



Hinckley & Bosworth
Borough Council

A Borough to be proud of

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

FINANCE & PERFORMANCE SCRUTINY 25 JULY 2016

WARDS AFFECTED: ALL WARDS

TREASURY MANAGEMENT OUTTURN 2015/16

Report of Interim Head of Finance

1. PURPOSE OF REPORT

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

This report sets out the Treasury Management activities in 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

Interest Rates and inflation have been stable in 2015/16. Most forecasters predicted a rate increase in the latter part of 2016. However due to the UK's decision to leave the EU rates are expected to go down by a quarter of one percent in July.

The latest forecasts are detailed in the table below:

Economic Forecasts - Capita Asset Services						
	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
5yr PWLB rate	1.00%	1.10%	1.10%	1.10%	1.10%	1.10%
10yr PWLB rate	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%
25yr PWLB rate	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%
50yr PWLB rate	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%

Economic Forecasts - Capital Economics						
	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
5yr PWLB rate	1.25%	1.35%	1.65%	1.85%	2.05%	2.15%
10yr PWLB rate	1.75%	1.80%	2.00%	2.10%	2.20%	2.30%
25yr PWLB rate	2.40%	2.70%	2.75%	2.75%	2.85%	2.85%
50yr PWLB rate	2.30%	2.75%	2.90%	2.90%	3.00%	3.00%

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 2016.

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

The value of investment income received in 2015/16 was £207,601. Details of investments held from April 2015 to March 2016 are available on request. As at 31 March 2016 the Council held the following investments totalling £7,375,400.

Counterparty	Investment Date	Maturity Date	Amount	Interest Rate
Coventry BS	01/03/2016	04/04/2016	500,000	0.4000
Principality BS	04/03/2016	04/04/2016	1,650,000	0.4300
Hinckley & Rugby BS	21/03/2016	22/04/2016	2,000,000	0.4000
Black Rock MMF	29/03/2016	01/04/2016	2,029,000	0.4074
Hsbc Bank	31/03/2016	01/04/2016	1,196,400	0.4000
Total			7,375,400	

Details of the weighted average investment to March 2016 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 Mar 16	17,951,133	11	1.1565	0.3558	0.3616	0.3828

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. Average investments returns are higher then the comparable inter bank rate (a return of 1.16% 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 £8.3m 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 £104,000 per annum. With 20 year rates at about 3.40% the additional cost would be £295,200 per annum. 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 Capital Financing Requirement (CFR)

The CFR represents the value of net borrowing which is used to fund capital expenditure. This borrowing can either be through loans or using internal cash as mentioned above.

The table shows the CFR compared to the Estimated CFR position.

Capital Financing Requirement £'000s	2015/16 Estimate	2015/16 Actual
CFR - Non Housing	36,895	35,679
CFR - Housing	70,320	70,320
Total CFR	107,215	105,999

3.7 Authorised Limit

There is requirement that the overall authorised debt limit approved by Council is not breached. The table below shows the overall limit for debt against the 2015/16 outturn.

Authorised limit £000s	2015/16 Estimate	2015/16 Actual
General Fund	37,895	35,679
HRA	71,915	70,320
Total	109,810	105,999

3.6 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 Mar 2016	£2,600,000
Less Total Amount repaid to Mar 2016	£9,600,000
Amount outstanding at Mar 2016	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. 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 reverses 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

Background papers: Civica Reports
Capita Reports

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