Public Document Pack

CITY OF LONDON

Investment Committee

Date: **MONDAY, 12 FEBRUARY 2024**

Time: 11.00 am

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
Philip Woodhouse

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

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Ian Thomas CBE
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**

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

3. **MINUTES**

   To approve the public minutes and non-public summary of the meeting held on 14 December 2023.

   For Decision
   (Pages 7 - 10)

4. **FORWARD PLAN**

   To receive the Committee's Forward Plan.

   For Information
   (Pages 11 - 14)

5. **DRAFT HIGH-LEVEL BUSINESS PLAN 2023/24 - CITY SURVEYOR'S DEPARTMENT**

   Report of the City Surveyor.

   For Decision
   (Pages 15 - 26)

6. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY (RELATING TO TREASURY MANAGEMENT) 2024/25**

   Report of the Chamberlain.

   For Decision
   (Pages 27 - 70)

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

   Report of the Chamberlain.

   For Discussion
   (Pages 71 - 80)

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

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

10. **EXCLUSION OF THE PUBLIC**

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

11. **NON-PUBLIC MINUTES**

To approve the non-public minutes of the meeting held on 14 December 2023.

For Decision
(Pages 81 - 86)

a) Note of the Informal Session (Pages 87 - 88)

To receive the note of the informal session of the Investment Committee's meeting on 14 December 2023.

12. **ALL ESTATES - REVIEW OF METRICS USED IN MAKING MAJOR PROPERTY DECISIONS - 2ND TRIENNIAL REVIEW**

Report of the City Surveyor.

For Decision
(Pages 89 - 102)

13. **CITY'S ESTATE - SALE OF SOUTH MOLTON STREET ESTATE**

Report of the City Surveyor.

For Decision
(Pages 103 - 114)

14. **CITY FUND - REFURBISHMENT/EXTENSION OF 1-6 BROAD STREET PLACE AND 15-17 ELDON STREET**

Report of the City Surveyor.

For Decision

(Pages 115 - 124)

15. **DELEGATIONS REQUEST**

Report of the City Surveyor.

For Decision
(Pages 125 - 126)

16. **PERFORMANCE MONITORING**

a) City's Estate Quarterly Monitoring Report
Report of Mercer.

For Information
(Pages 127 - 148)

b) Performance Monitoring to 31 December 2023: City's Estate
Report of the Chamberlain.

For Discussion
(Pages 149 - 168)

17. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 30 SEPTEMBER 2023**

Report of the Chamberlain.

For Decision
(Pages 169 - 174)

18. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 30 SEPTEMBER 2023**

Report of the Chamberlain.

For Discussion
(Pages 175 - 180)

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

Report of the City Surveyor.

For Information
(Pages 181 - 202)

20. **CITY'S ESTATE: 2024 INVESTMENT PROPERTY STRATEGY**

Report of the City Surveyor.

For Decision
(Pages 203 - 210)

21. **CITY FUND: 2024 INVESTMENT PROPERTY STRATEGY**

Report of the City Surveyor.

For Decision
(Pages 211 - 220)

22. **REPORT OF ACTION TAKEN**

Report of the Town Clerk.

For Information
(Pages 221 - 224)

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

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

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INVESTMENT COMMITTEE
Thursday, 14 December 2023

Minutes of the meeting of the Investment Committee held at Committee Rooms, Guildhall on Thursday, 14 December 2023 at 11.00 am

Present

Members:
Deputy Andrien Meyers (Chair)
Shahnan Bakth (Deputy Chairman)
Claudine Blamey
David Brooks Wilson
Deputy Henry Colthurst
Alderman Alison Gowman
Deputy Madush Gupta
Deputy Randall Anderson
Deputy James Thomson
Philip Woodhouse

Officers:

Caroline Al-Beyerty	-	The Chamberlain
Paul Wilkinson	-	City Surveyor
John James	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Sarah Port	-	Chamberlain's Department
Harinder Thandi	-	Chamberlain's Department
John Galvin	-	City Surveyor's Department
Tom Leathart	-	City Surveyor's Department
Graeme Low	-	City Surveyor's Department
Robert Murphy	-	City Surveyor's Department
Neil Robbie	-	City Surveyor's Department
Alan Bennetts	-	Comptroller and City Solicitor's Department
Ben Dunleavy	-	Town Clerk's Department

Also in attendance

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

1. **APOLOGIES**
   Apologies for absence were received from Deputy Christopher Hayward and Deputy James Thomson.

   Deputy Henry Pollard observed the meeting virtually.

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

3. **MINUTES**
The public minutes and non-public summary of the meeting held on 22 September 2023 were approved as a correct record.

4. **COMMITTEE FORWARD PLAN**
Members received the Committee's forward plan.

5. **CITY SURVEYOR'S BUSINESS PLAN 2023-28 QUARTER 2 2023/24 UPDATE**
Members received a report of the City Surveyor providing an update on the Departmental Business Plan.

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

6. **THE CITY SURVEYOR'S DEPARTMENTAL RISK REGISTER – NOVEMBER 2023 UPDATE**
Members received a report of the City Surveyor providing an update on the Departmental Risk Register.

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

7. **TREASURY MANAGEMENT UPDATE AS AT 31 OCTOBER 2023**
Members received a report of the Chamberlain providing a treasury management update.

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

8. **MID-YEAR TREASURY MANAGEMENT REVIEW 2023/24**
Members received a report of the Chamberlain concerning treasury management.

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

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

10. **ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT**
There was no other business.

11. **EXCLUSION OF THE PUBLIC**

12. **NON-PUBLIC MINUTES**

The non-public minutes of the meeting held on 22 September 2023 were approved as a correct record.

13. **CITY SURVEYOR REVENUE BUDGETS (CITY FUND AND CITY'S CASH) – LATEST APPROVED 2023/24 AND ORIGINAL ESTIMATES 2024/25**
Members received a joint report of the City Surveyor and the Chamberlain concerning the budget estimates.

14. **DELEGATION REQUEST REPORT**
Members received a report of the City Surveyor providing information on delegations sought between December and January.

15. **PERFORMANCE MONITORING**

15.1 **City's Cash Quarterly Monitoring Report**

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

15.2 **Performance Monitoring to 30 September 2023: City's Cash**

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

16. **CITY FUND & CITY'S ESTATE: INVESTMENT PROPERTY MONITORING REPORT**
Members received a report of the City Surveyor concerning investment property monitoring.

17. **REPORT OF ACTION TAKEN**
Members received a report of the Town Clerk concerning action taken between meetings.

18. **CLIMATE ACTION AND NET ZERO**
The Chairman requested that the agenda items on Climate Action and Net Zero be moved up the agenda.

18.1 **Climate Action and Net Zero Carbon Dashboard Update**

Members received a report of the City Surveyor concerning the Climate Action and Net Zero dashboard.

18.2 **Progress update on Net Zero Building Design Standards**

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

Before discussing Agenda Item 19, the Chair suggested that the formal meeting be adjourned to allow for an informal session in which officers could present Members with the slides from the informal Resource Allocation Sub-Committee meeting on 30 November.

RESOLVED, that – the meeting be adjourned.

Following the informal session, the formal meeting recommenced at 12.38.

19. **OCIO ASSET ALLOCATION UPDATE**
Members received a report of the Chamberlain concerning the Outsourced Chief Investment Officer's (OCIO) asset allocation recommendations.

20. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions in the non-public session.

21. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There were two items of other business.

The meeting ended at 1.13 pm

Chairman

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

	12 February 2024	22 March 2024	15 April 2024	22 July 2024	7 October 2024	2 December 2024
Overall Investment Portfolio (Chamberlains and City Surveyors)		CIO Proposed Investment Strategies (City's Estate and City Fund)	Implementation progress Performance metrics City Surveyor's & Chamberlain's Department Risk Register for Investment Committee	Performance metrics	City Surveyor's & Chamberlain's Department Risk Register for Investment Committee	
Investment Property	All Estates – Review of Metrics Used in Making Major Property Decisions – 2nd Triennial Review City's Estate and City Fund Rental Estimates Monitoring Report (December quarter) Draft CSD Business Plan 2024/25 Delegation Request City's Estate: Sale of South Molton Street City Fund Annual Update	Leadenhall Market – Asset Strategy	Delegation Request	City Surveyor's Department Risk Register City Fund, City's Estate and Strategic Property Estate – Annual Valuation report City's Estate and City Fund: Rental Estimates Report (March Quarter) City Fund and City's Estate: Investment Property Monitoring report inc. • *Vacant Accommodation Update*	City's Estate and City Fund Rental Estimates Monitoring Report (June Quarter) Delegation Request	City Surveyor's Department Risk Register City Fund and City's Estate: Investment Property Monitoring half yearly report, including: • *Vacant Accommodation Update* • *Delegated Authorities – Decisions as at 30th September* • *Rent Reviews/Lease Renewals* • *Arrears*

	City's Estate Annual Update City Fund – Refurbishment / Extension of 1-6 Broad Street Place and 15-17 Eldon Street 0=- Early Project Closure			• *Delegated Authorities – Decisions as at 30th June* • *Rent Reviews/Lease Renewals report as at June Quarter Day* • *Arrears* MSCI Annual Performance City Surveyor Revenue Outturn 2023-24 City Fund & City's Estate Revenue Works Programme – 23/24 Progress (half yearly report) CSD Business Plan – 4th Quarter 2023/24 Progress Report. City Surveyor's Department Risk Register – 4th Quarter Progress.		City's Estate and City Fund Rental Estimates Monitoring Report (September quarter) City Surveyor Revenue Budgets report Latest Approved 2024/25 and Original Estimates 2025/26 CSD Business Plan – 2nd Quarter 2024/25 Progress Report. City Surveyor's Department Risk Register – 2nd Quarter Progress Climate Action Dashboard Delegation Request

				Climate Action Dashboard Delegation Request		
Financial Investments	Performance Monitoring report for City's Estate Investments Quarterly Investment report from Mercer (Investment Consultant Hampstead Heath Trust & Charities Pool Investment Performance Monitoring to 30 September Sir William Coxen Trust Fund Performance to 30 September	Draft TCFD report (TBC) Feedback from Investment Beliefs Survey		Performance Monitoring report for City's Estate Investments Quarterly Investment report from Mercer (Investment Consultant)		
Treasury Management	Annual Treasury Management Strategy Statement Treasury Management Update		Treasury Management Update	Treasury Management Update	Treasury Management Update Treasury Management Outturn 2023-24	Mid-Year Treasury Review Treasury Management Update

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Committee(s): Resource Allocation Sub (Policy and Resources) Committee – for decision Investment Committee – for decision	**Dated:** 24 January 2024 12 February 2024
Subject: Draft High-Level Business Plan 2023/24 – City Surveyor's Department	**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**
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 and Executive Director of Property	**For Decision**
Report author: John Galvin, City Surveyor's Department	

Summary

This report presents for approval the high-level Business Plan for the City Surveyor's Department for 2024/25. Members should note that the specific Business Plan for the Markets division was presented to the Markets Board on 17 January 2024.

Recommendation

Members are asked to:

i. Note the factors taken into consideration in compiling the City Surveyor's Departmental Business Plan; and

ii. Approve, subject to the incorporation of any changes sought by this Committee, the departmental Business Plan 2024/25.

Main Report

Background

1. As part of the new framework for corporate and business planning, departments were asked to produce standardised high-level, 2-side Business Plans for the first time in 2017 for the 2018/19 year. Members generally welcomed these high-level plans for being brief, concise, focused and consistent statements of the key ambitions and objectives for every department.

2. For 2023/24, the high-level Business Plan has been further evolved to describe the funding and people resources associated with each priority workstream. As a consequence, they are slightly longer than the 2-side version of 2017, but are still designed to a concise insight into the operation of the department.

3. As a high-level plan, this document does not capture the granularity of departmental work, but gives the overall picture of departmental activity, customer feedback, trends where applicable and direction of travel. The Corporate Strategy and Performance Team in the Town Clerk’s Department is working closely with departments to ensure that all Departmental Business Plans are aligned with the draft Corporate Plan 2024-29.

Draft final high-level Business Plan for 2024/25

4. This report presents, at Appendix 1, the draft final high-level Business Plan for 2024/25 for the City Surveyor’s Department.

5. The Markets Division has recently moved into the City Surveyor’s Department. The Business Plan for this division is reported separately to the Markets Board and was considered on 17 January 2024.

6. Feedback has been critical to the development of this plan:

    a) Members – The Plan has been circulated to the Chairs and Deputy Chairs of Investment Committee and Resource Allocation Sub (Policy and Resources) Committee to gain their feedback and input.

    b) Staff – The City Surveyor highlighted the plan with the department’s staff in his December ‘all staff’ meeting, and a draft of the plan was subsequently sent to all staff. Feedback was sought such that this could be integrated into the plan, or responded to, as appropriate. Prior to this, the plan was discussed in detail with the departmental management team. Finally, the plan formed part of the formal agenda on for the department’s Equalities, Diversity, and Inclusion Group in early November such that this forum could consider the people and equalities elements within the plan.

    c) Customers – During 2023/24 the department undertook two “Voice of the Customer” surveys across our commercial and corporate property occupiers. Commercial occupier results have only just been released, and that from our corporate occupiers will be finalised in early 2024. Feedback from these surveys informs priority areas for future years.

    d) Corporate stakeholders – The department is a key member of the organisation’s Strategic Planning Group. This forum considers all the organisation’s business plans to ensure cross-cutting activities are appropriately reflected, and opportunities to break down organisational silos are grasped. Feedback from this group has been embedded within the department's business plan.

7. The department's key performance indicators (KPIs) are contained on page three of Appendix 1. These have been developed to track progress in delivery of the department's strategic workstreams. Members will note that the majority of these measures are aligned with that reported in prior years. This enables year-on-year comparisons.

   The department reports on a sub-set of these measures to each of Investment Committee and Resource Allocation Sub (Policy and Resources) Committee. Measures reported to these fora are aligned with the terms of reference of each Committee.

   The department's business plan update is reported alongside our Risk Register. This is such that progress towards, and those factors that could prevent the achievement of our objectives can be assessed.

Departmental Operational Property Assets Utilisation Assessment

8. Aligned with the requirements of Standing Order 56, the department has undertaken a utilisation assessment of those corporate spaces that the department has been using. Most of the space occupied is at the Guildhall, with a smaller provision at the Central Criminal Court. Assessments were undertaken in these areas in 2023. Spaces at Walbrook Wharf, 20-21 Aldermanbury, and Temple Bar / Paternoster Lodge were considered prior to commercial let.

9. The criteria applied to evaluate the Guildhall Office Utilisation Assessment was a combination of data from:

   - Guildhall Improvement Project (GIP),
   - Accommodation and Ways of Working (AWoW) project,
   - Health and Safety Executive (HSE) workplace health, safety and welfare regulations,
   - British Council for Offices guidance

   From the options, the current average utilisation was deemed appropriate and did not identify any surplus space.

10. The department will be reviewing all our assets again in 2024 to account for updated British Council of Offices guidance together with any changed occupancy requirements agreed by the Workplace Steering Group.

Corporate & Strategic Implications

11. The City Surveyor's Department have been working closely with Corporate colleagues on the development of the 2024-29 Corporate Plan. Our collective

aspirations for the medium-term are reflected within the departmental business plan.

12. The department has a key role in delivering the vision for the City – through the delivery of major construction projects (Markets co-location, Sailsbury Square, London Museum, Barbican renewal), the maintenance of our heritage estate for the benefit of all of London, and the generation of significant income that supports all that we do.

13. We will continue to engage with Corporate leads to ensure the successful delivery of our strategic priorities, notably Destination City, Climate Action and the Corporate Property Asset Management Strategy 2020-25.

Security implications

14. The business plan highlights the department's involvement in the security services consolidation project.

Financial implications

15. There are no financial implications arising directly from this report. The on-going maintenance and renewal requirement of our assets requires funding, and there is a clear link between property related risk and the adequacy and availability of finance.

Public sector equality duty

16. The department has an active volunteer Equalities, Diversity and Inclusion Group. This is seeking to enhance these areas within the department. The business plan highlights the areas of focus of this Group, and some of the activities and events delivered through 2023/24.

Resourcing implications

17. There are no resourcing implications arising directly from this report. Both financial and people resources required to deliver our strategic workstreams are identified in the business plan.

18. The department has carefully considered the balance of resources allocated across the various workstreams. It works throughout the year to dynamically adjust assignment to account for emerging needs and requirements.

Conclusion

19. This report presents the high-level Business Plan for 2024/25 for the City Surveyor's Department for Members to consider and approve.

Appendices

- Appendix 1 – Final high-level Business Plan 2024/25

John Galvin
Head of Departmental Performance & Service
City Surveyor's Department
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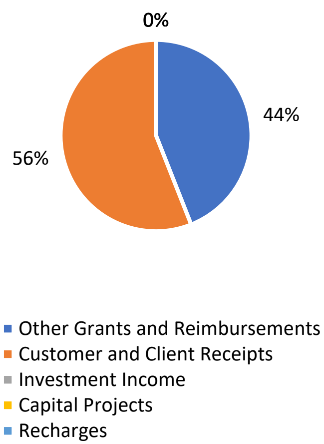
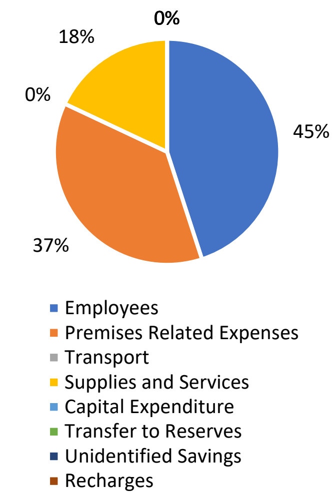
City Surveyor's Department

The City Surveyor's Department (CSD) is accountable for the management of the City Corporation's property investment portfolio and property/construction projects (minor & major). It is responsible for oversight of corporate real estate, the heritage estate and providing day-to-day outsourced facilities management services to both portfolio via a third-generation integrated model.

Income (local risk)



Expenditure (local risk)



Our Strategy and Cross-cutting strategic commitments

- Corporate Property Asset Management Strategy 2020-25
- Climate Action Strategy (CAS)
- Operational Property Review (OPR)
- Investment Property Strategy
- Facilities Management (FM) Strategy
- Property management system (OPN / Horizon)
- Consolidation of security services to create a consistent high standard
- Project and Programme Delivery (including major programmes)
- Major Asset Realisations
- People Strategy
- Destination City

What's changed since last year

- Central Criminal Court integrated as fundamental part of the department
- The Markets Team has moved into the City Surveyor's Department. Markets are covered by a separate Business Plan.
- Operational Property Review has commenced.
- Integrated Facilities Management has gone live.
- The City's major programmes have progressed.
- Measured Term Contract (MTC) framework has been retendered and revised to increase buying thresholds.
- Health and Safety (Property) has formally transferred to the Deputy Town Clerk.
- Investment Principles and evolving Property Investment Strategy

Our work locations (including 116 in the Markets Team), figures are FTE			
Guildhall Complex*	203	Spitalfields Market	32
Central Criminal Court	100	Billingsgate Market	40
Walbrook Wharf	1	Smithfield Market	35

* Operational staff are based at Guildhall but may work from a variety of locations

Medium Term Plans under consideration (2025/26 and 2026/27)

Priority list (e.g. new legislation, services, projects, automation)	25/26	26/27	Funded or Unfunded
Climate Action Strategy (CAS) implementation	On-going		Partially funded
Guildhall Masterplan	Subject to agreement		Not funded
Barbican Renewal Programme	Subject to agreement		Not funded
Integrated Facilities Management (IFM) – develop model to consolidate general facilities management (FM)	Subject to agreement		Financial efficiencies
Operations and FM input into major programmes	Subject to agreement		Financial efficiencies

Our 2024/25 timeline planner priority workstreams and key milestones

Q1 2024/25 | Q2 2024/25 | Q3 2024/25 | Q4 2024/25 | Beyond 2024/25

Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | 2025/26 | 2026/27

One department	Integrate the Markets Team into the City Surveyor's Department
Strategic asset management	Corporate Property Asset Management Strategy 2025 refresh
	Further agreement of roles & responsibilities between departments (under Head of Profession)
	Assist Chamberlain's and Town Clerks in developing Operational Property Board
	Progress disposal of assets once identified
	MRI Horizon Phase 2 delivery
Investment portfolio management	Asset sales (supporting the organisation's wider aspirations)
	Enhance our 'fund management' capabilities – and shaping the team to align with these new demands
	Diversification strategy delivery
	Lease re-gearing
Property Projects	Delivering property construction projects across the organisation
	Lead on the implementation of climate action strategy in design guidelines
Property assets and facilities management	Embed and further develop the Integrated Facilities Management (IFM) model across the organisation
	Continue to convert Climate Action Strategy (CAS) interventions into live projects to realise carbon reduction returns
	Corporate security contract award
	Service commencement
	Highlight issues relating to insufficient funding for cyclical works backlog
	Support transition of property H&S into Deputy Town Clerk's Department
Central Criminal Court	Condition survey and conservation management plan
	Further integration of services into the Integrated Facilities Management (IFM) contract
	Conclude tender for new catering contract
	Fire management strategy
	Venue offering (aligned with Destination City)
Major Programmes	Progress London Wall West
	Delivering construction workstreams to progress major programmes (Markets co-location, Sailsbury Square, London Museum, Barbican renewal)
	Leading on the disposal of existing market sites (Billingsgate & Smithfield). Soft market testing in 2024/25

Our major workstreams this year will be

Workstream Name	Funding allocation (local risk excluding recharges and Markets Team)	People resource (excluding Markets Team)	Prioritisation category	Dependencies	Outcomes/ Impacts	KPI	Update Schedule	24/25 Target	2023/24 performance at Q2 (end September)
Strategic Asset Management (including Central Criminal Court)	42%	41%	• Duty and discretionary • Income generation	• Cross-organisational function • Operational Property Review outcomes	• Oversight of corporate real estate	Asset Realisation & additional income	Quarterly	Value TBC (subject to agreement for asset sales)	On target
Investment portfolio management	32%	9%	• Income generation	• Market conditions • Organisational requirements for capital funds	• Income generation to support wider organisation • Asset realisation to support major projects and initiatives	Rental forecasts	Bi-annually	Outperformance	£103.2m, ahead of 23/24 target of £100.9m
						Minimise arrears	Bi-annually	< 2%	4.25% (1.45% excluding those with payment arrangements)
						Minimise voids	Bi-annually	< 5%	4.96%
						MSCI benchmark	Annually	Outperformance	End of year performance metric
Property projects	3%	5%	• Duty and discretionary • Climate action • Health and safety • Income generation	• Market conditions, particularly inflation. • Partner departments	• Project delivery • Support to the major programmes	Project risk status	Quarterly	< 30% of projects rated 'at risk'	48%
						Health and safety	Bi-annually	> 80% of H&S inspections rated good or above	91%
						Sustainability and waste management	Quarterly	> 90% of waste diverted	94%
Property assets and facilities management	23%	46%	• Duty and statutory • Duty and discretionary • Addresses a Risk on Corporate Risk Register • Climate action • Health and Safety	• Availability of funds to undertake maintenance & repair works • Impact of inflation	• Day-to-day management of facilities management, security, related contracts across Corporate & Investment estates.	Delivery of CAS milestones (Corporate Property and Landlord areas)	Quarterly	> 5% reduction in carbon	On target
						Delivery of CAS milestones (Investment Property)	Quarterly	Milestone attainment	Behind target
						Property contract performance compliance	Quarterly	> 80%	68%
Cross cutting	N/A	N/A	• Other	• Inflation • Project delivery	• Efficient provision of service	Adherence to budgetary spend profiles	Quarterly	95% to 105% of projected spend at end of year	Outside target

Our People

- The department is finding it increasingly difficult to recruit property professionals at the advertised grade. Further, retention has been an increasing issue due to pay & reward disparity. This is being tracked as a departmental red risk and we are engaging with Corporate colleagues to resolve
- The department has a track record of developing apprentices and will look to build upon this success.

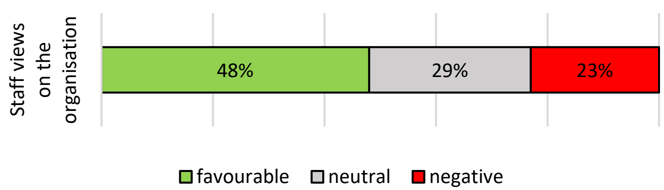
Your Voice Matters Staff Survey (2022)

Key themes highlighted by staff:

- Improving pay and reward
- Increasing workplace flexibility
- Reducing bureaucracy
- Improving Guildhall facilities
- Building upon a positive and supportive workplace culture.

We are actively engaging with HR on the new People Strategy.

Staff Survey Engagement Score



Health and Safety business plan priorities

1. Maintenance and Renewal of Corporate Physical Operational Assets
2. Manage statutory compliance of properties and assets maintained under IFM contract
3. Manage stress levels through team and individual risk assessments
4. Complete fire safety works at Central Criminal Court to ensure safety of occupants
5. Manage compliance with CDM Regulations in all works.
6. Manage accidents and incidents and complete investigations within corporate guidance
7. Complete HRB registration and create building safety case for submission to Building Safety Regulator
8. Manage DSE assessments

Equality Diversity & Inclusion

The department is committed to promoting Equalities, Diversity and Inclusion (ED&I). The department's volunteer ED&I Group has identified several actions to deliver through 2024/25 focussing on:

- Recruitment & Progression
- External Outreach
- Internal Outreach
- Volunteering

Through 2023/24 the Group has delivered numerous activities:

- Mentoring Programme – launched a mentoring programme within the department to promote staff development. This will continue through 2024/25.
- Participation in the London Careers Festival – promoting surveying and related professions to a new & diverse audience.
- Resident talk – increased understanding of how disabled customers & stakeholders interact with our organisation.
- CIOB / NLA – Engagement with the Chartered Institute of Building, to learn from industry best practice; presenting to a forum organised by the New London Architecture on our equalities journey.
- Volunteering event – organised a joint activity for the department's senior leadership team and the ED&I Group to provide services to some of the City's elderly residents.

Partners we work with

- Key commercial partners (CBRE, ISS, Amalgamated Lifts, OCS Group, Citigen, Total Energies, Serco, etc)
- Key non-commercial partners (Local Authorities, His Majesty's Courts and Tribunals Service, etc)
- Key internal partners (Chamberlain's, Innovation & Growth, Mansion House, Town Clerk's, etc).

Key Risks *

	Minor	Serious	Major	Extreme
Likely		2	4	
Possible		1	4	
Unlikely				
Rare				

Risk Title	Score
Maintenance & Renewal of Physical Assets**	16
Construction Price Inflation	16
Recruitment and Retention of Property Professionals	16
Construction Consultancy Management	16
Insurance – Investment and Corporate Estate	12
Insufficient Budget to meet User and Asset Demand at Guildhall	12
Investment Strategy Risk	12
Contractor Failure	12
Energy Pricing	8
Adjudication & Disputes	8
Special Structures	6

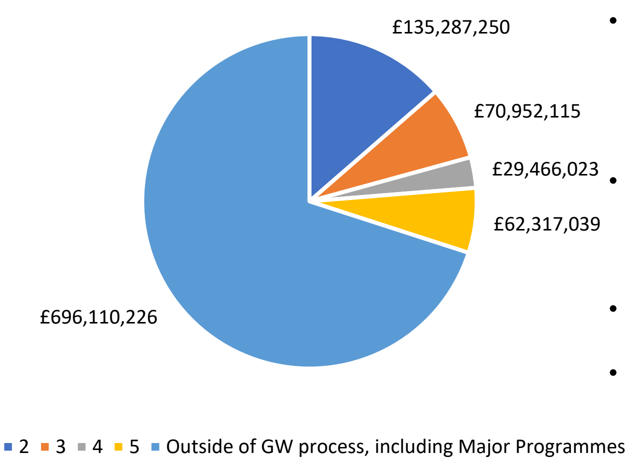
* November 2023, ** Corporate Risk

Operational Property Utilisation Assessment

Asset name	Assessment Complete?	Assessment Completion Date
Guildhall 4th floor NW	Yes	January 2023*
Walbrook Wharf	Yes	2017 (majority let)
20-21 Aldermanbury	Yes	2020 (currently let)
Central Criminal Court (COL offices)	Yes	April 2023
Paternoster Lodge	Yes	May 2022 (currently let)
Temple Bar	Yes	May 2022 (currently let)

*A revised assessment will be undertaken in early 2024 to account for updated British Council for Offices (BCO) guidance.

Property Projects Group – projects by value at each Gateway stage



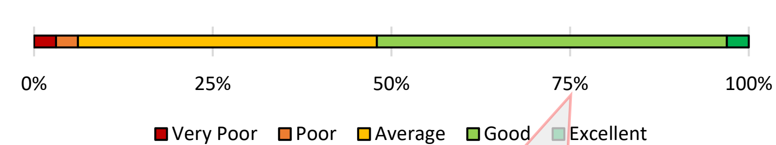
Notes:

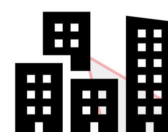
- Data includes projects which have been agreed for progress/delivery during 2024/25 (as of October 2023)
- This includes previously commenced projects, and those whose completion dates are beyond 2025
- Data includes agreed cost variations
- Barking market is included.

Our Stakeholders Needs

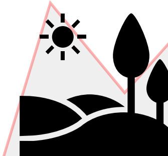
- The department has undertaken a comprehensive "voice of the customer" survey of both our Investment and Corporate Property occupiers through 2023/24. This was undertaken through the external surveying company RealService.
- The Investment Occupier Survey showed satisfaction climb to 66%, and the net promoter score increase by 8% from 2019.
- Occupiers felt that "building mangers were helpful and supportive, professional, efficient and friendly." However, others felt that the City can be "bureaucratic" and need to be more "tenant focussed, engaged and proactive in resolving issues".
- Results from the Corporate Occupier Survey will be available in early 2024.
- Feedback received informs the department's priority areas for future years.

Overall satisfaction - Investment Property Occupiers





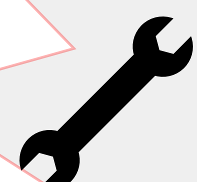
Managing the £3.0b Investment Property portfolio



Pathway to net-zero carbon is ahead of target

Ensuring 18 courts at the Central Criminal Court are available

Our Impacts



Integrated Facilities Management delivering savings of circa 10%

Delivering 30 – 40 major construction projects concurrently

Oversee 626 built assets across our Corporate portfolio

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Committee:	Date:
Investment Committee Finance Committee* Investment Committee of the City Bridge Foundation Board Audit & Risk Management (For Information)	12 February 2024 20 February 2024 Delegated 26 February 2024
Subject: Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2024/25	**Public**
Report of: The Chamberlain	**For Decision**
Report author: Kate Limna – Chamberlain's Department	

** This report is for information for the Finance Committee. The Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 in included as an appendix to the City Fund 2024/25 Budget report, which will be for approval.*

Summary

The attached document sets out the Corporation's Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) (TMSS) for 2024/25. The Treasury Management Strategy and Annual Investment Statement (relating to Treasury Management) for 2024/25 has been updated taking account of the latest information concerning the organisation's capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation's capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City's Estate (previously City's Cash) and City Bridge Foundation (previously Bridge House Estates). As City's Estate borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City's Estate Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled "City Fund 2024/25 Budget" being considered by the Finance Committee on 20 February 2024 and by the Court of Common Council on 7 March 2024.

Responsibility for approving the Corporation's borrowing plans remains with the Court of Common Council, not the Investment Committee.

The Investment Committee of the City Bridge Foundation Board is responsible for approving the TMSS on behalf of City Bridge Foundation. A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted. These included the power to borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. However, there are no current plans for borrowing to take

place in the short to medium term, and thus the most relevant section for the City Bridge Foundation Board is section 5, of the Annual Investment Strategy (for Treasury Management), which sets out how surplus cash balances will be managed in the forthcoming year (it does not apply to the Charity's longer term investments which are subject to City Bridge Foundation's Investment Strategy Statement). By adopting in the Corporation's treasury management policies, the City Bridge Foundation Board can ensure that treasury risks associated with the Charity's surplus cash balances are managed efficiently and effectively.

The key areas to highlight are:

Capital financing and borrowing

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Estate. City's Estate has partially addressed this borrowing requirement through the issuance of £450m market debt in recent years. In addition, 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 Estate: this work is currently on-going.
- The City Fund borrowing requirement is expected to increase to £345.5m and £359.0m by 2025/26 and 2026/27 respectively, falling to £227.2m in 2027/28. For the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can continue to temporarily use its own cash balances (internal borrowing) for the foreseeable future. Any new external borrowing would serve to increase cash balances and create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2024/25.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. Interest rates are now assumed to have peaked at 5.25%, and LINK, the City's treasury investment consultants, are currently forecasting no further changes in the rate until a decrease in the third quarter of 2024, reaching 4.25% by December 2024, and 3.0% by September 2025, where it is assumed to plateau, as inflationary pressures subside. However, there remains uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, if reduced too soon and inflationary pressures may well build up further, but reduced too late and any downturn or potential recession may be prolonged. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 2 of the TMSS) have been revised to enable the Corporation to secure external debt to meet some or all of the borrowing requirement.

- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2024/25 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2023, the Corporation has "cash" balances totalling £1,005.1m the majority of which is invested in money market funds and fixed income instruments. Cash is expected to decrease in 2024/25 as the Corporation progresses spending on the major projects programme. Most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund's balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.
- The Corporation currently manages significant short term investment cash balances. Although these balances are expected to decline in the next few years as the capital programme progresses, a level of core cash will persist for the next ten years based on current financial plans. One of the most acute challenges within the treasury management strategy is preventing the gradual erosion of the real value of these long-term cash balances from the effects of inflation. This is particularly important in the current external environment which is characterised by relatively high inflation and low investment returns (by historical standards).
- It is proposed that the City continues to be prepared to lend monies for up to three years' duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. No changes to the Corporation's creditworthiness policy (as set out in section 5 of the TMSS) are proposed. Officers judge that the current criteria allow the Corporation to achieve adequate diversification amongst a range of high-quality counterparties.

  The main changes to the document from last year's version are highlighted in yellow and underlined.

Training

- In November 2023, two Treasury Management training sessions were held for Members of the Investment Committee and Finance Committee.

Recommendations

It is recommended that the **Investment Committee** reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2024/25 Budget Report for formal adoption.

Under the delegated authority agreed at the **Investment Committee of the City Bridge Foundation Board** on 6 December 2023, the Town Clerk in consultation with the Chairman and Deputy Chairman of this Committee, is recommended to review and approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 on behalf of **City Bridge Foundation**.

Appendix - Treasury Management Strategy Statement and Annual Investment Strategy (relating Treasury Management) 2024/25 **(***for Finance Committee this appendix is within the City Fund 2024/25 Budget report*).

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

TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY (RELATING TO TREASURY MANAGEMENT)

2024/25

Issue Date: 12/02/2024
Agreed by Court of Common Council: XX/XX/2024

Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2024/25

1. Introduction

1.1. Background

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

The second main function of the treasury management service is the funding of capital expenditure plans. These capital plans provide a guide to the borrowing needs of the City, essentially the longer-term cash flow planning, to ensure that the organisation can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans where permitted for individual Funds of the City, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

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

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.3. Reporting Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010, and is applied to all Funds held by the City. There have been subsequent revisions to the codes in 2017 and 2021.

The primary requirements of the Code are as follows:

(i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(ii) This organisation will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

(iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Investment Committee with the Investment Committee of the City Bridge Foundation Board having responsibility on behalf of the charity; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The CIPFA 2021 Prudential Code for Capital Finance in Local Authorities and Treasury Management Code of Practice require all local authorities to prepare a capital strategy. The capital strategy provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how the associated risk is managed and the implications for future financial sustainability. The Treasury Management Strategy Statement is reported separately from the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset. It is considered good practice by the City to include all of its Funds within these strategies.

1.4. Recent changes to the CIPFA Treasury Management and Prudential Codes

CIPFA published revised versions of both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20 December 2021.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:-

- All investments and investment income must be categorised into one of three types:

  Treasury management
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

  Service delivery
  Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

  Commercial return
  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a local authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The revised Treasury Management Code requires an authority to implement the following: -

1. **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; the authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year, and the following two financial years as a minimum; this is to be shown in chart form, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are:

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include:

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

As this Treasury Management Strategy Statement and Annual Investment Strategy deals ***soley*** with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

Furthermore it should be noted that any new requirements are mandatory for the City Fund only.

1.5. Treasury Management Strategy for 2024/25

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable. The City's Prudential Indicators are set in its annual Budget Report and Medium-Term Financial Strategy, while Treasury Indicators are established in this report (Appendix 2).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 4 of this report) and to prepare an Annual Investment Strategy (section 5 of this report). The Investment Strategy sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2024/25 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Link Group, Link Treasury Services Ltd.

The strategy covers:

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the City

- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

1.6. Current Portfolio Position

The City's treasury portfolio position at 31 December 2023 compared to the position at 31 March 2023 comprised:

Table 1: Treasury Portfolio				
	Actual 31/03/2023		**Current 31/12/2023**	
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	£655.0	63%	£490.0	49%
Building societies (rated)	£20.0	2%	£90.0	9%
Local authorities	£0.0	0%	£0.0	0%
Liquidity funds	£82.5	8%	£120.2	12%
Ultra-short dated bond funds	£139.2	13%	£145.1	14%
Short dated bond funds	£151.0	14%	£159.8	16%
Total treasury investments	**£1,047.7**	100%	**£1,005.1**	100%
Treasury external borrowing				
LT market debt (City's Estate)	£450.0	100%	£450.0	100%
Total external borrowing	**£450.0**	100%	**£450.0**	**100%**

2. Capital Expenditure Plans and Prudential Indicators

2.1. City Fund

The City's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

The City's capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2024/25 Budget Report and Medium-Term Financial Strategy, which also contains the City's Prudential Indicators. The Prudential Indicators summarise the City Fund's annual capital expenditure and financing plans for the medium term. Table 2 summarises the capital expenditure and financing plans for City Fund for 2023/24 to 2027/28.

Estimate of Capital Expenditure and Financing (City Fund)

Table 2	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Expenditure:						
Non-HRA	95.3	264.2	327.3	394.6	133.7	44.8
HRA	11.3	50.8	66.3	31.8	10.0	0
Total	**106.6**	**315.0**	**393.6**	**426.4**	**143.7**	**44.8**
Financed by:						
Capital grants	36.7	125.6	139.4	167.3	64.4	18.6
Capital reserves	11.4	110.3	42.8	209.2	45.4	147.6
Revenue	54.8	19.2	41.5	24.6	20.4	10.4
Total	**102.9**	**255.1**	**223.7**	**401.1**	**130.2**	**176.6**
Net financing need:	**3.7**	**59.9**	**169.9**	**25.3**	**13.5**	**(131.8)**

The Prudential Indicators also establish the City Fund's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the City Fund's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource (the net financing need in Table 2), will increase the CFR which is summarised in table 3 below.

Estimate of the Capital Financing Requirement (City Fund)

Table 3	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	90.4	148.3	305.6	339.7	356.8	227.2
HRA	0	2.0	14.6	5.8	2.2	0
Total	**90.4**	**150.3**	**320.2**	**345.5**	**359.0**	**227.2**

The City is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum. The prudential indicator for the liability benchmark is only relevant for City Fund, and therefore does not include City's Estate external borrowing.

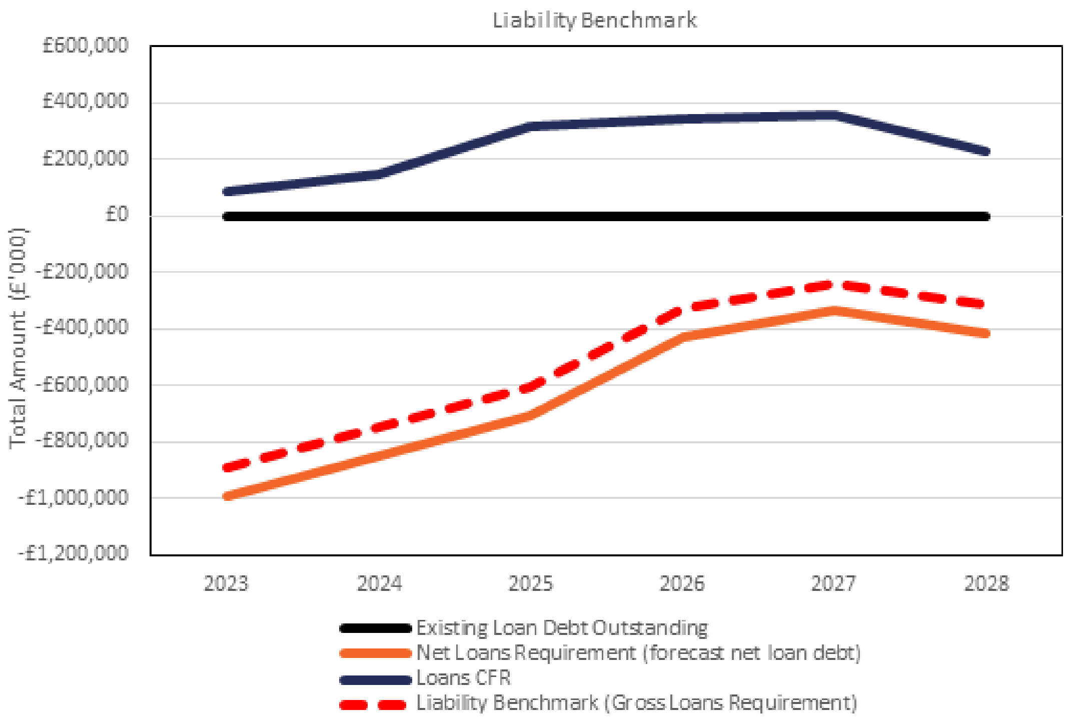
There are four components to the Liability Benchmark which should be represented in a chart. These are:

1. **Existing Loan Debt Outstanding**: The City's existing loans that are outstanding into future years. This City Fund currently has no external loans, so this will not need to be shown.

2. **Loans Capital Financing Requirement**: calculated in accordance with the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision.

3. **Net Loans Requirement**: The City Fund gross loan debt less treasury management investments, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flow forecasts. As the City plans to not undertake external borrowing the net loan requirement is shown as a negative and plots the expected cash balances across the years.

4. **Liability benchmark** (or **Gross Loans Requirement**): equals Net Loans Requirement plus a short-term liquidity allowance to allow for a level of excess cash to provide liquidity if needed.



<u>Minimum Revenue Provision (City Fund)</u>

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The City's MRP Policy is detailed in Appendix 2.

2.2. City's Estate

As with the City Fund, any capital expenditure incurred by City's Estate which has not immediately been paid for through a revenue or capital resource, will increase the City's Estate borrowing requirement. The medium term financial plan for City's Estate includes an increase in capital expenditure in the coming years, primarily relating to the major projects programme. All projected capital expenditure in 2024/25 will be financed from the existing £450m stock of debt or other sources. Table 4 summarises the planned City's Estate borrowing over the next few years.

Table 4	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Borrowing	£450m	£450m	£450m	£450m	£450m

A debt financing strategy will be established to ensure borrowing for City's Estate is reduced gradually over time as set out in the City's Estate Borrowing Policy Statement (Appendix 8).

2.3. City Bridge Foundation

City Bridge Foundations' (CBF) financial plans focus on the charity's primary object, namely the support and maintenance of the five Thames bridges that the charity owns, alongside their future replacement. Any surplus income each year is available for its ancillary purposes, namely charitable funding. The charity's revenue expenditure plans over the short and medium term are currently funded from ongoing income and the returns on investments held within the unrestricted income fund. Capital spend on the charity's investment property portfolio is currently funded from the designated sales pool (DSP) held within the permanent endowment fund, with receipts from disposals or lease premiums which are deemed to be capital in nature being available for this. However, consideration is being given to reviewing the funding of potential capital plans on a case by case basis in comparison to other investment opportunities across the whole CBF investment portfolio due to a reduction in receipts of this nature.

A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted as a result. These included the power to borrow in limited circumstances (see section 4.3) and the power to apply the total return approach to the permanent endowment fund. Put simply, this approach allows any increase in the value of an investment within the permanent endowment to be utilised as income. CBF has an approved policy that applies to the use of returns held within the permanent endowment fund, which ensures that the trustee considers the requirements of beneficiaries both now and in the future within its expenditure plans.

Treasury Indicators for 2024/25 – 2026/27

Treasury Indicators (as set out in Appendix 2) are relevant for the purposes of setting an integrated treasury management strategy.

3. Prospects for Interest Rates

The City of London has appointed Link Group (Link) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate – also known as "the Bank of England base rate") and longer term interest rates. The following table and accompanying text below gives the Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2024	5.25	4.50	4.70	5.20	5.00
Jun 2024	5.25	4.40	4.50	5.10	4.90
Sep 2024	4.75	4.30	4.40	4.90	4.70
Dec 2024	4.25	4.20	4.30	4.80	4.60
Mar 2025	3.75	4.10	4.20	4.60	4.40
Jun 2025	3.25	4.00	4.10	4.40	4.20
Sep 2025	3.00	3.80	4.00	4.30	4.10
Dec 2025	3.00	3.70	3.90	4.20	4.00
Mar 2026	3.00	3.60	3.80	4.20	4.00
Jun 2026	3.00	3.60	3.70	4.10	3.90
Sep 2026	3.00	3.50	3.70	4.10	3.90
Dec 2026	3.00	3.50	3.70	4.10	3.90
Mar 2027	3.00	3.50	3.70	4.10	3.90

Link's central forecast for interest rates was updated on 08 January 2024 and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping the Bank Rate at 5.25% until at least the second half of 2024.

Link expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their ongoing robustness). Timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

Future forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

For PWLB rates, the short and medium part of the gilt curve has rallied since the start of November, as markets price in a quicker reduction in Bank Rate through 2024 and 2025. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone.

3.1. The balance of risks to the UK economy

The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- Despite the tightening in Bank Rate to 5.25%, **The Bank of England allows inflationary pressures to remain elevated** for a longer period within the UK economy, which then necessitates the Bank Rate staying higher for longer than currently projected.

- **The pound** weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected **gilt issuance, inclusive of natural maturities and quantative tightening,** could be too much for the markets to comfortably digest without higher yields consequently.

3.2. Investment and borrowing rates

- The Bank Rate is expected to remain at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures. It is not expected that the MPC will increase the Bank Rate above 5.25%.
- The overall longer-run trend is for gilt yields and PWLB rates to fall back over the forecast timeline, as inflation continues to fall through 2024.
- Link's long-term, i.e. beyond 10 years, forecast for the Bank Rate remains at 3%, and as all PWLB certainty rates are currently above this level, borrowing strategies need to be reviewed in that context. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.
- Borrowing rates have also been impacted by changes in Government policy. In November 2020, the Chancellor introduced a prohibition to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.
- Because borrowing rates are generally expected to be higher than investment rates, any new borrowing undertaken by the City will have a "cost of carry" (the

difference between higher borrowing costs and low investment returns) to any new borrowing that causes a temporary increase in cash balances.

3.3. Interest Rate Exposure

The City is required to set out how it intends to manage interest rate exposure.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

4. Borrowing Strategy

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 3 above, respectively.

For both the City Fund and City's Estate, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City's capital programme as planned. The City Bridge Foundation, as stated in section 2.3, now has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023.

The City can choose to manage the borrowing requirements through obtaining external debt from a variety of sources; through the temporary use of its own cash resources ("internal borrowing"); or via a combination of these methods.

4.1. City Fund

The City Fund has a positive Capital Financing Requirement, and this is expected to grow over the next few years (see table 2 in section 2.1). As the City Fund currently has no external debt, it is therefore maintaining an under-borrowed position which is forecast to increase if the City Fund does not acquire external debt. This means that the capital borrowing need is being managed within internal resources, i.e. cash supporting the City Fund's reserves, balances and cash flow is being used as a temporary measure. This strategy is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the City is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing (i.e. the risk that the City Fund will need to replace internal borrowing with external borrowing in the future when interest rates are high).

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Finance Committee and the Court of Common Council at the next available opportunity.

The City must set two treasury indicators representing the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code in order to ensure borrowing is affordable and is consistent with the City Fund's capital expenditure requirements.

- The **operational boundary for external debt** should represent the most likely scenario for external borrowing. It is acceptable for actual borrowing to deviate from this estimate from time to time. The proposed limit is set to mirror the estimated CFR for the forthcoming year and the following two years.

- The **authorised limit for external debt** is the maximum threshold for external debt for over 2024/25, 2025/26 and 2026/27. This limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

The proposed limits for 2024/25 are set out in Appendix 2.

The City is also required to set a treasury indicator in respect of the maturity structure of external debt to ensure that the external debt portfolio remains appropriately balanced over the long term. Under the revised Treasury Management Code of Practice, the City is required to set limits for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

4.2. City's Estate

The capital expenditure plans for City's Estate also create a borrowing requirement. City's Estate has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m was received in 2021/22. City's Estate is likely to have a further temporary borrowing requirement arising in 2024/25. However, the Chamberlain will keep this position under review and in doing so will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The regulatory framework established through the CIPFA professional codes and DLUHC guidance pertains to the City's local authority function, the City Fund. To facilitate effective management of the City's Estate borrowing requirement, this organisation has adopted the City's Estate Borrowing Policy Statement (Appendix 8), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Estate. Under this framework, the City has resolved to establish two further treasury indicators, which will help the organisation to ensure its borrowing plans remain prudent, affordable and sustainable:

- **Estimates of financing costs to net revenue stream.** This indicator is given as a percentage and establishes the amount of the City's Estate net revenue that is used to service borrowing costs.
- **Overall borrowing limits.** This indicator represents an upper limit for external debt which officers cannot exceed.

The proposed indictors for 2024/25 are set out in Appendix 2 alongside the City Fund treasury indicators.

4.3. City Bridge Foundation

The City Bridge Foundation has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023. That is, City Bridge Foundation may borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. There are no current plans for borrowing to take place in the short to medium term.

4.4. Policy on borrowing in advance of need

The City will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the City can ensure the security of such funds.

4.5. Debt rescheduling

The City does not anticipate any debt rescheduling in the near term. However, should any opportunities for debt rescheduling arise (through a decrease in borrowing rates, for instance), such cases will need to be considered in the context of the current treasury position and the size of the cost of debt repayment (i.e. any penalties incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Court of Common Council, at the earliest meeting following its action.

4.6. Sources of borrowing

Historically, the main source of borrowing for UK local authorities has been the PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised lending arrangements with effect from 26 November 2020. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for new loans. 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.

Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5. Annual Investment Strategy (relating to Treasury Management)

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

5.1. Investment Policy

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

The City of London's investment policy will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2021 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2021.

The City's investment priorities are:

(a) security; and

(b) liquidity.

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

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

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

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

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

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

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

The City Fund will have exposure to Specified and Non-specified Invstments. All other participants in the Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 will have exposure to Specified Investments only.

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

5.2. Expected investment balances

The City’s medium term financial plans for City Fund and City’s Estate imply that total investment balances within the treasury investment portfolio are expected to decline over the next few years as the capital programme is progressed (City Bridge Foundation’s cash balances are expected to remain consistent) but to remain above a minimum constant level of £412m.

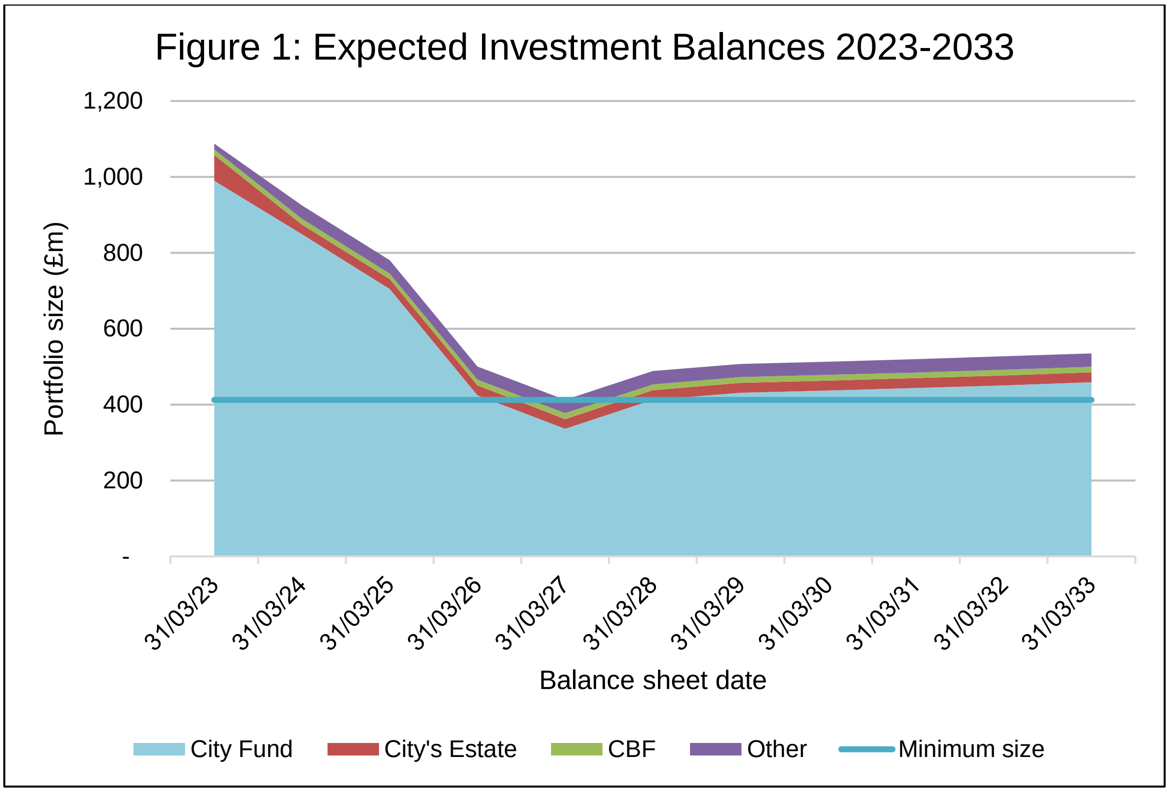


Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.[1] Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

As the City, and the City Fund in particular, is expected to maintain cash balances over the forecast horizon, the treasury management strategy will duly consider how best to protect the capital value of resources, particularly in the context of elevated inflation. The City's liquidity requirements and will be subject to ongoing monitoring practices as the capital programme progresses as specified in paragraph 5.3 below.

5.3. Creditworthiness policy

The primary principle governing the City's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City's prudential indicators covering the maximum principal sums invested.

[1] "Other" refers to other entities for whom the City provides treasury management services.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Investment Committee for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

Regular meetings are held involving the Chamberlain, the Financial Services Director, Corporate Treasurer and members of the Treasury team, where the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension, which will be reviewed in light of market conditions.

All credit ratings will be monitored daily**.** The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Link creditworthiness service.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:

  (i) are UK banks; and/or
  (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA+ (Fitch rating)

  and have, as a minimum the following Fitch, credit rating:

  (i) Short-term – F1
  (ii) Long-term – A-

- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.

- Banks 3 – The City's own banker (Lloyds Banking Group) for transactional purposes and if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.

- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:

  (i) have assets in excess of £10bn; or
  (ii) meet the ratings for banks outlined above

- Money Market Funds (MMFs) Constant Net Asset Value (CNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Low-Volatility Net Asset Value (LVNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Variable Net Asset Value (VNAV)* – with minimum credit ratings of AAA/mmf

- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)

- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, the City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.

- Multi-Asset Funds – these funds have the potential to provide above inflation returns with a focus on capital preservation, thus mitigating the erosion in value of long-term cash balances by investing in a range of asset classes that will typically include equities and fixed income. The value of these investments will fluctuate and they are not suitable for cash balances that are required in the near term. Before any investment is undertaken a rigorous due diligence process will be undertaken to identify funds that align with the City's requirements.

- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities

A limit of £400m will be applied to the use of non-specified investments.

***Under EU money market reforms implemented in 2018/19, three classifications of money market funds exist:

  - Constant Net Asset Value ("CNAV") MMFs – must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant net asset value.
  - Low Volatility Net Asset Value ("LVNAV") MMFs – permitted to maintain a constant dealing net asset value provided that certain criteria are met,

including that the market net asset value of the fund does not deviate from the dealing net asset value by more than 20 basis points.

- Variable Net Asset Value ("VNAV") MMFs – price assets using market pricing and therefore offer a fluctuating dealing net asset value

5.4. Environmental, Social and Governance Risks

The City of London Corporation is committed to being a responsible investor. It expects this approach to protect and enhance the value of the assets over the long term. The City recognises that the failure to identify and manage financially material environmental, social and governance risks can lead to adverse financial and reputational consequences. The City will incorporate ESG risk monitoring into its ongoing counterparty monitoring processes, alongside traditional creditworthiness monitoring. This risk analysis will be consistent with the City's investment horizon, which in many cases will be short term (under one year) in nature.

5.5. Use of additional information other than credit ratings.

Additional requirements under the Code require the City to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

5.6. Time and monetary limits applying to investments.

The time and monetary limits for institutions on the City's counterparty list are as follows (these will cover both specified and non-specified investments):

	Minimum Creditworthiness Criteria	Money Limit	Time Limit
Banks 1 higher quality	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
Banks 1 medium quality	Fitch Long Term Rating Long Term: A Short Term: F1	£100m	1 year
Banks 1 lower quality	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months
Banks 2 – part nationalised	N/A	£100m	3 years
Banks 3 – City's banker (transactions only, and if bank falls below above criteria)	N/A	£150m	1 working day
Building Societies higher quality	Fitch Long Term Rating A *or* assets of £150bn	£100m	3 years
Building Societies medium quality	Fitch Long Term Rating A- *or* assets of £10bn	£20m	1 year
UK Government (DMADF, Treasury Bills, Gilts)	UK sovereign rating	unlimited	3 years
Local authorities	N/A	£25m	3 years
External Funds*	**Fund rating**	**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	AAA	£100m	liquid
Money Market Funds LVNAV	AAA	£100m	liquid
Money Market Funds VNAV	AAA	£100m	liquid
Ultra-Short Dated Bond Funds	AAA	£100m	liquid
Short Dated Bond Funds	N/A	£100m	liquid
Multi Asset Funds	N/A	£50m	liquid

*An overall limit of £100m for each fund manager will also apply.

A list of suitable counterparties conforming to this creditworthiness criteria is provided at Appendix 4. The Chamberlain will review eligible counterparties prior to inclusion on the approved counterparty list and will monitor the continuing suitability of existing approved counterparties.

5.7. Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ (Fitch) or equivalent. The country limits list, as shown in Appendix 5, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. The UK (which is currently rated as AA-) will be excluded from this stipulated minimum sovereign rating requirement.

5.8. Local authority limits

The City will place deposits up to a maximum of £25m with individual local authorities. In addition the City imposes an overall limit of £250m for outstanding lending to local authorities as a whole at any given time. Although the overall credit standing of the local authority sector is considered high, officers perform additional due diligence on individual prospective local authority borrowers prior to entering into any lending.

5.9. Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a longer period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment returns expectations: Based on our Treasury Consultant's latest forecasts, the Bank Rate is forecast to have peaked at 5.25%, where it will remain until the second half of 2024, then incrementally reduce to 3.00% in the second half of 2025. In these circumstances it is likely that investment earnings from money-market related instruments will decrease compared to the earnings in 2023/24, however they remain above the very low levels experienced in previous years. Bank Rate forecasts for financial year ends (March) are:-

- 2023/24 5.25%
- 2024/25 3.75%
- 2025/26 3.00%

5.10. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end, and this is set out in table 5 below.

Table 5: Maximum principal sums invested for more than 365 days (up to three years)			
	2023/24 £M	**2024/25 £M**	**2025/26 £M**
Principal sums invested >365 days	300	300	300

5.11. Investment performance benchmarking

The City will monitor investment performance against Bank Rate and 3- and 6-month compounded SONIA (Sterling Overnight Index Average).

5.12. End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

5.13. External fund managers

A proportion of the City's funds, amounting to £425.1m as at 31 December 2023, are externally managed on a discretionary basis by the following fund managers:

- Aberdeen Standard Investments
- CCLA Investment Management Limited
- Deutsche Asset Management (UK) Limited
- Federated Investors (UK) LLP
- Invesco Global Asset Management Limited
- Legal and General Investment Management
- Payden & Rygel Global Limited
- Royal London Asset Management

The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond Fund managers (including the Payden & Rygel Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Standard Liquidity Fund (Lux) Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond Funds managed by Legal and General Investment Management and Royal London Asset Management. Both funds are unrated (as is typical of these instruments). The funds offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance. Exposure to these funds is ring-fenced to City Fund.

The City fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund managers. In order to aid this assessment, the City is provided with a suite of regular reporting from its managers. This includes monthly valuations and fund fact sheets as well as quarterly and annual reports. In addition to formal reports, officers also meet with representatives of the fund manager on a regular basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

6. Policy on the use of external service providers

The City uses Link Group, Link Treasury Services Ltd as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

7. Scheme of Delegation

Please see Appendix 6.

8. Role of the Section 151 officer

Please see Appendix 7.

9. Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, the Code states that they expect *"all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making*".

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and committee/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

a) Record attendance at training and ensure action is taken where poor attendance is identified.

b) Prepare tailored learning plans for treasury management officers and committee/council members.
c) Require treasury management officers and committee/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
d) Have regular communication with officers and committee/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

In November 2023 two training sessions were held, aimed at Members of the Investment Committee and Finance Committee, as each year it is the responsibility of these two committees to review and approve the Treasury Management Strategy before review by the Court of Common Council.

The first session was held on 13 November and provided an appreciation of what Treasury management involves, how it is undertaken, the roles of Members and Officers, and the risks in Treasury Management and how they should be managed, to develop the skills and knowledge for Member scrutiny of Treasury Management decisions.

The second session was held on 27 November and covered developing the Treasury Management Strategy - notably prudential indicators, cashflow forecasts, investment strategy, credit worthiness, counterparty list, ESG considerations – and a review of the investment portfolio and an economic outlook.

Both sessions were led by the Managing Director of Link Treasury Services and were well attended by Members. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

APPENDICES

1. Interest Rate Forecasts 2024 - 2027
2. Treasury Indicators 2024/25 – 2026/27 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. City's Estate Borrowing Policy Statement

APPENDIX 1

LINK INTEREST RATE FORECASTS 2024 – 2027 (Dated 08/01/2024)

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Interest Rate Forecasts								
Bank Rate	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**
Link	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%
Cap Econ	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%
5Y PWLB RATE								
Link	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%
Cap Econ	4.50%	4.30%	4.20%	4.00%	3.90%	3.80%	3.80%	3.70%
10Y PWLB RATE								
Link	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.50%	4.40%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%
25Y PWLB RATE								
Link	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.80%	4.60%	4.30%	4.40%	4.40%	4.50%	4.60%
50Y PWLB RATE								
Link	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%
Cap Econ	4.70%	4.60%	4.50%	4.30%	4.30%	4.30%	4.40%	4.40%

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1st November 2012.

APPENDIX 2

TREASURY INDICATORS 2024/25 – 2026/27 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit for external debt (City Fund) -						
Borrowing	190.4	250.3	420.2	445.5	459.0	327.2
other long-term liabilities	12.8	12.7	12.6	12.5	12.4	12.3
TOTAL	**203.2**	**263.0**	**432.8**	**458.0**	**471.4**	**339.5**
Operational Boundary for external debt (City Fund) -						
Borrowing	90.4	150.3	320.2	345.5	359.0	227.2
other long-term liabilities	12.8	12.7	12.6	12.5	12.4	12.3
TOTAL	**103.2**	**163.0**	**332.8**	**358.0**	**371.4**	**239.5**
Actual external debt (City Fund)*	0	0				
Upper limit for total principal sums invested for over 365 days (per maturity date)	£300m	£300m	£300m	£300m	£300m	£300m

**Actual external debt at the end of the financial year*

TABLE 2: Maturity structure of borrowing during 2024/25	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%

TABLE 3: CITY'S ESTATE BORROWING INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
Estimates of financing costs to net revenue stream	15.0%	16.1%	15.6%	15.5%	15.5%	15.6%
	£m	£m	£m	£m	£m	£m
Overall borrowing limits	450	450	450	450	450	450

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2023/24

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow and will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund).

DLUHC regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:

- **Option 3: Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
- **Option 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;

For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. MRP commences in the financial year following the one in which the expenditure was incurred. When borrowing to provide an asset, the asset life is deemed to commence in the year in which the asset first becomes operational. Therefore, MRP will first be made in the financial year following the one in which the asset becomes operational. 'Operational' here means when an asset transfers from Assets under Construction to an Assets in Use category under normal accounting rules.

As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City's MRP policy in respect of this form of internal borrowing is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then 'used again' when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.

The MRP liability for 2023/24 is £1.4m and is estimated at £1.4m for 2024/25.

APPENDIX 3

TREASURY MANAGEMENT PRACTICES (TMP 1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where appropriate.

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A-,	In-house via Fund Managers
Money Market Funds CNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	In-house & Fund Managers
Sovereign Bond issues (other than the UK government)	AA+	Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £400m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories set out below.

	Minimum Credit Criteria	Use	Maximum	Maximum Maturity Period
Term deposits – other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits – banks and building societies (with maturities in excess of one year)	Long-term A+, Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A+, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
Short Dated Bond Funds	--	In-house via Fund Managers	£100m per Fund	n/a*
Multi Asset Funds	--	In-house via Fund Managers	£50m overall	n/a*

*Short Dated Bonds Funds and Multi Asset Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access is typically T + 3 or 4.

APPENDIX 4

APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2023

UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS		BANK*	LIMIT PER GROUP	DURATION
A+ **A+**	**F1** **F1**	Barclays Bank PLC (NRFB) Barclays Bank UK PLC (RFB)	£100M	Up to 3 years
A+	**F1**	Goldman Sachs International Bank	£100M	Up to 3 years
AA	**F1+**	Handelsbanken PLC	£100m	Up to 3 years
AA- **AA-**	**F1+** **F1+**	HSBC UK Bank PLC (RFB) HSBC Bank PLC (NRFB)	£100M	Up to 3 years
A+ **A+** **A+**	**F1** **F1** **F1**	Lloyds Bank Corporate Markets PLC (NRFB) Lloyds Bank PLC (RFB) Bank of Scotland PLC (RFB)	£150M	Up to 3 years
A+ **A+** **A+**	**F1** **F1** **F1**	NatWest Markets PLC (NRFB) National Westminster Bank PLC (RFB) The Royal Bank of Scotland PLC (RFB)	£100M	Up to 3 years
A+	**F1**	Santander UK PLC (RFB)	£100M	Up to 3 years

*Under the ring-fencing initiative, the largest UK banks are now legally required to separate the core retail business into a ring-fenced bank (RFB) and to house their complex investment activities into a non-ring-fenced bank (NRFB).

BUILDING SOCIETIES

FITCH RATINGS		BUILDING SOCIETY	ASSETS	LIMIT PER GROUP	DURATION
A	**F1**	Nationwide	£275Bn	£100M	Up to 3 years
A-	**F1**	Yorkshire	£62Bn	£20M	Up to 1 year
A-	**F1**	Coventry	£62Bn	£20M	Up to 1 year
A-	**F1**	Skipton	£36Bn	£20M	Up to 1 year
A-	**F1**	Leeds	£27Bn	£20M	Up to 1 year

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS		COUNTRY AND BANK	LIMIT PER GROUP	DURATION
		AUSTRALIA (AAA)		
A+	**F1**	Australia and New Zealand Banking Group Ltd	£100M	Up to 3 years
A+	**F1**	National Australia Bank Ltd	£100M	Up to 3 years
		CANADA (AA+)		
AA-	**F1+**	Bank of Montreal	£100M	Up to 3 years
AA-	**F1+**	Royal Bank of Canada	£100M	Up to 3 years
AA-	**F1+**	Toronto-Dominion Bank	£100M	Up to 3 years
		GERMANY (AAA)		
A+	**F1+**	Landesbank Hessen-Thueringen Girozentrale (Helaba)	£100M	Up to 3 years
		NETHERLANDS (AAA)		
A+	**F1**	Cooperatieve Rabobank U.A.	£100M	Up to 3 years
		SINGAPORE (AAA)		
AA-	**F1+**	DBS Bank Ltd.	£100M	Up to 3 years
AA-	**F1+**	United Overseas Bank Ltd.	£100M	Up to 3 years
		SWEDEN (AAA)		
AA-	**F1+**	Skandinaviska Enskilda Banken AB	£100M	Up to 3 years
AA-	**F1+**	Swedbank AB	£100M	Up to 3 years
AA	**F1+**	Svenska Handelsbanken AB	£100M	Up to 3 years

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA - Public Sector Deposit Fund	Liquid
AAA/mmf	Federated Hermes Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund*	Liquid
AAA/mmf	Invesco Liquidity Funds Plc - Sterling Liquidity Portfolio	Liquid
AAA/mmf	DWS Deutsche Global Liquidity Series Plc – Sterling Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Hermes Sterling Cash Plus Fund*	Liquid
AAA/f	Aberdeen Standard Investments Short Duration Managed Liquidity Fund*	Liquid

*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated Hermes and Aberdeen Standard

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
-	Legal and General Short Dated Sterling Corporate Bond Index Fund	Liquid
-	Royal London Investment Grade Short Dated Credit Fund	Liquid

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY AND £250M OVERALL
Any UK local authority

APPENDIX 5

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA and AA+ from Fitch Ratings as at 12 January 2024.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- United States

AA-

- United Kingdom

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

The roles of the various bodies of the City of London Corporation with regard to treasury management are set out below.

(i) Court of Common Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

(ii) Investment Committee and Finance Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) Investment Committee of the City Bridge Foundation

- Review of the Treasury Management Strategy Statement on behalf of the Charity.

APPENDIX 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.

CITY'S ESTATE BORROWING POLICY STATEMENT

1. The City Corporation shall ensure that all of its City's Estate capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the overall fiscal sustainability of City's Estate.
2. Borrowing shall be undertaken on an affordable basis and total capital investment must remain within sustainable limits. When assessing the affordability of its City's Estate investment plans, the City Corporation will consider both the City's Estate resources currently available and its estimated future resources, together with the totality of its City's Estate capital plans, income and expenditure forecasts.
3. To ensure that the benefits of capital expenditure are matched against the costs, a debt financing strategy will be established.
4. To the greatest extent possible, expected finance costs arising from borrowing are matched against appropriate revenue income streams.
5. The City Corporation will organise its borrowing on behalf of City's Estate in such a way as to ensure that financing is available when required to manage liquidity risk (i.e. to make sure that funds are in place to meet payments for capital expenditure on a timely basis). The City Corporation will only borrow in advance of need on behalf of City's Estate on the basis of a sound financial case (for instance, to mitigate exposure to rising interest rates).
6. The City Corporation will ensure debt is appropriately profiled to mitigate refinancing risk.
7. The City Corporation will monitor the sensitivity of liabilities to inflation and will manage inflation risks in the context of the inflation exposures across City's Estate (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Estate).
8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Estate. Where internal borrowing (i.e. from City Fund or City Bridge Foundation) is used as a source of funding, the City Corporation will keep under review the elevated risk of refinancing.
9. All borrowing is expected to be drawn in Sterling. Where debt is raised in foreign currencies, the City Corporation will consider suitable measures for mitigating the risks presented by fluctuation in exchange rates.
10. Interest rate movement exposure will be managed prudently, balancing cost against likely financial impact.
11. The City Corporation will maintain the following indicators which relate to City's Estate borrowing only:
    - Estimates of financing costs to net revenue stream
    - Overall borrowing limits

Committee: Investment Committee	**Dated:** 12 February 2024
Subject: Treasury Management Update as at 31 December 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 December 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 Treasury Services, is included at Appendix 2.

The treasury position was last reviewed by the Investment Committee at the meeting on 14 December 2023, when they received a report outlining the treasury position as at 31 October 2023.

The treasury management investment portfolio had a market value of £1,005.1m as at 31 December 2023, which is a decrease of £35.4m from the balance previously reported as at as at 31 October 2023 (£1,040.5m).

The annual consumer price inflation rate in the UK rose by 4.0% in the 12 months to December 2023, down from 4.6% in October 2023. The Bank of England's Monetary Policy Committee (MPC) maintained the Bank Rate at 5.25% for a third consecutive time at its meeting on 14 December 2023, after the rate was also unchanged at the previous two meetings in November and September 2023. The markets view is that the rate has now peaked at 5.25%, with no cuts expected to materialise until Q2 of 2024, with subsequent cuts expected in the latter stages of the year.

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

Recommendation

Members are asked to note the report.

Main Report

Background

1. The Investment Committee will receive an update on the treasury management portfolio at each meeting. Officers have compiled this report to provide additional context to the short-term investment portfolio as at 31 December 2023.

Current Position

2. The treasury management investment portfolio had a market value of £1,005.1m as at 31 December 2023, which is a decrease of £35.4m from the balance previously reported as at as at 31 October 2023 (£1,040.5m). This decrease is principally due to:-

   - business rate refunds (£24.6m);
   - Museum of London drawdowns (£12.2m); and
   - expenditure on Major projects (£9.9m)

<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 December, 31 October and 31 March 2023 is set out in Table 1.

Table 1: Asset allocation as at 31 December 2023

	31-Mar-2023		31-Oct-2023		31-Dec-2023	
	£m	**%**	**£m**	**%**	**£m**	**%**
Fixed Term Deposit	535.0	51%	510.0	49%	490.0	49%
Notice accounts	140.0	13%	70.0	7%	90.0	9%
Short Dated Bond Funds	151.0	15%	154.1	15%	159.8	16%
Ultra Short Dated Bond Funds	139.2	13%	143.2	13%	145.1	14%
Liquidity Fund	82.5	8%	163.2	16%	120.2	12%
Total	**1,047.7**	**100%**	**1,040.5**	**100%**	**1,005.1**	**100%**

5. As at 31 December 2023, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks, with the highest allocation via fixed term deposits (49%). Liquidity funds make up around 12% of the portfolio, a reduction of £43m in-line with the decrease in the portfolio total as detailed at paragraph 2 above. These balances are very liquid and can be accessed on the day. Notice accounts now make up 9% of the portfolio, as an additional £20m (net) was re-invested invested during the reporting period.

6. The ultra-short dated bond funds account for 14% 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 (16%) 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 December 2023 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

Performance

8. The Bank of England's Monetary Policy Committee (MPC) maintained the Bank Rate at 5.25% for a third consecutive time at its meeting on14 December 2023, after the rate was also unchanged at the previous two meetings in November and September 2023. As in November, the MPC decision was passed with a vote of 6-3, with the three dissenting votes still favouring further tightening. The accompanying policy statement from the December MPC meeting maintained that rates will stay *"sufficiently restrictive for sufficiently long"* and that *"...if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required".*

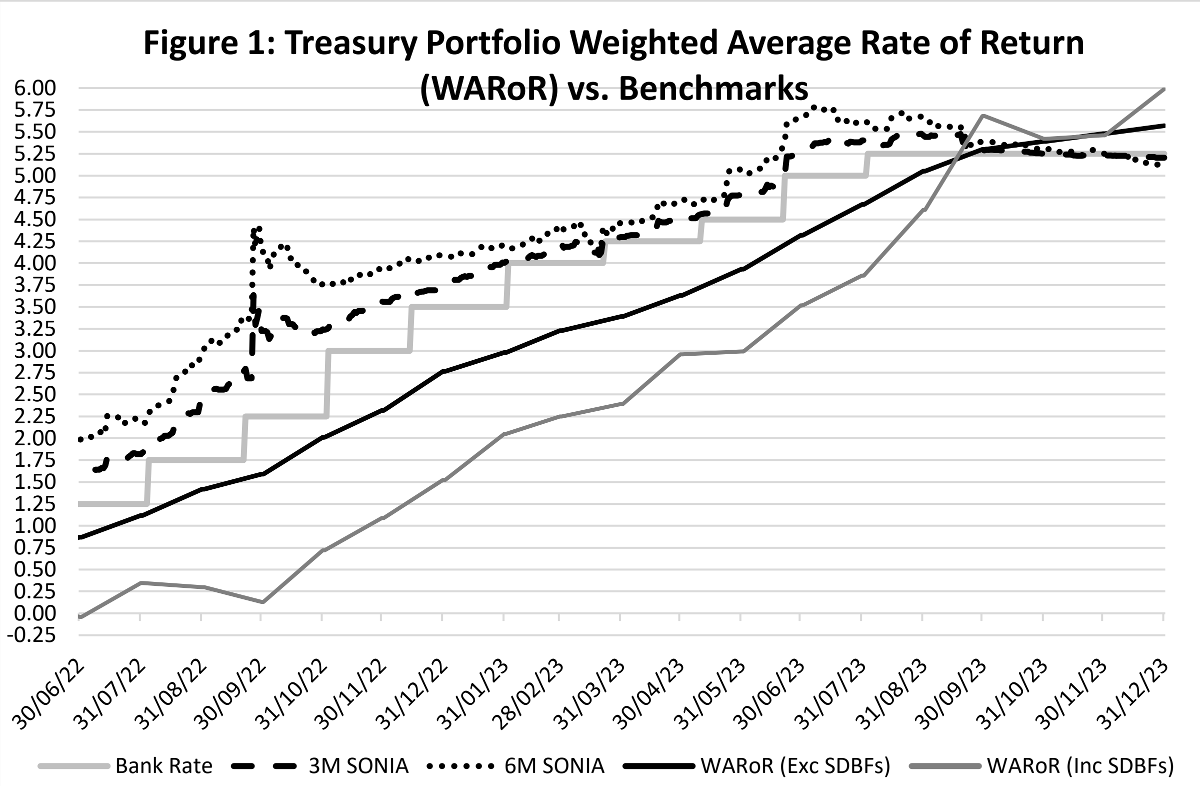
9. As previously reported, the market expectation is that rates have peaked at 5.25%. However, weaker than anticipated employment and growth figures have led markets to start pricing in a cut in the Bank Rate in Q2 of 2024, compared to previous expectations of no cuts until the second half of the year. A further cut to 4.75% is priced in for Q3, and thereafter markets still expect an additional move to 4.25% in December 2024. LINK, our investment consultants, are currently forecasting no further changes in the rate until a decrease in rates in Q3 of 2024, to 4.75%, reaching 4.25% by the end of the year, followed by further rate cuts through 2025 reaching 3.0% by September 2025 where it is assumed to plateau.

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

    a. As yields increase, the capital value of the Corporation's bond fund investments decline (i.e. when interest rates increase, bond prices decrease and vice versa), however as rates have now plateaued the capital value is beginning to appreciate, and total returns during the reporting period have increased. 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 has meant that the Corporation has benefitted from materially enhanced returns on new deposits and via the shorter term liquidity funds. A decrease in interest rates will result in reduced future returns from short term money market instruments.

11. These effects can be seen in the weighted average rate of return (WARoR) for the portfolio over the past 18 months and is shown in figure 1 below. In this chart, the two WARoR lines represent the level of returns achieved by the Corporation while the "dashed", and solid Bank Rate, lines represent suitable performance comparators.



12. Sterling money market rates rose steadily in line with bank rate increases throughout most of 2022 and the first half of 2023, although they rose sharply at the end of September 2022 due to the Governments proposed fiscal stimulus plans, as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the perceived risk of the proposed significant tax cuts to the UK economy, as shown in figure 1 for 3-month and 6-month Sterling Overnight Index Average Rate (SONIA). Rates subsequently eased as the government reversed its plans and the Bank of England moved to quell market unease, though rates still trended upwards in line with expected bank rate increases in the first half of 2023 as the MPC moved to try and ease inflation. In the second half of 2023 Sterling money market rates began to ease, as the bank rate reached an assumed peak of 5.25% at the start of August 2023. Sterling money market rates have now begun to decrease, as the market is pricing in a number of Bank Rate cuts over the next 12 months.

13. Returns on the Corporation's short term investment portfolio excluding short dated funds have trended upwards in 2023, as lower yielding deposits have matured and been replaced with new investments at a higher yield, as the Corporation capitalised on the increase in interest rates. This is visible in the weighted average return excluding short dated bond funds above (which omits the two longer-term short dated bond fund investments in the portfolio). If the current restrictive

monetary policy stance continues over the remainder of 2023/24, then officers expect the current rate of return to be maintained.

14. As month-to-month returns from the ultra-short and short dated bond fund investments can be volatile, for these instruments, officers have used the trailing 12 month total return to 31 December 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 2 months since the end of October 2023. The improvement in these returns is reflective of the fact that throughout most of 2023 bond prices weakened amid concerns that major central banks would keep increasing interest rates in order to quell inflation. However, this sentiment changed in November 2023, with growing optimism that inflation was cooling and interest rates would be lowered, and hence investors piled into bonds which drove up prices and triggered a powerfully rally.

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

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

Fund	1 Month Return (30/11/2023 to 31/12/2023)	2 Month Return (31/10/2023 to 31/12/2023)	12 Month Return (31/12/2022 to 31/12/2023)
Federated Hermes Sterling Cash Plus Fund	0.47%	0.94%	4.82%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.51%	0.98%	5.02%
Payden Sterling Reserve Fund	1.04%	1.75%	5.64%
L&G Short Dated Sterling Corporate Bond Index Fund	2.46%	4.13%	8.00%
Royal London Investment Grade Short Dated Credit Fund	2.51%	3.20%	8.37%

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

17. As noted above, the capital values of the bond funds – particularly the short-dated bond funds – can be volatile over the short term but they are expected to produce higher returns over the longer term. The Corporation deliberately allocates a small portion of the overall portfolio to these investments - an amount that can sustainably be invested over the medium term.

18. It should also be noted that fluctuations in the market value of investments do not impact the City Fund’s revenue position owing to the existence of the IFRS 9 statutory override, which has been extended for a further 2 years until 31 March

2025, which English local authorities are required to implement, and which requires unrealised capital gains and losses to be charged to an unusable reserve on the balance sheet rather than reported via income and expenditure.

19. As interest rates rise the bond managers are able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, has generally made up a greater part of the total return generated by these funds. The income (distribution) yield on the bond funds with Royal London and L&G are 4.37% and 3.70% respectively as at the end of December 2023.

20. Previously, Interest generated from short-dated bond funds was automatically reinvested, either by accumulating more shares or by increasing the price of the shares already held. The interest from these investments is now distributed, quarterly for RLAM (the first distribution of £866k was received in December 2023 for the 3-month period August-October) and twice yearly for L&G (the first distribution will be in April 2024 for the 6-month period August 2023-February 2024).

<u>Interest on cash balances</u>

21. A summary of the interest on *average cash balances* (i.e. the returns on the treasury management investment portfolio) as at 31 December 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 December 2023

	2023/24 Original Budget	2023/24 Forecast outturn	2023/24 Forecast outturn Better / (Worse)
	£'000	£'000	£'000
City Fund	**27,026**	**48,296**	**21,270**
City's Cash	**5,507**	**1,179**	**(4,328)**
Total City Fund & City's Cash Interest on average cash Balances	**32,533**	**49,475**	**16,942**

22. Income from interest on *average cash balances* is currently forecast to exceed budget by £16.9m principally due to higher than anticipated interest rates. The Bank of England base rate has increased from 3% in November 2022, when the budget was set as part of the City of London Corporation's Medium term financial plan (MTFP), to 5.25% in August 2023 where it has remained.

23. It should be noted that the forecast currently assumes the average split of cash held amongst funds to December 2023 will continue for the rest of the year.

<u>Cash Flow Forecast</u>

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

Conclusion

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

26. Since the Investment Committee last reviewed the treasury position as at 31 October, the Bank of England's Monetary Policy Committee (MPC) maintained its Bank Rate at 5.25% at its subsequent two meetings in November and December 2023. The markets view is that the rate has now peaked at 5.25%, with a cut to 4.25% expected by the end of 2024.

27. In December 2023, the MPC maintained the commitment to policy maintenance, saying that rates will stay *"sufficiently restrictive for sufficiently long"* and that *"...if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required".*

28. The increase in sterling money market rates in 2023 has allowed the Corporation to obtain higher yields, and officers expect interest income to be maintained over the remainder of 2023/24 if the current restrictive monetary policy stance continues.

29. The capital value of the Corporation's short-dated bond fund investments are beginning to appreciate as the Bank of England base rate has plateaued. 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. The interest from these investments is distributed, quarterly for RLAM and twice yearly for L&G.

Appendices

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

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APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 DECEMBER 2023

	Counterparty Limit £M	Total Invested as at 31-December-23 £M	Average Rate of Return %
TOTAL INVESTED		**1,005.1**	**5.99%**
FIXED TERM DEPOSITS			
UK BANKS			
Barclays	100.0	45.0	4.78%
Goldman Sachs	100.0	70.0	6.00%
Santander	100.0	20.0	5.38%
Lloyds	100.0	20.0	5.90%
NatWest	100.0	50.0	5.87%
		205.0	
FOREIGN BANKS			
Australia & New Zealand	100.0	45.0	5.70%
DBS Bank	100.0	70.0	5.56%
National Australia Bank	100.0	50.0	5.69%
Rabobank	100.0	20.0	6.14%
Toronto Dominion Bank	100.0	80.0	6.02%
United Overseas Bank	100.0	20.0	5.63%
		285.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	20.0	5.29%
CCLA - Public Sector Deposit Fund	100.0	26.0	5.30%
Deutsche Global Liquidity Fund	100.0	24.2	5.33%
Federated Prime Liquidity Fund	100.0	25.0	5.38%
Invesco Sterling Liquidity Fund	100.0	25.0	5.40%
		120.2	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	64.6	5.64%
Aberdeen SLI Short Duration Fund	100.0	53.7	5.02%
Federated Sterling Cash Plus Fund	100.0	26.9	4.82%
		145.2	
SHORT DATED BOND FUNDS			
L&G	100.0	80.1	8.00%
Royal London	100.0	79.6	8.37%
		159.7	
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account	100.0	45.0	5.43%
Santander 95 Days Account*	100.0	45.0	5.80%
		90.0	
TOTAL		**1,005.1**	

**Notice has been given on this account, with the full £45m returning on 05/03/2024.*

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