Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 29TH JANUARY 2018

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 December 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. Due to a change in the scheduling of meetings of this Committee, it will no longer be possible to incorporate all of the statistical data relating to the quarter to which the Quarterly Treasury Management Report relates. This is because even preliminary quarterly data will not have been released at the time of writing the report.

5. In future it is intended that economic commentary will be based on the data for the quarter *prior* to the period to which this report relates plus any pertinent observations. As commentary for the September quarter has already been provided (in the report for the meeting held on 17th November 2017), the commentary included in this report simply relates to a number of observations that are considered relevant.

6. In November 2017 the Bank of England raised base rates for the first time in over 10 years (from 0.25% to 0.5%). The market had been strongly guided towards this rise, and has now been guided to expect one further 0.25% rise in 2018 and another in 2019. The progression towards what would have previously been seen as 'normal' interest rates is likely to be slow-and-steady, but it is worth noting that economists now consider the neutral level of interest rates to be a much lower level than would have previously been expected.

7. The UK economy continues to lag growth being produced elsewhere in the world. The lack of real wage growth, a high level of personal debt and risks associated

with Brexit make it unlikely that there will be any meaningful acceleration of growth in the foreseeable future.

8. Europe is currently growing at a very strong pace, although it did suffer a much bigger economic downturn than much of the rest of the world. The European Central Bank continues to exercise quantitative easing, although at a slower pace, and is very keen to see an uptick in inflation (and an end to the threat of deflation) before it is likely to consider interest rate rises. Consumer spending and business investment are simultaneously strong, and the economic upturn appears to be self-sustaining.

9. There is no doubt that US interest rates will continue to be raised at a moderate pace, but the strength of the economy should mean it is able to withstand the increases. Recent changes to taxation for both corporates and individuals are likely to boost the economy.

10. Emerging market economies continue to grow strongly and there is meaningful synchronised global growth for the first time in many years. Central Banks are keen to avoid policy mistakes that may disrupt this growth, so it is likely that increases in global interest rates will be carried out in a considered manner that does not surprise markets.

Action Taken during December Quarter

11. At the end of the quarter the loan portfolio stood at £193.7m, which was a reduction of £20.7m from its size at the end of September. Towards the end of the quarter £10.8m was invested in an investment property, so after adjusting for this the portfolio reduction was just under £10m. This level of variance is normal and reflects the timing of precepts and grants.

12. During the quarter £80m of loans that were originally for periods of 6 months or more matured, and the average rate of these loans was 0.60%. £100m of new loans were placed for a period of 6 months or more at an average rate of 0.73%. The £20m additional new loans were funded by a reduction in Money Market Fund investments, and a further £20.7m was withdrawn from Money Market Funds to reflect the overall reduction in the loan portfolio. The impact of this activity was to increase the average rate earned from 0.52% at the end of September to 0.67% at the end of December. This increase is flattered somewhat by the sizeable change in the balance held in Money Market Funds – because they yield lower rates than direct loans they have the effect of reducing the portfolio rate and the higher the balance held in them, the greater the reducing impact onto the average rate.

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

	£m
Money Market Funds	8.7
Lloyds Banking Group/Bank of Scotland	30.0
Royal Bank of Scotland	40.0
Santander UK	20.0
Landesbank Hessen Thuringen	5.0
Goldman Sachs International	20.0
Close Brothers	20.0
Danske Bank	10.0
Toronto Dominion Banks	10.0
Local Authorities	30.0
	193.7

14. At the end of December there were also three 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. One LAMS loans matured during the quarter (£1.4m at 2.19%). These do not form part of the treasury management portfolio, but are listed below for completeness:

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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