

Crawley Borough Council

Report to Overview and Scrutiny Commission 22 June 2020

Report to Cabinet 24 June 2020

Treasury Management Outturn for 2019/20

Report of the Head of Corporate Finance – FIN/502

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 2019/20. 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 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:
 - an Annual Treasury Strategy in advance of the year (Council 27/02/2019, FIN/464)
 - a mid-year treasury update report (Council 16/12/2019, FIN/484)
 - 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 2019/20 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2019/20.

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	2018/19 Actual	2019/20 Budget	2019/20 Actual
Capital expenditure	7,648	23,925	13,691
Non-financial investments	0	6,000	7,487
Financed in year	7,648	29,925	21,178
Unfinanced capital expenditure	0	0	0

HRA £'000	2018/19 Actual	2019/20 Budget	2019/20 Actual
Capital expenditure	37,562	49,456	32,079
Financed in year	37,562	49,456	32,079
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 (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) 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 2019/20. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£'000	31 March 2019 Actual	31 March 2020 Budget	31 March 2020 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 2019/20 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	2019/20
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	-8.51%

HRA £'000	2019/20
Authorised limit	270,325
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	16.95%

6. Treasury Position as at 31 March 2020

6.1 At the beginning and the end of 2019/20 the Council's treasury position was as follows:

DEBT PORTFOLIO	31 March 2019 Principal £'000	Rate/ Return	Average Life yrs	31 March 2020 Principal £'000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	12.03	260,325	3.2%	11.03
-Market	0			0		
Variable rate funding:						
-PWLB	0			0		
-Market	0			0		
Total debt	260,325	3.2%	12.03	260,325	3.2%	11.03
CFR	260,325			260,325		
Over / (under) borrowing	0			0		
Total investments	112,744	1.04%	0.36	97,811	1.00%	0.47
Net debt	147,581			162,514		

The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £'000	2019/20 Original Limits	31 March 2020 Actual £'000
Under 12 months	0	10%	0
12 months and within 24 months	0	10%	0
24 months and within 5 years	23,000 (9%)	20%	36,000 (14%)
5 years and within 10 years	74,000 (28%)	40%	80,000 (31%)
10 years and within 20 years	163,325 (63%)	65%	144,325 (55%)
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

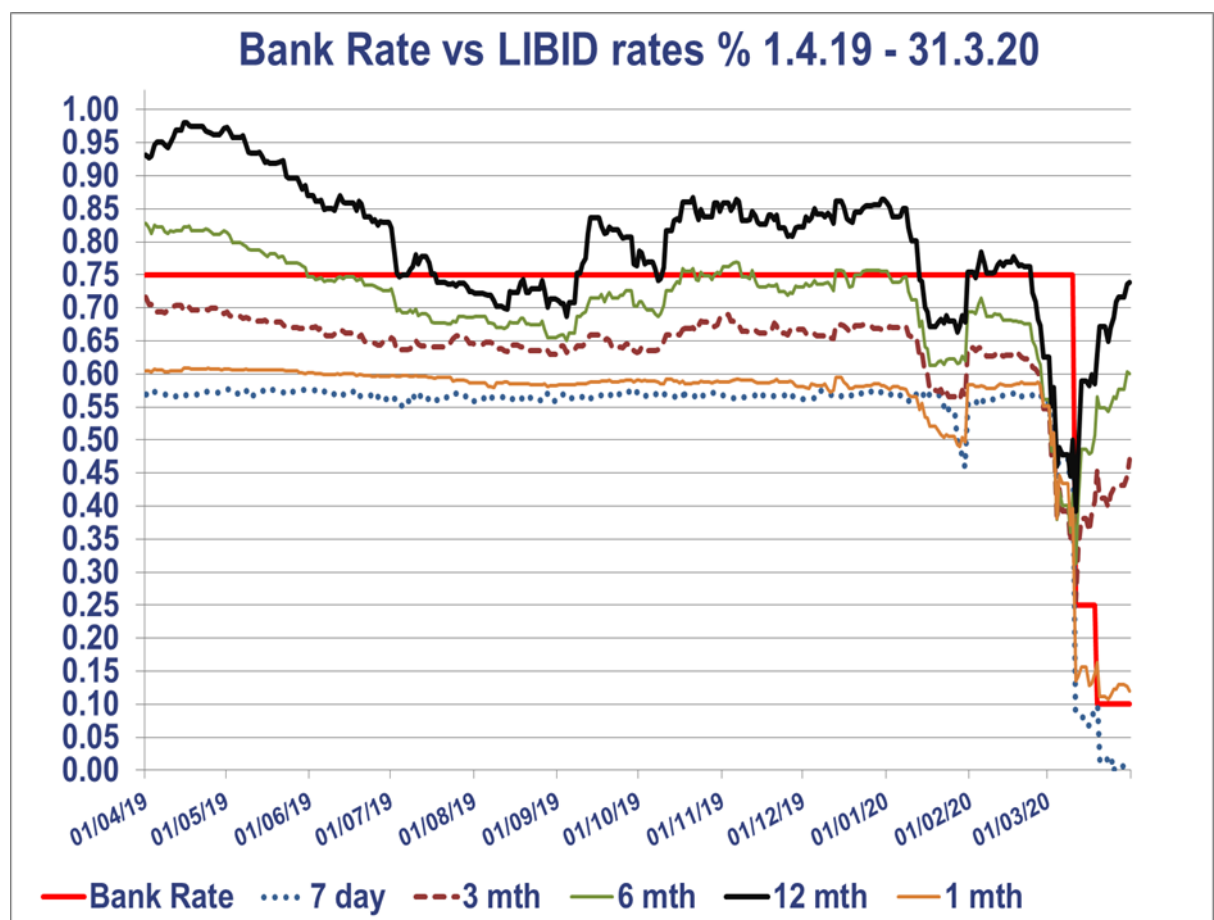
INVESTMENT PORTFOLIO	Actual 31 March 2019 £000	Actual 31 March 2019 %	Actual 31 March 2020 £000	Actual 31 March 2020 %
Treasury investments				
UK Banks	11,162	10%	6,301	7%
Overseas Banks	23,583	21%	20,900	21%
Building Societies	3,947	4%	0	0%
Local authorities	58,000	51%	61,000	62%
Money Market Funds	6,890	6%	9,610	10%
Corporate Bonds	9,162	8%	0	0%
TOTAL TREASURY INVESTMENTS	112,744	100%	97,811	100%

Non Treasury investments				
Property	16,419		21,953	
Treasury investments	112,744	87%	97,811	82%
Non Treasury investments	16,419	13%	21,953	18%
TOTAL OF ALL INVESTMENTS	129,163	100%	119,764	100%

The maturity structure of the investment portfolio was as follows:

	31 March 2019 Actual £000	31 March 2020 Actual £000
Investments		
Longer than 1 year	0	10,000
Up to 1 year	112,744	87,811
Total	112,744	97,811

7. Investment strategy and control of interest rate risk



7.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would rise

during to 1.00% at the start of the year and then increase again to 1.25% in the final quarter.

- 7.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.
- 7.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

8. Borrowing Outturn for 2019/20

- 8.1 No borrowing was undertaken during the year.

9. Investment Outturn for 2019/20

- 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 27/02/2019. 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 2019	31 March 2020
General Fund Balance	4,995	5,239
HRA Balance	3,198	3,198
Earmarked reserves (Appendix 3)	17,230	13,927
Major Repairs Reserve	22,388	15,875
Usable capital receipts	41,714	37,103
Working capital	23,219	22,469
Total	112,744	97,811

- 9.4 **Investments held by the Council** - the Council maintained an average balance of £120,622,978 of internally managed funds. The internally managed funds earned an

average rate of return of 0.98%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.53%. This compares with a budget assumption of £98,615,000 investment balances earning an average rate of 1.25%. See appendix 1 for a list of investments held at 31 March 2020. Revisions of the capital programme in the year (see 4.2) led to higher investment balances than budgeted. The lower rates of return are discussed in section 7.

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 2019/2020 – Cabinet, 6 February 2019; OSC, 4 February 2019 \[FIN/464 refers\]](#)

[Treasury Management Mid-Year Review 2019/2020 – Cabinet, 27 November 2019; OSC, 25 November 2019 \[FIN/484 refers\]](#)

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

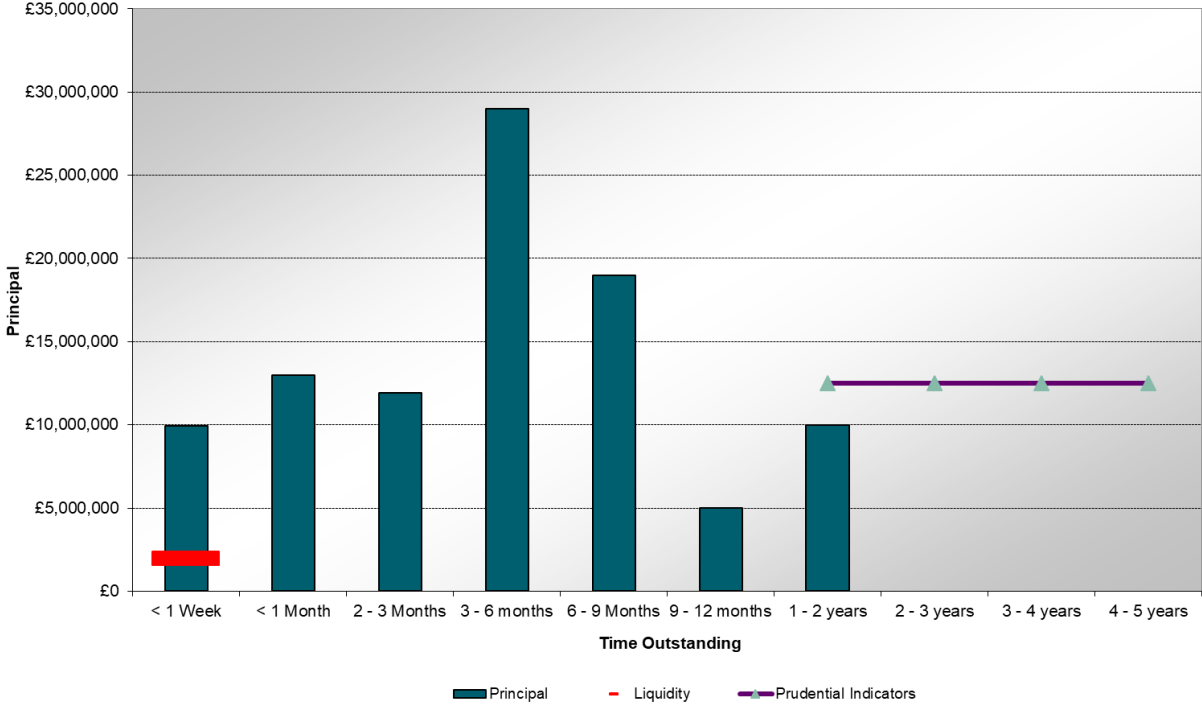
Detailed holdings at 31 March 2020

APPENDIX 1

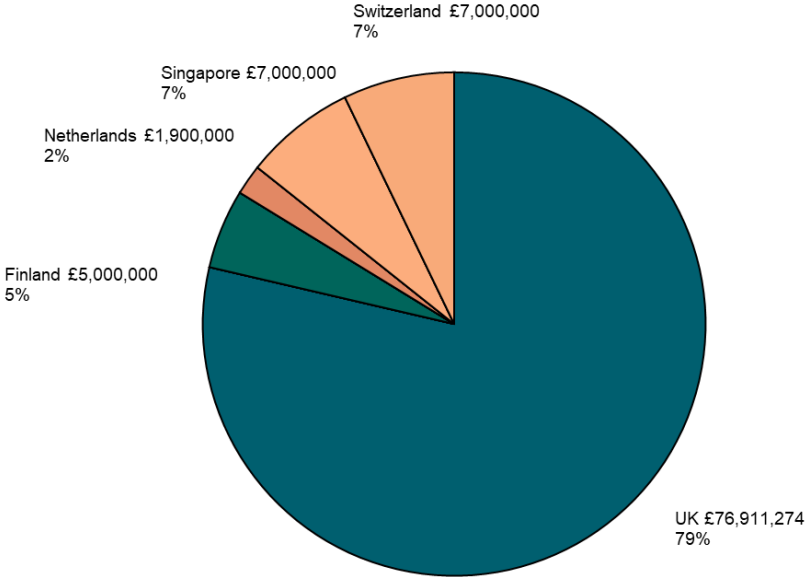
Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
UK BANKS									
Goldman Sachs International Bank	2565	22/11/2019	22/05/2020	52	0.920%	3.000	3.000	10.000	A
Lloyds Bank plc	20		01/04/2020	1	0.050%	0.301	0.301	10.000	A+
National Westminster Bank Plc	2535	30/04/2019	30/04/2020	30	1.090%	3.000	3.000	15.000	A+
FINLAND BANKS									
Nordea Bank Abp	2548	19/07/2019	17/07/2020	108	0.850%	5.000	5.000	10.000	AA-
LOCAL AUTHORITIES									
Blackpool BC	2553	20/09/2019	18/09/2020	171	0.800%	3.000			
	2554	26/09/2019	24/09/2020	177	0.800%	2.000	5.000	15.000	AA
Cambridgeshire CC	62	03/01/2020	04/01/2022	644	1.600%	3.000	3.000	15.000	AA
Conwy County Borough Council	2559	31/10/2019	30/04/2020	30	0.850%	3.000	3.000	15.000	AA
Dumfries & Galloway Council	60	02/12/2019	02/12/2021	611	1.350%	5.000	5.000	15.000	AA
Fife Council	2575	04/02/2020	02/02/2021	308	0.950%	5.000	5.000	15.000	AA
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2021	611	2.750%	5.000	5.000	15.000	AA
London Borough of Brent	2579	28/02/2020	30/04/2020	30	1.000%	3.000	3.000	15.000	AA
Merthyr Tydfil County BC	2560	28/10/2019	01/05/2020	31	0.800%	2.000	2.000	15.000	AA
North Tyneside MDC	2558	16/10/2019	14/10/2020	197	0.950%	3.000	3.000	15.000	AA
Nottingham City Council	2578	20/02/2020	20/05/2020	50	0.840%	5.000	5.000	15.000	AA
North Lanarkshire Council	2577	03/02/2020	29/07/2020	120	0.870%	4.000	4.000	15.000	AA
Royal Borough of Windsor & Maidenhe	2574	17/01/2020	20/08/2020	142	0.850%	3.000	3.000	15.000	AA
Slough Borough Council	2562	07/11/2019	05/11/2020	219	0.950%	3.000	3.000	15.000	AA
Thurrock Borough Council	2544	02/07/2019	01/07/2020	92	0.950%	5.000			
	2549	31/07/2019	30/07/2020	121	0.900%	5.000	10.000	15.000	AA
Wyre Forest District Council	61	10/12/2019	10/12/2021	619	1.400%	2.000	2.000	15.000	AA
MONEY MARKET FUNDS									
Aberdeen Liquidity Fund	5		01/04/2020	1	0.483%	6.000	6.000	6.000	AAA
Federated Prime Rate Cash Man	1		01/04/2020	1	0.415%	3.610	3.610	6.000	AAA
NETHERLANDS BANKS									
ABN AMRO Bond	2546	10/07/2019	30/06/2020	91	0.860%	1.900	1.900	2.000	A+
SINGAPORE BANKS									
DBS Bank Ltd	2556	30/08/2019	28/08/2020	150	0.820%	2.000			
	2564	31/10/2019	29/10/2020	212	0.920%	5.000	7.000	10.000	AA-

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating	
SWITZERLAND BANKS										
Credit Suisse AG	2563	30/10/2019	30/04/2020	30	0.870%	2.000	2.000	10.000	A	
UBS AG	2555	29/08/2019	27/04/2020	27	0.840%	2.000				
	2561	25/10/2019	22/10/2020	205	0.950%	3.000	5.000	10.000	AA-	
						189	97.811			
INVESTMENT PROPERTIES										
Ashdown House							9.426			
49/51 High Street							1.457			
Atlantic House							5.481			
Kingsgate Car Park							5.589			
						119.764				

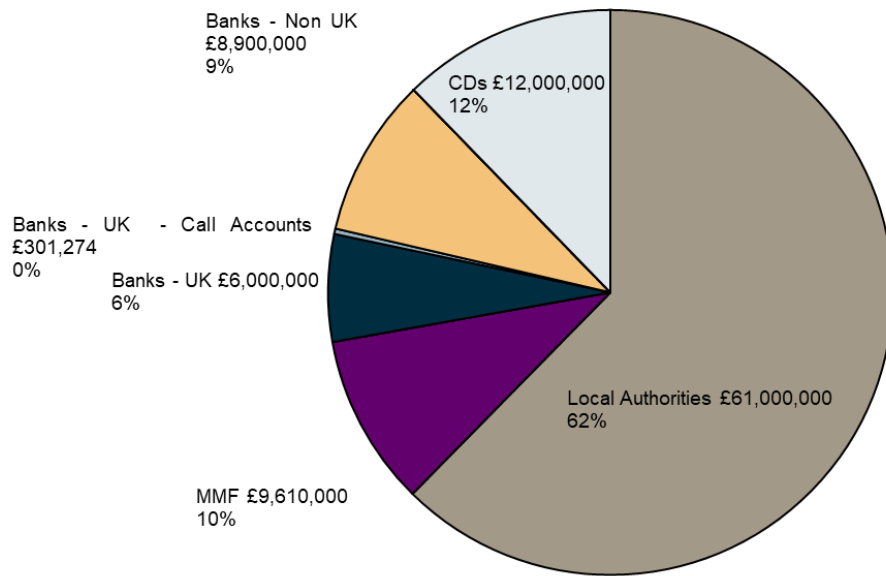
Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification



Earmarked Reserves

	Balance at 1 April 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000	Transfers Out 2019/20 £'000	Transfers In 2019/20 £'000	Balance at 31 March 2020 £'000
General Fund:							
Capital Programme	6,187	(2,240)	-	3,947	(392)	-	3,555
Restructuring Impact Reserve	695	-	-	695	-	-	695
Vehicles and Plant	367	(258)	260	369	(496)	570	443
Insurance Fund	378	-	-	378	-	-	378
ICT Replacement	119	(19)	100	200	(230)	100	70
Specialist Equipment at K2 Crawley and Hawth	100	(200)	100	-	(34)	100	66
Risk Management	27	-	22	49	(37)	170	182
Quick Wins	28	(10)	-	18	-	-	18
Heritage Strategy	34	-	-	34	(6)	-	28
Pathfinder	29	(5)	-	24	-	-	24
Local Development Framework	507	-	33	540	(164)	20	396
Health & Wellbeing Grant	236	(22)	3	217	(61)	-	156
Connecting Communities	104	(48)	-	56	-	-	56
Homeless grant	81	-	-	81	-	-	81
Town Centre and Regeneration Reserve	250	(87)	-	163	(67)	-	96
Investment Acquisition	5,000	-	-	5,000	(5,000)	-	-
Waste Collection	226	-	-	226	-	-	226
Worth Park HLF	76	-	-	76	(43)	-	33
Grant to voluntary organisations	75	-	-	75	-	-	75
Welfare Reform	126	-	74	200	-	-	200
Transparency	32	(37)	8	3	-	8	11
Shore gap fund	7	-	-	7	-	-	7
Tilgate Park Investment	57	(35)	10	32	(24)	-	8
Business Rates Equalisation	3,206	(570)	1,364	4,000	-	1,192	5,192
New Museum	68	-	17	85	(9)	4	80
Leap Project Small Business Grants	77	(52)	-	25	(25)	-	-
Journey to Work	32	(32)	-	-	-	-	-
Flexible Homelessness Grant	372	(372)	-	-	-	-	-

APPENDIX 3

	Balance at 1 April 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31 March 2019 £'000	Transfers Out 2019/20 £'000	Transfers In 2019/20 £'000	Balance at 31 March 2020 £'000
Town Centre Partnership	42	-	-	42	(17)	-	25
Town Centre Markets	14	-	-	14	-	-	14
EU Exit Funding	-	-	154	154	-	184	338
Park Improvement Fund	-	-	18	18	(18)	-	-
Clean Our High Streets	-	-	20	20	(20)	-	-
Business Rates Pool Cycling	-	-	70	70	(10)	-	60
Shop Fronts	-	-	21	21	(21)	-	-
Town Centre BID Feasibility	-	-	17	17	(17)	-	-
Homeless Accommodation Acquisition	-	-	374	374	(16)	341	699
Queen Square	-	-	-	-	(11)	392	381
Supported Accommodation	-	-	-	-	-	120	120
Town Funds	-	-	-	-	-	173	173
Covid-19 LA Support Grant	-	-	-	-	-	41	41
Total	18,552	(3,987)	2,665	17,230	(6,718)	3,415	13,927