



Coventry City Council

Public report

Report to

Audit and Procurement Committee

25th November 2024

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director approving submission of the report:

Director of Finance and Resources

Ward(s) affected:

City Wide

Title:

Treasury Management Update 2024-25 – 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 for 12 months to the end of September 2024.

Recommendations:

Audit and Procurement Committee is recommended to:

- 1) Note the update against the Treasury Management Strategy 2024-25 at 30 September 2024.

List of Appendices included:

Appendix One - Short-term Borrowing and Investment Summary at 30 September 2024.

Appendix Two - UK and Foreign Counterparty Lending List at 30 September 2024

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 2024-25 – 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 2024/25, which was agreed by Cabinet as part of the Budget Report 2024/25 at its meeting of 20 February 2024. 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 30th September 2024.

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

There has been no short-term borrowing thus far in 2024-25. There are one or two variables in the forecast for the rest of the year, but it is anticipated that we may need to borrow some short-term cash at the year-end. It is once again important to emphasise that this is a snapshot of the Council's cashflow, it does not represent the Council's overall financial situation. In many cases we receive grant funding ahead of the expenditure being incurred.

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, until interest rates bottom out, forecast to be in the final quarter of 2025, however this will be kept under review. As at 30 September 2024, 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 provides a detailed list of investments held at 30th September 2024 and identifies a total investment of £87.0m. This compares to £91.1 this time last year. These balances are a snapshot at any one time and do not reflect the Council's overall financial situation.

The breakdown of these balances is shown below:

	29/09/2023	30/09/2024
	£m	£m
Banks and Building Societies	0.0	0.0
Local Authorities	33.0	26.0
Debt Management Office	0.0	0
Money Market Funds	28.1	31.0
Collective Investment Funds	30.0	30.0
Corporate Bonds	0.0	0.0
Registered Providers	0.0	0.0
Total	91.1	87.0

For the twelve-month period to 30 September 2024, the Council's investments earned an average rate of interest of 5.11%. This can be split down between Collective Investment Funds at 5.30% and other investments at 5.02%. This is against a backdrop of the Bank of England base rate being maintained at 5.25% until 18th September 2024 when it reduced to 5%.

Whilst the Council's Collective Investment Funds have continued to provide an annualised return of around 5.30%, their capital value (£27.5m) remains below the original sum invested (£30.0m). Whilst all seven funds are showing a capital value loss, there are now signs of recovery. As interest rates start to fall the capital value of these funds should increase. In addition to the capital value, income received from these investments will exceed any returns offered by banks or money market funds.

The capital value would not normally 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 30 September 2024. 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

Financial markets are in a state of flux following the Budget announced by the Chancellor of the Exchequer on 30th October 2024 and pending the U.S. Presidency Election on 5th November 2024. Initial thoughts on the Budget announcement are that inflation will increase and thus restrict the Bank of England Monetary Policy Committee's (MPC) ability to reduce interest rates as much as was hoped. Events in the Middle East and Ukraine also add to the uncertainty.

Throughout the majority of 2024, the Bank of England Monetary Policy Committee (MPC) maintained interest rates at 5.25% although there were reductions of 0.25% in August 2024 and a further reduction of 0.25% in November 2024 following favourable inflation data taking the rate to 4.75%. Latest inflation data shows a year-on-year increase of 1.7%. The latest forecast from the Council's Treasury Management Advisors, Arlingclose, is for the Bank Interest Rate to fall but not as quickly as was first envisaged. Initial thoughts were that it would be in the region of 3% to 3.5% by December 2025 but this has now been updated in response to both the Chancellor's budget and the US election to 3.75%.

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 Director of Finance and Resources 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 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** identifies the credit rating for each counterparty on 30th September 2024. 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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Name and job title:

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Contributor/approver name	Title	Service area	Date doc sent out	Date response received or approved
Contributors:				
Michelle Salmon	Governance Services Officer	Law and Governance	31/10/24	12/11/24
Mike Revis	Lead Accountant Control and Treasury Management	Finance and Resources	31/10/24	31/10/24
Names of approvers: (officers and members)				
Barry Hastie	Director of Finance and Resources (Section 151 Officer)	-	13/11/24	15/11/24
Councillor R Brown	Cabinet Member for Strategic Finance and Resources	-	13/11/24	14/11/24

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

Appendix One - Short-term Borrowing and Investment Summary at 30th September 2024

INVESTMENTS (TYPE)	LOAN REF.	LENDER NAME	BROKER	PRINCIPAL	START DATE	MATURITY DATE	INITIAL INT. RATE
	200004363	UTTLESFORD DISTRICT COUNCIL	IMP	1,000,000.00	30/09/2024	07/10/2024	5.10%
	200004358	UTTLESFORD DISTRICT COUNCIL	IMP	8,000,000.00	19/09/2024	02/10/2024	5.00%
	200004364	BEDFORD BOROUGH COUNCIL	IMP	5,000,000.00	30/09/2024	31/10/2024	5.05%
	200004361	CORNWALL CITY COUNCIL	IMP	10,000,000.00	25/09/2024	02/10/2024	5.00%
	200004362	COLCHESTER CITY COUNCIL	IMP	2,000,000.00	25/09/2024	02/10/2024	5.05%
				<u>26,000,000.00</u>			
MMF DEPOSITS	2400000002	ABERDEEN LIQUIDITY FUND	N/A	11,000,000.00	04/09/2012		4.997799
	2400000003	HSBC STERLING LIQUIDITY	N/A	0.00	04/09/2012		4.946481
	2400000004	FEDERATED PRIME RATE	N/A	20,000,000.00	17/09/2012		5.015721
	2400000005	DEUTSCHE MANAGED STERLING	N/A	0.00	19/07/2013		4.996959
	2400000006	MORGAN STANLEY	N/A	0.00	10/06/2016		4.941479
				<u>31,000,000.00</u>			
COLLECTIVE INVESTMENT FUNDS	2600000006	CCLA INVESTMENT MGT LTD	N/A	12,000,000.00	28/11/2013		5.42%
	2600000013	COLUMBIA TREADNEEDLE	N/A	1,500,000.00	16/08/2018		4.44%
	2600000014	M&G INVESTMENTS	N/A	1,500,000.00	20/08/2018		5.34%
	2600000015	M&G INVESTMENTS	N/A	3,000,000.00	20/08/2018		5.13%
	2600000016	M&G INVESTMENTS - UK INCOME DISTRIBUTION FUND	N/A	3,000,000.00	20/08/2018		6.05%
	2600000012	INVESTEC ASSET MANAGEMENT / NINETY ONE DIVERSIFIED INCOME FUND	N/A	4,500,000.00	10/08/2018		4.44%
	2600000011	SCHRODERS UNIT TRUSTS LTD	N/A	4,500,000.00	01/08/2018		7.97%
				<u>30,000,000.00</u>			
GRAND TOTAL				<u>87,000,000.00</u>			

Appendix 2 - Counterparty Lending List as at 30th September 2024

Counterparty	Country of Domicile	Maximum Deposit/CD Duration	Fitch Long-term	Moody's Long-term	Standard & Poors Long-term	Banking Group	Limit £
UNITED KINGDOM: BANKS							
BANK OF SCOTLAND PLC	GB	100 days	A+	A1	A+	Lloyds Banking Group	£10m
LLOYDS BANK PLC	GB	100 days	A+	A1	A+		£10m
BARCLAYS BANK PLC	GB	100 days	A+	A1	A+	Barclays Group	£10m
HANDELSBANKEN PLC	GB	100 days	AA		AA-	Svenska HB	£10m
HSBC BANK PLC	GB	100 days	AA-	A1	A+	HSBC Group	£10m
HSBC UK BANK PLC	GB	100 days	AA-	A1	A+		£10m
NATIONAL WESTMINSTER BANK	GB	100 days	A+	A1	A+	NatWest Group	£10m
NATWEST MARKETS PLC	GB	100 days	A+	A1	A		£10m
ROYAL BANK OF SCOTLAND PLC/T	GB	100 days	A+	A1	A+		£10m
SANTANDER UK PLC	GB	100 days	A+	A1	A	Santander	£10m
STANDARD CHARTERED BANK	GB	100 days	A+	A1	A+		£10m
UK: BUILDING SOCIETIES							
NATIONWIDE BUILDING SOCIETY	GB	100 days	A+	A1	A+		£10m
UK: OTHER INSTITUTIONS							
LCR FINANCE PLC	EN	10 years	AA-	Aa3	AA		£10m
NETWORK RAIL INFRASTRUCTURE	GB	10 years	AA-	Aa3			£10m
UNITED KINGDOM	GB	50 years	AA-u	Aa3	AAu		£10m
WELLCOME TRUST FINANCE PLC	GB	15 years		Aaa	AAA		£10m
AUSTRALIA							
AUST AND NZ BANKING GROUP	AU	100 days	AA-	Aa2	AA-		£10m
COMMONWEALTH BANK OF AUSTRAL	AU	100 days	AA-	Aa2	AA-		£10m
NATIONAL AUSTRALIA BANK LTD	AU	100 days	AA-	Aa2	AA-		£10m
WESTPAC BANKING CORP	AU	100 days	AA-	Aa2	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	100 days	AA	Aa2	A+		£10m
CAN IMPERIAL BK OF COMMERCE	CA	100 days	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	100 days	AA	Aa1	AA-		£10m
TORONTO-DOMINION BANK	CA	100 days	AAu	Aa1	AA-		£10m
DENMARK							
KOMMUNEKREDIT	DE	10 years		Aaa	AAA		£10m
FINLAND							
MUNICIPALITY FINANCE PLC	FI	10 years		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	100 days	AA-	Aa2	NR		£10m
DZ BANK AG DEUTSCHE ZENTRAL-	GE	100 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	100 days	AA-	Aa2	NR		£10m
LANDESBANK HESSEN-THURINGEN	GE	100 days	AA-	Aa2	NR		£10m
LANDESKRED BADEN-WUERTT FOER	GE	25 years	AAA	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	AAAu		
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+	Aa1	AA-	Svenska HB	£10m
SVENSK EXPORTKREDIT AB	SW	5 years		Aa1	AA+		£10m
UNITED STATES OF AMERICA	US		AA+u	Aaa	AA+u		
NORTHERN TRUST CO	US	100 days	AA	Aa1	AA-		£10m
SUPRANATIONAL							
AFRICAN DEVELOPMENT BANK (AfDB)	IV	5 years	AAA	Aaa	AAA		£10m
ASIAN DEVELOPMENT BANK	PH	5 years	AAA	Aaa	AAA		£10m
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	5 years		(P)Aaa	AAA		£10m
NORDIC INVESTMENT BANK (NIB)	FI	25 years		Aaa	AAA		£10m

Money Market Funds on Arlingclose List	Country of Domicile		FUND CREDIT RATINGS				
			Fitch	Moody's	Standard & Poor's		
ABRDN 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		£14m
CCLA - PSDF	GB	Overnight	AAAmmf	Aaa-mf	-		£7.5m
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		£7m
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		£8.7m
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		£3.3m
AVIVA INVESTORS GOV	IR	Overnight	-	Aaa-mf	AAAm		£20m
BLACKROCK GOV	IR	Overnight	-	Aaa-mf	AAAm		£20m
GOLDMAN SACHS ASSET MANAGEMENT GOV	IR	Overnight	-	Aaa-mf	AAAm		£6.6m