

CORPORATE GOVERNANCE COMMITTEE**25 NOVEMBER 2013****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 30 September 2013.

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. Based on survey evidence, it appears that UK growth in the September quarter was at least as high as the 0.7% growth experienced in the June quarter. Consumer spending continued to rise, the unemployment rate fell and employment rose. The housing market experienced activity and price rises that were the highest for some time and although this is currently mainly a London-based phenomenon, there is evidence that the rest of the country is also beginning to see an upturn.
5. The new Governor of the Bank of England, Mark Carney, introduced a new policy of forward guidance in which the Monetary Policy Committee pledged not to raise official interest rates, or reduce the level of quantitative easing, until the ILO unemployment rate falls below 7%. There are a number of caveats which would allow interest rates to be raised if they were breached, but the guidance suggested that interest rates would be set at 0.5% until late 2016.
6. After comments in the previous quarter by the Chairman of the Federal Reserve in the United States (the Fed) about the possibility of ‘tapering’ their asset purchase (i.e. quantitative easing) activities at an earlier point than had previously been anticipated, bond markets had sold off quite sharply. In September the Fed announced its decision to maintain the level of quantitative easing and explained that it wanted to “await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases”. The sharp sell-off in bonds that occurred after the initial announcement had perhaps highlighted the fragility of

investor confidence, and had proved that the removal of Quantitative Easing is unlikely to be smooth.

7. Eurozone business surveys suggested that the economy continued to expand during the September quarter, albeit at a moderate pace. The better-than-expected performance of Angela Merkel in the German general election gives hope of stability in the Eurozone's biggest economy and most influential member, although she will be forced to form a coalition government. Although it would be difficult for anyone to suggest that the Eurozone's woes have been resolved, at least nothing new has surfaced for some time.

Action Taken during September Quarter

8. The balance of the investment portfolio decreased to £179.6m at the end of September 2013, from £201.9m at the end of the previous quarter. This decrease in balances is quite normal, especially given the front-loading of many Central Government grants very early in the financial year.
9. During the September quarter two loans to Royal Bank of Scotland totalling £15m matured, and these were not renewed as Royal Bank of Scotland are no longer an acceptable counterparty. A £5m one year loan with Bank of Scotland (part of the Lloyds Banking Group) also matured and was replaced with a new one year loan, but at a rate of 1.01% in comparison with the previous 3.0%. The small loan to Redditch Borough Council was placed at the end of September and matures at the beginning of November, and the rate of 0.45% is better than can be achieved by holding the money within a money market fund.
10. The average rate of interest earned on the investments decreased over the quarter from 0.74% to 0.67%. This reduction is a function of loans at attractive rates maturing and being reinvested at much lower rates. The rate will reduce further over the quarters ahead, as existing loans mature and are replaced at a lower rate of interest.
11. The loan portfolio at the end of September was invested with the counterparties shown in the list below.

	£m
Barclays	5.0*
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Redditch Borough Council	2.6
Money Market Funds	<u>107.0</u>
	<u>179.6</u>

* Barclays are no longer acceptable counterparties and no further loans will be made to them following maturity.

12. The current list of acceptable counterparties is very short and comprises:

Lloyds Banking Group (£40m, for up to 1 year)
 HSBC (£25m, for up to 2 years)
 Local Authorities (£10m per Authority, for up to 1 year)
 Money Market Funds (£25m limit per fund, maximum £125m in total)
 UK Debt Management Office (unlimited, for up to 1 year)
 UK Government Treasury Bills (unlimited, for up to 1 year)

13. There are also four further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS), and one of these was made during the quarter. 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%
14. Within the external debt portfolio a loan of £12m loan (originally for four years at a rate of 2.80%) from the Public Works Loan Board matured on 1st July 2013. This maturity would have occurred on 30th June if it had not been a weekend, and the loan was not replaced.

Local Authority Mortgage Scheme (LAMS)

15. LAMS in Leicestershire commenced in early September 2012 and £7.4m of the agreed £10m has now been lent to Lloyds TSB, as backing for the mortgages given under the scheme. None of the mortgages are in arrears. Details of the individual loans are included in paragraph 13.
16. The latest available figures show that 292 mortgages have been approved within the scheme, of which 219 have completed. The total value of mortgages approved is £32.8m, with £24.9m of these completed. At an average property value of about £113,000 it is clear that the houses being purchased through the scheme genuinely are within the 'first time buyers' range of prices.
17. The Government's Help to Buy scheme (to commence in January 2014, but with applications already being processed) shares many of the attributes of LAMS, and Lloyd's Banking Group have currently suspended any further launches of LAMS while they assess whether the market can simultaneously support both schemes. £840,000 of the latest loan to Lloyds has not yet been committed to mortgages and whilst this will be utilised, it is unclear whether the further available funding will be accepted by Lloyds. Whilst the risks involved in LAMS are relatively modest, in the event that Lloyds agree to continue with LAMS it will be necessary to assess whether there is any value in the Authority continuing to support LAMS if there is a Government scheme which achieves similar outcomes.
18. LAMS has undoubtedly been a success within Leicestershire and it has allowed many first time buyers to enter the housing market with much lower deposits than would have been required if they wanted to access mortgage rates that were affordable to them. Whilst impossible to quantify, the impact of a housing market that has a larger number of first-time buyers is a positive force within both the local housing market and the local economy generally.

Resource Implications

19. 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

20. There are no discernable equal opportunity implications.

Recommendation

21. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

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