



## Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Finance Audit and Performance

23 November 2020

Wards affected:

All wards

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### TREASURY MANAGEMENT QUARTER 2 2020/21

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Report of Section 151 Officer

#### **1. Purpose of report**

- 1.1 To inform the Committee of the Council's Treasury Management activity in the second quarter of 2020/21.

#### **2. Recommendation**

- 2.1 That the Committee note the report.

#### **3. Background to the report**

- 3.1 At its meeting on 25th February 2020 Council approved the Council's Treasury Management Policy for the year 2020/21 and delegated the oversight of the execution of the Policy to this Committee.

This report sets out the Treasury Management activities in 2020/21 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).

## Economic Background

3.2 During the quarter ended 30th September 2020:

1. There was a quicker than expected recovery in GDP in June and July.
2. Retail spending rose 4.0% above its pre-virus level, but the recovery in investment legged behind.
3. There was second wave of the virus and a tightening in COVID- 19 restriction in September.
4. In September, the Chancellor announced a new fiscal package worth £5bn (0.2% of GDP) to support the economy.
5. There was division on the Monetary Policy Committee over the possible use of the negative interest rates.
6. Due to the pandemic investments rates remain low.

The latest forecasts are detailed in the table below:

	Q2	Q3	Q4	Q1	Q2
	2021	2021	2021	2022	2022
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB rate	1.90%	1.90%	2.00%	2.00%	2.00%
10yr PWLB rate	2.10%	2.10%	2.10%	2.20%	2.10%
25yr PWLB rate	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.40%

## Investment Activity

3.3 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 2020.

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 30 September 2020, the Council held the following investments totalling £28,556,600 and are summarised below:-

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Newcastle BS	01/04/2020	23/12/2020	£1,000,000	1.1700
Monmouthshire BS	01/04/2020	18/12/2020	£1,400,000	1.0500
Monmouthshire BS	01/04/2020	05/01/2021	£1,500,000	1.1000
Progressive BS	05/05/2020	05/11/2020	£2,000,000	0.8000
Furness BS	14/05/2020	16/11/2020	£2,000,000	0.9000
Surrey Heath BC	10/06/2020	10/12/2020	£2,000,000	0.5000
Gloucestershire City Council	15/06/2020	14/06/2021	£2,000,000	0.6000
Liverpool City Council	26/08/2020	25/08/2021	£2,000,000	0.5000
London Borough of Croydon	07/09/2020	06/09/2021	£2,000,000	0.6500
HSBC Call Account	30/09/2020	01/10/2020	£2,656,600	0.0100
Progressive BS	21/04/2020	21/10/2020	£3,000,000	0.9000
Blaenau Gwent C BC	31/07/2020	30/07/2021	£3,000,000	0.5000
Furness BS	01/06/2020	01/03/2021	£4,000,000	0.9500
<b>Total</b>			<b>£28,556,600</b>	

Details of investments held from April 2020 to September 2020 are available on request.

Details of the weighted average investment to September 2020 are shown in the table below together with the Industry Average, London Inter Bank Bid (LIBID) as a benchmark. 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 0.7373% compared against 0.2076%). This is primary due to investments that are still to mature but where taken out before the pandemic.

The average 6 month LIBID rate for September 2019 was 0.8590 percent. This compares with the September 2020 rate of 0.2076%. Market returns for have dropped by 75.8 per cent compared to the comparable benchmark in 2019. The Councils investment return for the same period has fallen from a rate of 1.025% to 0.7373%. This will impact on the Councils investment budget. An estimated reduction of £60,000 has been allowed for in the Outturn statement.

Period	Weighted Average invested	Average period (days)	HBBC Average Return	7 Days LIBID	1 Month LIBID	3 Month LIBID	6 Month LIBID
Apr to Sep 2020	£25,994,439	27	<b>0.7373</b>	(0.0554)	(0.0179)	0.1060	0.2076

To further demonstrate the fall the table below summaries the average rate of returns excluded all investments pre April 2020. HBBC returns are still above average.

Period	Weighted Average invested	Average period (days)	HBBC Average Return	7 Days LIBID	1 Month LIBID	3 Month LIBID	6 Month LIBID
Apr to Sep 2020	£20,204,469	18	<b>0.6227</b>	(0.0554)	(0.0179)	0.1060	0.2076

## Borrowing Activities

### Long term borrowing to finance Capital Expenditure

**3.4** 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 these loans commenced in March 2020. The remaining loan will be repaid in equal instalments of £2.9414m over 22 yrs.

### **Short Term Borrowing**

**3.5** The details of short term borrowing during this quarter are as under:

Borrowings brought forward 01 April 202	Nil
Borrowings during the quarter	£8,000,000
Borrowings repaid during the quarter	£3,000,000
Borrowings remain to be paid	£5,000,000
Weighted average interest on borrowings	0.03000%

### **4. Exemptions in accordance with the Access to Information procedure rules**

4.1 Report 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 None.

### **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	Ashley Wilson

## **10. Knowing your community – equality and rural implications**

10.1 There are no direct implications arising from this report

## **11. Climate implications**

11.1 There are no direct implications arising from this report.

## **12. Corporate implications**

12.1 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: Civica Reports

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