



## **CORPORATE GOVERNANCE COMMITTEE – 26<sup>th</sup> JANUARY 2024**

### **QUARTERLY TREASURY MANAGEMENT UPDATE**

#### **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<sup>st</sup> 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 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 2 2023/2024 was provided to the Committee on 17<sup>th</sup> November.

##### **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) continued on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November. Both of these falls were bigger than expected, with clear signs of an easing in domestic inflationary pressures emerging. Core CPI (CPI excluding energy and food prices) has also continued to decline, reaching 5.1% in November. This represented a bigger than expected drop off, with the consensus forecast being 5.6%.
11. October saw a 0.3% month on month fall in GDP, which does suggest that the economy may stagnate again in Q3. This decline is believed to have been driven by unseasonably wet weather and the ongoing drag from higher interest rates. It should also be noted that GDP data for Q2 has been revised to show a 0.1% quarter on quarter fall.
12. Taking the above into account, commentators feel that this may mean a very mild recession has begun.

### **Action Taken During Quarter 3 to December 2023**

#### **Private Debt and Bank Risk Sharing Funds**

13. 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:	Total Commitment (£m)	Capital remaining (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd	During Qtr	
						Capital Movement (£m)	Income (£m)
2017 Mac IV	20.0	5.3	5.5	4.64%	3.8	- 0.8	-
MAC VI	20.0	18.3	20.3	6.88%	0.5	- 0.2	-
CRC CFR 5	15.0	15.0	16.8	-	-	-	-
MAC VII	10.0	2.4	2.4	-	-	2.4	-

14. The Council received its 28<sup>th</sup> and 29<sup>th</sup> distributions from the Partners MAC IV (2017) fund during the quarter in the form of invested capital (shown as a negative figure in the table above).
15. The Council received its 4<sup>th</sup> distribution from the MAC VI fund during the quarter in the form of invested capital (shown as a negative figure in the table above).
16. 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. The NAV for this fund is also as at 31<sup>st</sup> October – the last reported position prior to this committee meeting.
17. The Council received its 1<sup>st</sup> and 2<sup>nd</sup> capital calls to the Partners MAC VII fund in Q3 totalling £2.4m. As this investment is still in the investment period the IRR cannot yet be calculated reliably.

### Short Term Investments

18. 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) <sup>1</sup>	Maturities (£m)	APR Maturities <sup>2</sup>	New Loans (£m)	APR New Loans
Current Qtr	370.8	5.37%	145	93.0	5.14%	80.8	5.58%
Prior Qtr	383.0	5.29%	168	141.9	4.47%	133.0	5.87%
Change	↓ 12.2	↑ 0.08%	↓ 23.0	↓ 48.9	↑ 0.67%	↓ 52.2	↓ 0.29%

<sup>1</sup>WAM excludes MMFs as these are O/N maturity    <sup>2</sup>Prior quarter APRs revised to include all loans.

19. The total balance available for short term investment decreased by £12.2m during the quarter. This was anticipated due to there being no precept receipt in December, as well as the cashflow impact of the backdated pay award.
20. Official figures show a better-than-expected decrease in CPI from September to November, with the MPC voting to hold the base rate at 5.25% in November and December. Market sentiment indicates that the base rate has now peaked, with expectations that it will begin to fall by Q3 2024. As a result, replacement margin on new loans (vs maturities) decreased to 0.44% from 1.40% in the last quarter.
21. Nonetheless, the average rate on the loans portfolio rose 0.08% in the quarter.
22. The Loans weighted average maturity (WAM) decreased by 23 days and indicates that the portfolio will be slightly more sensitive to movements in interest rates (whether these are up or down). This was primarily driven by less cash being available to lend longer due to there being no precept receipt in December, as well as the cashflow impact of the backdated pay award.
23. The loan portfolio at the end of September was invested with the counterparties shown in the table below, listed by original investment date:

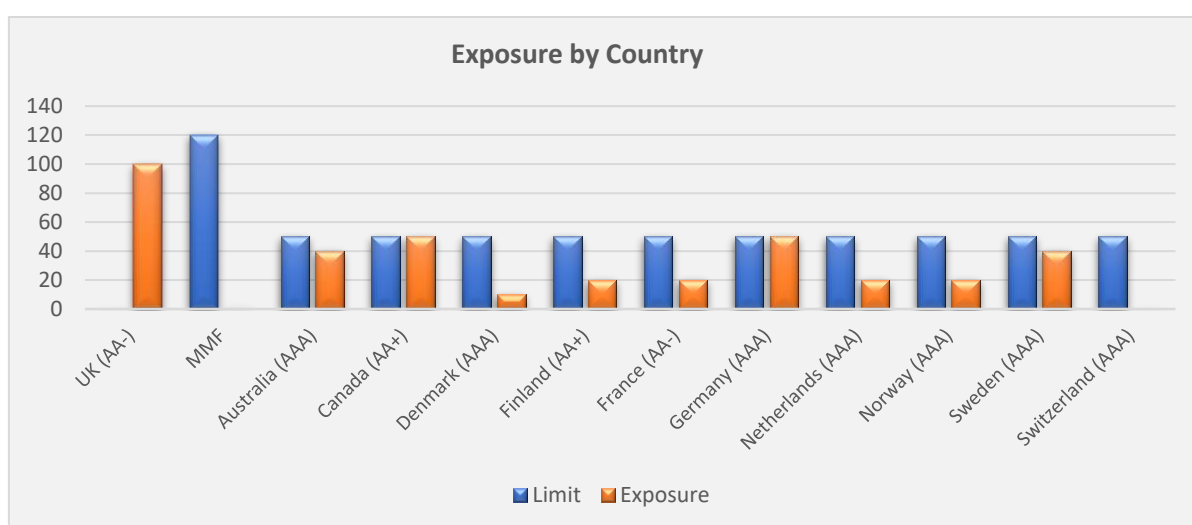
	<b>£m</b>	<b>Maturity Date</b>
<b>Instant Access</b>		
Money Market Funds*	0.8	January 2024
<b>6 Months</b>		
Close Brothers	10.0	March 2024
Close Brothers	20.0	March 2024
Landesbank Baden Wurtemberg	10.0	April 2024
Lloyds (CD)	15.0	April 2024
Close Brothers	5.0	April 2024
<b>12 Months</b>		
DNB Bank (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
National Westminster Bank Plc	10.0	July 2024

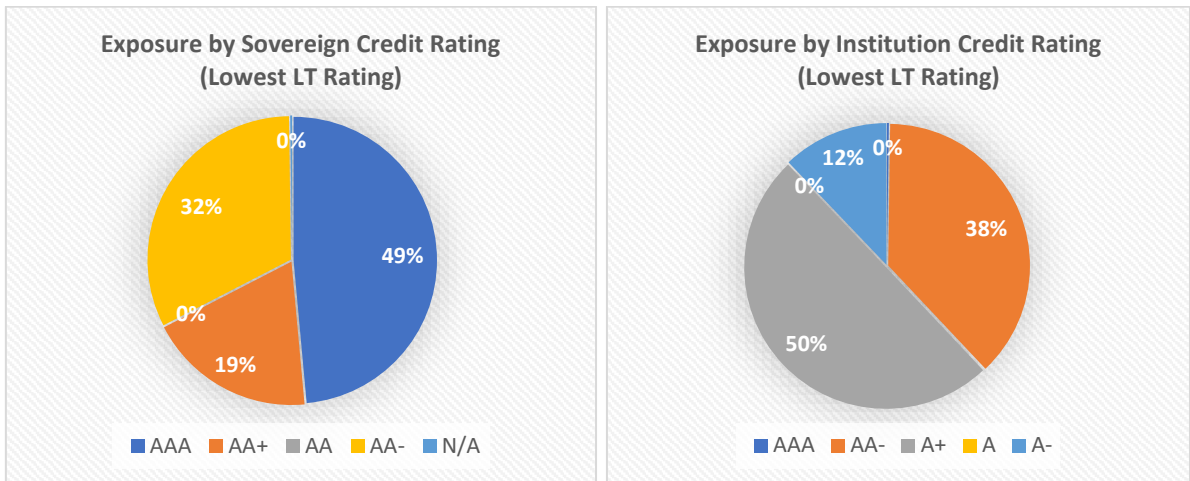
Nordea Bank (CD)	20.0	August 2024
Credit Industrial Et Commercial	10.0	September 2024
Landesbank Hessen Thuringen	10.0	September 2024
Landesbank Hessen Thuringen	10.0	October 2024
Commonwealth Bank of Australia	10.0	October 2024
DNB Bank	10.0	October 2024
National Bank of Canada	10.0	November 2024
National Westminster Bank PLC	10.0	November 2024
<b>Beyond 12 Months but included in short term investments</b>		
Danske Bank <sup>#</sup>	10.0	September 2027
<b>Short term investments total</b>	<b>370.8</b>	
<b>Beyond 12 Months</b>		
Partners Group (Private Debt) 2017	5.3	Estimated 2024
Partners Group (Private Debt) 2021	18.3	Estimated 2026
CRC CRF 5 (Bank Risk Sharing)	15.0	Estimated 2026
Partners Group (Private Debt) 2023	2.4	Estimated 2028
<b>TOTAL PORTFOLIO BALANCE: 31 December 2023</b>	<b>411.8</b>	

\*Over the December period end a short term cash flow loan of £100k was provided to ESPO.

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

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

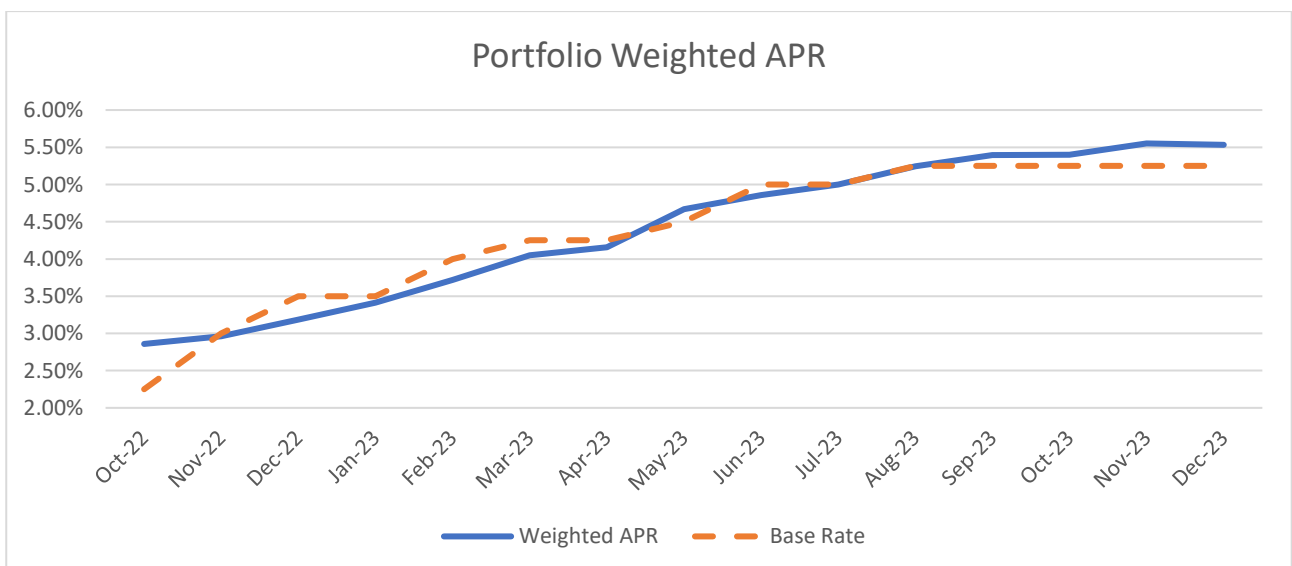




25. These graphs provide an indication of the Council’s exposure to credit risk but it should be noted long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the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

Total Portfolio

26. The total portfolio weighted APR increased from 5.39% in Q2 23-24 to 5.53% in Q3 23-24. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate. The graph shows that whilst base rates have stabilised since August 2023, the weighted APR of the portfolio has achieved a higher return in the months that followed. 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 18.



**Loans to Counterparties that breached authorised lending list**

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

**Debt Rescheduling**

28. As gilt yields, which underpin PWLB rates, have fell significantly since the last quarterly update, no further debt rescheduling opportunities have been available.

**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 31<sup>st</sup> December 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 £13.6m. Current forecasts indicate that actual interest earned in 2023/2024 may reach as high as £20.0m. This forecast overperformance is being driven by ongoing high levels of 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 Implications**

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

**Human Rights Implications**

35. None

**Appendices**

Appendix A - Economic Overview (For the quarter to December 2023)

Appendix B – Prudential and Treasury Indicators for 2023/24 as at 31<sup>st</sup> December 2023

**Officers to Contact**

Declan Keegan, Director of Corporate Resources,  
Corporate Resources Department,  
Tel: 0116 305 6199 E-mail: [declan.keegan@leics.gov.uk](mailto: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](mailto:simone.hines@leics.gov.uk)