Agenda Item 15

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE - 21 NOVEMBER 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 September 2022 (Quarter 2).

Policy Framework and Previous Decisions

2. Within the County Council's Constitution, Part 3 – responsibility for functions, the functions delegated to the Corporate Governance Committee include 'that the Council's Treasury Management arrangements are appropriate and regularly monitored'.

3. The Annual Treasury Management Strategy and Annual Investment Strategy (AIS) for 2022-26 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2022 and approved by full Council in February 2022.

4. The Treasury Management Strategy requires quarterly reports to be presented to the Corporate Governance Committee, to provide an update on any significant events in treasury management. The aim of these reporting arrangements is to ensure that those with responsibility for the treasury management function appreciate the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. This is in line with the CIPFA Treasury Management Code.

5. An update in respect of Quarter 1 2022/23 was provided to the Committee on 30 September 2022.

Background

6. 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".

7. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice.

8. Capital investments in services, including those within the Corporate Asset Investment Fund, are part of the Capital Strategy (and are part of the capital programme), rather than the Treasury Management Strategy. The capital programme is monitored and reported regularly to the Scrutiny Commission and the Cabinet.

Economic Background

9. 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 Appendix A to this report. The key points are summarised in the following paragraphs.

10. The UK economy avoided recession, for the time being at least, as Gross Domestic Product (GDP) for the first quarter of 2022/23 was revised upwards from -0.1% to 0.2%. There are increased signs that rising energy prices are creating persistent downward pressure on economic activity. This, coupled with other drags from high inflation, increase the risk that GDP will contract during the autumn and winter months.

11. Inflation as measured by the Consumer Price Index (CPI) eased from 10.1% in July to 9.9% in August before rising again to 10.1% in September. Current expectations are that inflation will peak around 10.4% in November. In response to inflationary pressures the Bank of England's (BoE) Monetary Policy Committee (MPC) raised interest rates by 0.5% in August and a further 0.5% on 22nd September pushing base rate up to 2.25% as at the end of the quarter. Market expectations are that further rises are on the horizon with a peak expected in the region of 4.5-5%.

12. Economic news during the quarter was dominated by the fiscal statement given to parliament by the now former chancellor on the 23rd September 2022. The policies announced at the time were not well received in financial markets and resulted in weakening of the pound and sharp increases in Gilt yields. Following the appointment of a new Prime Minister and Chancellor, policy has shifted, and these markets have stabilised somewhat. The exact details of the policy shift will be outlined on the 23rd November 2022 when the Chancellor sets out a Medium-Term Fiscal Plan.

Action Taken During Quarter 2 to September 2022

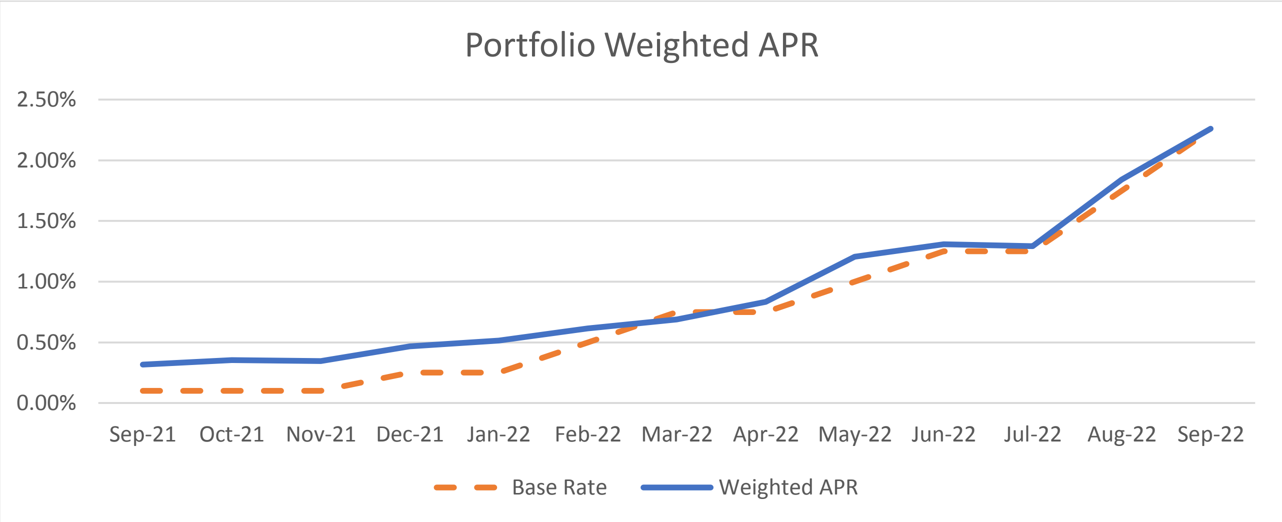
13. The balance of the investment portfolio increased from £408.9m to £432.1m. Within the portfolio, £176.3m of investment loans matured at an average rate of 0.94% (excluding Private Debt), and £199.7m of new loans were placed, at an average rate

of 2.95%. The Council also received principal repayments from the 2017 private debt fund totalling £0.2m.

14. To date the Council has received twenty distributions from the 2017 private debt investment totalling £14.1m. Of this £11.1m represents return of invested capital, with the remaining £3.0m representing interest received. This means from an initial investment of £20m the Council has £8.8m remaining capital committed and the market value of the investment as at 30 September 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 2.26% versus a loans only APR of 2.18%.

15. 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 1.31% in Q1 22-23 to 2.26% in Q2 22-23.

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



17. 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	39.7	October 2022
< 6 Months		
Lloyds (Bank of Scotland) (CD)	20.0	December 2022
6 Months		
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

DZ Bank (CD)	10.0	February 2023
Credit Agricole CIB (CD)	10.0	February 2023
National Bank of Canada	10.0	March 2023
Close Brothers	30.0	March 2023
9 Months		
DZ Bank (CD)	10.0	February 2023
Rabobank	10.0	May 2023
Credit Industrial et Commercial (CD)	10.0	May 2023
12 Months		
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
Rabobank (CD)	10.0	July 2023
Nordea Bank (CD)	20.0	August 2023
National Australia Bank	20.0	August 2023
Landesbank Hessen Thuringen	10.0	September 2023
Beyond 12 Months		
Partners Group (Private Debt) 2017	8.8	Estimated 2024
Partners Group (Private Debt) 2021	18.6	Estimated 2026
Danske Bank	10.0	September 2027
Total Portfolio Balance at 30 September 2022	**432.1**	

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

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

<u>Debt Rescheduling</u>

19. Debt rescheduling opportunities have increased in the current quarter where gilt yields, which underpin PWLB rates and market loans, have been volatile. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

<u>Compliance with Prudential and Treasury Indicators</u>

20. 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 September 2022, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury

Management Strategy Statement for 2022/23. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

Resource Implications

21. 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 £5.5m. This overperformance has been driven by interest rates increasing significantly faster than anticipated when the budget was agreed in February 2022.

Recommendations

22. The Committee is asked to note this report.

Circulation under the Local Issues Alert Procedure

23. None.

Equality and Human Rights Implications

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

Background papers

None.

Officers to Contact

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Appendices

Appendix A - Economic Overview (September 2022)

Appendix B – Prudential and Treasury Indicators for 2022/23 as at 30 September 2022

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