



Coventry City Council

Public report

Report to

Audit and Procurement Committee

30th January 2023

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 2022-23 – 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 2022/23 to the end of September 2022.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the update against the Treasury Management Strategy 2022-23 as at 30 September 2022

List of Appendices included:

Appendix One - Short-term Borrowing and Investment Summary as at 1 October 2022

Appendix Two - UK and Foreign Counterparty Lending List as at 31 December 2022

Background papers:

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 2022-23 – 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 2022/23, which was agreed by Cabinet as part of the Budget Report 2022/23 at its meeting of 22 February 2022. 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 2022.

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 2022. Current cash projections indicate that the Council may require short-term borrowing to cover cash shortfalls for the final quarter of 2022/23.

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 2022, the Council's long-term liabilities totalled £327.1m. 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 2022/23 approved by Cabinet on 22 February 2022 reflected this change and agreed that the Council will not buy investment assets primarily for yield. The Budget Report 2022/23 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 2022 and identifies a total investment of £82.5m. This compares to £76.3m one year prior to this. These balances are a snapshot and impacted by timing differences.

The breakdown of these balances is shown below:

	1/10/2021 £m	1/10/2022 £m
Banks and Building Societies	0.0	0.0
Local Authorities	0.0	0.0
Debt Management Office	0.0	16.8
Money Market Funds	46.3	35.7
Collective Investment Funds	30.0	30.0
Corporate Bonds	0.0	0.0
Registered Providers	0.0	0.0
Total	76.3	82.5

For the twelve-month period to 30 September 2022, the Council's investments earned an average rate of interest of 2.76%. This can be split down between Collective Investment Funds at 4.17% and other investments at 1.98%. This is against a backdrop of the Bank of England base rate rising from 0.1% in October 2021 to 2.25% in September 2022.

Whilst the Council's Collective Investment Funds have continued to provide an annualised return of around 4%, their capital value (£28.7m) 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 fell initially due to the impact of COVID-19 on the world economy and has remained subdued due to ongoing economic conditions and financial turbulence around the world. 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." This override was time-limited and was due to expire in April 2023 however, the Government have further extended this to March 2025 pending the outcome of a formal consultation process.

Appendix 2 shows the Council's Lending List as at 31 December 2022. 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. 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.

2.3 National issues

The ongoing impact of financial uncertainty in the UK together with the impact of the war in Ukraine, higher inflation and the current rising interest rate environment are major influences on the economy and the Council's ability to gain returns on investments.

Through 2022, the Bank of England Monetary Policy Committee (MPC) has raised bank interest rates on 8 occasions with the rate rising from 0.25% at the start of the year to 3.50% in December. Rising inflation through the year has prompted this trend as the MPC raised concerns about strong labour market performance and persistent increases in prices. There may be further rises in the early part of 2023 although the rate is expected to stabilise in the middle part of the year. The latest forecast from the Council's Treasury Management Advisors, Arlingclose, is for the Bank Interest Rate to rise to 4.25% in 2023, but then remain there.

For the early part of 2021/22, the Council continued to be in receipt of central government funding to support small and medium businesses linked to the coronavirus pandemic through grant schemes and to payments to households relating to the energy rebate. The upfront payment of these grants which temporarily inflated the Council's cash balances has now worked its way through and is no longer a factor.

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. Comment from the Chief Operating Officer (Section 151 Officer) and the Chief Legal Officer

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 31st December 2022. 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:

Paul Jennings
Finance Manager (Corporate Finance)

Service:

Finance

Tel and email contact:

Tel: 02476 977228
Email: paul.jennings@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:				
Lara Knight	Governance Services Coordinator	Law and Governance	11/01/23	17/1/23
Mike Revis	Lead Accountant Control and Treasury Management	Finance	05/01/23	10/01/23
Michael Rennie	Lead Accountant Business Partner	Finance	05/01/23	10/01/23
Names of approvers: (officers and members)				
Barry Hastie	Chief Operating Officer	-	11/01/23	17/1/23
Councillor R Brown	Cabinet Member for Strategic Finance and Resources	-	11/01/23	

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www.coventry.gov.uk/meetings

Appendix One - Short-term Borrowing and Investment Summary as at 01 October 2022

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>	<u>INT DUE</u>
<u>TEMPORARY LOAN OUT (DEPOSIT)</u>								
200004225	DEBT MANAGEMENT OFFICE	NA	6,800,000.00	08//08/22	10/10/22	1.720000	63	20,187.62
200004228	DEBT MANAGEMENT OFFICE	NA	10,000,000.00	15//08/22	17/10/22	1.740000	63	30,032.88
-			16,800,000.00					50,220.50
<u>MMF DEPOSITS</u>								
2400000002	ABERDEEN LIQUIDITY FUND	N/A	18,550,000.00	04/09/12		2.096852		
2400000003	HSBC STERLING LIQUIDITY	N/A	0.00	04/09/12		2.051811		
2400000004	FEDERATED PRIME RATE	N/A	11,550,000.00	17/09/12		2.085318		
2400000005	DEUTSCHE MANAGED STERLING	N/A	0.00	19/07/13		1.950085		
2400000006	MORGAN STANLEY	N/A	5,550,000.00	10/06/16		2.121526		
			35,650,000.00					
<u>COLLECTIVE INVESTMENT FUNDS</u>								
2600000006	CCLA INVESTMENT MGT LTD	N/A	12,000,000.00	28/11/13		4.390000		
2600000011	SCHRODERS UNIT TRUSTS LTD	N/A	4,500,000.00	01/08/18		5.220000		
2600000012	INVESTEC ASSET MANAGEMENT	N/A	4,500,000.00	10/08/18		3.710000		
2600000013	COLUMBIA TREADNEEDLE	N/A	1,500,000.00	16/08/18		2.860000		
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		3.920000		
2600000016	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		2.670000		
			30,000,000.00					
GRAND TOTAL			82,450,000.00					

Appendix 2 - Counterparty Lending List as at 31st December 2022

Counterparty	Country of Domicile	Maximum Duration	Fitch Long-term	Moody's Long-term	S&P Long-term	Banking Group	Limit £
Debt Management Office	UK	50 years					
Local Authorities	UK	2 Years					
UNITED KINGDOM: BANKS							
BANK OF SCOTLAND PLC	GB	6 months	A+	A1	A+	Lloyds Banking Group	£10m
LLOYDS BANK PLC	GB	6 months	A+	A1	A+	Lloyds Banking Group	£10m
BARCLAYS BANK PLC	GB	100 days	A+	A1	A	Barclays Group	£10m
BARCLAYS BANK UK PLC	GB	100 days	A+	A1	A	Barclays Group	£10m
HANDELSBANKEN PLC	GB	100 days	AA		AA-	Svenska HB	£10m
HSBC BANK PLC	GB	6 months	AA-	A1	A+	HSBC Group	£10m
HSBC UK BANK PLC	GB	6 months	AA-	A1	A+	HSBC Group	£10m
NATIONAL WESTMINSTER BANK	GB	100 days	A+	A1	A	NatWest Group	£10m
NATWEST MARKETS PLC	GB	100 days	A+	A1	A-	NatWest Group	£10m
ROYAL BANK OF SCOTLAND PLC/T	GB	100 days	A+	A1	A	NatWest Group	£10m
SANTANDER UK PLC	GB	100 days	A+	A1	A	Santander	£10m
STANDARD CHARTERED BANK	GB	6 months	A+	A1	A+		£10m
UK: BUILDING SOCIETIES							
NATIONWIDE BUILDING SOCIETY	GB	100 days	A+	A1	A+		£10m
AUSTRALIA							
AUST AND NZ BANKING GROUP	AU	100 days	A+	Aa3	AA-		£10m
COMMONWEALTH BANK OF AUSTRAL	AU	100 days	A+	Aa3	AA-		£10m
NATIONAL AUSTRALIA BANK LTD	AU	100 days	A+	Aa3	AA-		£10m
WESTPAC BANKING CORP	AU	100 days	A+	Aa3	AA-		£10m
AUSTRIA							
OESTERREICHISCHE KONTROLLBAN	AS	10 years	AA+u	Aa1	AA+		£10m
CANADA							
BANK OF MONTREAL	CA	100 days	AA	Aa2	A+		£10m
BANK OF NOVA SCOTIA	CA	6 months	AA	Aa2	A+		£10m
CAN IMPERIAL BK OF COMMERCE	CA	6 months	AA	Aa2	A+		£10m
EXPORT DEVELOPMENT CANADA	CA	10 years		Aaa	AAA		£10m
NATIONAL BANK OF CANADA	CA	100 days	AA-	Aa3	A		£10m
ROYAL BANK OF CANADA	CA	6 months	AA	Aa1	AA-		£10m
TORONTO-DOMINION BANK	CA	6 months	AAu	Aa1	AA-		£10m
DENMARK							
KOMMUNEKREDIT	DE	10 years	AAA	Aaa	AAAu		£10m
FINLAND							
MUNICIPALITY FINANCE PLC	FI	10 years	AA+	Aa1	AA+		£10m
NORDEA BANK ABP	FI	100 days	AA	Aa3	AA-		£10m
OP CORPORATE BANK PLC	FI	100 days		Aa3	AA-		£10m
GERMANY							
BAYERISCHE LANDESBANK	GE	6 months	A	Aa3	NR		£10m
DZ BANK AG DEUTSCHE ZENTRAL-	GE	6 months	AA	Aa2	A+		£10m
FMS WERTMANAGEMENT	GE	25 years		Aaa	AAA		£10m
KREDITANSTALT FUER WIEDERAUFBRAU (KFW)	GE	25 years	AAAu		AAA		£10m
LANDESBANK BADEN-WUERTTEMBER	GE	6 months	A	Aa3	NR		£10m
LANDESBANK HESSEN-THURINGEN	GE	6 months	AA-	Aa3	NR		£10m
LANDESKRED BADEN-WUERTT FOER	GE	25 years	AAAu	Aaa	AA+		£10m
LANDWIRTSCHAFTLICHE RENTENBA	GE	25 years	AAA	Aaa	AAA		£10m
NETHERLANDS							
BNG BANK NV	NE	5 years	AAA	Aaa	AAA		£10m
COOPERATIEVE RABOBANK UA	NE	100 days	AA-	Aa2	A+		£10m
NEDERLANDSE WATERSCHAPSBANK	NE	5 years		Aaa	AAA		£10m
NORWAY							
	NO		AAAu	Aaa	AAA		

KOMMUNALBANKEN AS	NO	5 years	Aaa	AAA		£10m
SINGAPORE	SI		AAAu	Aaa	AAAu	
DBS BANK LTD	SI	100 days	AA-	Aa1	AA-	£10m
OVERSEA-CHINESE BANKING CORP	SI	100 days	AA-	Aa1	AA-	£10m
UNITED OVERSEAS BANK LTD	SI	100 days	AA-	Aa1	AA-	£10m
SWEDEN	SW		AAAu	Aaa	AAAu	
SVENSKA HANDELSBANKEN-A SHS	SW	100 days	AA+	Aa2	AA-	Svenska HB £10m
SVENSK EXPORTKREDIT AB	SW	5 years		Aa1	AA+	£10m
SUPRANATIONAL						
COUNCIL OF EUROPE DEVELOPMENT BANK (CEDB)	FR	15 years	AA+	Aa1 +	AAA	£10m
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)	GB	25 years	AAA	Aaa	AAA	£10m
EUROPEAN INVESTMENT BANK (EIB)	LX	25 years	AAA	Aaa	AAA	£10m
INTER-AMERICAN DEVELOPMENT BANK (IADB)	US	25 years	AAAu	Aaa	AAA	£10m
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (THE WORLD BANK)	US	25 years	AAAu	Aaa	AAA	World Bank Group £10m
INTERNATIONAL FINANCE CORP	US	25 years		(P)Aaa	AAA	£10m
NORDIC INVESTMENT BANK (NIB)	FI	25 years		Aaa	AAA	£10m

MONEY MARKET FUNDS						
ABERDEEN ASSET MANAGEMENT	LX	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
AVIVA INVESTORS	IR	Overnight	-	Aaa-mf	AAAm	£20m
BLACKROCK	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
BNP PARIBAS ASSET MANAGEMENT	LX	Overnight	-	Aaa-mf	AAAm	£20m
CCLA - PSDF	GB	Overnight	AAAmmf	Aaa-mf	-	£20m
DWS	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
FEDERATED INVESTORS (UK)	GB	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
GOLDMAN SACHS ASSET MANAGEMENT	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
HSBC ASSET MANAGEMENT	IR	Overnight	-	Aaa-mf	AAAm	£20m
INSIGHT INVESTMENTS	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
INVESCO AIM	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
J.P.MORGAN ASSET MANAGEMENT	LX	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
LEGAL & GENERAL INVESTMENT MANAGEMENT	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
MORGAN STANLEY INVESTMENT MANAGEMENT	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
NORTHERN TRUST ASSET MANAGEMENT	IR	Overnight	-	Aaa-mf	AAAm	£20m
STATE STREET GLOBAL ADVISORS ASSET MANAGEMENT	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m
UBS ASSET MANAGEMENT	IR	Overnight	-	Aaa-mf	AAAm	£20m
AVIVA INVESTORS GOV	IR	Overnight	-	Aaa-mf	AAAm	£20m
BLACKROCK GOV	IR	Overnight	-	Aaa-mf	AAAm	£20m
GOLDMAN SACHS ASSET MANAGEMENT GOV	IR	Overnight	AAAmmf	Aaa-mf	AAAm	£20m