Public Document Pack

Investment Committee

Date: **FRIDAY, 22 SEPTEMBER 2023**

Time: 2.00 pm

Venue: **COMMITTEE ROOMS, GUILDHALL**

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

Enquiries: **Ben Dunleavy**
ben.dunleavy@cityoflondon.gov.uk

Accessing the virtual public meeting

Members of the public can observe all virtual public meetings of the City of London Corporation by following the below link:
https://www.youtube.com/@CityofLondonCorporation/streams

A recording of the public meeting will be available via the above link following the end of the public meeting for up to one civic year. Please note: Online meeting recordings do not constitute the formal minutes of the meeting; minutes are written and are available on the City of London Corporation's website. Recordings may be edited, at the discretion of the proper officer, to remove any inappropriate material.

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

Ian Thomas 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 7 July 2023.

   For Decision
   (Pages 7 - 12)

4. **COMMITTEE FORWARD PLAN**

   For Information
   (Pages 13 - 16)

5. **RISK REGISTER FOR INVESTMENT COMMITTEE**

   Joint Report of the City Surveyor and the Chamberlain.

   For Decision
   (Pages 17 - 52)

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

   Report of the Chamberlain.

   For Discussion
   (Pages 53 - 62)

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

   Report of the Chamberlain.

   For Discussion
   (Pages 63 - 82)

8. **CLIMATE ACTION STRATEGY UPDATE**

   Joint Report of the Director of Innovation & Growth and the Chamberlain.

   For Information
   (Pages 83 - 114)

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 7 July 2023.

For Decision
(Pages 115 - 122)

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

Report of the Chamberlain. *(To Follow)*

For Decision

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

Report of the Chamberlain.

For Decision
(Pages 123 - 132)

15. **PERFORMANCE MONITORING**

a) Quarterly Report to 30 June 2023 (Pages 133 - 152)

Report of Mercer.

For Information

b) Investment Performance Monitoring to 31 July 2023: City's Cash (Pages 153 – 172)

Report of the Chamberlain.

For Discussion

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

Report of the City Surveyor.

For Decision
(Pages 173 - 188)

17. **LONDON WALL WEST**

Report of the City Surveyor.

For Decision
(Pages 189 - 200)

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

Report of the City Surveyor.

For Decision
(Pages 201 - 208)

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

Report of the City Surveyor.

For Discussion
(Pages 209 - 228)

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

Report of the City Surveyor.

For Information
(Pages 229 - 254)

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

Report of the City Surveyor.

For Information
(Pages 255 - 260)

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

The City Surveyor to be heard.

For Information

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

The City Surveyor to be heard.

For Information

24. **REPORT OF ACTION TAKEN**

Report of the Town Clerk.

For Information
(Pages 261 - 264)

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

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

This page is intentionally left blank

INVESTMENT COMMITTEE
Friday, 7 July 2023

Minutes of the meeting of the Investment Committee held at Committee Rooms, 2nd Floor, West Wing, Guildhall on Friday, 7 July 2023 at 2.00 pm

Present

Members:
Deputy Andrien Meyers (Chair)
Shahnan Bakth (Deputy Chairman)
Nicholas Bensted-Smith
Claudine Blamey
David Brooks Wilson
Alderman Alison Gowman
Deputy Madush Gupta
Deputy Randall Anderson
Deputy Philip Woodhouse

In attendance:

Officers:

Caroline Al-Beyerty	-	The Chamberlain
John James	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Victoria Nelson	-	Chamberlain's Department
Sarah Port	-	Chamberlain's Department
John Galvin	-	City Surveyor's Department
Tom Leathart	-	City Surveyor's Department
Robert Murphy	-	City Surveyor's Department
Neil Robbie	-	City Surveyor's Department
Joseph Anstee	-	City Bridge Trust
Ben Dunleavy	-	Town Clerk's Department

Also in attendance

Maria Cobbe	-	Stanhope
Gregory Hall	-	Mercer
James Horden	-	Stanhope
Charles Franklin	-	Stanhope

1. **APOLOGIES**
Apologies for absence were received from Deputy Henry Colthurst, Deputy Simon Duckworth and Deputy Christopher Hayward.

Deputy Henry Pollard and Paul Singh observed the meeting virtually.

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

David Brooks Wilson made a standing declaration in respect of his consultancy positions with Arcadis, Keltbray, City and Provincial Properties Ltd, and Squire and Partners.

3. **MINUTES**

Members received the public minutes and non-public summary of the meeting held on 19 June.

The Town Clerk informed Members of a correction to the third bullet point under item 7 of the minute, to read as follows:

'Officers undertook to return to the Committee with reports on climate action risks for the City's property and investment portfolios (noting that these are two separate workstreams within the City's Climate Action Strategy)'

RESOLVED, that – the public minutes and non-public summary of the previous meeting be approved as a correct record, as amended.

4. **INVESTMENT BOARDS MINUTES**

4.1 **Financial Investment Board Minutes**

Members noted the public minutes and non-public summary of the meeting of the Financial Investment Board meeting on 17 February 2023.

4.2 **Property Investment Board minutes**

Members noted the public minutes and non-public summary of the meeting of the Property Investment Board meeting on 15 February 2023.

5. **FORWARD PLAN**

Members received the Committee's forward plan.

The Chamberlain informed Members that future versions of the plan would be populated with the milestones for work related to the Chief Investment Officer function.

Members discussed the relationship between the work of the Investment Committee and the Climate Action Strategy. Officers undertook to return with more information and would consider timeframes to ensure that reporting on the two streams was aligned.

It was noted that future risk reports would focus on the risks that the Committee was responsible for, rather than split by department.

Officers undertook to organise training sessions for Members.

6. **TREASURY MANAGEMENT UPDATE**
Members received a report of the Chamberlain providing an update on the City of London Corporation's treasury management portfolio as at 31 May 2023.

The Chair requested that future updates include monitoring of the average rate of return against the budget allocation.

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

7. **CITY SURVEYOR'S BUSINESS PLAN 2022-27 QUARTER 4 2022/23 UPDATE**
Members received a report of the City Surveyor providing an update on the City Surveyor's departmental Business Plan.

Members requested that future versions of the Business Plan include more use of graphics and numbers.

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

8. **THE CITY SURVEYOR'S CORPORATE AND DEPARTMENTAL RISK REGISTER - JUNE 2023 UPDATE**
Members received a report of the City Surveyor providing an update on the corporate and departmental risk register.

RESOLVED, that – the report be received and the actions taken within the City Surveyor's Department to effectively monitor and manage risks arising from its operations noted.

9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
A Member asked for an update on Bastion House. In reply, the Investment Property Director informed the Committee that the City Surveyor had exercised his delegations to undertake a soft market test, with responses received on 17 May. These responses would inform a report recommending a strategy for the site, which would be taken to both the Investment Committee and the Policy and Resources Committee in September.

A Member asked what could be done to mitigate a potential risk surrounding the loss of the City Corporation's long lease on the building housing the London Metropolitan Archives. The Chamberlain replied to note that this was an operational property and thus did not fall under the remit of the Investment Committee.

10. **ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT**
There was no other business that the Chair considered urgent.

11. **EXCLUSION OF THE PUBLIC**

12. **NON-PUBLIC MINUTES**
The non-public minutes of the meeting held on 19 June 2023 were approved as a correct record.

13. **INVESTMENT BOARD MINUTES**

13.1 **Non-Public Financial Investment Board Minutes**

The non-public minutes of the Financial Investment Board meeting on 17 February 2023 were noted.

13.2 **Non-Public Property Investment Board Minutes**

The non-public minutes of the Property Investment Board meeting on 15 February 2023 were noted.

14. **CHIEF INVESTMENT ROLE: UPDATE AND DRAFT SIPS**
Members received a report of the Chamberlain providing an update on the Chief Investment Officer function.

15. **BASTION HOUSE/MUSEUM OF LONDON SITE - 140-150 LONDON WALL - STRIP OUT WORKS AND APPLICATION FOR NEW CERTIFICATE OF IMMUNITY FROM LISTING**
Members received a report of the City Surveyor regarding measures taken regarding Bastion House.

16. **INVESTMENT PERFORMANCE MONITORING REPORTS**

16.1 **Quarterly Monitoring Report Q1 2023**

Members received the Quarterly Monitoring report for Q1 2023; this report was produced by Mercer.

16.2 **Performance Monitoring to 30 April 2023: City's Cash**

Members received a report of the Chamberlain concerning performance monitoring to 30 April 2023.

17. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 31 MARCH 2023**
Members received a report of the Chamberlain relative to the Hampstead Heath Trust and Charities Pool.

18. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2023**
Members received a report of the Chamberlain relative to the Sir William Coxen Trust Fund.

19. **CITY FUND, CITY'S ESTATE AND STRATEGIC PROPERTY ESTATE - ANNUAL VALUATION**
Members received a report of the City Surveyor relative to the annual valuation for City Fund, City's Estate and the Strategic Property Estate.

20. **CITY SURVEYOR REVENUE OUTTURN 2022-23**
Members received a report of the City Surveyor relative to the City Surveyor's department revenue outturn for 2022-23.

21. **PERFORMANCE MONITORING OF PROPERTY INVESTMENT PORTFOLIOS TO 31ST MARCH 2023**
Members received a report of the City Surveyor concerning performance monitoring of property investment portfolios to 31 March 2023.

22. **CITY FUND & CITY'S ESTATE: INVESTMENT PROPERTY MONITORING REPORT**
Members received a report of the City Surveyor concerning investment property monitoring for City Fund and City's Estate.

23. **DELEGATION REQUEST**
Members received a report of the City Surveyor relative to requests for delegation.

24. **CITY'S ESTATE: REFURBISHMENT/EXTENSION OF: THE COURTYARD - 1 ALFRED PLACE, W1**
Members received a report of the City Surveyor concerning a project at 1 Alfred Place, W1.

25. **REFURBISHMENT OR REPLACEMENT OF THE FORESHORE RIVER DEFENCES FRONTING RIVERBANK HOUSE, UPPER THAMES STREET, LONDON EC4**
Members received a report of the City Surveyor relative to a project on the foreshore river defences at Riverbank House.

26. **REPORT OF ACTION TAKEN**
Members received a report of the Town Clerk relative to decisions taken between meetings.

Members agreed to extend the meeting under Standing Order 40.

27. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
A Member asked a question concerning the capital structure on the City Corporation's property holdings.

28. **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 business in the non-public session.

29. **CONFIDENTIAL PROPERTY INVESTMENT BOARD MINUTES**
The confidential minutes of the Property Investment Board meeting on 15 February were noted.

The meeting ended at 4.03 pm

Chairman

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

	Sept 23	Dec 23	Feb 24	Mar 24	May 24
Overall Investment Portfolio (Chamberlains and City Surveyors)	Chief Investment Officer Update - asset allocation Risk Register Climate Action Strategy Update	Statement of Investment Principles - revisions Asset allocation- next steps *City Surveyor's Department Risk Register – 2nd Quarter* Cashflow Financing Requirements for Capital Expenditure programme	Implementation progress Performance metrics	Implementation progress Performance metrics Risk Register	Performance metrics CS Risk Register -
Investment Property	Gateway Issues Report : OPN Replacement, Horizon Climate Action - Progress Dashboard Net Zero Design & Technology Standard for Projects Update City's Estate : 21 Whitefriars Street – Disposal	Draft New Business Plan 2022 – 2025 Annual Estimates Draft New Business Plan 2022 – 2025 Business Plan – 2nd Quarter Progress Delegation Sheet	City Fund and City's Estate : Investment Property Monitoring reports City Fund Annual Update City's Estate Annual Update Strategic Property Estate Annual Update	Business Plan 3rd Quarter Progress Delegation Sheet	City Fund and City's Estate : Investment Property Monitoring report Annual Valuation Delegation sheet

	City Fund : London Wall West Update report City Fund : 34 Bartholomew Close Verbal Update City Fund : Leadenhall Market Verbal Update City Fund and City's Estate : Rental Estimates report Delegation Sheet		Delegation Sheet		
Financial Investments	Performance Monitoring report for City's Cash Investments Quarterly Investment report from Mercer	PRI (Principles of Responsible Investment) – Assessment Update City's Cash Quarterly Investment Sir William Coxen Trust Fund Performance to 30 September Performance Monitoring report for City's Cash Investments	Performance Monitoring report for City's Cash Investments	Performance Monitoring report for City's Cash Investments Quarterly Investment report from Mercer (Investment Consultant)	Performance Monitoring report for City's Cash Investments Quarterly Investment report from Mercer

		Quarterly Investment report from Mercer Hampstead Heath Trust & Charities Pool Investment Performance Monitoring to 30 September			
Treasury Management	Treasury Management Update Annual Treasury End of Year/Outturn Report	Mid-Year Treasury Review Treasury Management Update	Annual Treasury Management Strategy Statement Treasury Management Update	Treasury Management Update	Treasury Management Update
Governance	Report of Action Taken	Annual Review of the Committee's Terms of Reference	Annual Review of the Committee's Terms of Reference	Annual Review of the Committee's Terms of Reference	

This page is intentionally left blank

Committee: Investment Committee	Dated: 22 September 2023
Subject: Risk Register for Investment Committee	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The City Surveyor (CS 265/23) and the Chamberlain	**For Decision**
Report author: Priya Nair – Chamberlain's Department John Galvin and 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 risks within the City Corporation on activities relevant to this Committee. The information presented relate to activity within the City Surveyor's Department (CSD, Appendix B) and the activity around the treasury function and City's Cash financial investments, which is managed by the Corporate Treasury Team in the Chamberlain's Department (Appendix C).

This is the first time that Investment Committee will see risks from different parts of the organisation in one report.

The risks presented by the CSD are departmental and, in line with the Corporate Risk Management Policy and Strategy (2021), these will be presented to IC quarterly. Those relating to Corporate Treasury are functional risks, so are not governed by the same requirements. These have been historically reported to Finance Investment Board every six months, in line with the request of this Board. It is proposed that this frequency is maintained for IC. This means that the next risk update seen by this Committee will only relate to CSD departmental risks.

Recommendations

Members are asked to:

- 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 (Appendix C) and confirm that appropriate control measures are in place.
- 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), these will be 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 will be maintained with the new IC.

3. This report includes an update from both CSD and the Chamberlain (Corporate Treasury Team).

Review of Risks

4. The method of assessing risk reflects the City of London's standard approach to risk assessment and 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. Appendix C relates to risks owned by Corporate Treasury, helping identify and manage the strategic risks facing the City's non-property investments.

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

CSD Risk Register (Appendix B)

8. The key highlights to note to the risk registers which were presented most recently to Committee (July) are as follows:

   a. SUR SMT 005

      Construction Price inflation

      Current Risk Score 16 (Red)

      Whilst the rate of increase in construction costs has abated, it is still above historic norms. This is highlighted for Members of IC as 'in flight' projects continue to suffer from costs above those that were initially projected.

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 a number of 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.

SUR SMT 009

Recruitment and Retention of Property Professionals

Current Risk Score 16 (Red)

Competition for property professionals remains strong, particularly in asset and project management – key areas for IC. The department is engaging closely with corporate colleagues where this item is also flagged as a Corporate Risk.

c. SUR SMT 012

Adjudication and Disputes

Current Risk Score 8 (Amber)

This risk has recently been highlighted and is included on the department's risk register for the first time. This risk is arising from inspection and specification work which, as it was undertaken over COVID-19, may have been done remotely, or with fewer site visits. This is leading to an increased level of issues at hand-over, and legal discussions.

Table 1: Summary table of risks of City Surveyor's Departmental Risks relevant to Investment 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			
SUR SMT 003	Investment Strategy Risk	12			
SUR SMT 010	Insurance - Investment and Corporate Estates	12			
SUR SMT 011	Contractor Failure	12			
SUR SMT 012	Adjudication & Disputes	8			new

Chamberlain (Corporate Treasury) Financial Investments (Appendix C)

9. The financial Investments Risk Register contains seven risks which are summarised in Table 2 below and are ranked by their current risk score.

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

11. As a result of the review, officers consider that the three risks at the top of Table 2, which are all "amber" are currently the most serious risks on this Risk Register and require active risk management by Members and Officers. All other risks continue to have a "green" risk score.

Table 2 : Summary table of risks for Corporate Treasury relevant to investment Committee

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

Conclusion

12. Members are asked to note the recent changes to the risk registers, and the actions taken by the City Corporation to mitigate the likelihood and/or impact of the risks. Members are also asked to confirm that there are no other risks that should be added to the Risk Register.

Appendices

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

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

John Galvin
Faith Bowman
Departmental Performance & Services
City Surveyor's Department
E: john.galvin@cityoflondon.gov.uk

This page is intentionally left blank

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.

CITY OF LONDON

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

(B) Impact criteria

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

(D) Risk score definitions

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

Contact the Corporate Risk Manager for further information. Ext 1297

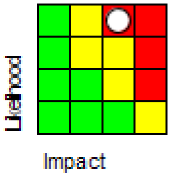
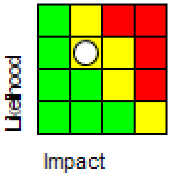
Version date: January 2020

This page is intentionally left blank

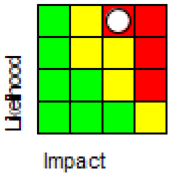
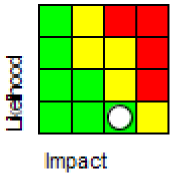
SUR Departmental risks - detailed report EXCLUDING COMPLETED ACTIONS for COMMITTEE

Report Author: Faith Bowman

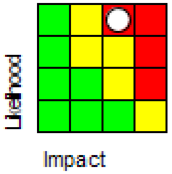
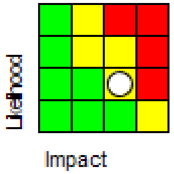
Generated on: 31 August 2023

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
SUR SMT 005 Construction Price Inflation 14-Oct-2021 Ola Obadara	**Cause**: Market conditions have led to input price inflation **Event:** Project and programme cost escalation **Impact**: Inability to delivery capital and revenue projects within budget		**16**	Material costs and labour availability are combining to raise costs. 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. **18 Aug 2023**		**6**	31-Mar-2024 Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 005a	Procurement Strategy	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). 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.	Ola Obadara	18-Aug-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	18-Aug-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	18-Aug-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	18-Aug-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
SUR SMT 006 Construction Consultancy Management 14-Oct-2021 Ola Obadara	**Cause**: Poor performance by consultants **Event:** Abortive work, delays, or non-performance. **Impact**: Additional costs, project delays		**16**	This relates to abortive design / development. The department continues to suffer the impacts of this risk, with action being taken against consultants when their performance does not meet expectations. 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. 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. **18 Aug 2023**		**4**	31-Mar-2024 Reduce	Constant

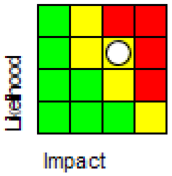
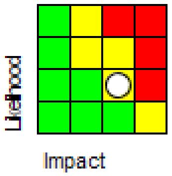
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 006a	Commissioning stage	The department has commenced going to market at RIBA stage 3 rather than RIBA stage 4. This is designed to prevent abortive design and development. This change followed close work with the procurement team in Chamberlain's. The impact of this change will be tracked over the coming months.	Ola Obadara	18-Aug-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	18-Aug-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	30-Sep-2023
SUR SMT 006e	Review of appointment documents	The City Surveyor's Department is seeking funding to undertake a review of some of the appointment documentation. This will be with the view that action could be taken where required, and any lessons can be applied to future appointment.	Ola Obadara	24-Aug-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
SUR SMT 009 Recruitment and retention of property professional	**Cause**: 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 **Event**: 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) **Impact:** 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 though recruitment campaigns and training etc, or to the department through filling vacancies through comparatively expensive temporary contracts.		**16**	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. 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. The City's pay and reward review has recently commenced (January 2023) and the external consultancy Korn Ferry will be assisting in this analysis. 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. The City Surveyor has scheduled meetings. The City's revised workplace posture (minimum 2 days in-the-office working) is being seen as a positive by staff and assists in the retention of		**8**	31-Mar-2023	

21-Jan-2022				staff who may otherwise leave for greater reward packages at competitor organisations. This assessment is supported by CIPFA analysis which highlights that 50% of local authorities have moved to remote working, and 68% of employees go into the office for meetings or for 1-2 days. Whilst these activities are being pursued corporately, the department continues to ensure that it does everything it can do internally to mitigate this risk. **24 Aug 2023**			Reduce	Constant

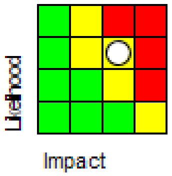
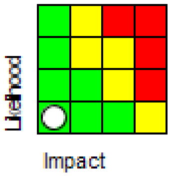
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 009a	Advertising	The department and the HR Business Partner has produced a recruitment best practice document, which includes ensuring that vacant posts are advertised in areas which will generate interest from suitably qualified candidates, including those currently under-represented within our workforce.	Paul Wilkinson	02-Jun-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	02-Jun-2023	31-Mar-2024
SUR SMT 009c	Communication	Quarterly meetings from the department’s Chief Officer so all staff feel engaged with the activities of the department.	Paul Wilkinson	02-Jun-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”	Paul Wilkinson	24-Aug-2023	31-Mar-2024

		(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.			
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	02-Jun-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 withdrawn prior to the review conclusions, and this has made our local offer less competitive than our peers.	Paul Wilkinson	24-Aug-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
SUR SMT 003 Investment Strategy Risk 17-May-2021 Robert Murphy	**Cause**: The business environment declines, office workers do not return to their workplace in numbers anticipated, retail tenant failure, or demand moves away from City of London assets. **Event:** Lower rental levels achieved, lower demand, increased turnover of tenancies, increased tenant failure **Impact**: Inability to maximise property returns and income for an acceptable level of risk		**12**	This risk captures a number of sub-risks which may impact the organisation's ability to maximise its property returns for an acceptable level of risk. Greater economic uncertainty is being tracked by the team, particularly in regard to interest rates, and inflation. The department will be undertaking a tenant survey in June/July by RealService with results due in September. The on-going mitigation of this risk is important for the organisation achieving its aspirations regarding Climate Action Strategy and Major Programmes, due to the income generated by the function. As the composition of the portfolio changes, new skills will be required by those working within the function. This then links closely with the department's Recruitment & Retention risk (SUR SMT 009). **24 Aug 2023**		**8**	31-Mar-2024 Reduce	Constant

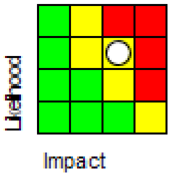
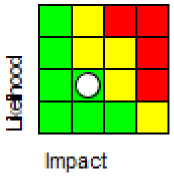
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 003a	Macro-economic The strategy is to maintain a diverse portfolio that reduces the impact of this risk. This includes: 1. Use (office, retail, industrial) 2. Location (City, Southwark, West End etc.) 3. Tenancies (Long term Headlease geared, FRI, directly managed) 4. Covenants (multinationals, SME) 5. Asset management (lease renewals, voids, arrears, etc) 6. Monitoring retail habits in change of building use	The actions described are being undertaken and reviewed regularly with the Assistant Directors. Consideration includes the potential for recession, inflation, energy pricing etc, and how this will impact tenants and the wider market.	Robert Murphy	18-Aug-2023	31-Mar-2024
SUR SMT 003b	Portfolio 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.	This is achieved through regular market scanning, and the integration of learning into the Corporation's approach.	Robert Murphy	18-Aug-2023	31-Mar-2024
SUR SMT 003c	Climate Action 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.	Ensure that the properties offered by the City Of London are meeting the emerging needs of tenants.	Robert Murphy	18-Aug-2023	31-Mar-2024
SUR SMT 003d	Office risk Reviewing post-pandemic office use and demand.	The department is monitoring key market use through data supplied by partners (such as football information), market research reports, and tenant feedback. 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). The team is working with Corporate Colleagues in connection with the "Destination City" agenda, particularly in highlighting market trends to Members and key stakeholders.	Robert Murphy	18-Aug-2023	31-Mar-2024

SUR SMT 003e	Retail Changes in consumer preferences (moving to on-line 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.	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.	Robert Murphy	24-Aug-2023	31-Mar-2024

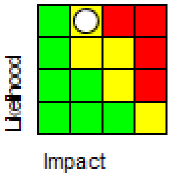
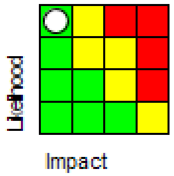
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
SUR SMT 010 Insurance - Investment and Corporate Estates 26-May-2022	**Cause**: Revaluation of the City Corporation's estates (Investment and Corporate) does not happen in a timescale compliant with insurance policy requirements or the terms of leases. **Event**: The City fails to meet the provision under its insurance policies that revaluations are undertaken by a RICS surveyor at least every five years (Investment and Corporate). The City is in breach of its legal obligations as a landlord under the terms of its leases to ensure that the full re-instatement value is insured . **Impact:** The insurance policy does not respond in full (Investment and Corporate). Potential legal action from commercial occupiers in the event of an incident for which there is not appropriate cover.		**12**	This risk identifies the need of re-valuation of the City of London Estates – (Investment and Corporate) to ensure that the City reaches its legal obligations under its insurance policies. The last on-site valuations of the Investment Property Group estate and Corporate buildings (other than special sites) was undertaken in 2015. Funding has recently been identified and a budget is now in place. Instructions are being made to our contractors such that they can proceed with delivery. Once this is in train the risk score should start to reduce towards target. **24 August 2023**		**1**	31-Mar-2024 Reduce	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 010a	Register of data	A property schedule exists and this has been updated with the survey carried out on Special Sites (by RLF).	Robert Murphy	18-Aug-2023	31-Dec - 2023
SUR SMT 010b	Funding	Where leases allow, the cost can be recovered from commercial tenants, and operational occupiers as appropriate. Funding has been agreed and a budget line identified (Jan 2023). As this is now in place instructions are due to be placed with contractors such that this activity can progress.	John James; Robert Murphy	18-Aug-2023	31-Mar-2024
SUR SMT 010c	Delivery	The delivery of this activity will be done by an external party, and the tender is scheduled to be published June/July period. The department is currently working with Procurement to ensure	Robert Murphy	18-Aug-2023	31-Mar-2024

		the optimal route to market.			

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 Contractor Failure 13-Feb-2023 Ola Obadara	**Cause**: Market conditions **Event:** Failure of either a main contractor, or a substantial sub contractor **Impact**: 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 element the City Corporation does not have significant influence over who is commissioned to undertake work. **18 August 2023**		**4**	 Avoid	Constant

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	18-Aug-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	18-Aug-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
SUR SMT 012 Adjudication & Disputes 31-Aug-2023	**Cause:** The impact of COVID-19 on project delivery. **Event**: Regulations restricted access to sites and resulted in more design work being undertaken remotely. Productivity at sites was adversely impacted. **Impact:** Increased likelihood that projects were designed correctly, and resulting legal and adjudication issues, reputational harm.		**8**	The COVID-19 pandemic resulted in 3 years of impact at project sites. Site productivity was limited (circa 60% productivity) and much design work was undertaken remotely, or with limited site access. 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. 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. 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 & disputes. **31 Aug 2023**		**4**	31-Mar-2024	Constant

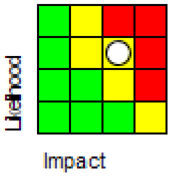
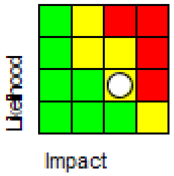
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
SUR SMT 012a	Project Review & Claims Consultant	The department is reviewing projects alongside the contracts to understand our position. Further, we have engaged external Claims Consultants to ensure that the City's position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

This page is intentionally left blank

CHB ~~FIB~~ Investment Committee (Financial Investments) Detailed risk register EXCLUDING COMPLETED ACTIONS

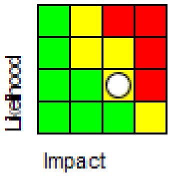
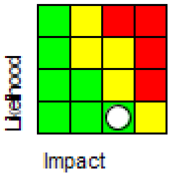
Report Author: Priya Nair
Generated on: 31 August 2023

Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 01 Insufficient assets - City's Cash 08-Mar-2018 Kate Limna; Priya Nair	**Cause:** The asset allocation of the City's Cash investment portfolio is unable to fund long term expenditure requirements due to market movements. **Event:** There are insufficient assets to meet expenditure requirements. **Effect:** Reduced income or lower than anticipated growth which could impact on the Corporation's medium term financial plans. City's Cash would be required to sell financial assets to fund expenditure requirements.	 	**12**	The absolute return target for City's Cash has been set at CPI + 4%. As at ~~December 2022~~ 31 July 2023, the Fund is outperforming over the quarter but underperforming its absolute return target across all other time horizons. The Fund has produced a positive return over all time frames. This is largely as a result of global equity markets which performed well in the first seven months of the year following a difficult 2022. ~~Financial Markets have been very volatile over the last year due to the war in Ukraine, increasing inflation and interest rates and the effect of the September mini budget which was shortly u-turned on. This has affected stock markets, with the MSCI AC World and MSCI World all returning negatively for the year ended 31 December but despite turmoil the FTSE All share ended on a~~	 	**8**	31-Mar-2024	Constant

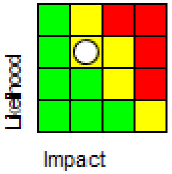
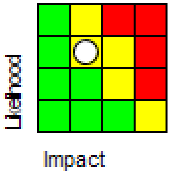
				~~modest annual gain.~~ **19 Jul 2023**				

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 01a	The City's Cash investment strategy is reviewed at least every three years by the ~~Financial Investment Board~~ Investment Committee.	The City has appointed Stanhope Capital as the outsourced Chief Investment Officer function (OCIO) reporting to the Chamberlain and covering City Fund (property) and City's Cash (property and financial investments). Draft Investment Strategies have been commented on for City Fund and City's Cash by the Committee ; these working drafts will be further developed over the next 3-6 months. The OCIO function will be advising on: • *City's Cash*: asset allocation between property and financial investments • *City Fund and City's Cash*: diversification of asset classes within appetite and appropriate pace for transition. • *City Fund & City's Cash*: Suitable income targets. The City's Cash investment strategy is expected to be reviewed in 2023/2024	Caroline Al-Beyerty; Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 01b	The investment performance is measured against absolute return targets required to meet long term objectives. This is reported to the ~~Financial Investment Board~~ Investment Committee throughout the year and is supplemented by market insight from the Corporation's investment consultants which will assist any strategic decisions required in between the three-year formal strategy reviews.	City's Cash investment performance will be brought to each meeting of the ~~Financial Investment Board~~ Investment Committee for consideration.	Kate Limna	31-Aug-2023	31-Mar-2024

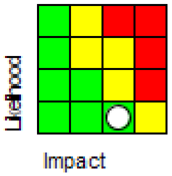
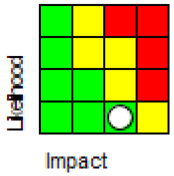
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 04 Counterparty failure - Treasury Management 08-Mar-2018 Kate Limna; Priya Nair	**Cause:** External events, including cybersecurity incidents, threaten the solvency of counterparties the Corporation has lent to. **Event:** Failure of counterparty to fulfil obligation to the Corporation, i.e. default on repayments. **Effect:** Asset valuations at risk.		**8**	The current Treasury Management Strategy restricts lending to high-quality counterparties and remains fit for purpose. External credit ratings for existing counterparties are currently at acceptable levels although credit default swap prices for the existing counterparties (where available) have been gradually rising over the last quarter. **31 Aug 2023**		**4**	31-Mar-2024	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 04a	Detailed due diligence is carried out when new counterparties are onboarded.	Independent analysis and consultation with treasury investment advisor when adding additional counterparties. Where the Corporation invests in money market funds, officers monitor the funds' weekly liquidity profiles to ensure the vehicles retain adequate liquidity. At present, there are no liquidity concerns with any of the Corporation's existing fund counterparties. These funds invest in very short term and very high-quality instruments, so default risk is low. The Corporation's short-dated bond fund investments are more sensitive to changes in economic conditions and performance is more volatile. Short term interest rates have increased during 2022 and this has had a negative impact on the total returns available from the short-dated bond funds. However, the Corporation invests in these instruments on a longer-term basis (at least three years) where there is a greater tolerance for volatility in returns. Officers also continue to monitor changes in the credit standing of direct counterparties via ratings changes from the three main credit rating agencies and other news.	Kate Limna	31-Aug-2023	31-Mar-2024

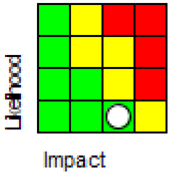
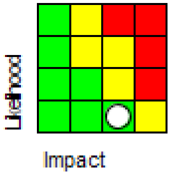
CHB FIB 04b	When lending directly to counterparties, ensure they meet the minimum credit criteria as set out in the most recent Treasury Management Strategy Statement.	All lending is conducted within the parameters of the current ~~2022/23~~ 2023/24 Treasury Management Strategy Statement as agreed by Court of Common Council (CoCo) on ~~10th March 2022~~ 9 March 2023~~, and amended and ratified by CoCo on 8 December 2022~~. Additionally, officers have implemented financial metric-based criteria for determining the eligibility of local authority borrowers. When onboarding new financial institutions, officers review banks' financial standing including standard financial reporting ratios for assessing capitalisation and liquidity.	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 04c	Monitor markets regularly through credit rating updates and financial publications, plus seeking the advice of treasury investment advisors when appropriate	Officers continually monitor for credit rating updates as well as the financial press and industry publications in search of any news regarding the Corporation's counterparties. Treasury investment advisors provide rating agency credit watches and other market data including Credit Default Swap prices on money market participants.	Kate Limna	31-Aug-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
CHB FIB 02 Targeted returns - City's Cash 08-Mar-2018 Kate Limna; Priya Nair	**Cause:** Fund managers fail to achieve the targeted investment returns because • the ~~Board~~ Committee appoints unsuitable fund managers, • individual fund managers underperform against the benchmarks agreed by the ~~Board~~ Committee, • aggregate fund manager performance fails to achieve the Board's long-term targets **Event:** Failure to be seen to manage the fund responsibly. **Effect:** Supervisory intervention over management of the funds.		**6**	The performance of fund managers and their aggregate performance is reported against target to each ~~Financial Investment Board~~ Investment Committee. The ~~Board~~ Committee sets a diversified investment strategy to mitigate volatility and as such it expects different parts of the strategy to outperform at different times. Where relative returns are negative, Members and officers seek to understand why in order to determine whether there is continued conviction in the manager's strategy to recover performance. The fund has underperformed its absolute return target of CPI +4% over all time horizons except the quarter to 31 July 2023, but this is due to the strength of inflation, which rose by ~~10.7~~ 6.8% in the 12 months to ~~December 2022~~ July 2023 being ~~exceptionally~~ high. However, it should be noted that CPI +4% is the long-term target. **31 Aug 2023**		**6**	31-Mar-2024	Constant

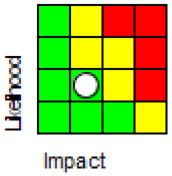
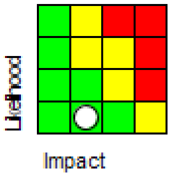
Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 02a	Investment managers' performance and their aggregate performance is measured against appropriate benchmarks and monitored by the ~~Financial Investment Board~~ Investment Committee throughout the year. It is supplemented by market insight from the Corporation's investment consultants which provides peer group comparisons; checks on movement of key officers; and reviews on the incorporation of ESG considerations in implementing their investment strategies. Fund managers are invited to meet with Officers and Members to account for their performance as and when the ~~Board~~ Committee deem this necessary/as required.	The latest performance for City's Cash Fund to ~~31 December 2022~~ 31 July 2023 along with the Investment Consultant's quarterly report (to ~~December~~ June 2023) is reported to the ~~Financial Investment Board on 17 February 2023~~ Investment Committee on 22 September 2023.	Kate Limna	31 Aug 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
CHB FIB 03 Service provider failure 08-Mar-2018 Kate Limna; Priya Nair	**Cause:** Corporate, financial, economic or cybersecurity threats result in service provision withdrawal or liquidation of partner organisations. **Event:** Failure of fund manager, investment consultant or other service provider without notice. **Effect:** Asset valuations at risk or a period of time without service provision.		**4**	Officers meet regularly with fund managers, investment consultants and other service providers. Officers write to all counterparties requesting latest internal control report from fund managers and custodian ahead of the closure of accounts. **31 Aug 2023**		**4**	31-Mar-2024	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 03a	Detailed due diligence is carried out when new fund managers, investment consultant or other service provider are appointed.	New manager due diligence undertaken in consultation with investment consultant. There are currently no plans to appoint any additional managers. The current investment consultant contract was re-tendered via the National LGPS procurement framework. Following a rigorous and competitive exercise Mercer were appointed to the role in October 2021.	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 03b	Review of internal control reports on annual basis.	Corporate Treasury compile an archive of the most up to date relevant annual internal control reports issued by all issuing fund managers and custodian as part of statement of account compilation across Funds. All internal control reports from the pooled fund managers have been received where available. Officers are in the process of reviewing the findings of the reports to ensure they remain satisfied with the control environments operated by the Corporation's appointed asset managers.	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB03c	Monitor markets regularly through financial publications and seek advice of managers and investment consultant when appropriate.	Officers regularly monitor financial press and industry publications particularly in search of any news regarding entities that have an existing relationship across the Corporation's Funds	Kate Limna	31-Aug-2023	31-Mar-2024

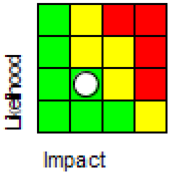
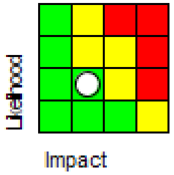
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 05 Cashflow Management 08-Mar-2018 Kate Limna; Priya Nair	**Cause:** Inaccurate cash flow modelling for Corporation as a whole. **Event:** There is insufficient cash available to meet day to day obligations. The organisation is forced to liquidate long term investment assets without adequate planning or fails to identify external borrowing requirements. **Effect:** Overdrawn position incurs unnecessary expenditure and missed payments damage the Corporation's reputation. Inefficient treasury management decisions increase costs.		**4**	Officers continue to maintain a cash flow model projecting the Corporation's cash flow requirements for the forthcoming year on an on-going basis. Cash flow is regularly monitored, and short-term cash balances are invested over appropriate time horizons. **31 Aug 2023**		**4**	31-Mar-2024	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 05a	Combined cashflow daily forecast maintained to project inflows and outflows over the year forward to ensure a sufficient level of on-going liquidity. Cashflow requirement is the fundamental consideration when agreeing duration of fixed term deposits or placing capital in money market funds.	Cash flow model maintained and updated on a daily basis, incorporating known flows and estimating payments and income of uncertain timing based on historic cash flow profiles and estimations for the timing and value of future payments and receipts.	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 05d	A balance sheet review exercise enables the Corporation to further understand the likely timing of any future need to liquidate long term investment assets or external borrowing requirement.	Officers have developed a medium-term cash flow forecast based on City Fund and City's Cash projected balance sheet. This forecast will be updated in line with the evolution of the medium-term financial plan and will be being reviewed in tandem with the production of the draft statement of accounts for 2022/23 ..		31-Aug-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
CHB FIB 06 Governance 08-Mar-2018 Kate Limna; Priya Nair	**Cause:** Lack of understanding of the applicable statutory requirements such as investment regulations, prudential code etc. **Event:** ~~Board~~ Committee Members and officers do not have appropriate skills or knowledge to discharge their responsibilities. Regulatory breach. **Effect:** Inappropriate decisions are made leading to a financial impact, or a breach of legislation or service not provided in line with best practice and legal requirements. Potential regulatory fines.		**4**	Member and officer experience and knowledge was assembled as part of the MiFID II opt up process and deemed sufficient by all fund managers, advisors and counterparties to substantiate opt up to 'professional' client status. Members also routinely receive advice from the Investment Consultant at all ~~Board~~ Committee meetings. Officers monitor changes in applicable regulations and advise Members accordingly. **31 Aug 2023**		**2**	31-Mar-2024	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 06a	Training provided to ~~Board~~ Committee Members on a range of investment topics and asset classes on a needs basis. Continued Professional Development (CPD) records maintained and updated annually.	Training delivered to Members of the Board has included treasury management in February 2019 via the treasury consultant; investment strategy training in June 2020 from the Investment Consultant in relation to the Pension Fund Investment Strategy review; sustainable investment implementation from FTSE Russell in September 2020; and climate risk training from various sessions led by Aon and Carbon Tracker in Q2 2021. Treasury and investment training will be provided to the ~~Board~~ Investment Committee during 2023/24.	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 06b	Job descriptions used at recruitment to attract candidates with skills and experience related to investment finance. The Corporation maintains membership of CIPFA's Pension Network, CIPFA's Treasury Management Network plus the LAPFF, LPFA and PLSA – all providing access to training opportunities via courses, seminars and conferences.	Officers continue to attend training courses, seminars and conferences where deemed appropriate to enhance understanding of markets, financial instruments, regulatory and statutory reporting issues. During 2022/23 the team ~~has recently~~ recruited to a number of posts following a redesign of the team structure which has resulted in additional resource allocated to the treasury and investments function.	Caroline Al-Beyerty; Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 06c	Training plans in place for all staff as part of the	Performance and development appraisals continue to be carried out in line with corporate	Caroline	31-Aug-	31-Mar-

	performance appraisal arrangements, which are reviewed every six months.	policy.	Al-Beyerty; Kate Limna	2023	2024
CHB FIB 06d	External professional advice sought where required.	The investment consultant attends each meeting of the ~~Financial Investment Board~~ Investment Committee providing advice on investment matters.	Kate Limna	31-Aug-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
CHB FIB 07 Failure to discharge responsible investment duties 20-Jun-2019 Priya Nair	**Cause:** Insufficient attention is paid to the environmental, social and governance (ESG) dimensions of the Corporation's financial investments. **Event:** The Corporations' financial investments include an underappreciated exposure to negative ESG risks and the means to effectively manage such risks is not understood. **Effect:** The Corporation suffers reputational or financial damage.		**4**	~~The Board has formally recognised its asset stewardship role and the need to manage ESG risks through its Responsible Investment Policy which also outlines the Board's approach in this area.~~ The ~~I~~nvestment Committee inherits an advanced approach to responsible investment and asset stewardship. The Corporation (via the Financial Investment Board) has formally recognised its asset stewardship role and the need to manage ESG risks through its Responsible Investment Policy which also outlines the Corporation's approach in this area. The City of London Corporation (as a whole) is a signatory to the Principles for Responsible Investment (PRI). The Financial Investment Board undertook an in-depth review of its climate risk exposure in 2021 resulting in a commitment to achieve net zero carbon emissions by 2040 together with the development of interim goals via a transition pathway. **31 Aug 2023**		**4**	31-Mar-2024	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 07a	Reporting on responsible investment activities to the Principles for Responsible Investment is completed on an annual basis. The ~~Board~~ Committee (along with other relevant Committees/Boards) receives an annual Transparency Report from the PRI from which it can evaluate progress against responsible investment goals.	~~The Corporation's assessment report will be reported to this Board in February 2023. The new PRI draft framework was released on 26 January 2023 for information. The reporting period for Signatories to make their submissions will not open until mid-May at the earliest and close mid-August. The results of the 2023 submissions are expected to be available in November 2023.~~ The PRI reporting period opened on 14 June 2023 and was expected to close on 6 September 2023. However the PRI have experienced some IT issues and as a consequence have extended the submission deadline by a couple of weeks. The City's submission is being currently being finalised. The PRI are expecting to release the results of the submission in November 2023	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 07c	As part of the regular management and monitoring of investment mandates, the ~~Board~~ Committee and responsible officers challenge investment managers on ESG issues arising in the portfolio. The Investment Consultant reports to the ~~Board~~ Committee on its monitoring of ESG risks on a quarterly basis.	The Board receives regular updates on ESG standings amongst its appointed investment managers from the Investment Consultant on a quarterly basis. The Board has established new climate risk expectations for existing and potential investment managers and these form part of the regular ongoing monitoring of managers' performance.	Kate Limna	31-Aug-2023	31-Mar-2024
CHB FIB 07e	There is a general commitment by the City Corporation to meeting the standards of the new 2020 UK Stewardship Code and needs to ensure compliance is developed~~.~~ The Committee reviews asset stewardship across its investment mandates on an annual basis and uses the exercise encourage better ESG outcomes amongst its existing managers (this will need to be done in conjunction with other committees which now have investment oversight responsibilities).	All of the City's Cash UK-based pooled fund managers (i.e. excluding the alternative assets portfolio) are signatories to the Stewardship Code.		31-Aug-2023	31-Mar-2024
CHB FIB 07f	The ~~Board~~ Committee (along with other relevant Committees/Boards) has been assigned several key actions which will enable the Corporation to deliver its Climate Action Strategy. Key to this is achieving a clear plan on how to achieve Paris-alignment by 2040.	~~The Financial Investment Board completed an in-depth review of its climate risk exposure in 2021/22~~ With the support of a specialist external consultancy firm, an in depth review of the climate risk exposure involving the use of scenario analysis, the development of a transition pathway consistent with a net zero by 2040 commitment, and the establishment of expectations for existing and potential mandates. The transition pathway itself involves a series of specific actions with various deadlines which the Committee (along with other relevant Boards and Committees) ~~Board~~ will target over the coming years.		31-Aug-2023	31-Mar-2024

Committee: Investment Committee Audit and Risk Management	Dated: 22 September 2023 6 November 2023
Subject: Treasury Management Outturn 2022/23	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Discussion**
Report author: Adam Buckley – Chamberlain's Department	

Summary

The Treasury Management Strategy Statement for 2022/23 was approved by the Financial Investment Board and the Finance Committee in February 2022 and by the Court of Common Council on 10 March 2022. (The Financial Investment Board has now been dissolved and replaced with the Investment Committee with effect from 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 an end of year report. The main points to note are as follows:

- As at 31 March 2023, the City had treasury balances totalling some £1,047.7m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances decreased by £178.3m over the course of the year, which was principally due to additional unexpected Business Rates payments in 2022/23 in relation to adjustments to the prior year of £157.7m.
- Short term investment returns increased throughout 2022/23, with the Bank of England increasing the base rate in successive moves, starting at 0.75% in March 2022 rising to 4.25% by March 2023. As at August 2023 the base rate stands at 5.25%.
- The investment of funds during the year conformed to the approved strategy and there were no liquidity difficulties or breaches of the approved creditworthiness policy.
- The treasury management strategy was amended during the year in relation to *non-specified investments*[1], i.e. the short-dated bonds funds. The value of the short dated bond funds can be volatile in the short term and should only be used for surplus cash balances with an investment horizon of at least three years (the average duration). In light of this volatility, the Treasury Management Strategy

[1] ***Non-specified investments*** *are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments*
Specified investments *are those with a high level of credit quality and subject to a maturity limit of one year.*

Statement (TMSS) was amended with effect from 1 April 2022, so that only City Fund would maintain exposure to the short dated bond funds.

- In November 2020, HM Treasury revised its requirements for new borrowers using the Public Works Loan Board (PWLB facility), effectively removing the ability of local authorities to borrow for commercial yield. At the same time PWLB reduced the margin added to gilt yields used to price new loans by 100 basis points.
- Post the financial year end, the PWLB guidance was updated on 15 June 2023, in particular publishing a new Housing Revenue Account (HRA) rate, at 40 basis points above prevailing gilts, available from 15 June 2023 for 1 year, with its continuation subject to review. This rate is solely intended for use by HRA and primarily for new housing delivery. Furthermore, the guidance, in line with the Prudential Code, reinforced that local authorities will *"…only borrow the amount needed to finance capital expenditure and not borrow extra amounts purely to invest and make a financial return"* (previously noted purely for yield).

Recommendation

Members are asked to note the report

Main Report

Introduction

1. The City of London Corporation (the City) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by the Financial Investment Board (9 February 2022), Finance Committee (15 February 2022) and the Court of Common Council (10 March 2022). During 2022/23 the Financial Investment Board received investment analysis reports at each Board meeting. (The Financial Investment Board has now been dissolved and replaced with the Investment Committee with effect from 19 May 2023.).

Overall Treasury Position as at 31 March 2023

3. The City's treasury position at the start and end of 2022/23 was as follows:

Table 1	**31 March**			
	Principal 2022	**Rate of Return**	**Principal 2023**	**Rate of Return**
	£m	**%**	**£m**	**%**
Fixed rate funding				
- PWLB	0		0	
- Market	0		0	
	0		0	
Variable rate funding				
- PWLB	0		0	
- Market	(450.0)		(450.0)	
	(450.0)		(450.0)	
Total debt	**(450.0)**		**(450.0)**	
Total investments	**1,226.0**	**0.08 ***	**1,047.7**	**2.39 ***
Net Investments	**776.0**		**776.0**	

* This rate of return includes the short dated bond funds. The rate of return excluding the short dated bond funds was 3.39% (2021/22: 0.51%).

Table 1 demonstrates that short term investments decreased by £178.3m from £1,226.0m as at 31 March 2022 to £1,047.7m as at 31 March 2023, which is largely due to additional unexpected Business Rates payments' in relation to adjustments to the prior year of £157.5m; capital expenditure incurred on the purchase of Unit 1 Fairview Industrial Estate and 85 London Wall (£56.5m); and the first tranche of compensation payment for the Markets. The rate of return refers to the weighted average return of the portfolio as at the balance sheet date, rather than income earned in the period (which is discussed further at paragraph 16). The overall rate of return as at 31 March 2023 was much higher than a year earlier, as interest rates increased throughout 2022/23 due to the tightening monetary policy from central banks, though this had a negative effect on the market value of the City's short-dated bond fund investments.

4. The weighted average rate of return was affected by the short-dated bonds, as bond prices have an inverse relationship with interest rates (i.e. when interest rates increase, bond prices decrease and vice versa), and hence there has been a corresponding decline in short-dated bond fund returns (i.e. *non-specified investments*). However, as interest rates rise, the bond fund 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, will make up a greater part of the total return generated by these funds.

5. Following the consultation undertaken by the Department of Levelling Up, Housing and Communities (DLUHC) on IFRS 9, the Government has extended the current mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Therefore, any capital gains/losses on the short dated bond funds will continue not to be taken through the City's General Fund (i.e. City Fund). The City are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

6. However, as City Fund is by far the largest participant in the TMSS in terms of investment balances, which are expected to endure for the foreseeable future, in order to ensure the TMSS is best aligned with each and every individual participants particular circumstances, during Autumn 2022 the Financial Investment Board, Finance Committee and Bridge House Estates Board all agreed to amend the TMSS with effect from 1 April 2022, and this was ratified by the Court of Common Council in December 2022. This amendment was to bifurcate the Annual Investment Strategy within the TMSS into two strategies: one for City Fund which includes exposure to the full range of investments (both *specified* and *non-specified* i.e. including the short-dated bond funds) permitted in the current TMSS and a second strategy for others which restricts exposure to *specified investments* only (i.e. excluding the short-dated bond funds).

The Strategy for 2022/23

7. During 2022/23 inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK government polices, resulted in UK interest rates having been volatile right across the curve, from Bank Rae through to 50-year gilt yields.

8. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. The expectation within the Treasury Management Strategy Statement (TMSS) for 2022/23, based on the forecast from December 2021 when interest rates were at 0.25%, was for a modest increase of only 0.50% in 2022/23. However, following rate rises in February and March 2022, interest rates moved up continuously in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year in March 2023, with further increases anticipated in 2023/24. As at August 2023 the Bank of England base rate is 5.25%.

9. This sea-change in investment rates resulted in the challenge of pro-active investment of surplus cash for the first time in over a decade, with the need to

seek the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in investment rates as duration was extended.

10. Starting the 2022/23 financial year at 5.5%, annual CPI inflation rose to 10.1% in July 2022, and then 11.1% in October 2022. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again to 10.4% in February 2023, up from 10.1% in January 2023. As at July 2023 inflation stood at 6.9%.

11. The Corporation's creditworthiness policy was designed to prioritise the security of the Corporation's assets whilst also enabling diversification of risk amongst a range of high quality counterparties. Given the increase in economic uncertainty, the creditworthiness criteria set out in the original strategy was maintained throughout the year.

12. The Corporation maintained sufficient liquidity through the selective use of highly liquid money market funds, cash flow forecasting, and active management of the portfolio's maturity profile.

13. The treasury management function complied with the parameters established in the Treasury Management Strategy Statement 2022/23 for the entirety of the reporting period and the City's treasury cash continues to be invested in a diversified balanced portfolio commensurate with proper and prioritised levels of security and liquidity.

14. The 2022/23 TMSS also included a number of prudential and treasury indicators for the year which are shown in Appendix 1. The City complied with all indicators in 2022/23.

The Borrowing Requirement and Debt

15. The Corporation did not anticipate (but did not rule out) undertaking any new external borrowing during 2022/23 and instead intended to temporarily use cash balances to support capital expenditure as an interim measure. This policy of internal borrowing was prudent as investment returns were initially low (and thus there would be a cost of carry associated with any new external debt that was not immediately used to fund capital expenditure) and minimising counterparty risk on placing investments also needed to be considered.

16. The majority of local authority borrowing is undertaken via the Public Works Loan Board (PWLB), a government agency. PWLB loans are priced on the basis of prevailing gilt yields plus a margin. As previously reported, the Government increased the margin from its long term position of 80 basis points to 180 basis points in 2019/20 and simultaneously announced a review of the future lending arrangements of the PWLB. These measures were prompted by concerns within Government over the use of PWLB loans to fund commercial investments for yield. On 25 November 2020, the Chancellor announced the conclusion to the review and reversed the earlier 100 basis point increase to the margins whilst simultaneously introducing a prohibition to deny access to borrowing from the PWLB for any local authority which planned to purchase assets for yield in its three-year capital programme.

17. Post the financial year end, the PWLB guidance was updated on 15 June 2023, in particular publishing a new Housing Revenue Account (HRA) rate, at 40 basis points above prevailing gilts, available from 15 June 2023 for 1 year, with its

continuation subject to review. This rate is solely intended for use by HRA and primarily for new housing delivery. Furthermore, the guidance, in line with the Prudential Code, reinforced that local authorities will *"…only borrow the amount needed to finance capital expenditure and not borrow extra amounts purely to invest and make a financial return"* (previously noted purely for yield).

18. No external borrowing was undertaken by the City Fund during the 2022/23 financial year, and actual capital expenditure in that year (£102m) was lower than anticipated in the 2022/23 TMSS (£217m). The City Fund's capital financing requirement is expected to increase in the next few years as a result of the planned capital expenditure and it is likely that at least a portion of this borrowing need will be met through internal borrowing. This strategy remains prudent in the current interest rate environment given the City Fund's cash balances. However, the Chamberlain will continue to monitor the outlook for interest rates to ensure the borrowing strategy remains appropriate.

19. City's Cash did not issue any new debt during the year having obtained market debt of £450m in 2019/20. The second and final tranche of that debt of £200m was received in July 2021.

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

Investment Outturn for 2022/23

21. **Investment Policy** – the City's investment policy is governed by MHCLG guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the annual investment strategy approved by the Court of Common Council on 10 March 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

22. Following the amendment to bifurcate the Annual Investment Strategy within the TMSS into two strategies (see paragraph 6): one for City Fund which includes exposure to the full range of investments (both *specified* and *non-specified* i.e. including the short-dated bond funds) and a second strategy for others which restricts exposure to *specified investments* only (i.e. excluding the short-dated bond funds), this resulted in a two income yields for 2022/23, one for City Fund and one for all other funds.

23. The income yield on short term investments for 2022/23 was 2.13% for City Fund and 1.83% for all other funds. (2021/22: 0.5% across all funds). The increase in income reflects higher returns available from the money markets in 2022/23, largely as a result of ultra-tight monetary policy in place for the latter part of the reporting period.

24. Aside from interest earned on deposits, the portfolio is also exposed to gains and losses on the market value of the Corporation's short dated and ultra-short dated bond funds, which are held at fair value. Each of these investments, and in particular the short dated bond funds which have the highest interest rate sensitivity, depreciated in value over the course of the year (bond prices have an inverse relationship with interest rates).

25. As yields have risen, the capital value of the portfolio's short dated bond fund investments declined resulting in a negative return of 0.79% for the year

(2021/22: -0.71%). As in 2021/22, these movements are debited as an unrealised loss on investments, which is accordance with the IFRS9 current mandatory statutory override (paragraph 5), are reversed and not taken through City Fund. Although capital movements are volatile in the short term, the allocation to short dated bond funds is expected to deliver superior returns over the medium term when compared to traditional deposits

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

Conclusion

27. Treasury management activities over the past financial year were carried out in accordance with the 2022/23 TMSS, which was amended in Autumn 2022 to bifurcate the Annual Investment Strategy within the TMSS into two strategies: one for City Fund which includes exposure to the full range of investments (both *specified* and *non-specified* i.e. including the short-dated bond funds) permitted in the current TMSS and a second strategy for others which restricts exposure to *specified investments* only (i.e. excluding the short-dated bond funds).

28. Money market investment returns, which are heavily determined by central bank activity, have increased as the base rate has increased throughout 2022/23. Rates are currently forecast to increase further over the rest of 2023 with a peak of 5.75% now expected by December 2023, where it is assumed rates will remain before decreasing in the second half of 2024.

Appendices
Appendix 1 – Treasury Indicators

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

This page is intentionally left blank

Appendix 1

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2021/22 Actual £M	2022/23 Estimate £M	2022/23 Actual £M
Authorised Limit for external debt (City Fund)-			
Borrowing	£0	£0	£0
other long-term liabilities	£12.9	£12.8	£12.8
TOTAL	£12.9	£12.8	£12.8
Operational Boundary for external debt (City Fund) -			
Borrowing	£0	£0	£0
other long-term liabilities	£12.9	£12.8	£12.8
TOTAL	£12.9	£12.8	£12.8
Actual external debt	£0	£0	£0
Upper limit for total principal sums invested for over 364 days (per maturity date)	£0	£400.0	£0

TABLE 2: Maturity structure of fixed rate borrowing during 2 2022/23	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

This page is intentionally left blank

Committee: Investment Committee	Dated: 22 September 2023
Subject: Treasury Management Update as at 31 July 2023	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**£N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The Chamberlain	**For Discussion**
Report author: Adam Buckley – Chamberlain's Department	

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 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 07 July 2023, when they received a report outlining the treasury position as at 31 May 2023.

The treasury management investment portfolio had a market value of £1,194.8m as at 31 July 2023, which is an increase of £82.7m from the balance reported previously as at 31 May 2023 (£1,112.1m).

The annual consumer price inflation rate in the UK dropped to 6.8% in July 2023, down from 7.9% in June 2023, but exceeded market expectation of 6.7%. The Bank of England's Monetary Policy Committee (MPC) has continued to raise the base rate incrementally from 4.50%, which was applicable at 31 May 2023, to 5.00% in July 2023, to 5.25% in August 2023, the fourteenth successive rise since December 2021. Markets no longer expect a 'terminal' base rate of 6.00% by the end of the year, instead pricing for a peak of 5.75% in December 2023.

This increase in rates has allowed the Corporation to obtain higher yields through its allocation to fixed term deposits, and officers expect interest income to increase further over the course of 2023/24 if the expected continued tightening in monetary policy materialises.

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 July 2023.

Current Position

2. The treasury management investment portfolio had a market value of £1,194.8m as at 31 July 2023, which is an increase of £82.7m from the balance reported previously as at 31 May 2023 (£1,112.1m). This increase is principally due to:-

   - Home Office grant receipts received in the reporting period (£80.7m);
   - a drawdown by Bridge House Estates (BHE) from Pyrford (£25m); and
   - a City's Cash receipt from the sale of 42 Conduit Street (£7.1m); offset by
   - City's Cash capital expenditure on the purchase of 3–9 Brewery Road N7 (£12.1m); and
   - expenditure on Major projects of circa £12.6m.

<u>Asset Allocation</u>

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 July, 31 May and 31 March 2023 is set out in Table 1.

Table 1: Asset allocation as at 31 July 2023

	31-Mar-2023		**31-May-2023**		**31-July-2023**	
	£m	**%**	**£m**	**%**	**£m**	**%**
Fixed Term Deposit	535.0	51%	505.0	46%	525.0	44%
Notice accounts	140.0	13%	115.0	10%	70.0	6%
Short Dated Bond Funds	151.0	15%	149.5	13%	151.2	12%
Ultra Short Dated Bond Funds	139.2	13%	140.0	13%	141.1	12%
Liquidity Fund	82.5	8%	202.6	18%	307.5	26%
Total	**1,047.7**	**100%**	**1,112.1**	**100%**	**1,194.8**	**100%**

5. As at 31 July 2023, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks via fixed term deposits (44%). The allocation to fixed term deposits has increased by £20m over the two months since July 2023, as the Corporation has taken advantage of higher rates available in the sterling money markets (see figure 1 below and paragraph 12). The increase has been funded by the redemption of £45m from notice accounts, which now make up around just 6% of the portfolio, as funds have been disinvested from this instrument due to available rates lagging behind the steep rise in fixed term deposit rates. The remaining funds disinvested from notice

accounts were allocated to liquidity funds, along with the increase in the cash balance as noted at paragraph 2, which now make up around 26% of the portfolio. The increase in liquidity funds held, was in part to support a scheduled compensation payment to Markets in August 2023. As the fixed term deposits mature, the intention is to reinvest these.

6. The ultra-short dated bond funds account for 12% 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 (12%) continues to be invested in short dated bond funds. These funds are invested in investment grade credit instruments and currently have a duration (weighted average time to maturity) of around 3 years. The value of the short dated bond funds can be volatile in the short term and should only be used for surplus cash balances with an investment horizon of at least three years (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 July 2023 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

<u>Performance</u>

8. Since May 2023, the Bank of England has continued to increase its Bank Rate, from 4.50% to 5.00% in July 2023 and more recently 5.25% in August 2023, in successive moves at each of the last fourteen meetings of the MPC. The accompanying policy statement from the August MPC meeting maintained the comment that *"...if there were to be evidence of more persistent [inflation] pressures, then further tightening of monetary policy would be required*". In a change from previous views, it also stated that the "*current stance of policy is restrictive"*, adding that it would ensure Bank Rate is *"sufficiently restrictive for sufficiently long to return inflation to the 2% Target".*

9. Markets no longer expect a 'terminal' base rate of 6.00% by the end of the year, instead pricing for a peak of 5.75% in December 2023, and rates are then expected to begin easing in the second half of 2024.

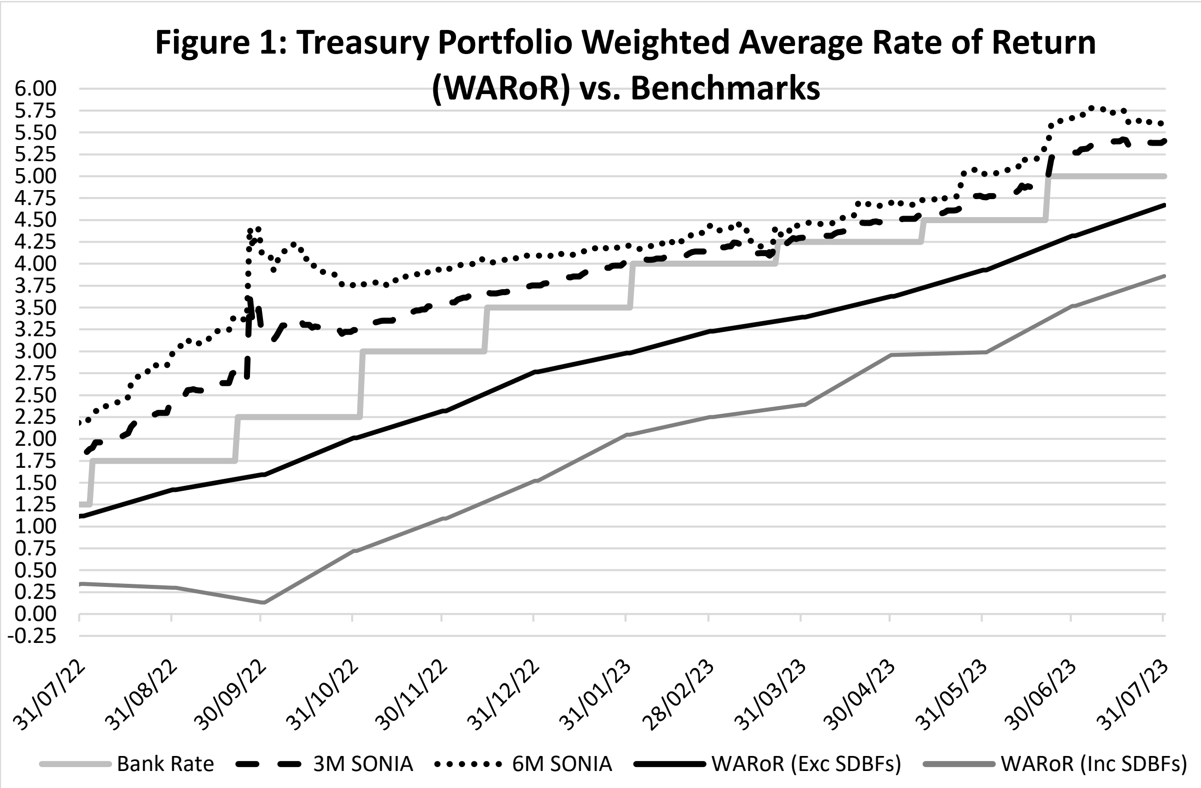
10. As the Bank Rate is the primary determinant of short-term interest rates in the UK, these changes have impacted the treasury investment portfolio, broadly in two ways:

    a. As yields have increased, the capital value of the Corporation's bond fund investments has declined (i.e. when interest rates increase, bond prices decrease and vice versa), however, total returns during the reporting period have slightly increased. That is, income rather than capital gains, have made 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 have risen 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 are still trending upwards in line with expected bank rate increases as the MPC moves to try and ease inflation. In August 2023 the Bank of England added *"resilience in the economy"* to its list of persistent inflation pressures, alongside the labour market, wage growth and services CPI inflation.

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 monetary policy is continually tightened over the course of 2023/24 then officers expect this rate of return to increase from current levels.

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

15. As month-to-month returns from the ultra-short and short dated bond fund investments can be volatile, for these instruments, officers have used the trailing 12 month total return to 31 July 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 4 months since the end of March 2023, however, over the last year to July 2023 as a whole, returns on the short-dated bonds (L&G and Royal London) have reduced, which largely reflects the continued rising interest rate environment.

16. To aid an effective assessment of performance, table 2 shows the historical return of the ultra-short and short dated bond fund investments on a total return basis over various time horizons under one year.

Table 2: Bond Fund Total Returns as at 31 July 2023

Fund	2 Month Return (31/05/2023 to 31/07/2023)	4 Month Return (31/03/2022 to 31/07/2023)	12 Month Return (31/07/2022 to 31/07/2023)
Federated Hermes Sterling Cash Plus Fund	0.76%	1.42%	3.34%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.82%	1.52%	3.55%
Payden Sterling Reserve Fund	0.71%	1.02%	1.89%
L&G Short Dated Sterling Corporate Bond Index Fund	0.68%	0.05%	-1.67%
Royal London Investment Grade Short Dated Credit Fund	1.57%	0.22%	-1.77%

17. 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.

18. The increase in interest rates has had a negative effect on these short dated bond funds total returns over the last 12 months, although this has occurred after a sustained period of price appreciation prior to 2021/22.

19. 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.

20. Notwithstanding the decline in capital values, as interest rates rise the bond managers will be able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, should

make up a greater part of the total return generated by these funds. The income (distribution) yield on the bond funds with Royal London and L&G are 4.20% and 3.40% respectively as at the end of July 2023.

21. 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.

22. However, officers are reviewing the historic and anticipated future performance of these funds, with consideration as to whether dis-investment, and any possible realised capital loss, would be offset by more favourable returns from an alternative investment class.

23. Currently, interest generated from short-dated bond funds are automatically reinvested, either by accumulating more shares or by increasing the price of the shares already held. Officers are finalising the paperwork to have the interest from these investments distributed, which can then be invested in instruments that are currently producing higher short-term returns, such as liquidity funds and fixed term deposits.

Interest on cash balances

24. A summary of the actual interest on average cash balances (i.e. the returns on the treasury management investment portfolio) as at 31 July 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 July 2023

	2023/24 Original Budget	Actual Interest 1 April – 31 July	2023/24 Forecast outturn	2023/24 Forecast outturn Better / (Worse)
	£'000	£'000	£'000	£'000
Total City Fund & City's Cash Interest on cash Balances	**32,533**	**7,528**	**43,353**	**10,820**

25. Income from interest on average cash balances is currently forecast to exceed budget by £10.8m principally due to higher than anticipated interest rates. The Bank of England base rate has increased from 3% in November 2023, 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.

26. It should be noted that the forecast currently assumes the average split of cash amongst funds to July 2023 will continue for the rest of the year. This assumption is most vulnerable to a rapid drawdown in City's Cash balances and changes in light of the capital expenditure on the major projects.

Cash Flow Forecast

27. 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

28. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2023. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2023/24.

29. Since the Investment Committee last reviewed the treasury position as at 31 May 2023, the Bank of England's Monetary Policy Committee (MPC) has continued to increase its Bank Rate, from 4.50% to 5.00% in July 2023 and more recently 5.25% in August 2023, the fourteenth successive rise since December 2021. Following August's move, markets are now just shy of fully priced in for a move to 5.50% in September, with a further hike to 5.75% pushed out to December.

30. In August 2023, the Bank of England added *"resilience in the economy"* to its list of persistent inflation pressures, alongside the labour market, wage growth and services CPI inflation, and has maintained the comment that further tightening of monetary policy would be required if there were to be evidence of more persistent inflationary pressures.

31. The increase in rates has allowed the Corporation to obtain higher yields through its allocation to fixed term deposits, and officers expect interest income to increase further over the course of 2023/24 if the expected continued tightening in monetary policy materialises.

32. Whilst the capital value of the Corporation's short-dated bond fund investments has declined 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. However, officers continue to monitor the performance of these funds as disinvestment at some stage, and any possible realised loss, could be offset by more favourable returns from an alternative investment class.

Appendices
Appendix 1: Counterparty Exposure as at 31 July 2023
Appendix 2: Monthly Investment Analysis Review July 2023

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

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

This page is intentionally left blank

APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 JULY 2023

	Counterparty Limit £M	Total Invested as at 31-July-23 £M	Average Rate of Return %
TOTAL INVESTED		**1,194.8**	**3.86%**
FIXED TERM DEPOSITS			
UK BANKS			
Barclays	100.0	100.0	4.88%
Goldman Sachs	100.0	35.0	4.00%
NatWest	100.0	50.0	2.80%
		185.0	
FOREIGN BANKS			
Australia & New Zealand	100.0	55.0	5.16%
DBS Bank	100.0	80.0	5.18%
National Australia Bank	100.0	70.0	5.32%
Rabobank	100.0	35.0	5.47%
Toronto Dominion Bank	100.0	100.0	5.76%
		340.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	42.5	4.96%
CCLA - Public Sector Deposit Fund	100.0	70.0	4.94%
Deutsche Global Liquidity Fund	100.0	70.0	4.91%
Federated Prime Liquidity Fund	100.0	50.0	4.92%
Invesco Sterling Liquidity Fund	100.0	75.0	5.01%
		307.5	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	62.4	1.89%
Aberdeen SLI Short Duration Fund	100.0	52.4	3.55%
Federated Sterling Cash Plus Fund	100.0	26.3	3.34%
		141.1	
SHORT DATED BOND FUNDS			
L&G	100.0	75.4	-1.67%
Royal London	100.0	75.8	-1.77%
		151.2	
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account	100.0	45.0	5.18%
Santander 365 Days Account*	100.0	25.0	4.90%
		70.0	
TOTAL		**1,194.8**	

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

This page is intentionally left blank

City Of London Corporation

Client Designated USDBF, SBDF & MMF Rates

Monthly Investment Analysis Review

July 2023

Monthly Economic Summary

General Economy

The UK Manufacturing PMI fell to 45 in July from 46.5 in June and below market expectations of 46.1. The reading pointed to a 12th straight month of falling factory activity and the sharpest contraction since May 2020 as output continued to decline amid lower demand and overstocking among clients. Meanwhile, the UK Services PMI fell to 51.5 in July, from 53.7 in June and below market expectations of 53. This pointed to the weakest pace of expansion in the country's service sector since January and was attributed to softer residential property market conditions and cutbacks to discretionary business and consumer spending. Reflecting developments in the manufacturing and service sectors, the UK Composite PMI (which incorporates both sectors) fell to 50.7 in July from 52.8 in June. The UK Construction PMI, meanwhile (which is released one month behind), fell to 48.9 in June from 51.6 in May, pointing to the first contraction in the construction sector in five months, as housing activity fell the most since May 2020, amid falling demand, rising borrowing costs and a subdued outlook for the market.

The UK economy contracted 0.1% m/m in May, following 0.2% growth in April and compared to forecasts of a bigger 0.3% decline The UK trade deficit widened sharply to £6.58 billion in May, the largest gap since last December, as exports declined by 2.6% to an 11-month low, and imports rose by 3.1%. Within exports, goods sales to the EU fell by 6.8%, driven by lower crude oil and medicinal and pharmaceutical sales. Exports to non-EU countries fell 2.1%, mainly because of a decrease in fuel exports.

UK employment rose by 102,000 in the three months to May, below market forecasts of a 125,000 rise and following a 250,000 rise in the previous period. In May itself, employment rose by 58,000, evidencing some loosening of the labour market. The easing in employment, combined with a further 141,000 decline in inactivity in the three months to May, meant that the unemployment rate increased from 3.8% to 4.0%, above expectations of an unchanged reading. Despite evidence of an easing in the tightness of the labour market, average weekly earnings including bonuses rose by 6.9% y/y in the three months to May, the highest increase since the three months to August 2021, and above market forecasts of 6.8%. Meanwhile, regular pay which excludes bonus payments, rose 7.3% y/y in the three months to May, reaching its highest since during the coronavirus pandemic period for April to June 2021.

The annual consumer price inflation rate in the UK dropped to 7.9% in June from 8.7% in May, marking the lowest level since March 2022 and slightly below the market consensus of 8.2%, mainly due to a slump in fuel prices. In doing so, inflation matched the forecast the Bank of England published in the May Monetary Policy Report, after two months of upside surprises. The core rate of inflation, which excludes volatile items such as energy and food, also eased to 6.9% y/y from May's 31-year high of 7.1%.

Retail sales in the United Kingdom rose by 0.7% m/m in June, picking up from a downwardly revised 0.1% increase in the prior month and surpassing market expectations of 0.2%. This was the third straight month of growth in retail trade, boosted by summer sales and the impact of good weather, with increases seen in most sectors. However, the improvement in retail sales was not mirrored in the GfK Consumer Confidence indicator in the United Kingdom, which fell to -30 in July 2023 from -24 in June, as persistent inflation and rising interest rates weighed on sentiment.

The strength of tax receipts helped cap public sector net borrowing, excluding public sector banks, at £18.5 billion in June. This was below both the Office for Budget Responsibility’s (OBR’s) forecast of £21.1 billion and consensus forecasts of £22 billion. Moreover, estimates of borrowing in April and May were also revised lower by a total of £7 billion. As a result, borrowing was reported as £7.5bn lower than the OBR expected after three months of the 2023/24 fiscal year.

The US economy added 209,000 jobs in June, following a downwardly revised 306,000 in May, and below market forecasts of 225,000. Whilst this was the lowest reading since December 2020, the gain was sufficient to nudge the unemployment rate down to 3.6% from 3.7% in May. The US economy, meanwhile, expanded at an annualised 2.4% q/q rate in Q2 compared to 2% in Q1 and above market expectations of 1.8%. According to the Federal Reserve's preferred measure, the personal consumption expenditure price index, the inflation rate in the US matched expectations by easing to 3% y/y in June from 3.8% in May. Despite this fall however, the Federal Reserve elected to raise the target range for the Federal Funds Rate by 0.25% to 5.25%-5.5% at their July meeting, in line with market expectations.
According to the Flash (i.e. preliminary) estimate, the Eurozone economy grew by 0.3% during Q2 having stagnated during Q1, slightly surpassing market consensus forecasts of a 0.2% expansion. Courtesy of a further drop in energy prices, the consumer price inflation rate in the Euro Area eased to 5.3% y/y in July from 5.5% in June, matching market forecasts. Nevertheless, the European Central Bank raised interest rates by 0.25% to 4.25% at their July meeting, noting that inflation is expected to remain too high for too long.

Housing

The Halifax house price index fell by 0.1% m/m and 2.6% y/y in June, the largest decrease since June 2011, as the squeeze on household finances caused by sticky inflation and ongoing policy tightening continued to exert downward pressure on housing demand. The rate of decline also reflected the impact of historically high house prices last summer, which were supported by the temporary Stamp Duty cut.

Currency

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

July	Start	End	High	Low
GBP/USD	$1.2690	$1.2714	$1.3119	$1.2690
GBP/EUR	€1.1635	€1.1653	€1.1735	€1.1515

Forecast

Capital Economics raised their forecast peak in Bank Rate to 5.50%, matching Link Group's unchanged view of the peak.

Bank Rate	Now	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Link Group	**5.00%**	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%	2.75%	2.75%	2.50%	2.50%
Capital Economics	**5.00%**	5.50%	5.50%	5.50%	5.50%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%	-	-

City Of London Corporation

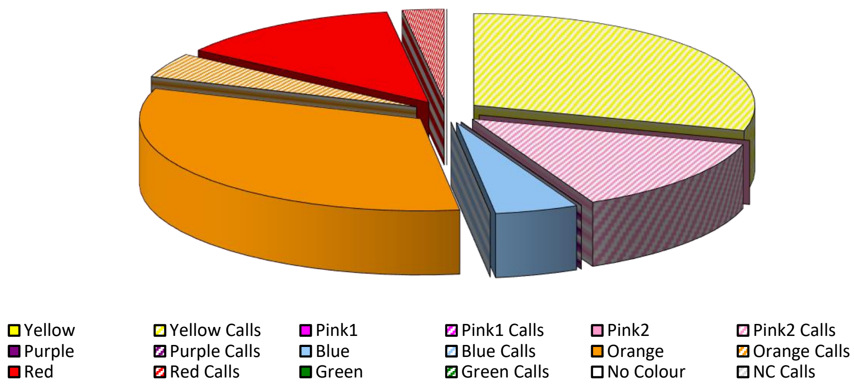
Current Investment List

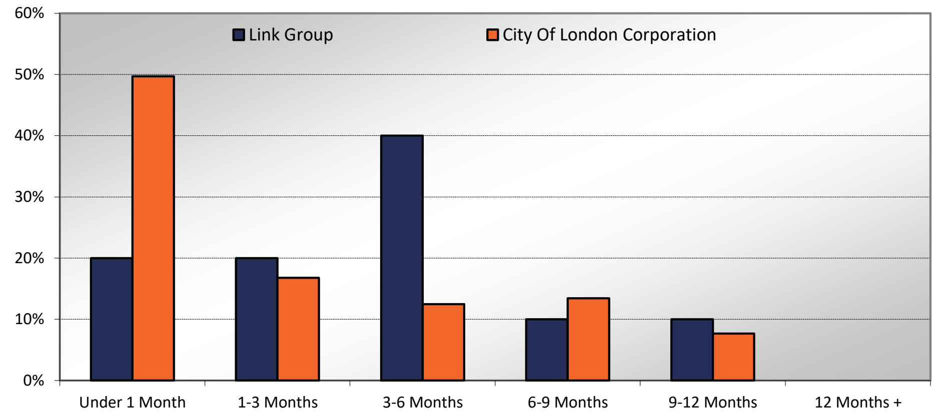
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	42,500,000	4.96%		MMF	AAAm	
MMF CCLA	70,000,000	4.94%		MMF	AAAm	
MMF Deutsche	70,000,000	4.91%		MMF	AAAm	
MMF Federated Investors (UK)	50,000,000	4.92%		MMF	AAAm	
MMF Invesco	75,000,000	5.01%		MMF	AAAm	
USDBF Aberdeen Standard Investments	52,397,931	3.55%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	26,277,740	3.34%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	62,440,830	1.89%		USDBF	AAAf	
National Westminster Bank Plc (RFB)	25,000,000	2.80%	09/08/2022	09/08/2023	A+	0.001%
DBS Bank Ltd	5,000,000	5.05%	10/07/2023	10/08/2023	AA-	0.001%
National Westminster Bank Plc (RFB)	25,000,000	2.80%	12/08/2022	14/08/2023	A+	0.002%
Goldman Sachs International Bank	15,000,000	3.02%	15/08/2022	15/08/2023	A+	0.002%
Goldman Sachs International Bank	20,000,000	4.75%	02/05/2023	04/09/2023	A+	0.004%
Australia and New Zealand Banking Group Ltd	25,000,000	4.97%	05/06/2023	05/09/2023	A+	0.004%
Toronto Dominion Bank	20,000,000	4.70%	22/12/2022	22/09/2023	AA-	0.003%
Australia and New Zealand Banking Group Ltd	5,000,000	5.61%	07/07/2023	09/10/2023	A+	0.009%
Australia and New Zealand Banking Group Ltd	5,000,000	5.61%	10/07/2023	10/10/2023	A+	0.009%
Australia and New Zealand Banking Group Ltd	20,000,000	5.18%	12/06/2023	12/10/2023	A+	0.009%
DBS Bank Ltd	20,000,000	4.87%	12/05/2023	12/10/2023	AA-	0.005%
Barclays Bank Plc (NRFB)	15,000,000	5.66%	13/07/2023	13/10/2023	A+	0.009%
DBS Bank Ltd	20,000,000	5.22%	16/06/2023	16/10/2023	AA-	0.005%
DBS Bank Ltd	25,000,000	5.10%	30/05/2023	30/10/2023	AA-	0.006%
National Australia Bank Ltd	20,000,000	4.39%	07/02/2023	07/11/2023	A+	0.012%
Cooperatieve Rabobank U.A.	15,000,000	4.57%	15/02/2023	15/11/2023	A+	0.013%
Barclays Bank Plc (NRFB)	20,000,000	4.73%	17/11/2022	17/11/2023	A+	0.013%
Barclays Bank Plc (NRFB)	20,000,000	4.66%	16/01/2023	30/11/2023	A+	0.015%
Santander UK PLC	25,000,000	4.90%		Call124	A	0.015%
DBS Bank Ltd	10,000,000	6.02%	13/07/2023	15/01/2024	AA-	0.010%
National Australia Bank Ltd	20,000,000	4.98%	17/04/2023	17/01/2024	A+	0.021%
Barclays Bank Plc (NRFB)	25,000,000	4.81%	01/02/2023	01/02/2024	A+	0.023%
Australia and New Zealand Banking Group Ltd	45,000,000	5.18%		Call185	A+	0.023%
Barclays Bank Plc (NRFB)	20,000,000	4.75%	16/02/2023	16/02/2024	A+	0.025%
National Australia Bank Ltd	30,000,000	6.16%	18/07/2023	18/03/2024	A+	0.029%
Cooperatieve Rabobank U.A.	20,000,000	6.14%	29/06/2023	28/03/2024	A+	0.030%
Toronto Dominion Bank	20,000,000	5.27%	15/05/2023	15/05/2024	AA-	0.018%
Toronto Dominion Bank	20,000,000	5.72%	24/05/2023	24/05/2024	AA-	0.018%
Toronto Dominion Bank	20,000,000	6.53%	28/06/2023	26/06/2024	AA-	0.020%
Toronto Dominion Bank	20,000,000	6.57%	18/07/2023	17/07/2024	AA-	0.022%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
L&G	75,392,659	-1.67%				
ROYAL LONDON	75,769,828	-1.77%				
Total Investments	**£1,194,778,987**	**3.86%**				
Total Investments - excluding Funds	**£1,043,616,501**	**4.67%**				0.014%
Total Investments - Funds Only	**£151,162,486**	**-1.72%**				

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

City Of London Corporation

Portfolio Composition by Link Group's Suggested Lending Criteria





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

Portfolios weighted average risk number = 2.88

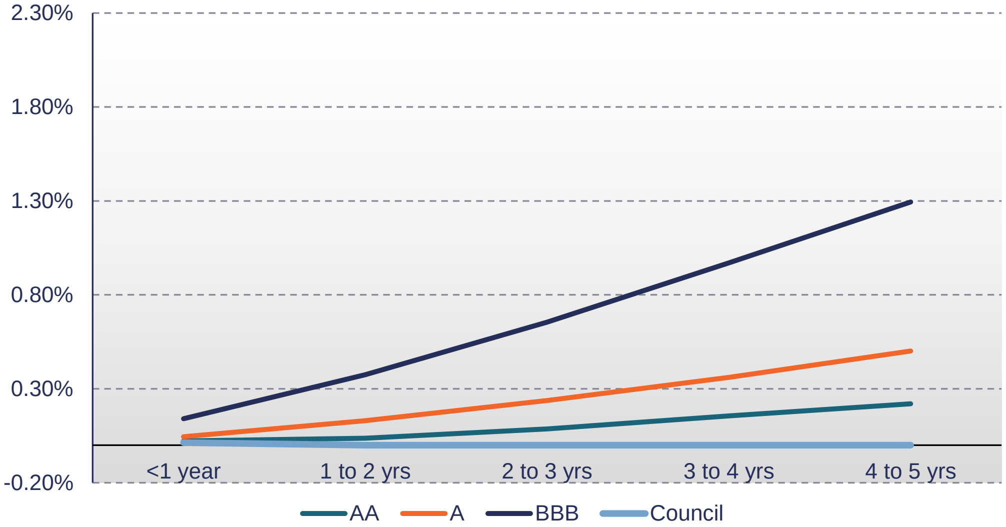
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

									Excluding Calls/MMFs/USDBFs	
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	29.46%	£307,500,000	100.00%	£307,500,000	29.46%	4.95%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	13.52%	£141,116,501	100.00%	£141,116,501	13.52%	2.78%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	4.79%	£50,000,000	0.00%	£0	0.00%	2.80%	12	366	12	366
Orange	36.89%	£385,000,000	11.69%	£45,000,000	4.31%	5.38%	165	228	163	234
Red	15.33%	£160,000,000	15.63%	£25,000,000	2.40%	4.69%	115	266	113	292
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£1,043,616,501**	**49.69%**	**£518,616,501**	**49.69%**	**4.67%**	**79**	**142**	**135**	**261**

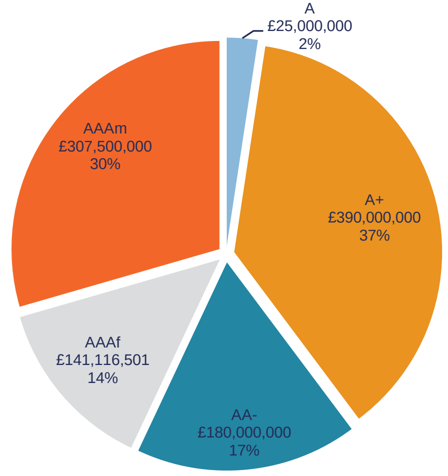
City Of London Corporation

Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.01%	0.00%	0.00%	0.00%	0.00%

Historic Risk of Default

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

Chart Relative Risk

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

Rating Exposures

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

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

City Of London Corporation

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/07/2023	1980	Principality Building Society	UK	The Long Term Rating was upgraded to 'Baa1' from 'Baa2'.
07/07/2023	1983	ABN AMRO Bank N.V.	Netherlands	The Long Term Rating was upgraded to 'Aa3' from 'A1'.
10/07/2023	1984	Svenska Handelsbanken AB	Sweden	The Outlook on the Long Term Rating was changed to Negative from Stable.

City Of London Corporation

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
03/07/2023	1981	Deutsche Bank AG	Germany	The Long Term Rating was upgraded to 'A-' from 'BBB+' and the Viability Rating was upgraded to 'a-' from 'bbb+'. The Outlook on the Long Term Rating was also changed to Stable from Positive.
04/07/2023	1982	Societe Generale	France	The Outlook on the Long Term Rating was changed to Positive from Stable.
11/07/2023	1985	Danske Bank A/S	Denmark	The Outlook on the Long Term Rating was changed to Positive from Stable.

City Of London Corporation

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action

City Of London Corporation

Committee(s): Investment	Dated: 22 September 2023
Subject: Climate Action Strategy Update	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**All**
Does this proposal require extra revenue and/or capital spending?	**N/A**
If so, how much?	**£**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: Director of Innovation & Growth and The Chamberlain	**For Information**
Report author: Simi Shah, Director of Climate Action, Innovation and Growth Kate Limna, Corporate Treasurer, Chamberlains	

Summary

This paper provides information on the history, current status and future plans for the Financial Investments workstream under the Climate Action strategy. This is the first update provided to support Members of the Investment Committee in any future decision making regarding aligning the Corporation's pension investments with the Climate Action Strategy (CAS). Progress on Climate action will be reported to this Committee 2 to 3 times a year depending on the Committee cycle.

The Year 3 (23-24) plan has 4 sub-workstreams

1. Engagement with Fund managers- progress has been good and we follow an engagement first approach working with managers to challenge them to be more ambitious where needed to incite sustainable change in the asset management sector and then wider market.
2. Taskforce for Climate Related Financial Disclosures is produced on financial investments, split by Fund. The report is expected to be finalised in the autumn and will go to the Policy & Resources Committee for approval.
3. Track KPIs - Members will note that there are issues in terms of measuring and accuracy of data around emissions, particularly for government and sovereign bonds and that officers are working to find a solution.
4. Memberships and networks

Recommendations

Members are asked to note the report.

Main report

Background

1. The Climate Action Strategy (the Strategy) was adopted by the Court of Common Council for the City Corporation, both as Trustee of BHE and in delivering its wider functions and activities, on the 8 October 2020. This marked the start of a new and transformative programme of action. It set out three interlinked primary objectives for the City Corporation (including Bridge House Estates (BHE) of which it is a trustee) and the Square Mile
   - to support the achievement of net-zero emissions,
   - to build resilience, and
   - to champion sustainable growth.
2. The Strategy was adopted with action plans across thirteen delivery areas to collectively achieve overall targets of:
   - Net Zero in our own operations by 2027
   - Net Zero in our value chain including our investments and supply chain by 2040.
   - Net Zero in the Square Mile by 2040
   - Climate resilient in our buildings, public spaces and infrastructure
3. Implementation of the Strategy is done under programme management of thirteen workstreams held in six departments reporting to over 10 committees. Policy & Resources Committee serves as the central oversight committee for activities under City Fund and City Cash, and Bridge House Estates (BHE) Investment Committee for activities under BHE funds.
4. Key CAS terminology is set out in Appendix 1.
5. The Financial Investments workstream looks after the alignment of our financial long-term portfolios for all three funds (Pensions, City's Cash and Bridge House Estates). Controlling emissions arising from our investments into underlying assets is Scope 3 and relates to the 2040 goal to reduce the Corporation's value chain emissions. The workstream is a joint endeavour between the CAS Strategic Implementation Team in Innovation & Growth and the Corporate Treasury Team within the Chamberlain's Department in consultation with the Sustainable Finance Policy team in Innovation & Growth. This combined effort ensures alignment with the Climate Action Strategy but also the wider work of the Corporation around the UK as a leader in sustainable finance. This workstream has a primary objective of managing the Corporation's Fund Managers against the responsible investment policy. It has a secondary objective to incite change in the wider market by demonstrating leadership within our portfolios Decisions on climate are integrated with other factors such as performance, portfolio diversification etc. This integration is aligned and integral to practices across the Climate Action programme.
6. Interim targets have been set for each workstream in aggregate across all Funds. Progress against these targets is reviewed every year in an annual carbon foot printing exercise conducted across the entire value chain and reported in the Climate Action Strategy Annual Report. This report is then presented to internal officer and Member governance, published publicly and used to inform the next

year's business planning under CAS. This ensures that the CAS programme is both consistent to original targets but nimble in approach to achieving them successfully. The 2023 report will be issued in the autumn, following approval from Policy & Resources Committee and BHE Investment Committee. The report also includes any achievements or challenges in meeting those targets.

7. The interim targets for the financial investments are as follows:
    - 24% reduction in absolute emissions by 2025 from the 2019 baseline figure.
    - 55% reduction in absolute emissions by 2030 from the baseline figure.

8. Management and target KPIs are also set across the programme and are reported quarterly on the public dashboard located on the City Corporation website. The KPI set for each workstream has been set from a baseline and new KPIs have been added to the yearly plans and public Dashboard where relevant. The Dashboard can be found here.

9. The plan for each workstream is prepared on an annual basis and presented across the Climate Action Programme in summary form to Members at the Policy & Resources Committee in April of each year. The Year 3 (2023-24) Plan (which covers Pension Fund, City's Cash and Bridge House Estates financial investments) is attached at Appendix 2 on the non-public agenda, for information. The financial investment workstream is in a state of evolution and refinement. As part of the CAS and to assist with the financial investments workstream funding has been provided for a Responsible Investment & Engagement Manager post, which was recruited to in June 2022.

10. These Plans describe the activities for the year, notes risks and opportunities and reports governance plans, staffing and KPIs for the year ahead. The Y3 (2023-24) plan for financial investments covers activities for all three funds (Pensions, City's Cash and Bridge House Estates) under the same workstream. Progress during the year against the full Climate Action Strategy plan is reported to Policy & Resources on a quarterly basis. The progress reports to service committees are different for each workstream. The previous practice with the Financial Investment Board (FIB) was 3 times a year as FIB only conducted 5 meetings a year. Officers recommend that progress should be reported 2 to 3 times per annum depending on the Committee cycle.

11. Every two years, a Taskforce for Climate Related Financial Disclosure (TCFD) is also produced on financial investments, split by Fund. In Year 3 of CAS (2023-2024), the report is expected to be finalised in the autumn and will go to the Policy & Resources Committee for approval.

12. During the adoption of the CAS strategy there was operational and Member discussion on whether or not the Corporation could go faster than the original commitment of 66% Paris alignment in the portfolios by 2040 which was the target during when adopted by Court in October 2020. Therefore, as a planned onwards development of the Climate Action Strategy, Aon was commissioned to look at an accelerated exercise for BHE and City Cash to determine if the target of net zero by 2040 for financial investments could be brought forward.

13. This was presented to Members of the (then current) Financial Investments Board (FIB), the BHE Chair and the Chair and Deputy Chair of the Finance Committee in a series of workshops held in the summer of 2021. It was collectively concluded at the time that an acceleration within the 2040 net zero target was advisable. It was

recommended and accepted to extend the 2040 target to 100% of financial investments being included in net zero as compared to the previously determined 66%. This was adopted by the Financial Investments Board and the Policy & Resources Committee in October 2021 for the Corporation as well as the Court. Interim targets were redrawn to take this decision into account.

14. Achieving net zero by 2030 or 2035 was rejected at the workshop stage for all the funds due mainly to the expected short-term devaluation to the portfolio, the lack of suitable investment vehicles.

15. Following adoption of CAS, it was an early action of the FIB to redraft the Responsible Investment Policy (RI Policy) to align with the new Strategy. The updated and current RI Policy notes that the Corporation is a long-term investor across all three funds and as such takes an engagement first approach as compared to divestment; the RI Policy is attached at Appendix 3. At the time of adoption, the FIB discussed the strength of the leadership position of the Corporation in challenging managers to work with holdings that were not compliant and then evidence around the lack of market changes with a divestment approach. Finally, the Corporation works with its investment advisors, Mercer, in identifying opportunities to join with other investors to engage managers to apply pressure to underlying holdings to manage a successful transition to net zero.

16. The governance for the CAS programme has evolved with the changes made under Lisvane. Previously, a progress report on the Financial Investments workstream practice across the funds has always been in a state of evolution as the CAS matures.

Current Position

17. The Year 3 (23-24) plan has 4 sub-workstreams:

- *Engagement with Fund Managers:* This is the bulk of the volume of activity under the workstream. An engagement plan is designed at the beginning of the year, held operationally and then adjusted quarterly. Fund Managers have a requirement to report figures and progress against net zero quarterly. These are collected and analysed by the internal team who identify points of further engagement for Managers who are reporting information which is not aligned with progress towards interim targets. The policy is again an engagement first approach working with managers to challenge them to be more ambitious where needed as this is what will incite sustainable change in the asset management sector and then wider market. Engagement is more complex with regards to the LCIV but we have a good and open dialogue with the responsible investment and wider teams there.
- *Produce TCFD report*: refer to paragraph 11 above.
- *Track KPIs*: This is done quarterly for internal governance and to inform future areas of action. It is also used to prepare the Climate Action Strategy Annual Report and assists with the annual carbon footprint exercise,
- *Memberships and networks*: For financial investments, we consider what memberships and networks the Corporation should join. The teams monitor which initiatives are worth the investment of time and money.

Engagement with Managers

18. Over the last 12 months, initial engagement meetings have been undertaken with a number of fund managers to gain insight into their methodology and approach to climate change. Within UK Equity, Global Equity, Multi-Asset and Alternative Credit asset classes, all the managers are signatories to the PRI and produce reports in line with the TCFD recommendations. All fund managers, excluding Harris, also have net-zero commitments in place. Details of engagement meetings are set out in Appendix 4 on the non-public side of the agenda.

19. The challenges of the workstream are as follows:

- Recalculation of emissions associated with the bond portion of the portfolio for multi-asset managers.
- Managing differences in reported emissions between fund managers.
- Lack of national/international standards on data inclusion/measuring.

20. The CAS programme keeps an extensive risk register across all 13 workstreams. The recognised risks of the financial workstream are as follows:

- The timing of strategic asset allocation: failure to implement CAS performance targets due to new or existing asset allocation.
- Degradation of international relationships/ public reputation due to CAS performance. Risking a loss of political support for CAS.
- Slow action on climate risks may have an impact on financial performance – loss in portfolio value.

Carbon Emission Data

21. Whilst undertaking this year's annual carbon footprint exercise, it has come to light that the multi-asset fund managers do not account for the UK Government and Sovereign bond holdings within their portfolio. Instead, the equity portion of their portfolio was scaled up to 100%, thus overstating the level of emissions associated with their portfolio. Following subsequent conversations with these fund managers, the main reason behind this is because carbon data for these types of holdings is still in its infancy and there is an absence of any 'industry standard' for non-corporate bonds.

22. The lack of maturity on carbon data and absence of industry standard for non-corporate bonds is a widely recognised issue within the industry and recognised by the Science-Based Targets Initiative (SBTi – a global initiative that defines and promotes best practice in emissions reductions and net-zero targets in line with climate science) which states that sovereign bonds are not required to be included in financial investments inventories. Discussions with the Responsible Investment team at the London CIV confirmed that they follow the SBTi approach.

23. Two of the multi-asset managers have a significant portion of their portfolio in Government and Sovereign bonds, and officers are currently in the process of finalising a robust method that will enable the Corporation to more accurately reflect the emissions associated with these investments.

24. Once the carbon foot printing exercise has been completed and the issues around the Government and Sovereign bonds has been resolved, the data will be included in the CAS Annual Report, which once published, will be circulated to Members of this Committee.

Summary

25. This paper provides Members of the Investment Committee with a history and current status update on the Climate Action Strategy. Members will note that there are issues in terms of measuring and the accuracy of data around emissions (particularly around government and sovereign bonds) and that officers are working to find a solution. .

Appendices

Appendix 1 - Key Terminology
Appendix 2 - Y3 (2023-24) Plan (Non-Public)
Appendix 3 - RI Policy
Appendix 4 - Fund Manager Engagement Meeting Details (Non-Public)

Contacts:

Simi Shah
Director of Climate Action, Innovation & Growth
Simi.shah@cityoflondon.gov.uk

Kate Limna
Corporate Treasurer, Chamberlain's Department
Kate.limna@cityoflondon.gov.uk

Priyanka Naidoo
Responsible Investment & Engagement Manager Chamberlain's Department
Priyanka.naidoo@cityoflondon.gov.uk

Appendix 1

Key Terminology

Absolute Emissions – absolute emissions are the attributed share of total GHG emissions for a portfolio and is expressed in Tonnes of CO_2.

Carbon Intensity – the emissions rate per £m sales.

Carbon Footprint – the emissions rate per £m invested.

Science Based Targets Initiative (SBTi) - a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). SBTi mobilises the private sector to take the lead on climate action. Whilst also showing companies and financial institutions how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change.

Scope 1 Emissions – refer to direct greenhouse gas (GHG) emissions that occur from sources that are controlled or owned by an organisation.

Scope 2 Emissions – are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

Scope 3 Emissions – all indirect emissions (not included in scope 2) that occur in the value chain.

TCFD – The Financial Stability Board (FSB) created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change.

PRI - The Principles of Responsible Investment works to:

- understand the investment implications of environmental, social and governance (ESG) factors;
- support its international network of investor signatories in incorporating these factors into their investment and ownership decisions

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Appendix 3

CITY OF LONDON CORPORATION
RESPONSIBLE INVESTMENT POLICY

The City of London Corporation (the Corporation) is committed to being a Responsible Investor and the long term steward of the assets in which it invests. It expects this approach to protect and enhance the value of the assets over the long term.

The Corporation recognises it is consistent with its fiduciary duty to manage Environmental, Social and Corporate Governance ('ESG') issues that may be financially material. This policy sets out the Corporation's approach to Responsible Investment (RI) and details the actions the Corporation, and its external providers, take on its and other stakeholders behalf, to protect the Corporation and its assets from ESG and reputational risks.

As a long-term investor, the Corporation recognises that it should manage ESG risks including climate related financial risk that can be both long-term and short-term in nature. In addition, the Corporation seeks to identify investment opportunities and managers aligned with its long-term objectives. The Corporation is a signatory of the Principles for Responsible Investment (PRI). The foundations of the Corporation's approach are its **RI Beliefs**, which are set out below:

The City of London Corporation's Responsible Investment Beliefs

- The Corporation is a long-term investor and seeks to deliver **long-term sustainable returns**. Taking a sustainable investment view is more likely to create and preserve long-term investment capital.
- The identification and management of ESG risks that may be financially material is **consistent with our fiduciary duty**.
- The Corporation seeks to **integrate ESG issues including climate related financial risk at all stages of its investment decision-making process**, from setting investment strategy to monitoring its investment managers.
- **Active ownership** helps the realisation of long-term shareholder value. The Corporation has a **duty to exercise its stewardship and active ownership responsibilities** (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Corporation recognises that taking a **collaborative approach** with other investors can help to achieve wider and more effective outcomes.
- The Corporation seeks to identify **sustainable investment opportunities** where aligned with its broader investment objectives.
- It is important that the Corporation be **transparent and accountable** to members and stakeholders with respect to its RI activities.
- **Engagement for change** is our starting position but this will be kept under review as the Corporation reviews progress on delivering against its targets and commitments to responsible investment and managing financial risk.

- The Corporation recognises that climate change presents a systemic and material risk with the potential to impact our holdings throughout the portfolio. The Corporation is **committed to aligning our approach with the objectives of the Paris Agreement (2015)** for a below 2 degrees world. The Corporation works with managers, partners and networks who are seeking to do the same.

Implementation

The Corporation seeks to **integrate RI across its investment decision-making process**. The Corporation adopts a flexible approach to managing the investment strategies and asset allocation of its Funds in order to ensure they are robust from a risk and return perspective.

In setting and implementing its investment strategy, the Corporation takes advice from professional investment advisors. The Corporation **expects its investment advisors to consider proactively and integrate ESG issues including climate related financial risk** when providing investment advice.

The Corporation's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Corporation. The Corporation **considers the approach to ESG integration and active ownership when selecting and monitoring investment managers**.

The Corporation will be looking to actively manage a downward trajectory path on the carbon emissions of the portfolio and set interim targets. Progress against reductions, Paris alignment and PRI agreements will be regularly monitored and reported annually.

The Corporation expects its external investment advisors and investment managers, including the London Collective Investment Vehicle (London CIV), to be signatories, and demonstrate commitment, to the PRI and any disclosure requirements in the jurisdictions in which they are regulated. The Corporation expects that UK asset managers are actively preparing for TCFD disclosure ahead of regulation and encourages non-UK based managers to consider the same.

Active Ownership

The Corporation recognises that it has **responsibilities as a shareholder**, as well as rights, and is an **active owner**. The Corporation seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

- The Corporation **aims to exercise its voting rights in all markets** and its investment managers are required to vote at all company meetings or give the Corporation notice when is not practical to do so. A record of voting should be made available on request.
- The Corporation supports **the UK Stewardship Code** (Code) and expects its investment managers to comply with the Code. Non UK managers will be expected to sign up to an equivalent Code in their country of origin. The Corporation has outlined its approach to stewardship, including voting and engagement, in its **UK Stewardship Code - Statement of Commitment** It remains a signatory to the UK Stewardship Code 2012 until the first list of signatories to the new Code is

published in 2021. The Corporation fully intends to achieve compliance with the new Code and is aiming to publish its first Annual Stewardship Report in 2022.

- The Corporation delegates voting and engagement to its investment managers and **monitors how its investment managers undertake voting and engagement activities** in comparison to relevant codes of practice. The Corporation expects its investment managers to implement appropriate escalation procedures for its stewardship activities.
- The Corporation expects fund managers to be **engaging with holdings to build credible pathways** to either adapt or actively drive their transition to a low carbon economy and to disclose climate related risks in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).

Collaboration

The Corporation recognises that **collaboration with other investors is a powerful tool to influence** the behaviour of companies, policy makers and other industry stakeholders. The Corporation seeks to work with and support the initiatives of other bodies with similar goals, including via its investment managers and investment advisor. For example, the City of London Corporation Pension Fund is an active member of the Local Authority Pension Fund Forum (LAPFF) and the Pension and Lifetime Savings Association (PLSA). As a member fund of the London CIV, the City of London Corporation Pension Fund also collaborates within the pool to influence responsible investments.

Reporting and Stakeholder Engagement

The Corporation recognises that **transparency and disclosure** is an important aspect of being a responsible investor. The Corporation expects transparency and disclosure from its investment managers, including reporting on engagement progress and success on climate related financial risk.

Our Commitment

We acknowledge that the Corporation's approach to RI will need to continually evolve, both due to the changing landscape with respect to responsible investment as well as broader industry developments. We are committed to making ongoing improvements to the Corporation's approach and the processes that underpin the delivery of this policy to ensure it remains relevant.

Approved by the Financial Investment Board on 9 February 2021.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 14

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Agenda Item 19

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 20

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank