

## **CORPORATE GOVERNANCE COMMITTEE – 17<sup>TH</sup> NOVEMBER 2015**

### **QUARTERLY TREASURY MANAGEMENT REPORT**

#### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

##### **Purpose of the Report**

1. To update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 30<sup>th</sup> September 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 a provisional estimate of 0.5% during the September quarter, which was below the 0.7% growth of the previous quarter. Given the headwinds to exporters from the appreciation of sterling, allied to continuing weakness in Europe and a slowdown in Emerging Markets (notably China), this slowdown in growth was fully expected and forward-looking surveys suggest that there may be a further slowdown in the final quarter of the year. Inflation remained subdued, with the Consumer Price Index recording deflation of -0.1% in the year to September due mainly to falls in the prices of food and petrol. Despite this slowdown the UK continues to perform very well relative to other developed economies, and within the G7 only the US is performing anywhere near as well.
5. The immediate outlook for UK inflation is also muted, and as a result the possibility of a near-term increase in bank bases rates appears to be low. Very few market commentators are now expecting a base rate increase until at least the end of the first quarter of 2016. Commodity prices – an input into inflation that is almost exclusively affected by what happens elsewhere in the world – are likely to remain low, partly due to the slowdown in China and its rebalancing from an investment-led economy to a consumer-led one.
6. In the Eurozone the massive quantitative easing programme continued to boost consumer and business confidence, and economic growth continued. The recent slowdown elsewhere has raised questions about whether there will be a need for an

even larger quantitative easing programme if growth is to be maintained, and if inflation is to return to anything like its target of 2%.

7. The US economy showed continued signs of resilience, but an increase in interest rates at the Federal Reserve's September meeting - widely anticipated in the summer – did not materialise. Economic weakness elsewhere in the world was cited as the main factor that led to a 'no change' decision, and there is increasing concern over when the US will feel comfortable enough to increase interest rates. An increase in interest rates will be a clear signal that the global economy has entered a self-sustaining phase of growth, as opposed to one that is built on ultra-accommodative monetary policy.

#### **Action Taken during September Quarter**

8. The balance of the investment portfolio increased over the quarter and stood at £185.5m at the end of the quarter, an increase of £6.8m from the opening position. Variations in the size of the portfolio of this magnitude are quite normal.
9. Activity during the quarter was relatively subdued. A one year loan to Bank of Scotland at a rate of 0.95% matured and was renewed with the same counterparty for a period of six months at 0.70% – due to Government share sales of Lloyds Banking Group (the parent company of Bank of Scotland), Lloyds has lost its 'special situation' position that was based on significant state-ownership and slipped to maximum loan period of 6 months. A 3 month loan to HSBC (at 0.57%) matured and was renewed for the same term at a rate that was marginally higher. There was a new loan placed with Royal Bank of Scotland for a period of one year at a rate of 0.98%, and a new 6 month loan placed with Santander at 0.73%.
10. The impact of this action was to increase the average rate of interest from 0.79% to 0.81% over the course of the quarter. The reduction in the balance of cash held in Money Market Funds (from £28.7m to £20.5m) had the biggest impact on the increase in the average interest rate, given that this cash earns a below-average rate within the portfolio of c.0.48%. How much money is held in Money Market Funds is a function of cash flows, availability of counterparties at attractive rates of interest and views on how future interest rates will change.
11. 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	50.0
HSBC	15.0
Santander UK	20.0
Nationwide Building Society	10.0
Landesbank Hessen Thuringen	10.0
Lancashire County Council	10.0
Money Market Funds	<u>20.5</u>
	<u>185.5</u>

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 5<sup>th</sup> September 2012 at 2.72%
  - 5 year loan for £1.4m, commenced 27<sup>th</sup> November 2012 at 2.19%
  - 5 year loan for £2m, commenced 12<sup>th</sup> February 2013 at 2.24%
  - 5 year loan for £2m, commenced 1<sup>st</sup> August 2013 at 2.31%
  - 5 year loan for £1m, commenced 31<sup>st</sup> 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 September 2015 there had been 48 loans made totalling £464,200 and the average interest rate on these loans was 8.6%.

### **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.

### **Equal Opportunities Implications**

16. There are no discernable equal opportunity 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)

Cooperative 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)