

Crawley Borough Council

Report to Overview and Scrutiny Commission 25 November 2019

Report to Cabinet 27 November 2019

Treasury Management Mid-Year Review 2019/2020

Report of the Head of Corporate Finance, **FIN/484**

1. Purpose

- 1.1 This report provides an update on the Council's Treasury Management Strategy for the two first quarters of 2019/2020.

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

That the Cabinet is recommended to:

- a) Note the report and the treasury activity for the first two quarters of 2019/2020;
- b) Recommend to Full Council the approval of an amendment to the Ethical Investment Policy within the Council's Annual Investment Strategy (see section 5.3).

3. Reasons for the Recommendations

- 3.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, annual and mid-year reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

4. Interest rate forecasts

- 4.1 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

- 4.2 Given the current level of uncertainties forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

5. Annual Investment Strategy

- 5.1 The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by this Council on 27 February 2019. It sets out the Council's investment priorities as being:
- Security of capital
 - Liquidity; and
 - Yield.
- 5.2 Following the Climate Emergency Declaration at Full Council on 17 July 2019, the Head of Corporate Finance was requested to review the Ethical Investment Policy in the Treasury Management Strategy with a view to incorporating the declaration.
- 5.3 It is proposed to amend the Ethical Investment Policy within the Council's Annual Investment Strategy (amendment highlighted):

Ethical Investment Policy

The Council will not undertake direct investment or borrowing activities with organisations whose core activities include:

- Armaments – weapon systems
- Gambling
- Pornography
- Tobacco
- Pay-day loans
- Companies that generate more than 10% of their revenue from the extraction of coal, oil or gas.

In order to comply with treasury management guidance, the Council's investments will prioritise security, liquidity and yield in that order. The Ethical Investment Policy thereby becomes a fourth consideration in the decision making process.

6. Compliance with Treasury and Prudential Limits

- 6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

- 6.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 2.

7. Investment Portfolio 2019/20

- 7.1 The Council held £116.1m of investments as at 30 September 2019 (£112.7m at 31 March 2019). A full list of investments held as at 30th September 2019 is in appendix 1.
- 7.2 In addition to the treasury investments in 7.1 above, the Council also has £16.4m invested in Investment Properties. These investments are deemed capital expenditure, and as such are an application (spending) of capital resources. As such, these investments are not included in the treasury management indicators, but have been included in the list of investments in appendix 1. There is a further budget of £7.0m to purchase additional investment properties. The budget strategy report elsewhere on this agenda is requesting to increase to £7.5m.
- 7.3 The Head of Corporate Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.
- 7.4 Investment performance for the financial year to date as at 30 September 2019:

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day LIBID + 0.2%	0.77%	1.00%	£618,727

The performance above is the return achieved for the half year. This is different from the table in 7.1 as this shows the average rate on the investments actually held on 30 September.

8. Borrowing

- 8.1 The Council borrowed £260.325m in March 2012 for HRA self-financing. The average borrowing rate is 3.19%. There has been no requirement for further borrowing in 2019/2020.

9. Implications

- 9.1 The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these. There are no other legal implications arising in this report.
- 9.2 The financial implications are addressed throughout this report.
- 9.3 Risks are highlighted throughout this report, but appendix 2 addresses the risk to security, liquidity and yield of the Council's investment strategy.

10. Background Papers

[Treasury Management Strategy for 2019/2020 – Cabinet, 6 February 2019 \[report FIN/464 refers\]](#)

Quarterly Budget Monitoring 2019/2020 Quarter 2 – Cabinet, 27 November 2019 [report FIN/482 refers]

[Budget and Council Tax for 2019/20 - Cabinet, 6 February 2019 \[report FIN/462 refers\]](#)

[Climate Emergency Declaration – Council, 17 July 2019](#)

“Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes”, 2017 Edition - Chartered Institute of Public Finance and Accountancy

“The Prudential Code for Capital Finance in Local Authorities”, 2017 Edition - Chartered Institute of Public Finance and Accountancy

[DCLG Guidance on Local Government Investments \(Second Edition\)](#)

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Detailed holdings at 30 September 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	21	1.093%	2.083	2.083	10.000	AA-
UK BANKS									
Goldman Sachs International Bank	2532	02/05/2019	01/11/2019	32	0.900%	2.000			
	2537	23/05/2019	22/11/2019	53	0.870%	3.000	5.000	10.000	A
Lloyds Bank plc	20		01/10/2019	1	0.650%	0.227	0.227	10.000	A+
National Westminster Bank Plc	2535	30/04/2019	30/04/2020	213	1.090%	3.000			
	2542	25/06/2019	03/01/2020	95	0.850%	2.500	5.500	15.000	A+
Standard Chartered Bank	2557	11/09/2019	11/03/2020	163	0.810%	3.000	3.000	10.000	A+
UK BUILDING SOCIETIES									
Coventry BS	2547	18/07/2019	17/01/2020	109	0.850%	2.000			
	2523	27/02/2019	16/10/2019	16	1.161%	1.946	3.946	10.000	A
Nationwide BS	2545	03/07/2019	03/01/2020	95	0.820%	3.000	3.000	10.000	A
CANADA BANKS									
Toronto Dominion Bank	2504	26/10/2018	25/10/2019	25	1.080%	3.500	3.500	10.000	AA-
CORPORATE BONDS									
Daimler International Finance	2531	09/04/2019	20/12/2019	81	1.100%	1.999	1.999	2.000	A
London Stock Exchange	2511	03/12/2018	18/10/2019	18	1.471%	1.454	1.454	2.000	A-
Motability Operations Group plc	2519	23/01/2019	10/12/2019	71	1.233%	1.160			
	2522	19/02/2019	10/12/2019	71	1.184%	0.781	1.941	2.000	A+
FINLAND BANKS									
Nordea Bank Abp	2533	30/04/2019	13/11/2019	44	0.899%	1.524			
	2548	19/07/2019	17/07/2020	291	0.850%	5.000			
	2551	15/08/2019	13/11/2019	44	0.771%	2.039	8.563	10.000	AA-
FRANCE BANKS									
BNP Paribas	2552	21/08/2019	20/11/2019	51	0.797%	1.678	1.678	10.000	A+
Credit Industriel et Commercial	2536	21/05/2019	21/11/2019	52	0.860%	2.000	2.000	10.000	A+
GERMANY BANKS									
Landesbank Hessen-Thuringen Giroze	2543	25/06/2019	03/01/2020	95	0.790%	1.500	1.500	10.000	A+

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
LOCAL AUTHORITIES									
Blackpool BC	2553	20/09/2019	18/09/2020	354		0.800% 3.000			
	2554	26/09/2019	24/09/2020	360		0.800% 2.000	5.000	15.000	AA
Conwy County Borough Council	2541	28/06/2019	08/01/2020	100		0.780% 2.000	2.000	15.000	AA
Dumfries & Galloway Council	59	01/12/2017	02/12/2019	63		0.900% 5.000	5.000	15.000	AA
London Borough of Hackney	2530	01/04/2019	01/10/2019	1		0.900% 5.000	5.000	15.000	AA
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2021	794		2.750% 5.000	5.000	15.000	AA
London Borough of Islington	2539	07/06/2019	06/12/2019	67		0.750% 5.000	5.000	15.000	AA
Newcastle City Council	58	01/02/2018	03/02/2020	126		1.000% 5.000	5.000	15.000	AA
Peterborough City Council	57	27/11/2017	27/11/2019	58		0.900% 5.000	5.000	15.000	AA
Thurrock Borough Council	2540	07/06/2019	06/01/2020	98		0.820% 3.000			
	2544	02/07/2019	01/07/2020	275		0.950% 5.000			
	2549	31/07/2019	30/07/2020	304		0.900% 5.000	13.000	15.000	AA
MONEY MARKET FUNDS									
Aberdeen Liquidity Fund	5		01/10/2019	1		0.737% 3.895	3.895	15.000	AAA
Federated Prime Rate Cash Man	1		01/10/2019	1		0.738% 1.020	1.020	15.000	AAA
NETHERLANDS BANKS									
ABN AMRO	2546	10/07/2019	30/06/2020	274		0.860% 1.903	1.903	10.000	A+
Rabobank Group	2538	04/06/2019	04/12/2019	65		0.780% 3.000			
	2550		01/10/2019	1		0.807% 1.902	4.902	10.000	AA-
SINGAPORE BANKS									
DBS Bank Ltd	2534	30/04/2019	31/10/2019	31		0.940% 5.000			
	2556	30/08/2019	28/08/2020	333		0.820% 2.000	7.000	10.000	AA-
SWITZERLAND BANKS									
UBS AG	2555	29/08/2019	27/04/2020	210		0.840% 2.000	2.000	10.000	AA-
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				148			116.110		
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INVESTMENT PROPERTIES							16.419		

							132.529		

Treasury Indicators	2019/20 Strategy £'000	30 September Actual £'000
Authorised limit for external debt	270,325	260,325
Operational boundary for external debt	260,325	260,325
Investments *	51,212	116,110

* Capital expenditure was budgeted at £73.4m for 2019/20. £24.2m has been spent to 30 September. The revised estimate is £54.8m. See Quarter 2 Budget Monitoring for further details.

Maturity structure of fixed rate borrowing - upper and lower limits:		
Under 12 months	0% - 10%	0%
12 months to 2 years	0% - 10%	0%
2 years to 5 years	0% - 20%	9%
5 years to 10 years	0% - 40%	28%
10 years to 20 years	0% - 65%	63%
20 years to 30 years	0% - 15%	0%
30 years to 40 years	0% - 10%	0%
40 years to 50 years	0% - 10%	0%

Weighted average life of investments	Avg. 0.70 years Max 1.20 years	0.41
Short term deposits (<1 week's notice)	2,000	10,142
Upper limit for principal sums invested over 364 days	50,000	3,500

Prudential Indicators	2019/20 Strategy £'000	Quarter 2 Forecast £'000
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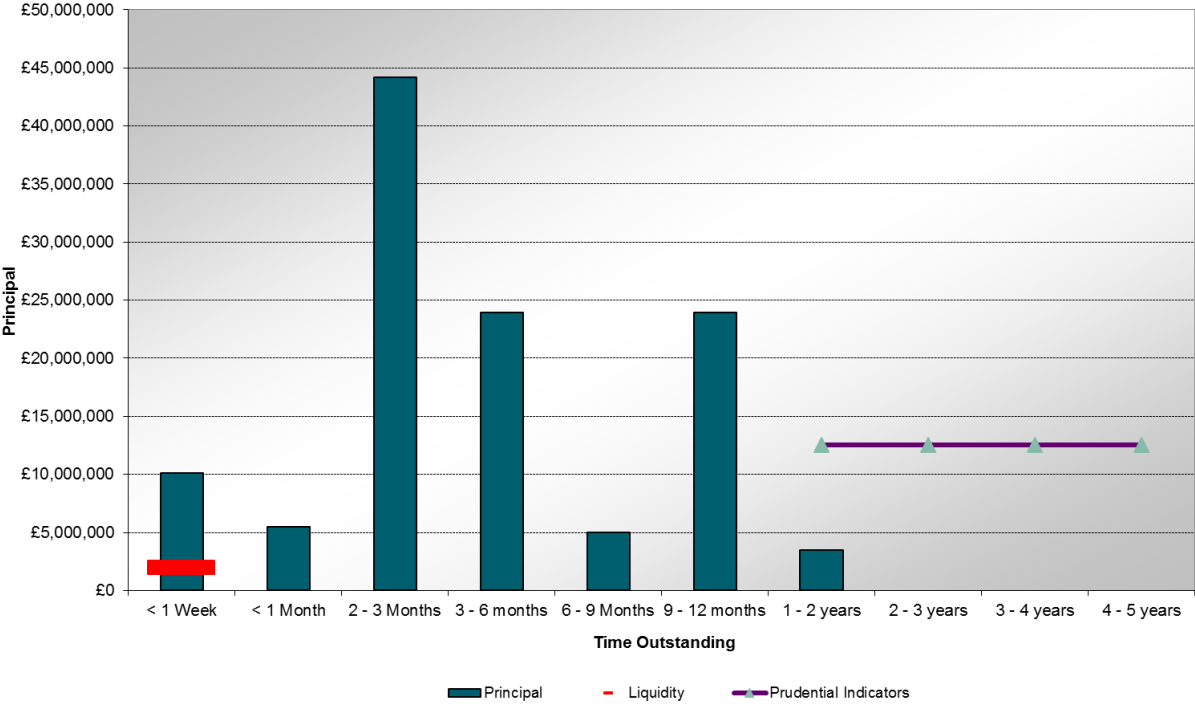
General Fund

Capital expenditure	23,925	22,374
Capital Financing Requirement (CFR)	0	0
Annual change in CFR	0	0
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream	-6.37%	-6.88%

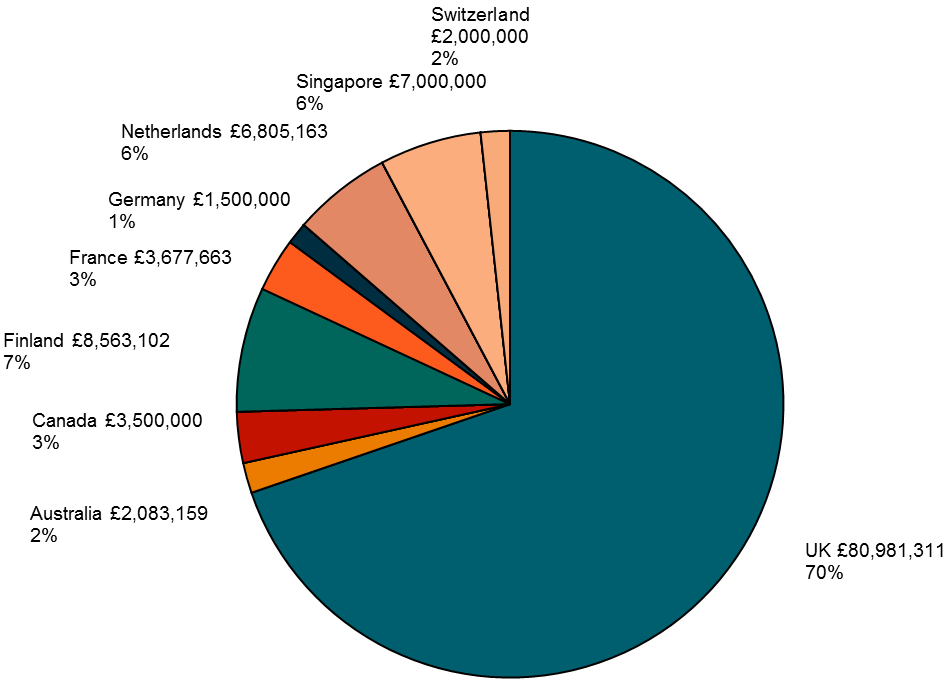
HRA

Capital expenditure	49,456	32,416
Capital Financing Requirement (CFR)	260,325	260,325
Annual change in CFR	0	0
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream	16.85%	16.97%

Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification

