



CORPORATE GOVERNANCE COMMITTEE – 12th JUNE 2020

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 31 March 2020 (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 treasury management.

Economic Background

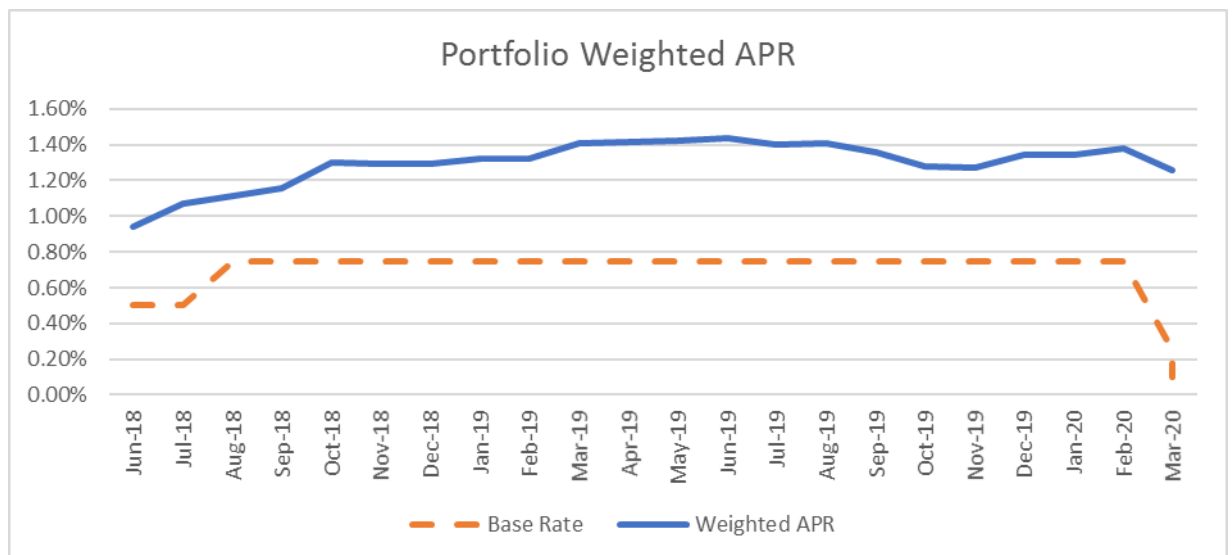
4. The Council’s treasury management adviser, Link Asset Management, provides a quarterly update outlining the global economic outlook and monetary policy positions. An extract from this report is attached as an Appendix to this report. The key points are summarised below.
5. The UK economy fell in Q1 2020 (Jan-Mar) by 2%. The year 2020 began with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty because of the decisive result of the general election in December and the clarity this provided on how Brexit would then be taken forward. However, the three monthly Gross Domestic Product (GDP) statistics in Q1 were disappointing. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the

closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two.

6. Due to the clear and obvious economic threat posed by the coronavirus outbreak, there were two emergency cuts in the interest rate by the monetary policy committee (from 0.75% to 0.25% and then to 0.1%) and this is not expected to rise for a prolonged period; there is even speculation in the press that the Bank of England is considering moving to negative interest rates.
7. The Government and the Bank were also very concerned about people losing their jobs during the lock down period. Accordingly, the Government introduced a raft of measures to assist the employed, self-employed and businesses. However, it still remains likely that many firms will be unable to remain solvent at the end of the lockdown period even with central Government support, as there may be insufficient demand for service. Increasing levels of unemployment and business failure, as well as being detrimental to the local economy, will also impact directly on the County Council's core funding levels through reductions in council tax and business rate income.
8. Inflation is not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure; wage inflation has also been on a downward path over the last half year and that trend is likely to continue in the current environment. Commentators are divided on the medium-term position with potential supply constraints in the economic recovery (business failures and export restrictions) coupled with prolonged pandemic reduction measures (e.g. social distancing) providing potential inflationary pressures. Brexit will also take increasing prominence. The central assumption is that there will be some sort of agreement reached on a Brexit trade deal, but the coronavirus outbreak could affect the timing of this given the level of uncertainty around the impact of, and pace of recovery from, this outbreak.
9. In Europe, once coronavirus started to have a major impact, the European Central Bank took action in March 2020 to expand its Quantitative Easing operations and other measures to help promote expansion of credit and economic growth. The traditional difficulty in co-ordinating a response between countries remain, but the crisis is bringing them closer together.
10. In the US, the Federal Reserve took decisive action as a result of the coronavirus impact by cutting rates twice by 0.50%, and then 1%, in March, all the way down to 0.00 – 0.25%. Despite US Government stimulus packages the US will almost certainly fall into a sharp recession in Q2 2020 with some estimates that growth could fall by as much as 40%. In April 2020, unemployment in the US jumped to nearly 15% after having been fairly stable at between 3 and 4% over the last year.

Action Taken during Quarter 1 to March 2020

11. The balance of the investment portfolio decreased from £238.7m to £204.2m. Within the portfolio, £88.7m of investment loans matured at an average rate of 0.88% (excluding Private Debt), and £55m of new loans were placed, at an average rate of 0.82%. There was also a capital receipt of £0.8m in respect of the Partners private debt investment.
12. The average rate achieved on new loans once again fell short of the average rate of loans maturing. This was expected due to the reduction in base rates and the trend is likely to continue in the medium term. As a result, the portfolio weighted APR reduced from 1.35% in Q4 2019 to 1.26% in Q4 in 2020.
13. The chart below shows the weighted annual percentage rate (APR) achieved by the treasury portfolio compared to the Bank of England base rate:



14. As noted in paragraph 11, the investment portfolio reduced in size in Q1, this was because of the decision to temporarily hold higher cash balances due to the coronavirus epidemic while the economic outlook for the banking sector became clearer. Higher cash balances were also held to provide liquidity to suppliers and to counteract the likelihood of lower precept income. The result of this was to lend for a maximum of 6 months. This was to provide stability should there have been a sudden downgrading of the banks credit ratings. In addition, the use of Money Market Funds (MMFs) was temporarily halted. MMFs are not fully liquidised if all contributors withdraw at once, but confidence has increased in these as a result of central bank liquidity interventions and there has been no evidence of withdrawals. They also have a higher credit rating than traditional bank loans. As a result, MMF lending will recommence with increased monitoring to ensure liquidity and security. The result of all these actions contributed to the fall in the average APR rate in March.

15. The loan portfolio at the end of March was invested with the counterparties shown in the list below, shown by original investment date:

	£m	Maturity Date
6 Months		
Nationwide Building Society	15.0	April 2020
Santander	5.0	May 2020
Goldman Sachs	10.0	June 2020
Goldman Sachs	10.0	July 2020
National Westminster Bank Plc	10.0	July 2020
Australia & New Zealand Bank	10.0	August 2020
Santander	20.0	September 2020
Goldman Sachs	5.0	September 2020
9 Months		
National Westminster Bank Plc	10.0	April 2020
National Westminster Bank Plc	10.0	May 2020
12 Months		
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
Lloyds (Bank of Scotland)	20.0	November 2020
Beyond 12 Months		
Partners Group (Private Debt)	19.2	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 31st March 2020	204.2	

Loans to counterparties that breached authorised lending list

16. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made. During the quarter Goldman Sachs' credit default swap price (a measure of risk) changed and therefore the maximum length of a loan to Goldman's was reduced from six months to 100 days, although the bank's credit rating remained unchanged. This reduction was reversed a few days later and Goldman's maximum loan length is back to six months. The County Council had £25m of loans with the bank at the time. This is the only instance of a change during a loan period for 2019/20.

Resource Implications

17. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council. For 2019/20 the interest generated by Treasury management activities raised £2.5m.

Equality and Human Rights Implications

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

Recommendation

19. The Committee is asked to note this report.

Appendices

Appendix – Economic Overview (April 2020)

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

This page is intentionally left blank