



## Financial Investment Board

**Date:** TUESDAY, 14 SEPTEMBER 2021

**Time:** 1.45 pm

**Venue:** <https://youtu.be/3EWUGOeurJk>

**Members:** Nicholas Bensted-Smith (Chairman)  
Henry Colthurst (Deputy Chairman)  
Anne Fairweather  
Alderman Prem Goyal  
Alderman Robert Howard  
Alderman Robert Hughes-Penney  
Deputy Clare James  
Tim Levene  
Deputy Robert Merrett  
Deputy Andrien Meyers  
John Petrie  
Deputy Henry Pollard  
James de Sausmarez  
Ian Seaton  
Deputy Philip Woodhouse

**Next Meetings:** 30 November 2021

9 February 2022

**Enquiries:** Joseph Anstee  
[joseph.anstee@cityoflondon.gov.uk](mailto:joseph.anstee@cityoflondon.gov.uk)

### Accessing the virtual public meeting

Members of the public can observe this virtual public meeting at the below link:

<https://youtu.be/3EWUGOeurJk>

This meeting will be a virtual meeting and therefore will not take place in a physical location. Any views reached by the Committee today will have to be considered by the Chamberlain after the meeting in accordance with the Court of Common Council's Covid Approval Procedure who will make a formal decision having considered all relevant matters. This process reflects the current position in respect of the holding of formal Local Authority meetings and the Court of Common Council's decision of 15th April 2021 to continue with virtual meetings and take formal decisions through a delegation to the Town Clerk and other officers nominated by him after the informal meeting has taken place and the will of the Committee is known in open session. Details of all decisions taken under the Covid Approval Procedure will be available on line via the City Corporation's webpages. A recording of the public meeting will be available via the above link following the end of the public meeting for up to one municipal year. Please note: Online meeting recordings do not constitute the formal minutes of the meeting; minutes are written and are

available on the City of London Corporation's website. Recordings may be edited, at the discretion of the proper officer, to remove any inappropriate material.

**John Barradell**  
**Town Clerk and Chief Executive**

# AGENDA

## Part 1 - Public Agenda

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES OF THE PREVIOUS MEETING**  
To agree the public minutes and non-public summary of the meeting held on 30 June 2021.  

**For Decision**  
(Pages 7 - 10)
4. **OUTSTANDING ACTIONS**  
Report of the Town Clerk.  

**For Information**  
(Pages 11 - 12)
5. **TREASURY MANAGEMENT UPDATE AS AT 31 JULY 2021**  
Report of the Chamberlain  

**For Information**  
(Pages 13 - 34)
6. **TREASURY MANAGEMENT OUTTURN 2020/21**  
Report of the Chamberlain  

**For Information**  
(Pages 35 - 40)
7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
9. **EXCLUSION OF THE PUBLIC**  
MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.  

**For Decision**

## Part 2 - Non-Public Agenda

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**  
To agree the non-public minutes of the meeting held on 30 June 2021.  
**For Decision**  
(Pages 41 - 46)
11. **NON-PUBLIC OUTSTANDING ACTIONS**  
Report of the Town Clerk  
**For Information**  
(Pages 47 - 48)
12. **CAS: AGREEING TARGETS AND IMPLEMENTATION ACTIONS FOR A NET ZERO PATHWAY FOR FINANCIAL INVESTMENTS FOR EACH FUND**  
Report of the Chamberlain  
**For Decision**  
(Pages 49 - 80)
13. **INVESTMENT PERFORMANCE MONITORING REPORTS**  
**For Information**
  - a) **Quarterly Monitoring to 30 June 2021** (Pages 81 - 98)  
Report of Mercer
  - b) **Performance Monitoring to 31 July 2021: Pension Fund** (Pages 99 - 114)  
Report of the Chamberlain
  - c) **Performance Monitoring to 31 July 2021: City's Cash** (Pages 115 - 128)  
Report of the Chamberlain
  - d) **Performance Monitoring to 31 July 2021: Bridge House Estates** (Pages 129 - 142)  
Report of the Chamberlain
14. **VALUE FOR MONEY ASSESSMENT**  
Report of the Chamberlain  
**For Decision**  
(Pages 143 - 166)
15. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**



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## FINANCIAL INVESTMENT BOARD

Wednesday, 30 June 2021

Minutes of the virtual meeting of the Financial Investment Board held on  
Wednesday, 30 June 2021 at 1.45 pm

### Present

#### Members:

Nicholas Bensted-Smith (Chairman)  
Henry Colthurst (Deputy Chairman)  
Anne Fairweather  
Alderman Robert Howard  
Alderman Robert Hughes-Penney  
Deputy Clare James  
Tim Levene  
Deputy Robert Merrett  
Deputy Andrien Meyers  
John Petrie  
Deputy Henry Pollard  
James de Sausmarez  
Deputy Philip Woodhouse

#### Officers:

|                     |                            |
|---------------------|----------------------------|
| Joseph Anstee       | - Town Clerk's Department  |
| Caroline Al-Beyerty | - Chamberlain's Department |
| Kate Limna          | - Chamberlain's Department |
| James Graham        | - Chamberlain's Department |
| Simi Shah           | - Town Clerk's Department  |

#### Also in attendance:

Lucy Tusa – Mercer  
Jodi Paterson – Mercer

#### 1. APOLOGIES

Apologies for absence were received from Ian Seaton.

#### 2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

There were no declarations.

#### 3. MINUTES OF THE PREVIOUS MEETING

**RESOLVED** - That the public minutes and non-public summary of the meeting held on 20 May 2021 be agreed as a correct record.

#### 4. OUTSTANDING ACTIONS

There were no public outstanding actions.

5. **TREASURY MANAGEMENT UPDATE AS AT 31 MAY 2021**

The Board received a report of the Chamberlain providing a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 May 2021. The Chamberlain introduced the report and drew Members' attention to the key points, as well as the updated cashflow forecast information. Mercer advised that the Bank of England may raise interest rates towards the end of 2022 if certain targets were met.

**RESOLVED** – That the report be noted.

6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no questions.

7. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There was no other business.

8. **EXCLUSION OF THE PUBLIC**

**RESOLVED** - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

| Item No. | Paragraph(s) in Schedule 12A |
|----------|------------------------------|
| 9 - 15   | 3                            |
| 16 - 17  | -                            |

9. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

**RESOLVED** - That the non-public minutes of the meeting held on 20 May 2021 be agreed as a correct record.

10. **NON-PUBLIC OUTSTANDING ACTIONS**

The Board received a list of non-public outstanding actions.

11. **INVESTMENT PERFORMANCE MONITORING REPORTS**

a) **Performance Monitoring to 31 May 2021: Pension Fund**

The Board received a report of the Chamberlain.

b) **Performance Monitoring to 31 May 2021: City's Cash**

The Board received a report of the Chamberlain.

c) **Performance Monitoring to 31 May 2021 Bridge House Estates**

The Board received a report of the Chamberlain.

12. **YEAR 1 PLAN FOR CLIMATE ACTION**

The Board received a report of the Chamberlain.



13. **PENSION FUND PROPERTY - PROPOSED TOP UP**  
The Board considered a report of the Chamberlain.
14. **SIR WILLIAM COXEN TRUST FUND**
  - a) **Sir William Coxen Trust Fund Performance Monitoring to 31 March 2021**  
The Board considered a report of the Chamberlain.
  - b) **Sir William Coxen Trust Fund - Review of Investment Arrangements**  
The Board considered a report of the Chamberlain.
15. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 31 MARCH 2021**  
The Board received a report of the Chamberlain.
16. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**  
There were no non-public questions.
17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**  
There was no other business.

**The meeting ended at 2.49 pm**

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Chairman

**Contact Officer: Joseph Anstee**  
**joseph.anstee@cityoflondon.gov.uk**

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**Financial Investment Board – Outstanding Actions**

| Item  | Date | Action | Officer responsible | To be completed/<br>progressed to next stage | Progress Update |
|---|------|--------|---------------------|--|-----------------|
| There are currently no outstanding actions. |      |        |                     |  |                 |

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|   |                                    |
|---|------------------------------------|
| <b>Committee:</b><br>Financial Investment Board   | <b>Dated:</b><br>14 September 2021 |
| <b>Subject:</b> Treasury Management Update as at 31 July 2021   | <b>Public</b>                      |
| <b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b> | <b>All</b>                         |
| <b>Does this proposal require extra revenue and/or capital spending?</b>                                  | <b>No</b>                          |
| <b>If so, how much?</b>   | <b>£N/A</b>                        |
| <b>What is the source of Funding?</b>   | <b>N/A</b>                         |
| <b>Has this Funding Source been agreed with the Chamberlain's Department?</b>                             | <b>N/A</b>                         |
| <b>Report of:</b> The Chamberlain   | <b>For Information</b>             |
| <b>Report author:</b><br>James Graham – Chamberlain's Department  |                                    |

## Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2021. The report includes an update on the current asset allocation of the short term investment portfolio and its performance and also includes the latest cash flow forecast. A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

## Recommendation

Members are asked to note the report.

## Main Report

### Background

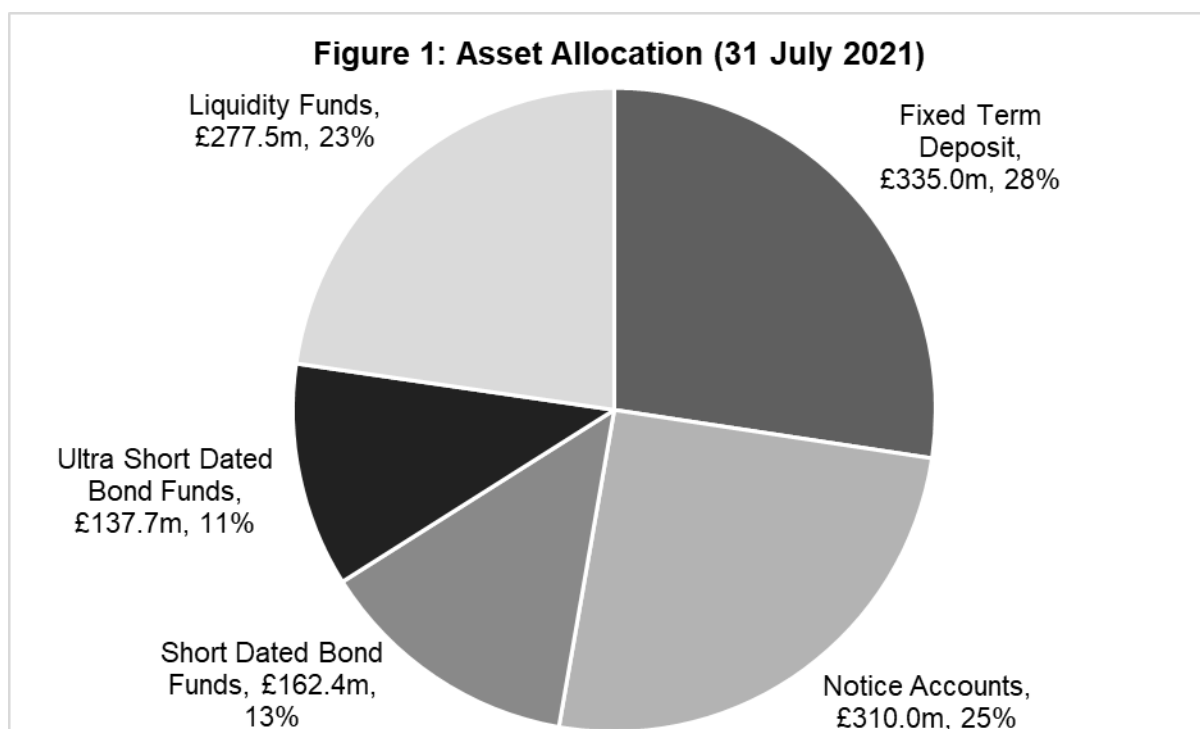
1. The Financial Investment Board receives an update on the treasury management portfolio at each meeting. At its meeting on 9 February 2021 the Board requested an update on the current cash flow forecast at its next meeting. Officers have compiled this report to provide additional context to the short term investment portfolio and the forecast for short term investments as at 31 July 2021.

### Current Position

2. The treasury management investment portfolio had a market value of £1,222.6m as at 31 July 2021. This represents a net increase in cash of £243.5m over the two-month period from 31 May 2021 (when the portfolio amounted to £979.1m). City's Cash took receipt of the second tranche of private placement (market) debt in July, which at £200m, explains the significant increase in funds. The remaining net inflow is comprised of changes in working capital.

## Asset Allocation

3. In accordance with the Treasury Management Strategy Statement 2021/22, surplus cash is invested first and foremost with the aim of securing the Corporation's financial assets and secondly in line with the organisation's liquidity requirements (i.e. ensuring the cash is available when needed to meet the Corporation's spending obligations). Once these two objectives have been satisfied, the Corporation targets the best returns available in the sterling money markets.
4. A summary of the asset allocation by instrument type as at 31 July 2021 is displayed in figure 1.

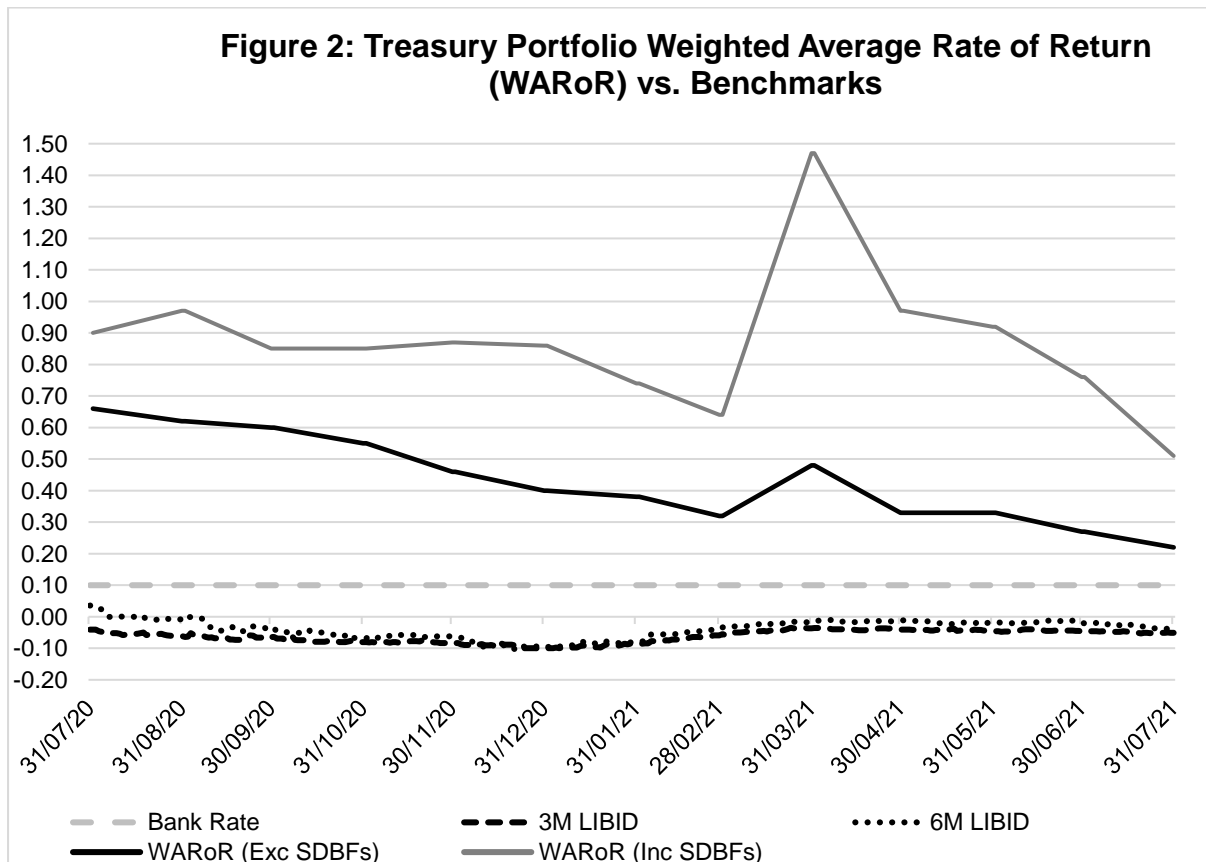


5. As at 31 July 2021, most of the Corporation's cash balances were invested on a short term (under one year) basis with eligible banks, building societies and local authorities via fixed term deposits (28%) and notice accounts (25%).
6. Fixed term deposits includes term deposits with a new counterparty, Landesbank Hessen-Thüringen Girozentrale (also known as "Helaba"). Helaba is a German-domiciled bank with an A+ long term rating with Fitch and is an eligible counterparty under the current Treasury Management Strategy. Prior to depositing funds with Helaba, the Chamberlain undertook due diligence around the bank's financial standing (with a particular focus on the bank's liquidity and capitalisation levels which are both comfortably above minimum regulatory thresholds and commensurate with peers already used by the Corporation). By introducing Helaba, the Corporation is able to diversify its credit risk exposure.

7. A further 23% was held in liquidity funds. These balances are very liquid and can be accessed on the day. 11% was invested in ultra-short dated bond funds. These instruments are also highly liquid (funds can be redeemed with two to three days' notice) but they are more volatile than liquidity funds. Ultra-short dated bond funds are suitable for surplus cash balances with an investment horizon of six months or more.
8. The remaining portion of the portfolio (13%) was invested in short dated bond funds at the reporting date. These funds are invested in investment grade credit instruments with an average duration of 2-3 years. Short dated bond funds can be volatile in the short term and should only be used for surplus cash balances with an investment horizon of at least two years.
9. Further analysis on the composition of the portfolio as at 31 July 2021 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

Performance

10. The weighted average rate of return for the portfolio over the past 12 months is shown in figure 2 below. In this chart, the solid lines represent the level of returns achieved by the Corporation while the “dashed” lines represent suitable performance comparators.



11. Sterling money market rates have been relatively stable recently and remain close to zero, as seen in figure 2 via the readings for 3-month and 6-month

London Interbank Bid Rate (LIBID), which indicates very little change in market expectations for a change in rates in the next few months.

12. Returns on the Corporation's short term investment portfolio have continued to trend downwards as existing, higher yielding deposits have matured and been replaced with new investments at a lower yield. This is visible in the weighted average return excluding short dated bond funds above (which omits the two longer-term short dated bond fund investments in the portfolio).
13. As month-to-month returns from the ultra-short and short dated bond fund investments can be volatile, for these instruments, officers have used the trailing 12 month total return to 31 July 2021 in calculating the portfolio returns displayed in figure 2. Returns on these investments have slowed in recent months (as shown in the weighted average rate or return including short dated bond funds in figure 2) as the effects of the strong recovery in mid-2020 have dropped out of the calculation.
14. To aid an effective assessment of performance, table 1 shows the historical return of the ultra-short and short dated bond fund investments on a total return basis over various time horizons under one year.

**Table 1: Bond Fund Returns as at 31 July 2021**

| <b>Fund</b>  | <b>1 Month<br/>Return<br/>(30/06/2021<br/>to<br/>31/07/2021)</b> | <b>3 Month<br/>Return<br/>(30/04/2021<br/>to<br/>31/07/2021)</b> | <b>12 Month<br/>Return<br/>(31/07/2020<br/>to<br/>31/07/2021)</b> |
|--|--|--|---|
| Federated Hermes Sterling Cash Plus Fund                       | -0.01%   | 0.00%  | 0.08%   |
| Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling | 0.00%  | 0.02%  | 0.28%   |
| Payden Sterling Reserve Fund                                   | 0.03%  | 0.11%  | 0.70%   |
| L&G Short Dated Sterling Corporate Bond Index Fund             | 0.02%  | 0.58%  | 2.33%   |
| Royal London Investment Grade Short Dated Credit Fund          | 0.30%  | 0.74%  | 2.53%   |

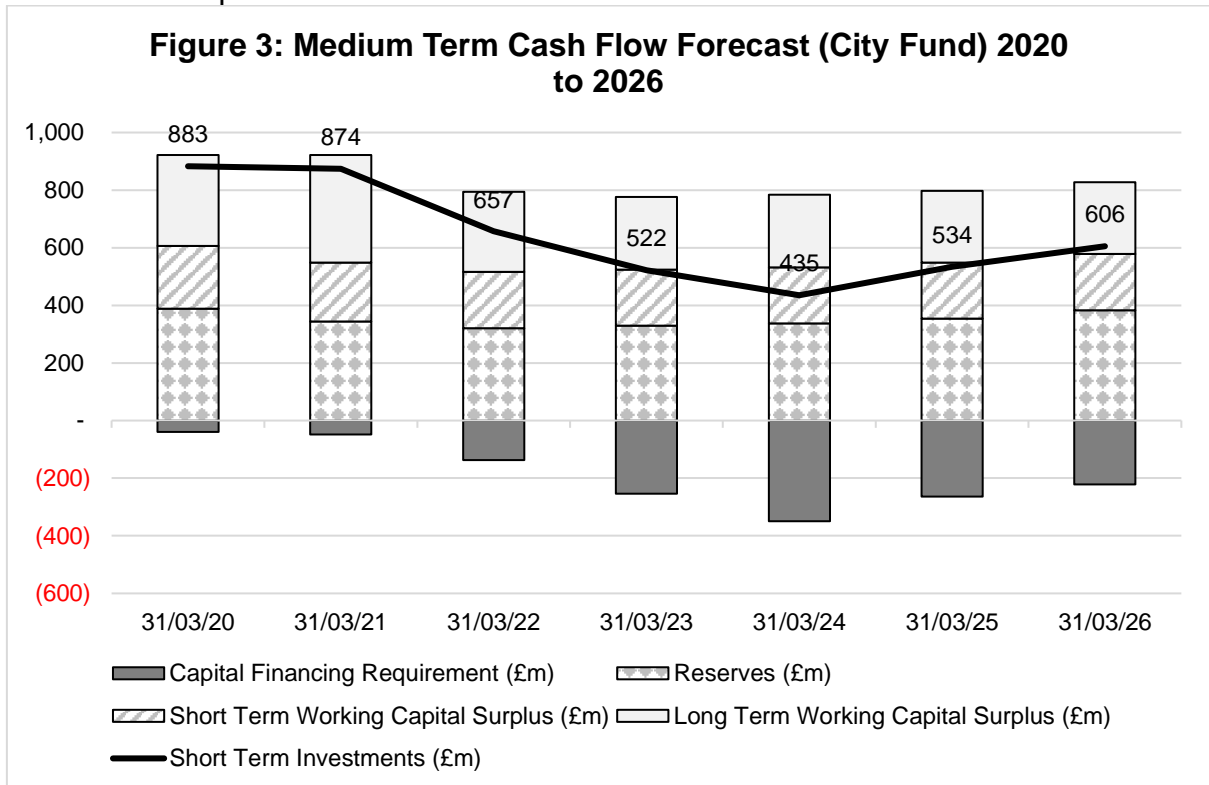
15. The most conservative fund (Federated) is listed first in table 1 and the longer term investments (L&G and Royal London) are listed at the bottom to the table. All funds have produced positive returns over the year to the end of July 2021.

### Cash Flow Forecast

16. The City Fund's medium-term cash flow forecast is shown below in figure 3. City Fund's cash investments amount to £874m as at 31 March 2021, or 92% of the total cash under management in the treasury portfolio at that time. The remainder belongs to City's Cash (1%), Bridge House Estates (3%) and other bodies (4%).



17. Cash investments (represented by the black line in figure 3) are expected to be below historic levels over the next few years before recovering towards the end of the forecast period.



18. The forecast is largely unchanged from the projection reported to the Board at its last meeting on 30 June. The forecast will continue to be reviewed by officers in tandem with the medium term financial planning process.

19. While this forecast is based on the City Fund’s current financial plans it includes several assumptions and it is unlikely that actual cash balances will materialise exactly as forecast. In particular, Members should note the following:

- Historically planned capital expenditure has been subject to re-profiling (“slippage”). If the City Fund’s current capital spending plans are re-profiled during the forecast period then the forecast will shift to the right.
- The forecast will need to be continually updated in line with the medium-term financial planning process and the Corporation’s financial decisions.
- Officers also expect to make methodological improvements to the forecast calculation to improve its accuracy.

20. In terms of the key financial assumptions implicit in the forecast, Members may observe that the critical factor driving the forecast is the pace at which the City Fund’s capital spending plans are progressed. The forecast assumes spending on the major projects programme (City Fund components) will increase in intensity over the next few years and be substantively complete by the end of 2025/26. The forecast assumes the programme will be funded in the main by a mixture of capital receipts, grant funding, fundraising and internal borrowing (i.e. no external borrowing is assumed).

## **Conclusion**

21. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2021. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's Treasury Management Strategy Statement 2021/22. The Corporation added a new counterparty, Helaba, to its list of approved counterparties during the reporting period after undertaking due diligence. The addition is intended to increase the range of counterparties the Corporation uses to diversify its credit risk exposure. Returns have been driven by the prevailing rates available in the sterling money markets, which in turn are dominated by an ultra-low interest rate environment. Performance from the ultra-short and short dated bond fund investments has been positive over the year to date. The City Fund's short term investment balances are forecast to decline gradually over the next few years before increasing again towards the end of the medium-term forecast period. The forecast is highly contingent on the pace of the capital programme.

## **Appendices**

Appendix 1: Counterparty Exposure as at 31 July 2021

Appendix 2: Monthly Investment Analysis Review July 2021

## **Background Papers**

### **James Graham**

Group Accountant – Pensions & Treasury Management

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**APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 JULY 2021**

|  | Counterparty<br>Limit<br>£M | Total<br>Invested as at<br>31-Jul-21<br>£M | Average<br>Rate of<br>Return<br>% |
|--|-----------------------------|--|-----------------------------------|
| <b><u>TOTAL INVESTED</u></b>               |                             | <b><u>1,222.6</u></b>                      | <b><u>0.51%</u></b>               |
| <b><u>FIXED TERM DEPOSITS</u></b>          |                             |  |                                   |
| <b><u>UK BANKS</u></b>                     |                             |  |                                   |
| Barclays                                   | 100.0                       | 25.0                                       | 0.14%                             |
| Goldman Sachs                              | 100.0                       | 20.0                                       | 0.13%                             |
| Lloyds                                     | 150.0                       | 40.0                                       | 0.10%                             |
| NatWest                                    | 100.0                       | 90.0                                       | 0.23%                             |
|  |                             | <u>175.0</u>                               |                                   |
| <b><u>BUILDING SOCIETIES</u></b>           |                             |  |                                   |
| Leeds                                      | 20.0                        | 20.0                                       | 0.14%                             |
| Skipton                                    | 20.0                        | 5.0  | 0.35%                             |
| Nationwide                                 | 120.0                       | 60.0                                       | 0.07%                             |
|  |                             | <u>85.0</u>                                |                                   |
| <b><u>FOREIGN BANKS</u></b>                |                             |  |                                   |
| Australia & New Zealand                    | 100.0                       | 10.0                                       | 0.12%                             |
| Helaba                                     | 100.0                       | 50.0                                       | 0.16%                             |
|  |                             | <u>60.0</u>                                |                                   |
| <b><u>LOCAL AUTHORITIES</u></b>            |                             |  |                                   |
| LB Waltham Forest                          | 25.0                        | 5.0  | 0.33%                             |
| Stockport City Council                     | 25.0                        | 10.0                                       | 0.10%                             |
|  |                             | <u>15.0</u>                                |                                   |
| <b><u>LIQUIDITY FUNDS</u></b>              |                             |  |                                   |
| Aberdeen SLI Liquidity Fund                | 100.0                       | 23.3                                       | 0.01%                             |
| CCLA - Public Sector Deposit Fund          | 100.0                       | 75.4                                       | 0.02%                             |
| Deutsche Global Liquidity Fund             | 100.0                       | 63.4                                       | 0.02%                             |
| Federated Prime Liquidity Fund             | 100.0                       | 48.0                                       | 0.01%                             |
| Invesco Sterling Liquidity Fund            | 100.0                       | 67.4                                       | 0.01%                             |
|  |                             | <u>277.5</u>                               |                                   |
| <b><u>ULTRA SHORT DATED BOND FUNDS</u></b> |                             |  |                                   |
| Payden Sterling Reserve Fund               | 100.0                       | 61.9                                       | 0.70%                             |
| Aberdeen SLI Short Duration Fund           | 100.0                       | 50.4                                       | 0.28%                             |
| Federated Sterling Cash Plus Fund          | 100.0                       | 25.4                                       | 0.08%                             |
|  |                             | <u>137.7</u>                               |                                   |
| <b><u>SHORT DATED BOND FUNDS</u></b>       |                             |  |                                   |
| L&G  | 100.0                       | 81.2                                       | 2.33%                             |
| Royal London                               | 100.0                       | 81.2                                       | 2.53%                             |
|  |                             | <u>162.5</u>                               |                                   |

|                                       | <b>Counterparty<br/>Limit</b> | <b>Total<br/>Invested as at<br/>31-Jul-21</b> | <b>Average<br/>Rate of<br/>Return</b> |
|---------------------------------------|-------------------------------|---|---------------------------------------|
|                                       | <b>£M</b>                     | <b>£M</b>                                     | <b>%</b>                              |
| <u>NOTICE ACCOUNTS</u>                |                               |   |                                       |
| Australia and New Zealand 185 Days Ac | 100.0                         | 90.0  | 0.40%                                 |
| Goldman Sachs 185 Days Account        | 100.0                         | 20.0  | 0.24%                                 |
| Goldman Sachs 185 Days Account        | 100.0                         | 20.0  | 0.23%                                 |
| Goldman Sachs 185 Days Account        | 100.0                         | 20.0  | 0.23%                                 |
| Goldman Sachs 270 Days Account        | 100.0                         | 20.0  | 0.33%                                 |
| Lloyds 95 Days Account                | 150.0                         | 40.0  | 0.05%                                 |
| Santander 95 Days Account             | 100.0                         | 20.0  | 0.40%                                 |
| Santander 180 Days Account            | 100.0                         | 30.0  | 0.58%                                 |
| Santander 365 Days Account            | 100.0                         | 50.0  | 0.68%                                 |
|                                       |                               | <u>310.0</u>                                  |                                       |
| <u>TOTAL</u>                          |                               | <u>1,222.6</u>                                |                                       |



# City of London Corporation

## Monthly Investment Analysis Review

July 2021

## Monthly Economic Summary

**General Economy**

Although the Flash (i.e., provisional) UK Manufacturing PMI fell to 60.4 in July from the record high of 65.6 posted in May, it continued to indicate that activity remains robust. Whilst rates of growth in both output and new work both eased to four-month lows, they remained close to recent record peaks, supported by the re-opening of the economy and stronger demand from domestic and overseas markets. Employment levels also continued to increase at a solid pace, amid a further increase in backlogs of work. In a similar vein, the Flash Services PMI fell to 57.8 in July from 62.4 in June, partly due to pandemic imposed restrictions on activity and the ending of the stamp duty holiday, which saw demand for services related to residential property transactions soften. As a result, the Flash Composite PMI (which incorporates both sectors), eased to 57.7 in July from 62.2 in June. The Construction PMI, meanwhile, (which is released one month behind), rose to 66.3 in June from 64.2 in May, signalling the strongest rate of output growth since June 1997.

GDP data for May, meanwhile, revealed that the economy expanded by 0.8% m/m, significantly less than consensus forecasts of a 1.5% expansion. Although the reopening of indoor hospitality in mid-May resulted in 37.1% m/m leap in output in the accommodation & food sector (which contributed 0.7 percentage points of the 0.8% rise), there was little sign of growth elsewhere. Economists speculated that this may have been the result of May's wet weather, a sign that materials and labour shortages are restraining output or that the then prevailing prospect of delay to the final easing in COVID-19 restrictions was hampering the recovery. Trade data, meanwhile, revealed that a 4.4% rise in exports was sufficient to nudge the UK's trade balance into a surplus of £0.9 billion in May, compared to the deficit of £1.6 billion recorded in April.

Although the UK's unemployment rate edged up to 4.8% in the three months to May compared to 4.7% in the previous period, the underlying data pointed to further modest improvement in labour market conditions. The number of people in work in the UK rose by 25,000 in the three months to May, although admittedly the rise was less than market forecasts of 90,000. Moreover, a record 114,800 fewer people claimed unemployment benefit in June, following a 92,600 fall during May. Average weekly earnings (including bonuses), meanwhile, surged by 7.3% y/y in the three months to May compared to 5.6% in the previous period. Similarly, average weekly earnings excluding bonuses rose by 6.6% in the three months to May, compared to a 5.6% rise in the three months to April. However, it is worth noting that these rises are being largely driven by base effects and the impact of many low-paid workers having lost their job during their pandemic. By contrast, the medium annual pay settlement was 2.0% in May.

UK inflation, as measured by the Consumer Price Index, rose to 2.5% y/y in June from 2.1% y/y in May and above market forecasts of 2.3%. This represents the highest inflation rate since August 2018 and was driven by price rises in transport, second-hand cars, clothing and footwear and meals and drinks consumed out. Base effects related to the unusually low level of prices last year were observed to have contributed to some of these gains. On a monthly basis, meanwhile, consumer prices exceeded forecasts of a 0.2% rise by rising 0.5% in June. As a result of the gains, it seems likely that the Monetary Policy Committee will upgrade their inflation forecasts at the next meeting in August, although the market continues to expect that any rate rise will not occur until next year at the earliest.

Retail sales, meanwhile, rose 9.7% y/y in June compared to a 24.6% y/y rise in May, marginally above market expectations of a 9.6% gain. On a monthly basis, sales rose 0.5% during June following a 1.3% decline in May, largely the result of a 4.2% m/m rise in food store



# City of London Corporation

## Current Investment List

| Borrower  | Principal (£)        | Interest Rate        | Start Date        | Maturity Date        | Lowest LT / Fund Rating | Historic Risk of Default |
|---|----------------------|----------------------|-------------------|----------------------|-------------------------|--------------------------|
| MMF Aberdeen Standard Investments                 | 23,300,000           | 0.01%                |                   | MMF                  | AAAm                    |                          |
| MMF CCLA  | 75,400,000           | 0.02%                |                   | MMF                  | AAAm                    |                          |
| MMF Deutsche                                      | 63,400,000           | 0.02%                |                   | MMF                  | AAAm                    |                          |
| MMF Federated Investors (UK)                      | 48,000,000           | 0.01%                |                   | MMF                  | AAAm                    |                          |
| MMF Invesco                                       | 67,400,000           | 0.01%                |                   | MMF                  | AAAm                    |                          |
| USDBF Aberdeen Standard Investments               | 50,396,148           | 0.28%                |                   | USDBF                | AAAf                    |                          |
| USDBF Federated Sterling Cash Plus Fund           | 25,353,469           | 0.08%                |                   | USDBF                | AAAf                    |                          |
| USDBF Payden Sterling Reserve Fund                | 61,939,103           | 0.70%                |                   | USDBF                | AAAf                    |                          |
| National Westminster Bank Plc (RFB)               | 25,000,000           | 0.27%                | 07/08/2020        | 09/08/2021           | A                       | 0.001%                   |
| National Westminster Bank Plc (RFB)               | 25,000,000           | 0.26%                | 14/08/2020        | 13/08/2021           | A                       | 0.002%                   |
| Skipton Building Society                          | 5,000,000            | 0.35%                | 09/09/2020        | 08/09/2021           | A-                      | 0.005%                   |
| Barclays Bank Plc (NRFB)                          | 25,000,000           | 0.14%                | 26/03/2021        | 27/09/2021           | A                       | 0.007%                   |
| London Borough of Waltham Forest                  | 5,000,000            | 0.33%                | 30/09/2020        | 29/09/2021           | AA-                     | 0.004%                   |
| Nationwide Building Society                       | 20,000,000           | 0.05%                | 15/07/2021        | 15/10/2021           | A                       | 0.010%                   |
| Lloyds Bank Plc (RFB)                             | 40,000,000           | 0.05%                |                   | Call95               | A+                      | 0.012%                   |
| Santander UK PLC                                  | 20,000,000           | 0.40%                |                   | Call95               | A                       | 0.012%                   |
| Goldman Sachs International Bank                  | 20,000,000           | 0.13%                | 08/12/2020        | 08/12/2021           | A+                      | 0.017%                   |
| Lloyds Bank Plc (RFB)                             | 20,000,000           | 0.10%                | 16/12/2020        | 16/12/2021           | A+                      | 0.018%                   |
| Lloyds Bank Plc (RFB)                             | 20,000,000           | 0.10%                | 29/12/2020        | 29/12/2021           | A+                      | 0.020%                   |
| Nationwide Building Society                       | 20,000,000           | 0.10%                | 29/06/2021        | 29/12/2021           | A                       | 0.020%                   |
| Nationwide Building Society                       | 20,000,000           | 0.07%                | 07/07/2021        | 07/01/2022           | A                       | 0.021%                   |
| Santander UK PLC                                  | 30,000,000           | 0.58%                |                   | Call180              | A                       | 0.023%                   |
| Australia and New Zealand Banking Group Ltd       | 90,000,000           | 0.40%                |                   | Call185              | A+                      | 0.024%                   |
| Goldman Sachs International Bank                  | 20,000,000           | 0.24%                |                   | Call185              | A+                      | 0.024%                   |
| Goldman Sachs International Bank                  | 20,000,000           | 0.23%                |                   | Call185              | A+                      | 0.024%                   |
| Goldman Sachs International Bank                  | 20,000,000           | 0.23%                |                   | Call185              | A+                      | 0.024%                   |
| Australia and New Zealand Banking Group Ltd       | 10,000,000           | 0.12%                | 08/02/2021        | 08/02/2022           | A+                      | 0.025%                   |
| Stockport Metropolitan Borough Council            | 10,000,000           | 0.10%                | 26/02/2021        | 25/02/2022           | AA-                     | 0.013%                   |
| National Westminster Bank Plc (RFB)               | 20,000,000           | 0.19%                | 26/03/2021        | 28/03/2022           | A                       | 0.031%                   |
| Goldman Sachs International Bank                  | 20,000,000           | 0.33%                |                   | Call270              | A+                      | 0.035%                   |
| Leeds Building Society                            | 20,000,000           | 0.14%                | 02/07/2021        | 01/07/2022           | A-                      | 0.043%                   |
| National Westminster Bank Plc (RFB)               | 20,000,000           | 0.17%                | 05/07/2021        | 05/07/2022           | A                       | 0.044%                   |
| Landesbank Hessen-Thuringen Girozentrale (Helaba) | 25,000,000           | 0.16%                | 16/07/2021        | 18/07/2022           | A-                      | 0.045%                   |
| Landesbank Hessen-Thuringen Girozentrale (Helaba) | 25,000,000           | 0.16%                | 16/07/2021        | 18/07/2022           | A-                      | 0.045%                   |
| Santander UK PLC                                  | 50,000,000           | 0.68%                |                   | Call365              | A                       | 0.047%                   |
| <b>Borrower - Funds</b>                           | <b>Principal (£)</b> | <b>Interest Rate</b> | <b>Start Date</b> | <b>Maturity Date</b> |                         |                          |
| L&G   | 81,208,625           | 2.33%                |                   |                      |                         |                          |
| ROYAL LONDON                                      | 81,243,366           | 2.53%                |                   |                      |                         |                          |



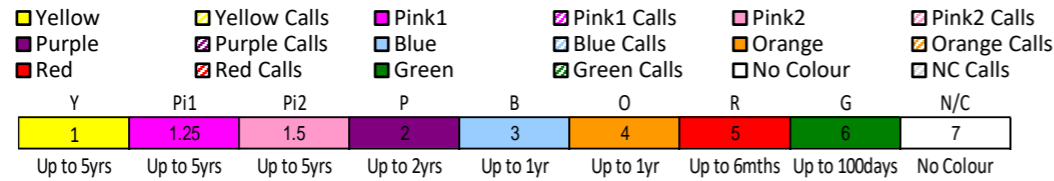
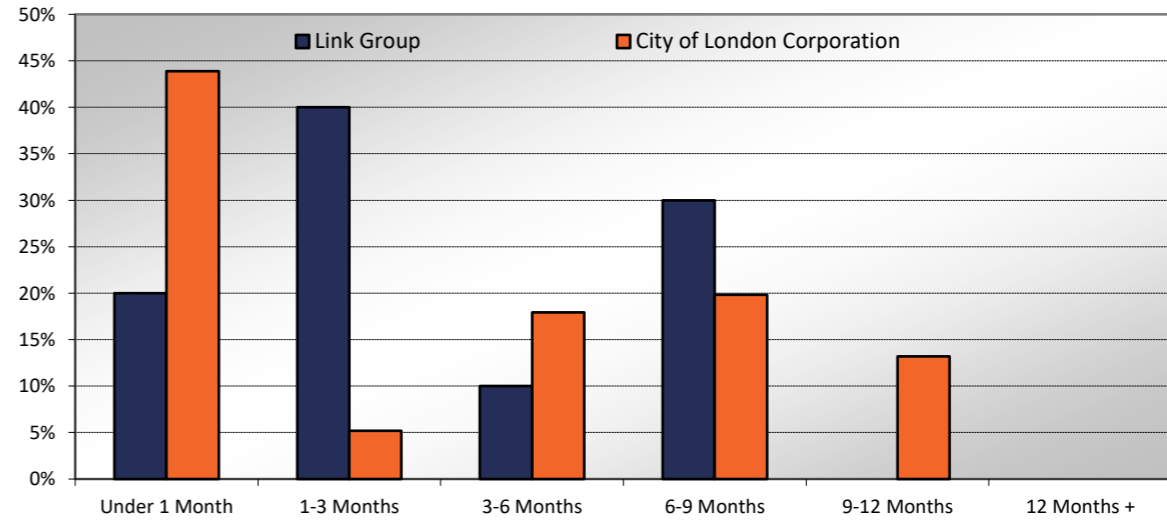
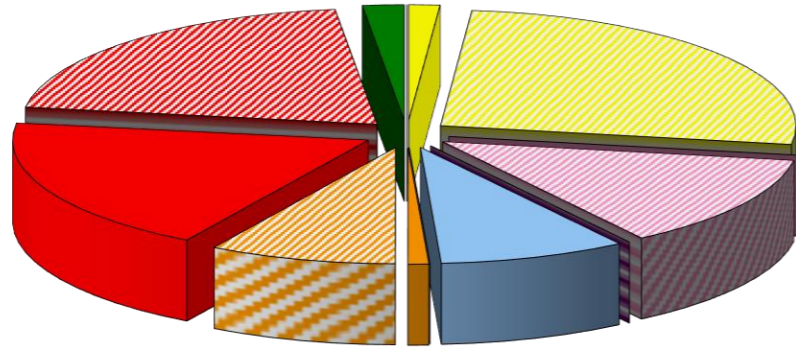
## City of London Corporation

### Current Investment List

| Borrower                                   | Principal (£)         | Interest Rate | Start Date | Maturity Date | Lowest LT / Fund Rating | Historic Risk of Default |
|--|-----------------------|---------------|------------|---------------|-------------------------|--------------------------|
| <b>Total Investments</b>                   | <b>£1,222,640,712</b> | <b>0.51%</b>  |            |               |                         |                          |
| <b>Total Investments - excluding Funds</b> | <b>£1,060,188,720</b> | <b>0.22%</b>  |            |               |                         | <b>0.024%</b>            |
| <b>Total Investments - Funds Only</b>      | <b>£162,451,992</b>   | <b>2.43%</b>  |            |               |                         |                          |

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.20**

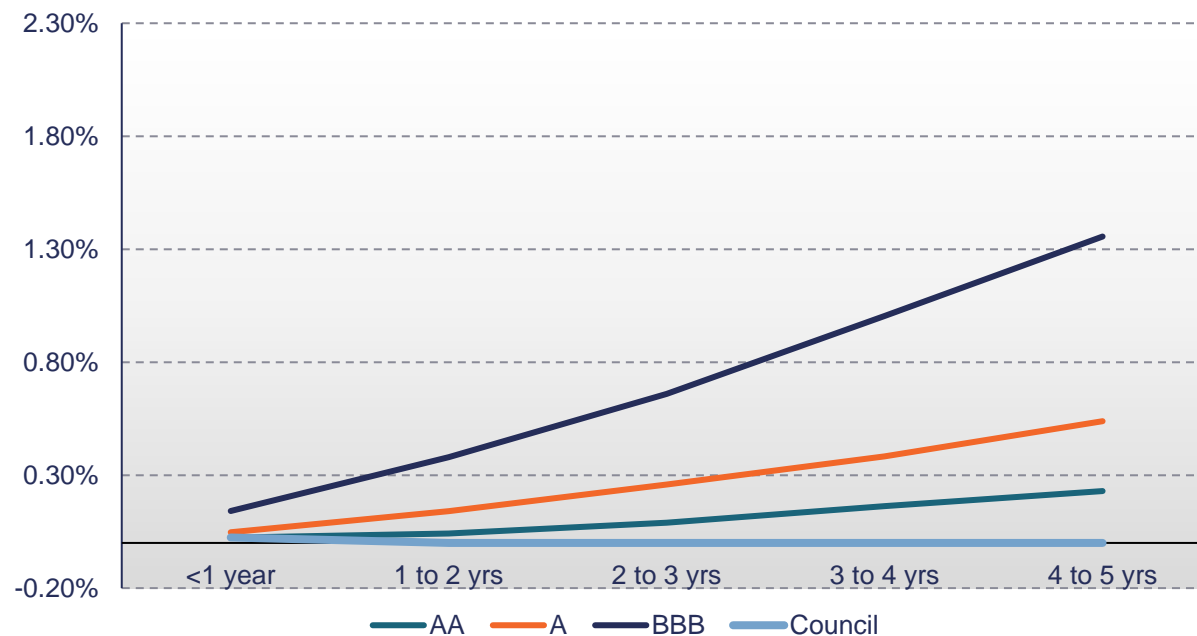
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

|              | % of Portfolio | Amount       | % of Colour in Calls | Amount of Colour in Calls | % of Call in Portfolio | WARoR        | WAM        | WAM at Execution | Excluding Calls/MMFs/USDBFs |                  |
|--------------|----------------|--------------|----------------------|---------------------------|------------------------|--------------|------------|------------------|-----------------------------|------------------|
|              |                |              |                      |                           |                        |              |            |                  | WAM                         | WAM at Execution |
| Yellow       | 27.59%         | £292,500,000 | 94.87%               | £277,500,000              | 26.17%                 | 0.02%        | 8          | 19               | 159                         | 364              |
| Pink1        | 0.00%          | £0           | 0.00%                | £0                        | 0.00%                  | 0.00%        | 0          | 0                | 0                           | 0                |
| Pink2        | 12.99%         | £137,688,720 | 100.00%              | £137,688,720              | 12.99%                 | 0.43%        | 0          | 0                | 0                           | 0                |
| Purple       | 0.00%          | £0           | 0.00%                | £0                        | 0.00%                  | 0.00%        | 0          | 0                | 0                           | 0                |
| Blue         | 8.49%          | £90,000,000  | 0.00%                | £0                        | 0.00%                  | 0.23%        | 135        | 366              | 135                         | 366              |
| Orange       | 9.43%          | £100,000,000 | 90.00%               | £90,000,000               | 8.49%                  | 0.37%        | 186        | 203              | 192                         | 365              |
| Red          | 39.62%         | £420,000,000 | 52.38%               | £220,000,000              | 20.75%                 | 0.25%        | 193        | 242              | 177                         | 279              |
| Green        | 1.89%          | £20,000,000  | 0.00%                | £0                        | 0.00%                  | 0.14%        | 335        | 364              | 335                         | 364              |
| No Colour    | 0.00%          | £0           | 0.00%                | £0                        | 0.00%                  | 0.00%        | 0          | 0                | 0                           | 0                |
| <b>Total</b> | <b>100.00%</b> | <b>#####</b> | <b>68.40%</b>        | <b>£725,188,720</b>       | <b>68.40%</b>          | <b>0.22%</b> | <b>114</b> | <b>158</b>       | <b>175</b>                  | <b>314</b>       |

# City of London Corporation

## Investment Risk and Rating Exposure

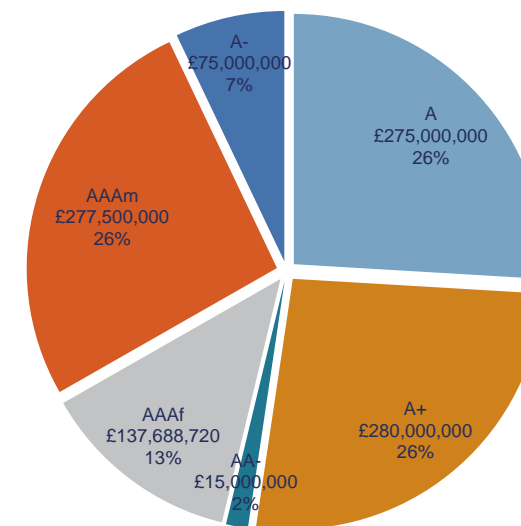
Investment Risk Vs. Rating Categories



Historic Risk of Default

| Rating/Years | <1 year | 1 to 2 yrs | 2 to 3 yrs | 3 to 4 yrs | 4 to 5 yrs |
|--------------|---------|------------|------------|------------|------------|
| AA           | 0.02%   | 0.04%      | 0.09%      | 0.16%      | 0.23%      |
| A            | 0.05%   | 0.14%      | 0.26%      | 0.38%      | 0.54%      |
| BBB          | 0.14%   | 0.38%      | 0.66%      | 1.01%      | 1.36%      |
| Council      | 0.02%   | 0.00%      | 0.00%      | 0.00%      | 0.00%      |

Rating Exposure



### Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

### Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

### Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

## City of London Corporation

### Monthly Credit Rating Changes FITCH

| Date       | Update Number | Institution                                     | Country        | Rating Action  |
|------------|---------------|---|----------------|--|
| 01/07/2021 | 1820          | Landesbank Hessen-Thueringen Girozentrale       | Germany        | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 02/07/2021 | 1821          | DZ BANK AG Deutsche Zentral-Genossenschaftsbank | Germany        | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Bank of Scotland PLC (RFB)                      | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Clydesdale Bank PLC                             | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Lloyds Bank Corporate Markets PLC (NRFB)        | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Lloyds Bank PLC (RFB)                           | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Natwest Markets PLC (NRFB)                      | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Santander Financial Services PLC (NRFB)         | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Santander UK PLC                                | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | Nationwide Building Society                     | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | National Westminster Bank PLC (RFB)             | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |
| 06/07/2021 | 1822          | The Royal Bank of Scotland PLC (RFB)            | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative. |

## City of London Corporation

### Monthly Credit Rating Changes FITCH

| Date       | Update Number | Institution                          | Country        | Rating Action   |
|------------|---------------|--------------------------------------|----------------|---|
| 06/07/2021 | 1823          | Bayerische Landesbank                | Germany        | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 06/07/2021 | 1823          | Landesbank Baden-Wuerttemberg        | Germany        | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 06/07/2021 | 1823          | Norddeutsche Landesbank Girozentrale | Germany        | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 16/07/2021 | 1824          | Canadian Imperial Bank of Commerce   | Canada         | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 16/07/2021 | 1824          | Royal Bank of Canada                 | Canada         | The Long Term Rating was downgraded to 'AA-' from 'AA' and the Viability Rating was downgraded to 'aa-' from 'aa'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative. |
| 16/07/2021 | 1824          | Toronto-Dominion Bank                | Canada         | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 21/07/2021 | 1835          | Barclays Bank UK PLC (RFB)           | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 21/07/2021 | 1835          | Barclays Bank PLC (NRFB)             | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 21/07/2021 | 1836          | Co-operative Bank PLC (The)          | United Kingdom | The Long Term Rating was upgraded to 'B+' from 'B' and the Viability Rating was upgraded to 'b' from 'b-'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative.         |
| 23/07/2021 | 1837          | Svenska Handelsbanken AB             | Sweden         | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 23/07/2021 | 1837          | Handelsbanken PLC                    | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.  |
| 23/07/2021 | 1838          | Nordea Bank Abp                      | Finland        | The Outlook on the Long Term Rating was changed to Stable from Negative.  |

## City of London Corporation

### Monthly Credit Rating Changes FITCH

| Date       | Update Number | Institution                      | Country | Rating Action  |
|------------|---------------|----------------------------------|---------|--|
| 26/07/2021 | 1839          | Swedbank AB                      | Sweden  | The Outlook on the Long Term Rating was changed to Positive from Stable. |
| 26/07/2021 | 1840          | Skandinaviska Enskilda Banken AB | Sweden  | The Outlook on the Long Term Rating was changed to Stable from Negative. |

## City of London Corporation

### Monthly Credit Rating Changes MOODY'S

| Date       | Update Number | Institution                    | Country        | Rating Action  |
|------------|---------------|--------------------------------|----------------|--|
| 19/07/2021 | 1825          | Coventry Building Society      | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 19/07/2021 | 1825          | Leeds Building Society         | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 19/07/2021 | 1825          | Nottingham Building Society    | United Kingdom | The Long Term Rating was downgraded to 'Baa3' from 'Baa2' and the Short Term Rating was downgraded to 'P-2' from 'P-1'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative. |
| 19/07/2021 | 1825          | Principality Building Society  | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 19/07/2021 | 1825          | West Bromwich Building Society | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 19/07/2021 | 1825          | Yorkshire Building Society     | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 20/07/2021 | 1826          | HSBC UK Bank PLC (RFB)         | United Kingdom | The Long Term Rating was downgraded to 'A1' from 'Aa3'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 20/07/2021 | 1827          | Barclays Bank UK PLC (RFB)     | United Kingdom | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 20/07/2021 | 1828          | Skipton Building Society       | United Kingdom | The Long Term Rating was upgraded to 'A2' from 'Baa1' and the Short Term Rating was upgraded to 'P-1' from 'P-2'.  |
| 20/07/2021 | 1829          | KBC Bank N.V.                  | Belgium        | The Long Term Rating was downgraded to 'A1' from 'Aa3'.  |
| 20/07/2021 | 1830          | Cooperatieve Rabobank U.A.     | Netherland     | The Long Term Rating was upgraded to 'Aa2' from 'Aa3'.   |
| 20/07/2021 | 1831          | Natwest Markets PLC (RFB)      | United Kingdom | The Long Term Rating was upgraded to 'A2' from 'A3' and the Short Term Rating was upgraded to 'P-1' from 'P-2'.  |

## City of London Corporation

### Monthly Credit Rating Changes MOODY'S

| Date       | Update Number | Institution                 | Country        | Rating Action  |
|------------|---------------|-----------------------------|----------------|--|
| 20/07/2021 | 1832          | Credit Suisse AG            | Switzerland    | The Long Term Rating was downgraded to 'A1' from 'Aa3'. At the same time, the Outlook on the Long Term Rating was changed to Stable from Negative. |
| 20/07/2021 | 1833          | Danske A/S                  | Denmark        | The Outlook on the Long Term Rating was changed to Stable from Negative.   |
| 20/07/2021 | 1834          | Co-operative Bank PLC (The) | United Kingdom | The Long Term Rating was upgraded to 'B2' from 'B3'. At the same time, the Outlook on the Long Term Rating was changed to Positive from Stable.    |



## City of London Corporation

### Monthly Credit Rating Changes S&P

| Date       | Update Number | Institution                                 | Country        | Rating Action  |
|------------|---------------|---|----------------|--|
| 26/07/2021 | 1841          | National Bank of Kuwait (International) PLC | United Kingdom | The Outlook on the Long Term Rating was changed to Negative from Stable. |

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# Agenda Item 6

|   |  |
|---|--|
| <b>Committee:</b><br>Financial Investment Board<br>Audit and Risk Management                              | <b>Dated:</b><br>14 September 2021<br>5 October 2021 |
| <b>Subject:</b> Treasury Management Outturn 2020/21   | <b>Public</b>  |
| <b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b> | <b>All</b>   |
| <b>Does this proposal require extra revenue and/or capital spending?</b>                                  | <b>No</b>  |
| <b>If so, how much?</b>   | <b>£N/A</b>  |
| <b>What is the source of Funding?</b>   | <b>N/A</b>   |
| <b>Has this Funding Source been agreed with the Chamberlain's Department?</b>                             | <b>N/A</b>   |
| <b>Report of:</b> The Chamberlain   | <b>For Information</b>                               |
| <b>Report author:</b><br>James Graham – Chamberlain's Department  |  |

## Summary

The Treasury Management Strategy Statement for 2020/21 was approved by the Financial Investment Board and the Finance Committee in February 2020 and by the Court of Common Council on 5 March 2020.

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 2021, the City had treasury balances totalling some £947.1m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances decreased by £67.6m over the course of the year, which is largely due to the Corporation's capital programme.
- Short term investment returns were very low during the year following the Bank of England's decision to decrease its base rate on 11 March 2020 (from 0.75% to 0.25%) and again on 19 March 2020 (to 0.10%).
- 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.
- The treasury management strategy remained the same throughout 2020/21.
- In November 2020, HM Treasury revised its requirements for new borrowers using the Public Works Loan Board (PWLB facility), effectively removing the ability of local authorities to borrow for commercial yield. At the same time PWLB reduced the margin added to gilt yields used to price new loans by 100 basis points.

## 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 2020/21. 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 2020/21 was approved by the Financial Investment Board (11 February 2020), Finance Committee (18 February 2020) and the Court of Common Council (5 March 2020). During 2020/21 the Financial Investment Board received investment analysis reports at each Board meeting.

### Overall Treasury Position as at 31 March 2021

3. The City's treasury position at the start and end of 2020/21 was as follows:

| Table 1                  | 31 March 2020  |                |              | 31 March 2021  |                |              |
|--------------------------|----------------|----------------|--------------|----------------|----------------|--------------|
|                          | Principal      | Rate of Return | Average Life | Principal      | Rate of Return | Average Life |
|                          | £m             | %              | Years        | £m             | %              | Years        |
| Fixed rate funding       |                |                |              |                |                |              |
| - PWLB                   | 0              |                |              | 0              |                |              |
| - Market                 | 0              |                |              | 0              |                |              |
|                          | 0              |                |              | 0              |                |              |
| Variable rate funding    |                |                |              |                |                |              |
| - PWLB                   | 0              |                |              | 0              |                |              |
| - Market                 | (250.0)        |                |              | (250.0)        |                |              |
|                          | (250.0)        |                |              | (250.0)        |                |              |
| <b>Total debt</b>        | <b>(250.0)</b> |                |              | <b>(250.0)</b> |                |              |
| <b>Total investments</b> | <b>1,014.7</b> | <b>0.63</b>    | <b>0.39</b>  | <b>947.1</b>   | <b>1.47</b>    | <b>0.38</b>  |
| <b>Net Investments</b>   | <b>764.7</b>   |                |              | <b>697.1</b>   |                |              |

Table 1 demonstrates that short term investments declined from £1,014.7m as at 31 March 2020 to £947.1m as at 31 March 2021, which is largely due to the capital programme. The rate of return refers to the weighted average return of the portfolio as at the balance sheet date, rather than income earned in the period (which is discussed further at paragraph 17). The overall rate of return as at 31 March 2021 was higher than a year earlier, which is predominantly due to changes in the market value of the City's short dated bond fund investments at each respective date. The weighted average duration, or average life, of the portfolio was largely unchanged from last year at 0.38 years or circa 139 days.

## **The Strategy for 2020/21**

4. The Treasury Management Strategy for 2020/21 was approved prior to the emergence of the global pandemic. The expectation for interest rates within the treasury management strategy was that the Bank of England's base rate (Bank Rate) would stay at 0.75% for most of the year and increase modestly to 1.00% in Q1 2021.
5. The actual path of interest rates in the reporting year took a significantly different trajectory from the path envisaged as the Bank of England loosened monetary policy in order to counter the economic effects of the coronavirus pandemic. Immediately prior to the start of the reporting year (in mid to late March 2020), the Bank of England reduced Bank Rate twice from 0.75% to 0.25% and then again to 0.10% whilst simultaneously expanding its quantitative easing programme. The effect of this action was to immediately reduce the returns available to investors in the sterling money markets. The investment outturn is discussed below at paragraphs 16 and 17.
6. The Corporation's creditworthiness policy was designed to prioritise the security of the Corporation's assets whilst also enabling diversification of risk amongst a range of high quality counterparties. Given the increase in economic uncertainty, the creditworthiness criteria set out in the original strategy was maintained throughout the year.
7. The Corporation maintained sufficient liquidity through the selective use of highly liquid money market funds, cash flow forecasting, and active management of the portfolio's maturity profile.
8. The treasury management function complied with the parameters established in the Treasury Management Strategy Statement 2020/21 for the entirety of the reporting period and the City's treasury cash continues to be invested in a diversified balanced portfolio commensurate with proper and prioritised levels of security and liquidity.
9. The 2020/21 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 2020/21.

## **The Borrowing Requirement and Debt**

10. The Corporation did not anticipate (but did not rule out) undertaking any new external borrowing during 2020/21 and instead intended to temporarily use cash balances to support capital expenditure as an interim measure. This policy of internal borrowing was prudent as investment returns were very low (and thus there was a cost of carry associated with any new external debt that was not immediately used to fund capital expenditure) and the outlook for interest rates was relatively benign, with only gradual rises in long term borrowing rates expected over the medium term.

11. UK gilt yields, which had briefly spiked during March 2020, were suppressed by central bank activity (quantitative easing) and remained very low until the vaccine roll out increased the prospects of an economic recovery. Yields continued to rise over the second half of the reporting year and finished the year close to pre-pandemic levels: At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.
12. The majority of local authority borrowing is undertaken via the Public Works Loan Board (PWLB), a government agency. PWLB loans are priced on the basis of prevailing gilt yields plus a margin. As previously reported, the Government increased the margin from its long term position of 80 basis points to 180 basis points in 2019/20 and simultaneously announced a review of the future lending arrangements of the PWLB. These measures were prompted by concerns within Government over the use of PWLB loans to fund commercial investments for yield. On 25 November 2020, the Chancellor announced the conclusion to the review and reversed the earlier 100 basis point increase to the margins whilst simultaneously introducing a prohibition to deny access to borrowing from the PWLB for any local authority which planned to purchase assets for yield in its three year capital programme.
13. No external borrowing was undertaken by the City Fund during the 2020/21, and actual capital expenditure in that year (£62m) was lower than anticipated in the 2020/21 TMSS (£151m). 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.
14. City's Cash did not issue any new debt during the year having obtained market debt of £450m in the previous year (£200m of which was deferred for receipt in 2021/22).
15. Bridge Houses Estates did not enter into any borrowing during the year.

### **Investment Outturn for 2020/21**

16. **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 5 March 2020. 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.)
17. The income yield on short term investments was 0.75% in 2020/21, which compares to 1.03% in 2019/20 and a budgeted assumption of 0.75%. Interest income proved to be relatively resilient during the year relative to the sharp decline

in money market returns, generally. The portfolio continued to hold relatively high yielding fixed rate instruments arranged in the previous financial year for a significant portion of the reporting period. These investments supported the overall rate of return during the first half of the year, although as they expired, the reinvested proceeds necessarily earned a lower return in lower yielding investments.

18. Aside from interest earned on deposits, the portfolio is also exposed to gains and losses on the market value of the Corporation's short dated and ultra-short dated bond funds, which are held at fair value. Each of these investments, and in particular the short dated bond funds which have the highest interest rate sensitivity, appreciated in value over the course of the year (bond prices have an inverse relationship with interest rates) although it should be noted that this followed a decline in value at the end of the previous financial year.
19. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

## **Conclusion**

20. Treasury management activities over the past financial year were carried out in accordance with the 2020/21 TMSS, which remained unchanged over the course of the year.
21. Money market investment returns, which are heavily determined by central bank activity, were reduced to very low levels following the Bank of England's moves to support the economy by loosening monetary policy.

## **Appendices**

Appendix 1 – Treasury Indicators

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## Appendix 1

### Treasury Indicators

| <b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>  | <b>2019/20</b> | <b>2020/21</b>  | <b>2020/21</b> |
|---|----------------|-----------------|----------------|
|   | <b>Actual</b>  | <b>Estimate</b> | <b>Actual</b>  |
|   | <b>£'000</b>   | <b>£'000</b>    | <b>£'000</b>   |
| <b>Authorised Limit for external debt -</b>   |                |                 |                |
| Borrowing   | £0             | £0              | £0             |
| other long term liabilities   | £13,770        | £13,653         | £13,653        |
| TOTAL   | £13,770        | £13,653         | £13,653        |
| <b>Operational Boundary for external debt -</b>   |                |                 |                |
| Borrowing   | £0             | £0              | £0             |
| other long term liabilities   | £13,770        | £13,653         | £13,653        |
| TOTAL   | £13,770        | £13,653         | £13,653        |
| <b>Actual external debt</b>   | £0             | £0              | £0             |
| <b>Upper limit for total principal sums invested for over 364 days</b><br>(per maturity date) | £0m            | £500m           | £0m            |
|   |                |                 |                |

| <b>TABLE 2: Maturity structure of fixed rate borrowing during 2019/20</b> | <b>upper limit</b> | <b>lower limit</b> |
|---|--------------------|--------------------|
| 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%                 |



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