



To: Audit and Procurement Committee

11th November 2019

Subject: City Council Treasury Management Investment Activity

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 The Council 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 and reviews of financial statements.

2.3 In 2018/19 counterparty limits were set at £6m for unsecured investments with banks, housing associations & corporate bonds and £12m for secured investments with these institutions, pooled funds & money market funds. In 2018/19 total investment balances remained higher than anticipated & these limits proved to be restrictive making it difficult to find places to invest The Council's cash.

As a result the counterparty limits have been increased for 2019/20 to £10m for unsecured investments & £20m for secured investments, pooled funds & money market funds.

Three European banks have been removed from the lending list in the past 12 months. Following analysis by The Council's Treasury Management advisors on European banks in the run up to EU Exit, they advised that Danske Bank, Credit Suisse & ING Bank should be removed from lending lists. Credit Suisse and ING Bank were only removed as they are no longer in the Local Authority market. However, Danske Bank was removed due to their share price dropping by nearly a half following a money laundering investigation leaving the Bank vulnerable to any potential shocks that an EU exit could cause. The Council has not held any investments with these institutions.

This review of European banks also led to a reduction in the term limit with Rabobank. Rabobank is among the strongest banks in mainland Europe but due to uncertainty surrounding EU Exit, Arlingclose felt that it was not wise to hold any deposits in Europe for the long term. As such the limit we could hold an investment for was reduced from 13 months to 6 months.

Also, all Building Societies who do not hold a credit rating have been removed from The Council's counterparty list. This decision was taken following a review of the sector by Arlingclose and it was felt that these institutions hold a very high exposure to the UK property market. Arlingclose felt that this lack of diversification could have a negative impact on these institutions in the uncertainty that could follow EU Exit. The Council has held investments with some of these institutions in the past, however, they were only small in size and as such this hasn't had a major impact on the Council's treasury management activities.

Arlingclose carried out another review on The Council's lending list when the latest financial statements of the institutions were released. This led to a reduction in the term limits of 5 institutions. Coventry Building Society & Close Brothers were reduced from 6 months to 100 days and the Singaporean Banks were downgraded from 13 months to 6 months.

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 £75.5m as at 11th October 2019 compared with £100.1m as at 12th October 2018. The breakdown of these balances is shown below.

	12/10/2018 £m	11/10/2019 £m
Bank Deposits	7.0	5.0
Local Authority Deposits	6.0	0.0
Money Market Funds	37.2	21.5
Collective Investment Funds	38.9	30.0
Corporate Bonds	5.0	9.0
Housing Associations	6.0	10.0
Total	100.1	75.5

- 2.5 In September 2018 The Council changed strategy with regard to the Collective Investment Funds it held. Previously the funds were low risk and low return. This strategy changed to embrace more volatility in returns whilst maintaining a low risk of default to achieve higher potential returns.
- 2.6 For the financial year 2019/20 up to 30/09/2019, the Council's investments earned an average interest rate of 2.13%. This can be split down between Collective Investment Funds & all other types of investments. The Collective Investment Funds have earned 4.74% & all other investments have earned 1.16%. This is a relatively high return when compared to the Bank of England Base Rate of 0.75%. This has been achieved by embracing a slightly higher risk profile as outline above & making investments for a slightly longer period due to an improvement in cashflow forecasting.
- 2.7 Since the last report, £9.2m of PWLB borrowing has matured and as such been repaid. No new long term borrowing has been taken out. On 09/10/2019 The Treasury has increased the interest rate of PWLB borrowing by 1% in response to the record lows that the PWLB interest rates had fallen to. However, The Council has no plans to take any new long term borrowing in the near future with advice continuing to be to keep any borrowing to a short-term duration.

2.8 As a result of the significant payments required to repay the above borrowing and the large capital program that is currently underway, some short-term borrowing has been undertaken in this financial year. This has totalled £49.5m, with the amount outstanding as at 11/10/2019 being £29m. The average rate of borrowing for the 1st two quarters of this financial year has been 0.72%, meaning the interest earned on investment balances as outlined above has more than compensated for any interest paid on short term borrowing.

Appendix 1

COVENTRY CITY COUNCIL LENDING LIST							15/03/2019			Position number in 'Investment Grade'
Institution	Country	Long Term Rating			Limit £m	Term Limit	Fitch			S&P
		Fitch	Moodys	S & P			Fitch	Moodys	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-	£9.7m	6 Months	4	4	4	
HSBC UK Bank plc (* See note below)	UK	AA-		AA-	£9.7m	6 Months	4		4	
Lloyds Bank Group										
Bank of Scotland plc (** See note below)	UK	A+	Aa3	A+	£5.8m	6 Months	5	4	5	
Barclays Bank Group										
Barclays Bank plc	UK	A+	A2	A	£10m	100 Days	6	6	6	
Barclays Bank Group										
Barclays Bank UK plc	UK	A+	A1	A	£10m	100 Days	6	5	6	
Coventry BS	UK	A	A2		£10m	100 Days	6	6		
Close Brothers Ltd	UK	A	Aa3		£10m	100 Days	6	4		
Lloyds Bank Group										
Lloyds Bank plc (** See note below)	UK	A+	Aa3	A+	£5.8m	6 Months	5	4	5	
Nationwide BS	UK	A+	Aa3	A	£10m	6 Months	5	4	6	
Santander UK Plc (Abbey)	UK	A	Aa3	A	£10m	6 Months	6	4	6	
Standard Chartered Bank	UK	A+	A1	A	£10m	6 Months	5	5	6	
Goldman Sachs International Bank	UK	A	A1	A+	£10m	100 Days	6	5	5	
Leeds Building Society	UK	A-	A3		£10m	100 Days	7	7		
RBS Bank Group										
National Westminster Bank (**** See note below)	UK	A+	A1	A-	£9.3m	100 Days	5	5	7	
Royal Bank of Scotland PLC **** - (See note below)	UK	A+	A1	A-	£9.3m	100 Days	5	5	7	
RBS Group										
Ulster Bank Limited **** - (See note below)	UK	A+	A1	A-	£9.3m	100 Days	5	5	7	
Handelsbanken plc	UK	AA		AA-	£10m	6 Months	3		4	
Australia and New Zealand Banking Group Ltd	AU	AA-	Aa3	AA-	£10m	6 Months	4	4	4	
Commonwealth Bank of Australia	AU	AA-	Aa3	AA-	£10m	6 Months	4	4	4	
Westpac Banking Corporation	AU	AA-	Aa3	AA-	£10m	6 Months	4	4	4	
Bank of Montreal	CA	AA-	Aa2	A+	£10m	6 Months	4	3	5	
Bank of Nova Scotia	CA	AA-	Aa2	A+	£10m	6 Months	4	3	5	
Canadian Imperial Bank of Commerce	CA	AA-	Aa2	A+	£10m	6 Months	4	3	5	
Royal Bank of Canada	CA	AA	Aa2	AA-	£10m	6 Months	3	3	4	
Toronto Dominion Bank	CA	AA-	Aa1	AA-	£10m	6 Months	4	2	4	
OP Corporate Bank	FI		Aa3	AA-	£10m	6 Months			4	4
Nordea Bank ABP	FI	AA-	Aa3	AA-	£10m	6 Months	4	4	4	
Bayerische Landesbank	GE	A-	Aa3		£10m	6 months	7		4	
DZ Bank	GE	AA-	Aa1	AA-	£10m	6 months	4	2	4	
LANDESBANK HESSEN-THURINGEN	GE	AA-	Aa3	A	£10m	6 Months	4	4	6	
Landesbank Baden Wuertember	GE	A-	Aa3		£10m	6 Months	7		4	
Cooperative Centrale Raiffe (Rabobank)	NE	AA-	Aa3	A+	£10m	6 Months	4	4	5	
DBS Bank Ltd	SI	AA-	Aa1	AA-	£10m	6 Months	4	2	4	
Oversea-Chinese Banking Corp	SI	AA-	Aa1	AA-	£10m	6 Months	4	2	4	
United Overseas Bank Ltd	SI	AA-	Aa1	AA-	£10m	6 Months	4	2	4	
MONEY MARKET FUNDS (MMFs)										
Deutsche Bank Advisors	Ireland		Aaa	AAA	£20m				1	1
Federated Investors	UK	AAA	Aaa	AAA	£20m		1			1
HSBC Asset Management	Ireland		Aaa	AAA	£20m				1	1
Morgan Stanley Investment Management	Luxembourg	AAA	Aaa	AAA	£20m					
Standard Life Investments	Ireland	AAA		AAA	£20m		1			1
							7 = Borderline			
HSBC Bank plc * - (Reduced limit)	uk	£0.3m School balances at HSBC								
Lloyds Banking Group										
Bank of Scotland plc ** - (Reduced limit)	uk	£4.2m School balances at Lloyds								
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Lloyds Bank plc ** - (Reduced limit)	uk	£4.2m School balances at Lloyds								
RBS Group										
National Westminster Bank **** - (Reduced limit)	UK	£0.7m School balances at Nat West								
RBS Group										
Royal Bank of Scotland PLC **** - (Reduced)	UK	£0.7m School balances at Nat West								
RBS Group										
Ulster Bank Limited **** - (Reduced limit)	UK	£0.67m School balances at Nat West								
Group Limits: £20m per non UK Country, £20m in total in Unrated Building Societies.										

Appendix 2

TEMPORARY LOANS BOOK

Balances as at the 11/10/19

LOAN REF. LENDER NAME	BROKER	PRINCIPAL	START DATE	MATURITY DATE	INITIAL INT RATE	DAYS	INT DUE
TEMPORARY LOAN OUT (BORROWING)							
100001915 SOUTHAMPTON CITY COUNCIL	KS	10,000,000.00	11/09/19	23/10/19	0.630000	42	7,249.32
100001916 NEWPORT CITY COUNCIL	IMP	3,000,000.00	30/09/19	31/10/19	0.630000	31	1,605.21
100001917 THE VALE OF GLAMORGAN C	IMP	2,000,000.00	30/09/19	19/11/19	0.600000	50	1,643.84
100001918 WARWICKSHIRE POLICE & CC	FP	2,000,000.00	13/09/19	28/11/19	0.570000	76	2,373.70
100001919 SHROPSHIRE & WREKIN FIRE	FP	2,000,000.00	30/09/19	31/01/20	0.700000	123	4,717.81
100001920 SCARBOROUGH BC	FP	3,000,000.00	30/09/19	31/01/20	0.700000	123	7,076.71
100001921 TEWKESBURY BC	BT	2,000,000.00	10/10/19	08/10/20	1.000000	364	19,945.21
100001922 NORTH SOMERSET DC	SB	2,000,000.00	11/10/19	09/10/20	1.000000	364	19,945.21
100001923 RUNNYMEDE BC	SB	3,000,000.00	11/10/19	09/10/20	1.000000	364	29,917.81
		29,000,000.00					94,474.82
TEMPORARY LOAN OUT (DEPOSIT)							
200004170 LLOYDS BANK	N/A	5,000,000.00	07/06/19	06/12/19	1.000000	182	24,931.51
200004168 METROPOLITAN HOUSING TRUST	BT	10,000,000.00	15/05/19	15/05/20	1.500000	366	150,410.96
		15,000,000.00					177,863.01
FIXED BONDS							
1700000047 LONDON STOCK EXCHANGE	KS	3,296,370.41	19/11/18	18/10/19	1.243555	333	37,398.34
1700000048 LONDON STOCK EXCHANGE	KS	2,299,534.99	14/01/19	18/10/19	1.485208	277	25,918.76
1700000050 LONDON STOCK EXCHANGE	KS	2,080,586.13	02/05/19	18/10/19	1.106969	169	10,663.87
1700000049 DAIMLER AG	KS	1,297,719.81	23/01/19	20/12/19	1.384236	331	16,290.19
		8,974,211.34					90,271.16
MME DEPOSITS							
2400000002 ABERDEEN LIQUIDITY FUND	N/A	10,000,000.00	04/09/12		0.727445		
2400000003 HSBC STERLING LIQUIDITY	N/A	0.00	04/09/12		0.652907		
2400000004 FEDERATED PRIME RATE	N/A	10,000,000.00	17/09/12		0.726459		
2400000005 DEUTSCHE MANAGED STERLING	N/A	1,525,000.00	19/07/13		0.702917		
2400000006 MORGAN STANLEY	N/A	0.00	10/06/16		0.701122		
		21,525,000.00					
COLLECTIVE INVESTMENT FUNDS							
2600000006 CCLA INVESTMENT MGT LTD	N/A	12,000,000.00	28/11/13		4.380000		
2600000011 SCHRODERS UNIT TRUSTS LTD	N/A	4,500,000.00	01/08/18		9.450000		
2600000012 INVESTEC ASSET MANAGEMENT	N/A	4,500,000.00	10/08/18		2.900000		
2600000013 COLUMBIA TREADNEEDLE	N/A	1,500,000.00	16/08/18		2.830000		
2600000014 M&G INVESTMENTS	N/A	1,500,000.00	20/08/18		3.280000		
2600000015 M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		9.080000		
2600000016 M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		3.850000		
		30,000,000.00					
GRAND TOTAL							75,499,211.34