Coventry City Council

Briefing Note

To: Audit and Procurement Committee **Date: 25th January 2021**

Subject: Treasury Management Update

1 Background and Purpose of the Note

1.1 This note provides an update on the Council's Treasury Management activity in 2020/21 to the end of September 2020. The Committee is asked to note the report.

2 Treasury Management Activity

2.1 The Council adopts the Chartered institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice (the CIPFA code). This requires the Council to approve an annual Treasury Management Strategy and a mid-year update report. Treasury Management performance is reported as part of regular budget monitoring reports to this Committee.

2.2 The Council's Treasury Management activity is undertaken in line with the Treasury Management and Commercial Investments Strategy and Policy for 2020/21, which was agreed by Cabinet as part of the Budget Report 2020/21 at its meeting of 25 February 2020. There are no breaches of the strategy and policy to report.

2.3 The Council is supported in the Investment Strategy and Policy by its Treasury Management Advisors - Arlingclose. The advisors provide economic analysis and specialist advice. A key element of this is the provision of advice on credit risk and the supply of information on credit ratings. Regular review meetings with the advisors continue to be held.

2.4 Staff with involvement in treasury issues continue to attend on-line events focused on treasury management as appropriate.

2.5 **Appendix 1** is a detailed list of short-term borrowing and investments that the Council holds as at 30 September 2020.

Borrowing Update:

2.6 The first table at **Appendix 1** identifies that the total short-term borrowing as at 30 September 2020 is £94m at an average interest rate of 0.95%.

2.7 At the end of the previous financial year, the total short-term borrowing was £20m. A further significant amount of short-term borrowing (£74m) was undertaken in April 2020 solely to enable a heavily discounted upfront payment of £97.8m to be made to the West Midlands Pension Fund. This payment represents three years employer's contributions.

2.8 No long-term borrowing has been undertaken for several years, due in part to the level of investment balances available to the Council. The Council has no immediate plans to take any new long-term borrowing, however, this will be kept under review. As at 31st March 2020, the Council's long-term liabilities totalled £315.8m. Most of the long-term borrowing is sourced from the Public Works Loan Board (PWLB) (£190.4m).

2.9 In November 2020 the PWLB cut its lending rates by 1%. However, the ability to use this facility does not come without strings. The Treasury announced that from now on, councils can only borrow from PWLB if finance directors "confirm that there is no intention to buy investment assets primarily for yield" in the three years following a loan. Finance directors will also need to submit a plan for capital spending and financing plans covering the forthcoming three years. Further restrictions mean PWLB will not lend to a council planning to buy assets for yield "regardless of whether the transaction would notionally be financed from a source other than the PWLB." Failure to comply with the rules could lead to a council being banned from using the PWLB borrowing facility.

Investments Update:

2.10 The final three tables at **Appendix 1** provide a detailed list of investments held as at 2nd October 2020 and identifies a total investment of £112.8m. This compares to £75.5m held a year ago. The breakdown of these balances is shown below:

	11/10/2019 £m	**02/10/2020 £m**
Banks and Building Societies	5.0	0.0
Local Authorities	0.0	5.0
Money Market Funds	21.5	67.8
Collective Investment Funds	30.0	30.0
Corporate Bonds	9.0	0.0
Registered Providers	10.0	10.0
Total	**75.5**	**112.8**

2.11 For the twelve-month period to 30th September 2020, the Council's investments earned an average rate of interest of 1.18%. This can be split down between Collective Investment Funds at 4.02% and other investments at 0.25%. This is against a backdrop of the Bank of England base rate being 0.75% at the start of the annual period but dropping to 0.1% by September 2020.

2.12 **Appendix 2** in this report shows the Council's Lending List as at 31 December 2020. This list shows those banking and government institutions that the Investment Strategy allows the Council to invest cash balances with. The list is taken using specialist advice from Arlingclose and is split between UK and foreign institutions. In comparison to this time last year, there has been a substantial reduction in the number of counterparties due to the current financial climate. For example, all Building Societies who do not hold a credit rating have been removed from the counterparty list following a review of the sector by Arlingclose. The Council does not hold any funds with counterparties that are not on this list. The institutions on the counterparty list and recommended duration remain under constant review.

2.13 The Bank of England has still not ruled out the possibility of negative interest rates to stimulate the economy. The theory is that negative rates should encourage borrowing and discourage deposits and savings. The move to negative interest rates could mean having to pay banks to look after the Council's deposits in the form of higher bank charges or depository fees. However, on the flip side, the Council could borrow at less than cost i.e. the full amount would not have to be paid back to the lender.

2.14 Whilst the Council's Collective Investment Funds have continued to provide an annualised return of 4%, their capital value has decreased by £2.1m due mainly to the impact of COVID-19. Normally this would not be an issue unless the Council intended to disinvest from the funds (the intention is that the Council keeps these for the long term) however, there is currently a statutory override for gains and losses on pooled investment funds held outside of a pension fund being taken to revenue. This was introduced in 2018 following a change to International Financial Reporting Standards (IFRS). At the time, the government felt it was inappropriate for revaluations to "impact on the balanced budget requirement or on the quantum of funds available to support delivery of services." But this particular override is time-limited and is due to expire in April 2023. If the override isn't extended, then the Council will be required to offset these capital losses against the revenue budget.

National Issues:

2.15 The impact to the UK from the Covid 19 pandemic has a major influence on the economy and the Council's ability to gain returns on investments. This will be ongoing into 2021/22.

2.16 In the overall economy, the medium-term outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short-term. Despite the credit ratings for many UK institutions being downgraded on the back of the downgrades to the sovereign rating, credit conditions in banks and building societies have tended to be relatively benign, despite the impact of the pandemic. Looking forward, the potential for bank losses to be greater than expected when government and central support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in the short-term.

2.17 The Council has been in receipt of central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. These funds have been temporarily invested in short-term liquid instruments, particularly in Money Market Funds (see paragraph 2.10 above). Work continues to ensure that all appropriate parties receive the grant payments. The government has recently announced a further support package of grants up to £9,000 per business to be administered by the Council. The upfront payment of grants has and will grossly inflate the Council's cash balances.