

Crawley Borough Council

Report to Overview and Scrutiny Commission 25 June 2018

Report to Cabinet 27 June 2018

Treasury Management Outturn for 2017/18

Report of the Head of Finance, Revenues and Benefits – **FIN/442**

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 22/02/2017)
 - a mid-year treasury update report (Council 13/12/2017)
 - 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 2017/18 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2017/18.

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 Economy and Interest Rates

- 4.1 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.
- 4.2 The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

5. Overall Treasury Position as at 31 March 2018

- 5.1 At the beginning and the end of 2017/18 the Council's treasury position was as follows:

	31 March 2017 Principal £'000	Rate/ Return	Average Life yrs	31 March 2018 Principal £'000	Rate/ Return	Average Life yrs
Total debt	260,325	3.2%	14.03	260,325	3.2%	13.03
CFR	260,325			260,325		
Over / (under) borrowing	0			0		
Total investments	118,183	0.68%	0.48	118,606	0.75%	0.69
Net debt	142,142			141,719		

6. The Borrowing Requirement and Debt

- 6.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

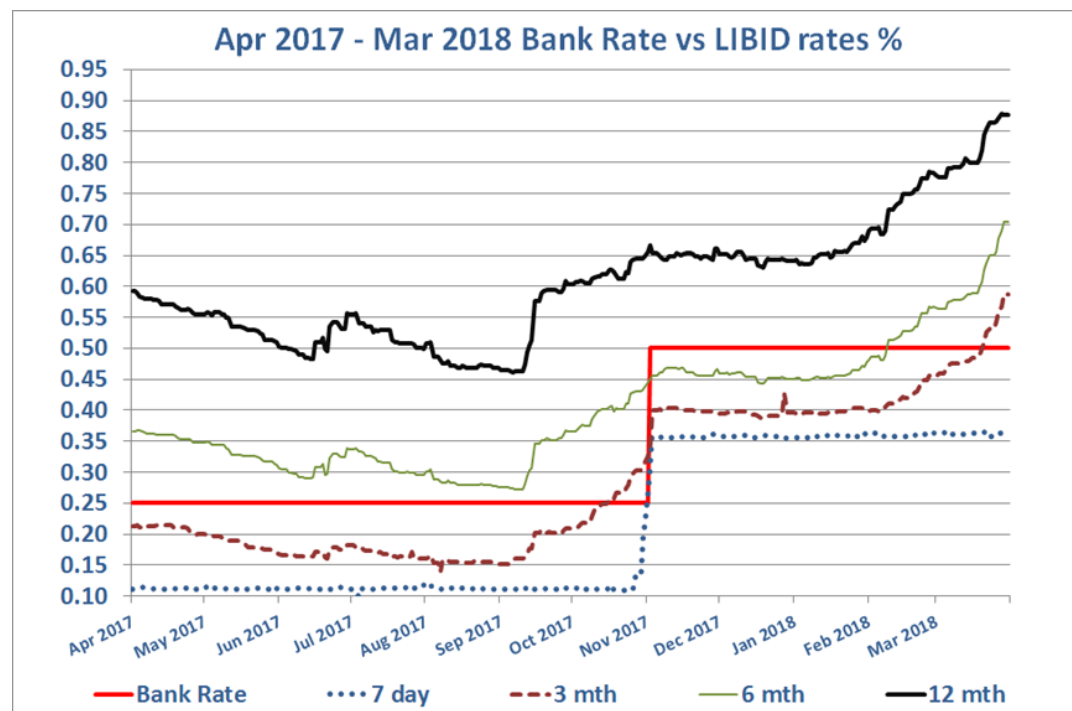
	31 March 2017 Actual £'000	31 March 2018 Budget £'000	31 March 2018 Actual £'000
CFR General Fund (£000)	0	0	0
CFR HRA (£000)	260,325	260,325	260,325
Total CFR	260,325	260,325	260,325

7. Borrowing Outturn for 2017/18

- 7.1 No borrowing was undertaken during the year.

8. Investment Rates in 2017/18

- 8.1 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.



9. Investment Outturn for 2017/18

- 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 22/02/2017. 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 **Investments held by the Council** - the Council maintained an average balance of £135,874,564 of internally managed funds. The internally managed funds earned an average rate of return of 0.63%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.21%. This compares with a budget assumption of £113,125,000 investment balances earning an average rate of 0.50%. See appendix 2 for a list of investments held at 31 March 2018.
- 9.4 Investments balances are higher than forecast in the strategy due to slippage in the capital programme. The rate of return was higher due to the increase in the base rate in November 2017 and the anticipated further rise in May 2018 (though market changes meant that this never materialised).

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 2017/2018 – Cabinet, 8 February 2017; OSC, 6 February 2017 \[FIN/404 refers\]](#)

[Treasury Management Mid-Year Review 2016/2017 – Cabinet, 29 November 2017; OSC, 27 November 2017 \[FIN/426 refers\]](#)

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

Appendix 1: Prudential and Treasury Indicators

During 2017/18, 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	2016/17 Actual £000	2017/18 Original £000	2017/18 Actual £000
Capital expenditure			
• General Fund	14,823	13,901	6,079
• HRA	16,294	37,468	23,375
• Total	31,117	51,369	29,454
Capital Financing Requirement:			
• General Fund	0	0	0
• HRA	260,325	260,325	260,325
• Total	260,325	260,325	260,325
Gross borrowing	260,325	260,325	260,325
External debt	260,325	260,325	260,325
Investments			
• Longer than 1 year	5,000		20,000
• Under 1 year	113,183		98,606
• Total	118,183	83,110	118,606
Net borrowing	142,142	177,215	141,719

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 (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) 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 2017/18.

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 2017/18 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.

	2017/18 £000
Authorised limit	270,325
Maximum gross borrowing position	260,325
Operational boundary	260,325
Average gross borrowing position	260,325

Ratio of financing costs to net revenue stream	31 March 2017 actual	2017/18 original	31 March 2018 actual
Non - HRA	-8.03%	-4.51%	-8.99%
HRA	17.18%	17.59%	18.23%

	31 March 2017 Principal £000	Rate/ Return	Average Life yrs	31 March 2018 Principal £000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	14.03	260,325	3.2%	13.03
-Market	0	0%		0	0%	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	260,325	3.2%	14.03	260,325	3.2%	13.03
CFR	260,325			260,325		
Over/ (under) borrowing	0			0		
Total investments	118,183	0.68%	0.48	118,606	0.75%	0.69
Net debt	142,362			141,719		

The maturity structure of the debt portfolio was as follows:

	Lower limit	Upper limit	31 March 2018 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%	£11.00m (4%)
5 years and within 10 years	0%	20%	£69.00m (27%)
10 years to 20 years	0%	80%	£180.33m (69%)
20 years to 30 years	0%	25%	£0.00m (0%)
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 2017 actual	2017/18 original limits	31 March 2018 actual
Fixed rate	260,325	270,325	260,325
Variable rate	0	10,000	0

Investment portfolio £000	31 March 2017 Actual	2017/18 original limits	31 March 2018 Actual
Fixed rate	111,996	140,000	111,267
Variable rate	7,187	40,000	7,339

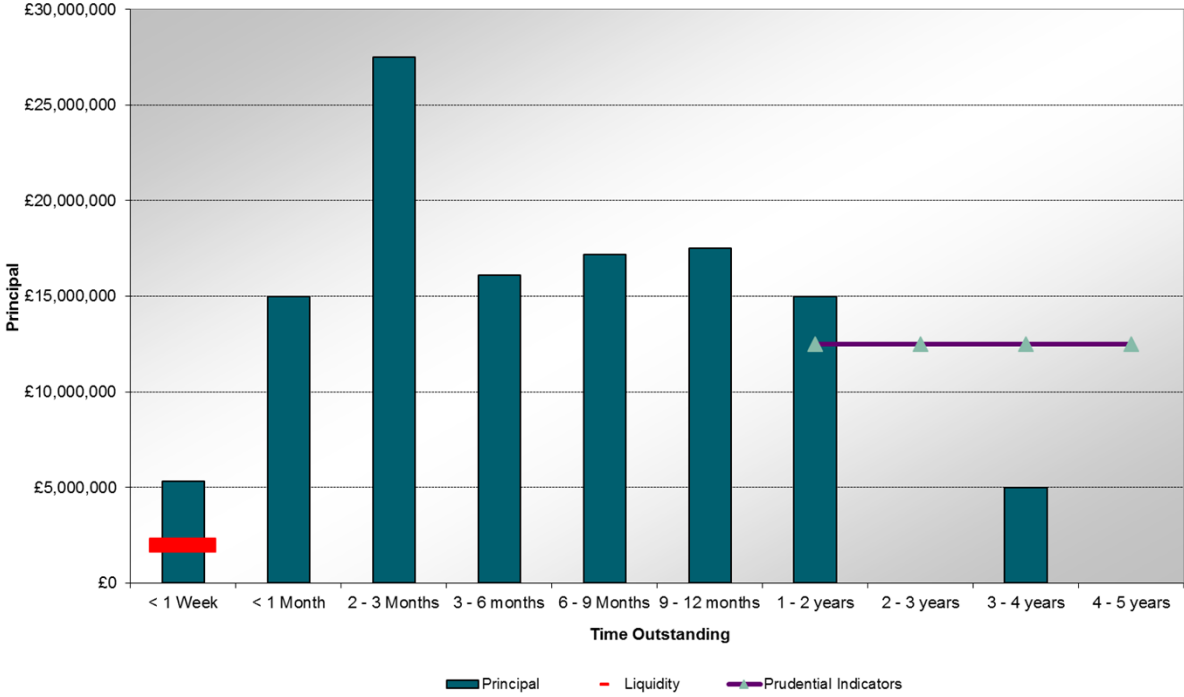
Detailed holdings at 31 March 2018

APPENDIX 2

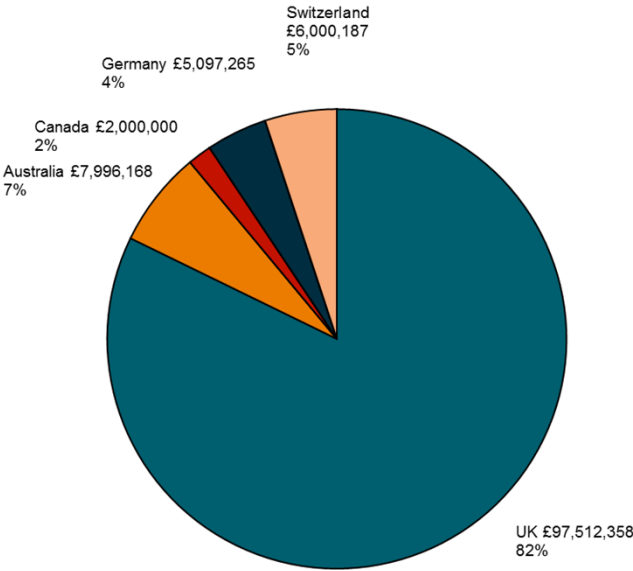
Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
AUSTRALIA BANKS									
Australia and New Zealand Banking G	2436	17/08/2017	03/08/2018	125	0.400%	0.996	0.996	10.000	AA-
Commonwealth Bank of Australia	2422	24/05/2017	23/05/2018	53	0.520%	5.000			
	2439	01/09/2017	31/08/2018	153	0.500%	2.000	7.000	10.000	AA-
UK BANKS									
Goldman Sachs International Bank	2391		01/04/2018	1	0.755%	2.000	2.000	10.000	A
Lloyds Bank plc	20		01/04/2018	1	0.400%	0.139	0.139	10.000	A
The Royal Bank of Scotland plc	2427	28/06/2017	27/06/2018	88	0.660%	2.000			
	2428	04/07/2017	29/06/2018	90	0.613%	3.002	5.002	15.000	BBB-
Standard Chartered Bank	2469	29/03/2018	09/05/2018	39	0.720%	0.501	0.501	10.000	A
UK BUILDING SOCIETIES									
Coventry BS	2460	08/02/2018	08/08/2018	130	0.600%	1.500	1.500	10.000	A
CANADA BANKS									
Toronto Dominion Bank	2444	18/09/2017	17/09/2018	170	0.510%	2.000	2.000	10.000	AA-
CORPORATE BONDS									
Daimler AG	2453	15/11/2017	16/07/2018	107	0.750%	1.597	1.597	2.000	A-
GERMANY BANKS									
Landesbank Hessen-Thuringen Giroze	2426	27/06/2017	26/06/2018	87	0.480%	1.500			
	2450	03/11/2017	02/11/2018	216	0.700%	2.000	3.500	10.000	A
LOCAL AUTHORITIES									
Blackburn with Darwen BC	2467	29/03/2018	30/04/2018	30	0.850%	5.000	5.000	15.000	AA
Blackpool BC	2451	24/11/2017	23/11/2018	237	0.600%	4.000	4.000	15.000	AA
Central Bedfordshire Council	2472	29/03/2018	30/04/2018	30	0.670%	3.000	3.000	15.000	AA
Conwy County Borough Council	2455	01/12/2017	01/06/2018	62	0.520%	5.000	5.000	15.000	AA
Dumfries & Galloway Council	59	01/12/2017	02/12/2019	611	0.900%	5.000	5.000	15.000	AA
Eastleigh Borough Council	2468	28/03/2018	28/06/2018	89	0.900%	1.500	1.500	15.000	AA
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2021	1342	2.750%	5.000	5.000	15.000	AA
Mid Suffolk District Council	2461	28/03/2018	28/09/2018	181	0.750%	3.000	3.000	15.000	AA
Newcastle City Council	58	01/02/2018	03/02/2020	674	1.000%	5.000	5.000	15.000	AA
Northamptonshire County Council	2456	01/03/2018	28/02/2019	334	0.700%	5.000	5.000	15.000	AA
North Tyneside MDC	2447	02/10/2017	01/10/2018	184	0.560%	3.170			
	2457	21/12/2017	20/12/2018	264	0.750%	3.000	6.170	15.000	AA

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
Peterborough City Council	57	27/11/2017	27/11/2019	606	0.900%	5.000	5.000	15.000	AA
City of Salford MDC	2445	30/10/2017	30/04/2018	30	0.450%	5.000			
	2448	16/11/2017	16/05/2018	46	0.450%	3.000	8.000	15.000	AA
Southampton City Council	2446	02/10/2017	01/10/2018	184	0.550%	5.000	5.000	15.000	AA
Stockport MBC	2462	29/03/2018	28/03/2019	362	0.850%	6.000	6.000	15.000	AA
Thurrock Borough Council	2454	08/12/2017	08/06/2018	69	0.520%	3.000			
	2458	05/01/2018	04/01/2019	279	0.700%	4.000	7.000	15.000	AA
Walsall Council	2459	31/01/2018	30/01/2019	305	0.700%	2.500	2.500	15.000	AA
MONEY MARKET FUNDS									
Standard Life Investments LF	4		01/04/2018	1	0.462%	3.450	3.450	6.000	AAA
Federated Prime Rate Cash Man	1		01/04/2018	1	0.455%	1.740	1.740	6.000	AAA
NETHERLANDS BANKS									
Rabobank Group	2449	01/11/2017	01/05/2018	31	0.520%	2.000	2.000	10.000	A+
SWEDEN BANKS									
Svenska Handelsbanken	17		01/04/2018	1	0.107%	0.010	0.010	10.000	AA-
SWITZERLAND BANKS									
UBS AG	2420	15/05/2017	11/04/2018	11	0.573%	2.000			
	2434	02/08/2017	21/06/2018	82	0.492%	1.001			
	2443	12/09/2017	11/09/2018	164	0.480%	3.000	6.000	10.000	A+
INVESTMENT PROPERTIES							118.606		
							21.322		
						252	139.928		

Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification

