**FINANCE AUDIT & PERFORMANCE COMMITTEE**
**7TH SEPTEMBER 2015**

**TREASURY MANAGEMENT TO 30TH JUNE 2015**

**REPORT OF [DEPUTY CHIEF EXECUTIVE CORPORATE DIRECTION**

**WARDS AFFECTED: ALL WARDS**

Hinckley & Bosworth Borough Council
*A Borough to be proud of*

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1. PURPOSE OF REPORT

1.1 To inform the Committee of the Council's Treasury Management activity in the first 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 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

- After strong UK GDP growth in 2013 at an annual rate of 2.7% and 3.0% in 2014, quarter 1 of 2015 was disappointing at only 0.4%, though subsequent data indicates that this could well be revised up further down the line and also indicates a return to stronger growth in quarter 2. In its May quarterly Inflation Report, the Bank of England reduced its GDP forecast for 2015 from 2.9% to 2.5% and from 2.9% to 2.7% in 2016, while increasing its forecast for 2017 from 2.4% to 2.7%.
- Uncertainty around the likely result of the UK general election in May has obviously now evaporated although this has been replaced by some uncertainty around the potential impact on the UK economy of the EU referendum promised by, or in, 2017. In addition, the firm commitment of the Conservative Government to eliminating the deficit within the term of this Parliament will have an impact on GDP growth rates. However, the MPC is fully alert to this and will take that into account, and also the potential spill

over effects from the Greek crisis, in making its decisions on the timing of raising Bank Rate.

- As the American economy, confidence has improved markedly in this quarter that the US will start increasing the Fed funds rate by the end of 2015 due to a return to strong economic GDP growth after a disappointing start to the year in quarter 1, (a contraction of 0.2%), after achieving 2.4% growth in 2014.
- The latest consumer prices figures showed that deflation lasted just one month. CPI inflation rose from -0.1% in April to +0.1% in May, reflecting the slower pace of falls in food prices and a rebound in petrol prices. We had stressed for a long while that deflation was likely to be fleeting, as it primarily reflected temporary external factors such as the fall in energy prices and food prices, as well as an appreciation in sterling, rather than weakness in domestic demand. Meanwhile, there have not been any signs that very low inflation has had any adverse second round effects on inflation expectations or spending decisions. Nonetheless, inflation looks set to hover just above zero for the next six months, and it wouldn't take much during that period, perhaps a renewed 10% fall in the oil price, for the UK to be tipped back into deflation.
- In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth, though it remains to be seen whether this will have an enduring effect as strong as the recovery in the US and UK.

3.3 Investment Activity

The Council's investment strategy primary objectives are safeguarding the re-payment 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 30 June 2015 the Council held the following investments totalling £23,800,400

| Counterparty | Investment Date | Maturity Date | Amount | Interest Rate |
|---|---|---|---|---|
| Principality BS | 01/04/2015 | 06/07/2015 | 1,650,000 | 0.6600 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Tin Hat Partnership | 01/04/2015 | 08/07/2015 | 1,000,000 | 7.5000 |
| Coventry BS | 01/06/2015 | 01/07/2015 | 1,000,000 | 0.4100 |
| Nationwide BS | 01/06/2015 | 01/07/2015 | 2,000,000 | 0.4300 |
| Skipton BS | 01/06/2015 | 01/07/2015 | 1,000,000 | 0.4000 |
| West Bromwich BS | 01/06/2015 | 01/07/2015 | 2,000,000 | 0.4300 |
| Coventry BS | 11/06/2015 | 13/07/2015 | 500,000 | 0.4000 |
| Newcastle BS | 15/06/2015 | 15/09/2015 | 2,000,000 | 0.5000 |
| Skipton BS | 18/06/2015 | 20/07/2015 | 1,000,000 | 0.4000 |
| Hinckley & Rugby | 22/06/2015 | 22/07/2015 | 2,000,000 | 0.4000 |
| Coventry BS | 26/06/2015 | 27/07/2015 | 500,000 | 0.4000 |
| Black Rock | 29/06/2015 | 01/07/2015 | 1,058,000 | 0.3645 |
| Hsbc Call | 30/06/2015 | 01/07/2015 | 2,092,400 | 0.3500 |

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

Details of the weighted average investment to June 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 June 15 | 6,822,281 | 19 | **2.3898** | 0.3561 | 0.3624 | 0.3821 |

The fFigures 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 shrank. Average investments returns are however still higher then the comparable inter bank rate (return of 2.39% 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 June 2015 | £2,600,000 |
| Less Total Amount repaid to June 2015 | £2,600,000 |
| Amount outstanding at June2015 | £7,000,000 |

| | |
|---|---|
| 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 [MR]

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

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Background papers: Civica Reports,
Capita Reports

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