



CORPORATE GOVERNANCE COMMITTEE – 18TH JANUARY 2019

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 on the actions taken in respect of treasury management for the quarter ending 31 December 2018 (Quarter 3).

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) slowed to 0.4% in the rolling 3 months to October following the strong growth seen in the summer months. GDP growth was driven mainly by the services sector (0.3%), though the production (0.3%) and construction (1.2%) sectors were also positive contributors. UK unemployment is unchanged and estimated at 4.1% for the period August to October, on top of this real annual wage growth is at its highest level since December 2016.

5. Inflation in the UK (as measured by the Consumer Price Index) fell to 2.3% in November; the recent marked decline in oil prices has resulted in the Bank of England weakening its short term outlook for inflation – the bank now anticipates inflation falling below the 2% target in January. This, coupled with continuing uncertainty surrounding the UK's withdrawal from the EU, resulted in the MPC (Monetary Policy Committee) voting to maintain interest rates at 0.75% during December. However, looking forwards, low unemployment, increasing wage growth and subdued productivity mean domestic inflationary pressure is continuing to build. As such, the Council's treasury management advisers are still forecasting a 0.25% rate rise in the second half of 2019.
6. The US economy is starting to show signs of cooling down, final Q3 annualised GDP was revised lower to 3.4%, slowing from 4.2% in Q2. As expected, US interest rates increased for a fourth time this year with the target range now 2.25-2.50%. However, the Federal Reserve did lower its forecasts for interest rate rises in 2019.
7. Eurozone growth was weak in Q3. GDP growth quarter on quarter was a mere 0.2%. This was mainly caused by temporary issues in the car industry where production back logs have been generated as firms have initially struggled to meet tests allied to new emissions regulations.

Action Taken during Quarter 3 to December 2018

8. The December MPC meeting delivered the expected no change vote with a unanimous 9-0 vote. Indications are that rates will remain on hold at least until after the UK exits the European Union, and probably until the implications of the exit are better understood. 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.
9. During the quarter the balance of the investment portfolio decreased from £229.5m to £228.7m. Within the portfolio £70m of loans matured at an average rate of 0.82% and £90m of new loans were placed, at an average rate of 1.04%. A further £5m was invested in the Partners Private Debt Fund during the quarter, completing the County Council's commitment of £20m.
10. The loan portfolio at the end of December was invested with the counterparties shown in the list below, shown by original investment date:

	£m	Maturity Date
Instant Access		
Money Market Funds	8.7	January 2019
6 Months		
Santander	20.0	March 2019
Goldman Sachs	10.0	April 2019
National Bank of Canada	10.0	May 2019
Goldman Sachs	10.0	June 2019
12 Months		
Northamptonshire County Council	5.0	January 2019
Lloyds (Bank of Scotland)	10.0	May 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
Toronto Dominion Bank	15.0	October 2019
Landesbank Hessen Thuringen	15.0	October 2019
Commonwealth Bank of Australia	10.0	November 2019
Lloyds (Bank of Scotland)	20.0	November 2019
Beyond 12 Months		
Partners Group (Private Debt)	20.0	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 31st December 2018	228.7	

11. The loan to Northamptonshire County Council matured on 2nd January 2019 and has been repaid along with interest of £37,500.
12. During the quarter the final maturity of the five year Local Authority Mortgage Scheme (LAMS) loan with Lloyds was returned. These loans, a total of £8.4m, were classified as 'service investments' and do not form part of the Treasury Portfolio. They are reported here for completeness only.
13. The County Council decided to participate in the LAMS in order to help local first time buyers enter the property market. During the schemes existence 350 mortgages were issued and the Council received an average return of around 2.4%. These returns were significantly above market rate for the period and it should be noted that there are likely to

have been knock-on economic benefits to the wider County arising from this local stimulus.

Loans to counterparties that breached authorised lending list

14. 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

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 discernible equality and human rights implications.

Recommendation

17. The Committee is asked to note this report.

Background Papers

18. None

Circulation under the Local Issues Alert Procedure

None

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