

## **Item: 5**

**Investments Sub-committee: 22 November 2018.**

**Temporary Loans.**

**Report by Head of Finance.**

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

To advise of the status of the temporary loan portfolio as at 30 September 2018.

### **2. Recommendations**

The Sub-committee is invited to note:

#### **2.1.**

The status of the temporary loan portfolio as at 30 September 2018, as detailed in section 3 of this report.

#### **2.2.**

That, for the period 1 April to 30 September 2018, the temporary loans portfolio made a return of £115,217.53 at an average interest rate of 0.74%.

#### **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.**

The temporary loan portfolio as at 30 September 2018 totalled £34,965,994. Further details are provided in the Monthly Investment Analysis Review prepared by Link Asset Services, attached as Appendix 1 to this report.

#### **3.2.**

The following transactions have taken place since 30 September 2018:

- £2,000,000 invested in North Tyneside Metropolitan Borough Council at a rate of 1.05%.
- £2,000,000 invested in Toronto Dominion at a rate of 1.08%.
- £2,900,000 invested with Blackrock ICS Heritage Shares MMF, with an average net yield of 0.69%.
- £2,600,000 recalled from Blackrock ICS Heritage Shares MMF.

- £5,500,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 0.68%.
- £7,700,000 recalled from Aberdeen Standard Investments Liquidity Fund.

### **3.3.**

With reference to the last two bullets points in section 3.2 above, on 8 October 2018 £900,000 from the Money Market Fund with Standard Life was transferred to Aberdeen Standard Investments. This was a result of the merger of Standard Life Investments Liquidity plc into Aberdeen Liquidity Fund (Lux).

### **3.4.**

The value of the temporary loans stood at £36,702,464.26 as at 31 October 2018.

## **4. Rate of Return**

### **4.1.**

For the period 1 April to 30 September 2018, the temporary loans returned an average interest rate of 0.74%. This equates to a return of £115,217.53 for the six months to 30 September 2018.

### **4.2.**

By comparison, the weighted average 90-day London Inter-Bank Offered Rate over this period, of 0.73% is considered to be the target.

### **4.3.**

With inflation quoted at 2.4% for September 2018 based on Consumer Price Index (3.3% Retail Price Index), the return on temporary loans equates to a relative decline in value of 1.66% in real terms.

## **5. Corporate Governance**

This report relates to the Council complying with its financial processes 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 September 2018.



# Orkney Islands Council

## Monthly Investment Analysis Review

September 2018

## Monthly Economic Summary

**General Economy**

The data releases for the month began with August's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw a decrease from the previous figure of 53.8, to a weaker 52.8. Construction PMI also took a hit, as it went down to 52.9 from 55.8, a huge fall and far lower than what was predicted. However, Services PMI was a stronger performer, rising from 53.5 to 54.3. GDP figures were stronger than expected; the m/m measure for July came in at 0.3%, an increase from 0.1% previously and above forecasts. The y/y measure was 1.6%, beating both the previous figure and forecasts. Brexit-related uncertainty is still a factor but the data provided a positive sign that growth has improved at the start of the quarter.

In terms of the UK's trade balance, the overall deficit decreased to £9.97bn. This was a drop of nearly £2bn, showing a narrowing of the current account deficit. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.

Unemployment remained at 4% for July, in line with forecasts and still at the lowest level since 1975. After a long wait, this continually low level seems to finally be feeding into wage growth, with an increase 2.9% excluding bonuses. The 3M y/y figure is 2.6% including bonuses, both increases from the previous month. Whether the low unemployment rate will have a more sustained impact on wage growth is yet to be seen.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold the base rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for August came out far higher than expected, with Consumer Price Index (CPI) y/y at 2.7%, up from 2.4% in July. The rise in inflation was driven by particularly volatile components so forecasters expect the pickup to be temporary. The monthly CPI figure was 0.7%, up from 0.5%, while Core CPI y/y rose unexpectedly to 2.1% from a previous figure of 1.8%. Despite the increase in price pressures, market participants continued to play down any expectations of a near-term rate hike. Their belief is primarily based on Brexit uncertainty and the fact that inflation is likely to fall towards the Bank's inflation target of 2% through this year and 2019.

Retail sales were expected to show negative growth in August after a strong summer of good weather. However, the figure surprisingly stayed positive at 0.3% m/m, and the y/y figure only fell to 3.3%, well above forecasts of a drop to 2.3%. Within the overall data, food sales did register a small fall, but this was more than offset by the largest monthly increase in sales of household goods since May 2016.

In terms of public finances, the data was disappointing for August. Public sector net borrowing excluding banks rose to £6.753bn, up from £3.4bn, and the figure including banks rose by slightly less, to £5.889bn. There are increasing expectations that the OBR may lower its borrowing forecast in November, which could allow the Chancellor to increase spending in his upcoming budget, without having to raise income from other sources or make cuts elsewhere.

GDP figures at the end of the month were another source of disappointment for the UK. While there was no change to the Q2 q/q figure (0.4%), Q1 was revised down from 0.2% to just 0.1%. Furthermore, the Q2 y/y figure was revised downwards to 1.2% from 1.3%.

The Eurozone's Q2 y/y GDP figure was also revised lower, down from 2.2% to 2.1%. Meanwhile, US y/y GDP remained unchanged, at 4.2% evidencing the effects of President Trump's expansionary fiscal policy, and paved the way for the US Federal Reserve to action a rate rise at the end of September. Accompanying the move, the Fed's "dot plot" of member expectations for future policy rates suggested another rate hike may occur in 2018, and potentially another three in 2019.

### Housing

The Halifax house prices measure showed a 0.1% m/m increase in August, rebounding from a negative value in July. The y/y measure showed a 3.7% increase, an uplift from 3.3% previously but lower than the 3.9% forecast. House.

Nationwide also showed a small rise in m/m house prices, up to 0.3%, whilst the y/y figure also increased by 0.1% to 2%.

### Currency

Sterling opened the month at \$1.29 against the US Dollar and closed at \$1.30, with varied fluctuations throughout the period. Against the Euro, Sterling opened at €1.115 and closed at €1.125.

### Forecast

Link Asset Services suggests that the next interest rate rise will be to 1% in the third quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020.

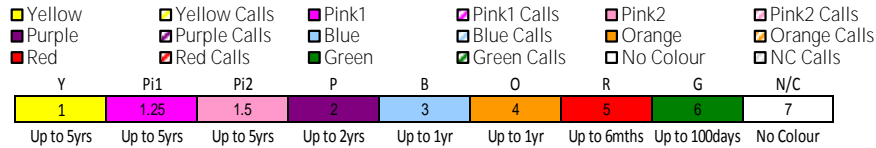
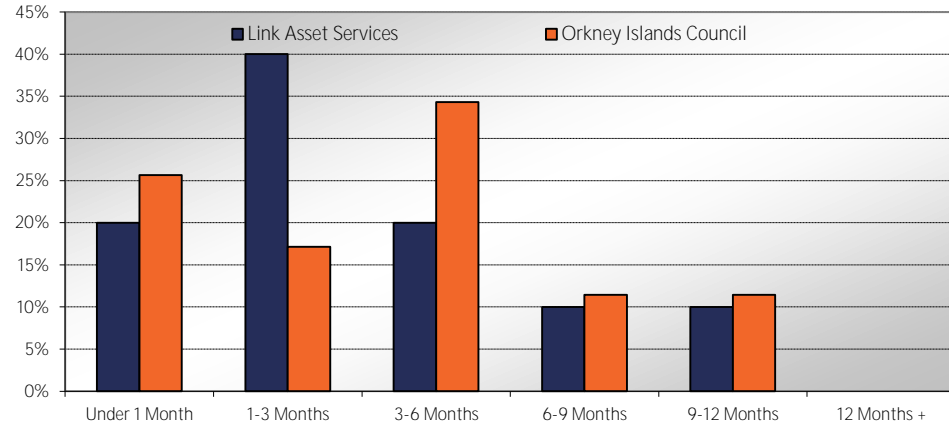
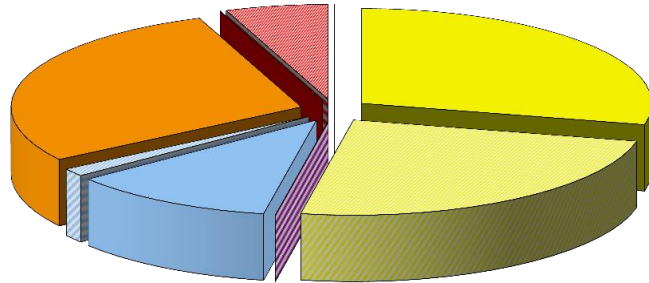
Bank Rate	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.75%	-

# Orkney Islands Council

## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Standard Life	5,800,000	0.67%		MMF	AAA	0.000%
MMF BlackRock	2,700,000	0.67%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc (RFB)	465,994	0.05%		Call	A-	0.000%
Thurrock Borough Council	2,000,000	0.74%	10/11/2017	09/11/2018	AA	0.003%
Bank of Scotland Plc (RFB)	2,000,000	0.90%	23/11/2017	23/11/2018	A+	0.008%
Bank of Scotland Plc (RFB)	2,000,000	0.90%	08/12/2017	10/12/2018	A+	0.010%
Bank of Scotland Plc (RFB)	2,000,000	0.85%	03/01/2018	03/01/2019	A+	0.014%
Fife Council	5,000,000	0.73%	05/01/2018	05/01/2019	AA	0.007%
Thurrock Borough Council	3,000,000	0.90%	24/08/2018	25/02/2019	AA	0.010%
Santander UK Plc	2,000,000	0.95%		Call166	A	0.024%
Bank of Scotland Plc (RFB)	2,000,000	1.00%	13/06/2018	13/06/2019	A+	0.038%
Bank of Scotland Plc (RFB)	2,000,000	1.00%	22/06/2018	21/06/2019	A+	0.039%
National Westminster Bank Plc (RFB)	2,000,000	1.01%	20/07/2018	19/07/2019	A-	0.043%
National Westminster Bank Plc (RFB)	2,000,000	1.04%	31/07/2018	29/07/2019	A-	0.045%
<b>Total Investments</b>	<b>£34,965,994</b>	<b>0.83%</b>				<b>0.015%</b>

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.34**

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

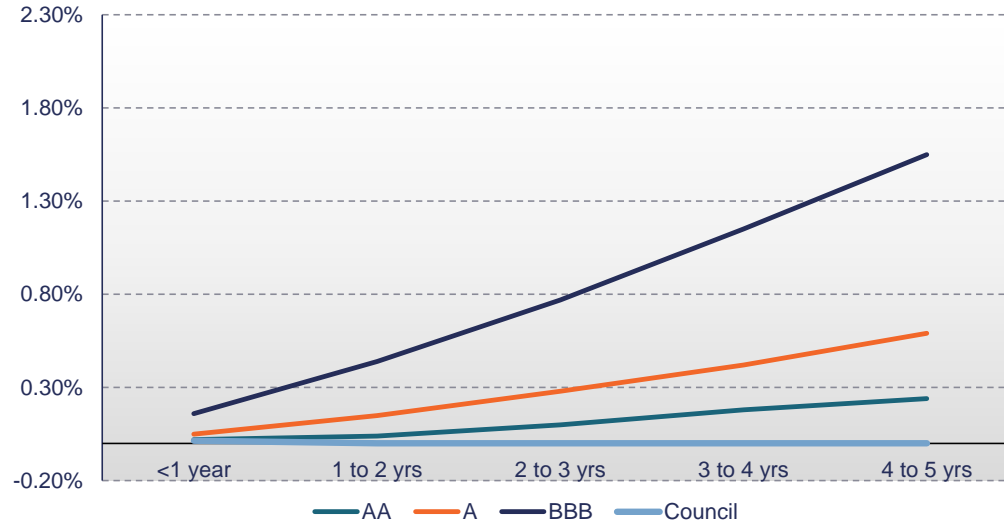
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	52.91%	£18,500,000	45.95%	£8,500,000	24.31%	0.73%	55	168	101	311
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£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	12.77%	£4,465,994	10.43%	£465,994	1.33%	0.92%	266	326	297	364
Orange	28.60%	£10,000,000	0.00%	£0	0.00%	0.93%	148	365	148	365
Red	5.72%	£2,000,000	100.00%	£2,000,000	5.72%	0.95%	166	166	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>£34,965,994</b>	<b>31.36%</b>	<b>£10,965,994</b>	<b>31.36%</b>	<b>0.83%</b>	<b>115</b>	<b>244</b>	<b>153</b>	<b>342</b>



# Orkney Islands Council

## Investment Risk and Rating Exposure

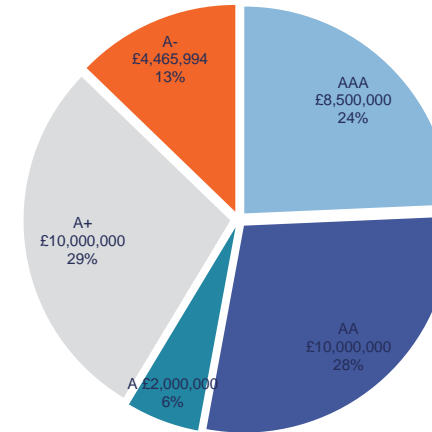
Investment Risk Vs. Rating Categories



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	0.015%	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
25/09/2018	1641	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

## Orkney Islands Council

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1640	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

## Orkney Islands Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1639	Australia Sovereign Rating	Australia	Outlook on the Long Term Rating changed to Stable from Negative
26/09/2018	1642	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Positive

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