Agenda Item 11

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE: 23 JULY 2021

QUARTERLY TREASURY MANAGEMENT REPORT

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of 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 30 June 2021 (Quarter 1).

Policy Framework and Previous Decisions

2. The annual investment strategy for 2021/22 forms part of the Council's medium term financial strategy (MTFS) and was approved by full council in February 2021.

3. An update in respect of Quarter 4 2020/21 was provided to the committee on 4th June 2021.

Background

4. 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".

5. A quarterly report is produced for the Committee to provide an update on any significant events in treasury management.

Economic Background

6. The Council's treasury management adviser, Link Asset Management (Link), provides a quarterly update outlining the global economic outlook and monetary policy positions. An extract from this report is attached as Appendix A to this report. The key points are summarised below.

7. The Bank of England's (BoE) Monetary Policy Committee (MPC) left the base rate and levels of quantitative easing unchanged at its 24th June meeting. The MPC noted that economic activity was increasing and as such the BoE has revised expectations for Q2 2021 GDP growth from 4.5% to 5.5%.

8. Upward movement is also anticipated with respect to inflation as measured by the Consumer Price Index (CPI). It is expected to exceed 3% for a temporary period this year. However, the MPC appears willing to ride this out over the next six months, believing it will be short lived and caused by one-off business reopening price rises and supply shortages relative to demand – boosted by consumer savings amassed during Covid-19 pandemic related lockdown periods.

9. The MPC reiterated its previous guidance that the Base Rate would not rise until inflation was sustainably above 2%. This means that it will tolerate inflation running above 2% from time to time to balance out periods during which inflation is below 2%. This is termed average inflation targeting.

10. The BoE also indicated it is undertaking a review of its stated current policy to raise the Bank Rate first before unwinding quantitative easing (QE) purchases of gilts. Indeed, it now appears to be likely that the Bank could unwind QE first before raising the Bank Rate.

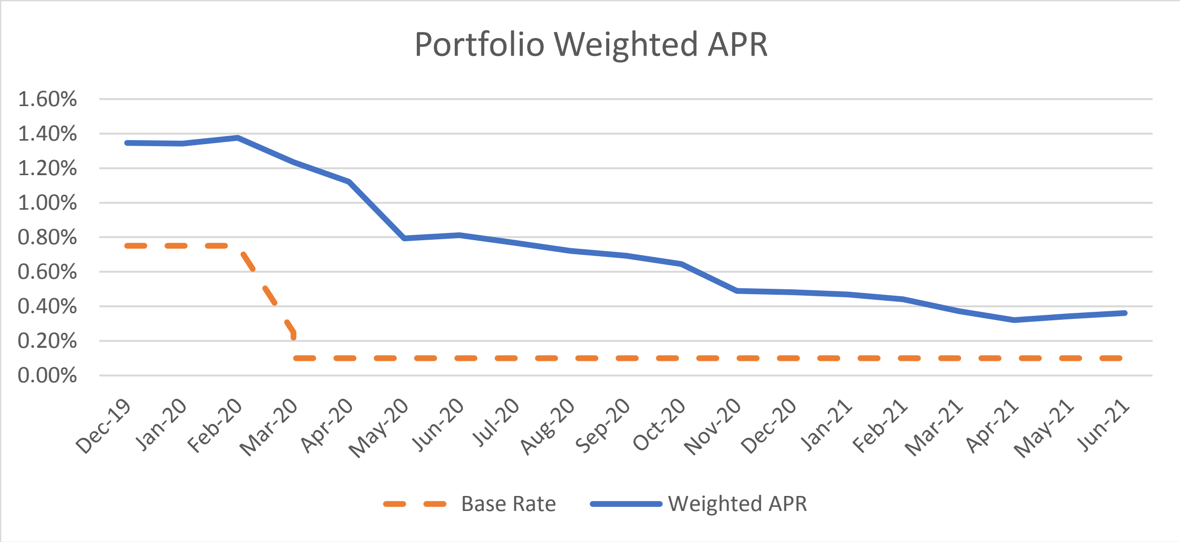
Action Taken During Quarter 1 to June 2021

11. The balance of the investment portfolio increased from £308.2m to £346.9m. Within the portfolio, £113m of investment loans matured at an average rate of 0.23% (excluding Private Debt), and £153.1m of new loans were placed, at an average rate of 0.18%. The Council also received capital receipts for the partners private debt investment totalling £1.4m.

12. To date the Council has received nine distributions from the private debt investment totalling £8m. Of this £6.2m represents return of invested capital, with the remaining £1.8m representing interest received. This means from an initial investment of £20m the Council has £13.8m remaining capital committed. The private debt investment represents only a small portion of the total portfolio, but, with a current internal rate of return (IRR) of 4.3%, is contributing significantly to the total portfolio annual percentage rate (APR). The APR including private debt is 0.36% versus a loans only APR of 0.20%.

13. The average rate achieved on new loans continues to fall short of the average rate of loans maturing. This was expected due to a historically low base rate and the trend is likely to continue, as the markets do not foresee an increase in rates any time soon. As a result, the portfolio weighted APR reduced from 0.37% in Q4 20-21 to 0.36% in Q1 21-20.

14. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate:



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

	£m	Maturity Date
Instant Access		
Money Market Funds	23.1	July 2021
6 Months		
Australia and New Zealand Bank	20.0	July 2021
HSBC	40.0	July 2021
Nationwide Building Society	15.0	July 2021
Lloyds (Bank of Scotland)	5.0	July 2021
Santander	20.0	September 2021
Close Brothers	10.0	September 2021
Close Brothers	20.0	October 2021
Landesbank Baden Wurtemberg	10.0	October 2021
Landesbank Hessen Thuringen	10.0	October 2021
Santander	10.0	October 2021
Landesbank Hessen Thuringen	10.0	November 2021
Goldman Sachs	30.0	November 2021
National Bank of Canada	10.0	November 2021
9 Months		
National Westminster Bank Plc	20.0	October 2021
National Westminster Bank Plc	10.0	February 2022
12 Months		
National Westminster Bank Plc	10.0	August 2021
Lloyds (Bank of Scotland)	20.0	September 2021
National Westminster Bank Plc	10.0	November 2021
Toronto Dominion Bank	20.0	May 2022
Beyond 12 Months		

Partners Group (Private Debt)	13.8	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 31 March 2021	**346.9**	

16. Market conditions remain challenging, as outlined in last quarter's update. Yields continue to fall and demand for capital has not picked up. The Council will continue its low risk approach to treasury management whilst trying to be mindful of rates earned.

<u>Loans to Counterparties that breached authorised lending list</u>

17. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made.

<u>Resource Implications</u>

18. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council. For 2020/21 the interest generated by treasury management activities (including private debt and pooled property investments) totaled £3.1m. This compares to budgeted income of £2.8m. The excess income is mainly due to the Council's private debt investment returning income sooner than forecasted.

<u>Recommendations</u>

19. The Committee is asked to note this report.

<u>Background papers</u>

20. None

<u>Circulation under the Local Issues Alert Procedure</u>

21. None

<u>Equality and Human Rights Implications</u>

22. There are no discernible equality and human rights implications

Appendices

23. Appendix A – Economic Overview (June 2021)

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