Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 22nd September 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 30th June 2023 (Quarter 1).

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 2023-27 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2023 and approved by full Council in February 2023.

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 4 2022/23 was provided to the Committee on 26 May 2023 alongside an Annual Treasury Management statement for 2022/2023.

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

10. Inflation as measured by the consumer price index (CPI) fell from 10.1% to 8.7% as of May 2023. This was caused by a drop in food and fuel inflation rates. However, core CPI (CPI excluding energy and food prices) inflation rose from 6.8% to 7.1%. Commentators are expecting overall CPI inflation to ease in the coming months, but a recent surge in core inflation and the reacceleration in wage growth indicates that domestic inflationary pressures are still strengthening.

11. Growth continues to be more robust than expected with April 2023 data showing a month on month increase in gross domestic product (GDP) of 0.2% following March’s 0.3% contraction. The increase in April is believed to have been driven by a reduction in strike action which will further raise hopes that the economy will avoid a recession this year.

Action Taken During Quarter 1 to June 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	6.9	6.9	4.9%	3.8	- 1.3	0.7
MAC VI	20.0	18.5	19.6	5.6%	0.5	- 0.3	0.5
CRC CFR 5	15.0	15.0	15.9	-	-	0.0	-

13. The Council received its 24th, 25th and 26th distributions from the Partners Mac IV (2017) fund during the quarter, these totalled £2.0m. Of this £2.0m, £1.3m represented a return of invested capital (shown as a negative figure in the table above), with the remaining £0.7m being income.

14. The Council received it's 1st, 2nd and 3rd distributions from the Partners MAC VI fund, these totalled £0.8m. Of this £0.8m, £0.3m represented a return of invested capital (shown as a negative figure in the table above), with the remaining £0.5m being income.

15. There were no further commitments to or distributions from Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). As this investment is still in the investment period the IRR cannot yet be calculated reliably.

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	391.9	4.70%	179	185.5	3.61%	151.9	5.58%
Prior Qtr	425.5	3.85%	135	168.6	2.75%	225.5	4.45%
Change	↓ 33.6	↑ 0.85%	↑ 44.0	↑ 16.9	↑ 0.86%	↓ 73.6	↑ 1.13%

*WAM excludes MMFs as these are O/N maturity

17. The total balance available for short term investment decreased by £33.6m during the quarter. This was anticipated as no precept is received during the month of June and £12.3m worth of PWLB debt was repaid early.

18. The replacement margin on new loans (vs maturities) was 1.97% (up 0.27% from last quarter). Worse than expected inflation data and signals from the BoE have meant that commentators expect interest rates to remain higher for longer than previously anticipated.

19. The Loans weighted average maturity (WAM) increased by 44 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.

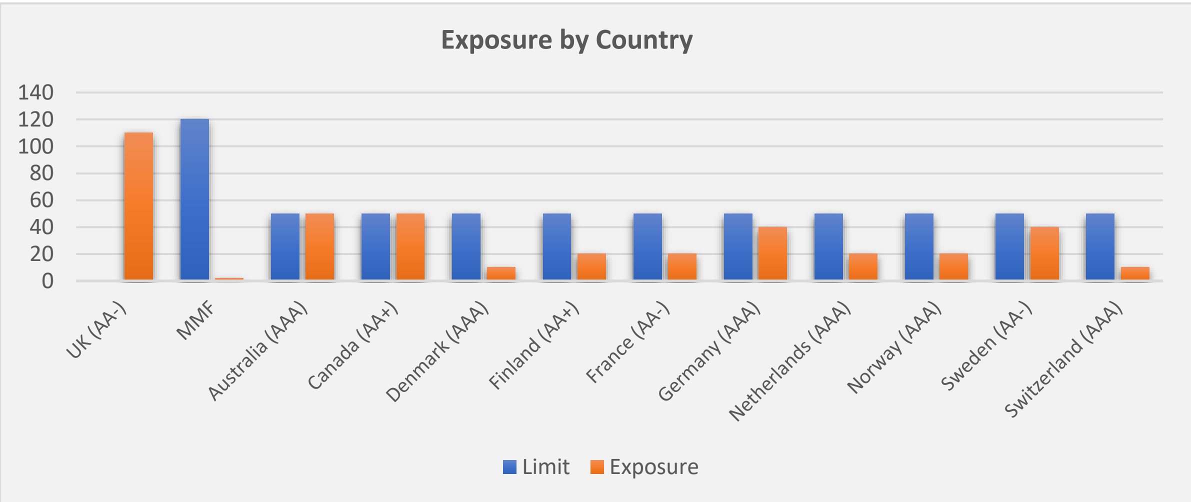
20. The loan portfolio at the end of June was invested with the counterparties shown in the table below, listed by original investment date:

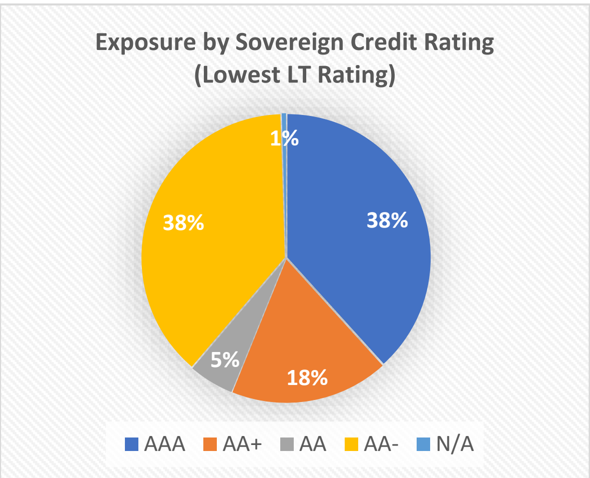
	£m	**Maturity Date**
Instant Access		
Money Market Funds	1.9	July 2023
6 Months		
Lloyds (Bank of Scotland) (CD)	20.0	July 2023
National Westminster Bank Plc	10.0	July 2023
Union Bank of Switzerland (UBS) (CD)	10.0	July 2023
Credit Agricole CIB (CD)	10.0	August 2023
Close Brothers	10.0	September 2023
Close Brothers	20.0	September 2023
National Bank of Canada	10.0	October 2023
Lloyds (CD)	15.0	October 2023
Close Brothers	5.0	November 2023
12 Months		
Nordea Bank (CD)	20.0	August 2023
National Australia Bank	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)	10.0	February 2024
DZ Bank (CD)	10.0	February 2024
National Westminster Bank Plc	20.0	March 2024
Seb (CD)	20.0	March 2024
Rabobank (CD)	10.0	March 2024

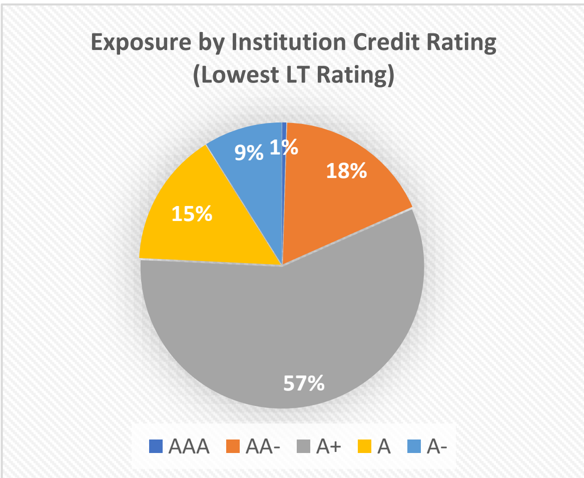
Commonwealth Bank of Australia (CD)	10.0	April 2024
Toronto Dominion Bank	20.0	May 2024
Credit Industrial Et Commercial (CD)	10.0	May 2024
Swed Bank (CD)	20.0	May 2024
Bank of Montreal	20.0	May 2024
Australia & New Zealand Bank	20.0	May 2024
Rabobank (CD)	10.0	June 2024
Beyond 12 Months		
Partners Group (Private Debt) 2017	6.9	Estimated 2024
Partners Group (Private Debt) 2021	18.5	Estimated 2026
CRC CRF 5 (Bank Risk Sharing)	15.0	Estimated 2026
Danske Bank#	10.0	September 2027
Total Portfolio Balance at 30 June 2023	**432.3**	

#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:



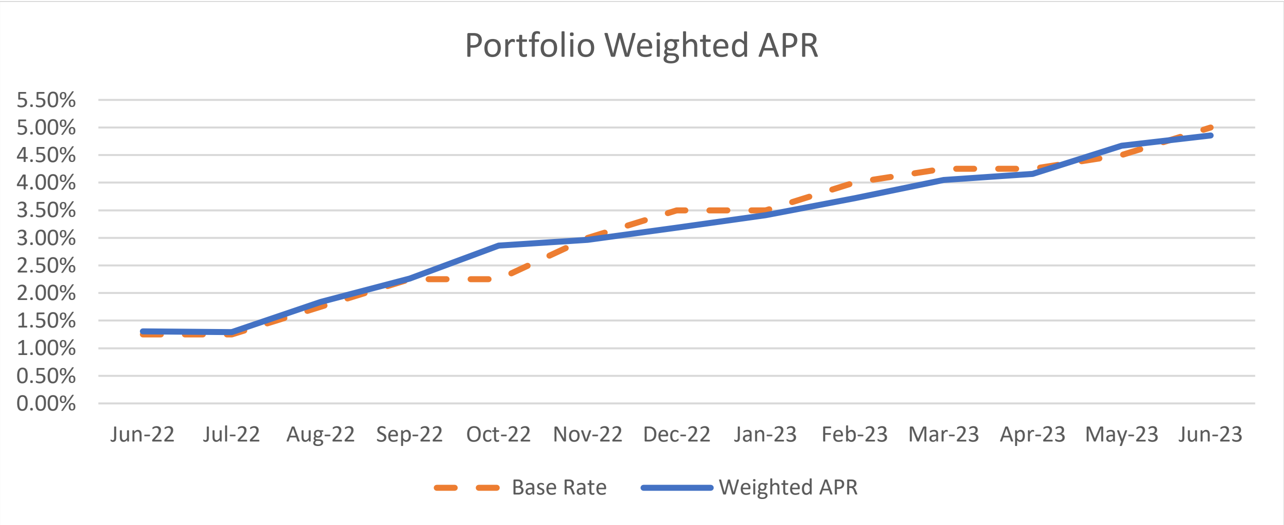




22. These graphs provide an indication of the Council's exposure to credit risk but it should be noted long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the 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 4.05% in Q4 22-23 to 4.86% in Q1 23-24. 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 2022 and, with the exception of May 2023, 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.



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.

Debt Rescheduling

25. During Q1 2023/2024, gilt yields, which underpin PWLB rates, increased to levels sufficient to consider longer term debt rescheduling opportunities.

26. After consultation with Link, our treasury management advisors, a decision was taken to reschedule the following loans:

	Start Date	Maturity	Principal	Interest Rate	Interest PA	Premium/ (discount)	Premature repayment rate	Remaining Principal
490987	11/01/2006	25/09/2051	11,142,000	3.90%	434,538	-862,705	4.38%	0
461697	27/03/1987	31/12/2043	1,131,741	9.00%	101,857	701,922	4.39%	5,155,709
			12,273,741	**4.37%**	**536,395**	**-160,782**		

27. Rescheduling the above loans resulted in a net discount of £160,782 for the Council. The intention was to balance the premium and subsidies, but this isn't always possible due to twice daily shifts in the premature repayment rates. This will be balanced out as much as possible as future repayments are made.

28. A gross discount of £0.86m was secured by repaying £11.1m at 3.90%. This discount offset the premium charged on a partial early repayment of £1.2m at 9.00%. By rescheduling these debts, the Council is estimated to save £0.6m pa repayment in interest payments but of course this is uncertain and ultimately will depend on what actually happens to interest rates over the maturity period.

Compliance with Prudential and Treasury Indicators

29. 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 30th June 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

Resource Implications

30. 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 2023/2024 was £1.4m. Current forecasts indicate that actual interest earned in 2023/2024 may reach as high as £14.0m. This forecasted overperformance is being driven by continued increases in interest rates.

Recommendations

31. The Committee is asked to note this report.

Background papers

32. None.

Circulation under the Local Issues Alert Procedure

33. None.

Equality and Human Rights Implications

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

Officers to Contact

Declan Keegan, Director of Corporate Resources,
Corporate Resources Department,
Tel: 0116 305 6199 E-mail: declan.keegan@leics.gov.uk

Simone Hines, Assistant Director (Finance, Strategic Property and Commissioning)
Corporate Resources Department,
Tel: 0116 305 7668 Email: simone.hines@leics.gov.uk

Appendices

Appendix A - Economic Overview (Year to March 2023)
Appendix B – Prudential and Treasury Indicators for 2022/23 as at 31 March 2023