0			0		
Variable rate funding:						
-PWLB	0			0		
-Market	0			0		
Total debt	260,325	3.2%	13.03	260,325	3.2%	12.03
CFR	260,325			260,325		
Over / (under) borrowing	0			0		
Total investments	118,606	0.75%	0.70	112,744	1.04%	0.36
Net debt	141,719			147,581		

The maturity structure of the debt portfolio was as follows:

	31 March 2018 Actual £'000	2018/19 Original Limits	31 March 2019 Actual £'000
Under 12 months	0	10%	0
12 months and within 24 months	0	10%	0
24 months and within 5 years	11,000 (4%)	20%	13,000 (5%)
5 years and within 10 years	69,000 (27%)	40%	74,000 (28%)
10 years and within 20 years	180,325 (69%)	65%	163,325 (62%)
20 years and within 30 years	0	15%	0
30 years and within 40 years	0	10%	0
40 years and within 50 years	0	10%	0

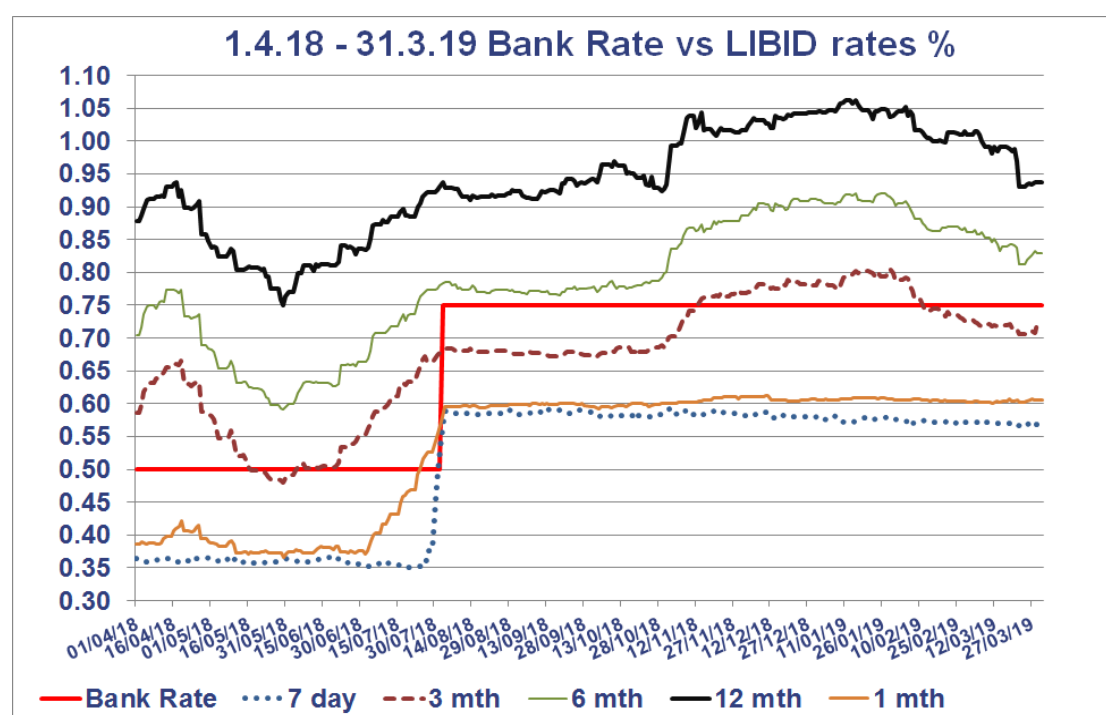
INVESTMENT PORTFOLIO	Actual 31 March 2018 £000	Actual 31 March 2018 %	Actual 31 March 2019 £000	Actual 31 March 2019 %
Treasury investments				
UK Banks	7,642	7%	11,162	10%
Overseas Banks	21,507	18%	23,583	21%
Building Societies	1,500	1%	3,947	4%
Local authorities	81,170	69%	58,000	51%
Money Market Funds	5,190	4%	6,890	6%
Corporate Bonds	1,597	1%	9,162	8%
TOTAL TREASURY INVESTMENTS	118,606	100%	112,744	100%

Non Treasury investments				
Property	16,732		16,419	
Treasury investments	118,606	88%	112,744	87%
Non Treasury investments	16,732	12%	16,419	13%
TOTAL OF ALL INVESTMENTS	135,338	100%	129,163	100%

The maturity structure of the investment portfolio was as follows:

	2017/18 Actual £000	31 March 2019 Actual £000
Investments		
Longer than 1 year	20,000	0
Up to 1 year	98,606	112,744
Total	118,606	112,744

7. Investment strategy and control of interest rate risk



- 7.1 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

- 7.2 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.
- 7.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.
- 7.4 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

8. Borrowing Outturn for 2018/19

- 8.1 No borrowing was undertaken during the year.

9. Investment Outturn for 2018/19

- 9.1 **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 21/02/2018. 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.
- 9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows.

Balance Sheet Resources (£'000)	31 March 2018	31 March 2019
General Fund Balance	4,000	4,995
HRA Balance	3,198	3,198
Earmarked reserves (Appendix 3)	18,552	17,230
Major Repairs Reserve	32,474	22,388
Usable capital receipts	41,107	41,714
Working capital	19,275	23,219
Total	118,606	112,744

- 9.4 **Investments held by the Council** - the Council maintained an average balance of £131,104,852 of internally managed funds. The internally managed funds earned an average rate of return of 0.86%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.50%. This compares with a budget assumption of £124,490,000 investment balances earning an average rate of 0.81%. See appendix 1 for a list of investments held at 31 March 2019.

10. Implications

- 10.1 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.

11. Background Papers

[Treasury Management Strategy for 2018/2019 – Cabinet, 7 February 2018; OSC, 5 February 2018 \[FIN/433 refers\]](#)

[Treasury Management Mid-Year Review 2018/2019 – Cabinet, 21 November 2018; OSC, 19 November 2018 \[FIN/457 refers\]](#)

Report author and contact officer: Paul Windust, Chief Accountant (01293 438693)

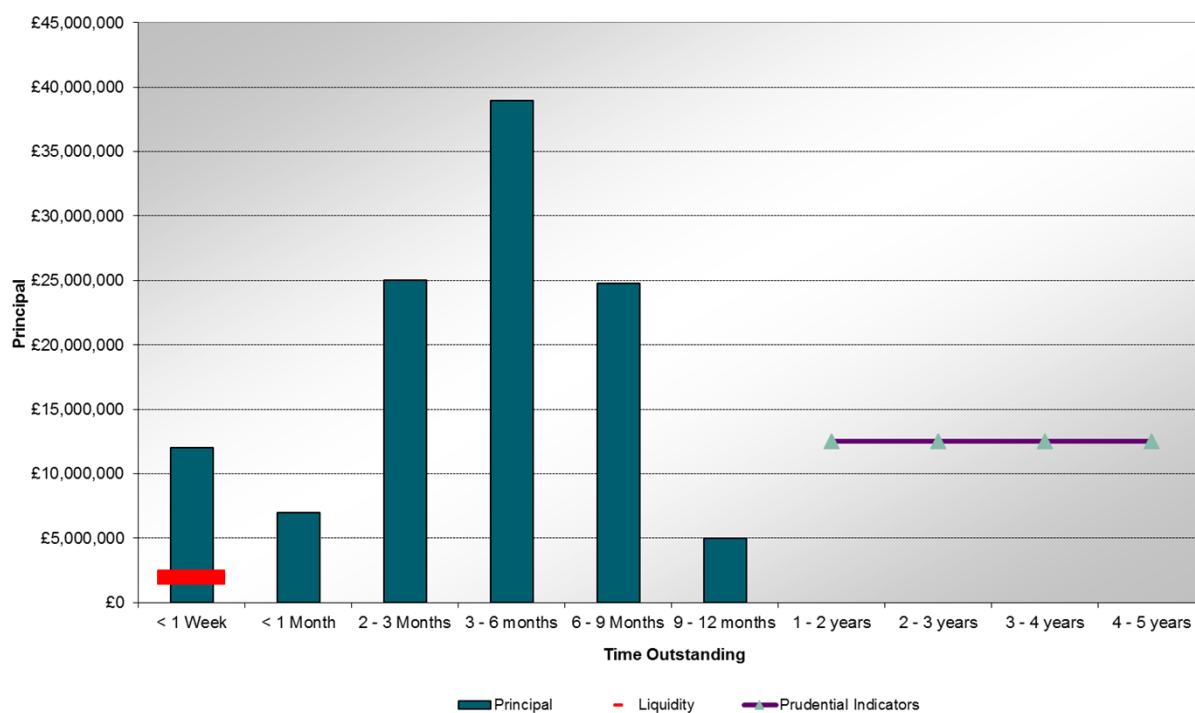
Detailed holdings at 31 March 2019
APPENDIX 1

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
AUSTRALIA BANKS									
Westpac Banking Corporation	2520	24/01/2019	21/10/2019	204	1.093%	2.083	2.083	10.000	AA-
UK BANKS									
Goldman Sachs International Bank	2507	02/11/2018	02/05/2019	32	0.970%	2.000			
	2509	23/11/2018	23/05/2019	53	0.970%	4.000	6.000	10.000	A
Lloyds Bank plc	20		01/04/2019	1	0.650%	0.162	0.162	10.000	A
Standard Chartered Bank	2505	26/10/2018	26/04/2019	26	0.900%	2.000			
	2515	03/01/2019	03/07/2019	94	1.040%	3.000	5.000	10.000	A+
UK BUILDING SOCIETIES									
Nationwide BS	2513	06/12/2018	09/09/2019	162	1.203%	1.947	1.947	10.000	A
Coventry BSoc Fixed Bond	2523	27/02/2019	16/10/2019	199	1.161%	2.000	2.000	2.000	A
CANADA BANKS									
Toronto Dominion Bank	2502	17/09/2018	17/09/2019	170	0.950%	2.000			
	2504	26/10/2018	25/10/2019	208	1.080%	3.500	5.500	10.000	AA-
CORPORATE BONDS									
GE Capital UK Funding	2495	08/08/2018	31/07/2019	122	1.225%	1.995	1.995	2.000	A
London Stock Exchange	2511	03/12/2018	18/10/2019	201	1.471%	1.510	1.510	2.000	A-
Motability Operations Group plc	2519	23/01/2019	10/12/2019	254	1.233%	1.192			
	2522	19/02/2019	10/12/2019	254	1.184%	0.803	1.995	2.000	A+
Shell International Finance BV	2521	25/01/2019	20/12/2019	264	1.180%	3.663	3.663	5.000	A
FINLAND BANKS									
Nordea Bank Abp	2517	07/01/2019	08/07/2019	99	0.980%	3.000	3.000	10.000	AA-
FRANCE BANKS									
Credit Industriel et Commercial	2508	21/11/2018	21/05/2019	51	1.010%	2.000	2.000	10.000	A+
GERMANY BANKS									
Landesbank Hessen-Thuringen Giroze	2488	26/06/2018	25/06/2019	86	0.780%	1.500	1.500	10.000	A+
LOCAL AUTHORITIES									
Conwy County Borough Council	2510	03/12/2018	03/06/2019	64	0.920%	5.000	5.000	15.000	AA
Dumfries & Galloway Council	59	01/12/2017	02/12/2019	246	0.900%	5.000	5.000	15.000	AA
Eastleigh Borough Council	2503	01/10/2018	01/04/2019	1	0.850%	5.000	5.000	15.000	AA

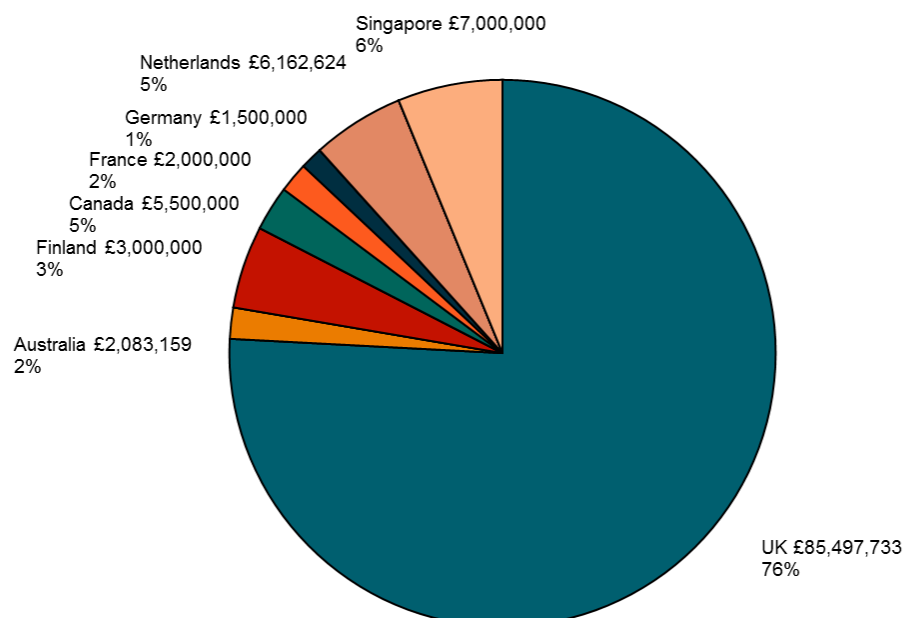
Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating					
London Borough of Harrow	2529	25/03/2019	25/09/2019	178	1.000%	2.000	2.000	15.000	AA					
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2019	246	2.750%	5.000	5.000	15.000	AA					
Moray Council	2512	03/12/2018	03/06/2019	64	0.950%	3.000								
	2527	15/03/2019	16/09/2019	169	0.980%	2.000	5.000	15.000	AA					
Newcastle City Council	58	01/02/2018	03/02/2020	309	1.000%	5.000	5.000	15.000	AA					
North Wales Fire Authority	2524	28/02/2019	28/08/2019	150	0.980%	3.000	3.000	15.000	AA					
Peterborough City Council	57	27/11/2017	27/11/2019	241	0.900%	5.000	5.000	15.000	AA					
Surrey Heath Borough Council	2516	04/01/2019	04/07/2019	95	0.850%	3.000	3.000	15.000	AA					
Swindon BC	2526	07/03/2019	09/09/2019	162	0.990%	5.000	5.000	15.000	AA					
Thurrock Borough Council	2489	01/08/2018	31/07/2019	122	0.750%	5.000								
	2492	03/07/2018	02/07/2019	93	0.750%	5.000	10.000	15.000	AA					
MONEY MARKET FUNDS														
Aberdeen Liquidity Fund	5		01/04/2019	1	0.789%	0.890	0.890	6.000	AAA					
Federated Prime Rate Cash Man	1		01/04/2019	1	0.792%	6.000	6.000	6.000	AAA					
NETHERLANDS BANKS														
Rabobank Group	2514	24/12/2018	24/06/2019	85	0.980%	2.500	2.500	10.000	AA-					
SINGAPORE BANKS														
DBS Bank Ltd	2506	31/10/2018	30/04/2019	30	0.950%	5.000								
	2525	28/02/2019	30/08/2019	152	0.990%	2.000	7.000	10.000	AA-					
						-----	-----							
						134	112.744							
						-----	-----							
INVESTMENT PROPERTIES														
Ashdown House							9.426							
49/51 High Street							1.551							
Atlantic House							5.442							

							129.163							

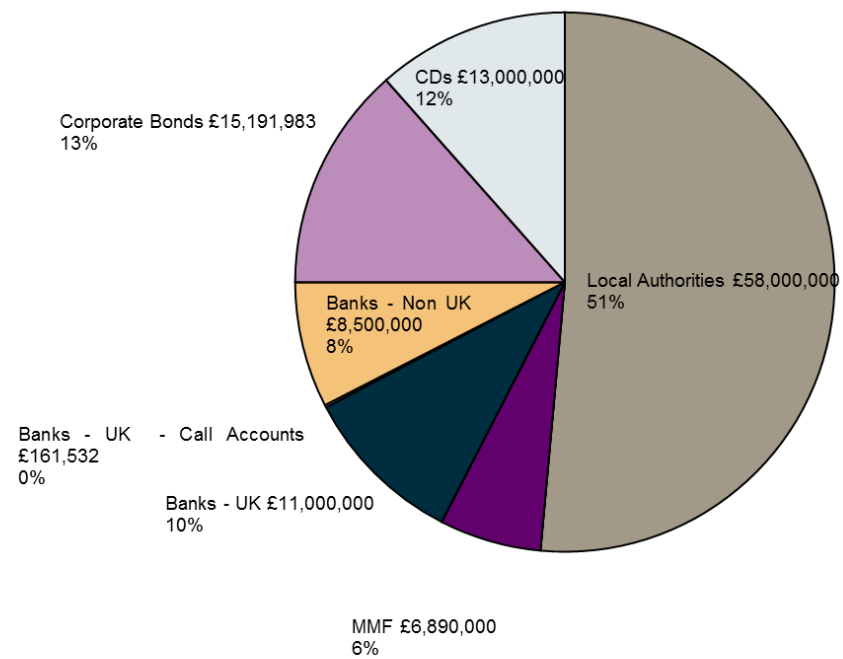
Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification



Earmarked Reserves

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000
General Fund:							
Capital Programme	5,264	-	923	6,187	(2,240)	-	3,947
Restructuring Impact Reserve	750	(55)	-	695	-	-	695
Vehicles and Plant	241	(74)	200	367	(258)	260	369
Insurance Fund	379	(1)	-	378	-	-	378
ICT Replacement	114	(95)	100	119	(19)	100	200
Specialist Equipment at K2 and Hawth	-	-	100	100	(200)	100	-
Risk Management	44	(17)	-	27	-	22	49
Quick Wins	39	(11)	-	28	(10)	-	18
Community Cohesion	3	(3)	-	-	-	-	-
Heritage Strategy	34	-	-	34	-	-	34
Pathfinder	33	(5)	1	29	(5)	-	24
Local Development Framework	442	-	65	507	-	33	540
Climate Change	-	-	-	-	-	-	-
Defra Water Management	-	-	-	-	-	-	-
Health & Wellbeing Grant	266	(30)	-	236	(22)	3	217
Connecting Communities	57	(5)	52	104	(48)	-	56
Homeless grant	26	(9)	64	81	-	-	81
Town Centre and Regeneration Reserve	377	(148)	21	250	(87)	-	163
Council tax support funding	-	-	-	-	-	-	-
Investment Acquisition	5,000	-	-	5,000	-	-	5,000
Waste Collection	281	(55)	-	226	-	-	226
Worth Park HLF	-	-	76	76	-	-	76
Social Housing Fraud	-	-	-	-	-	-	-
Preventing B&B over 6 weeks	50	(50)	-	-	-	-	-
Grant to voluntary organisations	75	-	-	75	-	-	75
Welfare Reform	91	-	35	126	-	74	200
Transparency	24	-	8	32	(37)	8	3
Shore gap fund	7	-	-	7	-	-	7
Tilgate Park Investment	41	(41)	57	57	(35)	10	32

APPENDIX 3

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000
Business Rates Equalisation	5,000	(1,794)	-	3,206	(570)	1,364	4,000
New Museum	33	-	35	68	-	17	85
Leap Project Small Business Grants	69	-	8	77	(52)	-	25
Leisure Management Contract	45	(45)	-	-	-	-	-
Journey to Work	-	-	32	32	(32)	-	-
Flexible Homelessness Grant	-	-	372	372	(372)	-	-
Town Centre Partnership	-	(5)	47	42	-	-	42
Town Centre Markets	-	-	14	14	-	-	14
EU Exit Funding	-	-	-	-	-	154	154
Park Improvement Fund	-	-	-	-	-	18	18
Clean Our High Streets	-	-	-	-	-	20	20
Business Rates Pool Cycling	-	-	-	-	-	70	70
Shop Fronts	-	-	-	-	-	21	21
Town Centre BID Feasibility	-	-	-	-	-	17	17
Homeless Accommodation Acquisition	-	-	-	-	-	374	374
Total	18,785	(2,443)	2,210	18,552	(3,987)	2,665	17,230