



CORPORATE GOVERNANCE COMMITTEE – 17TH FEBRUARY 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18

Purpose of the Report

1. To allow the Corporate Governance Committee the opportunity to review the Treasury Management Strategy Statement and the Annual Investment Strategy for 2017/18, which are attached as an appendix to this report.

Background

2. The Treasury Management Strategy Statement and Annual Investment Strategy form part of the Medium Term Financial Strategy and will be considered by the County Council at its meeting of 22nd February 2017.
3. Due to the proximity of the two meetings, it is not possible to include any comments that may be made by the Corporate Governance Committee into the report produced for the County Council. Any comments that are made will be reported verbally to the County Council when it considers the matter.
4. The two strategies are broadly in line with those of last year. The only amendment is the inclusion of a new investment type that is listed in the table of acceptable investments that is included within the Annual Investment Strategy, and is shown as 'Term deposits that are legally capable of offset against existing LOBO borrowing that the Council has'. The reasons for the inclusion of this are covered within paragraphs 33 – 36 of the appendix.

Term Deposits with legal offset against existing borrowing

5. The Council currently has a number of loans, totalling £103.5m, which are classified as LOBOs (Lenders Option, Borrowers Option). These loans are at fixed rate of interest but the lender has the right, on certain pre-set dates, to increase the fixed rate. If the lender exercises this option the Council has the option of repaying the loan early, without penalty. If the Council does not repay, the new higher rate becomes a new 'floor' for the rate payable thereafter.
6. Given current interest rates it is highly unlikely that any lender will exercise their option in the foreseeable future. The Council has been approached by one of the

lenders to consider a course of action that would be beneficial to the bank in terms of how the loan is classified for capital adequacy purposes, and this would involve the Council placing a deposit with the bank that exactly offsets the amount of the LOBO. Importantly there would be a legal offset of the investment against the loan (i.e. if the counterparty were to fail, the impact on capital would net off to nil), all options during the period of the agreed loan would be removed and the lender would lose all rights to sell the loan (which is a tradeable instrument) during the investment period. The outcome of this would be a long-term loan with no counterparty risk.

7. Because of the favourable impact on the bank's capital requirements the interest rate available for a long-term loan would be enhanced by a meaningful amount, relative to the rate that would be available from other counterparties, and the credit risk would also be nil. This does not necessarily make the transaction an attractive one, and unless the rate on offer is deemed acceptable there would be no investment made. It is, however, considered worthwhile to at least have the opportunity available and there is a chance that other LOBO lenders may replicate the method.

Resource Implications

8. The interest earned on revenue balances and the interest paid on external debt (which link directly into Treasury Management Strategy Statement and the Annual Investment Strategy) will impact onto the resources available to the Council.

Equality and Human Rights Implications

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

Recommendation

10. The Committee is asked to comment on this report.

Background Papers

None.

Circulation under the Local Issues Alert Procedure

None

List of Appendices

Appendix A - Treasury Management Strategy Statement and Annual Investment Strategy 2017/18

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