Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 23 SEPTEMBER 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of the Report

1. The purpose of this report is to update the Committee about the actions taken in respect of treasury management in the quarter ended 30 June 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. Unemployment levels in the UK continue to fall and economic data shows a strengthening economy, with forward-looking surveys into areas such as the investment intentions of companies which suggest that the recovery is self-sustaining. Inflation, however, remains subdued and wage growth is extremely anaemic. Economic commentators are split over when the first base rate rise will happen, with many believing that an increase in 2014 is likely. The Governor of The Bank of England has sent out mixed signals about his thoughts on when increases will be necessary, so for the first time in many years there is a genuine differentiation in the views of many market participants. The differences in views, however, mainly relate to the timing of the first increase and there remains consensus that increases will be gradual and that base rates will remain low by historical standards for many years to come.

5. Europe continues to struggle and a number of countries have slipped back into recession, with the Eurozone as a whole only showing growth due to the relative strength of Germany. Even Germany, however, is struggling and there remains a high probability that full-blown quantitative easing in Europe will be necessary. The weakness in the United Kingdom's major trading partner can only have a negative impact onto the UK itself.

6. After a very severe winter which subdued economic activity, the United States is exhibiting robust economic growth. Janet Yellen, the new Chairman of the Federal Reserve, has played down the probability of interest rate rises in the near future and

continues to highlight low inflation and surplus capacity as reasons that interest rate policy can remain relaxed.

Action Taken during June Quarter

7. The balance of the investment portfolio increased from £149.2m at the end of March to £188.4m at the end of June 2014. This significant increase follows the pattern of the previous year and reflects the front-end 'loading' of various grants and cash flows.

8. Given the lack of available counterparties, and the fact that the portfolio is already up to the allowed limit for most acceptable counterparties, action taken can generally be classified as 'care and maintenance' of the portfolio.

9. Two loans of £5m each with Bank of Scotland (both originally for one year and at a rate of 1.1%) matured during the quarter and were renewed for a fresh one year period at a rate of 0.95%. Three loans to local authorities totalling £20m also matured, but there were no local authorities that were looking to borrow money at acceptable rates (as they, like ourselves, had received lots of cash early in the financial year), so the only option was to place these proceeds into money market funds. £15m of the loan to HSBC was switched from a one month maturity to a three month maturity to take advantage of a marginal (0.04%) improvement in the interest rate payable.

10. The average rate of interest of the investments at the end of June was 0.59%, which was below the average rate (0.67%) at the end of March 2014. The decrease is mainly due to the increased size of the portfolio, and the fact that the additional monies had to be invested in money market funds at a rate (c.0.4%) which is below the rate being earned on the other investments. 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 June was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local Authorities	43.0
Money Market Funds	80.4
	188.4

12. At the quarter end, the loans to Local Authorities were amounts of £10m to Birmingham City Council, £8m to Exeter City Council and £5m to each of The Highland Council, North Tyneside Council, Isle of Wight Council, Dundee City Council and Blackpool Borough Council.

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:

Five year loan for £2m, commenced 5[t] September 2012 at 2.72%
Five year loan for £1.4m, commenced 27 November 2012 at 2.19%
Five year loan for £2m, commenced 12 February 2013 at 2.24%
Five year loan for £2m, commenced 1 August 2013 at 2.31%
Five year loan for £1m, commenced 31 December 2013 at 3.08%

15. The Leicestershire Local Enterprise Fund has been making financing available to small and medium sized Leicestershire companies, via an association with Funding Circle, since December 2013. 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 June 2014 there had been 11 loans made totalling £115,600 and the average interest rate on these loans was 8.2%.

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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