Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 25TH SEPTEMBER 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 30th June 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 grew by 0.7% during the June quarter, following a disappointing figure for the previous quarter. The unexpectedly clear outcome of the May general election eliminated some market uncertainties but the firm commitment of the Conservative Government to remove the deficit within the term of this Parliament will mean further reductions in expenditure, which will have an impact onto the level of growth over the next few years. Inflation remained subdued with no expectation of an immediate increase, whilst employment and consumer expenditure continue to be robust.

5. In the Eurozone there were further issues in respect of Greece but, despite this, consumer and business confidence improved significantly. This improvement in confidence is almost undoubtedly linked to the massive programme of quantitative easing that the European Central Bank commenced in January.

6. The US economy also showed continued signs of resilience, with GDP rebounding from a weather-induced slowdown in the first quarter. By the end of June there was strong consensus amongst market commentators that the Fed funds rate would see its first increase from historic lows before the end of 2015.

7. After the end of the quarter there became increasing concern over the state of the Chinese economy, which appeared to be experiencing a much bigger slowdown than had been anticipated, and this had a significant impact onto World markets. The Chinese authorities acted decisively and allowed its currency to weaken, cut interest rates and made it easier for banks to lend, all with the aim of supporting the stuttering economy. At the time of writing this report it is difficult to assess whether

this is anything more than a market wobble, but it does make it likely that the point at which interests rates will rise in the UK and US has been postponed for a while longer.

Action Taken during June Quarter

8. The balance of the investment portfolio increased over the quarter and stood at £178.7m at the end of the quarter, and increase of £13.7m from the opening position. Balances generally increase by a meaningful amount in the first quarter of the financial year as a result of the 'front loading' of certain grants, and the increase is actually less than has been experienced in recent years.

9. On 1st April a new method of assessing the acceptability of counterparties came into force, following its approval as part of the Authority's Medium Term Financial Strategy. This increased the number of available counterparties and as a result there was an unusually high amount of activity within the loan portfolio.

10. Two loans to Local Authorities (totalling £15m) matured during the quarter and were not renewed, and the same happened with a £10m deposit with HSBC. The biggest movement, however, came in the reduction of monies invested in Money Market Funds, with the balance falling from £75m to £28.7m.

11. A three month loan with HSBC was renewed for further period of three months and two loans of £5m each with the Bank of Scotland matured during April and were replaced with new one year loans at a slightly higher interest rate (1% instead of 0.95%). The increase in the maximum limit on loans to the Lloyds Banking Group (which includes Bank of Scotland) was also utilised, with a new £10m loan being placed for one year at 1%.

12. Of the new counterparties that came onto the list in April, £40m was invested with RBS (for one year, in three different transactions). Six month loans were placed with Santander UK (£15m), Nationwide Building Society (£10m) and Landesbank Hessen Thuringen (£10m). The new counterparty list has allowed significant sums to be moved out of Money Market Funds (earning c. 0.45%) and deposited with safe financial institutions at higher rates of interest. The overall impact of the activity on the average rate was that it increased from 0.62% to 0.79%.

13. The loan portfolio at the end of June was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	50.0
Royal Bank of Scotland	40.0
HSBC	15.0
Santander UK	15.0
Nationwide Building Society	10.0
Landesbank Hessen Thuringen	10.0
Lancashire County Council	10.0
Money Market Funds	28.7
	178.7

14. 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%

15. 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 June 2015 there had been 44 loans made totalling £440,080 and the average interest rate on these loans was 8.6%.

16. The Authority has significant earmarked funds, some of which appear unlikely to be utilised for a number of years. Whilst these funds are necessary, the returns earned on them prior to their utilisation will be in line with returns on cash unless they are invested differently. Cabinet agreed on the 11th September to the investment of £15m of the County Council's earmarked funds into a pooled property fund, or a small number of pooled property funds. This investment will give a meaningful lift in the Council's investment income and the probability of some long-term capital appreciation, given that property values do not seem currently to be extreme.

Resource Implications

17. 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

17. There are no discernible equality and human rights implications.

Recommendation

18. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

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