Agenda Item 15

Leicestershire County Council

# CORPORATE GOVERNANCE COMMITTEE – 6th DECEMBER 2024

# 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 September 2024 (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 2024-28 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2024 and approved by full Council in February 2024.

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.

## Background

5. 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".

6. 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.

7. Capital investments in services, including those within the Investing in Leicestershire Programme, 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**

8. 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.

9. Inflation as measured by the consumer price index (CPI) increased in the quarter, from 2.0% in June (Bank of England target) to 2.2% in July and August. Core CPI (CPI excluding energy and food prices) has also increased, reaching 3.6% by the end of the quarter. CPI inflation is expected to rise in the coming months, before declining to around 2.0% by mid-2025.

10. GDP growth stagnated in July following downwardly revised quarter 1 figures (0.5% quarter on quarter). The economic stagnation in July points more to a mild slowdown in GDP growth than a sudden drop back into a recession.

**Notable events subsequent to Link's Quarter 2 Update**

11. CPI fell unexpectedly to 1.7% in September, representing the first time that inflation has fallen below the Bank of England's target since April 2021. The downtick is believed to have been caused by airfares and petrol prices decreasing at a faster rate year-on-year. Core CPI decreased to 3.2% in September down from 3.6% in August.

12. GDP growth in August was 0.2% month-on-month, after stagnating in July.

13. Following the announcement of the autumn budget, Link's interest rate forecasts have changed significantly. Bank Rate forecasts are now 50bps – 75bps (0.5% - 0.75%) higher than was previously the case, reflecting increased concerns around the future path of inflation and the increased level of government borrowing over the term of the current Parliament. Please see Appendix C for Links latest interest rate forecasts.

14. Following the 7$^{th}$ November Monetary Policy Committee meeting, the Bank of England reduced the bank rate to 4.75%. Link forecast the next decrease is likely to be made in quarter 4 2024.

**Action Taken During Quarter 2 to September 2024**

Private Debt and Bank Risk Sharing Funds

15. 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: | | | | | | During Qtr | |
|---|---|---|---|---|---|---|---|
| | Total Commitment (£m) | Capital invested (£m) | NAV (£m) | IRR (Since Incep'n) | Total Income Rec'd | Capital Repaid (£m) | Income (£m) |
| 2017 Mac IV | 20.0 | 2.6 | 3.1 | 4.82% | 3.8 | - 0.9 | - |
| MAC VI | 20.0 | 13.5 | 15.1 | 7.55% | 2.0 | - 1.3 | 0.4 |
| CRC CFR 5 | 15.0 | 15.0 | 15.5 | 11.46% | 3.4 | - | 0.9 |
| MAC VII | 10.0 | 5.6 | 6.0 | - | - | - | - |

16. The Council received its 35th distribution from the Partners MAC IV (2017) fund during the quarter in the form of £0.9m of invested capital (shown as a negative figure in the table above).

17. The Council received its 12th, 13th, 14th and 15th distributions from the MAC VI fund during the quarter totalling £1.7m. Of the £1.7m received, £1.3m represented a return of invested capital (shown as a negative figure in the table above), with the remaining £0.4m being income.

18. The Council received its 6th distribution from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). The total receipt of £0.9m is represented wholly by income.

19. The Council received no further capital calls to the Partners MAC VII fund in quarter 2. As this investment is still in the investment period the IRR cannot yet be calculated reliably.

20. It is worth noting that the NAV on all four funds is in excess of the remaining capital invested.

Short Term Investments

21. 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 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)[1] | Maturities (£m) | APR Maturities | New Loans (£m) | APR New Loans |
|---|---|---|---|---|---|---|---|
| Current Qtr | 443.4 | 5.16% | 150 | 119.4 | 5.67% | 153.4 | 5.00% |
| Prior Qtr | 409.4 | 5.38% | 185 | 208.2 | 5.42% | 214.4 | 5.20% |
| Change | ↑ 34.0 | ↓ 0.22% | ↓35.0 | ↓88.8 | ↑ 0.25% | ↓61.0 | ↓ 0.20% |

[1]WAM excludes MMFs as these are overnight maturity

22. The total balance available for short term investment increased by £34.0m during the quarter.

23. Market sentiment continues to indicate that the base rate has peaked, with expectations of a decrease in quarter 3 2024 being priced into market rate offerings. As a result, the APR on new loans has reduced by 0.20% quarter on quarter.

24. The Loans weighted average maturity (WAM) reduced by 35 days and indicates that the portfolio is now starting to be invested over shorter periods as the interest rate falls.

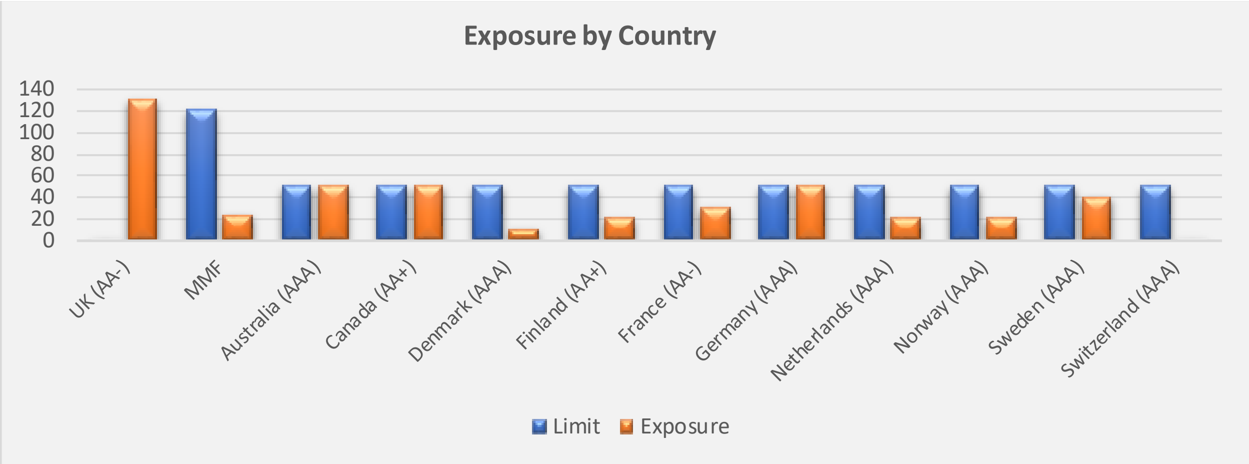
25. The loan portfolio at the end of September was invested with the counterparties shown in the table below, listed by original investment date:

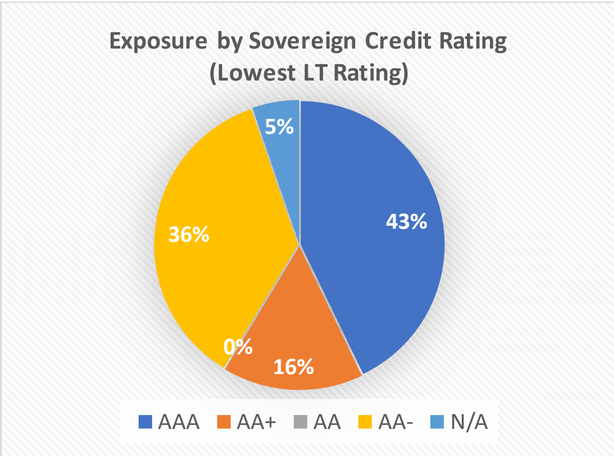
| | £m | Maturity Date |
|---|---|---|
| | | |
| **Instant Access** | | |
| Money Market Funds | 23.4 | October 2024 |
| | | |
| **3 Months** | | |
| Nordea Bank | 20.0 | December 2024 |
| Credit Agricole CIB | 10.0 | December 2024 |
| | | |
| **6 Months** | | |
| Landesbank Baden Wurtemberg | 10.0 | October 2024 |
| Lloyds | 15.0 | October 2024 |
| Goldman Sachs | 10.0 | December 2024 |
| Credit Industrial et Commercial | 10.0 | March 2025 |
| Santander | 20.0 | March 2025 |
| | | |
| **9 Months** | | |
| Den Norske Bank (DNB) | 10.0 | October 2024 |
| | | |
| **12 Months** | | |
| 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 |

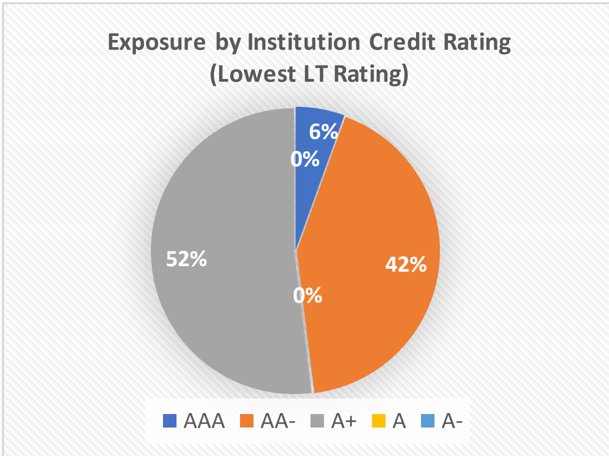
| | | |
|---|---|---|
| National Westminster Bank PLC | 10.0 | November 2024 |
| National Westminster Bank PLC | 10.0 | February 2025 |
| National Westminster Bank PLC | 20.0 | February 2025 |
| Rabo Bank | 10.0 | March 2025 |
| National Westminster Bank PLC | 25.0 | April 2025 |
| Skandinaviska Enskilda Banken AB (SEB) | 20.0 | April 2025 |
| Commonwealth Bank of Australia (CBA) | 10.0 | April 2025 |
| Macquarie Bank | 10.0 | April 2025 |
| Toronto Dominion Bank | 20.0 | May 2025 |
| Credit Industriel et Commercial (CIC) | 10.0 | May 2025 |
| Bank of Montreal | 20.0 | May 2025 |
| Deutsche Zentral (DZ) | 20.0 | May 2025 |
| Australia & New Zealand Bank | 20.0 | May 2025 |
| Rabo Bank | 10.0 | June 2025 |
| Swedbank | 20.0 | July 2024 |
| National Westminster Bank PLC | 10.0 | July 2024 |
| Landesbank Hessen Thuringen | 10.0 | September 2024 |
| Goldman Sachs | 10.0 | September 2024 |
| | | |
| **Beyond 12 Months but included in short term investments** | | |
| Danske Bank# | 10.0 | September 2027 |
| | | |
| **Short term investments total** | **443.4** | |
| | | |
| **Beyond 12 Months** | | |
| Partners Group (Private Debt) 2017 | 2.6 | Estimated 2024 |
| Partners Group (Private Debt) 2021 | 13.5 | Estimated 2026 |
| CRC CRF 5 (Bank Risk Sharing) | 15.0 | Estimated 2026 |
| Partners Group (Private Debt) 2023 | 5.6 | Estimated 2028 |
| | | |
| **TOTAL PORTFOLIO BALANCE: 30 September 2024** | **480.1** | |

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

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



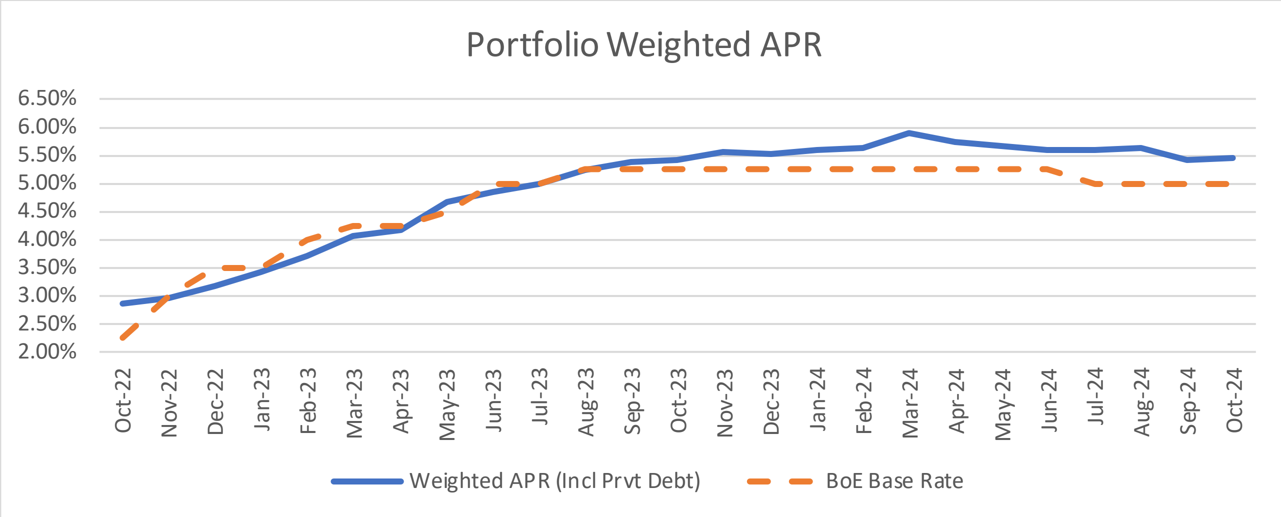




27. These graphs provide an indication of the Council's exposure to credit risk but it should be noted long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the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

Total Portfolio

28. The total portfolio weighted APR decreased from 5.60% in quarter 1 to 5.41% in quarter 2 2024-2025. This is due to reductions in the rates available in the market, in anticipation of an upcoming reduction to the Bank of England base rate. 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 and started to decrease, 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.




## Loans to Counterparties that breached authorised lending list

29. During quarter 2 there were no loans to counterparties that breached the authorised lending list.

## Debt Rescheduling

30. There was no debt rescheduling during quarter 2.

## Compliance with Prudential and Treasury Indicators – Quarter 2

31. 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 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25, with the exception of the estimate of capital expenditure for 2024/25 which is now forecast to be £160.4m, £3.4m higher than the original estimate. The increase is fully funded by additional government capital grants and section 106 developer contributions in 2024/25. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

## Resource Implications

32. 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 2024/2025 is £14.2m. Current bank interest forecasts show interest earned in 2024/2025 could be £20.2m. The increase in interest income is due to forecast Bank of England base rate levels being higher and for longer than forecast, and higher than estimated average Council balances. Average balances remain strong due to increases in earmarked reserves, latest phasing of spend on the capital programme and government grants received in advance.

**Recommendations**

33. The Committee is asked to note this report.

**Background papers**

34. None.

**Circulation under the Local Issues Alert Procedure**

35. None.

**Equality and Human Rights Implications**

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

**Appendices**

Appendix A - Economic Overview (For the quarter to September 2024)
Appendix B – Prudential and Treasury Indicators for 2024/25 as at 30th September 2024
Appendix C – Interest Rate Forecast 11 November 2024

**Officers to Contact**

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