Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 17TH NOVEMBER 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 30th September 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. In the UK, the preliminary Gross Domestic Product estimate for the September quarter showed quarterly growth of 0.4%, and annual growth of 1.5%. These figures were slightly ahead of expectations and growth was higher than in either of the two previous quarters, but the figures are subject to revision in the months ahead.

5. Inflation in the UK (as measured by the Consumer Price Index) reached 3.0% in September, which was its highest level since March 2012. Inflation is being generated across a broad range of goods and services and whilst some of the increase is clearly linked to the depreciation of sterling that has occurred since the Brexit vote, it is probable that it will take some time for inflation to come down to target (2%) levels. The higher-than-expected growth and above-target inflation gave the Bank of England a reason to increase base rates from 0.25% to 0.5% in November. This is the first increase since July 2007 and there is an expectation that rates will trend higher from here, although the narrative that supported the rate rise suggested that future rate rises will be modest and are not imminent. Some commentators feel that there is sufficient risk (particularly around Brexit negotiations) to mean that any further rises will not happen for at least a year.

6. In the US, economic growth remains strong and in the year to 30th September stood at 3.0%. There is a broad spectrum of positive impacts onto the growth, including consumer spending and business investment but there was slowdown in housebuilding. Inflation is rising but appears to remain well under control. It seems highly probable that there will be change in the Chair of the Federal Reserve in

early 2017, with a potential impact onto the perception of how quickly interest rates will rise thereafter.

7. The Eurozone continued to grow, with economic growth of 0.6% for the September quarter and 2.5% for the year to that date. The quarterly figure was actually slightly below that of the previous quarter, but there is a definite cyclical upturn within the area. Inflation remained low and unemployment continued to fall, but still stood at 8.9% at the quarter end.

Action Taken during September Quarter

8. In mid-September the Governor of the Bank of England hinted that base rates might need to rise in the near future in order to bring inflation back down towards its target level of 2%. The Governor's style is to try to give markets clear guidance and a good possibility of a November increase in base rates to 0.5% - to tie in with the Quarterly Inflation Report – was quickly priced into the market. The increase in rates and the accompanying suggestion that future rises are likely to be very modest and are not considered imminent has led to the meaningful margin between the rates available for lending for 6 – 12 months and those available for short-term lending falling, but it is still likely to be beneficial to continue to utilise longer maturities. There is a risk that base rates increase more quickly or to higher levels than currently expected and that some loans – existing and future - start to look like they were bad decisions. This is an inevitable consequence of a willingness to form an opinion and back it.

9. During the quarter, £85m of loans that were originally for periods of 3 months or more matured, and the average rate of these loans was 0.56%. £60m of new loans were placed for period of 6 months or more at an average rate of 0.62%, with the remaining £25m being invested in Money Market Funds on a temporary basis. Given the lack of available counterparties that were paying rates that were felt to adequately compensate for the risks surrounding future base rate increases, a 'wait-and-see' policy for part of the portfolio was considered appropriate. At the end of the quarter £49.4m was invested in Money Market Funds at rates of around 0.20% and this had the impact of depressing the overall rate on the portfolio to 0.52%, from 0.57% at the end of June. During the quarter the balance of the investment portfolio increased to £214.4m from £202.7m.

10. The loan portfolio at the end of September was invested with the counterparties shown in the list below:

	£m
Money Market Funds	49.4
Lloyds Banking Group/Bank of Scotland	20.0
Royal Bank of Scotland	50.0
Santander UK	20.0
Landesbank Hessen Thuringen	15.0
Goldman Sachs International	20.0
Close Brothers	20.0
Danske Bank	10.0
Local Authorities	10.0
	214.4

11. There are also four 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 £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

12. 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

13. 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

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

Recommendation

15. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

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