



Coventry City Council

Public report

Audit and Procurement Committee

31st January 2022

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director approving submission of the report:

Chief Operating Officer (Section 151 Officer)

Ward(s) affected:

City Wide

Title:

Treasury Management Update 2021/22 – Half Year Progress Report

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the Council's Treasury Management activity in 2021/22 to the end of September 2021.

Recommendations:

Audit and Procurement Committee is recommended to:

- 1) Note the update against the Treasury Management Strategy 2021-22 as at 30 September 2021.

List of Appendices included:

Appendix One - Short-term Borrowing and Investment Summary as at 1 October 2021

Appendix Two - UK and Foreign Counterparty Lending List as at 31 December 2021

Background papers:

None

Other useful documents

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Treasury Management Update 2021/22 – Half Year Progress Report

1. Context (or background)

- 1.1 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.
- 1.2 The Council's Treasury Management activity is undertaken in line with the Treasury Management and Commercial Investment Strategy and Policy for 2021/22, which was agreed by Cabinet as part of the Budget Report 2021/2022 at its meeting of 23 February 2021. There are no breaches of the strategy and policy to report.
- 1.3 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.
- 1.4 Staff with involvement in treasury issues continue to attend on-line events focused on treasury management as appropriate.
- 1.5 **Appendix 1** is a detailed list of short-term borrowing and investments that the Council holds as at 1 October 2021.

2. Options considered and recommended proposal**2.1 Borrowing Update**

The first table at Appendix 1 identifies that there is no short-term borrowing outstanding as at 30 September 2021. Current cash projections indicate that the Council may require short-term borrowing to cover cash shortfalls for the final quarter of 2021/22. All short-term borrowings outstanding at the end of the 2020/21 financial year (£54m), were fully repaid by the end of the first quarter 2021/22.

No new long-term borrowing has been undertaken since 2009, 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 30 September 2021, the Council's long-term liabilities totalled £331.7m. This total is mainly made up of long-term borrowing sourced from the Public Works Loan Board (PWLB); Liabilities arising from the Private Finance Initiative (PFI) and Lender Option Borrower Option (LOBO's) borrowing.

In November 2020, the rules governing local authority access to PWLB changed and borrowing interest rates were reduced by 1%. The Treasury Management Strategy 2021/22 approved by Cabinet on 23 February 2021 reflected this change and agreed that the Council will not buy investment assets primarily for yield. The Budget Report 2021/22 advised to not pursue this type of activity in the medium term and no current capital projects are affected by this. This will ensure that the Council's access to the PWLB for capital funding is maintained.

2.2 Investments Update

The final three tables at **Appendix 1** provide a detailed list of investments held as at 1 October 2021 and identifies a total investment of £76.3m. This compares to £112.8m held a year ago. These balances are a snapshot and impacted by timing differences. The 2020 figure shows inflated cash balances to reflect receipt of Government Covid19 grant funds at that time.

The breakdown of these balances is shown below:

	2/10/2020 £m	1/10/2021 £m
Banks and Building Societies	0.0	0.0
Local Authorities	5.0	0.0
Money Market Funds	67.8	46.3
Collective Investment Funds	30.0	30.0
Corporate Bonds	0.0	0.0
Registered Providers	10.0	0.0
Total	112.8	76.3

For the twelve-month period to 30 September 2021, the Council's investments earned an average rate of interest of 1.90%. This can be split down between Collective Investment Funds at 4.36% and other investments at 0.03%. This is against a backdrop of the Bank of England base rate being maintained throughout the year at 0.1%.

Appendix 2 shows the Council's Lending List as at 31 December 2021. 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. Arlingclose undertook a full review of their credit advice on unsecured deposits at UK banks and Building Societies in September 2021. As a result, their duration advice for those institutions was extended from 35 days to 100 days. The Council does not hold any funds with counterparties that are not on this list. Duration limits for counterparties on the Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Whilst the Council's Collective Investment Funds have continued to provide an annualised return of around 4%, their capital value (£29.8m) remains below the original sum invested (£30.0m). The capital value has recovered from a loss of £2.1m in 2020/21. The reduction in capital value is mainly due to the impact of COVID-19 on the world economy. 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 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. On the current trend there is a strong expectation that the capital losses will have been distinguished by that date.

2.3 National issues

The ongoing impact to the UK from Coronavirus, together with higher inflation, the likelihood of higher interest rates and the country's trade position post-Brexit are major influences on the economy and the Council's ability to gain returns on investments.

On the 16th December 2021, the Monetary Policy Committee (MPC) agreed to raise bank interest rates from 0.10% to 0.25%. Recent rising inflation prompted the move as the MPC raised concerns about strong labour market performance and persistent increases in prices. The decision was accompanied by comments about the path for Bank Rate which may see further rate rises over the coming months despite weakening economic activity. The Council's Treasury Management Advisors, Arlingclose, expect the Bank Interest Rate to rise to 0.50% in Q1 2022, but then remain there.

For the first two quarters of 2020/21, the Council continued to be 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 2.2 above). The upfront payment of grants has temporarily inflated the Council's cash balances.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Chief Operating Officer (Section 151 Officer) and the Director of Law and Governance

5.1 Financial Implications

The financial implications are discussed in the body of this report.

5.2 Legal implications

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services; Code of Practice 2017 Edition* (the CIPFA code) which requires the Council to approve a treasury management strategy before the start of each financial year. The Council's treasury management activity must be carried out in accordance with the requirements of the *Local Government Act 2003* which gives legal obligation to have regard to the CIPFA Code.

6. Other implications

6.1 **How will this contribute to achievement of the Council's plan?**

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rate. The successful identification,

monitoring and control of financial risk is therefore central to the Council's prudent financial management.

6.2 How is risk being managed?

In terms of risk management, there are two main focuses:

- Credit Risk – This is the risk of an investment counterparty defaulting and any subsequent loss of funds or delay in making returns. The risk is mitigated through investment counterparties being subject to a minimum credit rating limit (A-) as determined by the Fitch crediting rating agency. Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in ratings as they occur. The Lending List at **Appendix 2** identifies the credit rating for each counterparty on 30 September 2021. The minimum credit rating and funding limits on counterparty investment levels are agreed by the Council as part of the Treasury Management Strategy.
- Liquidity Risk – This is the risk of not having access to cash when needed. Detailed forecasts on future daily cashflows are made and based on known outgoings and incomings (e.g. cost of salaries and government funding). Surplus funds are invested in counterparties (e.g. Money Market Funds as shown in **Appendix 1**) with high liquidity so there is quick access to cash to cover payments.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) Climate Change and the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:

Adam Stretton
Accountant (Control and Treasury Management)

Service:

Finance

Tel and email contact:

Tel: 024 76977752
Email: Adam.stretton@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Service	Date doc sent out	Date response received or approved
Contributors:				
Michelle Salmon	Governance Services Officer	Law and Governance	12/1/22	13/1/22
Paul Jennings	Finance Manager Corporate Finance	Finance	10/1/22	12/1/22
Sarah Harriott	Corporate Governance Solicitor	Legal Services	12/1/22	17/1/22
Names of approvers: (officers and members)				
Barry Hastie	Chief Operating Officer (Section 151 Officer)	-	12/1/22	12/1/22
Councillor R Brown	Cabinet Member for Strategic Finance and Resources	-	12/1/22	12/1/22

This report is published on the council's website: www.coventry.gov.uk/meetings

Appendix One - Short-term Borrowing and Investment Summary as at 01 October 2021

TEMPORARY LOANS BOOK

Balances as at the 01/10/21

<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>
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TEMPORARY LOAN OUT (DEPOSIT)

0.00

0.00
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MMF DEPOSITS

2400000002	ABERDEEN LIQUIDITY FUND	N/A	0.00	04/09/12		0.010001	
2400000003	HSBC STERLING LIQUIDITY	N/A	0.00	04/09/12		0.009964	
2400000004	FEDERATED PRIME RATE	N/A	7,200,000.00	17/09/12		0.010001	
2400000005	DEUTSCHE MANAGED STERLING	N/A	19,100,000.00	19/07/13		0.015002	
2400000006	MORGAN STANLEY	N/A	20,000,000.00	10/06/16		0.030003	

46,300,000.00
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COLLECTIVE INVESTMENT FUNDS

2600000006	CCLA INVESTMENT MGT LTD	N/A	12,000,000.00	28/11/13		4.260000	
2600000011	SCHRODERS UNIT TRUSTS LTD	N/A	4,500,000.00	01/08/18		5.370000	
2600000012	INVESTEC ASSET MANAGEMENT	N/A	4,500,000.00	10/08/18		4.080000	
2600000013	COLUMBIA TREADNEEDLE	N/A	1,500,000.00	16/08/18		2.330000	
2600000014	M&G INVESTMENTS	N/A	1,500,000.00	20/08/18		2.240000	
2600000015	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		2.650000	
2600000016	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		3.930000	

30,000,000.00
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GRAND TOTAL

76,300,000.00
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Appendix Two - UK and Foreign Counterparty Lending List as at 31 December 2021

USING MINIMUM ACCEPTABLE CREDIT QUALITY Institution	Country	Long Term Rating			Limit £m	Term Limit
		Fitch	Moody's	S & P		
Debt Management Office	UK	AA+	Aa1	AAA		50 years
Local Authorities	UK	AA+	Aa1	AAA		2 years
UK BANKS AND BUILDING SOCIETIES:						
Bank of Scotland PLC	UK	A+	A1	A+	£10m	100 Days
Lloyds Bank PLC	UK	A+	A1	A+	£10m	100 Days
Barclays Bank PLC	UK	A+	A1	A	£10m	100 Days
Barclays Bank UK PLC	UK	A+	A1	A	£10m	100 Days
Handelsbanken PLC	UK	AA		AA-	£10m	100 Days
HSBC Bank PLC	UK	AA-	A1	A+	£10m	100 Days
HSBC UK Bank PLC	UK	AA-	A1	A+	£10m	100 Days
National Westminster Bank	UK	A+	A1	A	£10m	100 Days
Natwest Markets PLC	UK	A+	A2	A-	£10m	100 Days
Royal Bank of Scotland PLC/T	UK	A+	A1	A	£10m	100 Days
Santander UK PLC	UK	A+	A1	A	£10m	100 Days
Standard Chartered Bank	UK	A+	A1	A	£10m	100 Days
Nationwide Building Society	UK	A+	A1	A	£10m	35 Days
NON UK INSTITUTIONS:						
Australia and New Zealand Banking Group Ltd	AU	A+	Aa3	AA-	£10m	100 Days
Commonwealth Bank of Australia	AU	A+	Aa3	AA-	£10m	100 Days
National Australia Bank Ltd	AU	A+	Aa3	AA-	£10m	100 Days
Westpac Banking Corp	AU	A+	Aa3	AA-	£10m	100 Days
Bank of Montreal	CA	AA	Aa2	A+	£10m	100 Days
Bank of Nova Scotia	CA	AA	Aa2	A+	£10m	100 Days
Canadian Imperial Bank of Commerce	CA	AA	Aa2	A+	£10m	100 Days
National Bank of Canada	CA	AA-	Aa3	A	£10m	100 Days
Royal Bank of Canada	CA	AA	Aa2	AA-	£10m	100 Days
Toronto-Dominion Bank	CA	AA	Aa1	AA-	£10m	100 Days
Nordea Bank ABP	FI	AA	Aa3	AA-	£10m	100 Days
OP Corporate Bank PLC	FI		Aa3	AA-	£10m	100 Days
Bayerische Landesbank	GE	A	Aa3		£10m	100 Days
DZ Bank	GE	AA-	A2	A+	£10m	100 Days
Kreditanstalt Fuer Wiederaufbau (KfW)	GE	AAA		AAA	£10m	25 years
Landesbank Baden Wuerttember	GE	A	Aa3		£10m	100 Days
Landesbank Hessen-Thuringen	GE	A+	Aa3	A-	£10m	100 Days
Cooperative Centrale Raiffe (Rabobank)	NE	AA-	Aa2	A+	£10m	100 Days
DBS Bank Ltd	SI	AA-	Aa1	AA-	£10m	100 Days
Oversea-Chinese Banking Corp	SI	AA-	Aa1	AA-	£10m	100 Days
United Overseas Bank Ltd	SI	AA-	Aa1	AA-	£10m	100 Days
Group Limits: £20m per non UK country						
MONEY MARKET FUNDS (MMF)						
There are 20 Money Market Funds credit approved by Arlingclose that the Council can access. The funds identified below are those where monies have been invested in the period April to September 2021.						
Aberdeen Asset Management	LX	AAA	Aaa	AAA	£20m	
DWS	IR	AAA	Aaa	AAA	£20m	
HSBC Asset Management	IR		Aaa	AAA	£20m	
Federated Investors (UK)	UK	AAA		AAA	£20m	
Morgan Stanley Investment Management	IR	AAA	Aaa	AAA	£20m	
Money Market Funds Limits: £100m in total These are the Council's current working limits.						