Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 25 JULY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of Report

1. The purpose of this report is to update the Corporate Governance Committee about the actions taken in respect of treasury management in the quarter ended 29th June 2018.

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. Domestic economic data has improved recently and expectations are that GDP (Gross Domestic Product) will be 0.4% in quarter two (calendar year 2018), showing a steady rebound from the poor quarter one figure of 0.1% which was clearly affected by the severe weather conditions experienced across the country.

5. Following the February Bank of England (BoE) Monetary Policy Committee (MPC) meeting there was a clear indication that interest rates were likely to rise by 0.25% as early as May 2018. However, improved inflation figures, with Consumer Price Index (CPI) at the end of April being 2.2% compared with 2.7% at the start of the year, together with the poor quarter one GDP figure, saw the BoE leave rates on hold. Speculation that the next 0.25% rate rise will follow the August BoE meeting has begun to surface, but economic data to be released ahead of that meeting will be the key guide as to whether any such increase is likely.

6. UK economic growth continues to lag behind that being produced elsewhere in the world, but it remains reasonable given the significant uncertainties relating to Brexit. There has been a lack of real (i.e. after adjusting for inflation) wage growth for many years and household budgets remain stretched, with high levels of personal debt.

7. Inflation has remained stubbornly high, but much of this is directly correlated to the weakening of sterling and the impact on the cost of imports that followed the vote to leave the EU. Recent data has seen a fall in inflation as price increases from over a year ago fall out of the calculation. When combined with signs of slightly higher wage growth across the economy, there is an expectation of a period of real wage growth that should assist in maintaining decent economic growth. Strong economic growth across the rest of the world should also assist in the UK economy in continuing to perform reasonably, although there remains an expectation of underperformance relative to other economies.

8. In Europe quarter one GDP was 0.4%, down from 0.7% in the preceding two quarters, and early indicators for quarter two show little sign of a rebound. This is likely to see European interest rates on hold for the time being.

9. There is no doubt that US interest rates will continue to be raised at a moderate pace, and at a faster pace than almost anywhere else in the world, 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 in both the short and long-term. A recent escalation in the tit-for-tat trade tariffs with China and Russia increases the general economic risks; fortunately these risks come against a background of synchronised global growth, but the potential for an economic slowdown exists.

10. Central Banks are keen to avoid policy mistakes that may disrupt this global growth, so it is likely that increases in interest rates will be carried out in a considered manner that does not surprise markets.

<u>Action Taken during March Quarter</u>

11. At the end of the quarter the investment loan portfolio stood at £221.4m, which was an increase from the £206.3m balance at the end of March 2018. This increase is within the normal tolerances of cash movements over any quarter, and mainly relates to the timing of precepts and grants.

12. During the quarter, six investment loans of £10m or more matured and all of these loans were for periods of either 6 or 12 months. Of these two loans were re-invested with the same counterparty on the same day for the same term. Of the other four loans, three were re-called and one for £15m was switched from a six month ‘Notice’ account to an Instant Access account with the same counterparty because of an anomaly in rates that saw the Instant Access account paying 10 basis points more.

13. Three new loans were generated during the quarter, two for £10m and one for £15m, and all were invested for a period of twelve month's at an average rate of 0.95% with approved banking institutions. The average rate of the six maturities was 0.68%, and the average rate for the two renewals, the loan switch and the three new loans was 0.89%.

14. In April 2018 a further £3m was 'drawn down' by the private debt fund 'Partners Group' making an investment of £10m to date, out of a targeted £20m. A further £5m is likely to be called before the end of July 2018 with the remaining £5m expected in quarter three 2018. The private debt fund has a variable capital value, and for the purposes of this report the investment is shown at 'par' (i.e. the amount drawn, adjusted for any capital repayments when these occur in the future); if there is any meaningful fall in value to below par this will be stated in the narrative. It also has a variable interest rate and the calculation of the average rate being earned by the loan portfolio will exclude the private debt fund investment and will relate only to the cash portfolio.

15. At the end of June the average rate of interest on the cash portfolio was 0.75%, in comparison to 0.73% at the end of March 2018. The loan portfolio at the end of June was invested with the counterparties shown in the list below:

	£m	**Maturity Date**
Instant Access		
Money Market Funds	21.4	July 2018
Santander UK	20.0	July 2018
6 Months		
Close Brothers	£5.0	September 2018
Close Brothers	£5.0	September 2018
Close Brothers	£10.0	September 2018
Goldman Sachs	£10.0	October 2018
Goldman Sachs	£10.0	December 2018
12 Months		
RBS	£10.0	July 2018
RBS	£20.0	August 2018
Toronto Dominion Bank	£10.0	October 2018
Thurrock BC	£10.0	November 2018
Lloyds (BOS)	£10.0	November 2018
Lloyds (BOS)	£10.0	November 2018
London Borough of Southwark	£10.0	November 2018
Northamptonshire County Council	£5.0	January 2019
Lloyds (BOS)	£10.0	May 2019
Australia & New Zealand Bank	£15.0	May 2019
National Westminster Bank PLC	£10.0	May 2019

Beyond 12 Months		
Partners Group	£10.0	Open Ended
Danske Bank	£10.0	September 2027
Total Portfolio Balance at 29th June 2018	**£221.4**	

16. In addition to the above, there were two further loans with Lloyds Banking Group which are classified as 'service investments' for the Local Authority Mortgage Scheme (LAMS), and both of these loans had original maturities of five years. These do not form part of the treasury management portfolio, but are listed below for completeness (balances as at 29th June 2018):

- 5 year loan for £2m, commenced 1st August 2013 at 2.31%
- 5 year loan for £1m, commenced 31st December 2013 at 3.08%

<u>Counterparties that breached authorised lending list</u>

17. There were no active loans during the period that breached the authorised counterparty list at the time 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.

<u>Resource Implications</u>

18. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council.

<u>Equality and Human Rights Implications</u>

19. There are no discernible equality and human rights implications.

<u>Recommendation</u>

20. The Committee is asked to note this report;

<u>Background Papers</u>

None

<u>Circulation under the Local Issues Alert Procedure</u>

None

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