



CORPORATE GOVERNANCE COMMITTEE: 13 MAY 2022

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 31 March 2022 (Quarter 4).

Policy Framework and Previous Decisions

2. The Annual Investment Strategy (AIS) 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 3 2021/22 was provided to the Committee on 28 January 2022.

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.

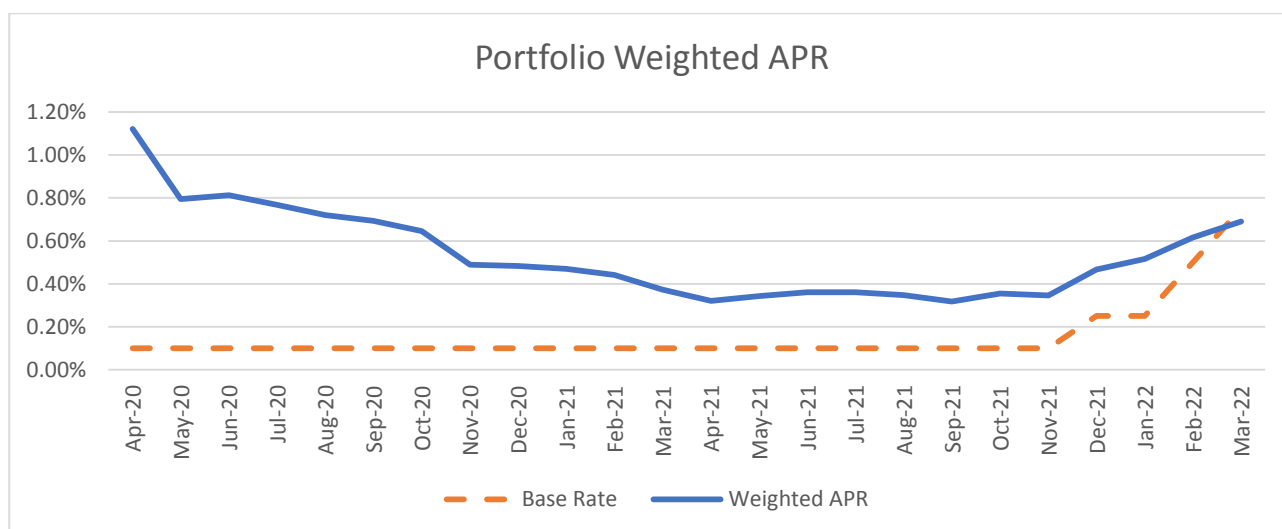
Economic Background

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 that report is attached as an Appendix to this report. The key points are summarised in the following paragraphs.

7. The Consumer Price Index (CPI) measure of inflation, driven by increased utility prices and a surge in agricultural commodity prices triggered by the war in Ukraine, is expected to peak at 8.3% in April 2022 - resulting in the biggest squeeze on households' living standards in 50 years.
8. The Bank of England (BoE) became the first major western central bank to put interest rates up in December and followed this with two further rises in February and March. The base rate now stands at 0.75%. Given the BoE's primary mandate is to manage inflation in line with its 2% target, market expectations are that the BoE will be forced to continue increasing rates throughout 2022 even if growth slows and the labour market continues to tighten.
9. The lasting financial market effects from the war in Ukraine so far appear to be higher commodity prices, higher interest expectations and wider corporate bond spreads. UK financial conditions have tightened to levels similar to those seen after the EU Exit referendum in 2016.

Action Taken During Quarter 4 to March 2022

10. The balance of the investment portfolio increased from £356.6m to £420m. Within the portfolio, £122.4m of investment loans matured at an average rate of 0.14% (excluding Private Debt), and £181.8m of new loans were placed, at an average rate of 0.91%. The Council also received principal repayments for the partners private debt investment totalling £1m, whilst £5m was invested in the new partners private debt fund.
11. To date the Council has received seventeen distributions from the private debt investment totalling £12.7m. Of this £9.8m represents return of invested capital, with the remaining £2.8m representing interest received. This means from an initial investment of £20m the Council has £10.2m remaining capital committed and the current market value of the investment is £10.4m. The private debt investment represents only a small portion of the total portfolio, but, with a current internal rate of return (IRR) of 4.65%, it is contributing significantly to the total portfolio annual percentage rate (APR). The APR including private debt is 0.69% versus a loans only APR of 0.59%.
12. The average rate achieved on new loans was higher than the average rate of loans maturing, reflecting market expectations of continued base rate rises. As a result, the portfolio weighted APR increased from 0.47% in Q2 21-22 to 0.69% in Q4 21-22.
13. The chart overleaf shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate:



14. The weighted APR has dropped to a level below base rate as at 31 March 2022. This is due to the fact that base rate rises have occurred at a faster rate than existing loans have matured. As markets are entering a period of upward pressure on interest rates, it is likely that this position will continue due to a maturity lag. The Council will seek to minimise this by reducing the weighted average maturity of the portfolio, whilst also insuring against market expectations by keeping a portion of the portfolio on a longer maturity.

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

	<u>£m</u>	<u>Maturity Date</u>
Instant Access		
Money Market Funds	96.8	April 2022
6 Months		
Close Brothers	20.0	April 2022
Landesbank Baden Wurtemberg	10.0	April 2022
Santander	10.0	April 2022
Landesbank Hessen Thuringen	10.0	May 2022
Goldman Sachs	30.0	May 2022
Australia and New Zealand Bank	20.0	May 2022
Santander	20.0	August 2022
National Bank of Canada	10.0	August 2022
Nationwide BS	15.0	
Landesbank Hessen Thuringen	10.0	September 2022
Close Brothers	10.0	September 2022
12 Months		
Toronto Dominion Bank	20.0	May 2022
National Westminster Bank Plc	10.0	August 2022
National Westminster Bank Plc	15.0	September 2022
National Westminster Bank Plc	20.0	October 2022
HSBC	40.0	September 2022

National Westminster Bank Plc	10.0	January 2023
National Westminster Bank Plc	10.0	March 2023
Beyond 12 Months		
Partners Group (Private Debt) 2017	10.2	Estimated 2024
Partners Group (Private Debt) 2021	13.0	Estimated 2026
Danske Bank	10.0	September 2027
Total Portfolio Balance at 31 March 2022	420.0	

Loans to Counterparties that breached authorised lending list

16. On 11th March 2022 the credit default swap (CDS) price for Goldman Sachs increased beyond Link's acceptable range and it therefore reduced the suggested lending duration from six months to 100 days – as per the Council's Annual Investment Strategy this meant that Goldman Sachs was no longer an acceptable counterparty. As of the 18th March 2022 the CDS price had fallen back into Link's acceptable range and Goldman Sachs was back to a suggested lending duration of six months. The Banks credit rating remained unchanged during this period. The council had £30m of Loans with the bank at the time of the breach.

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. The budgeted income for interest generated by treasury management activities (including private debt and pooled property investments) for 2021/2022 is £1.3m. Provisional outturn analysis suggests that actual interest earned will be in the region of £3.4m. This overperformance has been driven by the partners private debt investment distributing income sooner than originally anticipated and interest rates increasing significantly faster than forecast.

Recommendations

18. The Committee is asked to note this report.

Background papers

19. None.

Circulation under the Local Issues Alert Procedure

20. None.

Equality and Human Rights Implications

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

Appendix

22. Economic Overview (March 2022)

Officers to Contact

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