



CORPORATE GOVERNANCE COMMITTEE – 26TH July 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of the Report

1. To update the Committee on the actions taken in respect of treasury management for the quarter ending 30 June 2019 (Quarter 1).

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.

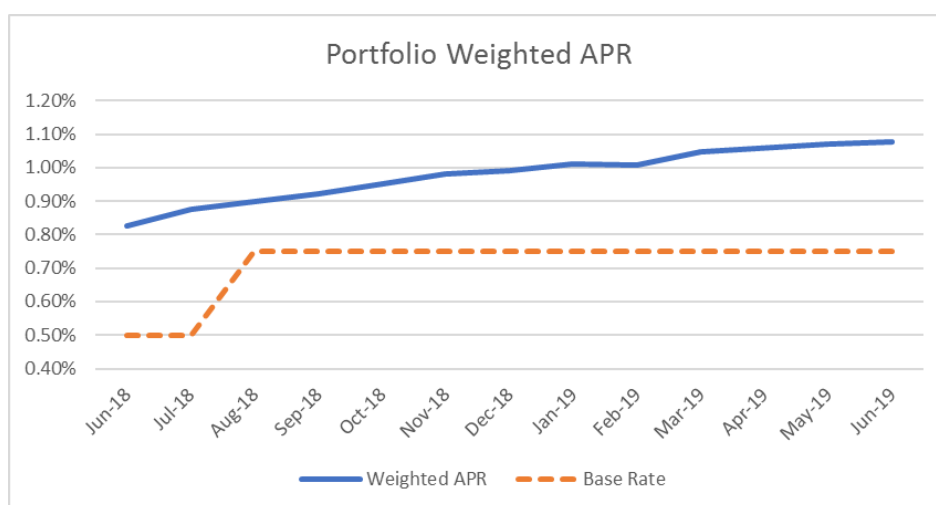
Economic Background

4. The Council’s treasury management adviser Link Asset Management provides a quarterly update outlining the global economic outlook and monetary policy positions. An extract from this report is attached as Appendix A. In summary the key points are;
5. In the UK, quarterly growth to 31 March 2019 proved better than expected with an increase of 0.5%, however forecasts for the subsequent quarters expect this to recede closer to zero.
6. UK Consumer price inflation is expected to remain around the Bank of England’s 2% target in the short term, although upside pressures indicate there is potential for this to rise early next year.

7. Monetary policy in the UK remains on hold whilst the uncertainty surrounding Brexit continues. Given the signs of upward inflationary pressure and previous signals, the Bank of England's monetary policy committee is likely to want to raise interest rates. However, market expectations are now forecasting that a rate change is unlikely to occur during the rest of this year or even early next year.
8. Eurozone growth improved in the first three months of 2019 however, like the UK, this is forecast to slow in the second quarter. Falling inflation expectations in the Eurozone has led to investors starting to factor in a rate cut from the European Central Bank.
9. In the US, competing inflationary pressures from falling core inflation and upside pressure anticipated from Chinese import tariffs do not appear to be of direct concern to the Federal Reserve. Instead the expectation is the central bank will focus more on the effect on real activity. Analysts forecast quarter 2 growth of less than 2% annualised, with an expectation that US interest rates will be cut before year end.

Action Taken during Quarter 1 to June 2019

10. The balance of the investment portfolio increased from £247.5m to £257.8m. Within the portfolio, £67.5m of investment loans matured at an average rate of 0.92%, and £77.8m of new loans were placed, at an average rate of 1.06%.
11. The average rate achieved on new loans exceeds the average rate achieved on loans maturing. This trend has been prevalent since the increase in the Bank of England base rate back in August 2018. Market expectations are that there will be no rate change in the short term.
12. The Chart below shows the weighted annual percentage rate (APR) achieved by the loans portfolio compared to the Bank of England base rate:



13. The implications for treasury management strategy are that market rates for new loans are falling and the positive rate trend highlighted in paragraphs 11 and 12 is likely to have peaked for now. Given this period of depressed rates, in order to achieve optimum performance, opportunities will be taken to manage the maturity profile of the portfolio and ensure an even spread of maturities throughout the year.
14. The loan portfolio at the end of June was invested with the counterparties shown in the list below, shown by original investment date:

	£m	Maturity Date
Instant Access		
Money Market Funds	22.8	June 2019
6 Months		
Nationwide Building Society	10.0	July 2019
Santander	20.0	September 2019
Close Brothers Ltd	20.0	September 2019
Santander	5.0	November 2019
Goldman Sachs	10.0	December 2019
9 Months		
Australia & New Zealand Bank	10.0	February 2019
12 Months		
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
Lloyds (Bank of Scotland)	20.0	May 2020
Australia & New Zealand Bank	10.0	May 2020
Beyond 12 Months		
Partners Group (Private Debt)	20.0	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 30th June 2019	257.8	

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 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.

Recommendation

18. The Committee is asked to note this report.

Background Papers

19. Appendix A – Economic Overview (May 2019)

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk