Public Document Pack

Financial Investment Board

Date: **FRIDAY, 17 FEBRUARY 2023**

Time: **11.00 am**

Venue: **COMMITTEE ROOMS - WEST WING, GUILDHALL**

Members:
Deputy Andrien Meyers, Aldgate (Chair)
Shahnan Bakth (Deputy Chairman)
Nicholas Bensted-Smith
Deputy Henry Colthurst
Deputy Simon Duckworth (Chief Commoner)
Deputy Christopher Hayward
Deputy Henry Pollard
Deputy Philip Woodhouse

Enquiries: **John Cater**
john.cater@cityoflondon.gov.uk

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https://www.youtube.com/@CityofLondonCorporation/streams

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.

Whilst we endeavour to livestream all of our public meetings, this is not always possible due to technical difficulties. In these instances, if possible, a recording will be uploaded following the end of the meeting.

Ian Thomas
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 21st October 2022.

   For Decision
   (Pages 5 - 8)

4. **TREASURY MANAGEMENT UPDATE AS AT 31 DECEMBER 2022**

   Report of the Chamberlain.

   For Information
   (Pages 9 - 28)

5. **MID-YEAR TREASURY REVIEW 2022/23**

   Report of the Chamberlain.

   For Information
   (Pages 29 - 36)

6. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24**

   Report of the Chamberlain.

   To follow.

   For Decision

7. **RISK REGISTER UPDATE**

   Report of the Chamberlain.

   For Decision
   (Pages 37 - 54)

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

9. **ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT**

10. **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

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

To agree the non-public minutes of the meeting held on 21st October 2022.

For Decision
(Pages 55 - 56)

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

For Information

a) Quarterly Monitoring report to 31 December 2022 (Pages 57 - 78)

Report of Mercer.

b) Performance Monitoring to 31 December 2022 (Pages 79 - 94)

Report of the Chamberlain.

13. **HAMPSTEAD HEATH TRUST AND CHARITIES POOL: PERFORMANCE MONITORING TO 31 DECEMBER 2022**

Report of the Chamberlain.

For Information
(Pages 95 - 100)

14. **SIR WILLIAM COXEN TRUST FUND: PERFORMANCE MONITORING TO 31 DECEMBER 2022**

Report of the Chamberlain.

For Information
(Pages 101 - 106)

15. **PRI 2021 ASSESSMENT UPDATE**

Report of the Chamberlain.

For Information
(Pages 107 - 120)

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

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

FINANCIAL INVESTMENT BOARD

Friday, 21 October 2022

Minutes of the meeting of the Financial Investment Board held at Guildhall, EC2 on Friday, 21 October 2022 at 10.00 am

Present

Members:
Deputy Andrien Meyers (Chairman)
Shahnan Bakth (Deputy Chairman)
Deputy Henry Colthurst
Deputy Simon Duckworth (Chief Commoner)
Deputy Philip Woodhouse

Officers:

Jayne Moore	-	Town Clerk's Department
Kate Limna	-	Chamberlain's Department
Sarah Port	-	Chamberlain's Department
Caroline Al-Beyerty	-	Chamberlain

Also in attendance:
Randall Anderson
Lucy Tusa (Mercer)

1. **APOLOGIES**
Apologies were received from Christopher Hayward and from Nick Bensted-Smith.

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 31 May 2022 be agreed as a correct record.

4. **TREASURY MANAGEMENT UPDATE AS AT 31 JULY 2022**
The Committee noted the report of The Chamberlain.

A Member asked what rates were being achieved, and the Chamberlain advised that recent fixed term deposit rates ranged from 3% to 5.1% depending on tenure.

A Member asked what costs were involved if more transactions were being made, and the Chamberlain advised that no cost was incurred to the City as were being invested with counterparties in line with the Treasury Management Strategy.

A Member asked for updated information on size and maturity, and the Chamberlain advised that this would be circulated to Members after the meeting.

A Member sought clarification that opportunities were being explored, and was advised that the Treasury Management Strategy set out the relevant criteria and strategy.

A Member asked whether the appropriate Delegations were in place, and the Chamberlain confirmed that these were in place.

A Member asked about the medium term financial forecast. The Chamberlain advised that this was being prepared taking into account factors such as higher inflation, salary increase, and the capital programme.

A Member commented that there appeared to be a loss of around 5% on short-dated bonds and sought clarification on the strategy around that and whether the intention was to continue holding them. The Chamberlain advised that the bonds were taken out to diversify funds, and that the strategy was to hold them for the long term notwithstanding current volatility.

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5. **TREASURY MANAGEMENT OUTTURN 2021/22**

The Committee noted the report of The Chamberlain.

6. **TREASURY MANAGEMENT STRATEGY 2022/23 - PROPOSED AMENDMENT**

The Committee noted the report of The Chamberlain.

The Committee noted that the backdating element was a pragmatic solution, though was not ideal.

One Member expressed significant reservations around the process in view of the Finance Committee having sight of the proposal first, noting also that the sequencing of the meetings had not been favourable due to the mourning period following the passing of the sovereign.

A Member commented that information was expected to be shared across the Boards and Committees rather than one Board reporting to another Board or Committee.

The Committee noted that the decision was being made on its merits, and that the same decision would have been made had the FIB met before the Finance Committee.

A Member asked what would have been the outcome had the amendment not been agreed, and the meeting heard that the advice would have been heard and carefully considered though the decision was ultimately in the gift of the Finance Committee and then the Court of Common Council where appropriate.

RESOLVED, That the Financial Investment Board agree the amendment to the Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 set out at paragraphs 11-15 and Appendix 1.

7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.

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

9. **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.

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
The meeting considered the non-public minutes of the meeting of 31 May 2022.

11. **PERFORMANCE MONITORING CITY'S CASH**
The Committee received the report of The Chamberlain.

12. **QUARTERLY MONITORING REPORT TO 30 JUNE 2021**
The Committee received the report of The Chamberlain.

13. **PERFORMANCE MONITORING TO 31 JUNE 2021: CITY'S CASH**
The Committee received the report of The Chamberlain.

14. **WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2022**
The Committee received the report of The Chamberlain.

15. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING REPORT TO 31 MARCH 2022**
The Committee received the report of The Chamberlain.

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

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

The meeting ended at 11.00 am

Chairman

Contact Officer:
Jayne Moore
Jayne.moore@cityoflondon.gov.uk

Committee: Financial Investment Board	**Dated:** 17 February 2023
Subject: Treasury Management Update as at 31 December 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: Adam Buckley – Chamberlain's Department	

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 December 2022. 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.

Since the Board last reviewed the treasury position as at 31 July 2022 the outlook on interest rates has evolved, as the Bank of England's Monetary Policy Committee (MPC) raised the base rate incrementally from 1.25% which was applicable at 31 July 2022, to 3.5% in December 2022, and more recently to 4.0% at February 2023, which was the tenth successive rise since December 2021, with a terminal peak of 4.5% expected by June 2023. This has allowed the Corporation to obtain higher yields through an increased allocation to fixed term deposits. Officers expect interest income to increase further over the course of 2023 as the full year impact of reinvested fixed term deposits materialises. However, the value of the Corporation's short-dated bond fund investments has declined 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 December 2022.

Current Position

2. The treasury management investment portfolio had a market value of £1,252.5m as at 31 December 2022, which is a decrease of £45.9m from the balance reported previously as at 31 July 2022 (£1,298.4m). This decrease was principally due to Capital Expenditure between the reporting dates, the largest of which being payments of approximately £31m in relation to the Smithfield Market relocation, and £35m for the purchase of the long leasehold interest at 85 London Wall.

Asset Allocation

3. In accordance with the current Treasury Management Strategy Statement 2022/23, 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 December 2022 compared to the position previously reported to the Board is displayed in table 1.

Table 1: Asset allocation as at 31 December 2022

	31-Jul-2022		31-Dec-2022	
	£m	**%**	**£m**	**%**
Fixed Term Deposit	585.0	45%	655.0	52%
Notice accounts	220.0	17%	160.0	13%
Short Dated Bond Funds	153.7	12%	148.5	12%
Ultra Short Dated Bond Funds	137.2	10%	137.9	11%
Liquidity Fund	202.5	16%	151.2	12%
Total	**1,298.4**	**100%**	**1,252.5**	**100%**

5. As at 31 December 2022, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks via fixed term deposits (52%) and notice accounts (13%). The allocation to fixed term deposits has increased by £70m over the five months since July 2022, as the Corporation has been able to take advantage of higher rates available in the sterling money markets (see figure 1 below and paragraph 9). The increase has been funded primarily by the redemption of £60m from notice accounts, as funds have been

disinvested from this instrument due to available rates lagging behind the steep rise in fixed term deposit rates. The remaining increase has been funded via redemptions from lower yielding liquidity funds, which now make up around 12% 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. 11% 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 three years.

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

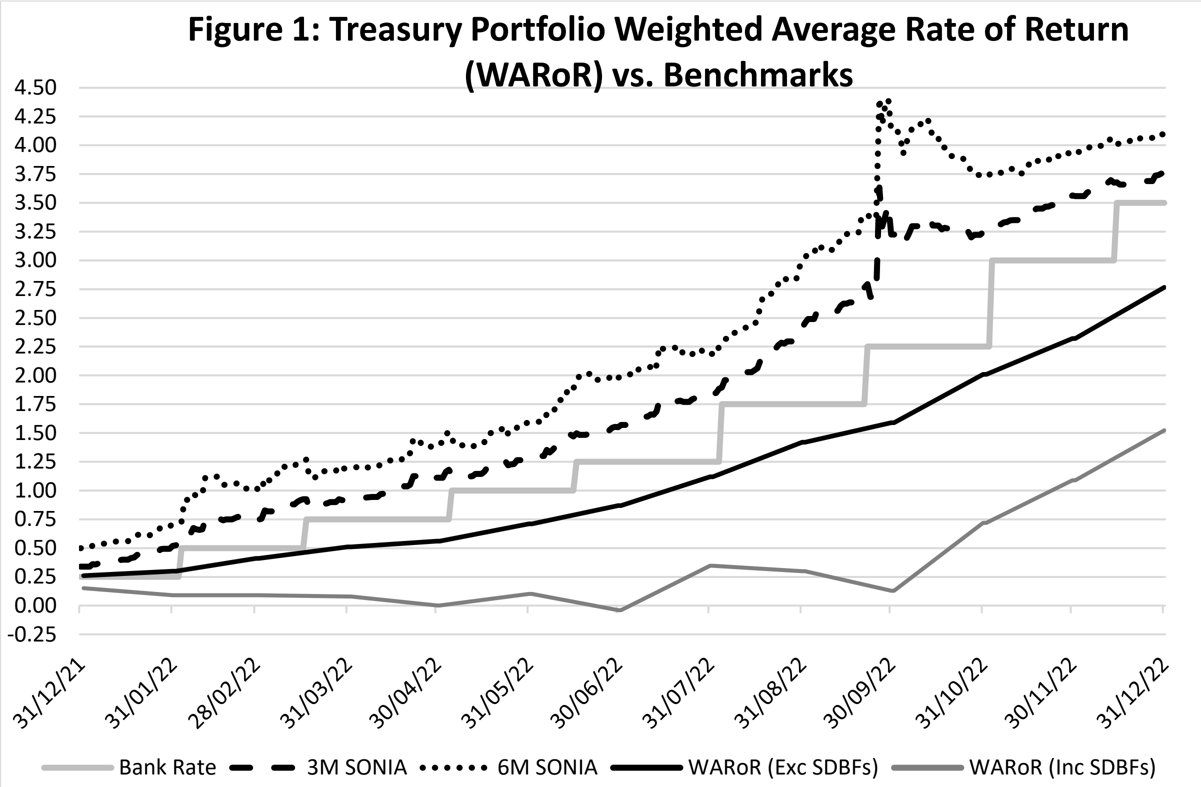
<u>Performance</u>

8. Since March 2022, the Bank of England has continued to increase its policy rate, Bank Rate, from 0.75% to 3.50% in December 2022, and more recently 4.0% at February 2023 in successive moves at each of the last ten meetings of the MPC. In their latest meeting, The MPC said there were *"considerable uncertainties around the outlook"*. Aside from those voting for no change, Committee members still believed that *"if there were to be evidence of more persistent (inflation) pressures, then further tightening of monetary policy would be required".* The revised path for interest rates over the medium term provided by Link Asset Services projects an increase to 4.5% by June 2023, where it is estimated to remain until December 2023 when it will fall to 4.25%, and then continue to incrementally fall to 2.50% by the end of the 2025/26 financial year. 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 (i.e. when interest rates increase, bind prices decrease and vice versa) 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 is 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. Sterling money market rates have risen steadily in line with bank rates increases throughout most of 2022, though rose sharply at the end of September due to the Governments proposed fiscal stimulus plans, as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the perceived risk of the proposed significant tax cuts to the UK economy, as shown in figure 1 via the readings for 3-month and 6-month Sterling Overnight Index Average Rate (SONIA). Rates subsequently eased as the government reversed its plans and the Bank of England moved to quell market unease, though rates are still trending upwards in line with expected bank rate increases.

11. Returns on the Corporation’s short term investment portfolio excluding short dated funds have trended upwards over much of the year, as lower yielding deposits have matured and been replaced with new investments at a higher yield, as the Corporation capitalised on the increase in interest rates. 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). If monetary policy is continually tightened over the course of the first half of 2023 then officers expect this rate of return to increase from current levels.

12. Given the evolving outlook for interest rates, officers have reviewed the competitiveness of the current notice accounts and taken action (i.e. given notice or requested a rate uplift) in order to capitalise on the more favourable market rates.

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 December 2022 in calculating the portfolio returns displayed in figure 1. Returns on these investments, particularly the short-dated bonds (L&G and Royal London) have reduced over recent months, which largely reflects the rotation to a rising interest rate environment.

14. 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 December 2022

Fund	**1 Month Return (30/11/2022 to 31/12/2022)**	**5 Month Return (31/07/2022 to 31/12/2022)**	**12 Month Return (31/12/2021 to 31/12/2022)**
Federated Hermes Sterling Cash Plus Fund	0.30%	0.95%	1.25%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.35%	1.10%	1.39%
Payden Sterling Reserve Fund	0.20%	-0.28%	-1.10%
L&G Short Dated Sterling Corporate Bond Index Fund	-0.14%	-3.21%	-7.67%
Royal London Investment Grade Short Dated Credit Fund	0.51%	-3.67%	-7.76%

15. 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.

16. 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.

17. 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. 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.

18. Notwithstanding the decline in capital values, as interest rates rise the bond managers will be able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, should make up a greater part of the total return generated by these funds. The income (distribution) yield on the bond funds with Royal London and L&G are 3.29% and 2.9% respectively as at the end of December 2022.

19. 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 has been extended for a further 2 years until 31 March 2025, 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

20. The City Fund's medium-term cash flow forecast is currently being reviewed along with all the capital projects, including the major projects. Once this has been finalised a cashflow forecast will be provided.

Conclusion

21. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 December 2022. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2022/23.

22. Since the Board last reviewed the treasury position as at 31 July 2022 the outlook on interest rates has evolved, as the Bank of England's Monetary Policy Committee raised the base rate incrementally from 1.25% which was applicable at 31 July 2022, to 3.5% in December 2022, and more recently to 4.0% at February 2023, which was the tenth successive rise since December 2021, with a terminal peak of 4.5% expected by June 2023. This has allowed the Corporation to obtain higher yields through an increased allocation to fixed term deposits. Officers expect interest income to increase further over the course of 2023 as the full year impact of reinvested fixed term deposits materialises. However, the value of the Corporation's short-dated bond fund investments has declined 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 December 2022
Appendix 2: Monthly Investment Analysis Review December 2022

Sarah Port
Group Accountant – Treasury & Investments
E: sarah.port@cityoflondon.gov.uk

Adam Buckley
Senior Accountant - Treasury
adam.buckley@cityoflondon.gov.uk

APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 DECEMBER 2022

	Counterparty Limit £M	Total Invested as at 31-Dec-22 £M	Average Rate of Return %
TOTAL INVESTED	-	**1,252.5**	**1.52%**
	-	-	
FIXED TERM DEPOSITS			
-			
UK BANKS			
Barclays	100.0	65.0	3.41%
Goldman Sachs	100.0	70.0	2.49%
NatWest	100.0	80.0	2.78%
Santander	100.0	30.0	3.00%
		245.0	
BUILDING SOCIETIES			
Leeds	20.0	20.0	2.09%
		20.0	
FOREIGN BANKS			
Australia & New Zealand	100.0	10.0	3.52%
DBS Bank	100.0	80.0	3.39%
Helaba	100.0	50.0	2.79%
National Australia Bank	100.0	60.0	2.50%
Rabobank	100.0	40.0	3.27%
Toronto Dominion Bank	100.0	150.0	3.34%
		390.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	27.3	3.28%
CCLA - Public Sector Deposit Fund	100.0	33.0	3.31%
Deutsche Global Liquidity Fund	100.0	36.0	3.51%
Federated Prime Liquidity Fund	100.0	22.9	3.24%
Invesco Sterling Liquidity Fund	100.0	32.0	3.27%
		151.2	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	61.1	-1.10%
Aberdeen SLI Short Duration Fund	100.0	51.1	1.39%
Federated Sterling Cash Plus Fund	100.0	25.7	1.25%
		137.9	
SHORT DATED BOND FUNDS			
L&G	100.0	74.2	-7.67%
Royal London	100.0	74.3	-7.76%
		148.5	

	Counter-party Limit £M	Total Invested as at 31-Dec-21 £M	Average Rate of Return %
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account	100.0	90.0	3.68%
Goldman Sachs 185 Days Account	-	-	-
Goldman Sachs 185 Days Account	-	-	-
Goldman Sachs 185 Days Account	-	-	-
Goldman Sachs 270 Days Account	-	-	-
Lloyds 95 Days Account	-	-	-
Santander 95 Days Account	100.0	20.0	2.70%
Santander 180 Days Account	-	-	-
Santander 365 Days Account	100.0	50.0	3.00%
		160.0	
TOTAL		1,252.5	

LINK Group

City Of London Corporation

Monthly Investment Analysis Review

December 2022

Monthly Economic Summary

General Economy

The UK Manufacturing PMI declined to 44.7 in December 2022, from 46.5 in November. It was the lowest reading since May 2020. New business volumes continued to decline while contributing to a deterioration in order books, with exports also falling further. Regarding employment numbers, manufacturing companies shed the most jobs since October 2020 amid a deteriorating outlook for growth. In contrast, the UK Services PMI rose to 50.0 in December 2022, up from 48.8 in the previous month. The latest reading pointed to a stabilisation of activity, following two months of decline, helped by a smaller decline in inflows of new business. This result helped the UK Composite PMI rise to 49.0 in December 2022, up from 48.2 in the previous month and above market expectations of no change. Still, the latest reading pointed to the fifth consecutive month of contraction in private sector business activity, but at a rate that was the softest for three months. Elsewhere, the UK Construction PMI, which lags by a month, fell to a three-month low of 50.4 in November of 2022 from 53.2 in October, signalling a slowdown in construction activity, amid subdued demand and reduced risk appetite among clients. Higher borrowing costs and worries about the economic outlook also weighed. The UK GDP shrank 0.3% on quarter in the three months to September of 2022, slightly more than a preliminary estimate of a 0.2% drop. Household expenditure dropped 1.1%, while business investment went down 2.5% and inventories fell by £5.2 billion, mainly driven by reductions for retail and manufacturing. On the other hand, government expenditure went up 0.5% and government investment surged 17.3%, while exports jumped 8.9% compared to a 3.6% decline for imports. Nevertheless, The UK monthly GDP grew by 0.5% in October from September, the biggest increase in nearly a year and above forecasts of 0.4%

The UK trade deficit shrank to £1.8 billion in October from £3.1 billion in the previous month. It was the narrowest trade gap since November of 2021, as natural gas prices retreated from their peaks of the previous month and deflated the price of foreign energy purchases, driving imports to drop by 2.6%.

UK employment rose by 27K in the three months to October, beating market estimates of a 17K decline and following a 53K drop in the previous month’s reading. The unemployment rate in the UK edged higher to 3.7% in October from 3.6% in the previous period, matching market forecasts. The employment rate also went up to 75.6% from 75.4%, with the timeliest figures for payrolled employees rising by 107K in November to a record of 29.9 million. Job vacancies however, fell by 65K to 1,187,000, a fifth consecutive decline, and reflecting uncertainty across industries, as economic pressures hold back on recruitment. Average weekly earnings including bonuses in the UK increased by 6.1% y/y in the three months to October, above a 6.0% gain in the three months to September but less than market forecasts of 6.2%. Meanwhile, regular pay which excludes bonus payment also went up 6.1%, the most since July 2021, exceeding forecasts of 5.9%. Adjusted for inflation, total pay fell 2.7%, and regular pay also dropped 2.7%, underlining the squeeze on households. In addition, retail sales unexpectedly declined 0.4% m/m in November, after an upwardly revised 0.9% in the previous month when there was a bounce back from the impact of the additional Bank Holiday in September for the State Funeral. The annual consumer-level inflation rate in the UK eased to 10.7% in November from 11.1% in October which had been the highest since October 1981. The figure was below market forecasts of 10.9% with the largest downward contribution made by transport, particularly motor fuels and second-hand cars. Elsewhere, the GfK Consumer Confidence indicator rose slightly to -42 in December, improving for the third straight month but remaining near a record low of -49 reached in September as high inflation and rising borrowing rates continued to erode household incomes.In November 2022, the public sector spent more than it received in taxes and other income, requiring it to borrow (public sector net borrowing excluding public sector banks (PSNB ex)) £22.0 billion, which was £13.9 billion more than in November 2021, and the highest November borrowing since monthly records began in 1993 as various new government support schemes came on stream. The Bank of England’s Monetary Policy Committee voted by a majority of 6-3 to raise interest rates by 50 basis points to 3.5% during its December meeting, pushing the cost of borrowing to the highest level since late-2008, as policymakers try to balance containing inflation amid rising concerns of a looming economic recession.

The unemployment rate in the US was unchanged at 3.7% in November 2022, matching market expectations while non-farm payrolls rose by a larger than forecast 263k. The number of unemployed persons fell from 6.059m to 6.011m in November, while the number of employed decreased by 138k to 158.5m. The labour force participation rate edged down to a four-month low of 62.1% in November from 62.2% in the previous month. The US economy grew an annualised 3.2% on quarter in Q3 2022, better than 2.9% in the second estimate, and rebounding from two straight quarters of contraction. Consumer spending rose more than anticipated as growth in health care and "other" services partially offset a decrease in spending on goods, namely motor vehicles and food and beverages. The biggest positive contribution to growth came from net trade, although exports rose slightly less than reported in the second estimate while imports were unrevised. Meanwhile, annual inflation rate in the US slowed for a fifth straight month to 7.1% in November, the lowest since December last year, and below forecasts of 7.3%. Finally, the Federal Reserve raised the Fed Funds Rate by 50bps to 4.25%-4.5% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007. It was a seventh consecutive rate hike, following four straight three-quarter point increases.

The Eurozone economy quarterly growth was revised slightly higher to 0.3% in the third quarter of 2022 from preliminary estimates of 0.2%. Fixed investment was the main driver of growth, rising by 3.6% during the quarter. The ECB raised interest rates by 50 bps during its last monetary policy meeting of 2022, marking a fourth rate increase, following two consecutive 75bps hikes. In addition, household consumption advanced 0.9% and government spending increased slightly by 0.1%. Among the biggest economies, Italy and Germany's GDP grew fastest while France and Spain's GDP showed slight growth and Netherlands contracted. Meanwhile, the annual inflation in the Euro Area was revised to 10.1% in November, slightly up from a preliminary estimate of 10.0%. Energy prices rose at a softer rate compared to last month but remained the largest contributor to the overall price increase.

Housing

The Nationwide House Price Index in the UK increased by 2.8% y/y in December of 2022, much less than 4.4% in November but still modestly ahead of market expectations for 2.3%. Compared to the previous month, prices edged 0.1% lower, the fourth consecutive fall. It was also the worst run since 2008, leaving prices 2.5% lower from their August peak. The Halifax house price index increased 4.7% y/y in November, the least since July of 2020, following an 8.2% rise in October.

Currency

Sterling depreciated slightly against the US dollar and Euro across December amid the ongoing conflict in Ukraine and surging commodity prices.

December	Start	End	High	Low
GBP/USD	$1.2267	$1.2029	$1.2406	$1.2018
GBP/EUR	€1.1698	€1.1271	€1.1698	€1.1271

Forecast

The Bank Rate was raised to 3.50% at the Monetary Policy Committee's meeting in December, with Capital Economics pencilling in rates to peak at 4.50% by Q2 2023.

Bank Rate	Now	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	**3.50%**	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%
Capital Economics	**3.50%**	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%	-	-	-	-

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	27,300,000	3.28%		MMF	AAAm	
MMF CCLA	33,000,000	3.31%		MMF	AAAm	
MMF Deutsche	36,000,000	3.51%		MMF	AAAm	
MMF Federated Investors (UK)	22,900,000	3.24%		MMF	AAAm	
MMF Invesco	32,000,000	3.27%		MMF	AAAm	
USDBF Aberdeen Standard Investments	51,088,190	1.39%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	25,668,669	1.25%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	61,111,143	-1.10%		USDBF	AAAf	
Toronto Dominion Bank	20,000,000	0.91%	12/01/2022	12/01/2023	AA-	0.001%
Santander UK PLC	30,000,000	3.00%	01/10/2022	18/01/2023	A	0.002%
Barclays Bank Plc (NRFB)	25,000,000	3.76%	03/10/2022	01/02/2023	A	0.004%
Australia and New Zealand Banking Group Ltd	10,000,000	3.52%	07/11/2022	07/02/2023	A+	0.005%
National Australia Bank Ltd	20,000,000	1.30%	07/02/2022	07/02/2023	A+	0.005%
Goldman Sachs International Bank	15,000,000	2.46%	15/08/2022	15/02/2023	A+	0.006%
Barclays Bank Plc (NRFB)	20,000,000	1.66%	16/02/2022	16/02/2023	A	0.006%
Cooperatieve Rabobank U.A.	20,000,000	3.64%	08/12/2022	08/03/2023	A+	0.008%
Toronto Dominion Bank	20,000,000	2.07%	17/03/2022	17/03/2023	AA-	0.005%
National Australia Bank Ltd	20,000,000	1.84%	11/04/2022	20/03/2023	A+	0.010%
DBS Bank Ltd	20,000,000	3.45%	21/09/2022	21/03/2023	AA-	0.005%
DBS Bank Ltd	20,000,000	3.65%	21/12/2022	21/03/2023	AA-	0.005%
National Westminster Bank Plc (RFB)	10,000,000	3.65%	26/10/2022	27/03/2023	A	0.011%
Santander UK PLC	20,000,000	2.70%		Call	A	0.012%
National Westminster Bank Plc (RFB)	20,000,000	2.28%	05/07/2022	05/04/2023	A	0.012%
National Australia Bank Ltd	20,000,000	4.36%	17/10/2022	17/04/2023	A+	0.014%
Goldman Sachs International Bank	20,000,000	2.31%	04/05/2022	02/05/2023	A+	0.015%
Goldman Sachs International Bank	20,000,000	2.31%	04/05/2022	04/05/2023	A+	0.016%
DBS Bank Ltd	20,000,000	3.95%	05/12/2022	05/05/2023	AA-	0.008%
Toronto Dominion Bank	20,000,000	2.00%	13/05/2022	15/05/2023	AA-	0.008%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	25,000,000	4.03%	28/11/2022	30/05/2023	A+	0.019%
DBS Bank Ltd	20,000,000	2.51%	16/06/2022	16/06/2023	AA-	0.010%
Toronto Dominion Bank	20,000,000	3.97%	22/09/2022	22/06/2023	AA-	0.011%

City Of London Corporation

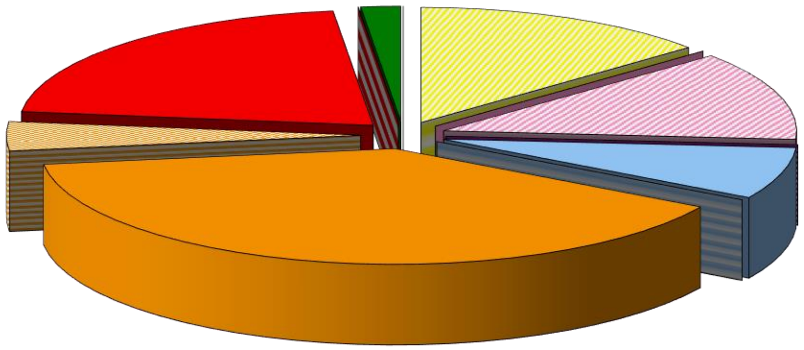
Current Investment List

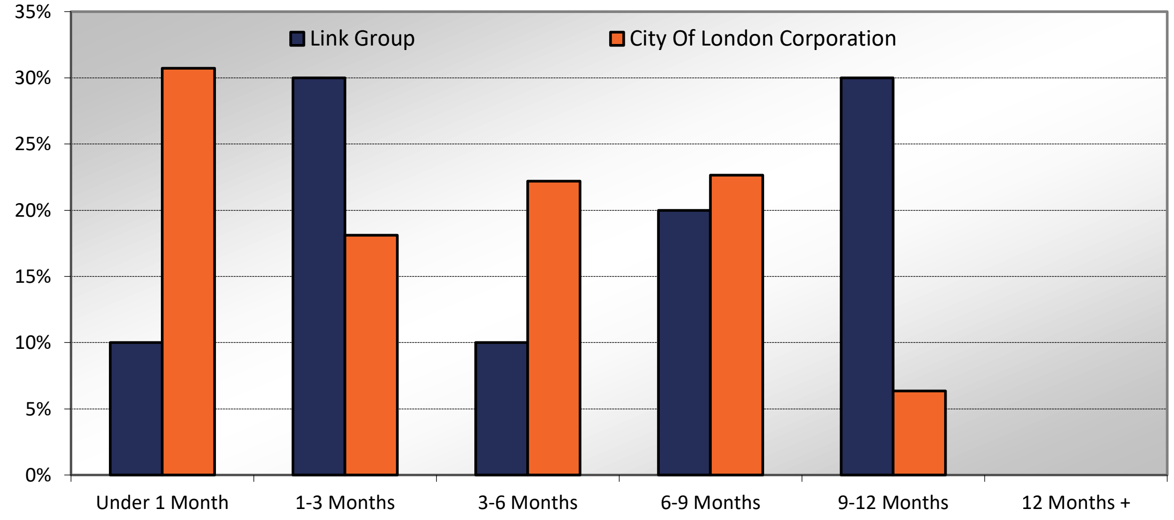
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Cooperatieve Rabobank U.A.	20,000,000	2.90%	30/06/2022	29/06/2023	A+	0.023%
Leeds Building Society	20,000,000	2.09%	01/07/2022	03/07/2023	A-	0.023%
Australia and New Zealand Banking Group Ltd	45,000,000	3.68%		Call	A+	0.023%
Australia and New Zealand Banking Group Ltd	45,000,000	3.68%		Call185	A+	0.023%
National Australia Bank Ltd	25,000,000	5.10%	13/10/2022	13/07/2023	A+	0.025%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	50,000,000	2.79%	18/07/2022	18/07/2023	A+	0.025%
National Westminster Bank Plc (RFB)	25,000,000	2.80%	09/08/2022	09/08/2023	A	0.028%
National Westminster Bank Plc (RFB)	25,000,000	2.80%	12/08/2022	14/08/2023	A	0.029%
Goldman Sachs International Bank	15,000,000	3.02%	15/08/2022	15/08/2023	A+	0.029%
Toronto Dominion Bank	20,000,000	4.70%	22/12/2022	22/09/2023	AA-	0.017%
Barclays Bank Plc (NRFB)	20,000,000	4.73%	17/11/2022	17/11/2023	A	0.041%
Santander UK PLC	25,000,000	3.00%		Call	A	0.046%
Santander UK PLC	25,000,000	3.00%		Call	A	0.046%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
L&G	74,170,365	-7.67%				
ROYAL LONDON	74,288,624	-7.76%				
Total Investments	**£1,252,526,991**	**1.52%**				
Total Investments - excluding Funds	**£1,104,068,002**	**2.77%**				0.017%
Total Investments - Funds Only	**£148,458,989**	**-7.72%**				

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

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

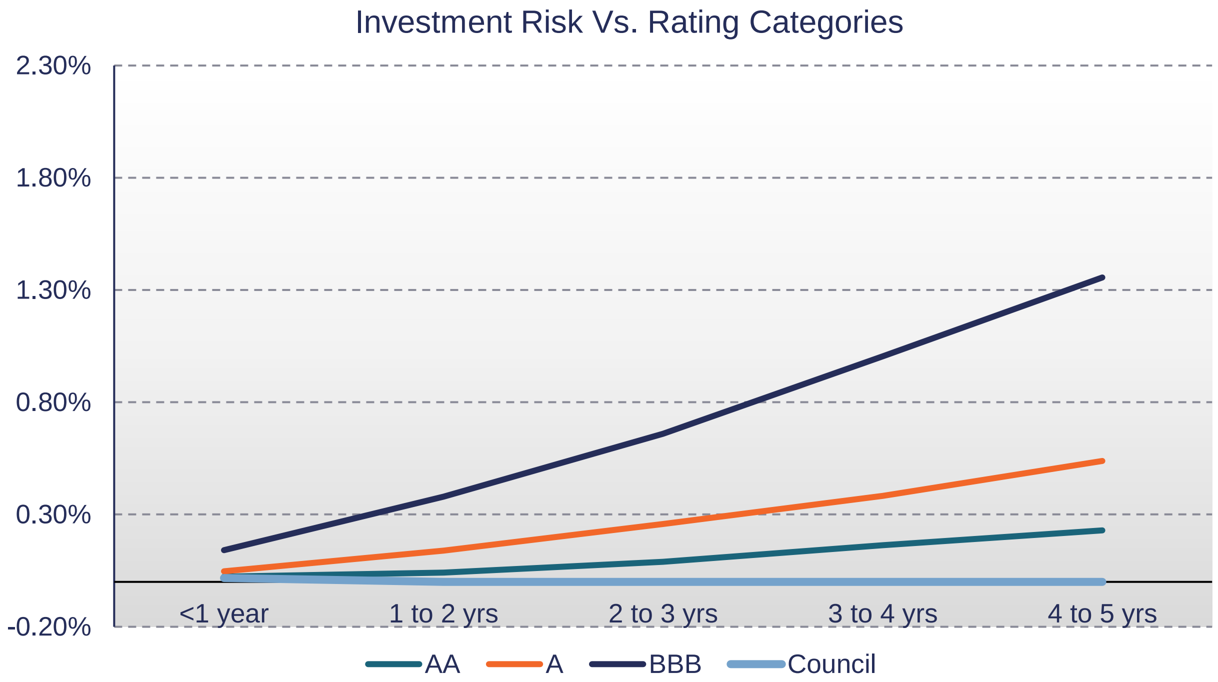
Portfolios weighted average risk number = 3.45

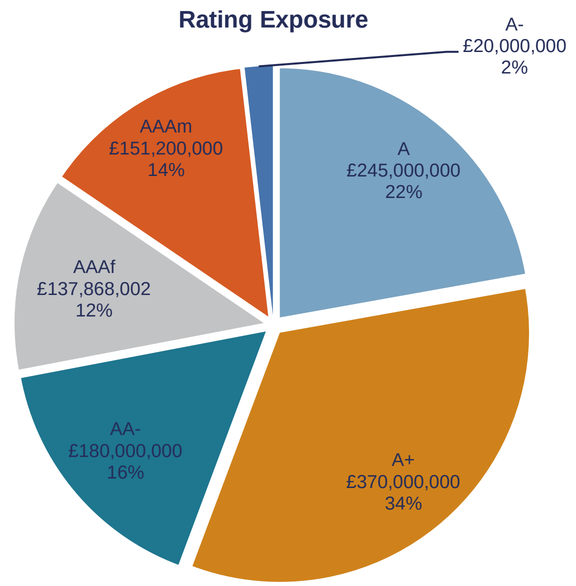
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	13.69%	£151,200,000	100.00%	£151,200,000	13.69%	3.34%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	12.49%	£137,868,002	100.00%	£137,868,002	12.49%	0.26%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	7.25%	£80,000,000	0.00%	£0	0.00%	2.78%	174	316	174	316
Orange	43.48%	£480,000,000	9.38%	£45,000,000	4.08%	3.25%	140	256	135	263
Red	21.28%	£235,000,000	0.00%	£0	0.00%	2.94%	161	272	161	272
Green	1.81%	£20,000,000	0.00%	£0	0.00%	2.09%	184	367	184	367
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£1,104,068,002**	**30.26%**	**£334,068,002**	**30.26%**	**2.77%**	**111**	**199**	**149**	**274**

City Of London Corporation

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.

City Of London Corporation

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
05/12/2022	1946	The Co-operative Bank plc	United Kingdom	The Long Term Rating was upgraded to ‘Ba1’ from ‘Ba2’. At the same the Outlook on the Long Term Rating changed to Positive from Stable.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
08/12/2022	1948	SMBC Bank International Plc	United Kingdom	The Long Term Rating was downgraded to ‘A-’ from ‘A’. At the same the Outlook on the Long Term Rating was changed to Stable from Negative

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
05/12/2022	1947	France (Sovereign Rating)	France	The Outlook on the Sovereign Rating of France was changed to Negative from Stable. At the same time the Sovereign Rating was affirmed at ‘AA’.

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Committee: Financial Investment Board Audit and Risk Management Committee	**Dated:** 17 February 2023 13 March 2023
Subject: Mid-Year Treasury Management Review 2022/23	**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 Information**
Report author: Adam Buckley, Chamberlain's	

Summary

The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2022/23 was approved by the Financial Investment Board and the Finance Committee in February 2022 and by the Court of Common Council on 10 March 2022 and came into effect on 1 April 2022.

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 a mid-year review. The main points to note are as follows:

- The strategy has been reviewed to take account of economic and market developments over the first half of the year, particularly with regard to changes in interest rate expectations.
- Bank rates have risen from 0.25% in December 2021 to 2.25% at the end of September 2022, and have subsequently increased further to 4.0% as at February 2023, which was the tenth successive rise since December 2021. This latest increase was voted for by a 7-2 majority of the Monetary Policy Committee (MPC). The revised path for interest rates over the medium term provided by Link Asset Services projects an increase to 4.5% by June 2023, where it is estimated to remain until December 2023 when it will fall to 4.25%, and then continue to incrementally fall to 2.50% by the end of the 2025/26 financial year (see Appendix 1).
- Under this scenario of sustained high interest rates, investment returns are expected to increase as maturing investments are reinvested at improved rates. However, bond prices have an inverse relationship with interest rates (i.e. when interest rates increase, bond prices decrease and vice versa), and hence there has been a corresponding decline in short-dated bond fund returns (i.e. *non-specified investments*). As City Fund is by far the largest participant in the TMSS in terms of investment balances, which are expected to endure for the foreseeable future, and in order to ensure the TMSS is best aligned with each and every individual participants particular circumstances, during Autumn 2022 the Financial Investment Board, Finance Committee and Bridge House Estates Board all

agreed to amend the TMSS with effect from 1 April 2022; this was ratified by the Court of Common Council in December 2022. This amendment was to 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*) permitted in the current TMSS and a second strategy for others which restricts exposure to specified investments only.

- As at 30 September 2023, the City had cash balances totalling £1,351.5m. Most of the balances are held for payment to third parties or are restricted reserves. Cash balances are expected to reduce meaningfully over the medium term as spending on the capital programme increases.
- In light of the above, the Corporation's priorities remain as security and liquidity (ahead of yield). Given the current risk environment, officers do not recommend that the Corporation relaxes its risk appetite for the remainder of the year.
- No approved counterparty limits were breached during the first half of 2022/23 and the City has experienced no liquidity concerns.
- No external borrowing has been entered into by City Fund and it is not anticipated that City Fund will require any external borrowing during the remainder of the financial year.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

2. The second main function of the treasury management service is the funding of capital expenditure plans. In September 2019 the City issued fixed rate market debt on behalf of City's Cash via a private placement, which will support that entity's long term capital financing plans. The first tranche of borrowing proceeds of £250M were received in September 2019. The second tranche of borrowing proceeds of £200M were received in July 2021. The City has not undertaken any new borrowing in the first half of this year and does not at this stage anticipate any external borrowing in the remainder of 2022/23.

3. The City's treasury management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) which was adopted by the Court of Common Council on 3 March 2010.

4. The City defines its treasury management activities as:

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

Economic Update

5. The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further. The economic backdrop during the April to September period (Q2 & Q3) continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy. Consequently to tackle domestic inflationary pressure, the UK saw the Bank of England base rate increase throughout Q3, finishing the quarter at 2.25%, and more recently an increase to 4.0%% in February 2023 (Q1).

6. Quarterly growth in the UK economy was +0.2% in Q2 2022 (April to June), though still below pre-pandemic levels. Higher energy prices created more persistent downward effects in economic activity, including manufacturing output falling in some of the most energy intensive sectors, and as a result the UK economy contracted by -0.3% in Q3 (July to September). With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting further through the autumn and winter months.

7. The Consumer Prices Index (CPI) rose by 10.7% in the 12 months to November 2022, falling slightly from 11.1% in October, but up from 10.1% in September. The October figure was the highest annual CPI inflation rate in the National Statistic series, which began in January 1997. The easing in the annual inflation rate in November 2022 reflected, principally, price changes in the transport division, particularly for motor fuels and second-hand cars. Additionally, the UK unemployment rate fell to a 48 year low of 3.6% in Q2 due a large shortfall in labour, and this, coupled with strong wage growth, means domestic price pressures show little sign of abating. This position remains as at February 2023, and therefore with inflation currently at 10.5%, this will need to fall considerably and quickly to persuade the MPC that they are not premature in thinking inflation will come back down to below 4% by the end of the year, not withstanding that energy prices are expected to rise again in April 2023.

8. On 23 September 2022, UK government announced a package of £45bn unfunded tax cuts in its mini budget, which led to a sharp rise in gilt yields and took Sterling to a 37-year low against the US dollar. The 30-year gilt yield spiked upwards 120 bps within three days following the mini budget and 10-year gilt yields reached the 5% mark, resulting in the Bank of England (BoE) undertaking a bond purchasing programme to stabilise the market. The UK's renewed talk of fiscal discipline and book balancing by the new Prime Minister and Chancellor in the Autumn Statement was well received by the market as gilt yields fell and

sterling rallied, however with the Budget planned for 15 March 2023 the Bank and the Government will need to tread carefully in their messaging to markets.

9. The UK base rate was 2.25% in September as a result of higher-than-expected inflation, tight labour market, sterling weakness and the willingness of firms to increase prices and wages. The latest MPC vote was issued on 2 February 2023, with the decision being to increase the Bank Rate for a ninth consecutive meeting, a 7-2vote to hike the rate to 4.0% from 3.5%; two members voted to keep the base rate on hold. The MPC said there were *“considerable uncertainties around the outlook”*. Aside from those voting for no change, Committee members still believed that *"if there were to be evidence of more persistent (inflation) pressures, then further tightening of monetary policy would be required”*

10. The Corporation’s treasury consultants, Link Asset Services, have provided an updated interest rate forecast which is attached as an Appendix. Considering the above, officers expect that the Bank will continue to tighten monetary policy and raise interest rates in the first and second quarter of 2023/24, and then as inflationary pressures ease begin to incrementally loosen monetary policy with interest rates reducing incrementally to 2.5% by September 2025.

Treasury Management Strategy Statement and Annual Investment Strategy Update

11. The Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 was approved by the Financial Investment Board (9 February 2022), the Finance Committee (15 February 2021) and the Court of Common Council (10 March 2022).

12. Having considered the strategy, officers believe that it remains appropriate for the second half of 2022/23 and do not recommend any fundamental changes are made.

<u>Investment Strategy</u>

13. The Corporation held £1,351.5m of investments as at 30 September 2022 £1,226.0m at 31 March 2021). Most of the balances are held for payment to third parties or are restricted reserves; they also include debt issued by City’s Cash in 2019/20 and in the first half of 2021/22. As the Corporation’s capital programme progresses, cash balances are projected to decline as internal borrowing increases (see paragraph 24 below). The weighted average rate of return on the City’s treasury management portfolio at the end of September was 0.14%, increasing to 1.52% at the end of December 2022.

14. The weighted average rate of return was effected by the short-dated bonds, as bond prices have an inverse relationship with interest rates (i.e. when interest rates increase, bond prices decrease and vice versa), and hence there has been a corresponding decline in short-dated bond fund returns (i.e. *non-specified investments*). However, the key metrics for measuring the interest rate sensitivity of a bond is duration. Duration effectively represents the weighted average life of the cash flows for a bond (or bond portfolio). Duration shows the expected price movement (in %) from a 1% change in interest rates. As at the end of the

November 2022 both of the short-dated both bond funds had duration measures of just under three years.

15. Therefore, as interest rates rise, the bond fund managers will be able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, will make up a greater part of the total return generated by these funds. Officers believe that the returns are still significant and hence this is still a viable investment, and in light of the current IFRS9 override any capital gains/losses will continue not to be taken through the General Fund.

16. However, as City Fund is by far the largest participant in the TMSS in terms of investment balances, which are expected to endure for the foreseeable future, in order to ensure the TMSS is best aligned with each and every individual participants particular circumstances, during Autumn 2022 the Financial Investment Board, Finance Committee and Bridge House Estates Board all agreed to amend the TMSS with effect from 1 April 2022, and this was ratified by the Court of Common Council in December 2022. This amendment was to 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*) permitted in the current TMSS and a second strategy for others which restricts exposure to specified investments only.

17. In accordance with the CIPFA Treasury Management Code of Practice, the Corporation’s investment priorities are:
    - Security of capital
    - Liquidity
    - Yield

18. The Corporation aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Corporation’s risk appetite. In the current economic climate, it is considered appropriate to retain sufficient capacity to cover planned and potentially unanticipated cash flow needs, but also to seek out value by placing deposits with high credit rated counterparties where possible. The current investment strategy remains appropriate for facilitating these aims by limiting lending to only high-quality borrowers whilst also not being so restrictive as to create an overconcentration of exposure to any single counterparty.

19. At the outset of the year, the Corporation estimated increases in short term interest rates over the medium term. Since the original strategy was written, economic developments domestically and globally have caused interest rates to increase much faster and steeper than previously estimated.

20. Consequently the revised path for interest rates over the medium term provided by Link Asset Services now forecasts bank rates to continue to rise to a peak of 4.50% by June 2023, where the rate is estimated to hold until a gradual and steady decline from December 2023, leaving rates at around 2.50% at the end of the 2025/26 financial year (see Appendix 1). Under this scenario of continued

high rates, investment returns are expected to improve as maturing deposits are reinvested at substantially higher rates than were historically available.

21. The actual path of interest rates over the coming years could deviate from this central expectation, which is subject to a high level of uncertainty. Key risks to the forecast are as follows:

- The Bank of England acts too quickly, or too far, to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate. However if the Bank is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, it may allow inflationary pressures.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Labour and supply shortages prove more enduring and disruptive and depress economic activity.
- Geopolitical risks, for example in Ukraine/Russia.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than currently forecast.

22. In light of the above, the prime objective is to ensure cash is safe and available when needed, and the Corporation's priorities remain as security and liquidity (ahead of yield. It is not recommended that the Corporation relaxes its creditworthiness criteria at this stage to protect income as this would contradict the primary obligation of keeping the Corporation's cash assets secure, before considering yield.

23. No approved counterparty limits were breached during the first half of 2022/23 and the City has experienced no liquidity concerns. The Treasury Management Strategy remains appropriate in enabling the City to pursue its prime objectives of security and liquidity, followed by yield.

Borrowing Strategy

City Fund

24. The City Fund has not acquired any external borrowing in the first half of the year and it is not anticipated that any external borrowing will be required in the remainder of 2022/23.

25. Although the City Fund is forecast to have a growing capital financing requirement forecast in the years ahead, it expects to be able to fund this in the short term via internal borrowing. Entering into new external borrowing now would increase the Corporation's revenue pressures in the immediate term (i.e. there would be a cost of carry).

City's Cash

26. City's Cash issued £450m of market debt in 2019/20, £200m of which was deferred for receipt until 2021/22. The Corporation took receipt of these borrowing proceeds in July 2021 and they have been held in the short term investments portfolio until required by the capital programme. By deferring receipt of this borrowing until 2021, the City avoided paying additional interest costs whilst at the same time securing fixed rate borrowing on competitive terms. There are no plans to undertake any further borrowing on behalf of City's Cash in the second half of the year at this stage, but this will be monitored by officers as the Medium term Financial Plan (MTFP) is finalised.

Conclusion

27. The City has effectively executed the 2022/23 Treasury Management Strategy during the first six months of the year. After considering the original strategy against the current treasury management environment, officers judge that the investment strategy remains appropriate for the second half of the year.

APPENDIX 1: Interest Rate Forecasts 202/23 – 2025/26

Adam Buckley
Senior Accountant - Treasury
E: Adam.Buckley@cityoflondon.gov.uk

APPENDIX 1: Interest Rate Forecasts 2022/23 – 2025/26

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Interest Rate Forecasts

Bank Rate	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Link	4.25%	4.50%	4.50%	4.25%	4.00%	3.75%	3.25%	3.00%
Cap Econ	4.25%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.00%	4.00%	3.90%	3.80%	3.70%	3.60%	3.50%	3.40%
Cap Econ	3.75%	3.65%	3.60%	3.50%	3.45%	3.35%	3.30%	3.25%
10Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	3.80%	3.70%	3.65%	3.55%	3.50%	3.40%	3.35%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%
Cap Econ	4.13%	4.00%	3.93%	3.80%	3.75%	3.65%	3.60%	3.55%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.60%	3.60%
Cap Econ	3.80%	3.80%	3.80%	3.80%	3.75%	3.65%	3.60%	3.55%

Committee: Financial Investment Board	Dated: 17 February 2023
Subject: Risk Register for Financial Investment Board	**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 Decision**
Report author: Priya Nair – Chamberlain's Department	

Summary

This report reviews the key Risk Register for the Financial Investment Board. The Risk Register details the key risks that the Board has identified alongside a risk score which indicates the likelihood of a risk being realised together with the potential impact to the organisation and the appropriate mitigations. Officers have conducted a preliminary review of the Risk Register and recommend that the current scores for all risks are maintained at their existing levels.

The narrative "risk update" and "latest note" on associated actions has been updated where necessary. Officers do not recommend that any new risks are added to the register and neither do they advise that any existing risks should be removed.

The Board's current terms of reference no longer refer to the investments of the Pension Fund (which will be oversee by the new Pensions Committee) nor the Bridge House Estates (which has held responsibility for managing the financial investments of the Bridge House Estate since 15 April 2021). Officers have amended the register to remove reference to both of these funds.

The Risk Register is included at Appendix 2 with risk updates underlined throughout. The Risk Register is reviewed semi-annually by the Financial Investment Board and more frequently by officers, who report any material changes or new risks identified in between reviews on an exceptions basis.

Recommendations

Members are asked to:

- review the existing risks and actions present on the Financial Investment Board's Risk Register, and confirm that appropriate control measures are in place; and
- confirm that there are no further risks relating to the services overseen by the Financial Investment Board.

Main Report

Background

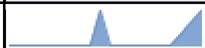
1. The Financial Investment Board instituted a Risk Register on 22 March 2018 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City's non-property investments. The current Risk Register, as agreed by the Board on 31 May 2022, is included as Appendix 2.
2. From the current municipal year, the Board's terms of reference no longer refer to the investments of the Pension Fund nor the Bridge House Estates.
3. The Financial Investment Board should review the register semi-annually. Officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. This is in line with standard risk review procedures across the rest of the City of London Corporation.

Review of Risks

4. The method of assessing risk reflects the City of London's standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix 1 of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised "green", "amber" or "red".
5. The Risk Register to be reviewed is set out in Appendix 2.

Update on risks

<u>Table 1: Risk Summary</u>

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
CHB FIB 01	Insufficient assets - City's Cash	12			
CHB FIB 04	Counterparty failure - Treasury Management	8			
CHB FIB 02	Targeted returns - City's Cash	6			
CHB FIB 03	Service provider failure	4			
CHB FIB 05	Insufficient Cash - Treasury Management	4			
CHB FIB 06	Governance	4			
CHB FIB 07	Failure to discharge responsible investment duties	4			

6. The Risk Register contains seven risks which are summarised above. In the table, “Current Risk Score indicator” displays the current “RAG” rating for each risk. “Trend Icon” refers to the direction of travel since the last review for a given risk whilst “Flight Path” illustrates a risk’s score over time, with the current risk score shown on the right hand side of the graphic. The risks are ranked by current risk score.

7. Officers have reviewed the Risk Register to establish whether the risk environment has changed and whilst all scores have been maintained at their previous levels each has been reviewed and updated where necessary in the Register itself. Updates to the Risk Register are underlined throughout

8. As a result of the review, officers consider that the three risks listed at the top of Table 1 are currently the most serious risks on the Register and require active risk management by Members and officers. All other risks continue to have a “green” risk score.

9. Officers have also considered whether any new risks have emerged since the last review. Although the Board’s operating environment continually changes officers have determined that the existing Register captures the material risks facing the Board and enables the Board to concentrate on the most prescient risks.

10. The Board’s current terms of reference no longer refer to the investments of the Pension Fund (which will be oversee by the new Pensions Committee) nor the Bridge House Estates (which has held responsibility for managing the financial investments of the Bridge House Estate since 15 April 2021). Officers have amended the register to remove reference to both of these funds.

11. Each risk presented in the Risk Register is accompanied by one or more “action(s)” which reflect how the risk is managed and mitigated. A “due date” for required completion is set against each action. Due to the nature of the risks overseen by the Committee, in many cases it is impossible to entirely eliminate a risk, and therefore corresponding actions will always remain live. These ongoing actions are necessary in order to maintain the current risk score. Where this is the case the Risk Register includes an annual due date, which will be renewed each year

Conclusion

12. The risks overseen by the Financial Investment Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the Risk Register.

Appendices

- Appendix 1 – City of London Corporation Risk Matrix
- Appendix 2 – Financial Investment Board Risk Register

Priya Nair
Senior Accountant –Investments
Chamberlains Department
E: priya.nair@cityoflondon.gov.uk

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Appendix 1

CITY LONDON

City of London Corporation Risk Matrix (Black and white version)

Note: A risk score is calculated by assessing the risk in terms of likelihood and impact. By using the likelihood and impact criteria below (top left (A) and bottom right (B) respectively) it is possible to calculate a risk score. For example a risk assessed as Unlikely (2) and with an impact of Serious (2) can be plotted on the risk scoring grid, top right (C) to give an overall risk score of a green (4). Using the risk score definitions bottom right (D) below, a green risk is one that just requires actions to maintain that rating.

(A) Likelihood criteria

	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)
Criteria	Less than 10%	10 – 40%	40 – 75%	More than 75%
Probability	Has happened rarely/never before	Unlikely to occur	Fairly likely to occur	More likely to occur than not
Time period	Unlikely to occur in a 10 year period	Likely to occur within a 10 year period	Likely to occur once within a one year period	Likely to occur once within three months
Numerical	Less than one chance in a hundred thousand (<10-5)	Less than one chance in ten thousand (<10-4)	Less than one chance in a thousand (<10-3)	Less than one chance in a hundred (<10-2)

(C) Risk scoring grid

		Impact			
	X	Minor (1)	Serious (2)	Major (4)	Extreme (8)
Likelihood	Likely (4)	**4 Green**	**8 Amber**	**16 Red**	**32 Red**
	Possible (3)	**3 Green**	**6 Amber**	**12 Amber**	**24 Red**
	Unlikely (2)	**2 Green**	**4 Green**	**8 Amber**	**16 Red**
	Rare (1)	**1 Green**	**2 Green**	**4 Green**	**8 Amber**

(B) Impact criteria

Impact title	Definitions
Minor (1)	**Service delivery/performance**: Minor impact on service, typically up to one day. **Financial:** financial loss up to 5% of budget. **Reputation**: Isolated service user/stakeholder complaints contained within business unit/division. **Legal/statutory**: Litigation claim or find less than £5000. **Safety/health**: Minor incident including injury to one or more individuals. **Objectives**: Failure to achieve team plan objectives.
Serious (2)	**Service delivery/performance**: Service disruption 2 to 5 days. **Financial:** Financial loss up to 10% of budget. **Reputation:** Adverse local media coverage/multiple service user/stakeholder complaints. **Legal/statutory**: Litigation claimable fine between £5000 and £50,000. **Safety/health**: Significant injury or illness causing short-term disability to one or more persons. **Objectives:** Failure to achieve one or more service plan objectives.
Major (4)	**Service delivery/performance**: Service disruption > 1 - 4 weeks. **Financial:** Financial loss up to 20% of budget. **Reputation**: Adverse national media coverage 1 to 3 days. **Legal/statutory**: Litigation claimable fine between £50,000 and £500,000. **Safety/health**: Major injury or illness/disease causing long-term disability to one or more people **objectives:** Failure to achieve a strategic plan objective.
Extreme (8)	**Service delivery/performance**: Service disruption > 4 weeks. **Financial**: Financial loss up to 35% of budget. **Reputation**: National publicity more than three days. Possible resignation leading member or chief officer. **Legal/statutory**: Multiple civil or criminal suits. Litigation claim or find in excess of £500,000**. Safety/health**: Fatality or life-threatening illness/disease (e.g. mesothelioma) to one or more persons. **Objectives:** Failure to achieve a major corporate objective.

(D) Risk score definitions

RED	Urgent action required to reduce rating
AMBER	Action required to maintain or reduce rating
GREEN	Action required to maintain rating

This is an extract from the City of London Corporate Risk Management Strategy, published in May 2014.

Contact the Corporate Risk Advisor for further information. Ext 1297

October 2015

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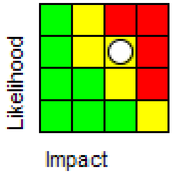
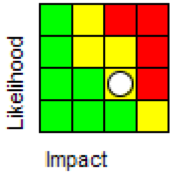
CHB FIB Detailed risk register EXCLUDING COMPLETED ACTIONS

Report Author: Priya Nair
Generated on: 17 January 2023

Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 01 Insufficient assets - City's Cash	**Cause:** The asset allocation of the City's Cash investment portfolio is unable to fund long term expenditure requirements due to market movements. **Event:** There are insufficient assets to meet expenditure requirements. **Effect:** Reduced income or lower than anticipated growth which could impact on the Corporation's medium term financial plans. City's Cash would be required to sell financial assets to fund expenditure requirements.		**12**	The absolute return target for City's Cash has been set at CPI + 4%. As at 31 ~~March~~ December 2022, ~~the fund has outperformed this target over the long term (i.e. over 3 and 5 years) but has trailed the target over the last year~~ the Fund is underperforming its absolute return target across all time horizons. Financial Markets have been very volatile over the last year due to the war in Ukraine, increasing inflation and interest rates and the effect of the September mini budget which was shortly u-turned on. This has affected stock markets, with the MSCI AC World and MSCI World all returning negatively for the year ended 31 December, but despite global turmoil the FTSE All share ended on a modest annual gain. ~~This has primarily arisen due the high level of inflation as at 31 March 2022 (7%).~~		**8**	31-Mar-2023	

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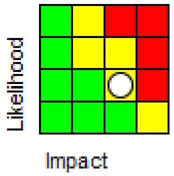
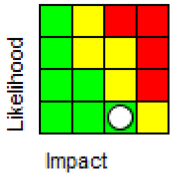
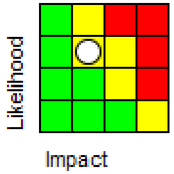
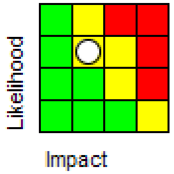
				~~Inflation has increased materially since the Board last reviewed the risk register in November 2021 as a result of supply shocks which have only been exacerbated by the Russian invasion of Ukraine. Although institutions such as the Bank of England expect inflation to decline rapidly over the medium to longer term, there is considerable uncertainty around the outlook. The likelihood of this risk has thus been increased from “unlikely” to “possible” for the current risk score.~~				
08-Mar-2018 Caroline Al-Beyerty				~~**20 May 2022**~~ **01/02/2023**				~~Increasing~~ Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 01a	The City's Cash investment strategy is reviewed at least every three years by the Financial Investment Board.	The City’s Cash investment strategy is expected to be reviewed ~~in 2022/23~~ in 2023/2024	Caroline Al-Beyerty; Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB 01b	The investment performance is measured against absolute return targets required to meet long term objectives. This will be reported to the Financial Investment Board throughout the year and is supplemented by market insight from the Corporation’s investment consultants which will assist any strategic decisions required in between the three-year formal strategy reviews.	City's Cash investment performance ~~is~~ will be brought to each meeting of the Financial Investment Board for consideration.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 04 Counterparty failure - Treasury Management 08-Mar-2018 Caroline Al-Beyerty	**Cause:** External events, including cybersecurity incidents, threaten the solvency of counterparties the Corporation has lent to. **Event:** Failure of counterparty to fulfil obligation to the Corporation, i.e. default on repayments. **Effect:** Asset valuations at risk.		**8**	The current Treasury Management Strategy restricts lending to high-quality counterparties and remains fit for purpose. External credit ratings for existing counterparties are currently at acceptable levels although credit default swap prices for the existing counterparties (where available) have been gradually rising over the last quarter. ~~**20 May 2022**~~ **01 Feb 2023**		**4**	31-Mar-2023	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 04a	Detailed due diligence is carried out when new counterparties are onboarded.	Independent analysis and consultation with treasury investment advisor when adding additional counterparties. Where the Corporation invests in money market funds, officers monitor the funds' weekly liquidity profiles to ensure the vehicles retain adequate liquidity. At present, there are no liquidity concerns with any of the Corporation's existing fund counterparties. These funds invest in very short term and very high-quality instruments, so default risk is low. The Corporation's short-dated bond fund investments are more sensitive to changes in economic conditions and performance is more volatile. Short term interest rates have increased during 2022 and this has had a negative impact on the total returns available from the short-dated bond funds. However, the Corporation invests in these instruments on a longer-term basis (at least three years) where there is a greater tolerance for volatility in returns. Officers also continue to monitor changes in the credit standing of direct counterparties via ratings changes from the three main credit rating agencies and other news.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

CHB FIB 04b	When lending directly to counterparties, ensure they meet the minimum credit criteria as set out in the most recent Treasury Management Strategy Statement.	All lending is conducted within the parameters of the current 2022/23 Treasury Management Strategy Statement as agreed by Court of Common Council (CoCo) on 10th March 2022, and amended and ratified by CoCo on 8 December 2022. Additionally, officers have implemented financial metric-based criteria for determining the eligibility of local authority borrowers. When onboarding new financial institutions, officers review banks' financial standing including standard financial reporting ratios for assessing capitalisation and liquidity.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB 04c	Monitor markets regularly through credit rating updates and financial publications, plus seeking the advice of treasury investment advisors when appropriate	Officers continually monitor for credit rating updates as well as the financial press and industry publications in search of any news regarding the Corporation's counterparties. Treasury investment advisors provide rating agency credit watches and other market data including Credit Default Swap prices on money market participants.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 02 Targeted returns - City's Cash	**Cause:** Fund managers fail to achieve the targeted investment returns because • the Board appoints unsuitable fund managers, • individual fund managers underperform against the benchmarks agreed by the Board, • aggregate fund manager performance fails to achieve the Board's long-term targets **Event:** Failure to be seen to manage the fund responsibly. **Effect:** Supervisory intervention over management of the funds.		**6**	The performance of fund managers and their aggregate performance is reported against target to each Financial Investment Board. The Board sets a diversified investment strategy to mitigate volatility and as such it expects different parts of the strategy to outperform at different times. ~~Most appointed managers are currently outperforming their assigned targets over longer term time horizons, although several are not.~~ Where relative returns are negative, Members and officers seek to understand why in order to determine whether there is continued conviction in the manager's strategy to recover performance. ~~At the level of the overall portfolio, the strategy has outperformed its absolute return target the long term (3- and 5-year time horizons) but has trailed over 1-year, where the strength of inflation has pushed the nominal return target was 11%. In the near term, it will be difficult for the fund meet its inflation plus target.~~ The fund has underperformed its absolute return target of CPI +4% over all time horizons, but this is due to the strength of inflation, which rose by 10.7% in the 12 months to December 2022 being exceptionally high. However, it should be noted that CPI +4% is the long-term target.		**6**	31-Mar-2023	

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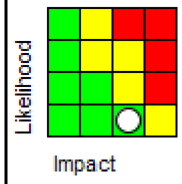
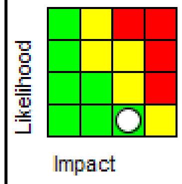
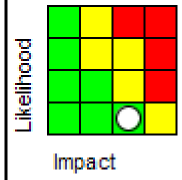
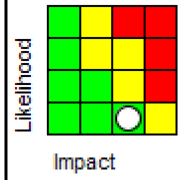
08-Mar-2018 Caroline Al-Beyerty				**~~20 May 2022~~** **01/02/2023**				Constant

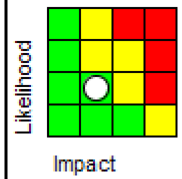
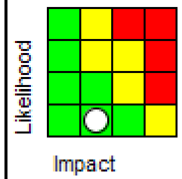
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 02a	Investment managers' performance and their aggregate performance is measured against appropriate benchmarks and monitored by the Financial Investment Board throughout the year. It is supplemented by market insight from the Corporation’s investment consultants which provides peer group comparisons; checks on movement of key officers; and reviews on the incorporation of Economic, Social & Governance (ESG) considerations in implementing their investment strategies. Fund managers are invited to meet with Officers and Members to account for their performance as and when the Board deem this necessary/as required.	The latest performance ~~reports to the Board from officers and the investment consultant Mercer detail appointed manager and fund level performance up to 31 March 2022~~ for City’s Cash Fund to 31 December 2022 along with the Investment Consultant’s quarterly report (to December) is reported to the Financial Investment Board on 17 February 2023.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 03 Service provider failure 08-Mar-2018 Caroline Al-Beyerty	**Cause:** Corporate, financial, economic or cybersecurity threats result in service provision withdrawal or liquidation of partner organisations. **Event:** Failure of fund manager, investment consultant or other service provider without notice. **Effect:** Asset valuations at risk or a period of time without service provision.		**4**	Officers meet regularly with fund managers, investment consultants and other service providers. Officers write to all counterparties requesting latest internal control report from fund managers and custodian ahead of the closure of accounts. **~~20 May 2022~~** **01 Feb 2023**		**4**	31-Mar-2023	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 03a	Detailed due diligence is carried out when new fund managers, investment consultant or other service provider are appointed.	New manager due diligence undertaken in consultation with investment consultant. There are currently no plans to appoint any additional managers. The current investment consultant contract was ~~recently~~ re-tendered via the National LGPS procurement framework. Following a rigorous and competitive exercise Mercer were appointed to the role in October 2021.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB 03b	Review of internal control reports on annual basis.	Corporate Treasury compile an archive of the most up to date relevant annual internal control reports issued by all issuing fund managers and custodian as part of statement of account compilation across Funds~~. Officers are currently in the process of obtaining control reports from the fund managers and evaluating their findings as part of the final accounts process~~. All internal control reports from the pooled fund managers have been received where available. Officers are in the process of reviewing the findings of the reports to ensure they remain satisfied with the control environments operated by the Corporation's appointed asset managers.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB03c	Monitor markets regularly through financial publications and seek advice of managers and investment consultant when appropriate.	Officers regularly monitor financial press and industry publications particularly in search of any news regarding entities that have an existing relationship across the Corporation's Funds.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

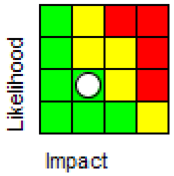
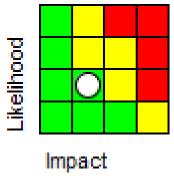
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 05 Insufficient Cash - Treasury Management 08-Mar-2018 Caroline Al-Beyerty	**Cause:** Inaccurate cash flow modelling for Corporation as a whole. **Event:** There is insufficient cash available to meet day to day obligations. The organisation is forced to liquidate long term investment assets without adequate planning or fails to identify external borrowing requirements. **Effect:** Overdrawn position incurs unnecessary expenditure and missed payments damage the Corporation's reputation. Inefficient treasury management decisions increase costs.		**4**	Officers continue to maintain a cash flow model projecting the Corporation's cash flow requirements for the forthcoming year on an on-going basis. Cash flow is regularly monitored, and short-term cash balances are invested over appropriate time horizons. ~~**20 May 2022**~~ **01 Feb 2023**		**4**	31-Mar-2023	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 05a	Combined cashflow daily forecast maintained to project inflows and outflows over the year forward to ensure a sufficient level of on-going liquidity. Cashflow requirement is the fundamental consideration when agreeing duration of fixed term deposits or placing capital in money market funds.	Cash flow model maintained and updated on a daily basis, incorporating known flows and estimating payments and income of uncertain timing based on historic cash flow profiles and estimations for the timing and value of future payments and receipts.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB 05d	A balance sheet review exercise enables the Corporation to further understand the likely timing of any future need to liquidate long term investment assets or external borrowing requirement.	Officers have developed a medium-term cash flow forecast based on City Fund and City's Cash projected balance sheet. This forecast will be updated in line with the evolution of the medium term financial plan and ~~is currently~~ will be being reviewed in tandem with the production of the draft statement of accounts ~~for 2021/22~~ for 2022/23.		~~20-May-2022~~ 01 Feb 2023	~~30-Jun-2022~~ 31 Mar 2023

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 06 Governance 08-Mar-2018 Caroline Al-Beyerty	**Cause:** Lack of understanding of the applicable statutory requirements such as investment regulations, prudential code etc. **Event:** Board Members and officers do not have appropriate skills or knowledge to discharge their responsibilities. Regulatory breach. **Effect:** Inappropriate decisions are made leading to a financial impact or a breach of legislation or service not provided in line with best practice and legal requirements. Potential regulatory fines.		**4**	Member and officer experience and knowledge was assembled as part of the MiFID II opt up process and deemed sufficient by all fund managers, advisors and counterparties to substantiate opt up to 'professional' client status. ~~Members most recently undertook treasury management training in February 2019; investment strategy training in June 2020; and further responsible investment/climate risk training in 2021.~~ Members also routinely receive advice from the Investment Consultant at all Board meetings. Officers monitor changes in applicable regulations and advise Members accordingly. **~~20 May 2022~~** **01 Feb 2023**		**2**	31-Mar-2023	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 06a	Training provided to Board Members on a range of investment topics and asset classes on a needs basis. Continued Professional Development (CPD) records maintained and updated annually.	~~Recent~~ Training delivered to Members of the Board has included treasury management in February 2019 via the treasury consultant; investment strategy training in June 2020 from the Investment Consultant in relation to the Pension Fund Investment Strategy review; sustainable investment implementation from FTSE Russell in September 2020; and climate risk training from various sessions led by Aon and Carbon Tracker in Q2 2021. Treasury and investment training will be provided to the Board during 2023/24 ~~2022/23~~.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	~~30-Sep-2022~~ 31-Mar-2023
CHB FIB 06b	Job descriptions used at recruitment to attract candidates with skills and experience related to investment finance. The Corporation maintains membership of CIPFA's	Officers continue to attend training courses, seminars and conferences where deemed appropriate to enhance understanding of markets, financial instruments, regulatory and statutory reporting issues. The team ~~is currently~~ has recently recruited ~~recruiting to~~ a number	Caroline Al-Beyerty;	~~20-May-2022~~ 01 Feb	31-Mar-2023

	Pension Network, CIPFA's Treasury Management Network plus the LAPFF, LPFA and PLSA – all providing access to training opportunities via courses, seminars and conferences.	of posts following a redesign of the team structure which has resulted in additional resource allocated to the treasury and investments function.	Kate Limna	2023	
CHB FIB 06c	Training plans in place for all staff as part of the performance appraisal arrangements, which are reviewed every six months.	Performance and development appraisals continue to be carried out in line with corporate policy.	Caroline Al-Beyerty; Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB 06d	External professional advice sought where required.	The investment consultant attends each meeting of the Financial Investment Board providing advice on investment matters.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 07 Failure to discharge responsible investment duties 20-Jun-2019	**Cause:** Insufficient attention is paid to the environmental, social and governance (ESG) dimensions of the Corporation's financial investments. **Event:** The Corporations' financial investments include an underappreciated exposure to negative ESG risks and the means to effectively manage such risks is not understood. **Effect:** The Corporation suffers reputational or financial damage.		**4**	The Board has formally recognised its asset stewardship role and the need to manage ESG risks through its Responsible Investment Policy which also outlines the Board's approach in this area. The City of London Corporation (as a whole) is a signatory to the Principles for Responsible Investment (PRI). The Financial Investment Board has undertook an in depth review of its climate risk exposure in 2021 resulting in a commitment to achieve net zero carbon emissions by 2040 together with the development of interim goals via a transition pathway. ~~**20 May 2022**~~ **01 Feb 2023**		**4**	31-Mar-2023	Constant

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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 07a	Reporting on responsible investment activities to the Principles for Responsible Investment is completed on an annual basis. The Board receives an annual Transparency Report from the PRI from which it can evaluate progress against responsible investment goals.	~~Officers submitted the latest annual submission to the PRI, which covered the Board's responsible investment activities in the calendar year 2020, ahead of the PRI's deadline on 10 May 2021. Owing to operational issues at the PRI, the Corporation's assessment report is now expected to be received in the first half of 2022 and will be reported to Board and other committees which now have investment oversight responsibilities at the earliest opportunity.~~ The Corporation's assessment report will be reported to this Board in February 2023. The new PRI draft framework was released on 26 January 2023 for information. The reporting period for Signatories to make their submissions will not open until mid-May at the earliest and close mid-August. The results of the 2023 submissions are expected to be available in November 2023.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	~~30-Jun-2022~~ 31-Mar-2023

CHB FIB 07c	As part of the regular management and monitoring of investment mandates, the Board and responsible officers challenge investment managers on ESG issues arising in the portfolio. The Investment Consultant reports to the Board on its monitoring of ESG risks on a quarterly basis.	The Board receives regular updates on ESG standings amongst its appointed investment managers from the Investment Consultant on a quarterly basis. The Board has established new climate risk expectations for existing and potential investment managers and these form part of the regular ongoing monitoring of managers' performance.	Kate Limna	~~20-May-2022~~ 01 Feb 2023	31-Mar-2023
CHB FIB 07e	The Board has committed to meeting the standards of the new 2020 UK Stewardship Code and needs to ensure compliance is developed. The Board reviews asset stewardship across its investment mandates on an annual basis and uses the exercise encourage better ESG outcomes amongst its existing managers (this will need to be done in conjunction with other committees which now have investment oversight responsibilities).	All of the City's Cash UK-based pooled fund managers (i.e. excluding the alternative assets portfolio) are signatories to the Stewardship Code. Officers will review the requirements of the 2020 UK Stewardship Code.		~~20-May-2022~~ 01 Feb 2023	~~31-Dec-2022~~ 31-Mar-2023
CHB FIB 07f	The Board has been assigned several key actions which will enable the Corporation to deliver its Climate Action Strategy. Key to this is achieving a clear plan on how to achieve Paris-alignment by 2040.	The Board completed an in depth review of its climate risk exposure in 2021/22 involving the use of scenario analysis, the development of a transition pathway consistent with a net zero by 2040 commitment, and the establishment of expectations for existing and potential mandates. The transition pathway itself involves a series of specific actions with various deadlines which the Board will target over the coming years. The Board received relevant training through different external consultants during this exercise.		~~20-May-2022~~ 01 Feb 2023	31-Mar-2023

Agenda Item 11

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Agenda Item 12b

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Agenda Item 13

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Agenda Item 15

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