

Committee:	Date:
Financial Investment Board	11 February 2020
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2020/21	Public
Report of: The Chamberlain	For Decision
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Summary

The attached document sets out the City’s Treasury Management Strategy Statement and Annual Investment Strategy (TMSS) for 2020/21. The Treasury Management Strategy and Annual Investment Statement for 2020/21 has been updated taking account of the latest information concerning the organisation’s capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the City’s capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City’s Cash and Bridge House Estates. As City’s Cash borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City’s Cash Borrowing Policy Statement which is included in this report at Appendix 9.

The main proposals within the document are incorporated within the separate report entitled “City Fund - 2020 Budget Report” being considered by the Finance Committee on 18 February 2020 and by the Court of Common Council on 5 March 2020.

Responsibility for approving the City’s borrowing plans remains with the Court of Common Council, not the Financial Investment Board.

The key areas to highlight are:

- As at 31 December 2019, the Corporation has cash balances totalling £1,141.5m. Cash balances have increased during 2018/19, as City’s Cash has taken receipt of £250m borrowing proceeds following the Corporation’s private placement exercise. Nonetheless, most of the cash balances reside within the City Fund and comprise of liabilities on City Fund’s balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.
- The Corporation’s capital plans create a borrowing requirement across both the City Fund and City’s Cash. City’s Cash has addressed this borrowing requirement through the issuance of £450m market debt during 2018/19, £200m of which is deferred until 2021/22.

- The City Fund borrowing requirement is expected to increase to £446.6m by 2022/23. For the City Fund, there is no immediate requirement to take on external borrowing in the upcoming year as in the near term, external borrowing would serve to increase cash balances. Furthermore, new borrowing would create additional revenue pressures through a “cost of carry”, as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2020/21.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. The interest rate environment is judged to be sufficiently benign in the near term to accommodate an internal borrowing approach. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 3 of the TMSS) have been revised to enable the City to secure external debt to meet some or all of the borrowing requirement.
- In October 2019, the Government’s raised the interest rate payable by local authorities on new loans from the Public Works Loan Board to 1.8% above gilts. The effects of this decision are still evolving but it is likely that the increase will lead to a wider range of borrowing sources available to the Corporation by making private market debt more competitive. The Corporation will need to give careful consideration to the source of external borrowing (when necessary) in order to secure best value.
- As the Corporation currently maintains significant cash balances, consideration has been given to the appropriateness of the investment strategy to secure the capital value of the Corporation’s resources, ensure cash is available when needed and, after securing these goals, the achievement of suitable returns. The strategy recommends that the overall limit on “non-specified investments” and maximum principal sums invested for more than one year is increased from £300m to £500m (sections 8.2 and 9 within the TMSS), which will enable the Corporation to allocate a greater proportion of its cash under management to investments of over 365 days in duration and to increase its allocation to the two existing short dated bond funds. This does not mean that non-specified investments will be held constantly at this level, but it will enable the Chamberlain to act flexibly within these limits should circumstances dictate. Prudent, longer term investments will mitigate the gradual erosion of the real capital value of the Corporation’s cash resources.
- It is proposed that the City continues to be prepared to lend monies for up to three years’ duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. In the current risk environment, it is recommended that creditworthiness policy (section 8.2 within the TMSS) maintains the existing high standards of creditworthiness for approved counterparties.

- Officers have identified additional potential eligible counterparties that qualify under the existing creditworthiness policy and these are presented for consideration by the Board under Appendix 5 of the TMSS. Each of the proposed counterparties is domiciled in a country with a AAA rating and has credit ratings that either match or exceed the minimum creditworthiness thresholds set by the Corporation. By adopting additional counterparties, the Corporation will be able to diversify counterparty risk within its treasury investments. The banks proposed for inclusions are as follows:

Table 1: Eligible banks for consideration to be added to the approved counterparty list

Bank Name	Country	Fitch Long Term Rating	Fitch Short Term Rating
Bank of Montreal	Canada	AA-	F1+
Royal Bank of Canada	Canada	AA-	F1+
Toronto-Dominion Bank	Canada	AA-	F1+
Landesbank Hessen-Thueringen Girozentrale	Germany	A+	F1+
Cooperatieve Rabobank U.A	Netherlands	AA-	F1+
DBS Bank Ltd.	Singapore	AA-	F1+
United Overseas Bank Ltd.	Singapore	AA-	F1+
Skandinaviska Enskilda Banken AB	Sweden	AA-	F1+
Swedbank AB	Sweden	AA-	F1+
Handelsbanken Plc	UK	AA	F1+

- In assessing the creditworthiness of prospective counterparties, the City does not rely solely on the ratings issued by the credit rating agencies but uses additional market information such as credit default swap prices and rating watches and outlooks (section 8.2 of the TMSS). Credit ratings are monitored on daily basis by Link Asset Services (the City's treasury management consultant) and treasury team officers are alerted to any changes.
- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2020/21 sets out this policy for the forthcoming year and is included at Appendix 3 in the TMSS.

The main changes to the document from last year's version are highlighted in yellow and underlined.

Recommendations

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21, and submits it to the Finance Committee and the Court of Common Council as part of the City Fund – 2020 Budget Report for formal adoption.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2020/21

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