Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE
26TH MAY 2017

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 2017.

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. Initial estimates for UK economic growth in the first quarter on 2017 were just 0.3% - the lowest quarterly growth since the Brexit Referendum, and lower than had been forecast. The brunt of the slowdown was felt in the services sector as rising prices caused by the fall in the pound impacted onto the retail, restaurant and hotel sectors. The manufacturing sector performed better as sterling weakness boosted exports. There is little doubt that the consumer is under pressure, with inflation outstripping pay rises, whilst the risks surrounding what are likely to be protracted and difficult Brexit negotiations are unlikely to be helpful.

5. Inflation in the UK (as measured by the Consumer Price Index) reached 2.3% in February and March 2017, which is above the Bank of England's inflation target. Expectations are that it will continue to rise and reach around 3% by the second half of the year. Despite the outlook for inflation being above target, there appears little chance of a base rate increase from the current historic low of 0.25% for some time.

6. In the US, economic growth had its worst quarter for three years. There appear to have been a number of one-off impacts onto growth and the expectation is that economic activity will pick up again, given the real growth in personal disposable income that is happening and the expected positive impact of President Trump's expansionary fiscal policies.

7. Within Europe the threat of far-right anti-European Union parties gaining power in both The Netherlands and France passed, with the latter occurring after the end of the quarter that is being reported on. Economic growth continues to be

unspectacular but consistent and there are clear signs that the Euro-area is slowly recovering from its lowest ebb at the depths of the Greek Debt Crisis. Interest rates remain negative in order to encourage investment and consumption, and there is no sign that increases will occur in the near future.

Action Taken during March Quarter

8. The balance of the investment portfolio increased from £164.5m to £204.8m over the quarter. The extent of this increase in balances is unusual, but is almost entirely linked to the timing of precepts – a precept of just over £25m was received on 3rd January 2017, and the equivalent precept has been received in December in previous years.

9. Activity during the quarter related entirely to attempting to maintain as long a maturity profile as possible, subject to the availability of acceptable counterparties that were paying attractive rates of interest. There remained a meaningful premium for being willing to lend for longer periods even though there appeared no realistic possibility of base rate rises in the near term.

10. During the quarter £35m of loans that were originally for periods of 6 months or more matured, and the average rate of these loans was 0.63%. All of these loans were rolled over for the same period with the same counterparty, with the average rate achieved being 0.49%. This reduction in the rates achievable is entirely consistent with the fact that base rates are now lower than they were when the original loans were placed (0.25% vs. 0.50%) and the fact that the prospect of a base rate increase in the near future has been entirely discounted by the market.

11. Towards the end of the quarter a number of counterparties (including some Local Authorities) that are not usually active within the market began to seek funding at rates that were attractive to us. Advantage was taken of this both in March and in April, although the April loans are not included in the figures given below.

12. The impact of all of the above action was to reduce the average rate of interest earned on loans from 0.75% to 0.68% and the portfolio continues to benefit from the policy of lending to acceptable counterparties that are paying attractive rates, and to maximise the loan period.

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

	£m
Money Market Funds	9.8
Lloyds Banking Group/Bank of Scotland	20.0
Royal Bank of Scotland	50.0
Santander UK	20.0
Nationwide	20.0
Toronto Dominion Bank	5.0
Landesbank Hessen Thuringen	15.0
Credit Industriel et Commercial	10.0
Goldman Sachs International	20.0
Commonwealth Bank of Australia	15.0
Close Brothers	10.0
Surrey Heath Borough Council	10.0
	204.8

14. There are also five further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS), and all of these loans had original maturities of five years. 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%

Loans to counterparties that breached authorised lending list

15. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made, and also none that had already been placed to a counterparty that subsequently fell below the threshold that would have been acceptable for the remaining period of the loan following a credit-rating downgrade.

Resource Implications

16. 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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