# CORPORATE GOVERNANCE COMMITTEE - 27 JANUARY 2023

# 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 December 2023 (Quarter 3).

## 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 2 2022/23 was provided to the Committee on 21 November 2022.

## Background

6. Treasury Management is defined as "The management of the organisations 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 an Appendix to this report. The key points are summarised in the following paragraphs.

10. Having fallen by 0.3% in the quarter ending 30th September 2022, gross domestic product (GDP) rebounded in October with a month on month rise of 0.5%. This was largely driven by the unwinding of the extra bank holiday effects following the Queen's funeral in September. It means that recession in 2022 could be avoided if month on month GDP does not fall by more than 0.2% in November and December.

11. October saw inflation, as measured by the consumer price index (CPI), peak and hit a 41-year high of 11.1%. CPI inflation eased back in November to 10.7% and expectations are now that goods, energy, and food price inflation have all peaked or are expected to decline soon.

12. Since the last update the Bank of England's (BoE) Monetary Policy Committee (MPC) has met twice and increased base rate by a total of 1.25%. The final vote in December was not unanimous and two members voted for base rate to be left unchanged. The MPC also pushed back heavily against market expectations, which at the time were forecasting base rate to peak at 5.25%. The latest forecast from Link expects a peak of 4.5% in May 2023.

**Action Taken During Quarter 3 to September 2022**

Private Debt and Bank Risk Sharing Funds

13. The table below provides an overview of the Council's investments in private debt and bank risk sharing funds. As well as showing the current capital levels within each fund the table also shows the Net Asset Value (NAV), and Internal Rate of Return (IRR) for each fund.

**Summary Private Debt and CRC:**

| | Total Commitment (£m) | Capital remaining (£m) | NAV (£m) | IRR (Since Incep'n) | Total Income Rec'd | During Qtr Capital Movement (£m) | During Qtr Income (£m) |
|---|---|---|---|---|---|---|---|
| 2017 MAC IV | 20.0 | 8.5 | 8.8 | 4.5% | 3.1 | - 0.4 | 0.1 |
| MAC VI | 20.0 | 18.8 | 19.3 | 2.4% | - | 0.3 | - |
| CRC CFR 5 | 10.0 | 10.0 | N/A | 8.0% | - | 10.0 | - |

14. During the quarter the full £10m committed to the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5) was called up. As this investment is so recent a NAV is not yet available. This also means that the IRR cannot yet be calculated, the 8% shown in the table above is the expected return.

15. The Council received its 21st distribution from the Partners Mac IV (2017) fund during the quarter, this totalled £0.5m. Of this, £0.4m represented a return of invested capital (shown as a negative figure in the table above) and £0.1m represents income earned – this brings the total interest earned up to £3.1m. The Council also received a further call down on the commitment to the Partners MAC VI fund, this was for £0.3m and brings the amount invested up to £18.8m – there is £1.2m committed capital which has not yet been called.

## Short Term Investments

16. A summary of movements and key performance indicators (KPIs) in the Council's investment loan portfolio can be viewed in the table below. The table details the portfolio Annual Percentage Rate (APR) of the portfolio, the average APR of loans matured, and new loans placed. The table also shows the weighted average maturity (WAM) of the portfolio.

**KPIs (Loans only):**

| | Total Loans | APR (Loans Only) | WAM (Days) | Maturities (£m) | APR Maturities | New Loans (£m) | APR New Loans |
|---|---|---|---|---|---|---|---|
| Current Qtr | 368.6 | 3.07% | 115 | 234.7 | 1.65% | 198.6 | 3.59% |
| Prior Qtr | 404.7 | 2.18% | 147 | 176.3 | 0.94% | 199.7 | 2.95% |
| Change | ↓ 36.1 | ↑ 0.89% | ↓ 32.0 | ↑ 58.4 | ↑ 0.71% | ↓ 1.1 | ↑ 0.64% |

**WAM excludes Money Market Funds as these have overnight maturity.*

17. The total balance available for short term investment decreased by £36m during the quarter. This temporary fall in balances was anticipated as the council does not receive a precept receipt during December. The total balance is still 9% higher than at the same point last year, whist the average balance over the last 12-month is currently £393m which is 19% higher than at 30 December 2021.

18. The replacement margin on new loans (vs maturities) was 1.94% down 0.07% from last quarter reflecting the fact that markets expectations for future rate rises are lower now than they were at the end of September 2022.

19. The Loans weighted average maturity (WAM) fell by 32 days and indicates that the portfolio will be slightly more sensitive to movements in interest rates (whether these

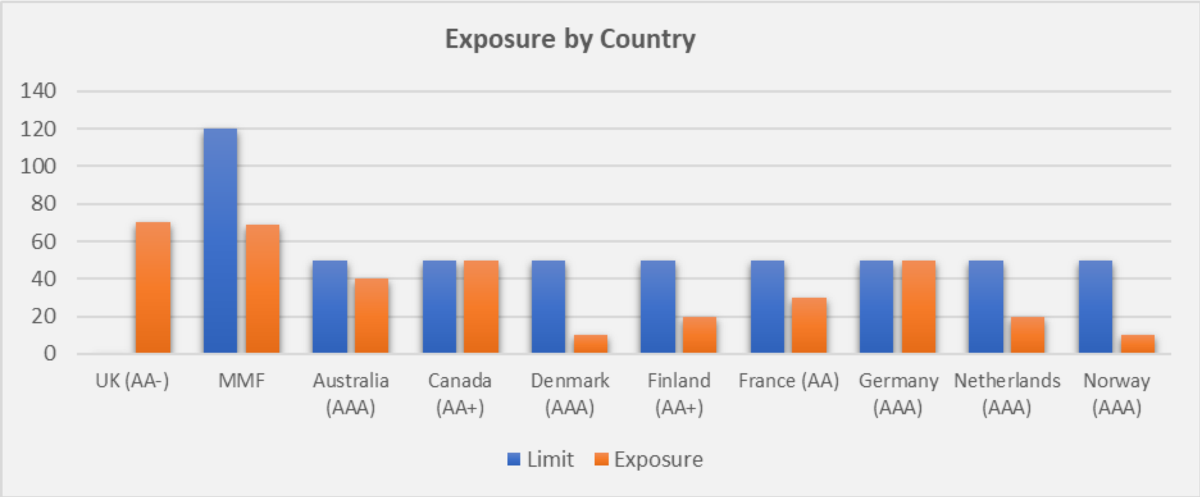
are up or down). This was driven by more cash being held short during the quarter to cover the anticipated, temporary, reduction in precept income.

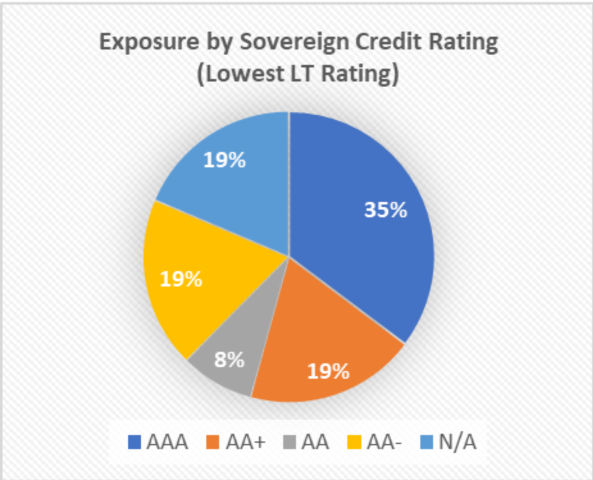
20. The loan portfolio at the end of December was invested with the counterparties shown in the table below, listed by original investment date:

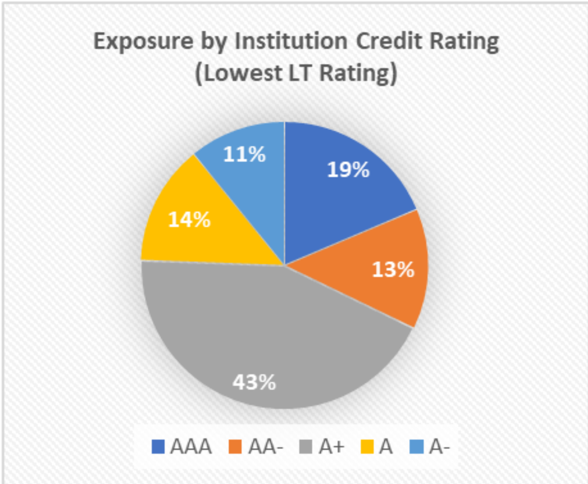
| | £m | Maturity Date |
|---|---|---|
| | | |
| **Instant Access** | | |
| Money Market Funds | 68.6 | January 2023 |
| | | |
| **6 Months** | | |
| DZ Bank (CD) | 10.0 | February 2023 |
| Credit Agricole CIB (CD) | 10.0 | February 2023 |
| National Bank of Canada | 10.0 | March 2023 |
| Close Brothers | 30.0 | March 2023 |
| Lloyds (Bank of Scotland) (CD) | 10.0 | April 2023 |
| Santander | 10.0 | May 2023 |
| Landesbank Baden Wurtemberg | 10.0 | June 2023 |
| | | |
| **9 Months** | | |
| DZ Bank (CD) | 10.0 | February 2023 |
| Rabobank (CD) | 10.0 | May 2023 |
| Credit Industrial et Commercial (CD) | 10.0 | May 2023 |
| | | |
| **12 Months** | | |
| 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 (CD) | 20.0 | August 2023 |
| Landesbank Hessen Thuringen | 10.0 | September 2023 |
| Landesbank Hessen Thuringen | 10.0 | October 2023 |
| DNB Bank (CD) | 10.0 | November 2023 |
| | | |
| **Beyond 12 Months** | | |
| Partners Group (Private Debt) 2017 | 8.5 | Estimated 2024 |
| Partners Group (Private Debt) 2021 | 18.9 | Estimated 2026 |
| CRC CRF 5 (Bank Risk Sharing) | 10.0 | Estimated 2026 |
| Danske Bank# | 10.0 | September 2027 |
| | | |
| **Total Portfolio Balance at 31 December 2022** | **406.0** | |

*#Danske Bank loan is included in short term investments for reporting in the tables above as the interest fixing is every six months.*

21. The graphs below show the exposure of the short term investments by country, sovereign rating and institution rating:



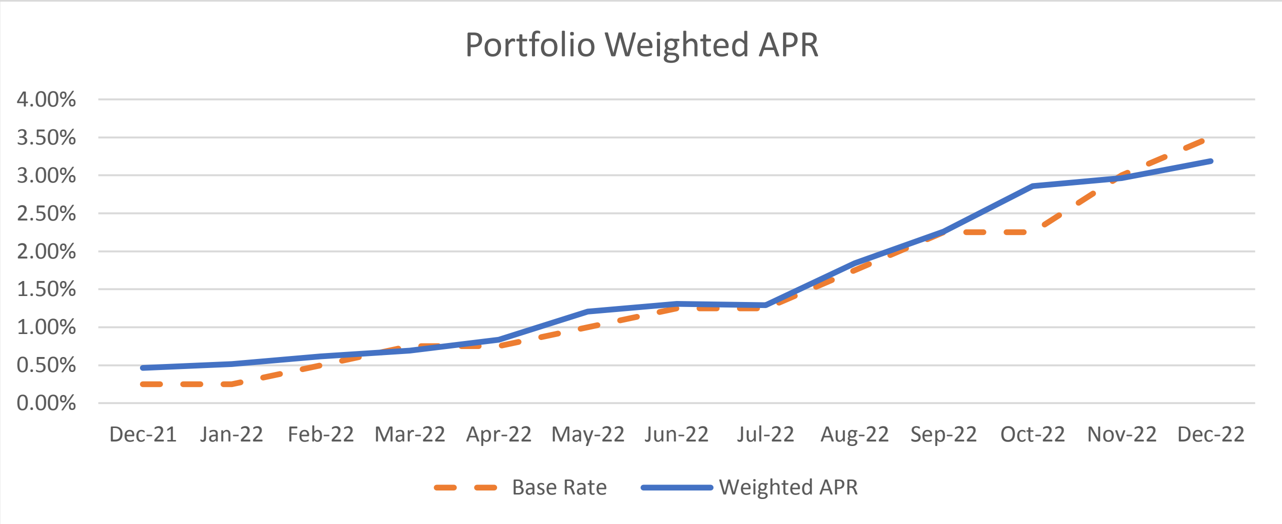




22. These graphs provide an indication of the Council’s exposure to credit risk but it should be noted long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the cost of insuring against a default) and general economic conditions are also factored in before the counterparty list is drawn up.

Total Portfolio

23. The total portfolio weighted APR increased from 2.26% in Q2 22-23 to 3.19% in Q3 22-23. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate. The graph shows that the portfolio APR dropped below base rate during December 2023, base rate increased by 1.25% during the quarter. Most investments within the portfolio are on a fixed interest basis so changes in base rate do not immediately have a material impact on the APR achieved. One indicator for how big this lag is the WAM. This shows the average length of time remaining until the Council’s short-term investments mature and can be viewed in the table below paragraph 16. As investments mature and are reinvested the current expectation is that these will be at a higher rate, and as base rate peaks the APR is likely to move up into line or above base rate. Members should note that it is the

future expectation for base rate that drives the price achieved amongst market participants.




## Loans to Counterparties that breached authorised lending list

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

## Press coverage during the quarter

25. During the FIFA world cup held in Qatar, there were a number of reports in the national press highlighting local authorities lending to Qatar National Bank. Because this included some of the district and borough councils within Leicestershire, it wasn’t always clear in the reporting that the County Council wasn’t included. For clarity Members are advised that the Council has no direct investments in Qatar National Bank (and hasn’t at any point in the past).

## Debt Rescheduling

26. As gilt yields, which underpin PWLB rates, have stabilised, debt rescheduling opportunities have been non-existent. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

## Compliance with Prudential and Treasury Indicators

27. 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 31st December 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

28. 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 £6m. This overperformance has been driven by interest rates increasing significantly faster than anticipated when the budget was agreed in February 2022.

## Recommendations

29. The Committee is asked to note this report.

## Background papers

30. None.

## Circulation under the Local Issues Alert Procedure

31. None.

## Equality and Human Rights Implications

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

## Appendices

Appendix A - Economic Overview (December 2022)
Appendix B – Prudential and Treasury Indicators for 2022/23 as at 31 December 2022

## Officers to Contact

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