

CORPORATE GOVERNANCE COMMITTEE – 24TH NOVEMBER 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 30th September 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. The UK economy continues to show significant growth and it is expected that strong growth will continue for the remainder of 2014 and into 2015, with forward-looking surveys making very encouraging reading. The overall strength is mainly based on consumer expenditure and growth in the housing market, with manufacturing having a more lacklustre performance.
5. Given the strength in the economy it is no surprise that unemployment levels continued to fall, but wage growth is very low – and below inflation levels – and productivity continues to disappoint. The level of inflation, which is the Bank of England Monetary Policy Committee’s target, has trended lower and in September the Consumer Price Inflation fell to just 1.2% which is well below the 2.0% target. A sharp decline in commodity prices, especially oil, and a supermarket price war were major reason for the much larger than expected fall in inflation and there are some signs that these factors may continue for some time. Despite two members of the MPC having already voted for base rate rises, recent data suggests that the first base rate rise might be further away than has previously been considered likely.
6. The US economy also continues to show healthy growth, although the Chairman of the Federal Reserve has continued to stress that there is no hurry to start the process of normalisation of interest rates. This view is founded on continuing weakness elsewhere in the World economy.

7. Europe is facing an increasing threat of deflation and significant monetary policy changes have been made to try to alleviate this, potentially disastrous, outcome. Overall economic growth in the Eurozone, and even in the main economies such as Germany, remains anaemic and there is no sign that this will improve in the short term. Japan, despite massive monetary stimulation, is not particularly strong and many emerging market economies have slowed down considerably. In the absence of meaningful growth elsewhere in the world, it is difficult to see how the UK and US can continue to maintain such healthy growth rates and this is likely to have a dampening effect on any near-term increases in interest rates.

Action Taken during September Quarter

8. The balance of the investment portfolio increased from £188.4m at the end of June to £190.4m at the end of September 2014. 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. A loan of £5m with Bank of Scotland (originally for 1 year and at a rate of 1.01%) matured during the quarter and was renewed for a fresh 1 year period at a rate of 0.95%. A loan of £5m to a local authority also matured but there were no local authorities that were looking to borrow money at acceptable rates, so the only option was to place these proceeds into a money market fund. A 3 month loan to HSBC for £15m matured and was renewed for a further 3 month period at a slightly higher rate (0.556% from 0.525%). The overall impact of the activity on the average rate was negligible (it rose from 0.588% to 0.596%), with the major reason for the increase being small rises in the rates payable by money market funds.
10. The loan portfolio at the end of September was invested with the counterparties shown in the list below.

	£m
Lloyds Banking Group/Bank of Scotland	40.0
HSBC	25.0
Local Authorities	38.0
Money Market Funds	<u>87.4</u>
	<u>190.4</u>

11. At the quarter end, the loans to Local Authorities were amounts of £10m to Birmingham City Council, £8m to Exeter City and £5m to each of The Highland Council, North Tyneside, Isle of Wight and Blackpool BC. All except one of these loans will mature in the December quarter, with the Exeter City loan maturing in mid-January.
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 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%
14. 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 the latest information available at the time of writing this report (which covered the period to the end of August 2014) was that there had been 21 loans made totalling £219,220 and the average interest rate on these loans was 8.4%.

Resource Implications

15. 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

16. There are no discernable equal opportunity implications.

Recommendation

17. The Committee is asked to note this report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None.

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