

Crawley Borough Council

Report to Overview and Scrutiny Commission 23 November 2020

Report to Cabinet 25 November 2020

Treasury Management Mid-Year Review 2020/2021

Report of the Head of Corporate Finance, **FIN/512**

1. Purpose

- 1.1 This report provides an update on the Council's Treasury Management Strategy for the two first quarters of 2020/2021.

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 note the report and the treasury activity for the first two quarters of 2020/2021

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, Arlingclose Limited, has provided the following forecast:

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

- 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 2020/21, which includes the Annual Investment Strategy, was approved by this Council on 26 February 2020. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield; and
- Ethical investment policy

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 2020/21

7.1 The Council held £111.98m of investments as at 30 September 2020 (£97.8m at 31 March 2020). A full list of investments held as at 30th September 2020 is in appendix 1.

7.2 In addition to the treasury investments in 7.1 above, the Council also has £22.0m 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.

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 2020/21.

7.4 Investment performance for the financial year to date as at 30 September 2020:

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day LIBID + 0.2%	0.14%	0.75%	£414,973

In the strategy set at the start of the year, we projected that there would be a rise in interest rates. At the time, base rate was 0.75% and the expectation was that it would rise to 1% by the end of the year. Instead, it fell: first to 0.25% on 11 March, and then to 0.1% 1 week later. The expectation is that it will remain at this level for the rest of the year, though zero or negative rates cannot be ruled out.

The Council has not invested at negative rates so far, though some rates in the market are negative. We have found it difficult to invest and in some cases we have invested at 0%. The average rate on our investments is 0.75% for the first half of the year - mostly down to investments that were taken out before the rate cuts. As these mature, we will see our average rate fall.

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 2020/2021.

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 2020/2021 – Cabinet, 5 February 2020 \[report FIN/493 refers\]](#)

Quarterly Budget Monitoring 2020/2021 Quarter 2 – Cabinet, 25 November 2020 [report FIN/510 refers]

[Budget and Council Tax for 2019/20 - Cabinet, 5 February 2020 \[report FIN/491 refers\]](#)

“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 2020

APPENDIX 1

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
UK BANKS									
Lloyds Bank plc	20		01/10/2020	1	0.000%	0.053	0.053	10.000	A+
UK BUILDING SOCIETIES									
Leeds BS	2596	17/06/2020	16/11/2020	47	0.178%	3.079			
	2597	18/06/2020	16/11/2020	47	0.121%	1.921	5.000	10.000	AAA
CENTRAL GOVERNMENT									
DMO	2614	15/09/2020	05/10/2020	5	0.010%	6.000	6.000	Unlimited	AA
LOCAL AUTHORITIES									
Ashford Borough Council	2593	15/07/2020	19/01/2021	111	0.300%	5.000	5.000	15.000	AA
Blaenau Gwent County Borough Council	2592	17/08/2020	19/02/2021	142	0.350%	5.000	5.000	15.000	AA
Cambridgeshire CC	62	03/01/2020	04/01/2022	461	1.600%	3.000	3.000	15.000	AA
Cheltenham Borough Council	2598	20/07/2020	20/01/2021	112	0.200%	2.000	2.000	15.000	AA
Conwy County Borough Council	2591	21/08/2020	19/02/2021	142	0.350%	5.000	5.000	15.000	AA
Dumfries & Galloway Council	60	02/12/2019	02/12/2021	428	1.350%	5.000	5.000	15.000	AA
Fife Council	2575	04/02/2020	02/02/2021	125	0.950%	5.000	5.000	15.000	AA
London Borough of Hillingdon	2589	01/07/2020	21/12/2020	82	0.300%	5.000	5.000	15.000	AA
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2021	428	2.750%	5.000	5.000	15.000	AA
City of Liverpool	2594	30/07/2020	29/01/2021	121	0.300%	5.000	5.000	15.000	AA
North Tyneside MDC	2558	16/10/2019	14/10/2020	14	0.950%	3.000	3.000	15.000	AA
Plymouth City Council	2595	23/07/2020	19/01/2021	111	0.350%	5.000			
	2600	06/08/2020	22/02/2021	145	0.150%	5.000	10.000	15.000	AA
Royal Borough of Windsor & Maidenhe	2603	20/08/2020	20/10/2020	20	0.050%	5.000	5.000	15.000	AA
Rotherham Metropolitan Borough Coun	2590	20/08/2020	19/03/2021	170	0.380%	5.000	5.000	15.000	AA
Slough Borough Council	2562	07/11/2019	05/11/2020	36	0.950%	3.000	3.000	15.000	AA
Somerset West and Taunton Council	2615	18/09/2020	15/01/2021	107	0.150%	5.000	5.000	15.000	AA
Surrey County Council	2618	28/09/2020	19/11/2020	50	0.040%	5.000	5.000	15.000	AA
Surrey Heath Borough Council	2599	27/08/2020	26/02/2021	149	0.180%	2.000	2.000	15.000	AA
Wyre Forest District Council	61	10/12/2019	10/12/2021	436	1.400%	2.000	2.000	15.000	AA
MONEY MARKET FUNDS									
Aberdeen Liquidity Fund	5		01/10/2020	1	0.080%	6.633	6.633	15.000	AAA
Federated Prime Rate Cash Man	1		01/10/2020	1	0.054%	1.300	1.300	15.000	AAA
SINGAPORE BANKS									
DBS Bank Ltd	2564	31/10/2019	29/10/2020	29	0.920%	5.000	5.000	10.000	AA+

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
SWITZERLAND BANKS									
UBS AG	2561	25/10/2019	22/10/2020	22	0.950%	3.000	3.000	10.000	AA-

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128	111.986
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INVESTMENT PROPERTIES

Ashdown House	9.426
Ask High Street	1.457
Atlantic House	5.481
Kingsgate Car Park	5.589

133.939

Treasury Indicators	2020/21 Strategy £'000	30 September Actual £'000
Authorised limit for external debt	276,146	265,951
Operational boundary for external debt	266,146	260,325
Investments *	45,587	111,986

* Capital expenditure was budgeted at £78.8m for 2020/21. £11.7m has been spent to 30 September. The revised estimate is £51.8m. 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%	19%
5 years to 10 years	0% - 40%	33%
10 years to 20 years	0% - 55%	48%
20 years to 30 years	0% - 10%	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	0.35
Short term deposits (<1 week's notice)	2,000	7,986
Upper limit for principal sums invested over 364 days	50,000	15,000

Prudential Indicators	2020/21 Strategy £'000	Quarter 2 Forecast £'000
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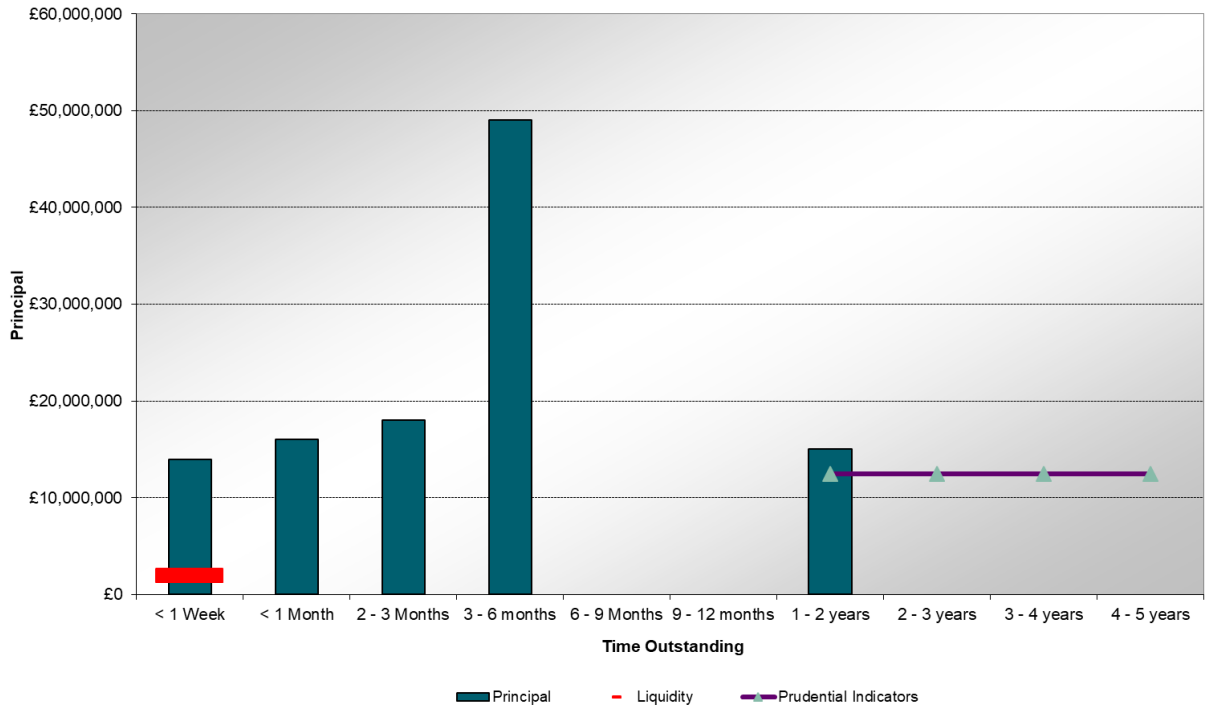
General Fund

Capital expenditure	50,045	6,429
Capital Financing Requirement (CFR)	5,821	0
Annual change in CFR	5,821	0
In year borrowing requirement	5,821	0
Ratio of financing costs to net revenue stream	-3.92%	-3.61%

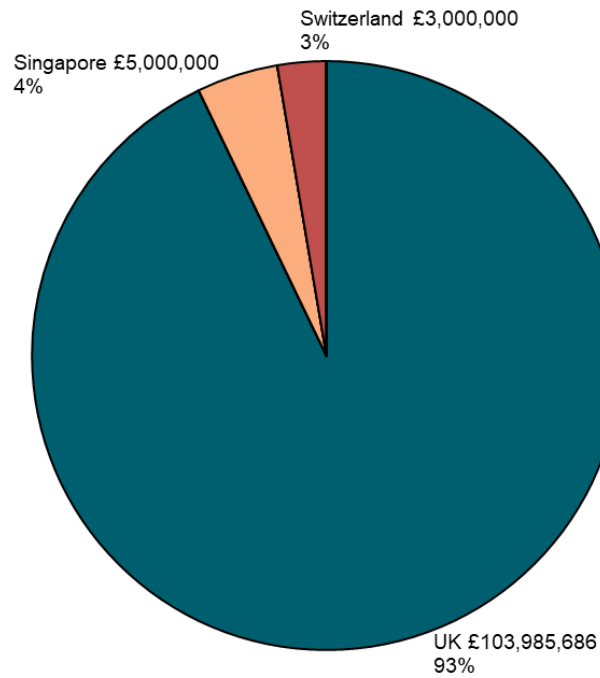
HRA

Capital expenditure	28,771	5,247
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	16.06%	16.30%

Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification

