Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE
12 MAY 2014

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 2014.

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. Economic growth in the UK continues to be relatively strong and forward-looking surveys are very encouraging. Unemployment has fallen much more quickly than anticipated and the Bank of England's Monetary Policy Committee has made it clear that it would be looking for satisfactory readings in a much broader range of indicators than just the unemployment rate before it would start to consider an increase in base rate. Markets are now expecting the first base rate increase to occur in mid-to-late 2015, followed by a series of small increases over a prolonged period of time.

5. The Consumer Price Index (CPI) has fallen to below the target level of 2.0% and looks likely to remain at (or below) the target in the months ahead. This follows a number of years that, despite slow economic growth, CPI remained stubbornly above the target.

6. In the United States, the Federal Reserve continued to moderate its asset purchase (i.e. quantitative easing) activity by $10bn a month which started in December 2013. If the US economy remains strong it is expected that asset purchases will have ended before the end of 2014.

Action Taken during December Quarter

7. The balance of the investment portfolio decreased marginally to £149.2m at the end of March 2014, from £150.5m at the end of the previous quarter.

8. During the March quarter four loans of £5m each, all for an original period of 1 year and at a rate of 1.1%, matured with Lloyds Banking Group. These loans were renewed for a further 1 year period at a rate of 0.95%. A loan of £8m for 1 year was made to Exeter City Council at a rate of 0.64%, although this loan had actually been agreed (with a forward start date) in the previous quarter.

9. The loan portfolio's exposure to local authorities is high, which partly reflects the lack of available counterparties and is partly the result of a period in which a number of different local authority borrowers were trying to secure cash at the same time. This demand pushed up the rates that they were willing to pay from below 0.5% to levels that were attractive to us as a lender. Rates have subsequently settled down again to around 0.5%, which compares to the average rate of 0.61% that we achieved for loans of one year. Given the front-end loading of various income sources that is common to most local authorities, it is likely that this particular market segment will become unattractive to lenders again for a number of months to come.

10. The average rate of interest rate of the investments at the end of March was 0.66%, which was marginally below the average rate (0.67%) at the end of December 2013. The average rate is likely to continue to trend downwards on a gradual basis, until it is clear that base rate increases are looking more likely.

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

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local authorities	63.0
Money Market Funds	21.2
	149.2

12. At the quarter end, the loans to local authorities were amounts of £10m to Birmingham City Council and Sandwell, £8m to Exeter City and £5m to each of The Highland Council, North Tyneside, Isle of Wight, Blackpool BC, Exeter City, The Cornwall Council and Peterborough City.

13. 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)

14. There are also five further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS). 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%

15. In mid-December 2013 the 'Leicestershire Local Enterprise Fund' was launched, which makes financing available to small and medium-sized Leicestershire companies via an association with Funding Circle. There are a number of hurdles that companies must clear before being able to access this funding and any loans made will be classed as 'service investments'. As such, these loans are not covered within the Treasury Management Policy, but at the end of March 2014 there had been 8 loans made totalling £68,600 and the average interest rate on these loans was 8.7%.

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.

Equal Opportunities Implications

17. There are no discernable equal opportunity 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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