

## **Item: 5**

**Investments Sub-committee: 28 February 2019.**

**Temporary Loans.**

**Report by Head of Finance.**

### **1. Purpose of Report**

To advise of the status of the temporary loan portfolio as at 31 December 2018.

### **2. Recommendations**

The Sub-committee is invited to note:

#### **2.1.**

The status of the temporary loan portfolio as at 31 December 2018, as detailed in section 3 of this report.

#### **2.2.**

That, for the period 1 April to 31 December 2018, the temporary loans portfolio made a return of £196,776.35 at an average interest rate of 0.80%.

#### **2.3.**

That the Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

### **3. Temporary Loan Portfolio**

#### **3.1.**

During November 2018, a third Money Market Fund was opened with Insight Liquidity Funds Public Limited Company. Money Market Funds are used for daily liquidity with an income comparable to sterling denominated short dated money market interest rates, which exceeds the rate of return on the Council's Special Interest-Bearing Account.

#### **3.2.**

The temporary loan portfolio as at 31 December 2018 totalled £36,863,883.59. Further details are provided in the Monthly Investment Analysis Review that is prepared by Link Asset Services, attached as Appendix 1 to this report.

### **3.3.**

The following transactions have taken place since 31 December 2018:

- £2,000,000 matured from Bank of Scotland.
- £5,000,000 matured from Fife Council.
- £3,000,000 invested in Thurrock Borough Council at a rate of 1.10%.
- £2,000,000 invested in Lloyds Bank Plc at a rate of 1.19%.
- £2,000,000 invested in Bank of Scotland 95 Day Notice Account at a rate of 1.00%.
- £3,000,000 invested with Blackrock ICS Heritage Shares MMF, with an average net yield of 0.73%.
- £3,200,000 recalled from Blackrock ICS Heritage Shares MMF.
- £2,400,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 0.77%.
- £2,300,000 recalled from Aberdeen Standard Investments Liquidity Fund.
- £3,300,000 invested with Insight Liquidity Fund, with an average net yet yield of 0.76%.
- £1,700,000 recalled from Insight Liquidity Fund.

### **3.4.**

The value of the temporary loans stood at £37,879,288.75 as at 31 January 2019.

## **4. Rate of Return**

### **4.1.**

For the period 1 April to 31 December 2018, the temporary loans returned an average interest rate of 0.80%. This equates to a return of £196,776.35 on the temporary loans for the nine months to 31 December 2018.

### **4.2.**

By comparison, the equivalent 90-day London Inter-Bank Offered Rate of 0.77% is considered to be the target.

### **4.3.**

With inflation quoted at 2.1% for December 2018 based on Consumer Price Index (2.7% Retail Price Index), the return on temporary loans equates to a relative decline in value of 1.30% in real terms.

## **5. Corporate Governance**

This report relates to the Council complying with its treasury management policies and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

### **6.1.**

The Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

### **6.2.**

The effective management and control of risk are prime objectives of the Council's treasury management activities, with priority given to security and liquidity when investing funds.

## **7. Legal Aspects**

Section 69 of the Local Government (Scotland) Act 1973 empowers a local authority to lend and invest surplus funds on a temporary basis where it is calculated to facilitate, or is conducive or incidental to the discharge of any of their functions.

## **8. Contact Officers**

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## **9. Appendix**

Appendix 1: Link Asset Services Monthly Investment Analysis Review for December 2018.



# Orkney Islands Council

## Monthly Investment Analysis Review

December 2018

## Monthly Economic Summary

**General Economy**

December began with the Markit/CIPS Manufacturing Purchasing Managers Index (PMI) rising to 53.1 from 51.1, which had been the weakest since the referendum. On a more positive note, the Construction PMI reading rose to a 4 month high of 53.4, spurred by house-building and commercial work. This confounded the consensus forecast of a fall to 52.5. Closing out the set, the UK's dominant service sector's PMI experienced a shock slide and dropped to 50.4, the weakest since the 2016 Brexit vote and below all forecasts. Being the dominant sector, services dragged the Composite PMI figure down to 50.8, meaning overall activity was only just about maintaining growth.

GDP growth was unchanged at 1.5% y/y, with the m/m figure rising slightly to 0.1%, but both were below the forecasted increases. Alongside this, the GDP 3-month average growth to October dropped from 0.6% to 0.4%, emphasising that the impact of the positive Summer, which had been supported by good weather and one-off factors such as the World Cup, was now fading. Elsewhere, data shows that the UK's trade deficit rose above forecasts to £3.3bn in October, with the goods trade deficit also rising to £11.87bn.

Unemployment remained constant at 4.1% in the three months to October. With unemployment close to its lowest level since the 1970s, employers have begun to raise pay for staff more quickly. Average weekly earnings including bonuses rose by 3.3% on the year, the biggest rise since the three months to July 2008. This is the same figure recorded as the total earnings excluding bonuses for the three months to October. This allowed "real wages", which discounts the impact of inflation, to continue to grow, as inflation fell to 2.3% y/y.

British retail sales surged by much more than expected in November, with the m/m figure coming in at 1.2%, up from the previous figure of -0.4%. The y/y figure came in at 3.6%, up from the previous figure of 2.4%. However, the Confederation of British Industry (CBI) data from the month was less bright, with its Distributive Trades survey falling by much more than expected, from 19 to -13. On a brighter note, mortgage approvals improved with the first year-on-year rise since September 2017, despite the fall from the figure reported in November. The GfK consumer confidence reading fell from -13 to -14.

The UK recorded a lower than expected budget deficit in November. It fell to £7.2bn and for the first 8 months of the financial year, it stands at just under £33bn (30% lower than the same point in 2017). This is the lowest November borrowing for 14 years. Tax revenues remained strong but the government spent more than it received in tax and other income. National debt as a percentage of GDP stood at 83.9%, or £1.8 trillion.

Also towards the end of November, the Bank of England's Monetary Policy Committee (MPC) unanimously voted to maintain the Bank Rate at 0.75%. This was widely expected by market participants, given the uncertainty over the Brexit position.

In the US, the Nonfarm Payroll figure rose by 155,000, below the estimate of 200,000 and the previous downwardly revised 237,000. The final estimate of Q3 GDP was 3.4% trimmed slightly from the previous estimate of 3.5% but still above the economic growth potential of 2%. The Federal Reserve went on to raise the Federal Funds Rate to 2.25-2.5%, continuing the tightening cycle.

In the Eurozone, the European Central Bank (ECB) chose to continue to keep interest rates at 0%, but the meeting spelt the end of its bond-buying programme as first announced in June. PMI figures improved from the previous month, but the final estimate of Q3 GDP came in at 0.2% q/q and 1.6% y/y, both decreases from Q2's figures. Unemployment in the bloc remained at 8.1% in October 2018.

### Housing

According to Nationwide, British house prices rose at their slowest pace in more than 6 years in December as Brexit uncertainty further weighed on the housing market. Prices rose by 0.5% y/y, down from 1.9% in November, and prices fell by 0.7% from November, the biggest monthly fall since July 2012.

Meanwhile, the Halifax index showed a fall of 1.4% m/m, down from 0.7% rise the previous month and lower than analyst expectations of a 0.2% gain. The y/y figure fell to 0.3% from 1.5%, aligning with Nationwide's picture of a slowing housing market.

### Currency

Sterling opened the month at \$1.28 against the US Dollar and closed at \$1.27. Against the Euro, Sterling opened at €1.12 and closed at €1.11.

### Forecast

There was no update to our forecasts in December. To recap, Link Asset Services suggests that the next interest rate rise will be to 1.00% in the second quarter of 2019, with further rises of 25 basis points in Q1 2020 and Q4 2020, eventually reaching 2.00% in March 2022. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q3 2019 and reaching 2.00% in Q2 2020.

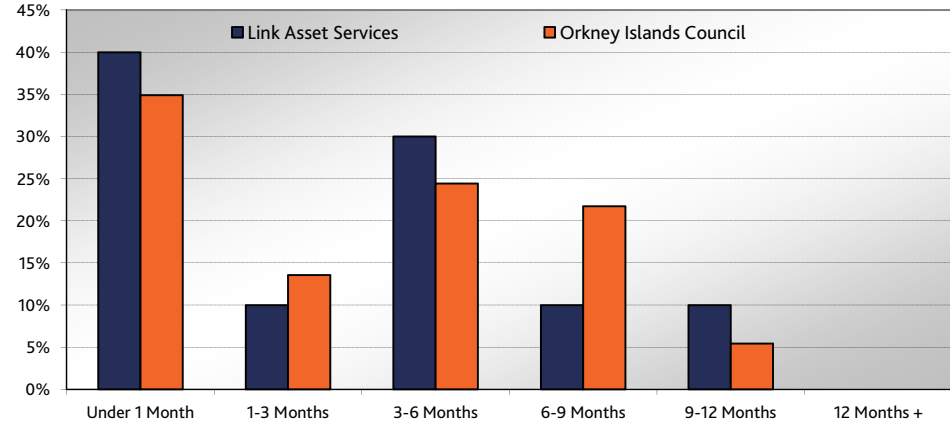
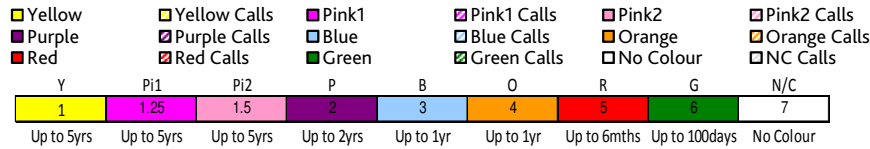
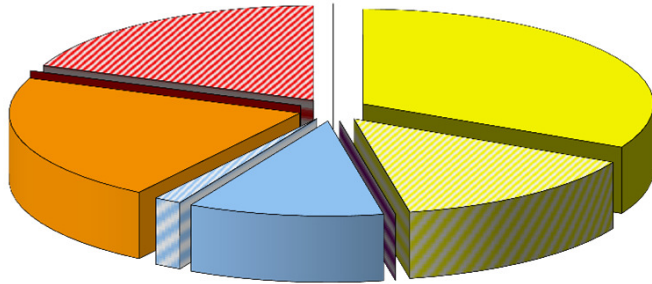
Bank Rate										
	Now	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%	-

## Orkney Islands Council

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	3,700,000	0.75%		MMF	AAA	0.000%
MMF BlackRock	200,000	0.70%		MMF	AAA	0.000%
MMF Insight	1,400,000	0.72%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc (RFB)	563,884	0.20%		Call	A-	0.000%
Bank of Scotland Plc (RFB)	2,000,000	0.85%	03/01/2018	03/01/2019	A+	0.000%
Fife Council	5,000,000	0.73%	05/01/2018	04/01/2019	AA	0.000%
Thurrock Borough Council	3,000,000	0.90%	24/08/2018	25/02/2019	AA	0.004%
Santander UK Plc	2,000,000	1.10%		Call74	A	0.011%
Santander UK Plc	2,000,000	1.10%		Call135	A	0.020%
Bank of Scotland Plc (RFB)	2,000,000	1.00%	13/06/2018	13/06/2019	A+	0.024%
Bank of Scotland Plc (RFB)	2,000,000	1.00%	22/06/2018	21/06/2019	A+	0.025%
Santander UK Plc	3,000,000	1.10%		Call180	A	0.027%
National Westminster Bank Plc (RFB)	2,000,000	1.01%	20/07/2018	19/07/2019	A-	0.030%
National Westminster Bank Plc (RFB)	2,000,000	1.04%	31/07/2018	29/07/2019	A-	0.031%
North Lanarkshire Council	2,000,000	1.00%	26/11/2018	27/08/2019	AA	0.016%
North Tyneside Metropolitan Borough Council	2,000,000	1.05%	02/10/2018	01/10/2019	AA	0.018%
Toronto Dominion Bank	2,000,000	1.08%	26/10/2018	25/10/2019	AA-	0.020%
<b>Total Investments</b>	<b>£36,863,884</b>	<b>0.93%</b>				<b>0.013%</b>

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.66**

WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

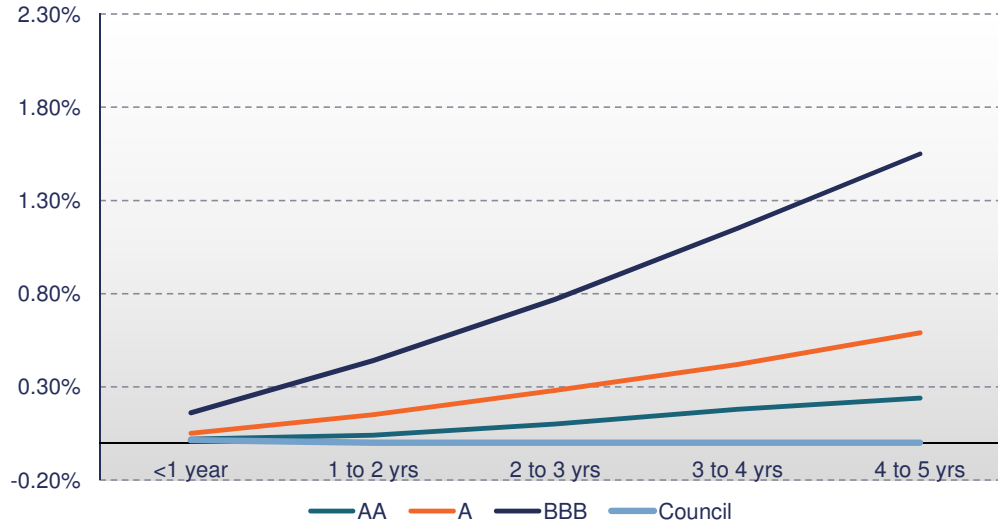
	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	46.93%	£17,300,000	30.64%	£5,300,000	14.38%	0.83%	70	211	101	304
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	12.38%	£4,563,884	12.36%	£563,884	1.53%	0.92%	180	319	205	364
Orange	21.70%	£8,000,000	0.00%	£0	0.00%	0.98%	159	365	159	365
Red	18.99%	£7,000,000	100.00%	£7,000,000	18.99%	1.10%	137	137	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£36,863,884</b>	<b>34.90%</b>	<b>£12,863,884</b>	<b>34.90%</b>	<b>0.93%</b>	<b>116</b>	<b>244</b>	<b>138</b>	<b>334</b>



# Orkney Islands Council

## Investment Risk and Rating Exposure

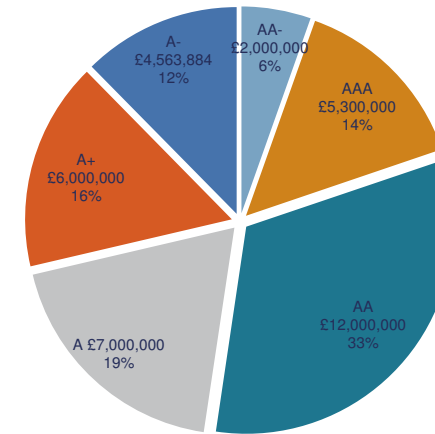
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.013%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



### Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

### Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

### Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

## Orkney Islands Council

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
07/12/2018	1655	Norddeutsche Landesbank Girozentrale	Germany	Long Term Rating was removed from Negative Outlook and placed on Negative Watch. At the same time, all other ratings have been placed on Negative Watch.
17/12/2018	1659	NatWest Markets Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A' from 'BBB+', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was withdrawn. Support Rating was upgraded to '1' from '5' and removed from Positive Watch.
17/12/2018	1659	National Westminster Bank Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
17/12/2018	1659	The Royal Bank of Scotland	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A-', Outlook on the Long Term Rating changed to Stable from Positive. The Short Term Rating was upgraded to 'F1' from 'F2' and the Viability Rating was upgraded to 'a' from 'bbb+'.
20/12/2018	1662	Barclays Bank Plc (NRFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
20/12/2018	1662	Barclays Bank UK Plc (RFB)	United Kingdom	Long Term Rating was upgraded to 'A+' from 'A', Outlook on the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.

## Orkney Islands Council

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
06/12/2018	1654	Bank of America N.A.	United States	Outlook on the Long Term Rating was removed from Stable and placed on Positive Watch.
17/12/2018	1660	Clydesdale Bank Plc	United Kingdom	The Long Term Rating was removed from Negative Watch and was placed on Positive Outlook.
18/12/2018	1661	Norddeutsche Landesbank Girozentrale	Germany	Outlook on the Long Term Rating was removed from Negative Outlook and placed on Evolving Watch. At the same time the Short Term Rating was placed on Negative Watch

## Orkney Islands Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
10/12/2018	1656	Qatar Sovereign Rating	Qatar	Outlook on the Sovereign Rating changed to Stable from Negative
10/12/2018	1657	Qatar National Bank	Qatar	Outlook on the Long Term Rating changed to Stable from Negative
11/12/2018	1658	Macquarie Bank Ltd.	Australia	Outlook on the Long Term Rating changed to Evolving from Negative.