



Coventry City Council

# Public report

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**Report to**

Audit and Procurement Committee

27<sup>th</sup> November 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 2023-24 – Half Year Progress Report

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**Is this a key decision?**

No

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**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 2023/24 to the end of September 2023.

**Recommendations:**

Audit and Procurement Committee is recommended to:

- 1) Note the update against the Treasury Management Strategy 2023-24 as at 30 September 2023.

**List of Appendices included:**

Appendix One - Short-term Borrowing and Investment Summary as at 29 September 2023.  
Appendix Two - UK and Foreign Counterparty Lending List as at 31 October 2023.

**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 2023-24 – 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 2023/24, which was agreed by Cabinet as part of the Budget Report 2023/24 at its meeting of 21 February 2023. 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 to the report** is a detailed list of short-term borrowing and investments that the Council holds as at 29<sup>th</sup> September 2023.

### 2. Options considered and recommended proposal

#### 2.1 Borrowing Update

The first table at Appendix 1 to the report identifies that there is no short-term borrowing outstanding as at 29 September 2023. Current cash projections indicate that the Council may require short-term borrowing to cover cash shortfalls for the final quarter of 2023/24.

Other than an £18m loan from WMCA on behalf of UKBIC, 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 2023, the Council's long-term liabilities totalled £310.3m. 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.

The Public Works Loan Board (PWLB) remains the main source of loan finance for funding local authority capital investment. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more details and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Under the Treasury Management Strategy 2022/23 approved by Cabinet on 22 February 2022 it was agreed the Council will not purchase investment assets primarily for yield.

## 2.2 Investments Update

The final three tables at **Appendix 1** to the report provide a detailed list of investments held as at 29th September 2023 and identifies a total investment of £91.1m. This compares to £82.5m one year prior to this. These balances are a snapshot and impacted by timing differences.

The breakdown of these balances is shown below:

	1/10/2022 £m	29/09/2023 £m
Banks and Building Societies	0.0	0.0
Local Authorities	0.0	33.0
Debt Management Office	16.8	0.0
Money Market Funds	35.7	28.1
Collective Investment Funds	30.0	30.0
Corporate Bonds	0.0	0.0
Registered Providers	0.0	0.0
Total	82.5	91.1

For the twelve-month period to 30 September 2023, the Council's investments earned an average rate of interest of 5.12%. This can be split down between Collective Investment Funds at 4.59% and other investments at 5.36%. This is against a backdrop of the Bank of England base rate rising from 2.25% in September 2022 to 5.25% in September 2023.

Whilst the Council's Collective Investment Funds have continued to provide an annualised return of around 4.59%, their capital value (£26.9m) remains below the original sum invested (£30.0m). Whilst all seven funds are showing a capital value loss, there are now signs of recovery on all but two. Income received from these investments still far exceeds any reduced value.

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** to the report shows the Council's Lending List as at 31 October 2023. 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 events in the Middle East, higher inflation and the current high interest rate environment are major influences on the economy and the Council's ability to gain returns on investments.

Through 2023, the Bank of England Monetary Policy Committee (MPC) has raised bank interest rates on 5 occasions with the rate rising from 3.50% at the start of the year to 5.25% in August. This rate was maintained in September and November. The speed of inflation is slowing from a peak of 11% in 2022 to 4.6% in October 2023. The latest forecast from the Council's Treasury Management Advisors, Arlingclose, is for the Bank Interest Rate to remain at 5.25% until Q3 2024 at which point they are forecasting an initial reduction.

## 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 One Coventry Plan?**  
(<https://www.coventry.gov.uk/strategies-plans-policies/one-coventry-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** to the report identifies the credit rating for each counterparty on 31<sup>st</sup> October 2023. 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** to the report) 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

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**Service:**

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<b>Contributor/approver name</b>	<b>Title</b>	<b>Service Area</b>	<b>Date doc sent out</b>	<b>Date response received or approved</b>
<b>Contributors:</b>				
Michelle Salmon	Governance Services Officer	Law and Governance	15/11/23	15/11/23
Mike Revis	Lead Accountant Control and Treasury Management	Finance	09/11/23	09/11/23
Daniella Owen	Finance NGDP Graduate	Finance	09/11/23	09/11/23
<b>Names of approvers: (officers and members)</b>				
Phil Helm	Head of Finance (Deputy S151 Officer)	-	15/11/23	15/11/23
Oluremi Aremu	Head of Legal and Procurement Services	Law and Governance	15/11/23	16/11/23
Councillor R Brown	Cabinet Member for Strategic Finance and Resources	-	15/11/23	15/11/23
Councillor R Lakha	Chair of Audit and Procurement Committee	-	15/11/23	15/11/23

This report is published on the council's website: [www.coventry.gov.uk/meetings](http://www.coventry.gov.uk/meetings)

## Appendix One - Short-term Borrowing and Investment Summary as at 29th September 2023

### TEMPORARY LOANS BOOK

Balances as at the 29/09/23

<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><u>TEMPORARY LOAN OUT (DEPOSIT)</u></b>								
200004243	LIVERPOOL CITY COUNCIL	IMP	8,000,000.00	28//04/23	7 Day Notice	5.250000		@ Base Rate
200004291	PETERBOROUGH CC	IMP	5,000,000.00	29//08/23	30/10/23	5.350000	62	45,438.36
200004292	SUFFOLK COUNTY COUNCIL	IMP	7,000,000.00	01//09/23	02/10/23	5.250000	31	31,212.33
200004293	EASTLEIGH BC	IMP	3,000,000.00	28//09/23	30/10/23	5.500000	32	14,465.75
200004294	BLACKPOOL COUNCIL	IMP	5,000,000.00	29//09/23	31/10/23	5.500000	32	24,109.59
200004295	WAKEFIELD COUNCIL	IMP	5,000,000.00	29//09/23	19/10/23	5.600000	20	15,342.47
			<b>33,000,000.00</b>					<b>130,568.50</b>
<b><u>MMF DEPOSITS</u></b>								
2400000002	ABERDEEN LIQUIDITY FUND	N/A	8,080,000.00	04/09/12		5.282097		
2400000003	HSBC STERLING LIQUIDITY	N/A	0.00	04/09/12		5.190263		
2400000004	FEDERATED PRIME RATE	N/A	20,000,000.00	17/09/12		5.345315		
2400000005	DEUTSCHE MANAGED STERLING	N/A	0.00	19/07/13		5.209316		
2400000006	MORGAN STANLEY	N/A	0.00	10/06/16		5.263154		
			<b>28,080,000.00</b>					
<b><u>COLLECTIVE INVESTMENT FUNDS</u></b>								
2600000006	CCLA INVESTMENT MGT LTD	N/A	12,000,000.00	28/11/13		3.870000		
2600000011	SCHRODERS UNIT TRUSTS LTD	N/A	4,500,000.00	01/08/18		8.190000		
2600000012	INVESTEC ASSET MANAGEMENT	N/A	4,500,000.00	10/08/18		4.040000		
2600000013	COLUMBIA TREADNEEDLE	N/A	1,500,000.00	16/08/18		4.270000		
2600000014	M&G INVESTMENTS	N/A	1,500,000.00	20/08/18		2.500000		
2600000015	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		4.900000		
2600000016	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		6.000000		
			<b>30,000,000.00</b>					
<b>GRAND TOTAL</b>			<b>91,080,000.00</b>					



## Appendix 2 - Counterparty Lending List as at 31<sup>st</sup> October 2023

Counterparty	Country of Domicile	Maximum Duration	Fitch Long-term	Moodys Long-term	S&P Long-term	Banking Group	Limit £
Debt Management Office	UK	50 Years					
Local Authorities	UK	2 years +					
<b>UNITED KINGDOM: BANKS</b>							
BANK OF SCOTLAND PLC	GB	35 days	A+	A1	A+	Lloyds Banking Group	£10m
LLOYDS BANK PLC	GB	35 days	A+	A1	A+		£10m
BARCLAYS BANK PLC	GB	35 days	A+	A1	A+	Barclays Group	£10m
BARCLAYS BANK UK PLC	GB	35 days	A+	A1	A+		£10m
HANDELSBANKEN PLC	GB	35 days	AA		AA-	Svenska HB	£10m
HSBC BANK PLC	GB	35 days	AA-	A1	A+	HSBC Group	£10m
HSBC UK BANK PLC	GB	35 days	AA-	A1	A+		£10m
NATIONAL WESTMINSTER BANK	GB	35 days	A+	A1	A+	NatWest Group	£10m
NATWEST MARKETS PLC	GB	35 days	A+	A1	A		£10m
ROYAL BANK OF SCOTLAND PLC/T	GB	35 days	A+	A1	A+		£10m
SANTANDER UK PLC	GB	35 days	A+	A1	A	Santander	£10m
STANDARD CHARTERED BANK	GB	35 days	A+	A1	A+		£10m
<b>UK: BUILDING SOCIETIES</b>							
NATIONWIDE BUILDING SOCIETY	GB	35 days	A+	A1	A+		£10m
<b>UK: OTHER INSTITUTIONS</b>							
LCR FINANCE PLC	EN	10 years	AA-	Aa3	AA		£10m
NETWORK RAIL INFRASTRUCTURE	GB	10 years	AA-	Aa3			£10m
WELLCOME TRUST FINANCE PLC	GB	15 years		Aaa	AAA		£10m
<b>AUSTRALIA</b>							
AUST AND NZ BANKING GROUP	AU	35 days	A+	Aa3	AA-		£10m
COMMONWEALTH BANK OF AUSTRAL	AU	35 days	A+	Aa3	AA-		£10m
NATIONAL AUSTRALIA BANK LTD	AU	35 days	A+	Aa3	AA-		£10m
WESTPAC BANKING CORP	AU	35 days	A+	Aa3	AA-		£10m
<b>AUSTRIA</b>							
OESTERREICHISCHE KONTROLLBAN	AS	10 years		Aa1	AA+		£10m
<b>CANADA</b>							
BANK OF MONTREAL	CA	35 days	AA	Aa2	A+		£10m
BANK OF NOVA SCOTIA	CA	35 days	AA	Aa2	A+		£10m
CAN IMPERIAL BK OF COMMERCE	CA	35 days	AA	Aa2	A+		£10m
EXPORT DEVELOPMENT CANADA	CA	10 years		Aaa	AAA		£10m
NATIONAL BANK OF CANADA	CA	35 days	AA-	Aa3	A		£10m
ROYAL BANK OF CANADA	CA	35 days	AA	Aa1	AA-		£10m
TORONTO-DOMINION BANK	CA	35 days	AAu	Aa1	AA-		£10m
<b>DENMARK</b>							
KOMMUNEKREDIT	DE	10 years		Aaa	AAA		£10m
<b>FINLAND</b>							
MUNICIPALITY FINANCE PLC	FI	10 years		Aa1	AA+		£10m
NORDEA BANK ABP	FI	35 days	AA	Aa3	AA-		£10m

OP CORPORATE BANK PLC	FI	35 days		Aa3	AA-		£10m
<b>GERMANY</b>	<b>GE</b>		<b>AAAu</b>	<b>Aaa</b>	<b>AAAu</b>		
BAYERISCHE LANDESBANK	GE	35 days	A	Aa3	NR		£10m
DZ BANK AG DEUTSCHE ZENTRAL-	GE	35 days	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	35 days	A	Aa3	NR		£10m
LANDESBANK HESSEN-THURINGEN	GE	35 days	AA-	Aa3	NR		£10m
LANDESKRED BADEN-WUERTT FOER	GE	25 years	AAAu	Aaa	AA+		£10m
LANDWIRTSCHAFTLICHE RENTENBA	GE	25 years	AAA	Aaa	AAA		£10m
<b>NETHERLANDS</b>	<b>NE</b>		<b>AAAu</b>	<b>Aaa</b>	<b>AAAu</b>		
BNG BANK NV	NE	5 years	AAA	Aaa	AAA		£10m
COOPERATIEVE RABOBANK UA	NE	35 days	AA-	Aa2	A+		£10m
NEDERLANDSE WATERSCHAPSBANK	NE	5 years		Aaa	AAA		£10m
<b>NORWAY</b>	<b>NO</b>		<b>AAAu</b>	<b>Aaa</b>	<b>AAA</b>		
KOMMUNALBANKEN AS	NO	5 years		Aaa	AAA		£10m
<b>SINGAPORE</b>	<b>SI</b>		<b>AAAu</b>	<b>Aaa</b>	<b>AAAu</b>		
DBS BANK LTD	SI	35 days	AA-	Aa1	AA-		£10m
OVERSEA-CHINESE BANKING CORP	SI	35 days	AA-	Aa1	AA-		£10m
UNITED OVERSEAS BANK LTD	SI	35 days	AA-	Aa1	AA-		£10m
<b>SWEDEN</b>	<b>SW</b>		<b>AAAu</b>	<b>Aaa</b>	<b>AAAu</b>		
SVENSKA HANDELSBANKEN-A SHS	SW	35 days	AA+	Aa2	AA-	Svenska HB	£10m
SVENSK EXPORTKREDIT AB	SW	5 years		Aa1	AA+		£10m
<b>UNITED STATES OF AMERICA</b>	<b>US</b>		<b>AA+u</b>	<b>Aaa</b>	<b>AA+u</b>		
NORTHERN TRUST CO	US	#N/A	AA	Aa1	AA-		£10m
<b>SUPRANATIONAL</b>							
COUNCIL OF EUROPE DEVELOPMENT BANK (CEDB)	FR	15 years	AAA	Aaa	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
FIDELITY INTERNATIONAL	IR	Overnight	-	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
ROYAL LONDON STERLING LIQUIDITY FUND	IR	Overnight	AAAmmf	Aaa-mf	-	£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