



CORPORATE GOVERNANCE COMMITTEE - 26 MAY 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 March 2023 (Quarter 4).

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 3 2022/23 was provided to the Committee on 27 January 2023.

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 periodic 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. Inflation as measured by the consumer price index (CPI) remained above 10% as of February 2023. Most commentators are expecting this to drop back towards 4% by the end of 2023 but much will depend on movements in gas and electric markets as well as supply side factors affecting food prices.
11. Growth continues to be more robust than expected with January 2023 data shown a month on month increase in gross domestic product (GDP) of 0.3% - believed to be driven by a reduction in strike action. Despite this, capital economics still expect real GDP to contract by around 0.2% in quarter 1 of 2023 and are still forecasting a recession this year.

Action Taken During Quarter 4 to March 2023

Private Debt and Bank Risk Sharing Funds

12. The table overleaf 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:						During Qtr	
	Total Commitment (£m)	Capital remaining (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd	Capital Movement (£m)	Income (£m)
2017 MAC IV	20.0	8.2	8.7	4.79%	3.1	- 0.3	-
MAC VI	20.0	18.8	20.0	5.04%	-	0.0	-
CRC CFR 5	15.0	15.0	15.3	8.00%	-	5.0	-

NAV = Net Asset Value
IRR = Internal Rate of Return

13. The Council received its 22nd and 23rd distribution from the Partners Mac IV (2017) fund during the quarter, these totalled £0.3m. All of which represented a return of invested capital (shown as a negative figure in the table above). There was no further movement on the commitment to the Partners MAC VI fund – where £1.2m committed capital has not yet been called.
14. During the quarter the top up £5m committed to the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5) was called up. As this investment is still in the investment period the IRR cannot yet be calculated reliably, the 8% shown in the table above is the expected return.

Short Term Investments

15. 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	425.5	3.85%	135	168.6	2.75%	225.5	4.45%
Prior Qtr	368.6	3.07%	115	234.7	1.65%	198.6	3.59%
Change	↑ 56.9	↑ 0.78%	↑ 20.0	↓ 66.1	↑ 1.10%	↑ 26.9	↑ 0.86%

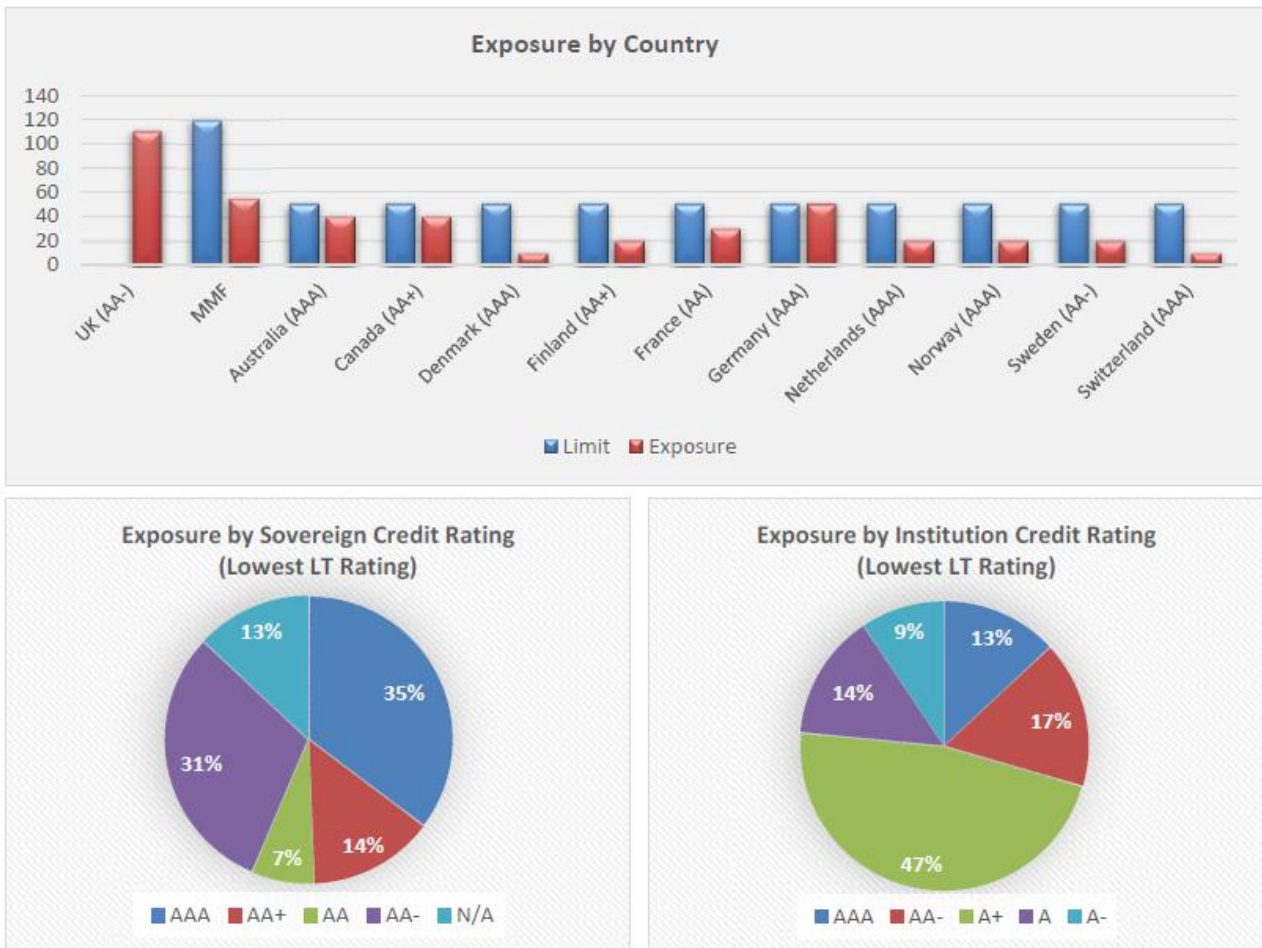
**WAM excludes Money Market Funds as these have overnight maturity.*

16. The total balance available for short term investment increased by £57m during the quarter. This was mainly driven by several grants being received in advance of their planned expenditure. The total balance is 7% higher than at the same point last year, whilst the average balance over the last 12-month is currently £397m which is 11% higher than on 31 March 2023.
17. The replacement margin on new loans (vs maturities) was 1.70% (down 0.24% from last quarter) reflecting the fact that markets expectations for future rate rises were lower at the end of this quarter compared to the quarter ending December 2022.
18. The Loans weighted average maturity (WAM) increased by 20 days and indicates that the portfolio will be slightly less sensitive to movements in interest rates (whether these are up or down). This was driven by more cash being available to lend longer and, following signals from the market that base rate rises may be slowing down, active decisions to lock in some rates for a longer duration.
19. The loan portfolio at the end of March was invested with the counterparties shown in the table below, listed by original investment date:

	£m	Maturity Date
Instant Access		
Money Market Funds	55.5	April 2023
6 Months		
Lloyds (Bank of Scotland) (CD)	10.0	April 2023
Santander	10.0	May 2023
Landesbank Baden Wurtemberg	10.0	June 2023
Lloyds (Bank of Scotland) (CD)	20.0	July 2023
National Westminster Bank Plc	10.0	July 2023
Union Bank of Switzerland (UBS) (CD)	10.0	July 2023
Credit Agricole CIB (CD)	10.0	August 2023
Close Brothers	30.0	September 2023
9 Months		
Rabobank (CD)	10.0	May 2023
Credit Industrial et Commercial (CD)	10.0	May 2023
12 Months		
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
DNB Bank (CD)	10.0	January 2024
National Westminster Bank Plc	10.0	January 2024
DZ Bank (CD)	20.0	February 2024
National Westminster Bank Plc	20.0	March 2024
SEB (CD)	20.0	March 2024
Beyond 12 Months		
Partners Group (Private Debt) 2017	8.2	Estimated 2024
Partners Group (Private Debt) 2021	18.8	Estimated 2026
CRC CRF 5 (Bank Risk Sharing)	15.0	Estimated 2026
Danske Bank [#]	10.0	September 2027
Total Portfolio Balance at 31 March 2023	467.5	

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

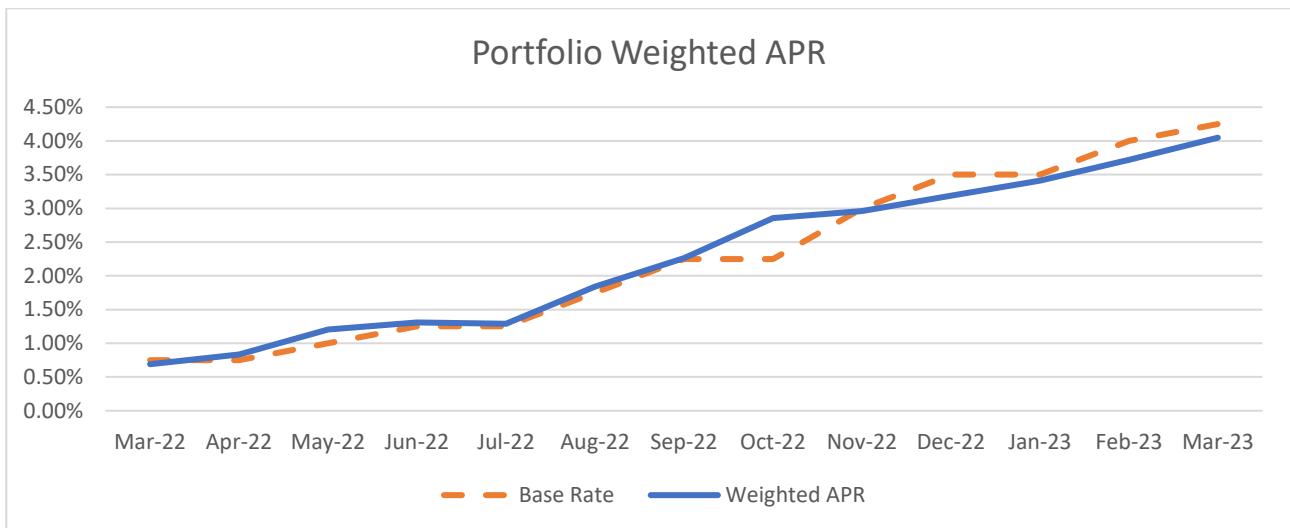
20. The graphs below show the exposure of the short-term investments by country, sovereign rating and institution rating:



21. 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

22. The total portfolio weighted APR increased from 3.19% in Q3 22-23 to 4.05% in Q4 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 and has stayed slightly below since. 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 in 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

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

Debt Rescheduling

24. As gilt yields, which underpin PWLB rates, have stabilised, there have been no long term debt rescheduling opportunities. 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

25. 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 ending 31st March 2023, 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

26. 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 was £1.4m. The d outturn position shows that actual interest earned was £8.6m. This overperformance has been driven by interest rates increasing significantly faster than anticipated when the budget was originally agreed in February 2022 (Base rate was 4% higher at 31 March 2023 than on 01 February 2022).

Recommendations

27. The Committee is asked to note this report.

Background papers

28. None.

Circulation under the Local Issues Alert Procedure

29. None.

Equality and Human Rights Implications

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

Appendices

Appendix A - Economic Overview (Year to March 2023)

Appendix B – Prudential and Treasury Indicators for 2022/23 as at 31 March 2023

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