

FINANCE AUDIT & PERFORMANCE COMMITTEE 21 MARCH 2016

TREASURY MANAGEMENT TO 31 DECEMBER 2015

REPORT OF INTERIM HEAD OF FINANCE (DEPUTY S151 OFFICER)



Hinckley & Bosworth
Borough Council

A Borough to be proud of

WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

- 1.1 To inform the Committee of the Council's Treasury Management activity in the third quarter of 2015/16.

2. RECOMMENDATION

- 2.1 That the Committee note the report.

3. BACKGROUND TO THE REPORT

- 3.1 At its meeting in February 2015 the Council approved the Council's Treasury Management Policy for the year 2015/16 and delegated the oversight of the execution of the Policy to the Select Committee.

This report sets out the Treasury Management activities for the first nine months of 2015/16 and shows that they are in line with the limits set out in the Policy.

Treasury Management covers two main areas:-

1. The management of day to day cash flows by way of short term investing and borrowing. Longer term investment opportunities may arise depending on cash flow requirements.
2. Management of the Council's Long term debt portfolio which is used to finance capital expenditure that cannot be immediately funded by internal resources (e.g. by Capital Receipts).

3.2 Economic Background

- The economic recovery was shown to have slowed by more than previously thought in Q3 2015(quarter ended 30.9.15), with real GDP growth decelerating from a downwardly-revised 0.5% in Q2(from 0.7%) to 0.4% (from 0.5%). The annual growth rate in Q3 was also revised down from 2.3% to 2.1%. The revisions were driven largely by weaker contributions from investment expenditure.
- The latest survey evidence and official monthly data suggest that the recovery picked up pace again during the final quarter of 2014, the Markit/CIPS composite PMI is consistent with quarterly GDP growth strengthening to about 0.6%, which would imply 2.2% GDP growth in 2015 as a whole. Q3's usually weak contribution output to overall GDP is also likely to have been reversed in Q4.
- Consumer spending will probably have provided a significant boost, given the retails sales experienced what was almost certainly their strongest quarter this year in Q4. (In fact, it would take over a 2% monthly plunge in sales volumes in December for Q4's quarterly growth rate to not be the strongest.)

Spending off the high street looks to have fared well too, in part owing to consumer confidence remaining high. Survey measures such as the CBI's consumer services could have risen in Q4 from 1.6% to as much as 3%.

- The jobs recovery pressed on in Q3, as employment rose by 176,000, and by a further 91,000 in October, pushing the employment rate up to record high. Consequently, the unemployment rate was driven down to four successive months between July and October.
- These labour market figures will have reassured MPC doves the inflationary pressures remain muted, thereby reinforcing expectations that a rate rise is still some way off. Only recently the newest MPC member, Gertjan Vlieghe, stressed that he needs to see a decisive acceleration of wage growth before considering voting for a rate hike. Additionally, weak inflationary pressure from the labour market have been compounded by renewed balls in the energy prices in reinforcing the case to keep rates on hold for while yet.

3.3 Investment Activity

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, ensuring adequate liquidity, with the investment return being the final objective. Following the economic background above, officers are implementing an operational strategy which tightens the controls already in place in the approved investment strategy.

The Council's investment criteria, approved by Council in February 2015 are:-

- **Banks 1 - Good Credit Quality** – the Council will only use banks which:
 - i) Are UK banks; and/or
 - ii) Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA.

And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- i) **Short Term** – F1
 - ii) **Long Term** – A
- **Banks 2 – Part Nationalised UK Banks** (Lloyds Banking Group & Royal Bank of Scotland) – These banks will be included if they continue to be part nationalised or they meet the ratings criteria in Bank 1 above.
 - **Banks 3** - The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
 - **Bank Subsidiary and treasury operations** – the Council will use these where the parent bank has the necessary ratings outlined above or has provide an appropriate guarantee.
 - **Building Societies** – the Council will use all Societies which:
 - i) meet the ratings for banks outlined above or are both:
 - ii) Eligible Institutions; and
 - iii) Have assets in excess of £500m.
 - **Money Market Funds** – AAA
 - **Enhanced Money Market Funds.**

- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**
- **Property fund and Corporate Bonds** – The Council will use these funds if they meet the creditworthiness criteria. No decision will be made on the use of these funds without Council approval.

Funds for investment come from the following Sources

- a) Revenue Account Balances held by the Council
- b) Earmarked Reserves and Provisions
- c) Unapplied Capital Receipts
- d) Cash flow balances - income received before expenditure needs to be incurred

As at 31 December 2015 the Council held the following investments totalling £13,968,400

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Coventry BS	01/12/2015	04/01/2016	2,000,000	0.4000
Principality BS	09/12/2015	04/01/2016	1,650,000	0.4000
Black Rock MMF	23/12/2015	04/01/2016	1,330,000	0.3530
Hinckley & Rugby BS	23/12/2015	22/01/2016	2,000,000	0.4000
Skipton BS	29/12/2015	29/01/2016	2,000,000	0.4000
Coventry BS	29/12/2015	29/01/2016	1,300,000	0.4000
Coventry BS	30/12/2015	01/02/2016	500,000	0.4100
Hsbc Bank	30/12/2015	02/01/2016	1,188,400	0.3500
West Bromwich BS	31/12/2015	01/02/2016	2,000,000	0.4200
Total			13,968,400	

Details of all investments held from April 2015 to December 2015 are included in Appendix A.

Details of the weighted average investment to December 2015 are shown in the table below together with the average overnight, 7 day and 1 month London Inter Bank Bid (LIBID) as a bench mark to the rates received by the Council.

Period	Weighted Average invested	Average period (days)	HBBC Average Return	Overnight LIBID	7 Day LIBID	1 Month LIBID
April 15 to Dec 15	15,620,059	13	1.2678	0.3563	0.3616	0.3822

The Figures above show that the Council received a rate of return that is compatible with the returns available in the market.

It also shows that the weighted average period is within the maximum set of 0.5 years.

Mergers of Building Societies has meant the Counter Party invest list of organisations has shrunk. Average investments returns are however still higher than the comparable inter bank rate (return of 1.27% compared against 0.38%).

3.4 Borrowing Activities

Long term borrowing to finance Capital Expenditure

Excluding the HRA self financing element the Council has a Capital Financing Requirement of around for the current year is £18.14m which arises from previous decisions to incur Capital Expenditure that was not financed immediately by internal resources e.g. Capital Receipts or Grants giving rise to the need to borrow to finance the expenditure. This borrowing requirement can either be met by long or short term external borrowing or by internal borrowing i.e. using the cash behind the authority's balances and reserves and foregoing investment income. At the present time the interest payable on long term borrowing is significantly greater than the returns the Council could expect on its investments and therefore the Council has adopted a policy of being "under-borrowed" with only £3.3m of long term loans on its books. One year loans from the PWLB currently cost 1.46% so if the Council was fully funded with short term money and was receiving investment income of 0.4% there would be a cost of £157,000 pa. With 20 year rates at about 3.40% the additional cost would be £445,000pa. In these circumstances the Council has not undertaken any long term borrowing in the current year and has relied on short term borrowing to meet cash flow needs.

Additionally, as part of the Self Financing HRA Settlement £67.652m has been borrowed from PWLB. Repayment options have been discussed with members and were presented to the Executive on 13th March 2012. Repayments for principal amounts for these loans will commence in 5 years time. The loan will be repaid in equal instalments of £2.9414m over 23 yrs.

3.5 Short Term Borrowing

Some short term borrowing took place to cover temporary cash flow shortfalls. The movements are as follows:-

Amount outstanding at 1 April 2015	£7,000,000
Plus Total Amount borrowed to Dec 2015	£2,600,000
Less Total Amount repaid to Dec 2015	£9,600,000
Amount outstanding at Sep 2015	Nil

The average amount borrowed was	£2,370,410
Average period of loans	96 Days
Number of occasions	2
Average rate of interest paid	0.4958%

All borrowing was conducted with the Operational Limit set by the Council

4. FINANCIAL IMPLICATIONS [IB]

- 4.1 Any variations to budgets resulting from borrowing investing activities are reported within the Outturn position.

5. LEGAL IMPLICATIONS [JB]

- 5.1 There are no legal implications arising directly from this report.

6. CORPORATE PLAN IMPLICATIONS

- 6.1 This report supports the following Corporate Aims

- Thriving Economy

7. CONSULTATION

7.1 None

8. RISK IMPLICATIONS

8.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

8.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

8.3 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
That the Council has insufficient resources to meet its aspirations and cannot set a balanced budget	Budgets are scrutinised on an ongoing to ensure assumptions are robust and reflect financial performance and sufficient levels of reverses and balances are maintained to ensure resilience	S.Kohli

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

9.1 None

10. CORPORATE IMPLICATIONS

10.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

Background papers: Civica Reports,
Capita Reports

Contact Officer: Ilyas Bham, Accountancy Manager x5924

Executive Member: Councillor M Surtees