

FINANCE AUDIT & PERFORMANCE COMMITTEE – 10 AUGUST 2015

TREASURY MANAGEMENT TO 31ST MARCH 2015

REPORT OF [DEPUTY CHIEF EXECUTIVE CORPORATE DIRECTION

WARDS AFFECTED: ALL WARDS



Hinckley & Bosworth
Borough Council

A Borough to be proud of

1. PURPOSE OF REPORT

- 1.1 To inform the Select Committee of the Council's Treasury Management activity in 2014/15.

2. RECOMMENDATION

- 2.1 That the Select Committee note the report.

3. BACKGROUND TO THE REPORT

- 3.1 At its meeting in February 2014 the Council approved the Council's Treasury Management Policy for the year 2014/15 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 half 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

During the first quarter ended 31st March 2015:

- The economic recovery maintained a decent pace;
- Households began to spend the proceeds of their windfall from lower energy prices;
- CPI inflation fell all the way to zero in February, with negative inflation imminent;
- Indicator suggested steady employment growth;
- The Budget confirmed that the fiscal squeeze is set to re-intensify next year;
- The economic recovery maintained a healthy pace in the quarter 4 of 2014 with a 0.6% rise in quarterly GDP (2.8% in 2014 as a whole, the strongest rate since 2006), following a 0.6% rise in Q3. Encouragingly, forward-looking indicators would suggest that the recovery has picked up further momentum in 2015. Indeed, the average Markit/CIPS composite PMI in January and February points to a pick-up in the quarterly growth rate of GDP to around 0.8%. And the CBI's monthly Composite Growth Indicator points to an even faster rate of expansion.

Granted, these surveys have tended to overstate the strength of the recovery in recent months. However, their close historical relationship with the official data suggests that the latter could be revised up in time.

- Strong growth in household spending should continue to be supported by improvements in the labour market. Indeed, the working-age employment rate rose to a record high of 73.3% in the three-months to February. Granted, the unemployment rate held steady at 5.7% in February, but this is still an impressive 1.5% lower than it was a year ago, and not that far above pre-recession levels.
- CPI inflation fell all the way to zero in February, the lowest since 1960 on the basis of the ONS' experimental long-run series. Whilst lower petrol and utility prices pushed the headline rate down a bit, the main driver of the fall was a drop in core inflation. This perhaps reflects the delayed effect of the fall in oil prices seen over the past six months, starting to feed through into lower prices for other goods.

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 2014 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
 - iii) **Individual / Financial Strength** – C (Fitch / Moody's only)
 - iv) **Support** – 3 (Fitch only)
- **Banks 2 – Guaranteed Banks with suitable Sovereign Support** – In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
 - (a) wholesale deposits in the bank are covered by a government guarantee;
 - (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
 - (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
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 - **Banks 3 - Eligible Institutions** - the organisation was considered an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions were subject to suitability checks before inclusion.

- **Banks 4** - 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.
- **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
- **UK Government** (including gilts and the DMADF)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

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 March 2015 the Council held the following investments totalling £18,511,400

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Black Rock	19/03/2015	09/04/2015	2,500,000	0.3497
Coventry BS	26/03/2015	27/04/2015	500,000	0.4000
Hinckley & Rugby BS	19/03/2015	20/04/2015	2,000,000	0.4000
HSBC Call account	31/03/2015	01/04/2015	1,961,400	0.3500
Principality BS	05/01/2015	06/07/2015	1,650,000	0.6600
Santander Bank	07/03/2015	12/06/2015	2,000,000	0.6001
Skipton BS	16/03/2015	16/04/2015	900,000	0.4000
Tin Hat Partnership	26/02/2015	31/07/2015	1,000,000	7.5000
Tin Hat Partnership	25/09/2014	31/07/2015	1,000,000	7.5000
Tin Hat Partnership	27/11/2014	31/07/2015	1,000,000	7.5000
Tin Hat Partnership	22/12/2014	31/07/2015	1,000,000	7.5000
Tin Hat Partnership	22/01/2015	31/07/2015	1,000,000	7.5000
Tin Hat Partnership	26/03/2015	31/07/2015	1,000,000	7.5000
Tin Hat Partnership	23/10/2014	31/07/2015	1,000,000	7.5000

Details of all investments held from April 2014 to March 2015 are included in Appendix A

Details of the weighted average investment to March 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 14 to March 15	22,274,899	15	1.7961	0.3452	0.3518	0.3742

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.

Due to current economic conditions officers have decided to limit investment to a one month excluding weekends, and not to invest with banks other than with the Council's Bank. This together with 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 1.7961% compared against 0.3742%).

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 £19m 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 1.59% 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 £202,000 pa. With 20 year rates at about 4.27% the additional cost would be £670,000pa. 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 7 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 2014	£000
Plus Total Amount borrowed to March 2015	£15,000,000
Less Total Amount repaid in year	£8,000,000
Amount outstanding at March 2015	Nil

The average amount borrowed was	£4,706,849
Average period of loans	178 Days
Number of occasions	9
Average rate of interest paid	0.4935%

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.

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.

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
Loss of investments due to failure of Counterparty	Ensure Counterparty is financially secure prior to lending by confining activity to institutions on a list of approved institutions based on credit ratings.	I Bham
	Ensure that lending is for appropriate periods and amounts as per Counterparty list	I Bham

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

9.1 Treasury management activities support all activities of the Borough Council and therefore impact on all areas of and communities within the Borough.

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
- Human Resources implications
- Planning Implications
- Voluntary Sector implications

Background papers: Interest Working Papers
Capita (Sector) Economic Update

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