Agenda Item 13

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE - 30 SEPTEMBER 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 30 June 2022 (Quarter 1).

Policy Framework and Previous Decisions

2. The Annual Investment Strategy (AIS) for 2022/23 forms part of the Council's medium term financial strategy (MTFS) and was approved by full council in February 2022.

3. An update in respect of Quarter 4 2021/22 was provided to the Committee on 13 May 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. Following falls in GDP of 0.1% and 0.3% month on month in March and April respectively, the indications were that the UK economy is heading towards a technical recession (two quarters of falling output growth in a row).

8. CPI Inflation rose to a new 40-year high of 9.1% in May and is not yet close to its peak. The increase in May was primarily driven by food price inflation, and obviously latest forecasts are for it to continue to higher levels putting further upwards pressure on inflation in the coming months when the increases in agriculture commodities fully feeds into supermarket prices. Further inflationary pressure is also becoming likelier in terms of second round effects, whereby high inflation feeds into higher price and wage expectations. And of course, fuel prices are seeing unprecedented increases which is a significant determinant in headline inflation measures.

9. Following the increase in base rate to 1.25% in June, the Bank of England's (BoE) Monetary Policy Committee (MPC) had increased base rates five times in succession and have further increased since. Despite this the MPC still appeared relatively dovish compared to the Federal Reserve in the US and other central banks. However, the forward guidance from the MPC does suggest a more 'forceful' response if inflationary pressures continue to persist.

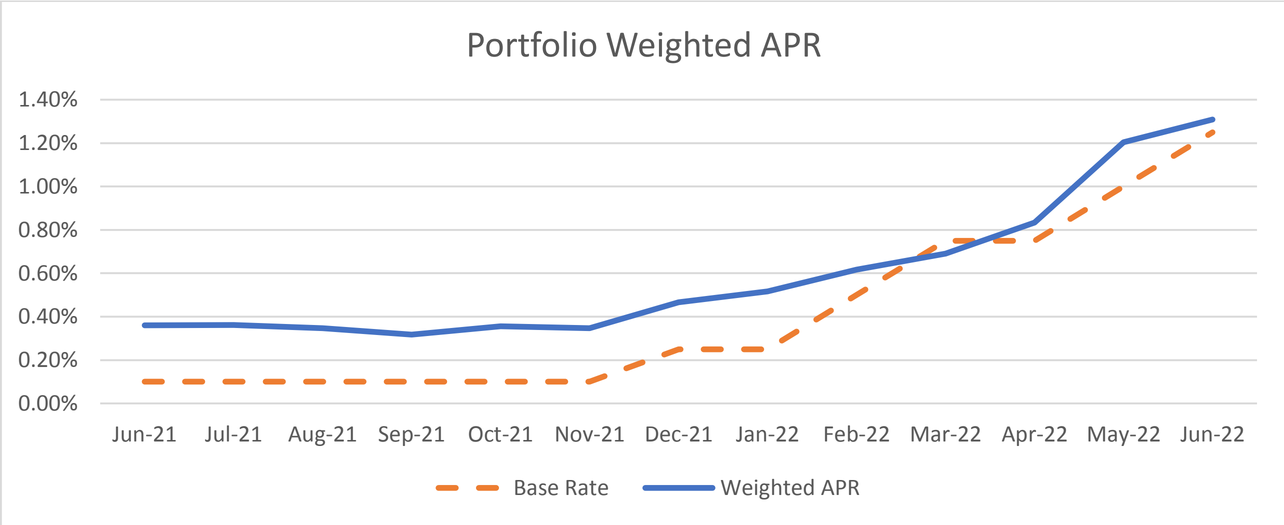
Action Taken During Quarter 4 to March 2022

10. The balance of the investment portfolio decreased from £420m to £408.9m. Within the portfolio, £216.8m of investment loans matured at an average rate of 0.45% (excluding Private Debt), and £201.3m of new loans were placed, at an average rate of 1.67%. The Council also received principal repayments from the 2017 private debt fund totalling £1.1m, whilst a further £5.5m was called up into the 2021 private debt fund.

11. To date the Council has received nineteen distributions from the 2017 private debt investment totalling £13.9m. Of this, £10.9m represents return of invested capital, with the remaining £3.0m representing interest received. This means from an initial investment of £20m the Council has £9.0m remaining capital committed and the market value of the investment as at 30 June 2022 was £9.3m. The private debt investment represents only a small portion of the total portfolio, but, with a current internal rate of return (IRR) of 4.6%, it is contributing significantly to the total portfolio annual percentage rate (APR). The APR including private debt is 1.31% versus a loans only APR of 1.22%.

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 0.69% in Q4 21-22 to 1.31% in Q1 22-23.

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



14. 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	36.3	July 2022
< 6 Months		
Nationwide BS	15.0	August 2022
Lloyds (Bank of Scotland) (CD)	30.0	August 2022
6 Months		
Santander	20.0	August 2022
National Bank of Canada	10.0	August 2022
Landesbank Hessen Thuringen	10.0	September 2022
Close Brothers	30.0	September 2022
Santander	10.0	November 2022
National Westminster Bank Plc	5.0	November 2022
Landesbank Baden Wurtemberg	10.0	December 2022
Standard Chartered Bank (CD)	10.0	December 2022
9 Months		
DZ Bank (CD)	10.0	February 2023
12 Months		
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
Toronto Dominion Bank	20.0	May 2022
Australia and New Zealand Bank	20.0	May 2023
Bank of Montreal	20.0	May 2023
Credit Industrial et Commercial (CD)	10.0	June 2023
Beyond 12 Months		
Partners Group (Private Debt) 2017	9.0	Estimated 2024
Partners Group (Private Debt) 2021	18.6	Estimated 2026
Danske Bank	10.0	September 2027
Total Portfolio Balance at 30 June 2022	**408.9**	

Loans to Counterparties that breached authorised lending list

15. On 29th April 2022 the credit default swap (CDS) price for Goldman Sachs increased beyond Link's acceptable range and the suggested lending duration was reduced 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. The Banks credit rating remained unchanged during this period. The Council had £30m of Loans with the bank at the time of the breach. The outstanding amount was repaid with full interest at the expiry of the loans in May 2022.

Compliance with Prudential and Treasury Indicators

16. The prudential and treasury indicators are shown in Appendix B. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended as at 30th June 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23, except in relation to the overall level of estimated capital expenditure. This relates to slippage from 2021/22 being higher than forecast, and that the quarter 1 forecast is at start of the year – some schemes will incur slippage during 2022/23 that has not yet been reported. The capital programme is fully funded from the carry forward of resources to fund the slippage from 2021/22. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

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 (excluding private debt and pooled property investments) for 2022/2023 is £1.4m. The most recent budget monitoring analysis suggests that actual interest earned will be in the region of £6.4m. This overperformance has been driven by interest rates increasing significantly faster than anticipated when the budget was agreed in February 2022.

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.

Appendices

Appendix A - Economic Overview (June 2022)
Appendix B – Prudential and Treasury Indicators for 2022/23 as at 30 June 2022

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