



## Investment Committee

**Date:** THURSDAY, 14 DECEMBER 2023  
**Time:** 11.00 am  
**Venue:** COMMITTEE ROOMS, GUILDHALL

**Members:**

Deputy Andrien Meyers (Chair)	Deputy Madush Gupta
Shahnan Bakth (Deputy Chairman)	Deputy Christopher Hayward
Nicholas Bensted-Smith	Deputy Randall Anderson
Claudine Blamey	Deputy Henry Pollard
David Brooks Wilson	Paul Singh
Deputy Henry Colthurst	Deputy James Thomson
Deputy Simon Duckworth	Deputy Philip Woodhouse
Alderman Alison Gowman	

**Enquiries:** Ben Dunleavy  
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**Ian Thomas CBE**  
**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**

To approve the public minutes and non-public summary of the meeting held on 22 September 2023.

**For Decision**  
(Pages 5 - 10)

4. **COMMITTEE FORWARD PLAN**

**For Information**  
(Pages 11 - 14)

5. **CITY SURVEYOR'S BUSINESS PLAN 2023-28 QUARTER 2 2023/24 UPDATE**

Report of the City Surveyor.

**For Information**  
(Pages 15 - 26)

6. **THE CITY SURVEYOR'S DEPARTMENTAL RISK REGISTER – NOVEMBER 2023 UPDATE**

Report of the City Surveyor.

**For Information**  
(Pages 27 - 48)

7. **TREASURY MANAGEMENT UPDATE AS AT 31 OCTOBER 2023**

Report of the Chamberlain.

**For Information**  
(Pages 49 - 66)

8. **MID-YEAR TREASURY MANAGEMENT REVIEW 2023/24**

Report of the Chamberlain.

**For Information**  
(Pages 67 - 74)

9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
10. **ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT**
11. **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 or relate to functions of the Court of Common Council which are not subject to the provisions of Part VA and Schedule 12A of the Local Government Act 1972.

**For Decision**

## **Part 2 - Non-Public Agenda**

12. **NON-PUBLIC MINUTES**

To approve the non-public minutes of the meeting held on 22 September 2023.

**For Decision**  
(Pages 75 - 82)

13. **CITY SURVEYOR REVENUE BUDGETS (CITY FUND AND CITY'S CASH) – LATEST APPROVED 2023/24 AND ORIGINAL ESTIMATES 2024/25**

Report of the City Surveyor.

**For Decision**  
(Pages 83 - 112)

14. **DELEGATION REQUEST REPORT**

Report of the City Surveyor.

**For Decision**  
(Pages 113 - 116)

15. **PERFORMANCE MONITORING**

- a) City's Cash Quarterly Monitoring Report (Pages 117 - 138)  
Report of Mercer.

**(For Information)**

- b) Performance Monitoring to 30 September 2023: City's Cash (Pages 139 - 156)  
Report of the Chamberlain.

**(For Discussion)**

16. **CITY FUND & CITY'S ESTATE: INVESTMENT PROPERTY MONITORING REPORT**

Report of the City Surveyor.

**For Information**  
(Pages 157 - 164)

17. **REPORT OF ACTION TAKEN**

Report of the Town Clerk.

**For Information**  
(Pages 165 - 168)

18. **OCIO ASSET ALLOCATION UPDATE**

Report of the Chamberlain.

**For Decision**  
(Pages 169 - 180)

19. **CLIMATE ACTION AND NET ZERO**

**For Discussion**

- a) Climate Action and Net Zero Carbon Dashboard Update (Pages 181 - 200)  
Report of the City Surveyor.

- b) Progress update on Net Zero Building Design Standards (Pages 201 - 226)  
Report of the City Surveyor.

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

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

## INVESTMENT COMMITTEE Friday, 22 September 2023

Minutes of the meeting of the Investment Committee held on Friday, 22 September 2023 at 2.00 pm

### Present

#### Members:

Deputy Andrien Meyers (Chair)  
Shahnan Bakth (Deputy Chairman)  
Nicholas Bensted-Smith  
Alderman Alison Gowman  
Deputy Madush Gupta  
Deputy Christopher Hayward  
Deputy Randall Anderson  
Deputy Henry Pollard  
Deputy James Thomson  
Deputy Philip Woodhouse

#### Officers:

Caroline Al-Beyerty	- Chamberlain
Paul Wilkinson	- City Surveyor
Adam Buckley	- Chamberlain's Department
John James	- Chamberlain's Department
Kate Limna	- Chamberlain's Department
Sarah Port	- Chamberlain's Department
Priya Nair	- Chamberlain's Department
Harinder Thandi	- Chamberlain's Department
John Galvin	- City Surveyor's Department
Tom Leathart	- City Surveyor's Department
Graeme Low	- City Surveyor's Department
Robert Murphy	- City Surveyor's Department
Neil Robbie	- City Surveyor's Department
Rachel Scott	- City Surveyor's Department
Simi Shah	- Innovation and Growth
Ben Dunleavy	- Town Clerk's Department

#### Also in attendance

Lucy Tusa	- Mercer
Charles Franklin	- Stanhope
James Horden	- Stanhope

#### 1. APOLOGIES

Apologies for absence were received from Deputy Simon Duckworth and David Brooks Wilson.

Claudine Blamey, Deputy Henry Colthurst and Paul Singh observed the meeting virtually.

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

There were no declarations.

3. **MINUTES**

The public minutes and non-public summary of the meeting held on 7 July 2023 were approved as a correct record.

Matters arising

A Member requested that the Committee be presented with further forward planning on the climate Action Strategy. Members noted that officers were continuing to work on developing overarching reporting frameworks for the financial investment and property investment portfolios, including on the Climate Action Strategy, but these needed to take into consideration the different reporting requirements of each.

Members noted that further information concerning Treasury Management training would be circulated shortly.

4. **COMMITTEE FORWARD PLAN**

Members received the Committee's forward plan.

5. **RISK REGISTER FOR INVESTMENT COMMITTEE**

Members received a joint report of the City Surveyor and the Chamberlain concerning risk management.

Members noted that this was the first example of joint reporting on the management of risks which were relevant to the work of the Investment Committee, and would return as an information report for future meetings.

A Member felt that the property register felt less detailed than the financial investment register, and focused on the need to pivot to drivers on tenant need and ESG rather than the City Corporation meeting its Climate Action Strategy for real estate.

A Member asked how the risks of regulatory impacts were tracked and monitored.

A Member asked about legacy risk such as asbestos, cladding and RAAC. In reply, the City Surveyor said that RAAC was a particular issue at that moment in time, with an ongoing task-and-finish exercise that officers were hoping to finish in the next couple of months. Certain legacy risks such as asbestos and legionella were recorded on the FM system. There was not a comprehensive list of other deleterious materials, but officers were largely aware of where these types of materials would exist. The Chair suggested that an appearance of any of these risks should be reported to the Committee.

A Member questioned the ratings for three of the financial investment risks. They felt that the rating for CHB FIB 01 Insufficient Assets City's Cash was optimistic, the rating for CHB FIB 04 Counterparty failure - Treasury Management was pessimistic and that the rating for CHB FIB 05 Cashflow Management could increase to a higher risk level shortly. In reply, the Chamberlain said that cashflow management was not an immediate problem but could become one in the coming years. The level of CHB FIB 04 varied depending on whether there was a counterparty failure. She felt that it would be appropriate to revisit CHB FIB 01 once decisions had been made on asset allocation.

RESOLVED, that – Members:

- a) Note this report, and the actions taken across the organisation to effectively monitor and manage risks in the City Surveyor's operations (Appendix B) and review the existing risks and actions on the IC Financial Investments risk register and confirm that appropriate control measures are in place
- b) Consider further risks and mitigations relating to the services overseen by the Investment Committee

**6. TREASURY MANAGEMENT OUTTURN AS AT 31 MARCH 2023**

Members received a report of the Chamberlain concerning the Treasury Management Outturn for 2022/23.

A Member asked if officers had considered putting money out for longer than three years. The Corporate Treasurer replied that some money had been put out on attractive rates for three years. However, considering the significant upcoming cash requirements, it was important to be mindful of balancing time against payments.

RESOLVED, that – the report be received and its contents noted.

**7. TREASURY MANAGEMENT UPDATE AS AT 31 JULY 2023**

Members received a report of the Chamberlain providing an update on the treasury management portfolio.

A Member asked how the City Corporation was treating unexpected excess income due to the high base rate. The Chamberlain replied the bulk of the money gaining interest was in City Fund. The higher rates meant that the City Corporation had been able to reduce the funding gap in City Fund and improving the tail-end of the Medium-Term Financial plan and reducing saving requirements, but that it was not assumed the level would last when doing financial modelling. Officers also drew Member attention to paragraph 26 of the report, which highlighted that the forecast currently assumed the average split of cash amongst funds to July 2023 would continue for the rest of the year but was most vulnerable to rapid drawdowns in the balances due to the capital expenditure on major projects.

At the request of the Chair, the Corporate Treasurer provided further information on the short-dated bond funds held in L&G & Royal London, which while volatile provided a good income rate.

A Member asked why the City Corporation continued to hold money in NatWest at 2.8%. In reply, the Corporate Treasurer said that there had potentially been two or three investments with NatWest for a year when the interest rate was lower. This was the average rate of return, and the investments had recently matured.

The Chair asked if future reports could split the information between City Fund and City's Cash. Officers undertook to investigate this.

RESOLVED, that – the report be received and its contents noted.

**8. CLIMATE ACTION STRATEGY UPDATE**

Members received a joint report of the Chamberlan and the Executive Director, Innovation and Growth, providing an update on the Climate Action Strategy.

Officers proposed that, going forward, the Committee should receive quarterly reports providing progress updates.

The Chair asked what tools fund managers were using to engage with the Climate Action Strategy. In reply, officers said that it was likely there was a range of tools used by the 22 different fund managers that the City Corporation used, which could be outlined in a future report. The City Corporation had issued 12 expectations of fund managers, and officers had a way of monitoring the adherence to these expectations. The lack of standards and coherence of how emissions were reported was one of the current issues in the market.

The Chair also asked if there were any exclusions being applied to the funds. In reply, officers said there were sectors of exclusion from sectors other than Climate Action, though not an explicit fossil fuel exclusion. There was an expectation that fund managers were managing money in line with the city Corporation's targets.

RESOLVED, that – the report be received and its contents noted.

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

There were no questions.

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

There was no other business.

**11. EXCLUSION OF THE PUBLIC**

**12. NON-PUBLIC MINUTES**

The non-public minutes of the meeting held on 7 July 2023 were approved as a correct record.



There was one matter arising.

13. **DELEGATIONS SOUGHT DURING OCTOBER / NOVEMBER**

Members received a list of delegations sought during October and November.

14. **CHIEF INVESTMENT OFFICER - ASSET ALLOCATION**

Members received a report of the Chamberlain concerning asset allocation advice from the Chief Investment Officer function.

15. **CITY CASH TACTICAL ASSET ALLOCATION ADVICE**

Members received a report of the Chamberlain concerning tactical asset allocation for City's Cash.

16. **PERFORMANCE MONITORING**

16.1 **Quarterly Report to 30 June 2023**

Members received the Quarterly Monitoring report for Q2 2023; this report was produced by Mercer.

16.2 **Investment Performance Monitoring to 31 July 2023: City's Cash**

Members received a report of the Chamberlain concerning performance monitoring to 31 July 2023.

17. **ORACLE PROPERTY MANAGER (OPN) REPLACEMENT**

Members received a report of the City Surveyor concerning the replacement property management system project.

18. **LONDON WALL WEST**

Members received a report of the City Surveyor concerning London Wall West.

Members agreed during consideration of this item to extend the meeting under Standing Order 40.

19. **CITY'S ESTATE: DISPOSAL OF FREEHOLD OF 21 WHITEFRIARS STREET EC4**

Members received a report of the City Surveyor concerning the disposal of a freehold.

20. **CLIMATE ACTION AND NET ZERO CARBON DASHBOARD UPDATE**

Members received a report of the City Surveyor concerning the Net Zero Carbon Action Plan.

21. **PROGRESS UPDATE ON NET ZERO BUILDING DESIGN STANDARDS**

Members received a report of the City Surveyor concerning Net Zero Building Design Standards.

22. **CITY FUND & CITY'S ESTATE: RENTAL ESTIMATES MONITORING REPORT (JUNE 2023 QUARTER)**

Members received a report of the City Surveyor concerning the monitoring of rental estimates.

**23. CITY FUND: 34 BARTHOLOMEW CLOSE VERBAL UPDATE**

The verbal update was postponed.

**24. CITY FUND: LEADENHALL MARKET VERBAL UPDATE**

The verbal update was postponed.

**25. REPORT OF ACTION TAKEN**

Members received a report of the Town Clerk concerning action taken between meetings.

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

There were no questions in the non-public session.

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

There was no urgent other business in the non-public session.

**The meeting ended at 4.13 pm**

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Chairman

**Contact Officer: Ben Dunleavy**  
**ben.dunleavy@cityoflondon.gov.uk**

	14 December 2023	12 February 2024	15 April 2024	22 July 2024	7 October 2024	2 December 2024
Overall Investment Portfolio (Chamberlains and City Surveyors)	Asset allocation-next steps  <i>City Surveyor's Department Risk Register – 2nd Quarter</i>	CIO Proposed Investment Strategies (City's Cash and City Fund)  Performance metrics  Investment Committee Risk Register	Implementation progress  Performance metrics  City Surveyor's Department Risk Register	Performance metrics  Investment Committee Risk Register		Investment Committee Risk Register
Investment Property	City Fund and City's Estate : Investment Property Monitoring half yearly report, including <ul style="list-style-type: none"> <li>Delegated Authorities</li> <li>Rental Forecast</li> <li>Arrears</li> </ul> City Surveyor Revenue Budgets (2024/25)  Review of Metrics Used in Making Major Property Decisions – 2nd Triennial Review  Business Plan – 2nd Quarter Progress	City's Estate and City Fund Rental Estimates Monitoring Report (December quarter)  City Fund Annual Update  City's Estate Annual Update  Strategic Property Estate Annual Update  Draft CSD Business Plan 2024/25  Climate Action Dashboard	City Surveyor's Department Risk Register – 3rd Quarter Progress.  Delegation Request	City Fund, City's Estate and Strategic Property Estate – Annual Valuation report  City's Estate and City Fund : Rental Estimates Report (March Quarter )  City Fund and City's Estate : Investment Property Monitoring report inc. <ul style="list-style-type: none"> <li>Vacant Accommodation Update</li> <li>Delegated Authorities – Decisions as at 30<sup>th</sup> June</li> <li>Rent Reviews/Lease Renewals report as at June Quarter Day</li> <li>Arrears</li> </ul>	City Surveyor's Department Risk Register – 1 <sup>st</sup> Quarter Progress.  City's Estate and City Fund Rental Estimates Monitoring Report (June Quarter)  Delegation Request	City Fund and City's Estate : Investment Property Monitoring half yearly report, including: <ul style="list-style-type: none"> <li>Vacant Accommodation Update</li> <li>Delegated Authorities – Decisions as at 30<sup>th</sup> September</li> <li>Rent Reviews/Lease Renewals</li> <li>Arrears</li> </ul> City's Estate and City Fund Rental Estimates Monitoring Report (September quarter)  City Surveyor Revenue Budgets report Latest Approved 2024/25 and Original Estimates 2025/26

	<p>City Surveyor's Department Risk Register – 2nd Quarter Progress</p> <p>Delegation Request</p>	<p>Delegation Request</p>		<p>MSCI Annual Performance</p> <p>City Surveyor Revenue Outturn 2023-24</p> <p>City Fund &amp; City's Estate Revenue Works Programme – 23/24 Progress (half yearly report)</p> <p>CSD Business Plan – 4<sup>th</sup> Quarter 2023/24 Progress Report.</p> <p>City Surveyor's Department Risk Register – 4<sup>th</sup> Quarter Progress.</p> <p>Climate Action Dashboard</p>		<p>CSD Business Plan – 2<sup>nd</sup> Quarter 2024/25 Progress Report".</p> <p>City Surveyor's Department Risk Register – 2nd Quarter Progress</p> <p>Climate Action Dashboard</p> <p>Delegation Request</p>
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				Delegation Request		
Financial Investments	<p>City's Cash Quarterly Investment</p> <p>Performance Monitoring report for City's Cash Investments</p> <p>Quarterly Investment report from Mercer</p>	<p>Performance Monitoring report for City's Cash Investments</p> <p>Hampstead Heath Trust &amp; Charities Pool Investment Performance Monitoring to 30 September</p> <p>Sir William Coxen Trust Fund Performance to 30 September</p>	<p>Performance Monitoring report for City's Cash Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p>	<p>Performance Monitoring report for City's Cash Investments</p> <p>Quarterly Investment report from Mercer</p>		
Treasury Management	<p>Mid-Year Treasury Review</p> <p>Treasury Management Update</p>	<p>Annual Treasury Management Strategy Statement</p> <p>Treasury Management Update</p>	Treasury Management Update	Treasury Management Update	<p>Treasury Management Update</p> <p>Treasury Management Outturn 2023-24</p>	<p>Mid-Year Treasury Review</p> <p>Treasury Management Update</p>

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<b>Committee(s)</b>	<b>Dated:</b>
Investment Committee – For information	14 December 2023
<b>Subject:</b> City Surveyor’s Business Plan 2023-28 Quarter 2 2023/24 Update	<b>Report – public</b>
<b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>	<b>4, 7, 11, 12</b>
<b>Does this proposal require extra revenue and/or capital spending? N/A</b>	<b>No</b>
<b>If so, how much? N/A</b>	<b>N/A</b>
<b>What is the source of Funding? N/A</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain’s Department? N/A</b>	<b>N/A</b>
<b>Report of: The City Surveyor CS 341/23</b>	<b>For Information</b>
<b>Report author:</b> John Galvin / Faith Bowman City Surveyor’s Department	

## Summary

This report provides Members of Investment Committee (IC) details of progress in quarter 2 (July to September) 2023/24 against the City Surveyor’s 2023-28 Business Plan.

Nine of the City Surveyor’s Department’s (CSD) performance measures are overseen by IC. Of these, four were ahead on target (green) and four marginally behind (amber). One measure, the outperformance of the MSCI benchmark indicator, is reported at the end of the year.

Against a local risk budget of £30.9m, the City Surveyor is currently forecasting an estimated overspend of £541,000 (1.8%). This figure includes City Bridge Foundation (CBF) services. Excluding these services, the City Surveyor is forecasting a £485,000 overspend (1.8%) against a budget of £27.692m. The departmental budget line is the principal driver for the overspend, arising from lower than anticipated staff vacancies, and some residual 12% savings still to be achieved.

The department is working to mitigate this forecast overspend.

## Recommendation(s)

- That Members note the content of this report.

## Main Report

### Background

1. In line with the City Corporation’s performance management approach this is a regular update report on the progress made against the department’s 2023-28 Business Plan (CS 372/22). The City Surveyor’s Department (CSD) reports

performance once every six months to Investment Committee (IC) and quarterly to Resource Allocation Sub (Policy and Resources) Committee (RASC).

2. The department's business plan outlines 12 Key Performance Indicators (KPIs). IC oversee progress against nine of these measures whilst RASC oversee seven, (four measures are reported to both Committees).
3. Performance is assessed on a traffic light basis (RAG), where red denotes a high risk of non-attainment, amber indicates some concern, whilst green denotes the measure being on/ahead of target.

### **Current Position**

4. This report provides the latest budget information which is set out in Appendix A. Appendix B provides a detailed table of the department's KPIs. Appendix C provide an overview of progress against the Climate Action Strategy milestones.
5. A separate monitoring report on the risks within the department is also circulated for this meeting.

### **Financial Statement**

6. The monitoring for quarter 2 (Appendix A) reveals that the City Surveyor was forecasting an overspend of £485,000 (1.8%) against total budget for the year of £27.7m for his City Fund and City's Cash Services.
7. When his City Bridge Foundation (CBF) services are included, this increases to an overspend of £541,000 (1.8%) against a total budget for the year of £30.9m.
8. The principal drivers for this forecast are an overspend on departmental salary budgets due to the vacancy factor not being met, and some residual 12% savings that need to be identified. Although energy costs also continue to be a budget pressure, much of the additional cost is either being passed onto third parties, such as our tenants, or being offset by Power Purchase Agreement credits, so the net impact is limited.
9. Several services are showing an overspend at quarter two. This predominately where expenditure is just running ahead of profile, or where overspends earlier in the year can be met by corrective action in the latter part of the year (by delaying cyclical projects for example). This will be closely monitored, and an update will be provided at quarter 3.

### **Quarter 2 2022/23 update**

10. The table below provides an 'at a glance' assessment of the department's performance through the first half of the 2023/24 reporting year.



Status <sup>1</sup>	Green	Amber	Red	TBC	N/A
Investment Committee	4	4			1
Overall (including non-IC measures)	5	5		1	1

11. Of the twelve departmental KPIs monitored, five were assessed as being on target (green), and five were behind target (amber). At the time of reporting, we are still awaiting confirmation of one further measure. One final measure is reported annually.

12. Of the nine measures reported to this Committee, four were on target (green), and four were behind target (amber), one measure will be reported at the conclusion of the reporting year.

13. The amber KPIs relevant to IC are as follows:

A. KPI. 3 – Delivery of Climate Action Strategy Milestones – Investment Property

The objective of this KPI is to achieve the milestones in the delivery plan for Climate Action Strategy for the Investment Property Portfolio consisting of a set of sub-tasks to progress towards net zero.

At the end of quarter, there was a slight delay to the Minimum Energy Efficiency Standards (MEES). These are anticipated to be picked up by the end of the financial year. Full details are contained in Appendix C.

B. KPI. 5 – Adherence to Budgetary Spend Profiles

This objective of this indicator is that the actual spend, plus spend that has been receipted, will fall between 95% and 105% of the revised budget by year-end. This would indicate that services and projects are being delivered, and they are being delivered within their anticipated budgets.

Estimated target at quarter 2 33%  
Performance 28%

The department has investigated the drivers of this higher than anticipated spend to September and is confident that this will reduce towards target in future months. Some of these drivers relate to services overseen by RASC, and these have been reported to that forum.

C. KPI. 6 – Capital Projects – Project Risk Status

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<sup>1</sup> Red = High Risk of Failure or Not Achieved; Amber = Some Concern; Green = On Target or Achieved.

This indicator assesses the proportion of projects which are red (which may be due to cost, time, or a combination of both) against the total number of projects.

Target – Less than 30%

Performance – 48%

Over 60% of the department's current projects were commenced in 2020 or before, meaning that their delivery has been impacted by COVID-19. These projects have been subject to extended periods of reduced site capacity/productivity and from subsequent high levels of construction price inflation. This has resulted in a greater number of projects falling outside of time and/or price expectations. Whilst performance on current projects is positive, the volume of older projects will continue to provide a drag on performance overall.

#### D. KPI. 10 – Minimise Arrears

The objective of this KPI is to recover money quickly and efficiently ensuring total arrears no more than 2% of the total income invoiced by end of 2023/24.

Target – Less than 2%

Performance – 4.25%

These figures include arrears where there is a payment arrangement/instalment plan in place. If we do not include those arrears the arrears would reduce to 1.45%, achieving target.

### Conclusion

The second quarter of 2023/24 has seen four on target and four measures marginally behind target for the period.

### Appendices

- Appendix A Budget Monitoring Statement
- Appendix B Key Performance Indicator Table
- Appendix C Climate Action Strategy – Investment Property

### Background Papers

- The City Surveyor The City Surveyor's Business Plan 2023-28 (CS 372/22)

### Faith Bowman & John Galvin

Departmental Performance & Services

City Surveyor's Department

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# Budget Monitoring Statement

## Quarter 2 2023/24

# Appendix A

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2023-24 (Period to 1<sup>st</sup> October 2023)

LOCAL RISK BUDGET Quarter 2	Latest Approved Budget £000	Quarter 2 Profile £000	Quarter 2 Total Expenditure £000	(Under) / Over Spend for Period £000	Quarter 2 Projected Outturn £000	(Under) / Over Spend for 2023-24 £000	Note
<b>City Fund</b>							
City Fund Estate & Leadenhall	2,028	349	1,279	930	2,025	(3)	1
Walbrook Wharf	928	556	555	(1)	897	(31)	
Mayor's & City of London Court	38	19	13	(6)	45	7	
Central Criminal Court	369	369	857	488	377	8	2
Lower Thames St Roman Bath	9	4	2	(2)	6	(3)	
R&M & MI Work for other departments	1,318	659	646	(13)	1,320	2	
Corporate FM cleaning & security	150	75	75	0	150	0	
	4,840	2,031	3,427	1,396	4,820	(20)	
<b>City's Cash</b>							
City's Estate	2,851	643	772	129	2,916	65	3
Departmental	9,939	5,047	5,444	397	10,346	407	4
Mayoralty & Shrievalty	95	28	33	5	60	(35)	
R&M & MI Work for other departments	1,735	868	1,214	346	1,740	5	5
Corporate FM cleaning & security	647	324	323	(1)	647	0	
	15,267	6,910	7,786	876	15,709	442	
<b>Guildhall Administration</b>							
Guildhall Complex	7,585	3,912	4,066	154	7,648	63	6
	7,585	3,912	4,066	154	7,648	63	
<b>Total City Surveyor Local Risk excl BHE</b>	<b>27,692</b>	<b>12,853</b>	<b>15,279</b>	<b>2,425</b>	<b>28,177</b>	<b>485</b>	
<b>Bridge House Estates</b>							
Bridge House Estates	2,849	1,181	1,293	112	2,905	56	7
Tower Bridge Corporate FM cleaning	318	159	159	0	318	0	
	3,167	1,340	1,452	112	3,223	56	
<b>Total City Surveyor Local Risk incl BHE</b>	<b>30,859</b>	<b>14,193</b>	<b>16,731</b>	<b>2,537</b>	<b>31,400</b>	<b>541</b>	

1. The overspend at quarter 2 was principally due to cyclical works at Leadenhall market, and professional fees, running ahead of profile. Work has been undertaken to identify cyclical works that can be delayed on the strategic estate which, together with other savings on professional fees budgets, could bring the budget back to break-even at year-end. An update will be provided at quarter 3.
2. The overspend at quarter 2 comprises repairs and maintenance spend which is running ahead of target, plus additional energy and other premises cost which will be recovered from His Majesty's Courts and Tribunals Service (HMCTS) at year-end.
3. The overspend comprises additional repairs and maintenance works, an overspend on security, together with a shortfall in service charge income due to

voids. This has in part been partially offset by savings on professional fees and additional dilapidations income.

4. This comprises an overspend on salaries due to not achieving the vacancy factor, and some residual savings yet to be identified.
5. Reactive repairs and maintenance works are running ahead of profile. It is anticipated that the budget will be largely on target at year-end.
6. The overspend is due to additional overtime and overspends on several premises' budgets. It is anticipated that the position will be partially recovered at year-end through savings on some of these budget lines.
7. The City Bridge Foundation (formerly known as Bridge House Estates) overspend comprises a shortfall on dilapidations income, and additional spend on cyclical works, partially offset by savings on security.



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**Action Plan**

1. The Climate Action Strategy for the Investment Property Portfolio contains a delivery plan, consisting of a set of sub-tasks to progress towards net zero. This Appendix provides a status update against the Year 2 plan (approved at Policy and Resources Committee on 5 May 2022).
2. Members are to note the progress as described in the tables contained in this appendix.

Task	Year 2 Project Plan		Revised		Progress Update
	Start	Finish	Start	Finish	
Undertake MEES Risk assessment, identify costs to upgrade and agree Due diligence standards.	Sept 2021	Sept 2022	Sept 2022	June 2023	<ul style="list-style-type: none"> <li>Phase 1 – 51 of 51 reports received (100%)</li> <li>Phase 2 – 72 of 79 reports received (91%)</li> <li>The majority of the MEES reports have been issued.</li> <li>7 MEES reports are being finalised by consultants following recent completed surveys of additional assets requested by City’s Estate and City Bridge Foundation funds ((2) of which were recent purchases).</li> <li>Investment Property Group (IPG) has tendered the net zero survey works for Leadenhall market, which is funded by the Energy Team.</li> </ul>
Undertake study to establish process, cost and benefit of improved metering strategy.	Apr 2022	Sept 2022			<ul style="list-style-type: none"> <li>Smart metering strategy report has been completed. Findings will be discussed within Operations Group to establish next steps in procuring smart metering upgrades. Costs have been incorporated into the Operations Plan.</li> <li>IPG has tendered the upcoming NABERS assessment of 10 assets, which is funded by the Energy Team.</li> </ul>
Green Lease MOU pilot to evolve working template for portfolio roll out.	Apr 2022	Mar 2023	Apr 2022	Dec 2023	<ul style="list-style-type: none"> <li>IPG received Green Lease clause approval by Comptroller and City Solicitor for directly managed (DM) and full repairing and insuring (FRI) leases.</li> <li>The above will help inform the Green Lease MOU for current leases.</li> <li>Longer leases with distant lease brakes will be targeted with MOUs. Potential tenants are being discussed with Assistant Directors.</li> <li>MEES, EPC and metering strategy commission will also help inform the Green Lease MOU.</li> </ul>
Identify and design pathway to 60% emissions reduction by 2040	Apr 2022	Mar 2023	Apr 2022	Sept 2023	<ul style="list-style-type: none"> <li>The operational plan has been approved by IPG.</li> <li>Due to the nature of IPG with upcoming MEES reports, selling / purchase of assets, scheduling, etc. the Plan is constantly changing and evolving.</li> <li>Workshop with Assistant Directors, Asset Managers, Minor Works and Facilities Management took place for scheduling of operational plan.</li> <li>This activity was delayed, due to the funding requirement to allow C&amp;B to proceed with additional surveys and MEES reporting. Once the required funding was determined, there was a delay due to finance providing initial direction of allowing a sole sourced option to raise the associated PO; however, once the associated documents were submitted, finance stated it had to be tendered. This required the Energy Team going to tender and re-submitting revised purchase order documents, which the PO was ultimately issued allowing C&amp;B to commence the surveys and MEES reporting.</li> </ul>



Task	Year 2 Project Plan		Revised		Progress Update
	Start	Finish	Start	Finish	
Capital works – City Fund	Apr 2022	March 2040	Aug 2022	March 2040	<ul style="list-style-type: none"> <li>Projects will be implemented following the development of asset level decarbonisation plans taken from the surveys.</li> </ul>
Capital Works – Strategic Estate	Apr 2022	March 2040	Aug 2022	March 2040	<ul style="list-style-type: none"> <li>All 11 properties within the Strategic Estate have been approved by the committee for sale.</li> </ul>
Sustainable Property Specialist	Appointed				<ul style="list-style-type: none"> <li>A Sustainable Property Specialist in position and forms part of the Centre of Excellence and will drive Net Zero 4 (NZ4) – Investment Property Group Project Plan.</li> </ul>
Capital PM resource	Apr 2022	March 2027	July 2022	March 2040	<ul style="list-style-type: none"> <li>Allocation of resource cost is included within capital funding and will be managed through City Surveyors &amp; Minor Works team</li> </ul>

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# Agenda Item 6

<b>Committee(s)</b>	<b>Dated:</b>
Investment Committee – For information	14 December 2023
<b>Subject:</b> The City Surveyor’s Departmental Risk Register – November 2023 Update	<b>Public</b>
<b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>	<b>All</b>
<b>Does this proposal require extra revenue and/or capital spending? N/A</b>	<b>No</b>
<b>If so, how much? N/A</b>	<b>N/A</b>
<b>What is the source of Funding? N/A</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain’s Department? N/A</b>	<b>N/A</b>
<b>Report of: The City Surveyor (CS 340/23)</b>	<b>For Information</b>
<b>Report author:</b> John Galvin / Faith Bowman City Surveyor’s Department	

## Summary

This report has been produced to provide Members of Investment Committee (IC) with an update on the management of the City Surveyor’s Department’s (CSD) risks relevant to this Committee.

CSD reports its risks to two Committees – Resource Allocation Sub (Policy and Resources) Committee and IC each quarter. Every six months, the update for IC also includes an update on the treasury function and the City’s Cash financial investments, which is managed by the Corporate Treasury Team in the Chamberlain’s Department. This wider update was provided to IC at your meeting in September.

There are seven risks on the CSD Departmental Risk Register relevant to this Committee. Three of these are recorded as red. The red risks currently being managed are:

- SUR SMT 005 – Construction and Service Contracts Price Inflation  
Current risk score 16 (Red)
- SUR SMT 006 – Construction Consultancy Management  
Current risk score 16 (Red)
- SUR SMT 009 – Recruitment and retention of property professionals  
Current risk score 16 (Red)

## Recommendation(s)

- Members are asked to note this report, and the actions taken within the City Surveyor’s Department to effectively monitor and manage risks arising from our operations.

- Consider further risks and mitigations relating to the services overseen by the Investment Committee.

## **Main Report**

### **Background**

1. The City Surveyor's Department (CSD) and the Chamberlain's Corporate Treasury Team report to the Investment Committee (IC) those risks relevant to your Committee under your Terms of Reference.
2. The risks presented by the CSD are departmental and, in line with the Corporate Risk Management Policy and Strategy, 2021 (RMP&S), these are presented to IC quarterly. Those relating to Corporate Treasury are functional risks and relate to the treasury function and the financial investments of City's Cash, so are not governed by the same requirements. These have been historically reported to Finance Investment Board every six months and this frequency has been maintained with the new IC.
3. This report includes an update from CSD, with the last report containing both services (CS 265/23).

### **Review of Risks**

4. The method of assessing risk reflects the City of London's standard approach as defined in the RMP&S. The risk matrix, which explains how risks are assessed and scored is attached at Appendix A. These scores are summarised into three broad groups, each with increasing risk, and categorised "green", "amber" and "red".
5. Risks are reviewed frequently in both departments, and where there are any material changes to the risks between reporting periods these will be reported through to IC on an exceptional basis.
6. Appendix B relates to risks owned by CSD, capturing items which could impact the performance of the investment property portfolio. Risk relating to the Corporate Treasury function will be included in the next quarterly update.
7. 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 risk 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 update, which will be reviewed each year.

### **Current Position**

8. The key points to note for this period are captured below:

- a. SUR SMT 005  
Construction and Service Contracts Price inflation  
Current Risk Score 16 (Red)

This risk has been updated to include service contracts which are similarly impacted by price inflation. Whilst market movements have moderated in recent months, price inflation remains above historic norms. The department will continue to progress mitigations wherever possible.

- b. SUR SMT 006  
Construction Consultancy Management  
Current Risk Score 16 (Red)



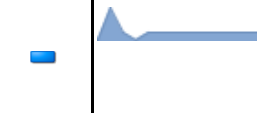


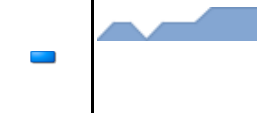



This risk relates to abortive design and development work. The department is pursuing several mitigating activities to reduce the likelihood of this risk. We are engaging with procurement and legal to ensure that project objectives are met. This has included flexing the balance of cost and quality at the procurement stage, and through tightening the scope of works.











- c. SUR SMT 009  
Recruitment and Retention of Property Professionals  
Current Risk Score 16 (Red)

Competition for qualified property professionals remains strong, particularly in asset and project management. The department is engaging closely with corporate colleagues where this item is also flagged as a Corporate Risk (CR 39 Recruitment and Retention), and it is an active participant in the Reward Refresh programme.

## Risk Summary

The below table provides a summary of CSD risks relevant to this Committee.

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
SUR SMT 005	Construction Price Inflation	16			
SUR SMT 006	Construction Consultancy Management	16			
SUR SMT 009	Recruitment and retention of property professional	16			

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
SUR SMT 010	Insurance - Investment and Corporate Estates	12			
SUR SMT 003	Investment Strategy Risk	12			
SUR SMT 011	Contractor Failure	12			
SUR SMT 012	Adjudication & Disputes	8			

## Conclusion

- Members are asked to note the recent changes to the departmental risk register, and the actions taken by CSD to mitigate the likelihood and/or impact of the risks.

## Appendices

- Appendix A City of London Risk Matrix
- Appendix B The City Surveyor's Departmental Risk Register relevant to this Committee

## Background Papers

- The City Surveyor The City Surveyor's Departmental Risk Register – July 2023 Update (CS181/23)
- The City Surveyor The City Surveyor's Departmental Risk Register – September 2023 Update (CS 265/23)

**John Galvin**

**Faith Bowman**

Departmental Performance & Services

City Surveyor's Department

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## 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 left (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%

### (C) Risk scoring grid

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

### (B) Impact criteria

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

### (D) Risk score definitions

<b>RED</b>	Urgent action required to reduce rating
<b>AMBER</b>	Action required to maintain or reduce rating
<b>GREEN</b>	Action required to maintain rating

Contact the Corporate Risk Manager for further information. Ext 1297

Version date: January 2020

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## SUR Departmental risks - Detailed Report EXCLUDING COMPLETED ACTIONS for COMMITTEE

Report Author: Faith Bowman

Generated on: 10 November 2023

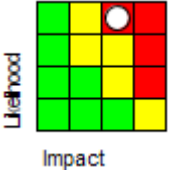
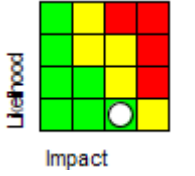


Rows are sorted by Risk Score

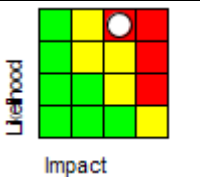
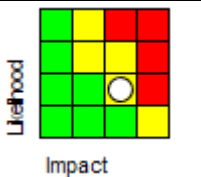

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
SUR SMT 005 Construction and Service Contracts Price Inflation          14-Oct-2021 Ola Obadara	<b>Cause:</b> Market conditions have led to input price inflation <b>Event:</b> Project and programme cost escalation <b>Impact:</b> Inability to delivery capital and revenue projects within budget	 Likelihood Impact	<b>16</b>	Material costs and labour availability are combining to raise costs.  This item impacts property projects, our facilities management (FM) provision, reactive repairs, and revenue works.  Construction inflation is forecast to level out over the coming months, although not reduce. Existing contracts will continue to suffer from costs in excess of those initially anticipated at project commencement.  Market conditions remain dynamic and will be kept under review. At this time it is felt appropriate that the risk score remain at its current level	 Likelihood Impact	<b>6</b>	31-Mar-2024	          Constant
							Reduce	

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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 005a	Procurement Strategy	<p>The department is working with legal and procurement to identify different buying options, thereby managing the risk to the department / organisation. This exploration included a review of the prior Single Stage tender process (which had been preferred for medium range projects - £2m - £50m).</p> <p>Following the review Two Stage contracts will be used more frequently. This is the current market norm for these projects. The change enables contractors to better transfer their risk and leaves the City with a degree of cost uncertainty, even post Gateway 5. Whilst this transfer is not desired, it offers far better market coverage and reflects the prevailing external conditions. This will be kept under review.</p>	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 005d	Contracts	Chamberlain's procurement and the department have explored the inclusion of fluctuating provisions in our contracts. This action has resulted in attracting a greater number of contractors to bid on projects, however the inflation risk has been transferred to the organisation. The value of this approach will be continually reviewed.	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 005e	Contract Engagement	We are looking to engage early with our contractors on a consultancy basis to obtain as much information as possible prior to contract.	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 005f	Specification and Materials	Ensuring materials are readily available before and during the design phase and, if possible, procure in advance of the contract. Further consideration is being given to the origin of source materials to ensure supply.	Ola Obadara	10-Nov-2023	31-Mar-2024

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
<p><b>SUR SMT 006 Construction Consultancy Management</b></p> <p>14-Oct-2021 Ola Obadara</p>	<p><b>Cause:</b> Poor performance by consultants  <b>Event:</b> Abortive work, delays, or non-performance.  <b>Impact:</b> Additional costs, project delays</p>		<p><b>16</b></p>	<p>This relates to abortive design / development.</p> <p>The department continues to suffer the impacts of this risk, with action being taken against consultants when their performance does not meet expectations.</p> <p>Aligned with other departmental risks, the department is stretched for resource. This had led to fewer leads being responsible for a greater number of projects. This reduces scrutiny capacity and can increase the likelihood of errors.</p> <p>There is a link to our internal recruitment and retention risk (SUR SMT 009) as property professionals across the industry are moving companies at a greater rate. This means that the delivery lead often changes throughout the life of the project, and replacements are often not at the same quality as those engaged at earlier stages.</p> <p><b>10 Nov 2023</b></p>		<p><b>4</b></p>	<p>31-Mar-2024</p> <p>Reduce</p>	<p>Constant</p>

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 006a	Commissioning stage	The department has commenced going to market at RIBA stage 3 rather than RIBA stage 4. This is designed to prevent abortive design and development. This change followed close work with the procurement team in Chamberlain's. The impact of this change will be tracked over the coming months.	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 006b	Legal	The team is working closely with the legal department to ensure that procurement activity aligns with project objectives and the consultants meet quality requirements. Where performance has been poor action has been taken against consultants – these cases increase end-to-end timescales.	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 006c	Procurement	Working with Procurement to increasing due diligence, particularly in regard to the quality of contractor appointed (rebalancing the quality/cost equation). This is with the view that we will get better quality applications and this risk may reduce.	Ola Obadara	18-Aug-2023	31-Mar-2024
SUR SMT 006d	Scope of works	The team is reviewing and tightening up the scope of works specification. This will counter opportunistic interpretations of the scope of works that we were seeing from some consultants.	Ola Obadara	18-Aug-2023	31-Mar-2024
SUR SMT 006e	Review of appointment documents	The team is working closely with the legal department to ensure that procurement activity aligns with project objectives and the consultants meet quality requirements. Where performance has been poor action has been taken against consultants – these cases increase end-to-end timescales.	Ola Obadara	10-Nov-2023	31-Mar-2024

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
<b>SUR SMT 009 Recruitment and retention of property professional</b>	<p><b>Cause:</b> Uncompetitive pay and benefits structures within some professional grades; poor quality work environments; lack of professional progression over recruitment freeze and restructuring period; increased employee focus on work-life balance</p> <p><b>Event:</b> Increasingly difficult to recruit suitably skilled staff at the correct level for the grade being recruited for. Increasingly difficulty to keep staff who get better reward packages from other organisation (both commercial and public sector)</p> <p><b>Impact:</b> Increased vacancies, objectives unachieved or delivered late (including project delivery and income generation), reduced customer satisfaction, less real estate activity, reduced employee wellbeing, demotivation of staff. Increased costs born by the organisation through recruitment campaigns and training etc, or to the department through filling vacancies through comparatively expensive temporary contracts.</p>		<p>16</p>	<p>This risk has been identified within a number of divisions within the City Surveyor’s Department. The impacts vary by Group with the risk being particularly acute in Investment Property, Surveying and Project Management.</p> <p>This is aligned to pressures faced in other City departments, and CSD is engaging with corporate colleagues to ensure that the particular pressures felt within this department are understood broadly. This is reflected within the 8 themes identified and communicated by Corporate HR.</p> <p>The City’s pay and reward review has recently commenced (January 2023) and the external consultancy Korn Ferry will be assisting in this analysis.</p> <p>The department has also fed back into the Target Operating Model (TOM) report, being authored by Town Clerk’s Department. The TOM programme has been seen by many staff as challenging, and ideally lessons can be learned for future change programmes, both in CSD and outside.</p> <p>Whilst these activities are being pursued corporately, the department continues to ensure that it does everything it can do internally to mitigate this risk.</p>		<p>8</p>	<p>31-Mar-2024</p>	

21-Jan-2022 Paul Wilkinson				10 Nov 2023			Reduce	Constant
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Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 009a	Advertising	The department and the HR Business Partner has produced a recruitment best practice document, which includes ensuring that vacant posts are advertised in areas which will generate interest from suitably qualified candidates, including those currently under-represented within our workforce.	Paul Wilkinson	10-Nov-2023	31-Mar-2024
SUR SMT 009b	Best Practice	Including delivery of appraisals, regular one-to-ones, team and group meetings. This aims to improve communications at all levels, ensuring that CSD is a positive work environment and that issues/blockers can be raised and addressed. In some areas career graded roles have been instituted, and deployment can be further explored.  CSD is supporting the work of Corporate HR in moving towards all on-line appraisal documentation. This will enable greater tracking of compliance.	Paul Wilkinson	10-Nov-2023	31-Mar-2024
SUR SMT 009c	Communication	Including delivery of appraisals, regular one-to-ones, team and group meetings. This aims to improve communications at all levels, ensuring that CSD is a positive work environment and that issues/blockers can be raised and addressed. In some areas career graded roles have been instituted, and deployment can be further explored.  CSD is supporting the work of Corporate HR in moving towards all on-line appraisal documentation. This will enable greater tracking of compliance.	Paul Wilkinson	10-Nov-2023	31-Mar-2024
SUR SMT 009d	Engagement with HR	Some of the items highlighted as the 'causes' of this risk are outside the control of CSD, and engagement with our Corporate partners will be critical to overcoming these items. This departmental risk directly supports the Corporate Risk on "Recruitment and Retention" (CR39). CR39 is subject to a "deep dive" from Audit and Risk Management Committee, and the City Surveyor's Department will review any outcomes from this consideration.	Paul Wilkinson	10-Nov-2023	31-Mar-2024
SUR SMT 009e	Equalities, Diversity and Inclusion	The department has an active ED&I network, which regularly engages with the City Surveyor and the Senior Management Team. This is seeking to make the department a more attractive destination for under-represented groups and seek to retain and progress staff from all backgrounds. There is corporate HR representation on this departmentally-led Group.	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 009f	Pay and Review Survey	The Corporation is reviewing pay & reward and the department is feeding into this activity. The department has highlighted that there are specific pressures within this department which may make the issue more acute within CSD roles. It should be noted that the earlier reward scheme (where those on top-of-grading salaries could achieve performance related pay) was	Paul Wilkinson	10-Nov-2023	31-Mar-2024

		withdrawn prior to the review conclusions, and this has made our local offer less competitive than our peers.			
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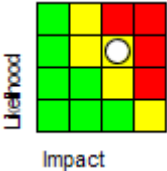
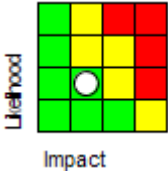


Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 003a	<p>Macro-economic</p> <p>The strategy is to maintain a diverse portfolio that reduces the impact of this risk. This includes:</p> <ol style="list-style-type: none"> <li>1. Use (office, retail, industrial)</li> <li>2. Location (City, Southwark, West End etc.)</li> <li>3. Tenancies (Long term Headlease geared, FRI, directly managed)</li> <li>4. Covenants (multinationals, SME)</li> <li>5. Asset management (lease renewals, voids, arrears, etc)</li> <li>6. Monitoring retail habits in change of building use</li> </ol>	<p>The actions described are being undertaken and reviewed regularly with the Assistant Directors.</p> <p>Consideration includes the potential for recession, inflation, energy pricing etc, and how this will impact tenants and the wider market.</p>	Robert Murphy	10-Nov-2023	31-Mar-2024
SUR SMT 003b	<p>Portfolio</p> <p>Ensuring that the overall composition of the investment portfolio takes advantage of emerging segments of growth, whilst managing the exposure to property types which are showing reducing demand.</p>	<p>This is achieved through regular market scanning, and the integration of learning into the Corporation's approach.</p>	Robert Murphy	10-Nov-2023	31-Mar-2024
SUR SMT 003c	<p>Climate Action</p> <p>The alignment of our portfolio with the future strategic needs of occupiers, particularly supporting their ESG (Environmental-Social-Governance) needs. Climate Action is principally managed through the Climate Action Strategy.</p>	<p>Ensure that the properties offered by the City Of London are meeting the emerging needs of tenants.</p>	Robert Murphy	10-Nov-2023	31-Mar-2024
SUR SMT 003d	<p>Office risk</p> <p>Reviewing post-pandemic office use and demand.</p>	<p>The department is monitoring key market use through data supplied by partners (such as football information), market research reports, and tenant feedback.</p> <p>The department continues to observe a 'flight to quality' – higher specified and higher quality spaces. Occupiers are increasingly considering their space as a tool in the 'war for talent'. Whilst some occupiers are downsizing their space, others are looking to create a better environment for staff through lower densities / improved amenities. This learning informs the portfolio strategy (linked to action SUR SMT 003b).</p> <p>The team is working with Corporate Colleagues in connection with the "Destination City" agenda, particularly in highlighting market trends to Members and key stakeholders.</p>	Robert Murphy	10-Nov-2023	31-Mar-2024
SUR SMT 003e	<p>Retail</p> <p>Changes in consumer preferences (moving to on-line</p>	<p>The City Surveyor's Department continues to engage with peers to understand retail market impacts. Regular arrears monitoring, including the provision of bi-monthly dashboards Rental collection snapshot is being produced by Chamberlain's Department.</p>	Robert Murphy	10-Nov-2023	31-Mar-2024

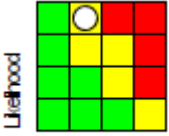
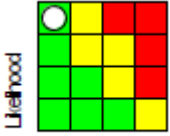

	retail) which has been accentuated through the COVID-19 pandemic. Elements of the City portfolio is also dependent on tourism, which is only now returning to activity seen pre-pandemic.				
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		2023			
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Risk 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
SUR SMT 011 <b>Contractor Failure</b>  13-Feb-2023 Ola Obadara	<b>Cause:</b> Market conditions <b>Event:</b> Failure of either a main contractor, or a substantial sub contractor <b>Impact:</b> Delayed delivery of projects, or the delivery of projects at a higher cost		12	This risk relates to the failure of a main contractor, or a main sub-contractor. Particularly with the second of these elements the City Corporation has not historically had significant influence over who is commissioned to undertake work.  <b>10 Nov 2023</b>		4		Constant
							Avoid	

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 011a	Tendering	The department has commenced work with Procurement to ensure that our commissioning takes greater account of contractor and sub-contractor failure. We may need to have a greater say in who a main contractor identifies as an appropriate sub-Contractor. Further actions to follow this initial engagement.	Ola Obadara	10-Nov-2023	31-Mar-2024
SUR SMT 011b	Review Process	The department is instituting six-monthly reviews of contractor suitability. Historically this only happened at contract commencement. This will better prepare the organisation should the contractor (or significant sub-contractor) begin to experience difficulty.	Ola Obadara	10-Nov-2023	31-Mar-2024

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
<p><b>SUR SMT 012 Adjudication &amp; Disputes</b></p> <p>31-Aug-2023</p>	<p><b>Cause:</b> The impact of COVID-19 on project delivery.  <b>Event:</b> Regulations restricted access to sites and resulted in more design work being undertaken remotely. Productivity at sites was adversely impacted.  <b>Impact:</b> Increased likelihood that projects were designed correctly, and resulting legal and adjudication issues, reputational harm.</p>	 <p>Likelihood Impact</p>	<p>8</p>	<p>The COVID-19 pandemic resulted in 3 years of impact at project sites.</p> <p>Site productivity was limited (circa 60% productivity) and much design work was undertaken remotely, or with limited site access.</p> <p>This has created a situation where some sites were not designed correctly, or there are issues beyond that which would normally be expected on construction builds.</p> <p>We are now in a situation where we are engaged with legal discussions and adjudications with project suppliers in an effort to iron out issues with final products.</p> <p>The department's risk register has a separate risk relating to 'construction price inflation'. The inflation risk is wider as it also captures cost escalations due to other causes (Ukraine, energy, etc). This risk only focusses on adjudication &amp; disputes.</p> <p>31 Aug 2023</p>	 <p>Likelihood Impact</p>	<p>4</p>	<p>31-Mar-2024</p>	<p></p> <p>Constant</p>

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 012a	Project Review and Claims Consultant	The department is reviewing projects alongside the contracts to understand our position. Further, we have engaged external Claims Consultants to ensure that the City's position is protected, and risks managed.	Ola Obadara	10-Nov-2023	31-Mar-2024

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# Agenda Item 7

<b>Committee:</b> Investment Committee	<b>Dated:</b> 14 December 2023
<b>Subject:</b> Treasury Management Update as at 31 October 2023	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>All</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	<b>£N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of:</b> The Chamberlain	<b>For Discussion / Information</b>
<b>Report author:</b> 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 October 2023. The report includes an update on the current asset allocation of the short-term investment portfolio and its performance. A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

The treasury position was last reviewed by the Investment Committee at the meeting on 22 September 2023, when they received a report outlining the treasury position as at 31 July 2023.

The treasury management investment portfolio had a market value of £1,040.5m as at 31 October 2023, which is a decrease of £154.3m from the balance previously reported as at as at 31 July 2023 (£1,194.8m).

The annual consumer price inflation rate in the UK rose by 4.6% in the 12 months to October 2023, down from 6.8% in July 2023. The Bank of England's Monetary Policy Committee (MPC) increased the base rate from 5.00%, which was applicable at 31 July 2023, to 5.25% in August 2023, which was the fourteenth successive rise since December 2021, but maintained this rate at the subsequent two meetings in September and November 2023. The markets view is that the rate has now peaked at 5.25%, with no cuts expected to materialise until the latter stages of 2024.

This increase in rates has allowed the Corporation to obtain higher yields across its asset allocations, and officers expect interest income to be maintained over the remainder of 2023/24 if the MPC's current restrictive policy stance continues.

## Recommendation

Members are asked to note the report.

## Main Report

### Background

1. The Investment Committee will receive 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 October 2023.

### Current Position

2. The treasury management investment portfolio had a market value of £1,040.5m as at 31 October 2023, which is a decrease of £154.3m from the balance reported previously as at 31 July 2023 (£1,194.8m). This decrease is principally due to:-
  - expenditure on Major projects (£94.7m);
  - business rate refunds (£54.3m); and
  - Museum of London drawdowns (£3.9m).

### Asset Allocation

3. In accordance with the current Treasury Management Strategy Statement 2023/24, 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 October, 31 July and 31 March 2023 is set out in Table 1.

**Table 1: Asset allocation as at 31 October 2023**

	31-Mar-2023		31-Jul-2023		31-Oct-2023	
	£m	%	£m	%	£m	%
Fixed Term Deposit	535.0	51%	525.0	44%	510.0	49%
Notice accounts	140.0	13%	70.0	6%	70.0	7%
Short Dated Bond Funds	151.0	15%	151.2	12%	154.1	15%
Ultra Short Dated Bond Funds	139.2	13%	141.1	12%	143.2	13%
Liquidity Fund	82.5	8%	307.5	26%	163.2	16%
<b>Total</b>	<b>1,047.7</b>	<b>100%</b>	<b>1,194.8</b>	<b>100%</b>	<b>1,040.5</b>	<b>100%</b>

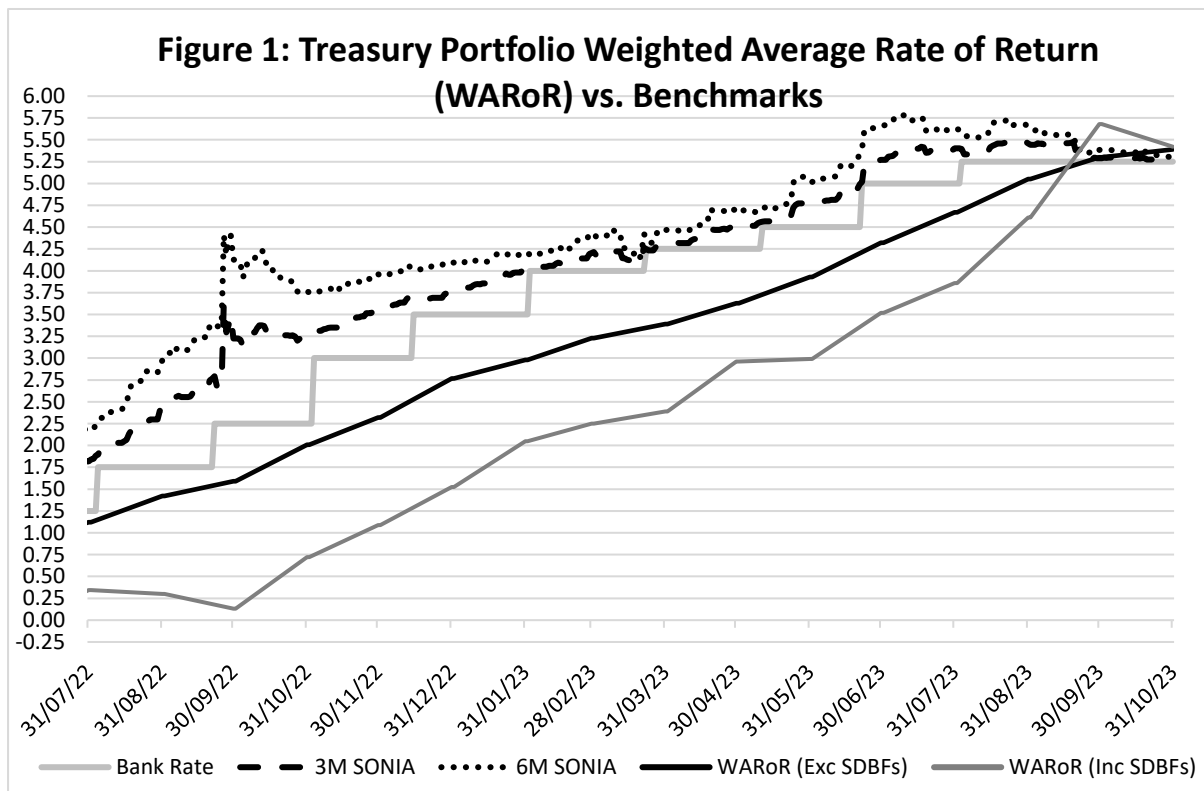
5. As at 31 October 2023, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks, with the highest allocation via fixed term deposits (49%). Since the last reporting date a small amount of the portfolio (£30m) was invested in 3-year fixed term deposit to lock in the favourable interest rates, with interest rising incrementally each year from 6.0% in year 1, to 6.2% in year 2 and 6.4% in year 3. In addition, a new counterparty was onboarded during the period, United Overseas Bank, with whom a £20m fixed term deposit was placed in October 2023. Liquidity funds make up around 16% of the portfolio, despite a decrease by £144.3m since 31 July 2023, which was planned in part to support the expenditure on major projects. These balances are very liquid and can be accessed on the day.

6. The ultra-short dated bond funds account for 13% of the treasury portfolio. 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 (15%) continues to be invested in short dated bond funds. These funds are invested in investment grade credit instruments and currently have a duration (weighted average time to maturity) of around 3 years. The value of the short dated bond funds can be volatile in the short term and should only be used for surplus cash balances with an investment horizon of at least three years (In light of this volatility, the Treasury Management Strategy Statement (TMSS) was amended with effect from 1 April 2022, so that only City Fund would maintain exposure to the short dated bond funds).
7. Further analysis on the composition of the portfolio as at 31 October 2023 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

### Performance

8. Since July the Bank of England increased its Bank Rate, from 5.00% to 5.25% in August 2023, which was the fourteenth successive rise since December 2021, but maintained this rate at 5.25% at the subsequent two meetings in September and November 2023. The accompanying policy statement from the September MPC meeting stated that rates will stay *"sufficiently restrictive for sufficiently long"* and that *"...if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required"*. A new addition to the November statement, underlining the MPC's commitment to policy maintenance, stated that *"...monetary policy is likely to need to be restrictive for an extended period of time"*.
9. The market expectation is now that rates have peaked at 5.25%, with no cuts expected to materialise until the latter stages of 2024. LINK, our investment consultants, are currently forecasting no further changes in the rate until a decrease in rates in Q3 of 2024, to be followed by further rate cuts through 2024 and 2025.
10. As the 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 increased, the capital value of the Corporation's bond fund investments declined (i.e. when interest rates increase, bond prices decrease and vice versa), however as rates have now plateaued the capital value is beginning to appreciate, and total returns during the reporting period have increased. However, income rather than capital gains, currently still makes up a greater part of the total return generated by these funds. 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.

11. These effects can be seen in the weighted average rate of return for the portfolio over the past 12 months and 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.



12. Sterling money market rates rose steadily in line with bank rates increases throughout most of 2022 and the first half of 2023, although they rose sharply at the end of September 2022 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 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 still trended upwards in line with expected bank rate increases in the first half of 2023 as the MPC moved to try and ease inflation. In the second half of 2023 Sterling money market rates began to ease, and have now plateaued, as the bank rate reached a current assumed peak of 5.25% at the start of August 2023. However, in November 2023 the Bank of England’s MPC committee added that “..monetary policy is likely to need to be restrictive for an extended period of time”.

13. Returns on the Corporation’s short term investment portfolio excluding short dated funds have trended upwards in 2023, 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 the current restrictive monetary policy stance continues over the remainder of 2023/24, then officers expect the current rate of return to be maintained.

14. 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 October 2023 in calculating the portfolio returns displayed in figure 1 (i.e. the WARoR (Weighted Average Rate of Return)). Returns on these investments have increased in the 3 months since the end of July 2023.
15. 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 October 2023**

<b>Fund</b>	<b>1 Month Return (30/09/2023 to 31/10/2023)</b>	<b>3 Month Return (31/07/2022 to 31/10/2023)</b>	<b>12 Month Return (31/10/2022 to 31/10/2023)</b>
Federated Hermes Sterling Cash Plus Fund	0.49%	1.43%	4.38%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.45%	1.42%	4.73%
Payden Sterling Reserve Fund	0.45%	1.61%	5.09%
L&G Short Dated Sterling Corporate Bond Index Fund	0.58%	2.08%	5.49%
Royal London Investment Grade Short Dated Credit Fund	0.51%	1.81%	5.64%

16. The most conservative fund (Federated) is listed first in table 2 and the longer-term investments (L&G and Royal London) are listed at the bottom to the table. The steadying in interest rates rises, especially since the end of July, compared to the sharp rise in September 2022, has had a positive effect on these short dated bond funds total returns over the last 12 months.
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. 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.
19. As interest rates rise the bond managers are 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, has made 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 4.48% and 3.40% respectively as at the end of October 2023.

20. Previously, interest generated from short-dated bond funds was automatically reinvested, either by accumulating more shares or by increasing the price of the shares already held. Since the last reporting date, officers have instructed for interest from these investments to be distributed with the initial quarterly distribution due in December 2023.

#### Interest on cash balances

21. A summary of the interest on *average cash balances* (i.e. the returns on the treasury management investment portfolio) as at 31 October 2023, and the forecast for the 2023/24 financial year (1 April 2023 to 31 March 2024) as applicable to City Fund and City's Cash is shown in Table 3 below.

**Table 3: Interest on Cash Balances as at 31 October 2023**

	<b>2023/24 Original Budget</b>	<b>2023/24 Forecast outturn</b>	<b>2023/24 Forecast outturn Better / (Worse)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>City Fund</b>	<b>27,026</b>	<b>43,264</b>	<b>16,238</b>
<b>City's Cash</b>	<b>5,507</b>	<b>1,116</b>	<b>(4,391)</b>
<b>Total City Fund &amp; City's Cash Interest on average cash Balances</b>	<b>32,533</b>	<b>44,380</b>	<b>11,847</b>

22. Income from interest on *average cash balances* is currently forecast to exceed budget by £11.8m principally due to higher than anticipated interest rates. The Bank of England base rate has increased from 3% in November 2022, when the budget was set as part of the City of London Corporation's Medium term financial plan (MTFP), to 5% in June 2023, and more recently 5.25% at August 2023 where it has remained.
23. It should be noted that the forecast currently assumes the average split of cash held amongst funds to October 2023 will continue for the rest of the year.

#### Cash Flow Forecast

24. The City Fund's medium-term cash flow forecast is currently being reviewed along with all the capital projects, including the major projects, to develop a detailed forecast and appropriate funding strategy. Stanhope Capital LLP has been appointed to provide a strategic investment advisory function working alongside the City's in-house Corporate Treasury and Investment Property teams, to provide expert advice on the investment strategy/allocation advice between property and financial investments; and advice on how to secure the best rates of return for the

differing requirements for City Find and City's Cash. Once this has been finalised a cashflow forecast will be provided.

## Conclusion

25. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 October 2023. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2023/24.
26. Since the Investment Committee last reviewed the treasury position as at 31 July, the Bank of England's Monetary Policy Committee (MPC) increased its Bank Rate, from 5.00% to 5.25%, in August 2023, but maintained this rate at the subsequent two meetings in September and November 2023. The markets view is that the rate has now peaked at 5.25%, with no cuts expected to materialise until the latter stages of 2024.
27. In November 2023, the MPC underlined the commitment to policy maintenance, saying that "*.. monetary policy is likely to need to be restrictive for an extended period of time*" and maintained the comment "*...if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required*".
28. The increase in sterling money market rates has allowed the Corporation to obtain higher yields, and officers expect interest income to be maintained over the remainder of 2023/24 if the current restrictive monetary policy stance continues.
29. The capital value of the Corporation's short-dated bond fund investments are beginning to appreciate as the Bank of England base rate has plateaued, albeit income has made up a larger proportion of the total return over the last 12 months. These investments are appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon, and they continue to generate strong income returns. Since the last reporting date, officers have instructed for interest from these investments to be distributed going forward, with the initial quarterly distribution due in December 2023.

## Appendices

Appendix 1: Counterparty Exposure as at 31 October 2023

Appendix 2: Monthly Investment Analysis Review October 2023

### Sarah Port

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**APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 OCTOBER 2023**

	Counter- party Limit	Total Invested as at 31-October-23	Average Rate of Return %
	£M	£M	
<b><u>TOTAL INVESTED</u></b>		<b>1,040.5</b>	<b>5.42%</b>
<b><u>FIXED TERM DEPOSITS</u></b>			
<b><u>UK BANKS</u></b>			
Barclays	100.0	85.0	4.74%
Goldman Sachs	100.0	70.0	6.00%
Santander	100.0	20.0	5.90%
NatWest	100.0	50.0	5.87%
		225.0	
<b><u>FOREIGN BANKS</u></b>			
Australia & New Zealand	100.0	25.0	5.78%
DBS Bank	100.0	55.0	5.58%
National Australia Bank	100.0	70.0	5.32%
Rabobank	100.0	35.0	5.47%
Toronto Dominion Bank	100.0	80.0	6.02%
United Overseas Bank	100.0	20.0	5.63%
		285.0	
<b><u>LIQUIDITY FUNDS</u></b>			
Aberdeen SLI Liquidity Fund	100.0	27.8	5.31%
CCLA - Public Sector Deposit Fund	100.0	24.0	5.26%
Deutsche Global Liquidity Fund	100.0	30.0	5.33%
Federated Prime Liquidity Fund	100.0	45.4	5.37%
Invesco Sterling Liquidity Fund	100.0	36.0	5.39%
		163.2	
<b><u>ULTRA SHORT DATED BOND FUNDS</u></b>			
Payden Sterling Reserve Fund	100.0	63.4	5.09%
Aberdeen SLI Short Duration Fund	100.0	53.1	4.73%
Federated Sterling Cash Plus Fund	100.0	26.7	4.38%
		143.2	
<b><u>SHORT DATED BOND FUNDS</u></b>			
L&G	100.0	77.0	5.49%
Royal London	100.0	77.1	5.64%
		154.1	
<b><u>NOTICE ACCOUNTS</u></b>			
Australia and New Zealand 185 Days Account	100.0	45.0	5.43%
Santander 365 Days Account*	100.0	25.0	5.15%
		70.0	
<b>TOTAL</b>		<b>1,040.5</b>	

\*Notice has been given on this account, with the full £25m returning on 01/12/2023.





# The City Of London Corporation

Client Designated MMF, USDBF and SDBF Rates

Monthly Investment Analysis Review

October 2023

## The City Of London Corporation

## Monthly Economic Summary

## General Economy

The UK Manufacturing PMI for October increased to 45.2, surpassing market expectations of 44.7 and marking the highest reading in three months. However, this still indicated a continuous decline in manufacturing output for the eighth consecutive month, representing the longest period of contraction since the 2008/09 financial crisis. On the other hand, the UK Services PMI dipped to 49.2 in October from 49.3 in September, reaching its lowest level in nine months and falling short of market expectations. Consequently, the Composite PMI, which combines both sectors, was 48.6 in October, showing little change from September's 48.5 and also just short of market projections for 48.7. This reading signified a third consecutive decline in overall private sector output. Meanwhile, the UK Construction PMI dropped to 45 in September from 50.8 in the prior month, falling somewhat below market expectations of 49.9. This was the first contraction in construction sector output since June, and the fastest rate of decline since May 2020.

The UK economy expanded by 0.2% m/m in August, in line with market estimates, following a revised 0.6% contraction in July. Notably, services output increased by 0.4%, rebounding from a 0.6% decline in July, driven by professional, scientific, and technical activities and education. Additionally, the UK's trade deficit widened to £3.415 billion in August from £1.418 billion in the previous month, with exports declining by 1.6% to a 14-month low, while imports rose by 1.2%, recovering from July's one-and-a-half-year low.

Over the three months to July, employment in the UK decreased by 207,000, surpassing market expectations for a 185,000 decline and following a decrease of 66,000 in the previous period. This marked the most substantial drop in job creation since September 2020, affected by falls in both full-time and part-time self-employed workers. Meanwhile, average weekly earnings (including bonuses) in the UK increased by 8.1% y/y in the three months ending in August, marking the lowest growth in three months, and falling short of market forecasts of an 8.3% rise. The adjusted experimental unemployment rate rose to 4.2% in the three months leading up to August, up from 4.0% in the March to May period, according to provisional data from the Office for National Statistics (ONS). The release of this data was delayed by one week due to a low survey response rate and the introduction of a new methodology.

The annual consumer price measure of inflation in the UK remained steady at 6.7% in September, matching August's 18-month low and against market expectations of a slight decrease to 6.6%. Moreover, the core inflation rate, which excludes volatile items such as energy and food, dropped to 6.1%. Although this signified its lowest point since January, it exceeded forecasts of 6%. Both figures remained significantly above the Bank of England's 2% target, underscoring the ongoing inflationary pressures in the country, and complicating the task for policymakers, who are expected to keep interest rates unchanged at the upcoming meeting. On a monthly basis, the CPI increased by 0.5% in September, marking the most substantial rise since May.

In the retail sector, sales in the UK declined by 0.9% month-on-month in September, reversing a 0.4% increase in August and falling short of market forecasts for a 0.2% decline. In line with this, the GfK Consumer Confidence indicator in the United Kingdom dropped sharply to -30 in October from -21 in September, defying expectations for a slight improvement to -20. Public sector net borrowing, excluding public sector banks (PSNB ex), in September stood at £14.3 billion, £1.6 billion less than in September 2022, ranking as the sixth-highest September borrowing since monthly records began in 1993.

The US economy added 336,000 jobs in September, surpassing the upwardly revised 227,000 in August and exceeding market forecasts of a 170,000 increase. This represents the strongest job gain in eight months, comfortably surpassing the 70,000-100,000 needed per month to keep pace with the growth in the working-age population. The US economy also expanded an annualised 4.9% in the third quarter of 2023, the most since the last quarter of 2021, above market forecasts of 4.3% and a 2.1% expansion in Q2, the advance estimate showed. Meanwhile, the US inflation rate remained steady at 3.7% in September, defying market expectations of a slight decrease to 3.6%. This was due to a softer decline in energy prices offsetting slowing inflationary pressures in other categories.

In the Euro Area, the inflation rate decreased to 4.3% y/y in September compared to 5.2% in August, reaching its lowest level since October 2021 and falling below the market consensus of 4.5%, according to preliminary estimates. In-line with market expectations, the Euro Area's unemployment rate edged down to 6.4% y/y from the upwardly revised 6.5% registered the previous month. The ECB kept interest rates at multi-year highs during its October meeting, marking a significant shift from its 15-month streak of rate hikes and reflecting a more cautious "wait-and-see" stance, with policymakers influenced by the gradual easing of price pressures and concerns about an impending recession. Finally, the Euro Area economy shrank 0.1% on quarter in the three months to September, worse than market forecasts of a flat reading and following an upwardly revised 0.2% rise in the second quarter, preliminary estimates showed.

## Housing

Housing market conditions in the UK showed continued decline in September. The Nationwide House Price Index fell by 5.3% year-on-year, maintaining the same pace as the previous month but coming in slightly better than market expectations of a 5.7% decrease. The Halifax House Price Index also dropped, by 4.7% year-on-year in September, following a marginally revised 4.5% fall in August. This marked the most substantial decrease in house prices since August 2009.

## Currency

Sterling was little changed against the Euro and fell slightly against the Dollar over the month.

October	Start	End	High	Low
GBP/USD	\$1.2620	\$1.2135	\$1.2620	\$1.2079
GBP/EUR	€1.1677	€1.1481	€1.1724	€1.1446

## Forecast

In the wake of the MPC's decision to leave Bank Rate at 5.25% at its September meeting, both Link Group and Capital Economics revised their forecasts and now believe that 5.25% (rather than 5.5%) will be the peak in Bank Rate for this cycle.

Bank Rate														
	Now	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Link Group	5.25%	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	2.75%	2.75%	2.75%	2.75%	2.75%
Capital Economics	5.25%	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	-	-	-	-

## The City Of London Corporation

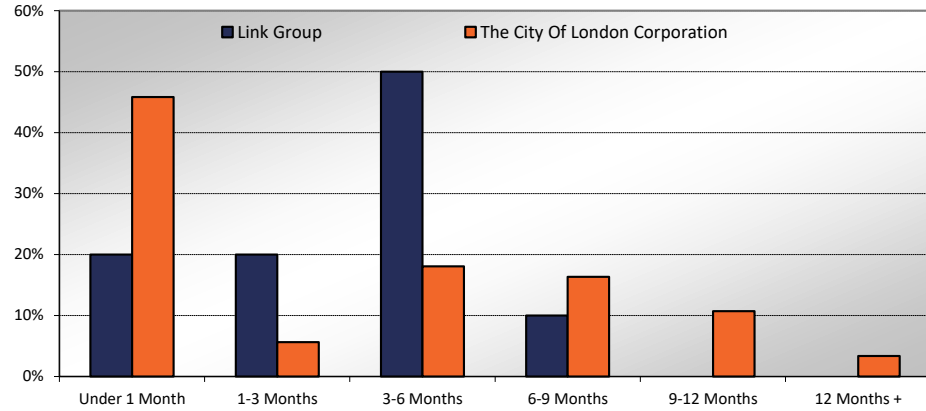
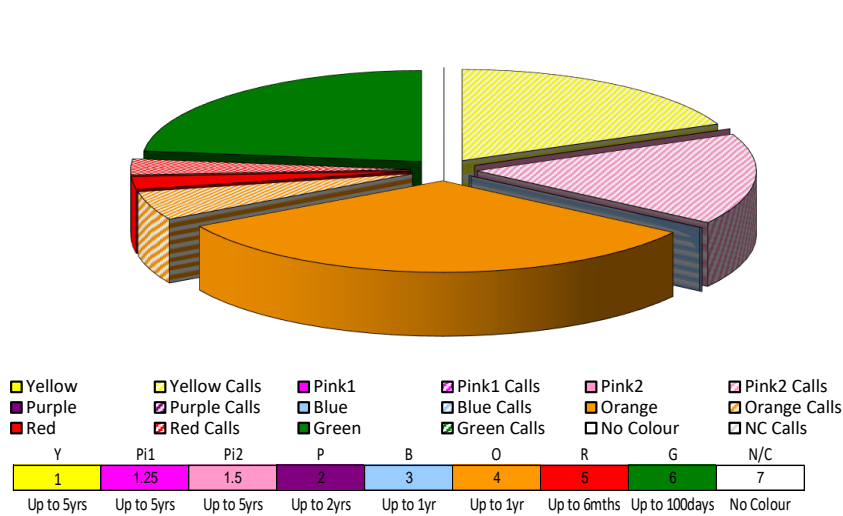
## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	27,800,000	5.31%		MMF	AAAm	
MMF CCLA	24,000,000	5.26%		MMF	AAAm	
MMF Deutsche	30,000,000	5.33%		MMF	AAAm	
MMF Federated Investors (UK)	45,400,000	5.37%		MMF	AAAm	
MMF Invesco	36,000,000	5.39%		MMF	AAAm	
USDBF Aberdeen Standard Investments	53,144,280	4.73%		USDBF	AAAF	
USDBF Federated Sterling Cash Plus Fund	26,654,558	4.38%		USDBF	AAAF	
USDBF Payden Sterling Reserve Fund	63,445,935	5.09%		USDBF	AAAF	
National Australia Bank Ltd	20,000,000	4.39%	07/02/2023	07/11/2023	A+	0.001%
Cooperative Rabobank U.A.	15,000,000	4.57%	15/02/2023	15/11/2023	A+	0.002%
Barclays Bank Plc (NRFB)	20,000,000	4.73%	17/11/2022	17/11/2023	A+	0.002%
Barclays Bank Plc (NRFB)	20,000,000	4.66%	16/01/2023	30/11/2023	A+	0.004%
Santander UK PLC	25,000,000	5.15%		Call30	A	0.004%
DBS Bank Ltd	20,000,000	5.47%	12/10/2023	12/01/2024	AA-	0.005%
DBS Bank Ltd	10,000,000	6.02%	13/07/2023	15/01/2024	AA-	0.005%
National Australia Bank Ltd	20,000,000	4.98%	17/04/2023	17/01/2024	A+	0.010%
Barclays Bank Plc (NRFB)	25,000,000	4.81%	01/02/2023	01/02/2024	A+	0.012%
Barclays Bank Plc (NRFB)	20,000,000	4.75%	16/02/2023	16/02/2024	A+	0.013%
DBS Bank Ltd	25,000,000	5.50%	30/10/2023	29/02/2024	AA-	0.007%
United Overseas Bank Ltd	20,000,000	5.63%	09/10/2023	11/03/2024	AA-	0.008%
national australia Bank Ltd	30,000,000	6.16%	18/07/2023	18/03/2024	A+	0.017%
Goldman Sachs International Bank	20,000,000	5.61%	22/09/2023	22/03/2024	A+	0.018%
Cooperative Rabobank U.A.	20,000,000	6.14%	29/06/2023	28/03/2024	A+	0.018%
Australia and New Zealand Banking Group Ltd	45,000,000	5.43%		Call185	A+	0.023%
NatWest Markets Plc (NRFB)	20,000,000	5.67%	12/10/2023	13/05/2024	A	0.024%
Toronto Dominion Bank	20,000,000	5.27%	15/05/2023	15/05/2024	AA-	0.012%
Toronto Dominion Bank	20,000,000	5.72%	24/05/2023	24/05/2024	AA-	0.013%
Toronto Dominion Bank	20,000,000	6.53%	28/06/2023	26/06/2024	AA-	0.015%
Toronto Dominion Bank	20,000,000	6.57%	18/07/2023	17/07/2024	AA-	0.016%
Goldman Sachs International Bank	15,000,000	6.15%	15/08/2023	15/08/2024	A+	0.036%
Goldman Sachs International Bank	15,000,000	6.15%	15/08/2023	15/08/2024	A+	0.036%
Goldman Sachs International Bank	20,000,000	6.15%	04/09/2023	04/09/2024	A+	0.038%
Australia and New Zealand Banking Group Ltd	25,000,000	5.78%	05/09/2023	05/09/2024	A+	0.038%
Santander UK PLC	20,000,000	5.90%	16/10/2023	16/10/2024	A	0.043%
NatWest Markets Plc (NRFB)	30,000,000	6.00%	07/08/2023	07/08/2026	A	0.214%
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>		
L&G	76,964,179	5.49%				
ROYAL LONDON	77,142,321	5.64%				
<b>Total Investments</b>	<b>£1,040,551,272</b>	<b>5.42%</b>				
<b>Total Investments - excluding Funds</b>	<b>£886,444,773</b>	<b>5.39%</b>				<b>0.027%</b>
<b>Total Investments - Funds Only</b>	<b>£154,106,499</b>	<b>5.57%</b>				

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

The City Of London Corporation

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.56**

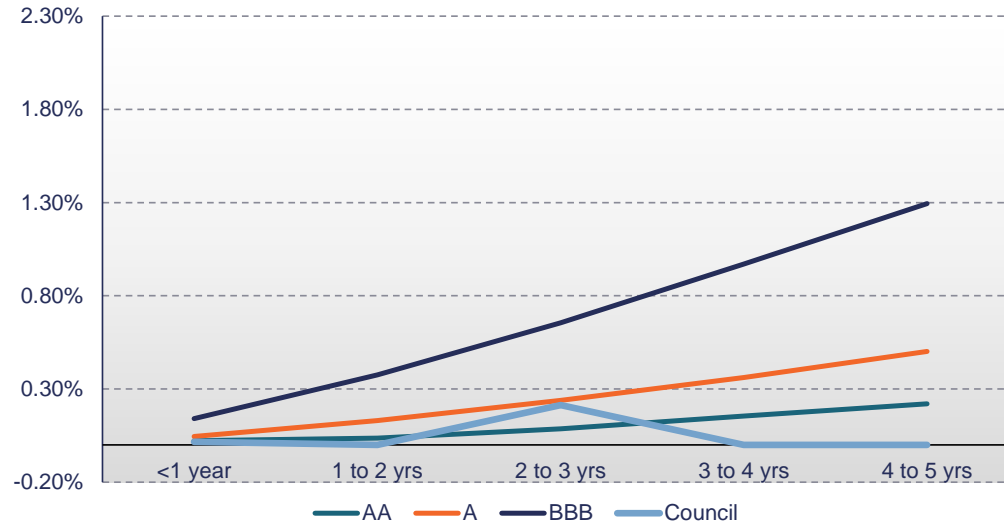
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	18.41%	£163,200,000	100.00%	£163,200,000	18.41%	5.34%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	16.16%	£143,244,773	100.00%	£143,244,773	16.16%	4.83%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	37.23%	£330,000,000	13.64%	£45,000,000	5.08%	5.62%	155	256	150	267
Red	5.08%	£45,000,000	55.56%	£25,000,000	2.82%	5.48%	173	179	351	366
Green	23.13%	£205,000,000	0.00%	£0	0.00%	5.44%	280	435	280	435
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£886,444,773</b>	<b>42.47%</b>	<b>£376,444,773</b>	<b>42.47%</b>	<b>5.39%</b>	<b>131</b>	<b>205</b>	<b>210</b>	<b>338</b>

# The City Of London Corporation

## Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories

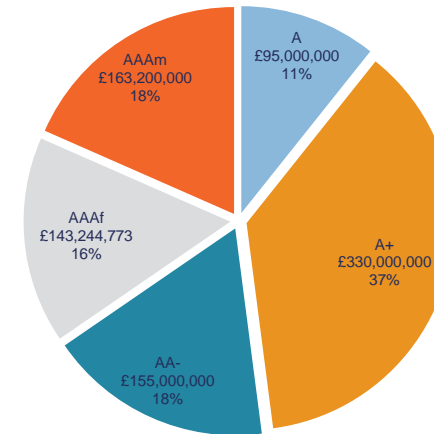


Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.02%	0.00%	0.21%	0.00%	0.00%

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.

Rating Exposure



**Historic Risk of Default**

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

**Chart Relative Risk**

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

**Rating Exposures**

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

## The City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
20/10/2023	1989	United Kingdom (Sovereign Rating)	United Kingdom	The Outlook on the Sovereign Rating was changed to Stable from Negative.
24/10/2023	1990	Santander UK PLC	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.
24/10/2023	1990	Santander Financial Services plc (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.

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Monthly Credit Rating Changes  
FITCH

Date	Update Number	Institution	Country	Rating Action



The City Of London Corporation

Monthly Credit Rating Changes  
S&P

Date	Update Number	Institution	Country	Rating Action

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# Agenda Item 8

<b>Committee:</b> Investment Committee Audit and Risk Management Committee	<b>Dated:</b> 14 December 2023 26 February 2024
<b>Subject:</b> Mid-Year Treasury Management Review 2023/24	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>All</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	<b>£N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> Adam Buckley, Chamberlain's	

## Summary

The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2023/24 was approved by the Financial Investment Board and the Finance Committee in February 2022 and by the Court of Common Council on 9 March 2023 and came into effect on 1 April 2023. The Financial Investment Board has now been disbanded, with its functions transferred to the new Investment Committee which was established on 19 May 2023.

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 5.25% at the end of August 2023, which was the fourteenth successive rise, and have been maintained at this rate at the subsequent two meetings in September and November 2023. The revised path for interest rates over the medium term provided by Link Asset Services currently projects no further changes in the rate until a decrease in rates in the third quarter of 2024 to 5.0%, followed by further rate cuts through 2024 and 2025 reaching 3.0% by December 2025.
- Under this scenario of sustained high interest rates, investment returns are expected to increase as maturing investments are reinvested at improved rates. However, as yields increased, the capital value of the Corporation's bond fund investments declined as bond prices have an inverse relationship with interest rates (i.e. when interest rates increase, bond prices decrease and vice versa), but as rates have now plateaued the capital value is beginning to appreciate, and total returns during the period have increased.

- As at 30 September 2023, the City had cash balances totalling £1,059.1m. 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 2023/24 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 2023/24.
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 period from April 2023 to September 2023 saw interest rates rise by a further 100bps as the Bank of England base rate rose from 4.25% to 5.25%, and is considered to have possibly reached the peak in the tightening cycle. In the last two monetary policy committee meetings, on 20 September and 02 November, the Bank of England left interest rates unchanged at 5.25%.
6. At the most recent meeting the MPC voted by a majority of 6–3 to maintain the Bank Rate. The accompanying statement maintained the recent guidance that the policy was restrictive and needs to remain “*sufficiently restrictive for sufficiently long*” and that “*...if there were to be evidence of more persistent pressures than further tightening in monetary policy would be required*”. A new addition to the statement said that the “*...monetary policy is likely to need to be restrictive for an extended period of time*”. So, while the next move in rates is expected to be a cut, this may not materialise until the latter stages of 2024.
7. Since the MPC’s previous meeting, long-term government bond yields have increased and underlying inflationary pressures remain elevated in advanced economies. The rise in UK Gilt yields has exceeded the rise in most other developed market government yields since the start of the year, with a peak of 4.74% in August. The pound weakened from its cycle high of \$1.30 in mid-July to \$1.21 in late October, as interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle. Following events in the Middle East the oil futures curve has risen somewhat, while gas futures prices are little changed.
8. According to the ONS’s first quarterly estimate, real GDP had increased by 0.2% in the second quarter of 2023. Following a rise of 0.5% in June, Monthly GDP was estimated to have fallen by 0.5% in July, mainly due to strikes, suggesting that underlying growth had lost momentum since earlier in the year. UK GDP is expected to have been flat in the third quarter of 2023, though is expected to grow by 0.1% in Q4, weaker than projected previously.
9. CPI inflation declined from 8.7% in April 2023 to 6.7% in August 2023, the lowest rate since February 2022, but still the highest in the G7. That reversed all inflationary increases since March 2023 and meant the gap between the UK and elsewhere shrunk. Core goods inflation fell from 5.9% in July 2023 to 5.2%, in August 2023, but the really positive development was a fall in services inflation from 7.4% to 6.8%, below the forecast of 7.2% the Bank of England published in early August 2023. CPI inflation remains well above the 2% target, but is expected to continue to fall, and currently stands at 4.6% as at October 2023.
10. Tightness of the labour market has continued to ease, with employment in the three months to July 2023 falling by 0.2m, and a further decline in the number of job vacancies from 1.017m in July to 0.989m in August, suggests that the labour market has loosened a bit further since July 2023. However, it appears the cooling in labour market conditions still has not fed through to an easing in wage growth, as while the Bank of England’s measure eased a touch from June to July 2023, from 8.2% to 8.1%, it was still well above the Bank of England’s prediction for it to fall to 6.9% by September 2023.

11. 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 maintain the restrictive monetary policy and maintain interest rates at 5.25% in the first and second quarter of 2024, and then, as inflationary pressures ease, begin to incrementally loosen monetary policy with interest rates reducing incrementally to 3.25% by September 2025 and 3.0% by December 2025.

### **Treasury Management Strategy Statement and Annual Investment Strategy Update**

12. The Treasury Management Strategy Statement and Annual Investment Strategy for 2023/24 was approved by the Financial Investment Board (17 February 2023), the Finance Committee (21 February 2023) and the Court of Common Council (09 March 2023). The Financial Investment Board has now been disbanded, with its functions transferred to the new Investment Committee which was established on 19 May 2023.
13. Having considered the strategy, officers believe that it remains appropriate for the second half of 2023/24 and do not recommend any fundamental changes are made.

### Investment Strategy

14. The Corporation held £1,059.1m of investments as at 30 September 2023 (£1,047.7m at 31 March 2023). 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 5.68%.
15. The weighted average rate of return was boosted by the short-dated bonds (i.e. *non-specified investments*) as their 12 month-trailing returns reached almost 8% at the end of September 2023 (the weighted average rate of return excluding short-dated bonds funds was 5.31%). 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 increase in short-dated bond fund returns, as a year earlier the market was in turmoil following the unfunded tax cuts proposed by the UK Government in September 2022, and as interest rates have now plateaued the total returns during the period have increased.
16. As non-specified investments, only the City Fund will have exposure to the short-dated bond funds (as ratified by the Court of Common Council in December 2022), and as the IFRS9 override is still in place, any capital gains/losses will continue not to be taken through the General Fund.
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 until June 2023, with decreases over the medium term beginning in early 2024. Since the original strategy was written inflation has not fallen at the rate that was expected despite the continued restrictive monetary policy from the Bank of England, causing interest rate rises to continue longer, and the forecast peak in rates to be higher than previously estimated.
  20. Consequently, the revised path for interest rates over the medium term provided by Link Asset Services now forecasts the bank rate to be maintained at a current peak of 5.25%, and then a steady decline from September 2024, leaving rates at around 3.0% at for the 2025/26 financial year (see Appendix 1). Under this scenario, investment returns as a whole are expected to be broadly maintained over the rest of the financial year, though decline over the medium term, as markets price-in the forecast decrease in interest rates, resulting in available rates to reinvest maturing deposits also decreasing.
  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 has increased the bank rate too fast and too far over recent months, which causes UK economic growth to be weaker than currently anticipated. However, if the Bank is too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly in the UK economy, this could necessitate the Bank Rate staying higher for longer than currently projected.
    - The pound weakens because of a lack of confidence in the UK Government's pre-election 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, China/Taiwan, and Middle Eastern countries, which could lead to increasing safe-haven flows.
    - 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 2023/24 and the City has experienced no liquidity concerns. During the year, a new counterparty was onboarded, United Overseas Bank. 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 2023/24.
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 were 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 2023/24 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 2023/24 – 2026/27**

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APPENDIX 1: Interest Rate Forecasts 2023/24 – 2026/27

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 07.11.23		Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
<b>BANK RATE</b>		5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings		5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings		5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings		5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB		5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB		5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB		5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB		5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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