Crawley Borough Council

Report to Overview and Scrutiny Commission

Investments managed in-house	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2022 30.09.2022	4.39 4.54	AA- A+	8% 8%	192 132	0.27 0.84
Similar Las **All LAs**	**4.34** **4.29**	**AA-** **AA-**	**57%** **55%**	**42** **18**	**1.70** **1.72**

The rate of return above is lower than the average shown as the Council has invested for longer periods, as shown in the weighted average maturity column. This has allowed the Council to achieve higher than average returns in the past, but means that it is slower to pick up additional yield when rates increase.

In the strategy set at the start of the year, the Council projected that there would not be a rise in interest rates. At the time, base rate was 0.5%, it is currently 2.25% and the expectation is that it rise sharply to 5.0% by year-end.

The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

By end September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.4% - 0.7% p.a. in early April and between 1.6% and 2.1% at the end of September

The average rate on the Council's investments is 0.48% for the first half of the year - mostly down to investments that were taken out before the rate increases. As these mature, the average rate will increase.

8. Non-Treasury Investments

8.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

8.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

8.3 The Council held £17.888m (see Appendix 2) of commercial investments in directly owned properties.

8.4 The Council also held £53.352m of service investments in

- Directly owned property £52.952m
- Loan to The Hawth £0.4m

8.5 Service investments are not held primarily for financial return and support service objectives of the Council.

8.6 These investments generated £0.5m of investment income for the Authority after taking account of direct costs, representing a rate of return of 3.78%.

9. Borrowing

9.1

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The ‘fiscal event’ increased volatility in the UK economy.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers’ cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China’s zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a

Detailed holdings at 30 September 2022

APPENDIX 2

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)

Prudential and Treasury Indicators as at 30th

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by