



Hinckley & Bosworth
Borough Council

A Borough to be proud of

FINANCE & PERFORMANCE COMMITTEE

5 November 2018

WARDS AFFECTED: All Wards

TREASURY MANAGEMENT QUARTER 2 2018/19

Report of 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 2018/19.

2. RECOMMENDATION

- 2.1 That the Committee note the report.

3. BACKGROUND TO THE REPORT

- 3.1 At its meeting on 22 February 2018 Council approved the Council's Treasury Management Policy for the year 2018/19 and delegated the oversight of the execution of the Policy to this Committee.

This report sets out the Treasury Management activities in 2018/19 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 the quarter ended 30 September 2018:

1. The economy gathered some momentum.
2. A tight labour market put upward pressure on wage growth.
3. Consumer price inflation rose unexpectedly.

4. Another hike from MPC in August.
5. Better public finance figures provided some breathing room for the Chancellor.
6. Brexit negotiations remained at an impasse.

The latest forecasts are detailed in the table below:

| | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 |
|----------------|------------|------------|------------|------------|------------|
| Bank Rate | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% |
| 5yr PWLB rate | 2.00% | 2.00% | 2.10% | 2.20% | 2.20% |
| 10yr PWLB rate | 2.40% | 2.50% | 2.50% | 2.60% | 2.70% |
| 25yr PWLB rate | 2.80% | 2.90% | 3.00% | 3.10% | 3.10% |
| 50yr PWLB rate | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% |

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 2018.

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 invested.
- 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 30th September 2018, the Council held the following investments totalling £21,990,175 and are summarised below:-

| Counterparty | Investment Date | Maturity Date | Amount | Interest Rate |
|---------------------|-----------------|---------------|------------|---------------|
| Furness BS | 01/04/2018 | 05/10/2018 | £1,000,000 | 0.8500 |
| Furness BS | 01/04/2018 | 05/10/2018 | £1,000,000 | 0.8500 |
| Furness BS | 01/04/2018 | 15/10/2018 | £1,000,000 | 0.8500 |
| Cumberland BS | 03/04/2018 | 03/10/2018 | £1,400,000 | 0.7500 |
| Monmouthshire BS | 03/04/2018 | 03/10/2018 | £3,000,000 | 0.7000 |
| Skipton BS | 03/04/2018 | 03/10/2018 | £3,000,000 | 0.7000 |
| Hinckley & Rugby BS | 25/04/2018 | 25/10/2018 | £2,000,000 | 0.7600 |
| Coventry BS | 08/05/2018 | 08/11/2018 | £1,000,000 | 0.7100 |
| Coventry BS | 01/06/2018 | 03/12/2018 | £3,009,000 | 0.6700 |

| | | | | |
|----------------------|------------|------------|--------------------|--------|
| National Counties BS | 25/07/2018 | 24/01/2019 | £500,000 | 0.7900 |
| National Counties BS | 13/09/2018 | 13/03/2019 | £1,000,000 | 0.9100 |
| Monmouthshire BS | 21/09/2018 | 21/03/2019 | £1,900,000 | 0.8500 |
| Hsbc Bank | 28/09/2018 | 01/10/2018 | £181,175 | 0.4300 |
| National Counties BS | 28/09/2018 | 29/03/2019 | £1,000,000 | 0.9000 |
| National Counties BS | 28/09/2018 | 29/03/2019 | £1,000,000 | 0.9000 |
| Total | | | £21,990,175 | |

Details of investments held from April 2018 to September 2018 are available on request.

Details of the weighted average investment to September 2018 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 comparable 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 0.70% compared against 0.59%). Typical one month fixed deposit with UK banks and Building Societies range between 0.53% and 0.69%.

| Period | Weighted Average invested | Average period (days) | HBBC Average Return | 7 Days LIBID | 1 Month LIBID |
|---------------|----------------------------------|------------------------------|----------------------------|---------------------|----------------------|
| Apr to Sep18 | £14,570,587 | 22 | 0.7013 | 0.4364 | 0.5918 |

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 £38.3m 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 £30m with only £8.3m of long term loans on its books.

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 March 2020. The loan will be repaid in equal instalments of £2.9414m over 23 yrs.

3.5 Short Term Borrowing

There was no Short term borrowing for the period from April to June 2018.

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 reserves 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
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Background papers:

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