Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 1st NOVEMBER 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 September 2019 (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. 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. The key points are summarised below.

5. In the UK, there was a 0.2% quarter to quarter contraction of GDP growth during quarter 2, however this is expected to pick up in quarter 3 avoiding a technical recession.

6. UK Consumer price inflation picked up to 2.1% but this is expected to remain around the Bank of England's 2% target for the rest of 2019, although upside pressures indicate there is potential for this to rise early next year.

7. Monetary policy in the UK remains unclear; whilst the Bank of England's Monetary Policy Committee is continuing to wait for a Brexit outcome to

present itself before acting, the markets, premised by a “no deal” Brexit, are anticipating a cut sometime in the next nine months.

8. With the Eurozone economy struggling to generate sustained growth, the European Central Bank (ECB) have redefined its policy stance. The ECB has made it clear that a rate cut, and further quantitative easing will be forthcoming, most likely towards the end of quarter 3 or start of quarter 4.

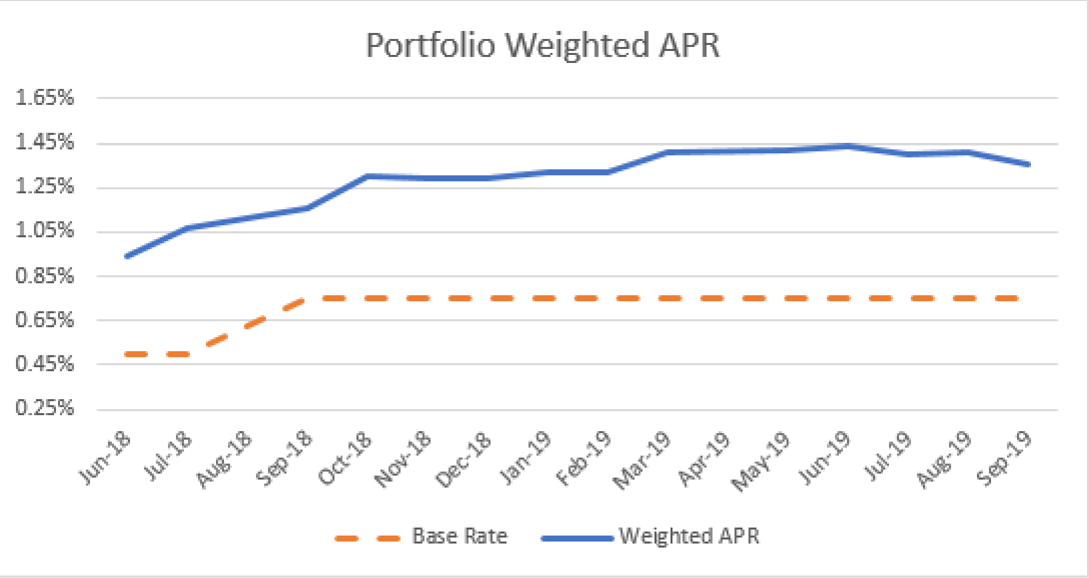
9. In the US, the inversion of the yield curve heightened fears of a recession, but that is not reflected by data coming out of the real economy. The change in the yield curve, though the best indicator of a coming recession, is not being supported by any weakening in building permits or the stock market or an increase in jobless claims. The Federal Reserve cut interest rates by just 0.25% and then dampened expectations about future cuts.

Action Taken during Quarter 2 to September 2019

10. The balance of the investment portfolio increased from £257.8m to £266.1m. Within the portfolio, £112.8m of investment loans matured at an average rate of 1.02%, and £121.1m of new loans were placed at an average rate of 0.85%.

11. Quarter 2 was the first quarter since August 2018 where the average rate achieved on new loans fell short of the average rate on loans maturating. This is reflective of current market expectations and the pricing in of an anticipated rate cut in the short to medium term.

12. The Chart below shows the weighted annual percentage rate (APR) achieved by the treasury portfolio compared to the Bank of England base rate.



13. The downward trend in the portfolio weighted APR seen in quarter 2 is likely to continue for at least the next quarter and probably until there is greater certainty around the impact of Brexit. Hence, opportunities will continue to 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 September was invested with the counterparties shown in the list below, shown by original investment date.

	£m	Maturity Date
Instant Access		
Money Market Funds	26.1	October 2019
6 Months		
Santander	5.0	November 2019
Goldman Sachs	10.0	December 2019
Goldman Sachs	10.0	January 2020
Nationwide Building Society	10.0	January 2020
National Westminster Bank Plc	10.0	January 2020
Santander	20.0	March 2020
Goldman Sachs	5.0	March 2020
9 Months		
Australia & New Zealand Bank	10.0	February 2020
National Westminster Bank Plc	10.0	April 2020
National Westminster Bank Plc	10.0	May 2020
12 Months		
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
National Westminster Bank Plc	10.0	June 2020
National Westminster Bank Plc	10.0	July 2020
Beyond 12 Months		
Partners Group (Private Debt)	20.0	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 30th September 2019	266.1	

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.

Public Works Loan Board (PWLB) interest rates

16. On 9th October 2019 HM Treasury wrote to all local government Chief Finance Officers to notify them of an increase to PWLB interest rates of 1% on all new loans with immediate effect.

17. PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. In recent months gilt yields have fallen and the cost of borrowing has reached record lows, prompting some local authorities to substantially increase their use of the PWLB. By increasing this fixed margin, and making borrowing more expensive, the Government is hoping to reduce the burden on the PWLB.

18. As the County Council currently has no plans to raise external borrowing this rate change will have no short-term impact. Should the Council's plans change and a need for external borrowing arise this will be reassessed.

Resource Implications

19. 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

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

Recommendation

21. The Committee is asked to note this report.

Circulation under the Local Issues Alert Procedure

None

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Appendices

Appendix A – Economic Overview (August 2019)

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