



## **CORPORATE GOVERNANCE COMMITTEE – 24<sup>th</sup> JULY 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 30 June 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.

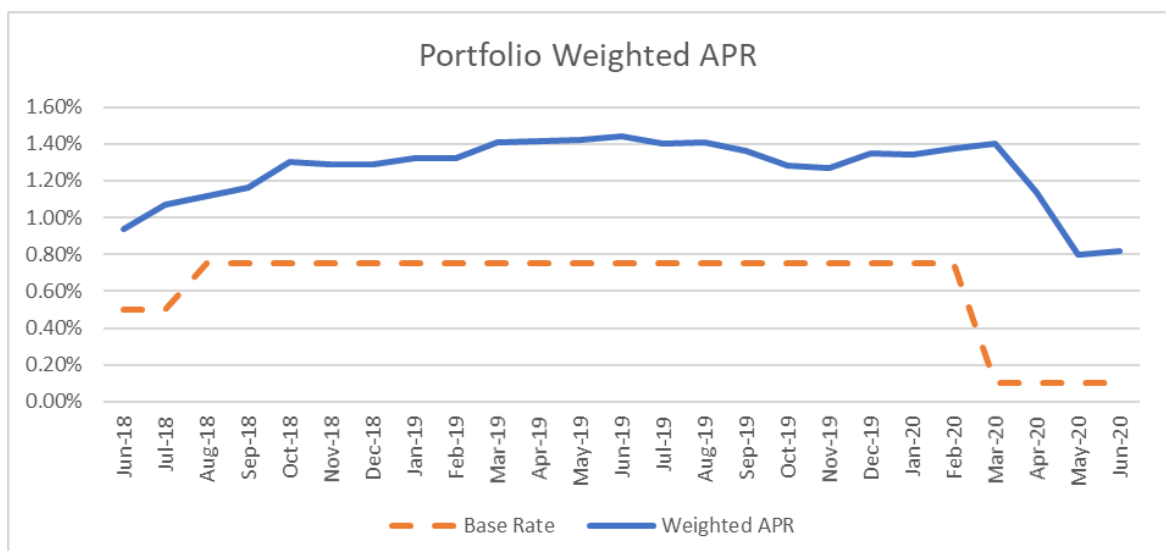
##### **Economic Background**

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 report reflects data updates during May. However, it appears the extent of the impact of the coronavirus pandemic is still to be fully reflected. The Markets have been hoping for a “V” shaped recovery and if this turns out to be slower than anticipated the longer-term effects could be significant. Despite significant central bank and government support there is still an expectation of many business failures and permanent job losses. There are very strong indicators that there will be a severe long lasting recession.

6. The easing of lockdown in the UK on 13<sup>th</sup> May 2020 has generated only modest recovery in activity. Data shows that GDP declined by 5.8% month on month in March, even though lockdown was only in place for nine days. A full month of lockdown in April shows an even larger decline in GDP, 20.4%, with some sectors generating no activity at all. There was slightly better news in May as the improved purchasing managers index (PMI) composite reflected optimism that April will represent the low point for the Economy.
7. April saw inflation as measured by the consumer price index (CPI) ease to 0.8%. The Governor of the Bank of England is set to be having regular correspondence with the Chancellor on why the rate has fallen outside of the 1% band of tolerance from the 2% target. Analysts do not see CPI inflation getting too close to the 2% target in the next 18 months.
8. With governments and central banks focused on the economic impact of the pandemic, it is not anticipated that there will be any changes to Monetary Policy in the short term. Indeed, policies are likely to be on hold until economic activity and confidence levels start to normalise – which is anticipated to be 2021 at the very earliest (and could be later if economies are reopened too soon and second wave of infections hit). The consensus is that interest rates are unlikely to rise in the immediate future.

### **Action Taken during Quarter 1 to June 2020**

9. The balance of the investment portfolio decreased from £204.2m to £194.2m. Within the portfolio, £90m of investment loans matured at an average rate of 1% (excluding Private Debt), and £80m of new loans were placed, at an average rate of 0.56%.
10. 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 annual percentage rate (APR) reduced from 1.40% in Q4 19-20 to 0.82% in Q1 20-21.
11. The chart below shows the weighted APR achieved by the treasury portfolio compared to the Bank of England base rate:



12. As noted in paragraph 9, the investment portfolio reduced in size in Q1, this was due to the Council holding a higher than usual balance of cash (£35m as at 30 June 20) as the consequences of the Covid-19 pandemic and their impact on services becomes better understood. Higher cash balances were also held to provide liquidity to suppliers and to counteract the likelihood of lower precept income.
13. Lending to Money Market Funds (MMFs) recommenced in Q1(as outlined in last quarter's update). This helped to slow the fall of the portfolio APR during the months of May and June. However, with the expectation that interest rates will remain low in the medium to long term the downward trend in the APR is expected to continue.
14. Lending to MMFs recommenced due to increased confidence, as a result of central bank liquidity interventions and there being no evidence of withdrawals. They also have a higher credit rating than traditional bank loans. The Council has increased the level of scrutiny and monitoring of these funds and to date there have been no issues to report.
15. The loan portfolio at the end of June was invested with the counterparties shown in the list below, shown by original investment date:

	<b>£m</b>	<b><u>Maturity Date</u></b>
<b>Instant Access</b>		
Money Market Funds	35.0	July 2020
Cash	35.0	n/a
<b>6 Months</b>		
Goldman Sachs	10.0	July 2020
Australia & New Zealand Bank	10.0	August 2020
Santander	20.0	September 2020
Goldman Sachs	5.0	September 2020
Close Brothers	10.0	November 2020
Santander	5.0	November 2020
National Westminster Bank Plc	20.0	November 2020
National Westminster Bank Plc	10.0	December 2020
<b>12 Months</b>		
National Westminster Bank Plc	10.0	July 2020
Lloyds (Bank of Scotland)	20.0	November 2020
National Westminster Bank Plc	10.0	December 2020
<b>Beyond 12 Months</b>		
Partners Group (Private Debt)	19.2	Estimated 2024
Danske Bank	10.0	September 2027
<b>Total Portfolio Balance at 30 June 2020</b>	<b>229.2</b>	

**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, 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**

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. For 2020/21 the level of interest is expected to be significantly less than this at approx. £700k compared to a budget of £2.8m.

**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 (May 2020)

**Circulation under the Local Issues Alert Procedure**

None.

**Officers to Contact**

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