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To **Audit and Procurement Committee**

Date **12<sup>th</sup> November 2018**

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Subject **City Council Treasury Management Investment Activity**

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**1 Background and Purpose of the Note**

This note provides an update on the Council's Treasury Management activity.

**2 Treasury Management Activity**

2.1 Appendix 1 in this report shows the Council's Lending List – a list of those banking and government institutions that the Council's Investment Strategy allows us to invest cash balances with. Appendix 2 shows the most recent list of investments that the Council holds.

2.2 The current lending list is maintained in line with advice provided by the Council's Treasury Management advisors (Arlingclose) which bases its judgement on information from credit rating agencies.

2.3 Since the last report in November 2017 there has been a major change in the UK banking system whereby the largest UK banks have been "ring-fenced". This means that the largest UK banks must separate core retail banking from investment banking in order to help manage any banking failures & to make the impact of such failures less severe than they have been in the past. The Council can invest in both of these ring fenced banks in some cases, which is why it looks like we have certain banks on the lending list twice. Those banks that we can invest in both ring fenced banks at the same time are HSBC and Barclays.

Another significant change to the counterparty list is the reduction in the counterparty limits. The counterparty limits are based on the expected cash levels for the coming year. As a result of repaying some long term borrowing and a large capital program it was anticipated that the Council's cash balances would be lower than previous years. Therefore counterparty limits have been reduced from £8m to £6m for investments with banks.

Also, two UK banks (Royal Bank of Scotland and Ulster bank), three German banks (Bayerische Landesbank, DZ Bank and Landesbank Baden Wuerttemberg) and one unrated Building Society (Harpenden) have been added to the approved lending lists based on advice from Arlingclose as a result of improved financial performance.

Full details can be seen in the lending list in Appendix 1.

2.4 The total level of investment balances held by the Council stood at £100.1m as at 12<sup>th</sup> October 2018 compared with £99.6m as at 13<sup>th</sup> October 2017. The breakdown of these balances is shown below.

|                             | <b>13/10/2017<br/>£m</b> | <b>12/10/2018<br/>£m</b> |
|-----------------------------|--------------------------|--------------------------|
| Bank Deposits               | 24.4                     | 7.0                      |
| Local Authority Deposits    | 0.0                      | 6.0                      |
| Money Market Funds          | 16.0                     | 37.2                     |
| Collective Investment Funds | 39.8                     | 38.9                     |
| Corporate Bonds             | 11.4                     | 5.0                      |
| Housing Associations        | 8.0                      | 6.0                      |
| <b>Total</b>                | <b>99.6</b>              | <b>100.1</b>             |


2.5 Since the last report there has been a change in emphasis with regards to Collective Investment Funds. Collective Investment Funds are funds operated by financial institutions who pool money from several investors and use that money to invest in products that the Council would otherwise be unable to invest in due to the complexities of the products involved.

The Council previously had investments with a small number of institutions which were very low risk but also had a relatively small return. In a search for greater returns whilst maintaining high levels of security, the Council now invests in a wider range of funds which offer a higher return, but are potentially more volatile than previous investments. High levels of security have been maintained whilst increasing returns and volatility by investing smaller amounts in each institution thus diversifying the investment portfolio and choosing products that will react differently to market events, meaning that any losses that an individual product makes will be offset by gains made by other products.

2.6 Since the last report, £5m of PWLB borrowing has matured and as such been repaid. Also, £20m of the Council's LOBO borrowing has been repaid early due to beneficial early repayment terms being offered by the lender. The savings from this were incorporated in the 2018/19 Budget Report.

2.7 As a result of the significant payments required to repay the above borrowing, some short term borrowing has been undertaken since the last report. This totalled £45m, with the highest amount outstanding at any one time being £32.5m. Whilst the Council held this borrowing, investment balances were still at approximately £60m and any interest costs associated with borrowing were more than covered by these investment balances. The Council still has £10m of this borrowing outstanding at the time of this report.

Appendix 1

|  <b>COVENTRY CITY COUNCIL LENDING LIST</b> |            |                                   |         |       |             |               | 03/09/2018                            |                       | Position number in 'Investment Grade' |   |  |
|---|------------|-----------------------------------|---------|-------|-------------|---------------|---------------------------------------|-----------------------|---------------------------------------|---|--|
| <small>USING MINIMUM ACCEPTABLE CREDIT QUALITY</small>  |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Institution   | Country    | Long Term Rating                  |         |       | Limit<br>£m | Term<br>Limit | Position number in 'Investment Grade' |                       |                                       |   |  |
|   |            | Fitch                             | Moody's | S & P |             |               | Fitch                                 | Moody's               | S&P                                   |   |  |
| Debt Management Office  | UK         | AA+                               | Aa1     | AAA   |             | 50 years      | 2                                     | 2                     | 1                                     |   |  |
| Local Authorities   | UK         | AA+                               | Aa1     | AAA   |             | 50 years      | 2                                     | 2                     | 1                                     |   |  |
| HSBC Bank plc (* See note below)  | UK         | AA-                               | Aa3     | AA-   | £5.8m       | 6 Months      | 4                                     | 4                     | 4                                     |   |  |
| HSBC UK Bank plc (* See note below)   | UK         | AA-                               |         | AA-   | £5.8m       | 6 Months      | 4                                     |                       |                                       | 4 |  |
| Lloyds Bank Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Bank of Scotland plc (** See note below)  | UK         | A+                                | Aa3     | A+    | £1.4m       | 6 Months      | 5                                     | 4                     | 5                                     |   |  |
| Barclays Bank Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Barclays Bank plc   | UK         | A                                 | *+      | A2    | £6m         | 100 Days      | 6                                     | 6                     | 6                                     |   |  |
| Barclays Bank Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Barclays Bank UK plc  | UK         | A                                 | *+      | A1    | £6m         | 100 Days      | 6                                     | 5                     | 6                                     |   |  |
| Coventry BS   | UK         | A                                 |         | A2    | £6m         | 6 Months      | 6                                     | 6                     |                                       |   |  |
| Close Brothers Ltd  | UK         | A                                 |         | Aa3   | £6m         | 6 Months      | 6                                     | 4                     |                                       |   |  |
| Lloyds Bank Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Lloyds Bank plc (** See note below)   | UK         | A+                                | Aa3     | A+    | £1.4m       | 6 Months      | 5                                     | 4                     | 5                                     |   |  |
| Nationwide BS   | UK         | A+                                | Aa3     | A     | £6m         | 6 Months      | 5                                     | 4                     | 6                                     |   |  |
| Santander UK Plc (Abbey)  | UK         | A                                 | *+      | Aa3   | £6m         | 6 Months      | 6                                     | 4                     | 6                                     |   |  |
| Standard Chartered Bank   | UK         | A+                                | A1      | A     | £6m         | 6 Months      | 5                                     | 5                     | 6                                     |   |  |
| Goldman Sachs International Bank  | UK         | A                                 | A1      | A+    | £6m         | 100 Days      | 6                                     | 5                     | 5                                     |   |  |
| Leeds Building Society  | UK         | A-                                | A3      |       | £6m         | 100 Days      | 7                                     | 7                     |                                       |   |  |
| RBS Bank Group  |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| National Westminster Bank (***) See note below)   | UK         | A-                                | A1      | A-    | £5.5m       | 100 Days      | 7                                     | 5                     | 7                                     |   |  |
| RBS Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Royal Bank of Scotland PLC **** - (See note below)  | UK         | A-                                | A1      | A-    | £5.5m       | 100 Days      | 7                                     | 5                     | 7                                     |   |  |
| RBS Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Ulster Bank Limited **** - (See note below)   | UK         | A-                                | A1      | A-    | £5.5m       | 100 Days      | 7                                     | 5                     | 7                                     |   |  |
| DARLINGTON BUILDING SOCIETY   | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| FURNESS BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| HARPENDEN BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| HINCKLEY & RUGBY BUILDING SOCIETY   | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| LEEK UNITED BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| MANSFIELD BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| MARSDEN BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| MELTON MOWBRAY BUILDING SOCIETY   | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| NATIONAL COUNTIES BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| NEWBURY BUILDING SOCIETY  | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| SCOTTISH BUILDING SOCIETY   | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| TIPTON & COSELEY BUILDING SOCIETY   | UK         |                                   |         |       | £1m         | 100 Days      |                                       |                       |                                       |   |  |
| Australia and New Zealand Banking Group Ltd   | AU         | AA-                               | Aa3     | AA-   | £6m         | 6 Months      | 4                                     | 4                     | 4                                     |   |  |
| Commonwealth Bank of Australia  | AU         | AA-                               | Aa3     | AA-   | £6m         | 6 Months      | 4                                     | 4                     | 4                                     |   |  |
| Westpac Banking Corporation   | AU         | AA-                               | Aa3     | AA-   | £6m         | 6 Months      | 4                                     | 4                     | 4                                     |   |  |
| Bank of Montreal  | CA         | AA-                               | Aa2     | A+    | £6m         | 6 Months      | 4                                     | 3                     | 5                                     |   |  |
| Bank of Nova Scotia   | CA         | AA-                               | Aa2     | A+    | £6m         | 6 Months      | 4                                     | 3                     | 5                                     |   |  |
| Canadian Imperial Bank of Commerce  | CA         | AA-                               | Aa2     | A+    | £6m         | 6 Months      | 4                                     | 3                     | 5                                     |   |  |
| Royal Bank of Canada  | CA         | AA                                | Aa2     | AA-   | £6m         | 6 Months      | 3                                     | 3                     | 4                                     |   |  |
| Toronto Dominion Bank   | CA         | AA-                               | Aa1     | AA-   | £6m         | 6 Months      | 4                                     | 2                     | 4                                     |   |  |
| Danske Bank A/S   | DK         | A+                                | A1      | A     | £6m         | 100 Days      | 5                                     | 5                     | 6                                     |   |  |
| OP Corporate Bank   | FI         |                                   | Aa3     | AA-   | £6m         | 6 Months      |                                       | 4                     | 4                                     |   |  |
| Bayerische Landesbank   | GE         | A-                                | Aa3     |       | £6m         | 6 months      | 7                                     | 4                     |                                       |   |  |
| DZ Bank   | GE         | AA-                               | Aa1     | AA-   | £6m         | 6 months      | 4                                     | 2                     | 4                                     |   |  |
| LANDESBANK HESSEN-THURINGEN   | GE         | AA-                               | Aa3     | A     | £6m         | 6 Months      | 4                                     | 4                     | 6                                     |   |  |
| Landesbank Baden Wuerttember  | GE         | A-                                | Aa3     |       | £6m         | 6 Months      | 7                                     | 4                     |                                       |   |  |
| Cooperative Centrale Raiffe (Rabobank)  | NE         | AA-                               | Aa3     | A+    | £6m         | 13 Months     | 4                                     | 4                     | 5                                     |   |  |
| ING Bank NV   | NE         | A+                                | Aa3     | A+    | £6m         | 100 Days      | 5                                     | 4                     | 5                                     |   |  |
| DBS Bank Ltd  | SI         | AA-                               | Aa1     | AA-   | £6m         | 13 Months     | 4                                     | 2                     | 4                                     |   |  |
| Oversea-Chinese Banking Corp  | SI         | AA-                               | Aa1     | AA-   | £6m         | 13 Months     | 4                                     | 2                     | 4                                     |   |  |
| United Overseas Bank Ltd  | SI         | AA-                               | Aa1     | AA-   | £6m         | 13 Months     | 4                                     | 2                     | 4                                     |   |  |
| Nordea Bank AB  | SW         | AA-                               | Aa3     | AA-   | £6m         | 13 Months     | 4                                     | 4                     | 4                                     |   |  |
| Svenska Handelsbanken AB  | SW         | AA                                | Aa2     | AA-   | £6m         | 13 Months     | 3                                     | 3                     | 4                                     |   |  |
| Credit Suisse   | SZ         | A                                 | A1      | A     | £6m         | 100 Days      | 6                                     | 5                     | 6                                     |   |  |
| <b>MONEY MARKET FUNDS (MMFs)</b>  |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Deutsche Bank Advisors  | Ireland    |                                   | Aaa     | AAA   | £12m        |               |                                       | 1                     | 1                                     |   |  |
| Federated Investors   | UK         | AAA                               | Aaa     | AAA   | £12m        |               | 1                                     |                       | 1                                     |   |  |
| HSBC Asset Management   | Ireland    |                                   | Aaa     | AAA   | £12m        |               |                                       | 1                     | 1                                     |   |  |
| Morgan Stanley Investment Management  | Luxembourg | AAA                               | Aaa     | AAA   | £12m        |               |                                       |                       |                                       |   |  |
| Standard Life Investments   | Ireland    | AAA                               |         | AAA   | £12m        |               | 1                                     |                       | 1                                     |   |  |
| HSBC Bank plc * - (Reduced limit)   | UK         | £0.2m School balances at HSBC     |         |       |             |               |                                       | 7 = Borderline rating |                                       |   |  |
| Lloyds Banking Group  |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Bank of Scotland plc ** - (Reduced limit)   | UK         | £4.6m School balances at Lloyds   |         |       |             |               |                                       |                       |                                       |   |  |
| Lloyds Banking Group  |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Lloyds Bank plc ** - (Reduced limit)  | UK         | £4.6m School balances at Lloyds   |         |       |             |               |                                       |                       |                                       |   |  |
| RBS Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| National Westminster Bank *** - (Reduced limit)   | UK         | £0.5m School balances at Nat West |         |       |             |               |                                       |                       |                                       |   |  |
| RBS Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Royal Bank of Scotland PLC **** - (Reduced limit)   | UK         | £0.5m School balances at Nat West |         |       |             |               |                                       |                       |                                       |   |  |
| RBS Group   |            |                                   |         |       |             |               |                                       |                       |                                       |   |  |
| Ulster Bank Limited *** - (Reduced limit)   | UK         | £0.5m School balances at Nat West |         |       |             |               |                                       |                       |                                       |   |  |

## Appendix 2

### TEMPORARY LOANS BOOK

Balances as at the 12/10/18

| <u>LOAN REF.</u>                    | <u>LENDER NAME</u>          | <u>BROKER</u> | <u>PRINCIPAL</u>             | <u>START DATE</u> | <u>MATURITY DATE</u> | <u>INITIAL INT RATE</u> | <u>DAYS</u> | <u>INT DUE</u>    |
|-------------------------------------|-----------------------------|---------------|------------------------------|-------------------|----------------------|-------------------------|-------------|-------------------|
| <b>TEMPORARY LOAN IN(BORROWING)</b> |                             |               |                              |                   |                      |                         |             |                   |
| 100001889                           | LON BORO OF TOWER HAMLETS   | KS            | 10,000,000.00                | 26/02/18          | 26/02/19             | 1.000000                | 365         | 100,000.00        |
|                                     |                             |               | <u>10,000,000.00</u>         |                   |                      |                         |             | <u>100,000.00</u> |
| <b>TEMPORARY LOAN OUT (DEPOSIT)</b> |                             |               |                              |                   |                      |                         |             |                   |
| 200004159                           | NATIONAL COUNTIES B SOCIETY | FP            | 1,000,000.00                 | 31/08/18          | 07/12/18             | 0.820000                | 98          | 2,201.64          |
| 200004158                           | METROPOLITAN HOUSING TRUST  | SB            | 6,000,000.00                 | 16/08/18          | 17/12/18             | 0.930000                | 123         | 18,803.84         |
| 200004161                           | BIRMINGHAM CITY COUNCIL     | FP            | 6,000,000.00                 | 26/09/18          | 24/12/18             | 0.820000                | 89          | 11,996.71         |
| 200004160                           | DEV BANK OF SINGAPORE LTD   | MARB          | 6,000,000.00                 | 18/09/18          | 18/02/19             | 0.930000                | 153         | 23,390.14         |
|                                     |                             |               | <u>19,000,000.00</u>         |                   |                      |                         |             | <u>56,392.33</u>  |
| <b>FIXED BONDS</b>                  |                             |               |                              |                   |                      |                         |             |                   |
| 1700000045                          | BP CAPITAL MARKETS PLC      | KS            | 3,429,375.80                 | 03/07/18          | 10/12/18             | 0.888000                | 160         | 13,349.20         |
| 1700000046                          | BP CAPITAL MARKETS PLC      | KS            | 1,558,690.80                 | 20/07/18          | 10/12/18             | 1.012699                | 143         | 6,184.20          |
|                                     |                             |               | <u>4,988,066.60</u>          |                   |                      |                         |             | <u>19,533.40</u>  |
| <b>MMF DEPOSITS</b>                 |                             |               |                              |                   |                      |                         |             |                   |
| 2400000002                          | ABERDEEN LIQUIDITY FUND     | N/A           | 2,600,000.00                 | 04/09/12          |                      | 0.678973                |             |                   |
| 2400000003                          | HSBC STERLING LIQUIDITY     | N/A           | 0.00                         | 04/09/12          |                      | 0.644986                |             |                   |
| 2400000004                          | FEDERATED PRIME RATE        | N/A           | 12,000,000.00                | 17/09/12          |                      | 0.701019                |             |                   |
| 2400000005                          | DEUTSCHE MANAGED STERLING   | N/A           | 11,550,000.00                | 19/07/13          |                      | 0.709012                |             |                   |
| 2400000006                          | MORGAN STANLEY              | N/A           | 11,000,000.00                | 10/06/16          |                      | 0.688274                |             |                   |
|                                     |                             |               | <u>37,150,000.00</u>         |                   |                      |                         |             |                   |
| <b>COLLECTIVE INVESTMENT FUNDS</b>  |                             |               |                              |                   |                      |                         |             |                   |
| 2600000006                          | CCLA INVESTMENT MGT LTD     | N/A           | 12,000,000.00                | 28/11/13          |                      |                         |             |                   |
| 2600000008                          | ROYAL LONDON ASSET MGT      | N/A           | 4,873,193.40                 | 27/09/16          |                      |                         |             |                   |
| 2600000009                          | ROYAL LONDON ASSET MGT      | N/A           | 3,036,601.06                 | 27/09/16          |                      |                         |             |                   |
| 2600000010                          | DB SHORT DURATION FUND      | N/A           | 1,010,218.57                 | 01/02/17          |                      |                         |             |                   |
| 2600000011                          | SCHRODERS UNIT TRUST LTD    | N/A           | 4,500,000.00                 | 01/08/18          | Equity               |                         |             |                   |
| 2600000012                          | INVESTEC INCOME FUND        | N/A           | 4,500,000.00                 | 10/08/18          | Multi                |                         |             |                   |
| 2600000013                          | COLUMBIA TREADNEEDLE        | N/A           | 1,500,000.00                 | 16/08/18          | Bond                 |                         |             |                   |
| 2600000014                          | M&G INVESTMENTS - OPTIMAL   | N/A           | 1,500,000.00                 | 20/08/18          | Bond                 |                         |             |                   |
| 2600000015                          | M&G INVESTMENTS – STRAT     | N/A           | 3,000,000.00                 | 20/08/18          | Bond                 |                         |             |                   |
| 2600000016                          | M&G INVESTMENTS – UK        | N/A           | 3,000,000.00                 | 20/08/18          | Equity               |                         |             |                   |
|                                     |                             |               | <u>38,920,013.03</u>         |                   |                      |                         |             |                   |
| <b>GRAND TOTAL</b>                  |                             |               | <u><u>100,058,079.63</u></u> |                   |                      |                         |             |                   |