



CORPORATE GOVERNANCE COMMITTEE: 5 NOVEMBER 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 September 2021 (Quarter 2).

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 1 2021/22 was provided to the committee on 23rd July 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.

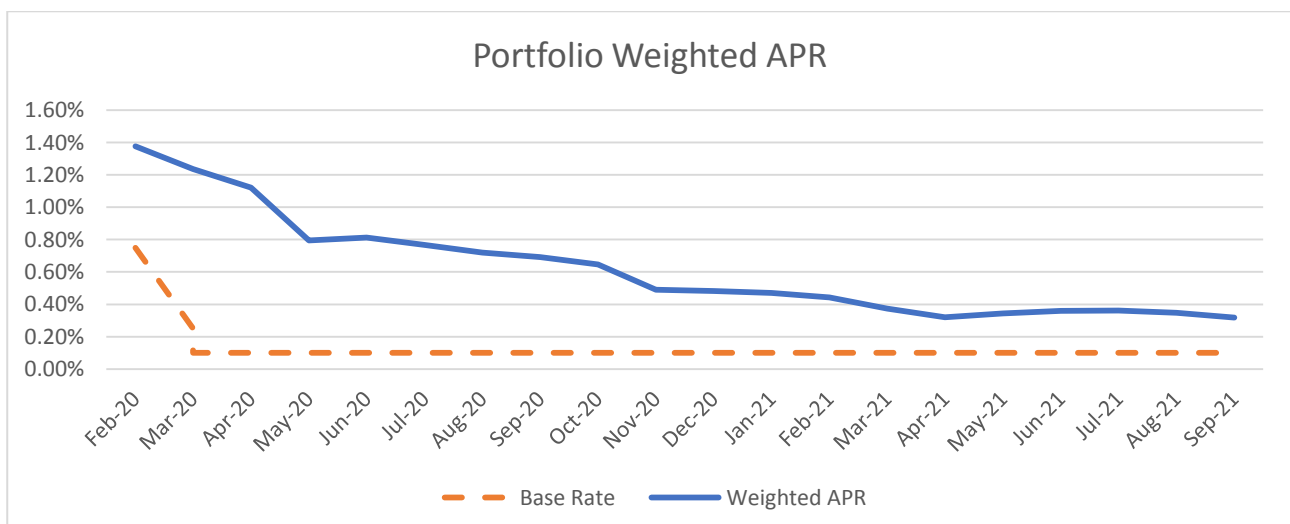
Economic Background

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 interest rate and levels of quantitative easing unchanged at its 24th September meeting. The decision on interest rates was unanimous, although two MPC members did vote to stop the last £35bn of quantitative easing purchases.

8. The key takeaway from the MPC's minutes was a major shift in tone regarding inflation. Previously, Governor Andrew Bailey has stated a belief that higher levels of inflation were transitory and signalled the BoE would wait for sustained levels above its 2% target before moving to raise the Base Rate. This time the MPC's words indicated a greater concern that inflationary pressures are not so transitory, and the MPC pointedly chose to reaffirm its commitment to a 2% inflation target.
9. There is increasing evidence that financial markets are now pricing in a rate rise from 0.10% to 0.25% in February 2022. Although Link's view is that this may be overly ambitious as key data releases following the ending of the National Furlough Scheme will not be available until May 2022.

Action Taken During Quarter 2 to September 2021

10. The balance of the investment portfolio increased from £346.9m to £369.5m. Within the portfolio, £163.1m of investment loans matured at an average rate of 0.18% (excluding Private Debt), and £187.1m of new loans were placed, at an average rate of 0.14%. The Council also received capital receipts for the partners private debt investment totalling £1.4m.
11. To date the Council has received twelve distributions from the private debt investment totalling £9.6m. Of this £7.6m represents return of invested capital, with the remaining £2m representing interest received. This means from an initial investment of £20m the Council has £12.4m remaining capital committed and the current market value of the investment is £13.2m. The private debt investment represents only a small portion of the total portfolio, but, with a current internal rate of return (IRR) of 4.58%, it is contributing significantly to the total portfolio annual percentage rate (APR). The APR including private debt is 0.32% versus a loans only APR of 0.17%.
12. The average rate achieved on new loans again fell short of the average rate of loans maturing. As a result, the portfolio weighted APR reduced from 0.36% in Q1 21-22 to 0.32% in Q2 21-22.
13. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate:



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

	£m	Maturity Date
Instant Access		
Money Market Funds	42.1	October 2021
6 Months		
HSBC	40.0	July 2021
Close Brothers	10.0	September 2021
Close Brothers	10.0	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
Nationwide Building Society	15.0	January 2022
Australia and New Zealand Bank	20.0	February 2022
Santander	20.0	February 2022
Nationwide Building Society	15.0	February 2022
Close Brothers	10.0	March 2022
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	November 2021
Toronto Dominion Bank	20.0	May 2022
National Westminster Bank Plc	10.0	August 2022
National Westminster Bank	15.0	September 2022
Beyond 12 Months		
Partners Group (Private Debt)	12.4	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 30 September 2021	369.5	

15. As mentioned in paragraph 9, there is some evidence that markets are pricing in a rate rise soon. However, it is likely to take a number of months of sustained expectations before this has a noticeable impact on the Council's APR. The Council will continue its low risk approach to treasury management whilst trying to be mindful of rates earned.

Loans to Counterparties that breached authorised lending list

16. On 24th June 2021 Standard and Poor Global Ratings (S&P) downgraded the long term and short term ratings of Landesbank Hessen-Thüringen Girozentrale (Helaba). As a result, Link's suggested lending duration was also downgraded from 12 months to six months. The Council's Treasury Management Strategy limits investment in overseas banks with a suggested duration of six months to a total of £10m. At the time of this downgrade the Council had total loans of £20m outstanding with Helaba – meaning, although the loans were fully compliant when placed, they have subsequently breached policy.

The Committee should note the £20m invested with Helaba consisted of two fixed term deposits of £10m. The first of these was repaid with full interest on 18th October 2021. The remaining £10m is due back on 11th November 2021.

Decisions Regarding Further Investment - Private Debt

17. The addition of pooled private debt funds to the list of acceptable investment types within the Annual Investment Statement, with a maximum cash investment of £40m, was first approved by the Cabinet on 12 December 2017. This approval provided flexibility so that further investments above the £20m initial investment up to the new maximum would not need specific approval from the Cabinet.
18. However, given the size of the investments made when reinvesting, it is expected that sizeable future proposals will be presented to the Corporate Asset Investment Fund Advisory Board, followed by the Scrutiny Commission, before being passed to Cabinet for final approval. All decisions will be made within stated policy.

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. The budgeted income for interest generated by treasury management activities (including private debt and pooled property investments) for 2021/2022 is £1.3m. Current forecasting suggests that actual interest earned will be in the region of £2.8m. This overperformance can be entirely explained by the partners private debt investment distributing income sooner than originally anticipated.

Recommendations

20. The Committee is asked to note this report.

Background papers

21. Report to the Cabinet on 12 December 2017 – Recommended Change to Treasury Management Policy:
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4866&Ver=4>

Circulation under the Local Issues Alert Procedure

22. None.

Equality and Human Rights Implications

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

Appendix

24. Economic Overview (September 2021)

Officer to Contact

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