

CORPORATE GOVERNANCE COMMITTEE – 12TH JUNE 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of the Report

1. To update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 31st March 2015.

Background

2. Treasury Management is defined as:-

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

3. A quarterly report is produced for the Corporate Governance Committee to provide an update on any significant events in the area of treasury management.

Economic Background

4. The UK economy continued to show meaningful growth and the positive impact from the fall in oil price is likely to feed through into consumer spending for some time to come. Consumer Price Inflation has fallen to zero and is expected to go into negative territory in the coming months, before trending higher towards the end of 2015. There is real wage growth within the economy – albeit that nominal wage growth is still low – and unemployment continues to fall steadily. Economists expect the first increase in UK base rates to occur in late 2015 or early 2016, although increases are expected to be muted and gradual. Global growth – particularly in the Eurozone – is likely to remain a major influence on the UK economy.
5. US economic growth continues to be amongst the strongest in the world, and the first interest rate increase from the Federal Open Market Committee is widely expected to be in 2015. The fall in the oil price will undoubtedly have a negative impact on US economic growth – the US has been a net exporter of oil for some time, mainly due to their huge reserves of oil sands – but the rebound in the oil price from a low of below \$50 a barrel to over \$65 will assist greatly in the profitability of some major areas of production.
6. After much publicity, major quantitative easing commenced in the Eurozone during the March quarter. The early signs are that the quantitative easing programme has boosted confidence of a recovery, but it will take some time to see how effective the programme is in terms of boosting growth and employment. Youth unemployment in some parts of the Eurozone is at levels of 20% and employment growth among the young would have a disproportionately positive impact onto consumer spending.

Action Taken during March Quarter

7. The balance of the investment portfolio increased very marginally over the quarter and stood at £165.0m at the end of the quarter, an increase of £0.9m from the opening position. Given the lack of available counterparties, and the fact that the portfolio is already up to the allowed limit for most acceptable counterparties, action taken can generally be classified as 'care and maintenance' of the portfolio.
8. 4 different loans of £5m each with Bank of Scotland (originally for 1 year and at rates of 0.95%) matured during the quarter and were renewed for a fresh 1 year period at a rate of 1%. A 1 year loan with Exeter City Council (at 0.64%) also matured, as did 5 other loans (originally for periods of between 1 and 3 months) with other Local Authorities. These shorter-term loans totalled £42.2m and all were at 0.5% or very close to this rate, and the lack of counterparties meant that all the Local Authority maturities were invested in Money Market Funds at an average of 0.05% lower than they had previously been earning.
9. A 3 month loan to HSBC for £15m matured and was renewed for a further 3 month period at an almost identical rate (0.56%) and one Local Authority requested an early repayment of a loan that was originally due to mature in early April. This request was accepted, given that the compensation payable for the early repayment was slightly more than the interest that was lost as a result of the early repayment. The overall impact of the activity on the average rate was that it decreased from 0.64% to 0.62%, mainly as a result of the increased amount invested in Money Market Funds at rates that were below the portfolio average.
10. The loan portfolio at the end of March was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local Authorities	25.0
Money Market Funds	<u>75.0</u>
	<u>165.0</u>

11. At the quarter end the loans to Local Authorities were amounts of £10m to each of Birmingham City Council and Lancashire County Council, and a £5m loan to Salford City Council.
12. In February 2015 the County Council approved a change in the policy used to select acceptable counterparties for the lending of surplus balances, which became effective from 1st April 2015. This policy had previously been considered by the Corporate Governance Committee, and the list that is relevant at the time of writing this report is attached as an appendix to this report. Since April action has been taken which has improved the average rate of interest earned by 0.10%.
13. There are also five further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS). These do not form part of the treasury management portfolio, but are listed below for completeness:

5 year loan for £2m, commenced 5th September 2012 at 2.72%
5 year loan for £1.4m, commenced 27th November 2012 at 2.19%
5 year loan for £2m, commenced 12th February 2013 at 2.24%
5 year loan for £2m, commenced 1st August 2013 at 2.31%
5 year loan for £1m, commenced 31st December 2013 at 3.08%

14. The Leicestershire Local Enterprise Fund has been making financing available to small and medium sized Leicestershire companies, via an association with Funding Circle, since December 2013. There are a number of hurdles that companies must clear before being able to access this funding, and any loans made will be classed as 'service investments'. As such, these loans are not covered within the Treasury Management Policy but at the end of March 2015 there had been 38 loans made totalling £351,940 and the average interest rate on these loans was 8.5%.

Resource Implications

15. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council.

Equality and Human Rights Implications

16. There are no discernible equality and Human Rights implications.

Recommendation

17. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

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APPENDIX

List of acceptable counterparties for lending of surplus funds

UK part State-Owned institutions - maximum limit £50m for 1 year

Lloyds Banking Group (including Bank of Scotland and Lloyds)

Royal Bank of Scotland Group (including Nat West and Royal Bank of Scotland)

UK institutions - maximum limit £30m for 1 year

HSBC (including HSBC Bank USA and The Hong Kong and Shanghai Banking Corporation. These overseas subsidiaries both have individual limits of £15m for 1 year)

Standard Chartered

NB. Bank of New York Mellon (international) Ltd is classed as a subsidiary of Bank of New York Mellon. The overall limit for the group is £15m for 6 months

UK institutions - maximum limit £20m for 6 months

Barclays

Close Brothers

Coventry Building Society

Merrill Lynch International

Nationwide

Santander UK Group (including Abbey National Treasury Services and Cater Allen)

Sumitomo Mitsui Banking Corporation Europe Ltd

NB. Citibank International is classed as a subsidiary of Credit Suisse AG. The overall limit for the group is £10m for 6 months

NB. Credit Suisse International is classed as a subsidiary of Credit Suisse AG. The overall limit for the group is £10m for 6 months

NB. UBS Ltd is classed as a subsidiary of UBS AG. The overall limit for the group is £10m for 6 months

Abu Dhabi/U.A.E. (maximum limit to all banks within country is £30m)

National Bank of Abu Dhabi (£15m for 1 year)

Australia (maximum limit to all banks within country is £30m)

Australia & New Zealand Banking Group (£15m for 1 year)

Commonwealth Bank of Australia (£15m for 1 year)

Macquarie Bank (£10m for 6 months)

National Australia Bank (£15m for 1 year)

Westpac Banking Corporation (£15m for 1 year)

Belgium (maximum limit to all banks within country is £30m)

BNP Paribas Fortis (£10m for 6 months)

*NB. Classed as part of a BNP Paribas together with French parent.
£10m limit is for the group*

KBC Bank NV (£10m for 6 months)

Canada (maximum limit to all banks within country is £30m)

Bank of Montreal (£15m for 1 year)

Bank of Nova Scotia (£15m for 1 year)

Canadian Imperial Bank of Commerce (£15m for 1 year)

National Bank of Canada (£10m for 6 months)

Royal Bank of Canada (£15m for 1 year)

Toronto Dominion Bank (£15m for 1 year)

Denmark (maximum limit to all banks within country is £30m)

Danske Bank (£10m for 6 months)

Finland (maximum limit to all banks within country is £30m)

Nordea Bank Finland (£15m for 1 year)

*NB. Classed as part of a group with Nordea Bank (included in Swedish banks).
£15m limit is for the group.*

Pohjola Bank (£15m for 1 year)

France (maximum limit to all banks within country is £30m)

BNP Paribas (£10m for 6 months)

*NB. Classed as part of same group as BNP Paribas Fortis (included in
Belgian banks). £10m limit is for the group*

Credit Agricole Corporate and Investment Bank (£10m for 6 months)

) Part of Credit Agricole group. £10m limit

Credit Agricole (£10m for 6 months)

) is for the group.

Credit Industriel at Commercial (£15m for 12 months)

Germany (maximum limit to all banks within country is £30m)

BayernLB (£10m for 6 months)

DZ Bank (Deutsche Zentral-Genossenschaftsbank) (£15m for 1 year)

Deutsche Bank AG (£10m for 6 months)

Helaba (Landesbank Hessen-Thüringen Girozentrale (£10m for 6 months)

Landesbank Baden Württemberg (£15m for 12 months)

Landesbank Berlin AG (£10m for 6 months)

Landwirtschaftliche Rentenbanken (£15m for 1 year)

NRW.BANK (£15m for 1 year)

Luxembourg (maximum limit to all banks within country is £30m)

Banque at Caisse d'Epargne de l'Etat (£15m for 1 year)

Clearstream Banking (£15m for 1 year)

Netherlands (maximum limit to all banks within country is £30m)

Bank Nederlandse Gemeenten (£15m for 1 year)

Coöperatieve Centrale Raiffeisen Boerenbank (Rabobank Nederland) (£15m for 1 year)

ING Bank (£10m for 6 months)

Nederlandse Waterschapsbank (£15m for 1 year)

Norway (maximum limit to all banks within country is £30m)

DnB Bank (£15m for 12 months)

Qatar (maximum limit to all banks within country is £30m)

Qatar National Bank (£15m for 1 year)

Saudi Arabia (maximum limit to all banks within country is £30m)

Arab National Bank (£10m for 6 months)

Riyad Bank (£10m for 6 months)

Samba Financial Group (£15m for 1 year)

Singapore (maximum limit to all banks within country is £30m)

DBS Bank (£15m for 1 year)

Overseas Chinese Banking Corporation (£15m for 1 year)

United Overseas Bank (£15m for 1 year)

Sweden (maximum limit to all banks within country is £30m)

Nordea Bank AB (£15m for 1 year)

NB. Classed as part of a group with Nordea Bank Finland. £15m limit for group.

Skandinaviska Enskilda Banken (£15m for 1 year)

Svenska Handelsbank (£15m for 1 year)

Swedbank (£15m for 1 year)

Switzerland (maximum limit to all banks within country is £30m)

Credit Suisse (£10m for 6 months).

NB Group limit of £10m/6 months to include UK subsidiary

UBS AG (£10m for 6 months)

NB Group limit of £10m/6 months to include UK subsidiary

USA (maximum limit to all banks within country is £30m)

Bank of New York Mellon (£15m for 1 year)

NB Group limit of £15m/1 year to include UK subsidiary

Bank of America N.A. (£10m for 6 months)

BOKF NA (£10m for 6 months)

Citibank International (£10m for 6 months)

NB Group limit of £10m for 1 year to include UK subsidiary

HSBC Bank USA (£15m for 1 year)

NB to be included as part of UK Group limit £30m/1 year

JPMorgan Chase (£15m for 1 year)

Northern Trust Company (£15m for 1 year)

Silicon Valley Bank (£10m for 6 months)

State Street Bank and Trust Company (£15m for 1 year)

U.S. Bancorp (£15m for 1 year)

Wells Fargo Bank (£15m for 1 year)