Financial Investment Board

Date: **FRIDAY, 21 OCTOBER 2022**

Time: **10.00 am**

Venue: **COMMITTEE ROOM 3 - 2ND FLOOR WEST WING, GUILDHALL**

Members: Deputy Andrien Meyers (Chairman)
Shahnan Bakth (Deputy Chairman)
Deputy Simon Duckworth (Chief Commoner)
Deputy Christopher Hayward
Deputy Henry Colthurst
Deputy Simon Duckworth
Deputy Christopher Hayward
Deputy James Pollard
Deputy Philip Woodhouse
Deputy Randall Anderson

Enquiries: **Jayne.Moore@CityofLondon.gov.uk**

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

https://youtu.be/9MZ6G38oLnE

A recording of the public meeting will be available via the above link following the end of the public meeting for up to one civic 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 Financial Investment Board meeting held on 31 May 2022.

   For Decision
   (Pages 5 - 10)

4. **TREASURY MANAGEMENT UPDATE AS AT 31 JULY 2022**
   Report of the Chamberlain.

   For Information
   (Pages 11 - 30)

5. **TREASURY MANAGEMENT OUTTURN 2021/22**
   Report of the Chamberlain.

   For Information
   (Pages 31 - 36)

6. **TREASURY MANAGEMENT STRATEGY 2022/23**
   Report of the Chamberlain. Amendment approved by the Finance Committee and the Bridge House Estates Committee.

   For Decision
   (Pages 37 - 44)

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 Financial Investment Board meeting held on 31 May 2022.

For Decision
(Pages 45 - 48)

11. **PERFORMANCE MONITORING CITY'S CASH**

For Information

a) Quarterly Monitoring report to 30 June 2021 (Pages 49 - 68)

Report of Mercer.

b) Performance Monitoring to 31 June 2021: City's Cash (Pages 69 - 84)

Report of the Chamberlain.

12. **WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2022**
Report of the Chamberlain.

For Decision
(Pages 85 - 90)

13. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING REPORT TO 31 MARCH 2022**
Report of the Chamberlain.

For Information
(Pages 91 - 96)

14. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

15. **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

Tuesday, 31 May 2022

Minutes of the meeting of the Financial Investment Board held at Guildhall, EC2 on Tuesday, 31 May 2022 at 1.45 pm

Present

Members:
Deputy Andrien Meyers (Chair)
Shahnan Bakth (Deputy Chair)
Nicholas Bensted-Smith
Deputy Henry Colthurst
Deputy Christopher Hayward

Officers:

Joseph Anstee	-	Town Clerk's Department
Kate Limna	-	Chamberlain's Department
James Graham	-	Chamberlain's Department

Also in attendance:
Randall Anderson
Lucy Tusa (Mercer)

At the beginning of the meeting Deputy Christopher Hayward, as the senior Member present, was moved into the Chair until the election of a Chair.

1. **APOLOGIES**
Apologies for absence were received from Simon Duckworth (Chief Commoner).

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
There were no declarations.

3. **ELECTION OF CHAIR**
The Board proceeded to elect a Chair in accordance with Standing Order No.29. The Town Clerk invited expressions of interest and Deputy Andrien Meyers, being the only Member who expressed their willingness to serve, was duly elected as Chair of the Financial Investment Board for the ensuing year. The Chair thanked Members for their support and expressed his anticipation in leading the new Board during the next year.

4. **ELECTION OF DEPUTY CHAIR**
The Board proceeded to elect a Deputy Chair in accordance with Standing Order No.30. The Town Clerk invited expressions of interest and Shahnan Bakth, being the only Member who expressed their willingness to serve, was

duly elected as Deputy Chair of the Board for the ensuing year. The Deputy Chair thanked Members for their support.

5. **APPOINTMENT OF CO-OPTED MEMBERS**

The Board proceeded to appoint up to two co-opted Common Councillors for the 2022/23 municipal year, as per the Board's terms of reference. The Town Clerk advised that expressions of interest had been sought from the Court of Common Council and there were four candidates seeking appointment, Deputy Henry Pollard, Anett Rideg, Ian Seaton, and Deputy Philip Woodhouse, for whom supporting statements had been circulated ahead of the meeting. A ballot of Members present was undertaken, and having received the most votes, Deputy Henry Pollard and Deputy Philip Woodhouse were appointed.

RESOLVED – That Deputy Henry Pollard and Deputy Philip Woodhouse be appointed to the Board for the ensuing year.

6. **TERMS OF REFERENCE**

The Board received its terms of reference as agreed by the Policy & Resources Committee on 5 May 2022.

Noting that this was the first year of the Board following its reconstitution under the new governance arrangements, Members discussed the Board's constitution and terms of reference. A Member commented that a single reporting line to a Grand Committee was preferable to dual reporting to both Policy & Resources Committee and Finance Committee. The Member added that the Board was an important sub-committee and that its constitution should be reviewed with a view to reaching an optimal position over time.

Members further noted typographical errors which required correction, such as a reference to the Property Investment Board. The Board also noted that the constitution included provision for up to four external Co-opted Members, in addition to the two Members co-opted from the Court of Common Council. Members discussed whether this was an appropriate balance, noting that it was possible that internal co-option may satisfy the relevant experience required for the Financial Investment Board. A Member suggested that it may be appropriate to undertake a skills matrix to assess the Board's needs in this regard, adding that an external perspective may be beneficial.

The Board further noted that under the current constitution, a majority of Board Members were appointed on an annual basis, and Members felt that this may not be appropriate for the Financial Investment Board, given the City Corporation's position as a long-term investor. A Member commented that if the Property Investment Board had similar comments regarding their governance following reconstitution, the Boards could put a joint resolution to the parent Grand Committees outlining the issues raised and to suggest amendments.

The Board agreed that, in addition to the correction of typographical errors, the Board should raise the matters of reporting lines, length of appointment, and constitution, preferably via a joint resolution to Policy & Resources Committee and Finance Committee with the Property Investment Board. The Board agreed to delegate authority to agree the terms of the resolution to the Chair and suggested that this be circulated to Board Members prior to submission.

7. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED - That the public minutes and non-public summary of the meeting held on 9 February 2022 be agreed as a correct record.

8. **TREASURY MANAGEMENT UPDATE AS AT 31 MARCH 2022**

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 March 2022. The Chamberlain introduced the report and drew Members' attention to the key points. The Chamberlain advised that deposits were listed in chronological order by maturity date within the Link Monthly Investment Analysis Review report, and this was useful for observing changes in interest rates over time.

In response to a question from the Deputy Chair, the Chamberlain advised that whilst the Board's regular reporting primarily used counterparty ratings supplied by Fitch, operationally officers used ratings provided by other agencies in making assessments. The Chamberlain advised that the aim is to have a diverse portfolio with access to wide range of products, noting that this had been more difficult during Covid-19. The Board noted that any change to the use of counterparty ratings would have to be implemented by amending the Treasury Management Strategy. Officers agreed to review this when the 2022/23 Treasury Management Strategy is prepared later in the year.

The Chair then asked officers to advise on interest receivable and the total fees paid in 2021/22, also noting that an updated cashflow forecast was due to be submitted to the next meeting, which would be linked to the balance sheet position. The Chamberlain advised that cashflow information was submitted to the Board to illustrate the Treasury Management position. A Member added that it was important that Finance Committee were more familiar with the long-term cashflow situation given the ongoing capital expenditure programme, and that it should also be submitted to the Board in order to inform investment decisions.

RESOLVED – That the report be noted.

9. **RISK REGISTER FOR FINANCIAL INVESTMENT BOARD**

The Board considered a report of the Chamberlain reviewing the key Risk Register for the Financial Investment Board. The Chamberlain introduced the report, drawing Members' attention to the key points and outlining changes made to the Risk Register since the previous review. In response to a request from the Deputy Chair, the Chamberlain advised Members that the flightpath included on each risk demonstrated the historical record of the risk and set out how it should be interpreted.

A Member asked whether the target in respect of counterparty failure (CHB FIB 04) was realistic and how it was intended to reach the target score, given the target date for this was within 12 months. The Chamberlain responded that the corporate template was not always perfectly applicable to specific risks, but that the target could be reviewed if the Board felt this was necessary. The Chamberlain added that the risk of counterparty failure could be mitigated but not eliminated, and that there were currently no plans to change the way counterparties were reviewed, although the process was consistently monitored for potential improvement. The Chamberlain proposed changing the target score from Rare to Unlikely, which was agreed by the Board.

The Chair then asked whether the City Corporation had a Cybersecurity Policy and whether counterparties were assessed against this policy. The Chamberlain responded that internal control reports were requested from the City Corporation's fund managers and service providers, and they were reviewed as part of the annual reporting process. The Chamberlain added that this had previously revealed IT security issues and led to those concerns being addressed.

The Chair then noted the key change to the Risk Register, in respect of insufficient assets, and commented that the risk of insufficient cash was linked to this. The Chamberlain advised that the risk score on insufficient assets had been increased from Unlikely to Possible, and that this risk was principally linked to City's Cash, whereas the risk of insufficient cash primarily concerned the City Fund, so that while the risks were linked they were from different perspectives.

A Member queried whether the Treasury should be re-labelled as City Fund, as this would be simpler. The Chamberlain advised that whilst the Treasury was broadly made up of the City Fund, it did encompass other elements, which meant it would be problematic to refer to it specifically as City Fund. However, the Chamberlain suggested that it could be worded as 'Treasury, including the City Fund' where necessary to make this clear.

RESOLVED – That the Financial Investment Board:

i) Review the existing risks and actions present on the Financial Investment Board's Risk Register, with comments as above, and confirm that appropriate control measures are in place; and

ii) Confirm that there are no further risks relating to the services overseen by the Financial Investment Board.

10. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
There were no questions.

11. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There was no other business.

12. **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
13-16	3
17-18	-

13. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the non-public minutes of the meeting held on 9 February 2022 be agreed as a correct record.

14. **NON-PUBLIC OUTSTANDING ACTIONS**
The Board received a list of non-public outstanding actions.

15. **INVESTMENT PERFORMANCE MONITORING REPORTS**

a) **Performance Monitoring to 31 March 2022: City's Cash**
The Board received a report of the Chamberlain.

b) **Quarterly Monitoring report to 31 March 2021**
The Board received a report of Mercer.

16. **CHARITIES POOL AND HAMPSTEAD HEATH TRUST FUND: FUND MANAGER STRATEGY CHANGE**
The Board considered a report of the Chamberlain.

17. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
There were no non-public questions.

18. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was other business.

The meeting ended at 3.14 pm

Chair

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

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Committee: Financial Investment Board	**Dated:** 14 October 2022
Subject: Treasury Management Update as at 31 July 2022	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Discussion/ Information**
Report author: Kate Limna – Chamberlain's Department	

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2022. The report includes an update on the current asset allocation of the short term investment portfolio and its performance. A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

Interest rates have continued to rise significantly since the Board last reviewed the treasury position as the Bank of England's Monetary Policy Committee has hiked its policy rate at the last three consecutive meetings since March from 0.75% to 1.75%. Markets forecast Bank Rate to peak at 2.75% by March 2023. The increase in rates has allowed the Corporation to obtain higher yields through its allocation to fixed term deposits. Officers expect interest income to increase further over the course of 2022/23 if the expected tightening in monetary policy materialises. The value of the Corporation's short-dated bond fund investments has declined marginally in the reporting period as market rates have increased. These investments remain appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon. They also continue to generate strong income returns.

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. Officers have compiled this report to provide additional context to the short-term investment portfolio as at 31 July 2022.

Current Position

2. The treasury management investment portfolio had a market value of £1,298.4m as at 31 July 2022, which represents an increase of £72.4m versus balance reported previously as at 31 March 2022 (£1,226.0m). Historically, the Corporation has experienced higher cash balances at the start of the financial year compared to the end of the prior year due to the profile of business rates income received by the City Fund.

Asset Allocation

3. In accordance with the Treasury Management Strategy Statement, 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 2022 compared to the position previously reported to the Board is displayed in table 1.

Table 1: Asset allocation as at 31 July 2022

	31-Mar-2022		**31-Jul-2022**	
	£m	**£m**	**£m**	**%**
Fixed Term Deposit	535.0	44%	585.0	45%
Notice accounts	270.0	22%	220.0	17%
Short Dated Bond Funds	156.4	13%	153.7	12%
Ultra Short Dated Bond Funds	137.1	11%	137.2	10%
Liquidity Fund	127.5	10%	202.5	16%
Total	**1,226.0**	**100%**	**1,298.4**	**100%**

5. As at 31 July 2022, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks and building societies via fixed term deposits (45%) and notice accounts (17%). The allocation to fixed term deposits has increased over the four months since March as the Corporation has taken advantage of higher rates available in the sterling money markets (see figure 1 below and paragraph 9). Liquidity funds now make up around 16% of the portfolio. These balances are very liquid and can be

accessed on the day. As the fixed term deposits mature, the intention is to reinvest these.

6. 10% is invested in ultra-short dated bond funds. These instruments are also very liquid (funds can be redeemed with two to three days' notice) but their market value is 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. The remaining portion of the portfolio (12%) continues to be invested in short dated bond funds. These funds are invested in investment grade credit instruments and currently have a duration (weighted average time to maturity) of around 3 years. The value of the 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 three years (the average duration).

7. Further analysis on the composition of the portfolio as at 31 July 2022 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

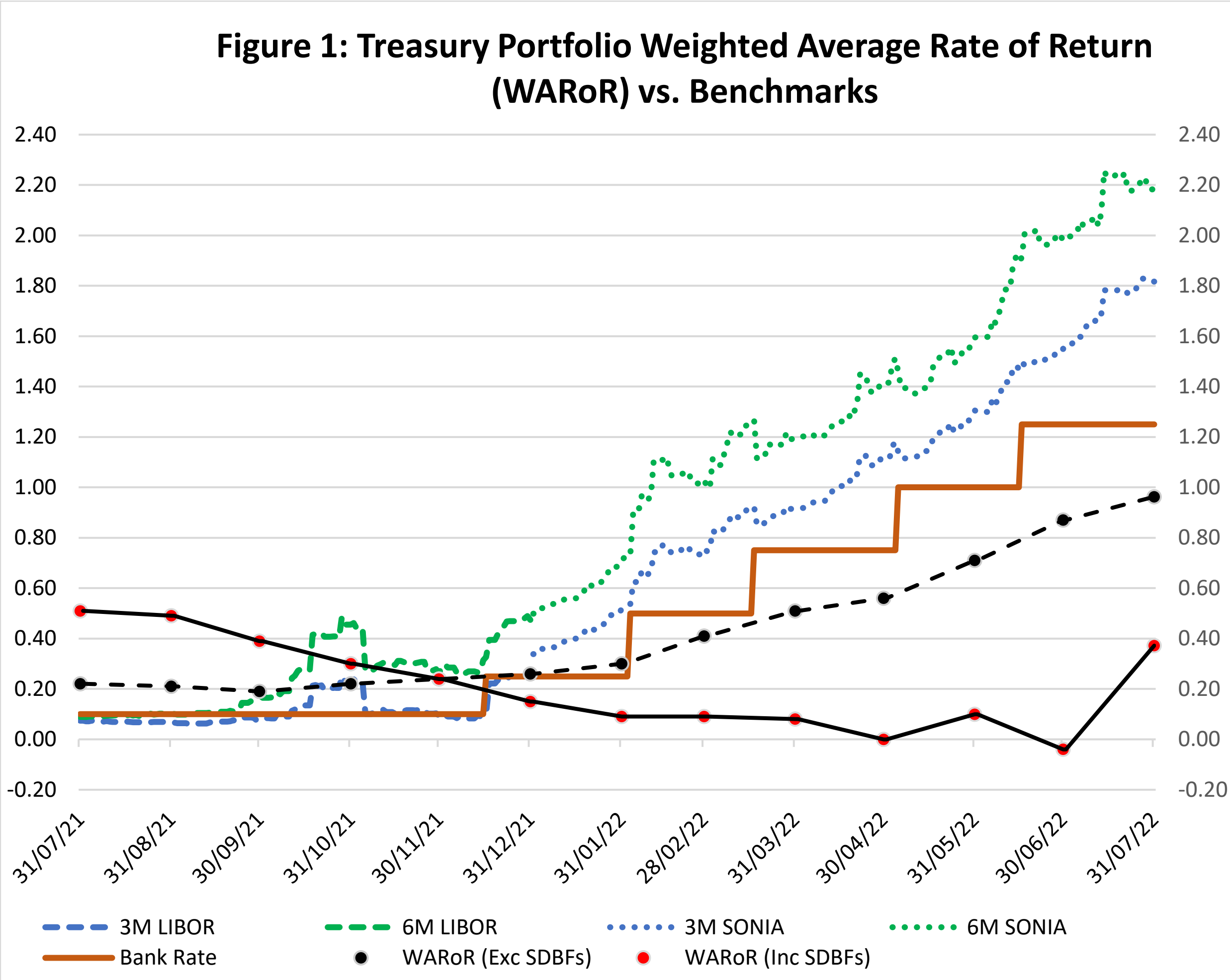
<u>Performance</u>

8. Since March 2022, the Bank of England has continued to increase its policy rate, Bank Rate, from 0.75% to 1.75% in successive moves each month. Earlier this month the Bank of England confirmed it expected inflation to reach 13% by the end of the year with the upside shift reflecting rising energy prices. The tightening in monetary policy is deemed necessary by the Bank to bring inflation back down towards its 2% target over the medium term, indicating further interest rate increases are likely over the coming months. Markets predict Bank Rate will peak at 2.75% by March 2023 where it will remain for the rest of the year until 2023. It will start to fall and begin decreasing in 2024. As Bank Rate is the primary determinant of short-term interest rates in the UK, these changes have impacted the treasury investment portfolio, broadly in two ways:

    a. As yields have increased, the capital value of the Corporation's bond fund investments has declined, which has reduced their total returns as at the reporting date. These investments are exposed to interest rate risk which the Corporation manages by ensuring the allocations are consistent with a longer term investment horizon for this minority portion of the portfolio.

    b. For the majority of the portfolio – which is invested in short term money market instruments – the increase in interest rates means that the Corporation can benefit from materially enhanced returns on new deposits and via the shorter term liquidity funds.

9. These effects can be seen in the weighted average rate of return for the portfolio over the past 12 months, as shown in figure 1 below. In this chart, the solid lines represent the level of returns achieved by the Corporation while the "dashed" lines represent suitable performance comparators.



10. Returns on the Corporation's short term investment portfolio excluding the short dated bond funds (represented by the dashed black line in figure 1) continue to trend upwards as existing, lower yielding deposits have been replaced with new investments at higher yields. This portion of the portfolio also includes the very short term liquidity fund investments whose yields respond quickly to changes in Bank Rate and have thus increased from around 0.50% to over 1.50% since the last meeting. If monetary policy is tightened further over the course of 2022, then officers expect this rate of return to continue to steadily increase from current levels.

11. 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 2022 in calculating the portfolio returns displayed in figure 1. Total returns on these investments have reduced over the quarter, which largely reflects the rotation to a rising interest rate environment.

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[1] The LIBOR reference rate is in the process of being phased out and is no longer published as of 1 January 2022. From 1 January 2022, the portfolio is benchmarked against the Sterling Overnight Index Average (SONIA) reference rates.

12. To aid an effective assessment of performance, table 2 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 2: Bond Fund Total Returns as at 31 July 2022

Fund	**1 Month Return (30/06/2022 to 31/07/2022)**	**3 Month Return (30/04/2021 to 31/07/2022)**	**12 Month Return (31/07/2021 to 31/07/2022)**
Federated Hermes Sterling Cash Plus Fund	0.10%	0.25%	0.29%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.12%	0.18%	0.23%
Payden Sterling Reserve Fund	0.45%	0.08%	-1.05%
L&G Short Dated Sterling Corporate Bond Index Fund	1.13%	-0.56%	-5.68%
Royal London Investment Grade Short Dated Credit Fund	1.74%	-0.59%	-5.10%

13. The most conservative fund (Federated) is listed first in table 2 and the longer term investments (L&G and Royal London) are listed at the bottom to the table. The increase in interest rates has had a negative effect on these funds' total returns recently, although this has occurred after a sustained period of price appreciation prior to 2021/22.

14. As noted above, the capital values of the bond funds – particularly the short-dated bond funds – can be volatile over the short term but they are expected to produce higher returns over the longer term: over the past three years the L&G and Royal London bond funds have generated annualised returns of +0.45% and +0.18%, respectively. The Corporation deliberately allocates a small portion of the overall portfolio to these investments – an amount that can sustainably be invested over the medium term.

15. Notwithstanding the decline in capital values, the income yield on the bond funds with Royal London have increased over the quarter to 4.0% (gross of fees). The yield on L&G has weakened marginally to 2.0% (gross of fees) as at the end of July 2022.

16. It should also be noted that fluctuations in the market value of investments do not impact the City Fund's revenue position owing to the existence of the IFRS 9 statutory override which English local authorities are required to implement, and which requires unrealised capital gains and losses to be charged to an unusable reserve on the balance sheet rather than reported via income and expenditure.

Cash Flow Forecast

17. The City Fund's medium-term cash flow forecast is currently being reviewed as are all the capital projects. Once this has been completed an updated cash flow forecast will be provided.

Conclusion

18. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2022. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's Treasury Management Strategy Statement.

19. Interest rates have continued to rise significantly since the Board last reviewed the treasury position as the Bank of England's Monetary Policy Committee has hiked its policy rate at the last three consecutive meetings since March from 0.75% to 1.75%. Markets forecast Bank Rate to peak at 2.75% by March 2023. The increase in rates has allowed the Corporation to obtain higher yields through its allocation to fixed term deposits. Officers expect interest income to increase further over the course of 2022/23 if the expected tightening in monetary policy materialises. The value of the Corporation's short-dated bond fund investments has declined marginally in the reporting period as market rates have increased. These investments remain appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon. They also continue to generate strong income returns.

Appendices

Appendix 1: Counterparty Exposure as at 31 July 2022
Appendix 2: Monthly Investment Analysis Review July 2022

Background Papers

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APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 JULY 2022

	Counterparty Limit £M	Total Invested as at 31-Jul-22 £M	Average Rate of Return %
TOTAL INVESTED		**1,298.4**	**0.35%**
FIXED TERM DEPOSITS			
UK BANKS			
Barclays	100.0	45.0	0.94%
Goldman Sachs	100.0	60.0	1.79%
NatWest	100.0	80.0	0.77%
		185.0	
BUILDING SOCIETIES			
Leeds	20.0	20.0	2.09%
Yorkshire	20.0	20.0	0.55%
		40.0	
FOREIGN BANKS			
DBS	100.0	80.0	1.63%
Helaba	100.0	75.0	2.09%
National Australia Bank	100.0	85.0	1.00%
Toronto Dominion	100.0	100.0	1.25%
Rabobank	100.0	20.0	2.90%
		360.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	41.0	1.23%
CCLA - Public Sector Deposit Fund	100.0	38.9	1.23%
Deutsche Global Liquidity Fund	100.0	38.0	1.19%
Federated Prime Liquidity Fund	100.0	41.6	1.33%
Invesco Sterling Liquidity Fund	100.0	43.0	1.26%
		202.5	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	61.3	-1.05%
Aberdeen SLI Short Duration Fund	100.0	50.5	0.23%
Federated Sterling Cash Plus Fund	100.0	25.4	0.29%
		137.2	
SHORT DATED BOND FUNDS			
L&G	100.0	76.60	-5.68%
Royal London	100.0	77.1	-5.10%
		153.7	

	Counterparty Limit £M	Total Invested as at 31-Jul-22 £M	Average Rate of Return %
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account	100.0	90.0	1.43%
Goldman Sachs 185 Days Account	100.0	20.0	0.43%
Goldman Sachs 270 Days Account	100.0	10.0	0.53%
Santander 95 Days Account	100.0	20.0	1.05%
Santander 180 Days Account	100.0	30.0	0.95%
Santander 365 Days Account	100.0	50.0	1.15%
		220.0	
TOTAL		1,298.4	

City Of London

Client Designated Rates

Monthly Investment Analysis Review

July 2022

Monthly Economic Summary

General Economy

The Flash (i.e. provisional) Manufacturing PMI fell to a two-year low of 52.2 in July of 2022 from 52.8 in June, but above market expectations of 52. In a similar fashion, the Flash Services PMI went down to 53.3 in July of 2022 from 54.3 in June, albeit above market expectations of 53. The slowdown in output growth mostly reflected softer demand, alongside ongoing capacity constraints arising from shortages of materials and staff. The Flash Composite fell to 52.8 in July of 2022 from 53.7 in June, the lowest since February 2021 and compared to market expectations of 52.5. Finally, the Construction PMI fell to 52.6 in June of 2022 from 56.4 in May, pointing to the slowest growth in construction activity since September last year, with house building being the weakest-performing area.

UK GDP expanded 0.8% on quarter in the first three months of 2022, the lowest in a year, and in line with preliminary estimates. The largest contributors were information and communication, and transport and storage while production output was primarily driven by a rise in manufacturing output. The UK trade deficit narrowed slightly to £9.7 billion in May 2022 from an upwardly revised £9.8 billion in the previous month. Exports rose 4.1% as goods' sales advanced 7.4%, pushed up by a 6.5% jump in exports to non-EU countries. Meanwhile, imports grew 3.5% in May 2022, as goods purchases rose 4.3% amid higher imports from both non-EU countries and EU countries.

UK employment rose to 296,000 in the three months to May, the biggest increase since August last year and well above market expectations of a 170,000 rise. This trend continued with those in payrolled employment reaching an all-time high, whilst the claimant count fell by 20,100 in June 2022 following a 34,7000 fall in May. As a result, the unemployment rate held at 3.8% in the three months to May of 2022, compared to forecasts of 3.9%. Meanwhile, average weekly earnings including bonuses rose by 6.2% y/y to in the three months to May 2022, below 6.8% in the three months to April and less than market forecasts of 6.7%. However, average weekly earnings excluding bonuses were 2.9% lower y/y after a revised 3.5% decline in April.

UK inflation, as measured by the Consumer Price Index, edged up to 9.4% in June 2022 which is the highest rate since 1982 and slightly above market forecasts of 9.3%. The increase is driving further pressure on households amid the cost-of-living crisis with policymakers voicing fresh concerns over the rate being so far ahead of the 2% inflation target and likely to continue climbing. While there was no Monetary Policy Committee meeting during the month, market pricing was increasing edging towards a 50bps hike being delivered in the next meeting in early August.

Meanwhile, with affordability continuing to play a greater weight on the mind of consumers, retail sales edged down -0.1% mom in June 2022, following an upwardly revised -0.8% fall in May and compared to market forecasts of a -0.3% fall. Despite this, the Gfk Consumer Confidence index held steady at -41 in July 2022, although remaining at a record low as runaway inflation and economic uncertainties continued to dampen sentiment.

The UK government recorded a £22.9 billion deficit in its public finances for June, £0.6 billion more than the Office for Budget Responsibility forecast. This makes it the second-highest June borrowing since monthly records began in 1993 and £4.1 billion more than in June 2021. Public sector net debt excluding public sector banks was £2,387.6 billion at the end of June 2022, or around 96.1% of gross domestic product, which is an increase of £183.0 billion or 1.0% of GDP compared with June 2021.

The US economy added 372,000 jobs in June 2022, much better than market forecasts of 268,000 and only slightly below a downwardly revised 384,000 for May. Despite this, the US unemployment rate was unchanged at 3.6% June of 2022 for the fourth consecutive month, remaining the lowest since February 2020 and in line with market expectations. The US economy contracted at an annualised rate of 0.9% in Q2 2022, following a

1.6% drop in Q1 and technically entering a recession, the advance estimate showed. Against this backdrop, price growth (as measured by the Federal Reserve's preferred Personal Consumption Expenditure deflator) accelerated to 4.8% in June 2022 from 4.7% in the prior month, above market expectations of 4.7%. The Federal Reserve raised the target for the Fed Funds rate by 75bps to 2.25%-2.50% during its July 2022 meeting. This was its fourth consecutive rate hike, pushing borrowing costs to the highest level since 2019, matching market forecasts. Chairman Powell also said the central bank will be looking for a moderately restrictive policy level by the end of the year, with markets interpreting this being a 3% to 3.5% Fed Funds rate.

The Flash estimate showed the Eurozone economy expanded 0.7% on quarter in the three months to June, following a downwardly revised 0.5% growth in Q1 and beating market forecasts of a 0.2% gain. It is the strongest performance in three quarters, prompted by the easing of covid restrictions and the summer tourism season in southern countries. The annual inflation rate in the Eurozone increased to 8.9% in July 2022, a fresh record high, from 8.6% seen the previous month and above market forecasts of 8.6%. In a similar vein, the core inflation, which excludes prices of energy, food, alcohol and tobacco, increased to a record high of 4% in July 2022 from 3.7% in June. During the July 2022 meeting, the ECB raised its 3 key interest rates by 50bps, the first increase since 2011, in response to increasing inflationary pressures. The main refinancing rate is now at 0.50%, the marginal lending facility at 0.75% and the deposit facility at 0.00%. The central bank also said that further normalisation of interest rates will be appropriate in the upcoming meetings, signalling further rate hikes in the future.

Housing

The Nationwide House Price Index increased 10.7% y/y in June, slightly less than 11.2% in May and below market forecasts of 10.8%. On a monthly basis, prices increased 0.3%, below forecasts of 0.6% but maintaining eleven months of consecutive increases. In a similar vein, the Halifax house price index rose 13% y/y in June 2022, the highest rate of growth seen since November 2004.

Currency

The prospect of Bank Rate rising by 0.5% in August helped Sterling rise against both the US dollar and Euro during July.

July	Start	End	High	Low
GBP/USD	$1.2006	$1.2169	$1.2169	$1.1784
GBP/EUR	€ 1.1553	€ 1.1935	€ 1.1945	€ 1.1553

Forecast

With no Monetary Policy Committee meeting during the month, Bank Rate remained unchanged at 1.25% (and shows as such below). Link will review its forecasts for Bank Rate following August's MPC meeting.

Bank Rate	Now	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Link Group	1.25%	2.25%	2.75%	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%	2.25%	2.25%	2.25%
Capital Economics	1.25%	2.25%	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%	2.75%	2.50%	-	

City Of London

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	41,000,000	1.23%		MMF	AAAm	
MMF CCLA	38,900,000	1.23%		MMF	AAAm	
MMF Deutsche	38,000,000	1.19%		MMF	AAAm	
MMF Federated Investors (UK)	41,600,000	1.33%		MMF	AAAm	
MMF Invesco	43,000,000	1.26%		MMF	AAAm	
USDBF Aberdeen Standard Investments	50,531,045	0.23%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	25,429,306	0.29%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	61,284,987	-1.05%		USDBF	AAAf	
National Westminster Bank Plc (RFB)	25,000,000	0.18%	09/08/2021	09/08/2022	A	0.001%
National Westminster Bank Plc (RFB)	25,000,000	0.19%	13/08/2021	12/08/2022	A	0.002%
DBS Bank Ltd	20,000,000	1.57%	21/03/2022	21/09/2022	AA-	0.003%
Toronto Dominion Bank	20,000,000	0.56%	22/12/2021	22/09/2022	AA-	0.003%
Barclays Bank UK PLC (RFB)	25,000,000	0.37%	01/10/2021	03/10/2022	A	0.008%
National Australia Bank Ltd	25,000,000	0.49%	13/10/2021	13/10/2022	A+	0.009%
National Australia Bank Ltd	20,000,000	0.50%	15/10/2021	17/10/2022	A+	0.010%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	25,000,000	0.69%	26/10/2021	26/10/2022	A+	0.011%
National Westminster Bank Plc (RFB)	10,000,000	0.67%	26/10/2021	26/10/2022	A	0.011%
Santander UK PLC	20,000,000	1.05%		Call95	A	0.012%
Goldman Sachs International Bank	10,000,000	0.53%		Call98	A+	0.012%
Yorkshire Building Society	20,000,000	0.55%	17/11/2021	17/11/2022	A-	0.014%
DBS Bank Ltd	20,000,000	0.70%	05/01/2022	05/12/2022	AA-	0.008%
Goldman Sachs International Bank	20,000,000	0.76%	08/12/2021	08/12/2022	A+	0.016%
DBS Bank Ltd	20,000,000	1.75%	21/03/2022	21/12/2022	AA-	0.009%
Toronto Dominion Bank	20,000,000	0.69%	22/12/2021	22/12/2022	AA-	0.009%
Toronto Dominion Bank	20,000,000	0.91%	12/01/2022	12/01/2023	AA-	0.010%
Santander UK PLC	30,000,000	0.95%		Call180	A	0.023%
Australia and New Zealand Banking Group Ltd	90,000,000	1.43%		Call185	A+	0.023%
Goldman Sachs International Bank	20,000,000	0.43%		Call185	A+	0.023%
National Australia Bank Ltd	20,000,000	1.30%	07/02/2022	07/02/2023	A+	0.024%
Barclays Bank UK PLC (RFB)	20,000,000	1.66%	16/02/2022	16/02/2023	A	0.025%
Toronto Dominion Bank	20,000,000	2.07%	17/03/2022	17/03/2023	AA-	0.014%
National Australia Bank Ltd	20,000,000	1.84%	11/04/2022	20/03/2023	A+	0.029%
National Westminster Bank Plc (RFB)	20,000,000	2.28%	05/07/2022	05/04/2023	A	0.031%
Santander UK PLC	25,000,000	1.15%		Call263	A	0.033%
Goldman Sachs International Bank	20,000,000	2.31%	04/05/2022	02/05/2023	A+	0.035%
Goldman Sachs International Bank	20,000,000	2.31%	04/05/2022	04/05/2023	A+	0.035%
Toronto Dominion Bank	20,000,000	2.00%	13/05/2022	15/05/2023	AA-	0.018%
DBS Bank Ltd	20,000,000	2.51%	16/06/2022	16/06/2023	AA-	0.020%

City Of London

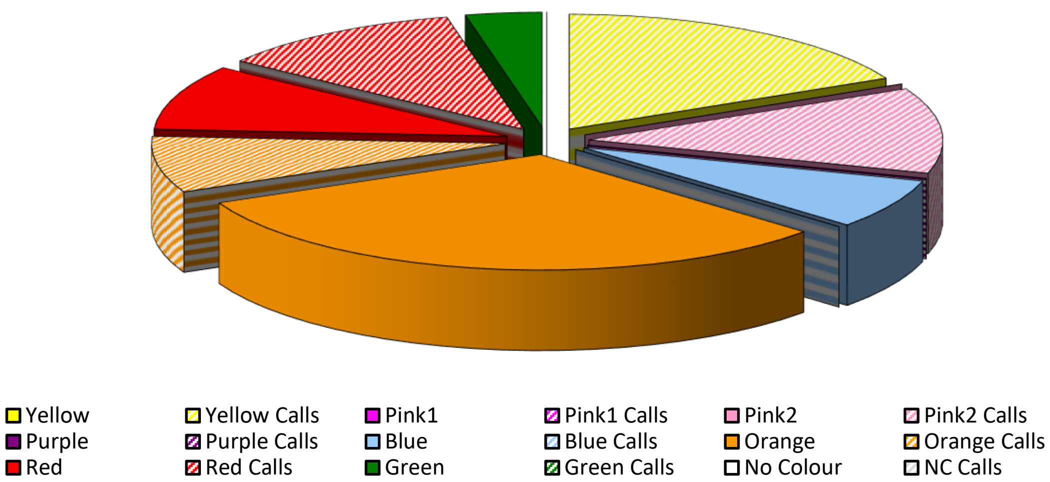
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Cooperatieve Rabobank U.A.	20,000,000	2.90%	30/06/2022	29/06/2023	A+	0.042%
Leeds Building Society	20,000,000	2.09%	01/07/2022	03/07/2023	A-	0.043%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	50,000,000	2.79%	18/07/2022	18/07/2023	A+	0.044%
Santander UK PLC	25,000,000	1.35%		Call365	A	0.046%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
L&G	76,628,384	-5.68%				
ROYAL LONDON	77,115,454	-5.10%				
Total Investments	**£1,298,489,177**	**0.35%**				
Total Investments - excluding Funds	**£1,144,745,339**	**1.12%**				0.021%
Total Investments - Funds Only	**£153,743,838**	**-5.39%**				

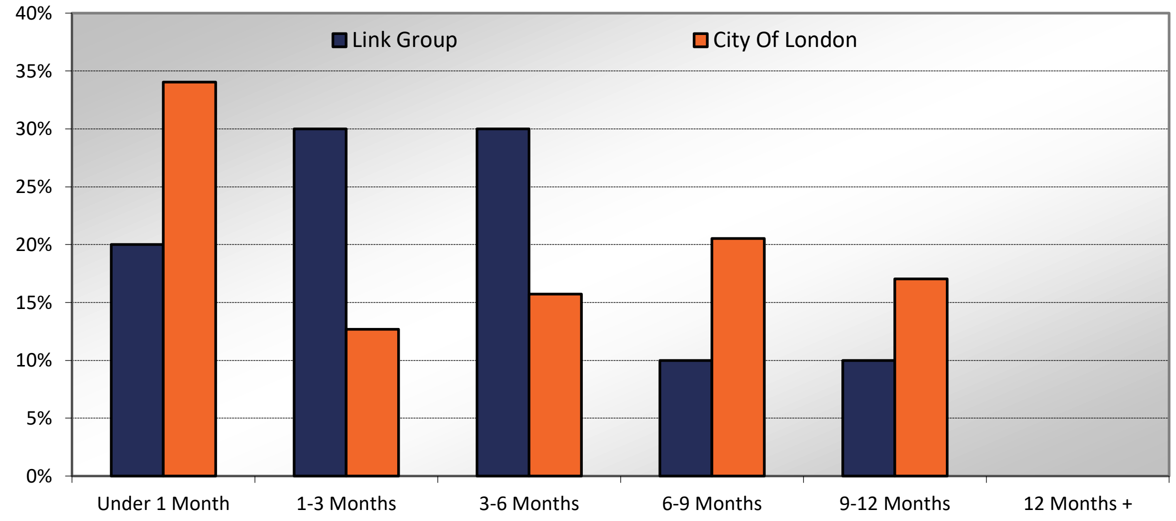
Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to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

City Of London

Portfolio Composition by Link Group's Suggested Lending Criteria



Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour



Portfolios weighted average risk number = 3.37

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	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	17.69%	£202,500,000	100.00%	£202,500,000	17.69%	1.25%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	11.99%	£137,245,339	100.00%	£137,245,339	11.99%	-0.33%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	6.99%	£80,000,000	0.00%	£0	0.00%	0.77%	79	342	79	342
Orange	39.31%	£450,000,000	20.00%	£90,000,000	7.86%	1.52%	190	311	191	342
Red	20.53%	£235,000,000	55.32%	£130,000,000	11.36%	1.17%	200	281	183	365
Green	3.49%	£40,000,000	0.00%	£0	0.00%	1.32%	223	366	223	366
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**###########**	**48.90%**	**£559,745,339**	**48.90%**	**1.12%**	**129**	**216**	**176**	**348**

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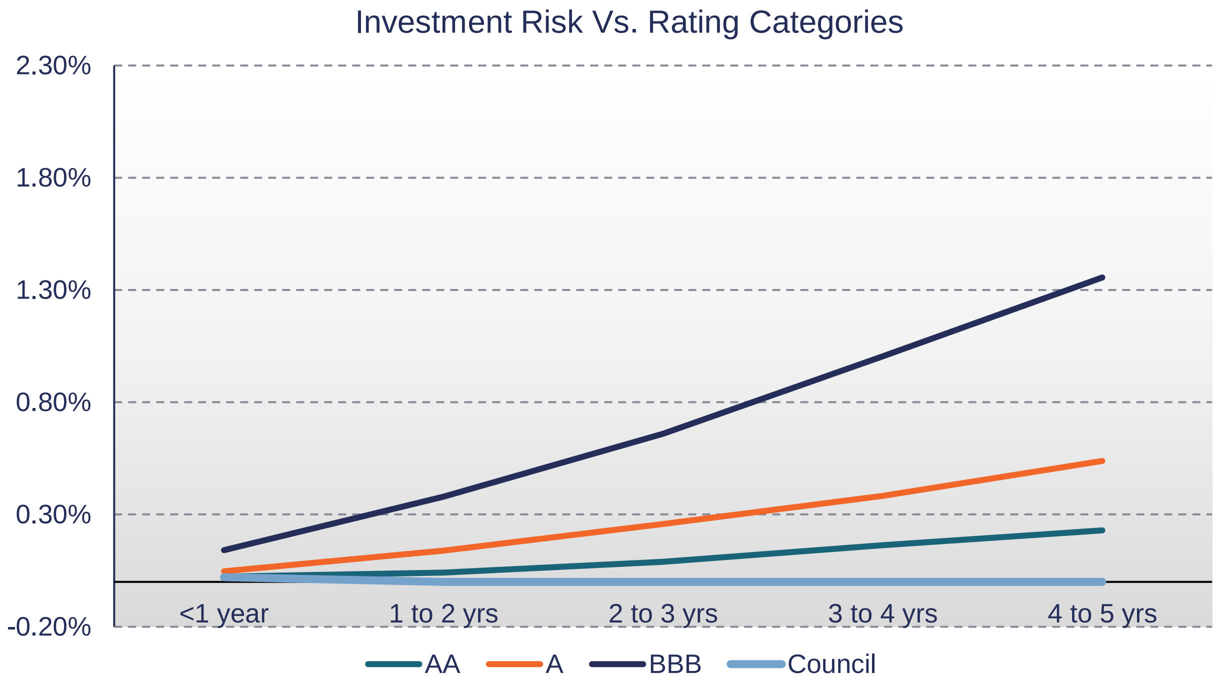
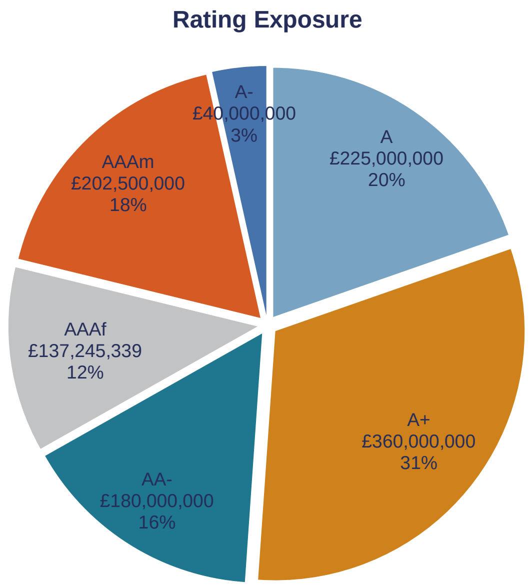
Investment Risk and Rating Exposure





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%

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.

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
07/07/2022	1909	Landesbank Berlin AG	Germany	The Long Term Rating was downgraded to 'Aa3' from 'Aa2'. At the same time the Outlook on the Long Term Rating was changed to Stable from Negative
15/07/2022	1912	Bayerische Landesbank	Germany	The Outlook on the Long Term Rating was changed to Positive from Stable.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
01/07/2022	1904	Swedbank AB	Sweden	The Long Term Rating was upgraded to 'AA-' from 'A+'. The Short Term Rating was upgraded to 'F1+' from 'F1'. The Viability Rating was upgraded to 'aa-' from 'a+'. At the same time the Support Rating was withdrawn.
01/07/2022	1905	Svenska Handelsbanken AB	Sweden	The Support Rating was withdrawn
01/07/2022	1905	Handelsbanken Plc	United Kingdom	The Support Rating was withdrawn
01/07/2022	1906	Skandinaviska Enskilda Banken AB	Sweden	The Support Rating was withdrawn
01/07/2022	1907	Nordea Bank Abp	Finland	The Support Rating was withdrawn
07/07/2022	1908	Standard Chartered Bank	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative. At the same time, the Support Rating was withdrawn.
11/07/2022	1910	United States Sovereign	United States	The Outlook on the Long Term Rating was changed to Stable from Negative.
11/07/2022	1911	National Bank of Canada	Canada	The Support Rating was withdrawn
11/07/2022	1911	Canadian Imperial Bank of Commerce	Canada	The Support Rating was withdrawn
11/07/2022	1911	Royal Bank of Canada	Canada	The Support Rating was withdrawn
11/07/2022	1911	Bank of Nova Scotia	Canada	The Support Rating was withdrawn
11/07/2022	1911	Toronto-Dominion Bank	Canada	The Support Rating was withdrawn

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Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
26/07/2022	1914	KBC Bank N.V.	Belgium	The Support Rating was withdrawn

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
01/07/2022	1903	Landesbank Hessen-Thueringen Girozentrale	Germany	The Long Term and Short Term Rating were withdrawn
20/07/2022	1913	National Bank Of Kuwait (International) PLC	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative

Committee: Financial Investment Board Audit and Risk Management	**Dated:** 14 October 2022 TBC
Subject: Treasury Management Outturn 2021/22	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Discussion/ Information**
Report author: Kate Limna – Chamberlain's Department	

Summary

The Treasury Management Strategy Statement for 2021/22 was approved by the Financial Investment Board and the Finance Committee in February 2021 and by the Court of Common Council on 4 March 2021.

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 2022, the City had treasury balances totalling some £1,226.0m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances increased by £278.9m over the course of the year, which is largely due to the second tranche of the private placement debt being received, pending capital spend.
- City's Cash received the second tranche of £200m of its private placement debt in July 2021.
- Short term investment returns were very low for most of the year although between December and March, the Bank of England increased the base rate in successive move to 0.75%.
- 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 20221/22.
- 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 2021/22. 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 2021/22 was approved by the Financial Investment Board (9 February 2021), Finance Committee (16 February 2021) and the Court of Common Council (4 March 2021). During 2021/22 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2022

3. The City's treasury position at the start and end of 2021/22 was as follows:

Table 1	**31 March 2021**			**31 March 2022**		
	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)			(450.0)		
	(250.0)			(450.0)		
Total debt	**(250.0)**			**(450.0)**		
Total investments	**947.1**	**1.47**	**0.38**	**1,226.0**	**0.08 ***	**0.39**
Net Investments	**697.1**			**776.0**		

* This rate of return includes the short dated bond funds. The rate of return excluding the short dated bond funds was 0.5%. This was reported to Members at the May Board meeting.

Table 1 demonstrates that short term investments increased from £947.1m as at 31 March 2021 to £1,226.0m as at 31 March 2022, which is largely due to second tranche of the private placement borrowing being received in July 2021. 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 16). The overall rate of return as at 31 March 2022 was lower 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 0.39 years or circa 142days.

The Strategy for 2021/22

4. Investment returns remained low for most of the year. The expectation for interest rates within the treasury management strategy was that the Bank of England's base rate (Bank Rate) would stay at 0.1% throughout 2022 and 2023. In the event whilst the base rate remained unchanged for the first 9 months of the year and then increase to 0.25 in December 2021, 0.50% in February 2022 and 0.75% in March 2022.

5. The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the Monetary Policy Committee (MPC) can focus on tackling the second - round effects of inflation, now that the CPI measure has already risen to 10.1% in the 12 months to July 2022 (its highest level since 1982) with some commentators expecting it to rise to 18% before year end. A major component in the data is the surging prices in food and drink; it takes 6 months for supply prices in food stuffs to filter through to the high street, which suggest households will be paying higher prices in the shops for a while to come.

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 2021/22 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 2021/22 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 2021/22.

The Borrowing Requirement and Debt

10. The Corporation did not anticipate (but did not rule out) undertaking any new external borrowing during 2021/22 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. 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.

12. No external borrowing was undertaken by the City Fund during the 2021/22, and actual capital expenditure in that year (£130m) was lower than anticipated in the 2021/22 TMSS (£245m). 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. City's Cash did not issue any new debt during the year having obtained market debt of £450m in 2019/20. The second and final tranche of that debt of £200m was received in July 2021.

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

Investment Outturn for 2021/22

15. **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 4 March 2021. 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.)

16. The income yield on short term investments was 0.5% which compares to 0.75% in 2020/21, and a budgeted assumption of 0.5%. The reduction in income reflects lower returns available from the money markets in 2021/22, largely as a result of ultra -loose monetary policy in place for much of the reporting period.. As yields have risen, the capital value of the portfolio's short dated bond fund investments declined resulting in a negative return of 0.71% for the year (2020/21: +0.67%) As in 2020/21. These movements are debited as an unrealised loss (previously a gain) on investments. Although capital movements are volatile in the short term, the allocation to short dated bond funds is expected to deliver superior returns over the medium term when compared to traditional deposits.

17. 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, depreciated in value over the course of the year (bond prices have an inverse relationship with interest rates).

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 2021/22 TMSS, which remained unchanged over the course of the year.

20. Money market investment returns, which are heavily determined by central bank activity, have increased as the base rate has increased. There has also been an increase in the dates for fixed term deposits and this is expected to continue as the base rate is expected to rise over the next few months to circa 2.25% by March 2023.

Appendices
Appendix 1 – Treasury Indicators

Kate Limna
Corporate Treasurer

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Appendix 1

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2020/21	2021/22	2021/22
	Actual	Estimate	Actual
	£M	£M	£M
Authorised Limit for external debt (City Fund)-			
Borrowing	£0	£0	£0
other long term liabilities	£13.7	£13.5	£13.5
TOTAL	£13.7	£13.5	£13.5
Operational Boundary for external debt (City Fund) -			
Borrowing	£0	£0	£0
other long term liabilities	£13.7	£13.5	£13.5
TOTAL	£13.7	£13.5	£13.5
Actual external debt	£0	£0	£0
Upper limit for total principal sums invested for over 364 days	£0m	£500m	£0m
(per maturity date)			

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%

Committee(s): Financial Investment Board Bridge House Estates Board Finance Committee	Dated: 14 October 2022 13 September 2022 20 September 2022
Subject: Treasury Management Strategy 2022/23 - Proposed Amendment	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	**N/A**
If so, how much?	**N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Decision**
Report author: Kate Limna/James Graham, Chamberlain's Department	

Summary

This report proposes an amendment to the Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 (TMSS) to improve the alignment between the strategy and the various individual participants whose treasury management activities the TMSS applies to. The Bridge House Estates Board is asked to make a decision in respect of Bridge House Estates and the Financial Investment Board in respect of City's Cash and the smaller participants.

This proposed change, if agreed by the Bridge House Estates Board and the Financial Investment Board will need to be submitted to the Finance Committee and the Court of Common Council for formal adoption and the amendment to the 2022/23 TMSS would be applied retrospectively (i.e. backdated to 1 April 2022).

Recommendations

Financial Investment Board

Members are asked to note the report and to agree the amendment to the Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 set out at paragraphs 11-15 and Appendix 1.

Bridge House Estates Board

Members of the Bridge House Estates Board are asked to note the report and agree the proposals in relation to Bridge House Estates set out at paragraph 15, noting the loss that would be realised as set out in paragraph 17.

Finance Committee

Subject to the outcome of the above, the Finance Committee is asked to formally adopt the amendment to the Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 set out at paragraphs 11-15 and Appendix 1.

Main Report

Background

1. The Treasury Management Strategy Statement and Annual Investment Strategy (TMSS) for 2022/23 covers treasury management activity carried out across the organisation, including in respect of City Fund, City's Cash and Bridge House Estates, as well as some smaller participants. The TMSS defines treasury management activities as:

   The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. A major function of the TMSS is to set out how the Corporation will manage its surplus cash balances, in pursuit of the optimum return on its investments once security and liquidity criteria have been satisfied.
3. In setting the TMSS and managing its treasury management arrangements, the City adheres to the requirements of the CIPFA Code of Practice on Treasury Management, which was originally adopted by the Court of Common Council on 2 March 2010.
4. The current TMSS (for the financial year 2022/23) was approved by the Financial Investment Board on 9 February 2022; by Bridge House Estates Board on 16 February 2022; Finance Committee on 15 February 2022; and by the Court of Common Council on 10 March 2022.
5. As at the 31 March 2022 the City's treasury management investments are valued at £1,226.0m. Most of these balances relate to City Fund (85%), followed by City's Cash (12%) and BHE (2%). The residual 1% belongs to smaller participants in the TMSS.

Current Position

6. As the TMSS principally refers to the organisation's treasury management activities in the aggregate, treasury management investment policy decisions are made with reference to the organisation's "global" circumstances. The principal benefit of this approach has been that it enables all participants in the TMSS to pool resources and obtain access to investments with higher expected returns. Specifically, the TMSS groups investments under two headings – specified and non-specified investments – which are defined within the TMSS as follows:

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

7. As at 31 March 2022, £156.4m (13%) of the Corporation's total treasury management investment portfolio is classified under non-specified investments. This allocation consists entirely of exposure to two short dated bond funds as shown below.

Short Dated Bond Fund Name	Original Principal	Market Value (31/03/2022)	Max Limit
L&G Short Dated Sterling Corporate Bond Index Fund	£75.0m	£78.0m	£100m
Royal London Investment Grade Short Dated Credit Fund	£75.0m	£78.4m	£100m

8. Non-specified investments are appropriate for investors who expect to maintain positive cash balances over a multi-year period and whilst this is expected to be the case for the City's overall cash position, officers recognise that there is scope to further optimise the TMSS so that it is better aligned with each and every individual participant's own particular circumstances.
9. By far the largest participant in the TMSS in terms of investment balances is City Fund. City Fund's investment balances are expected to endure for the foreseeable future, despite an anticipated decline over the medium term as the capital programme progresses and (as a consequence) the capital financing requirement increases. In contrast, cash balances relating to both Bridge House Estates and City's Cash are expected to decline to low levels over the medium term under the current plans for both funds. Moreover, some of the smaller participants in the TMSS maintain relatively small cash balances whose overall size can change quite markedly from one year to the next.

Options

10. Officers have identified three options for improving the current TMSS to better align with individual participants' circumstances:
    - **a.** Option A – bifurcate the Annual Investment Strategy within the TMSS into two strategies: one for City Fund which includes exposure to the full range of investments (both specified and non-specified as defined in paragraph 6 above) permitted in the current TMSS and a second strategy for others which restricts exposure to specified investments only. This is officers' recommendation.
    - **b.** Option B – develop and maintain an individual treasury management strategy for each participant. Officers do not consider this a realistic option as the governance resource implications of maintaining numerous portfolios and managing portfolio risks on an individual basis would likely exhaust any benefit.
    - **c.** Option C – do nothing. Alternatively, the Corporation could continue to maintain a single investment strategy in the TMSS. Whilst this option is most straightforward operationally it does not address the varying risk tolerances that exist amongst the participants in the TMSS and therefore officers do not recommend this option is pursued.

Proposals

11. Under the recommended option (Option A), City Fund would maintain exposure to longer term investments. Optimising returns over the long term is an important consideration for the City Fund, which is projected to maintain sizeable cash balances over the foreseeable future. Non-specified investments are an appropriate and desirable tool for protecting the real terms capital value of cash over a multi-year investment horizon from the impact of inflation and are thus consistent with the security objective that is at the heart of the Corporation's TMSS.

12. All other participants in the TMSS, which either have a relatively short investment horizon (City's Cash and BHE) or relatively small amounts of cash to invest and thus a lower tolerance for volatility, would benefit from an increase in average credit quality at the expense of lower expected returns.

13. This option also avoids a proliferation of individual strategies and investment portfolios that accompanies Option B.

14. Officers therefore recommend that paragraph 5.1 of 2022/23 TMSS is amended in line with Option A. The proposed wording of this amendment is presented (and highlighted) in an extract of the 2022/23 TMSS at Appendix 1.

15. Officers further recommend that the Bridge House Estates Board and the Financial Investment Board agree that funds related to Bridge House Estates and City's Cash and the smaller participants (respectively) are invested in line with the simplified strategy.

Corporate & Strategic Implications

<u>Financial implications</u>

16. Should Members agree to Option A then officers would implement the amendment to the 2022/23 TMSS retrospectively (i.e. backdated to 1 April 2022).

17. Any cumulative changes in the market value of investments as at 31 March 2022 would be treated as realised capital gains/losses in the current year for exiting investors. Collectively, and excluding the City Fund's portion, this would amount to a realised loss of £1.1m as summarised below:

Participant Name	**Realised Loss on disposal of non-specified investments**
City's Cash	- 845,230
BHE	- 222,767
Smaller Participants (Aggregated)	- 46,204
Total	-1,114,201

18. Importantly it should be noted that capital returns comprise only part of the total return delivered by these investments, which also includes income returns. Taken together the short dated bond funds have delivered annualised total returns of 1.16% since the Corporation first invested in these instruments in 2021/22, which is in excess of returns

available from cash over this period (circa 0.60% p.a.).[1] That is to say, overall realised returns have been positive for participants in the TMSS.

Risk implications

19. City Fund would have a marginally more concentrated exposure to non-specified investments (currently short dated bond funds but potentially other investment categories in future) which would mildly increase expected risk and expected returns for the local authority. Officers expect this will be beneficial to the City Fund over the long term, as cash balances are expected to remain sufficiently high to tolerate short term volatility in returns.

20. All other participants in the TMSS (including BHE and City's Cash) would be invested in a portfolio with lower expected volatility and lower expected returns over the medium term. Whilst returns would likely be below those achievable by the original 2022/23 TMSS, they would be smoother from one year to the next, which is an important benefit for participants with a relatively a short investment horizon. Risks to capital would not be completely eliminated, it should be noted, as all participants would continue to hold exposure to credit and counterparty risks which would be managed in accordance with the approved creditworthiness policy within the TMSS.

21. It can also be noted that both treasury portfolios would still be subject to continual review to ensure they remain consistent with the circumstances of the underlying participants and managed within the parameters of the amended TMSS, which itself would be subject regular review and at least on an annual basis.

Other implications

22. The proposal does not entail any significant resource, legal, equalities, climate or security implications.

Conclusion

23. This report proposes an amendment to the Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 (TMSS) to improve the alignment between the strategy and the various individual participants whose treasury management activities the TMSS applies to.

Appendices

APPENDIX 1 - Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 (Extract)

Background Papers

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

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[1] Returns for the non-specified investments are calculated using the internal rate of return method over the Corporation's investment holding period to 31 March 2022. Benchmark rates are calculated using a combination of daily one year LIBID rates and daily one year SONIA rates over the equivalent period.

APPENDIX 1

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 (Extract)

5. Annual Investment Strategy

The Annual Investment Strategy sets out how the City will manage its surplus cash balances for the forthcoming year (i.e. investments held for treasury management purposes). It does not apply to other long-term investment assets, which are dealt with variously by other strategy documents (for instance the Capital Strategy for City Fund, or the Investment Strategy Statement for Bridge House Estates).

5.1. Investment Policy

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This strategy deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The City of London's investment policy will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2017 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2018.

The City's investment priorities are:

(a) security; and

(b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the City will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'specified' and 'non-specified' investments categories.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

The City Fund will have exposure to Specified and Non-specified Invstments. All other participants in the Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 will have exposure to Specified Investments only.

The City will also set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 2).

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Agenda Item 12

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