FINANCE AUDIT & PERFORMANCE COMMITTEE
07 DECEMBER 2015

Hinckley & Bosworth Borough Council
A Borough to be proud of

TREASURY MANAGEMENT TO 30TH SEPTEMBER 2015

REPORT OF [DEPUTY CHIEF EXECUTIVE CORPORATE DIRECTION

WARDS AFFECTED: ALL WARDS

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1. PURPOSE OF REPORT

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

- Although the economic recovery picked pace in Q2, with real GDP growth accelerating from 0.4% in Q1 to 0.7%, it looks unlikely to have maintained this strength in Q3. Admittedly, survey indicators paint a somewhat mixed message. On the one hand, the CBI's Composite Growth indicator points to an even more robust expansion in Q3 than in Q2. However, the survey has consistently over-stated the strength of GDP over past few years. By contrast, the more reliable Markit/CIPS composite PMI, points to quarterly GDP growth easing to about 0.5% in Q3.
- Household spending should continue to be supported over the coming quarters by developments in the labour market. Indeed, after coming off the boil a little over recent months, the jobs recovery has began rebuild some steam, with the ILO unemployment falling from 5.6% at the end of Q2 to 5.5% in July, not far above pre crisis levels. The decline in labour market slack has fed through to stronger pay growth, with headline (three month average of annual) growth in regular pay (i.e. excluding bonuses) rising to 2.9% in July,

its fastest in six years. Admittedly, if the unemployment rate has started to level out, then this would suggest that nominal pay growth won't pick up much further. However, real earnings growth should continue to be bolstered as inflation near zero.

- CPI inflation fell from +0.1% in July to 0.0% in August, narrowly avoiding deflation. This was despite the dive in the sterling price of Brent crude oil (which plummeted to as low as £27 per barrel) lowering petrol prices at the pumps. Core CPI inflation did not fall as expected, in part due to rises in particular components such as furniture. Nonetheless, we expect negative inflation to return again soon, British Gas' energy price cut will hit September's CPI figures for the first time. And we expect earlier falls in oil prices to have started to feed through into the non energy components of CPI. What's more, we expect inflation will remain negative for much of the rest of this year, before picking up around the turn of the year as the previous (sharper), fall in oil prices drop out of the annual comparison.
- Eurozone GDP growth lost some pace in Q2, falling from, (an upwardly-revised), 0.5% q/q in Q1 to 0.4%. This slowdown was driven by domestic demand. Survey evidence suggests that GDP growth maintained its pace in Q3. But the outlook further ahead does not look as bright. The boost from low oil prices should begin to fade, and we don't think that the Euro will begin to peter out too. Accordingly, we still think the ECB will have to expand its QE programme, possibly as soon as this year.

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 September 2015 the Council held the following investments totalling £14,267,400

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Coventry BS	01/09/2015	01/10/2015	1,300,000	0.4100
Skipton BS	01/09/2015	01/10/2015	1,000,000	0.4000
Black Rock Money Mkt	21/09/2015	01/10/2015	1,478,000	0.3890
Nationwide BS	03/09/2015	05/10/2015	2,000,000	0.4300
Skipton BS	03/09/2015	05/10/2015	1,000,000	0.4000
Principality BS	07/09/2015	07/10/2015	1,650,000	0.4300
Hinckley & Rugby BS	24/09/2015	23/10/2015	2,000,000	0.4000
Coventry BS	28/09/2015	28/10/2015	500,000	0.4000
West Bromwich BS	28/09/2015	28/10/2015	2,000,000	0.4300
HSBC Call	30/09/2015	01/10/2015	1,339,000	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 September 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 Sep 15	11,113,402	14	**1.6200**	0.3563	0.3621	0.3825

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.

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 1.62% 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 Sep 2015	£2,600,000
Less Total Amount repaid to June 2015	£9,600,000
Amount outstanding at Sep 2015	Nil

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 [AW]

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.

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

Background papers:	Civica Reports, Capita Reports
Contact Officer:	Ilyas Bham, Accountancy Manager x5924
Executive Member:	Councillor M Surtees