

Committee: Financial Investment Board Audit and Risk Management	Date: 23 September 2020 3 November 2020
Subject: End of Year Treasury Management Review 2019/20	Public
Report of: The Chamberlain	For Information
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Summary

The Treasury Management Strategy Statement for 2019/20 was approved by the Financial Investment Board and the Finance Committee in February 2019 and by the Court of Common Council on 7 March 2019.

Under CIPFA’s Code of Practice on Treasury Management, which was adopted by the Court of Common Council on 3 March 2010, there is a requirement to provide an end of year report. The main points to note are as follows:

- As at 31 March 2020, the City had treasury balances totalling some £1,014.7m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances increased by £148.8m over the course of the year, which is largely due to the receipt of borrowing proceeds in the period relating to City’s Cash.
- Short term investment returns continue to be low, and have decreased further in the year following the Bank of England’s decision to decrease its base rate on 11 March 2020 (to 0.25%) and 19 March 2020 (to 0.10%). Previously, the level had been held at 0.75% since 2 August 2018.
- The investment of funds during the year conformed to the approved strategy and there were no liquidity difficulties or breaches of the approved creditworthiness policy.
- In October, the Government increased the interest rate payable on new loans from the Public Works Loan Board from 0.8% above gilt yields to 1.8% above gilt yields.
- The treasury management strategy remained the same throughout 2019/20.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. The City of London Corporation (the City) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by the Financial Investment Board (12 February 2019), Finance Committee (19 February 2019) and the Court of Common Council (7 March 2019). During 2019/20 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2020

3. The City's treasury position at the start and end of 2019/20 was as follows:

Table 1	31/03/19 Principal £m	Rate/ Return %	Average Life Yrs	31/03/20 Principal £m	Rate/ Return %	Average Life Yrs
Fixed rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Variable rate funding						
- PWLB	0			0		
- Market	(125.0) ⁽ⁱ⁾			(250.0) ⁽ⁱⁱ⁾		
	(125.0)			(250.0)		
Total debt	(125.0)			(250.0)		
Total investments	865.9	0.97	0.21	1,014.7	0.63	0.39
Net Investments	745.9			764.7		

(i) Bridging facility for City's Cash drawn down March 2019

(ii) Private Placement (£250m) for City's Cash drawn down September 2019, followed by repayment of the bridging facility in September 2019.

The Strategy for 2019/20

4. Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that the Bank of England's base rate (Bank Rate) would stay at 0.75% during 2019/20 and would only rise gradually to 1.0% during 2020.

5. Short term interest rates were relatively stable for most of the year until the emergence of Covid-19 in early 2020. The Bank of England acted to stimulate the economy by reducing rates twice in March 2020, first reducing Bank Rate from 0.75% to 0.25% and then again to 0.10%, causing investment rates to fall sharply.
6. The City's treasury cash continues to be invested in a diversified balanced portfolio commensurate with proper and prioritised levels of security and liquidity.
7. There were no changes to the TMSS during the year.
8. The 2019/20 TMSS also included a number of prudential and treasury indicators for the year which are shown in Appendix 1. The City complied with all indicators in 2019/20.

The Borrowing Requirement and Debt

9. UK gilt yields were on a declining trend throughout 2019/20. Yields momentarily spiked in March during the severe downturn in financial markets brought about by the emergence of Covid-19 but quickly reversed as investors sought safe haven assets. The Bank of England has loosened monetary policy in an attempt to protect the economy which has helped to suppress borrowing costs and in spite of the Government's historically significant increase in fiscal activity in response to Covid-19, yields have remained low.
10. However, action taken by HM Treasury during the year has raised the cost of borrowing for local authorities. In October 2019, the Government increased the margin over gilt yields used to set Public Works Loan Board (PWLB) loans from 80 basis points to 180 basis points. The Treasury has since consulted on the future lending arrangements of the PWLB (a consultation in which the City participated) and it is expected that the Government will review the increase in the margin above gilts used to price PWLB loans following the implementation of new lending arrangements. The consultation makes clear that the Government intends to prevent local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.
11. The 2019/20 TMSS highlighted a future borrowing requirement for both City's Cash and City Fund as a result of the City's capital plans. During 2019/20 City's Cash issued £450m of market debt of which £250m was received in September 2019 with the remaining £200m deferred until July 2021. The first £125m of this market debt was immediately used to repay the borrowing facility of £125m taken out in March 2019.
12. No external borrowing was undertaken by the City Fund during the 2019/20, and actual capital expenditure in that year (£53m) was lower than anticipated in the 2019/20 TMSS (£211m). The City Fund's capital financing requirement is expected to increase in the next few years as a result of the planned capital expenditure and it is likely that at least a portion of this borrowing need will be met through internal borrowing. This strategy remains prudent in the current interest rate environment given the City Fund's cash balances. However, the Chamberlain will continue to

monitor the outlook for interest rates to ensure the borrowing strategy remains appropriate.

13. Bridge Houses Estates did not enter into any borrowing during the year.

Investment Outturn for 2019/20

14. **Investment Policy** – the City’s investment policy is governed by MHCLG guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the annual investment strategy approved by the Court of Common Council on 7 March 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

15. Investment returns remained historically low during 2019/20. Rates were largely stable, if on a generally declining trend through much of 2019, experiencing brief periods of limited volatility in the context of political developments concerning Brexit. However, rates dropped sharply in March 2020 with the emergence of the global coronavirus pandemic as a clear “risk-off” attitude prevailed amongst investors. By the end of the year some of these declines had been reversed as a result of liquidity shortages but the policy action undertaken to by the Bank of England to protect the economy (the Bank reduced Bank Rate twice in March from its previous level of 0.75% to where it currently stands at 0.10%) has led to a fall in sterling money market rates.

16. The City’s overall return on cash under management for 2019/20 was 0.63%, which compares to a return of 0.97% in 2018/19 and a budgeted assumption of 0.50%.

17. Returns are comprised of both interest earned on deposits and the gains and losses on the market value of the Corporation’s short dated and ultra-short dated bond funds. This latter component had a significant negative impact on overall returns at the end of the year as the short dated bond fund investments, in particular, were subject to high levels of volatility in March 2020 as credit spreads widened materially and bond values declined. The values of the short-dated bond funds have recovered entirely since 31 March 2020.

18. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

Conclusion

19. Treasury management activities over the past financial year were carried out in accordance with the 2019/20 TMSS, which remained unchanged over the course of the year. Investment returns remained at historically low levels and were further reduced in March following the Bank of England’s monetary stimulus.

20. City's Cash issued £450m of market debt, £200m of which is deferred until July 2021, to support capital expenditure. The temporary borrowing facility of £125m entered into in March 2019, was repaid in full.

Appendices

Appendix 1 – Treasury Indicators

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Appendix 1**Treasury Indicators**

TABLE 1: TREASURY MANAGEMENT INDICATORS	2018/19	2019/20	2019/20
	Actual	Estimate	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
Borrowing	£0	£0	£0
other long term liabilities	£13,888	£13,770	£13,770
TOTAL	£13,888	£13,770	£13,770
Operational Boundary for external debt -			
Borrowing	£0	£0	£0
other long term liabilities	£13,888	£13,770	£13,770
TOTAL	£13,888	£13,770	£13,770
Actual external debt	£0	£0	£0
Upper limit for total principal sums invested for over 364 days (per maturity date)	£0m	£300m	£0m

TABLE 2: Maturity structure of fixed rate borrowing during 2019/20	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%