



Hinckley & Bosworth  
Borough Council

*A Borough to be proud of*

FINANCE & PERFORMANCE SCRUTINY 21 NOVEMBER 2016

WARDS AFFECTED: All Wards

---

## TREASURY MANAGEMENT QUARTER 2 2016/17

---

### Report of Interim Head of Finance

#### 1. PURPOSE OF REPORT

- 1.1 To inform the Committee of the Council's Treasury Management activity in the second quarter of 2016/17.

#### 2. RECOMMENDATION

- 2.1 That the Committee note the report.

#### 3. BACKGROUND TO THE REPORT

- 3.1 At its meeting in February 2016 the council approved the Council's Treasury Management Policy for the year 2016/17 and delegated the oversight of the execution of the Policy to this Committee.

This report sets out the Treasury Management activities in 2016/17 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

During quarter ended 30 September 2016:

1. The economy remained surprisingly robust since Brexit.

2. Household and firms shrugged off referendum uncertainty.
3. The labour market began to soften.
4. CPI inflation began to pick up.
5. The Bank of England cut interest rates and expanded their asset purchases.

The latest forecasts are detailed in the table below:

#### Economic Forecasts - Capita Asset Services

	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%

### 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. If required, officers implement an operational strategy which tightens the controls already in place in the approved investment strategy. The council's investment criterion was approved by council in February 2016.

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.

Depending on the flow of cash (difference between income receipts and payments) the bank balance will vary. Where there is a surplus balance monies are invested. When there is a need for cash, investments are called in to ensure funds are not overdrawn. As at 30 September 2016 the council held the following investments totalling £14,799,400. These investments are summarised in the table below:-

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Hinckley & Rugby BS	22/07/2016	20/10/2016	3,000,000	0.4500
Nationwide BS	01/08/2016	01/11/2016	2,000,000	0.3900
Nationwide BS	03/08/2016	03/11/2016	1,000,000	0.3900
Coventry BS	08/09/2016	10/10/2016	1,000,000	0.2200
Coventry BS	08/09/2016	10/10/2016	500,000	0.2200
HSBC Bank	30/09/2016	01/10/2016	3,799,000	0.1800
Coventry BS	30/09/2016	31/10/2016	3,500,000	0.2200
<b>Total</b>			<b>14,799,400</b>	

Details of investments held from April 2016 to September 2016 are available on request.

Details of the weighted average investment to September 2016 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. The council received a rate of return that is compatible with the returns available in the market. Additionally, the weighted average period is within the maximum set of 0.5 years. Average investments returns are higher than the comparable inter bank rate (a return of 0.38% compared against 0.30%).

<b>Period</b>	<b>Weighted Average invested</b>	<b>Average period (days)</b>	<b>HBBC Average Return</b>	<b>Overnight LIBID</b>	<b>7 Day LIBID</b>	<b>1 Month LIBID</b>
Apr to Sep 16	7,862,964	9	<b>0.3785</b>	0.2771	0.2830	0.3025

The

### 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 £30.3m for the current year 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" by £22m with only £8.3m of long term loans on its books. One year loans from the PWLB currently cost 1.09% so if the council was fully funded with short term money and was receiving investment income of 0.28% there would be a cost of £154,960 per annum. With 20 year rates at about 2.90% the additional cost would be £561,960 per annum. On this basis 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 13<sup>th</sup> March 2012. Repayments for principal amounts for these loans will commence in March 2020. The loan will be repaid in equal instalments of £2.9414m over 23 yrs.

### 3.5 Short Term Borrowing

There is no short term borrowing in this quarter.

## 4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report to be taken in open session.

5. FINANCIAL IMPLICATIONS [IB]

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

6. LEGAL IMPLICATIONS [MR]

6.1 There are no legal implications arising directly from this report.

7. CORPORATE PLAN IMPLICATIONS

7.1 This report supports the following Corporate Aims

- Thriving Economy.

8. CONSULTATION

8.1 None.

9. RISK IMPLICATIONS

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

9.2 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.

9.3 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	A.Wilson

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 None.

11. CORPORATE IMPLICATIONS

11.1 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 Hall