



CORPORATE GOVERNANCE COMMITTEE – 24 OCTOBER 2018

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 Corporate Governance Committee on the actions taken in respect of treasury management for the quarter ending 30 September 2018 (Quarter 2).

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 Committee to provide an update on any significant events in the area of treasury management.

Economic Background

4. In the UK, Gross Domestic Product (GDP) was 0.7% in the rolling 3 months to August driven by services and construction; the UK Construction Index grew to a record high level in July. The preliminary estimate of annual GDP is forecast to be 1.6%. UK unemployment fell to 4% in July, although productivity is not showing any signs of improvement.
5. Inflation in the UK (as measured by the Consumer Price Index) had fallen back from its peak of 3.1% in November 2017 to 2.4% in May 2018, nearing a return to the Bank of England (BoE) target level of 2%. Further depreciation in the value of sterling, mainly due to the uncertainty surrounding Brexit and the rising cost of oil, contributed to a spike in inflation in August to 2.7%. Pre-armed with this data the BoE opted to raise UK interest rates by 0.25% from 0.5% to 0.75%. The minutes of the BoE meeting suggest that any further rate movements will be driven by economic data and are likely to be gradual and to a limited extent. The Councils

treasury management advisers forecast the next rate rise will be 0.25% in the second quarter of 2019.

6. The second estimate for US Q1 growth came in at 4.2%, up from 2.2% in the previous quarter. The US economy is positively booming which is further evidenced by unemployment falling to 3.7%, the lowest level for 49 years. The escalation of trade tariffs between the US and China will inevitably impact global growth. This will be fairly marginal unless a full scale trade war develops. US interest rates currently stand at 2% with three or four more 0.25% rate increases expected from the Federal Reserve in this economic cycle.
7. The Eurozone Q1 GDP was revised upwards to 0.4% offering some relief, spurred on by improving growth in Germany. However, the preliminary Q2 GDP figure is expected to be just below that of Q1 and annualised growth at just below 2%.
8. The outlook remains positive, with surveys pointing to lower unemployment, and whilst inflation remains above target, a falling oil price should see inflation return closer to trend.

Action Taken during Quarter 2 to September 2018

9. The increase in interest rates in August was anticipated by the markets and was already priced into prevailing investment rates. Indications are that rates will remain on hold for a significant time with moderate rate increases in the future, but as always economic data and Brexit will be the key drivers on monetary policy. The result is that loans for short dated rates out to six months are not overly attractive when compared to those of longer duration. Opportunities will be sought to extend the maturity profile and improve returns.
10. During the quarter, the balance of the investment portfolio increased to £229.5m from £221.4m. Within the portfolio £40m of loans matured at an average rate of 0.81% and new loans were placed of £20m at an average rate of 0.99%. A further £5m was invested in the Partners Private Debt Fund during the quarter, bringing the total level of funding to £15m with a further £5m to be called at a later date to complete the intended £20m.
11. A £10m loan with Danske Bank, referred to as a LOBO Offset loan had its six month rate increased from 1.16% to 1.35% in September.
12. The loan portfolio at the end of September was invested with the counterparties shown in the list below, shown by original investment date.

	<u>£m</u>	<u>Maturity Date</u>
Instant Access		
Money Market Funds	34.5	October 2018
6 Months		
Santander	20.0	March 2019
Goldman Sachs	10.0	October 2018
Goldman Sachs	10.0	December 2018
12 Months		
Toronto Dominion Bank	10.0	October 2018
Thurrock BC	10.0	November 2018
Lloyds (BOS)	20.0	November 2018
Lloyds (BOS)	10.0	May 2019
London Borough of Southwark	10.0	November 2018
Northamptonshire County Council	5.0	January 2019
Australia & New Zealand Bank	15.0	May 2019
National Westminster Bank Plc	10.0	May 2019
National Westminster Bank Plc	20.0	July 2019
National Westminster Bank Plc	20.0	August 2019
Beyond 12 Months		
Partners Group (Private Debt)	15.0	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 30th September 2018	229.5	

13. During the quarter an additional maturity of a five year Local Authority Mortgage Scheme (LAMS) loan with Lloyds was returned. These loans are classified as 'service investments' and do not form part of the Treasury Portfolio. They are, however, reported here for completeness.
14. There is one remaining LAMS loan with Lloyds Banking Group. The loan is for £1m and due to be repaid in December 2018. The interest rate is 3.08%.

Loans to counterparties that breached authorised lending list

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

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.

Equality and Human Rights Implications

17. There are no discernible equality and human rights implications arising from this report.

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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