



Investment Committee

Date: THURSDAY, 3 OCTOBER 2024
Time: 2.00 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members:

Deputy Andrien Meyers (Chair)	Deputy Simon Duckworth OBE DL
Shahnan Bakth (Deputy Chairman)	Deputy Madush Gupta
Deputy Randall Anderson	Steve Goodman OBE
Nicholas Bensted-Smith	Deputy Christopher Hayward (Ex-Officio Member)
Claudine Blamey (External Member)	Deputy James Thomson
Deputy Keith Bottomley	Philip Woodhouse
David Brooks Wilson (External Member)	Alderman Alison Gowman CBE
Deputy Henry Colthurst (Ex-Officio Member)	Deputy Henry Pollard

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

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

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

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

Ian Thomas 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 25 July 2024.

For Decision
(Pages 7 - 12)
4. **FORWARD PLAN**

For Information
(Pages 13 - 16)
5. **ANNUAL TERMS OF REFERENCE REVIEW**
Report of the Town Clerk.

For Decision
(Pages 17 - 20)
6. **RISK REGISTER UPDATE FOR INVESTMENT COMMITTEE**
Joint report of the Chamberlain and City Surveyor.

For Decision
(Pages 21 - 28)
7. **TREASURY MANAGEMENT OUTTURN 2023/24**
Report of the Chamberlain.

For Discussion
(Pages 29 - 36)
8. **TREASURY MANAGEMENT UPDATE AS AT 31 AUGUST 2024**
Report of the Chamberlain.

For Discussion
(Pages 37 - 46)

9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
10. **ANY OTHER BUSINESS THAT THE CHAIR CONSIDERS URGENT**
11. **EXCLUSION OF THE PUBLIC**

MOTION, that – under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act or relate to functions of the Court of Common Council which are not subject to the provisions of Part VA and Schedule 12A of the Local Government Act 1972.

For Decision

Part 2 - Non-Public Agenda

12. **NON-PUBLIC MINUTES**

To approve the non-public minutes of the meeting held on 25 July 2024.

For Decision
(Pages 47 - 56)

13. **RECOMMENDATIONS TO RESOURCE ALLOCATION SUB-COMMITTEE**

The Chamberlain to be heard.

For Decision

14. **LEADENHALL MARKET - ASSET STRATEGY**

Report of the City Surveyor.

For Decision
(Pages 57 - 66)

15. **ORACLE PROPERTY MANAGER REPLACEMENT PROGRAMME - MRI HORIZON**

Report of the City Surveyor.

For Decision
(Pages 67 - 76)

16. **INVESTMENT STRATEGY IMPLEMENTATION PLAN FOR FINANCIAL INVESTMENTS**

Report of the Chamberlain.

For Decision
(Pages 77 - 84)

17. **DELEGATIONS REQUEST**

Report of the City Surveyor.

For Decision
(Pages 85 - 90)

18. **PERFORMANCE MONITORING**

For Discussion

a) City's Estate Quarterly Monitoring Report (Pages 91 - 110)

Report of Mercer.

b) Performance Monitoring to 31 July 2024: City's Estate (Pages 111 - 118)

Report of the Chamberlain.

19. **CITY FUND & CITY'S ESTATE RENTAL ESTIMATES**

Report of the City Surveyor.

For Information
(Pages 119 - 122)

20. **REPORT OF ACTION TAKEN**

Report of the Town Clerk.

For Information
(Pages 123 - 128)

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

22. **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, 25 July 2024

Minutes of the meeting of the Investment Committee held at Committee Rooms, 2nd Floor, West Wing, Guildhall on Thursday, 25 July 2024 at 10.00 am

Present

Members:

Deputy Andrien Meyers (Chair)
 Shahnaz Bakth (Deputy Chairman)
 Deputy Randall Anderson
 Claudine Blamey (External Member)
 David Brooks Wilson (External Member)
 Deputy Henry Colthurst (Ex-Officio Member)
 Alderman Alison Gowman CBE
 Deputy Madush Gupta
 Steve Goodman OBE
 Deputy Henry Pollard
 Philip Woodhouse

Officers:

Caroline Al-Beyerty	- The Chamberlain
Paul Wilkinson	- City Surveyor
Kate Limna	- Chamberlain's Department
Sarah Port	- Chamberlain's Department
Andrew Cross	- City Surveyor's Department
Robert Murphy	- City Surveyor's Department
John Galvin	- City Surveyor's Department
Graeme Low	- City Surveyor's Department
Neil Robbie	- City Surveyor's Department
Kirpal Kaur	- Comptroller and City Solicitor's Department
Katie Foster	- Remembrancer's Department
Ben Dunleavy	- Town Clerk's Department

Also in attendance

Steve Turner	- Mercer
Charles Franklin	- Stanhope Capital
James Hordern	- Stanhope Capital
James Lawlor	- Stanhope Capital

1. APOLOGIES

Apologies for absence were received from Nick Bensted-Smith, Deputy Keith Bottomley, Deputy Chris Hayward and Deputy James Thomson.

Deputy Simon Duckworth observed the meeting virtually as a Committee Member. Deputy Marianne Fredericks also observed the meeting virtually.

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

There were no declarations.

3. **MINUTES**

Members received the public minutes and non-public summary of the meeting held on 21 May 2024.

The Town Clerk informed Members of a correction to the minutes to record the attendance of Deputy Madush Gupta and Deputy Henry Pollard.

RESOLVED, that – the public minutes and non-public summary of the meeting held on 21 May 2024 be approved as a correct record, as amended.

4. **FORWARD PLAN**

Members received the Committee's forward plan.

5. **RISK REGISTER UPDATE FOR INVESTMENT COMMITTEE**

Members received a joint report of the Chamberlain and the City Surveyor concerning the risks overseen by the Committee.

RESOLVED, that - Members:

- Note the overarching risks and mitigations relating to the overall investment portfolio overseen by the Investment Committee
- Note the actions taken across the organisation to effectively monitor and manage risks in the City Surveyor's operations and review the existing risks and actions on the IC Financial Investments risk register and confirm that appropriate control measures are in place.

6. **TREASURY MANAGEMENT UPDATE AS AT 31 MAY 2024**

Members received a report of the Chamberlain concerning treasury management.

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

7. **CITY SURVEYOR'S BUSINESS PLAN 2023-28 QUARTER 4 2023/24 UPDATE**

Members received a report of the City Surveyor concerning the departmental business plan.

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

8. **WARDMOTE RESOLUTIONS**

Members received the resolutions from the Annual Wardmotes of Langbourn and Lime Street in March 2024, concerning Leadenhall Market.

It was noted that the Committee had received an update on Leadenhall Market at its meeting in May, during which the evolving strategy had been presented to Members. The Committee had reiterated its desire for work to continue quickly.

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

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

12. NON-PUBLIC MINUTES

The non-public minutes of the meeting held on 21 May 2024 were approved as a correct record.

13. REAL ESTATE INVESTMENT STRATEGY

Members received a report of the City Surveyor concerning the property investment portfolio.

14. CITY'S ESTATE - UPDATE ON ASSET ALLOCATION, DRAWDOWN AND LIQUIDITY RESERVE

Members received a report of the Chamberlain concerning asset allocation and liquidity.

15. DISINVESTMENT ADVICE AND INVESTMENT STRATEGY REVIEW

Members received a report of the Chamberlain concerning disinvestment advice from Mercer and the investment strategy review.

16. CITY'S ESTATE DRAFT DASHBOARD

Members received a report of the Chamberlain concerning a summary dashboard for the City's Estate combined investment portfolio.

17. PUDDLE DOCK – DEVELOPMENT OPTIONS REVIEW

Members received a report of the City Surveyor concerning Puddle Dock.

18. CITY FUND - CALCUTTA HOUSE AND 133 WHITECHAPEL HIGH STREET

Members received a report of the City Surveyor concerning a feasibility study for two investment property sites.

19. ONE SALISBURY SQUARE / SUSTAINABILITY ENHANCEMENTS

Members received a report of the City Surveyor concerning the Salisbury Square Development.

20. **DELEGATIONS REQUEST**
Members received a report of the City Surveyor concerning requests for delegated authority.
21. **CLIMATE ACTION DASHBOARD UPDATE**
Members were due to receive a presentation from the City Surveyor providing an update on the Climate Action Dashboard. In the interests of time, Members agreed that the slides accompanying the update should be circulated following the meeting.
22. **PERFORMANCE MONITORING TO 31 MAY 2024: CITY'S ESTATE**
Members received a report of the Chamberlain concerning performance monitoring to 31 March 2024.
23. **SIR WILLIAM COXEN TRUST FUND PERFORMANCE MONITORING TO 31 MARCH 2024**
Members received a report of the Chamberlain concerning the Sir William Coxen Trust Fund.
24. **HAMPSTEAD HEATH TRUST & CHARITIES POOL INVESTMENT PERFORMANCE MONITORING TO 31 MARCH 2024**
Members received a report of the Chamberlain concerning the Hampstead Heath Trust and the Charities Pool.
25. **CITY FUND & CITY'S ESTATE: INVESTMENT PROPERTY MONITORING REPORT**
Members received a report of the City Surveyor concerning investment property monitoring.
26. **CITY'S ESTATE & CITY FUND ESTATE: PERFORMANCE MONITORING OF PROPERTY INVESTMENT PORTFOLIOS TO 31ST MARCH 2024**
Members received a report of the City Surveyor concerning performance monitoring.
27. **CITY FUND & CITY'S ESTATE RENTAL ESTIMATES**
Members received a report of the City Surveyor concerning rental estimates.
28. **CITY SURVEYOR REVENUE OUTTURN 2023-24**
Members received a report of the City Surveyor concerning revenue outturn.
29. **CITY FUND & CITY'S ESTATE REVENUE WORKS PROGRAMME - UPDATE (HALF YEARLY REPORT)**
Members received a report of the City Surveyor concerning the revenue-funded works programme.
30. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There was one question in the non-public session.

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

There was no other business.

The meeting ended at 11.57 am

Chairman

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

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	3 October 2024	2 December 2024	17 February 2025	27 May 2025	21 July 2025	6 October 2025	1 December 2025
Overall Investment Portfolio (Chamberlains and City Surveyors)	City Surveyor's & Chamberlain's Department Risk Register for Investment Committee Implementation progress	Risk Register Update for Investment Committee Dashboard		City Surveyor's & Corporate Treasury Risk Report	City Surveyor's & Corporate Treasury Risk Report	City Surveyor's & Corporate Treasury Risk Report	City Surveyor's & Corporate Treasury Risk Report
Investment Property	<p>City's Estate and City Fund Rental Estimates Monitoring Report</p> <p>Delegation Request</p> <p>OPN Replacement Programme – MRI Horizon</p> <p>Leadenhall Market Update report</p>	<p>City Fund and City's Estate: Investment Property Monitoring half yearly report, including:</p> <ul style="list-style-type: none"> • <i>Vacant Accommodation Update</i> • <i>Rent Reviews/Lease Renewals</i> • <i>Arrears</i> <p>City Surveyor Revenue Budgets report Latest Approved 2024/25 and Original Estimates 2025/26</p>	<p>City Fund Estate : Annual Update Report</p> <p>City's Estate : Annual Update Report</p> <p>City's Estate and City Fund Rental Estimates Monitoring Report – December Forecast (6 monthly report)</p> <p>Draft New Business Plan 2025 – 2030</p> <p>Delegation Sheet</p>	Delegation Sheet	<p>City Fund, City's Estate and Strategic Property Estate – Annual Valuation report and MSCI report</p> <p>City's Estate and City Fund Rental Estimates Monitoring Report - June Forecast (6 monthly report)</p> <p>City Surveyor Revenue Outturn 2024-25 to include as an Appendix : Revenue Works Programme 24/25 Progress</p>	<p>City Fund and City's Estate : Delegated Authorities - Decisions Update report</p> <p>Delegation Sheet</p>	<p>City Fund and City's Estate : Investment Property Monitoring Annual Report:</p> <ul style="list-style-type: none"> • Vacant Accommodation Update • Rent Reviews/Lease Renewals • Arrears – Half yearly report <p>City Surveyor Revenue Budgets (City Fund and City's Cash) – Latest Approved 2024/25 and Original Estimates 2025/26</p>

		<p>CSD Business Plan – 2nd Quarter 2024/25 Progress Report.</p> <p>City Surveyor’s Department Risk Register – 2nd Quarter Progress</p> <p>Climate Action Dashboard</p> <p>Delegation Request</p>			<p>CSD Business Plan – 4th Quarter Progress.</p> <p>Delegation Sheet</p>		<p>Draft New Business Plan 2022 – 2025</p> <p>Business Plan – 2nd Quarter Progress.</p> <p>City Fund & City’s Estate Revenue Works Programme – 24/25 Progress Report (half yearly report)</p>
Financial Investments	<p>Performance Monitoring report for City’s Estate Financial Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p> <p>Draft City’s Estate Investment Strategy Implementation Plan</p>	<p>Performance Monitoring report for City’s Estate Financial Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p> <p>Hampstead Heath Trust and Charities Pool Investment Performance Monitoring to 30 September 2024</p>	<p>Performance Monitoring report for City’s Estate Financial Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p>	<p>Performance Monitoring report for City’s Estate Financial Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p>	<p>Performance Monitoring report for City’s Estate Financial Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p> <p>Hampstead Heath Trust and Charities Pool Investment Performance Monitoring to 31 March 2025</p>	<p>Performance Monitoring report for City’s Estate Financial Investments</p>	<p>Performance Monitoring report for City’s Estate Financial Investments</p> <p>Quarterly Investment report from Mercer (Investment Consultant)</p>

		Sir William Coxen Trust Fund Performance Monitoring to 30 September 2024			Sir William Coxen Trust Fund Performance Monitoring to 31 March 2025		
Treasury Management	Treasury Management Update Treasury Management Outturn 2023-24	Treasury Management Update Mid-Year Treasury Review	Treasury Management Update Annual Treasury Management Strategy Statement	Treasury Management Update	Treasury Management Update	Treasury Management Update Treasury Management Outturn 2024-25	Treasury Management Update Mid-Year Treasury Review
Town Clerk's Department	Annual Terms of Reference Review					Annual Terms of Reference Review	

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Committee(s): Investment Committee	Dated: 3 October 2024
Subject: Annual Review of Terms of Reference	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	
Does this proposal require extra revenue and/or capital spending?	N/A
If so, how much?	
What is the source of Funding?	
Has this Funding Source been agreed with the Chamberlain’s Department?	
Report of: Town Clerk	
Report author: Ben Dunleavy – Governance and Member Services Manager	For Discussion

Summary

As part of the implementation of the 2021 Governance Review, it was agreed that the cycle and process of annually reviewing the Terms of Reference of all Committees/Boards should be revised, to provide more time for Committees to consider and discuss changes before they are submitted to the Policy and Resources Committee.

The Committee instructed officers at its May 2024 meeting to consider changes to its composition relating to the co-opted Member position.

The review process will enable this and any further proposed changes to be considered at the Policy and Resources Committee meeting in February 2025, in time for the re-appointment of Committees by the Court of Common Council in April 2025.

Recommendations: Members are asked to:

1. Note the current composition and terms of reference of the Investment Committee (Appendix 1);
2. Agree that the two co-opted positions on the Committee’s composition should instead become regular Court appointed positions;
3. Consider any further changes to the Committee’s terms of reference, for onward submission to the Policy and Resources Committee in February 2025 and the Court of Common Council in April 2025.

Main Report

1. The Investment Committee was formed in April 2023 by the Court of Common Council from the former Financial and Property Investment Boards. This included the terms of reference of the two Boards, and their combined membership. The latter composition was determined for the first civic year only (ie until the reappointment of the Committee in April 2024). Five positions on the Committee would then revert to positions appointed by the Policy and Resources Committee, the Finance Committee or co-opted by the Committee from the wider Court.
2. As all terms on the Committee would be starting from a blank slate, the term lengths of Committee positions were staggered in order to manage the cycle of their expiry. The allocation of the different length terms to Members was determined by a name drawn by ballot from the Town Clerk's department, observed by the then Chief Commoner. The resulting term lengths were advertised to Members through the Court Order on the first Committee agenda.
3. Following the appointment of the Committee in April 2023, Deputy Keith Bottomley and Steve Goodman joined the Committee as representatives of the Policy and Resources Committee. Those Members who had filled these positions for the 2023/24 civic year joined as either representatives from the Policy and Resources or Finance Committees, or were co-opted by the Investment Committee from the wider Court.
4. At its first meeting of the current civic year in May 2023, Members discussed the composition of the Committee and supported a proposal that the two co-opted positions should instead become regular Court appointments i.e two-year terms advertised to the entire Court when vacant. They accordingly instructed officers to include this change as part of the annual review of the Committee's terms of reference.
5. It is therefore proposed that the Committee's composition should be amended so that the current position whereby the Committee has 'Up to Two Members to be co-opted from the Court by the Committee, with relevant experience' should be added to the current regular Court Members. This would mean the Committee would have 'Eight Members of the Court of Common Council' alongside the other ex-officio positions and appointees from other Committees.

Appendices

Appendix 1 – Current composition and terms of reference

Ben Dunleavy

Governance and Member Services Manager

Contact: ben.dunleavy@cityoflondon.gov.uk

INVESTMENT COMMITTEE

Composition

A Non-Ward Committee consisting of:

- Six Members of the Court of Common Council
- Two Members appointed by the Policy and Resources Committee
- Two Members appointed by the Finance Committee
- Up to Two Members to be co-opted from the Court by the Committee, with relevant experience
- the Chairman or a Deputy/Vice Chairman of the Policy and Resources Committee, or their nominee (from the Membership of that Committee) (ex-officio)
- the Chairman or Deputy Chairman of the Finance Committee or their nominee (from the Membership of that Committee) (ex-officio)
- Up to four co-opted External Members with relevant experience, with voting rights, appointed by the Committee.

Terms of Reference

Investment Proportions

To inform the decision taken by the Resource Allocation Sub-Committee on the appropriate investment proportions between property and non-property assets.

Property

- a) To determine and approve management and investment matters relating to property within the City's Cash and City Fund in accordance with the management plans and investment strategies
- b) to acquire, manage or dispose of all City property within its remit;
- c) to determine specific property ownerships in accordance with policies established by the Policy and Resources Committee and the Court of Common Council in relation to the extent of properties to be held by the City of London Corporation for strategic purposes, including within the City itself;
- d) to report during the year to the Court of Common Council in relation to its activities and the overall performance of the investment property portfolios

Finance

- e) To approve the appointment of and to monitor the performance of investment managers of the following funds:
 - i. City's Cash
 - ii. Charities Pool
 - iii. Hampstead Heath Trust
 - iv. The Sir William Coxen Trust*Together with such other funds as are under the City of London Corporation's control;
- f) to review the investment strategy for the securities investments of City's Cash, Hampstead Heath Trust Fund, Sir William Coxen Trust* and the Charities Pool;
- g) to authorise investments and approve the overall parameters within which the investment fund managers will be authorised to operate;
- h) to invest all new monies in respect of the Charities Pool;
- i) to invest such other sums as are from time to time allocated for this purpose; and
- j) to monitor the activities of the Chamberlain in connection with his role as banker to the City of London Corporation.

* to oversee the investments of the Sir William Coxen Trust, reporting back and providing advice to the Committee of Aldermen to Administer the Sir William Coxen Trust Fund, which would then take any necessary decisions.

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Agenda Item 6

Committee(s)	Dated:
Investment Committee – For decision	3 October 2024
Subject: Risk Register Update for Investment Committee	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	Providing Excellent Services, Leading Sustainable Environment, Flourishing Public Spaces, Dynamic Economic Growth
Does this proposal require extra revenue and/or capital spending? N/A	No
If so, how much? N/A	N/A
What is the source of Funding? N/A	N/A
Has this Funding Source been agreed with the Chamberlain’s Department? N/A	N/A
Report of: The Chamberlain and The City Surveyor (CS 248/24)	For Decision
Report author: Kate Limna, Sarah Port and Jenny Wong – Chamberlain’s Department John Galvin, Anna Flashman and Faith Bowman – City Surveyor’s Department	

Summary

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

This report includes an update on three risk registers:

- Overarching Risk Register – This captures risks relating to the overall investment portfolio e.g. allocation between asset classes; risks common to both portfolios e.g. governance risk; and arrangements over liquidity which sit above the portfolios. This register is included as Appendix A.
- City Surveyor’s Departmental Risk Register – The City Surveyor’s Department (CSD) maintains a comprehensive risk register of matters pertaining to the department’s operation and objectives. Where these risks are relevant to this Committee, these have been included in Appendix B.
- Corporate Treasury Risk Register – captures risks relating to the treasury function and the City’s Estate financial investments (Appendix C).

Members requested at the May Committee (CS 079/24) that a single report will be generated on a periodic basis. The Corporation’s Risk Management Strategy 2024 - 29 (RMS) defines this period as quarterly.

Recommendation(s)

Members are asked to:

- Consider the overarching risks and mitigations relating to the overall investment portfolio overseen by the Investment Committee (Appendix A).

- Note the actions taken across the organisation to effectively monitor and manage risks in the City Surveyor’s operations (Appendix B) and review the existing risks and actions on the IC Financial Investments risk register (Appendix C) and confirm that appropriate control measures are in place.

Main Report

Background

1. The City Surveyor’s Department (CSD) and the Chamberlain’s Corporate Treasury Team report to the Investment Committee (IC) those risks relevant to your Committee under your Terms of Reference. Further, an overarching register has been in development capturing high-level risks to the investment portfolio.
2. Following discussions at the May IC it was agreed that a single report would be presented to Members on a periodic basis. CSD must report its risks on a quarterly basis in line with the Corporation’s Risk Management Strategy, 2024 - 2029 (RMS), and therefore the other registers must be presented in line with this frequency.
3. Previously risks relating to Corporate Treasury were only reported to Committee on a six-monthly basis.
4. Risks to the overall investment portfolio such as allocation between asset classes, risks common to both portfolios, governance risks, and arrangements over liquidity which sit above the portfolios, are captured within the Overarching Risk Register.

Review of Risks

5. The method of assessing risk reflects the City of London’s standard approach as defined in the RMS. The risk matrix, which explains how risks are assessed and scored is attached at Appendix D. These scores are summarised into three broad groups, each with increasing risk, and categorised “green”, “amber” and “red”.
6. Appendix B relates to risks owned by CSD, capturing items which could impact the performance of the investment property portfolio. Appendix C relates to risks owned by Corporate Treasury, helping identify and manage the strategic risks facing the City’s non-property investments.
7. Each risk presented in the Risk Register is accompanied by one or more “action(s)” which reflect how the risk is managed and mitigated. A “due date” for required completion is set against each action. Due to the nature of the risk overseen by the Committee in many cases it is impossible to entirely eliminate a risk, and therefore corresponding actions will always remain live. These ongoing actions are necessary in order to maintain the current risk score. Where this is the case the Risk Register includes an annual update, which will be reviewed each year.
















Current Position

Overarching Portfolio Risk register (Appendix A)

8. As reported to your May Committee, the Overarching Risk Register for the investment portfolio has been developed further and mitigating actions included for:
 - Investment performance strategy,
 - External economic factors,
 - Overarching risk in relation to sustainability and impact – which is broken down in a more nuanced way in each of the property and financial investment risk registers,
 - Cash flow management risk – formerly sitting in the financial investment risk register,

- Governance risk – formerly sitting in the financial investment portfolio.

Table 1: Summary table of risks for overall investment portfolio relevant to Investment Committee

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
IC 01	Investment Performance Strategy Risk	6			
IC 02	External Economic Risk	12			
IC 03	Governance	4			
IC 04	Cashflow Management	8			
IC 05	Sustainability and Impact	4			

CSD Risk Register (Appendix B)

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

a. SUR SMT 005

Construction and Service Contracts Price inflation
Current Risk Score 16 (Red)

Although market fluctuations have been stable in recent months, price inflation persists at elevated levels compared to historical norms. The Property Projects Group have reported that inflation continues to affect construction inputs, especially labour costs.

Tender prices remain high, prompting the department to collaborate with the Chamberlain’s procurement team to encourage a larger pool of contractors to participate in bidding for projects. As a result of this assessment, the use of Two Stage contracts will be increased, aligning with current market practices. The department will persist in implementing mitigations wherever feasible.

b. SUR SMT 006

Construction Consultancy Management
Current Risk Score 16 (Red)

The skills and competencies of construction consultants within the public sector often do not align with those available in the commercial sector.

To address this risk, the department is collaborating closely with the Procurement team, legal department, and Construction Category Board. The department is also taking measures against consultants whose performance fails to meet quality standards, leading to longer end-to-end timelines.

Additionally, the department has begun engaging with the market at RIBA stage 3 instead of RIBA stage 4 to help avoid unnecessary design and development efforts. The effects of this adjustment will be monitored in the upcoming months.

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

The risk scoring on this item was reviewed again by the department's management team in August. There remains considerable competition for attracting skilled property professionals, especially in the fields of Surveying and Project Management.

The department has conveyed these challenges at a corporate level and is contributing to the broader organisational pay and reward review (Ambition 25) to address this risk. It is important to note that this issue has also been recognised as a Corporate Risk (CR 39 Recruitment and Retention).

- d. SUR SMT 016
Investment Property Group Staffing and Capacity
Current Risk Score 16 (Red)

This risk pertains to the necessity for new skill sets and increased capacity within the Investment Property Group, driven by evolving corporate investment objectives, organisational needs, and market accessibility. The department has outlined various measures to mitigate both the probability and consequences of this risk in the Real Estate Investment Strategy approved at Investment Committee in July 2024 and Corporate Services Committee in September 2024.

This risk is associated with Recruitment & Retention risk (SUR SMT 009) and Investment Strategy Risk (SUR SMT 003).

- e. SUR SMT 011
Contractor failure
Current Risk Score 16 (Red)

This risk pertains to the potential failure of a primary contractor or a principal sub-contractor.

The City Corporation has historically had limited control over the selection of those commissioned for work, particularly regarding the latter. In the event of a failure by either a main contractor or sub-contractor, there could be subsequent effects on warranties and the ability to pursue remedies for design defects.















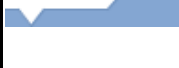





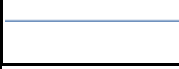



To address this, the department is now conducting biannual assessments of contractor suitability, a practice that previously took place only at the start of a contract. This change is expected to prepare the City of London Corporation if a contractor encounters challenges.

- f. SUR SMT 010
Insurance - Investment and Corporate Estates
Current Risk Score 8 (Amber)

This risk identifies the need of re-valuation of the City of London Estates – (Investment and Corporate) to ensure that the City reaches its legal obligations under its insurance policies.

A number of mitigating activities have taken place this quarter including application of funding and resource, tendering of the City Fund Properties and the near completion of the City Bridge Foundation which have reduced the likelihood of this risk. Although the risk scoring has been reduced from 12 (major/possible) to 8 (major/unlikely) its risk status remains at Amber.









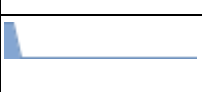






10. Table 2: Summary of CSD risks relevant to this Committee

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
SUR SMT 005	Construction Price Inflation	16			
SUR SMT 006	Construction Consultancy Management	16			
SUR SMT 009	Recruitment and retention of property professional	16			
SUR SMT 016	Investment Property Group Staffing and Capacity	16			
SUR SMT 011	Contractor Failure	16			
SUR SMT 003	Investment Strategy Risk	12			
SUR SMT 012	Adjudication & Disputes	8			
SUR SMT 010	Insurance - Investment and Corporate Estates	8			

Chamberlain (Corporate Treasury) Financial Investments (Appendix C)

11. The financial Investments Risk Register contains five risks which are summarised in Table 3 and are ranked by their current risk score.
12. Officers have reviewed the Risk Register to establish whether the risk environment has changed, and both risks have been reviewed and updated where necessary. Updates to the Risk Register are underlined throughout. Table 3 provides a summary of the risks.

Table 3: Summary table of risks for Corporate Treasury relevant to Investment Committee

Risk code	Risk title	Current Risk Score	Current Risk Score Indicator	Trend Icon	Flight path
CHB IC 01	Insufficient assets - City's Estate	12			
CHB IC 02	Targeted returns - City's Estate	6			
CHB IC 03	Service provider failure	4			
CHB IC 07	Failure to discharge responsible investment duties	4			
CHB IC 04	Counterparty failure - Treasury Management	2			

Corporate & Strategic Implications

Strategic implications

13. Organisationally strategic risks are managed on the City Corporation's Corporate Risk Register. The Overarching Risk Register will seek to capture overall uncertainty to the investment portfolio, which may have strategic implications.

Financial implications

14. Should a risk manifest there may be financial impacts. The assessment of risk includes consideration of potential financial implications, and this is reflected within the risk scoring.

Resource implications

15. The progression of mitigating activities often requires the provision of adequate resources. Where relevant this has been highlighted within the risk actions.

Legal implications

16. Legal and contract implications are highlighted where relevant within the relevant Risk Register.

Risk implications

17. Key risks are included in this report.

Equalities implications

18. Where relevant this is highlighted within the Risk Registers.

Climate implications

19. Sustainability and Impact is the focus of one of the key risks on the Overarching Risk Register.

Security implications

20. None

Conclusion

21. Members are asked to note the recent updates to the risk registers and the measures implemented by both the Chamberlain's Department, and City Surveyor's Department to reduce the probability and/or consequences of identified risks.
22. The risk position within City Surveyor's Department is consistent with earlier reporting periods. With the exception of the reduction of the risk scoring of SUR SMT 010 Insurance - Investment and Corporate Estates, however, its risk status remains at amber.

Appendices

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

Background Papers

- The City Surveyor The City Surveyor's Departmental Risk Register – July 2024 Update (CS 170/24)

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Agenda Item 7

Committee: Investment Committee Audit and Risk Management	Dated: 3 October 2024 4 November 2024
Subject: Treasury Management Outturn 2023/24	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: The Chamberlain	For Discussion
Report author: Adam Buckley – Chamberlain's Department	

Summary

The Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) for 2023/24 was approved by the Financial Investment Board and the Finance Committee in February 2023 and by the Court of Common Council on 9 March 2023. (The Financial Investment Board has now been dissolved and replaced with the Investment Committee with effect from 19 May 2023).

Under CIPFA's Code of Practice on Treasury Management, which was adopted by the Court of Common Council on 3 March 2010, there is a requirement to provide an end of year report. The main points to note are as follows:

- As at 31 March 2024, the City had treasury balances totalling some £901.2m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances decreased by £146.5m over the course of the year, which was principally due to expenditure related to the Major Projects programme, and an additional Business Rates payment in 2023/24 in relation to adjustments to the prior year.
- Short term investment returns increased throughout 2023/24, with the Bank of England increasing the base rate in successive moves, starting at 4.25% in March 2023 rising to 5.25% by August 2023 where it remained until March 2024. As at September 2024 the base rate stands at 5.00% following a 0.25% reduction on 1 August 2024.
- The investment of funds during the year conformed to the approved strategy and there were no liquidity difficulties or breaches of the approved creditworthiness policy. During the year, a new counterparty was onboarded, United Overseas Bank (UOB). The Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) remains appropriate in enabling the City to pursue its prime objectives of security and liquidity, followed by yield.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. The City of London Corporation (the City) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The Treasury Management Strategy Statement and Annual Investment Strategy relating to Treasury Management) [referred to as the 'The Treasury Management Strategy Statement' or 'TMSS'] for 2023/24 was approved by the Financial Investment Board (17 February 2023), Finance Committee (21 February 2023) and the Court of Common Council (9 March 2023). During 2023/24 the Investment Committee received investment analysis reports at each Committee meeting. (The Financial Investment Board has now been dissolved and replaced with the Investment Committee with effect from 19 May 2023).

Overall Treasury Position as at 31 March 2024

3. The City's treasury position at the start and end of 2023/24 was as follows:

Table 1	31 March			
	Principal 2023	Rate of Return	Principal 2024	Rate of Return
	£m	%	£m	%
Fixed rate funding				
- PWLB	0		0	
- Market	0		0	
	0		0	
Variable rate funding				
- PWLB	0		0	
- Market	(450.0)		(450.0)	
	(450.0)		(450.0)	
Total debt	(450.0)		(450.0)	
Total investments	1,047.7	2.39 *	901.2	5.97 *
Net Investments	597.7		451.2	

* This rate of return includes the short-dated bond funds. The rate of return excluding the short-dated bond funds was 5.64% (2022/23: 3.39%). This was reported to Members at the May Committee.

Table 1 demonstrates that short term investments decreased by £146.5m from £1,047.7m as at 31 March 2023 to £901.2m as at 31 March 2024, which is largely due to an additional Business Rates payment in relation to adjustments to the prior year (£57.0m) in March 2024; capital expenditure incurred on the purchase of Europa Trade Park (£26.5m) in April 2023 and 3-9 Brewery Road (£12.1m) in July 2023; and expenditure on Major Projects throughout the financial year. The rate of return refers to the weighted average return of the portfolio as at the balance sheet date, rather than income earned in the period (which is discussed further at paragraph 24). The overall rate of return as at 31 March 2024 was much higher than a year earlier, as interest rates increased throughout 2023/24 due to the continued tightening of monetary policy from central banks; albeit less aggressively compared to the prior year, which had a positive effect on the market value of the City's short-date bond fund investments.

4. The weighted average rate of return was affected by the short-dated bonds, as bond prices have an inverse relationship with interest rates (i.e. when interest rates increase, bond prices decrease and vice versa), and hence there was a corresponding decline in short-dated bond fund returns (i.e. *non-specified investments*) during 2022/23. However, as interest rates rise, the bond fund managers are able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, will make up a greater part of the total return generated by these funds.
5. Following the consultation undertaken by the Department of Levelling Up, Housing and Communities (DLUHC)¹ on IFRS 9, the Government has extended the current mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Therefore, any capital gains/losses on the short-dated bond funds will continue not to be taken through the City's General Fund (i.e. City Fund). The City are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.
6. As City Fund is by far the largest participant in the TMSS in terms of investment balances, which are expected to endure for the foreseeable future, in order to ensure the TMSS is best aligned with each and every individual participants particular circumstances, during Autumn 2022 the Financial Investment Board, Finance Committee and Bridge House Estates Board (now City Bridge Foundation) all agreed to amend the TMSS with effect from 1 April 2022, and this was ratified by the Court of Common Council in December 2022. This amendment was to bifurcate the Annual Investment Strategy within the TMSS into two strategies: one for City Fund which includes exposure to the full range of investments (both *specified* and *non-specified*² i.e. including the short-dated bond funds) permitted in the current TMSS and a second strategy for others which restricts exposure to *specified investments* only (i.e. excluding the short-dated bond funds).

The Strategy for 2023/24

7. During 2023/24, against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the middle east, UK interest rates continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields.
8. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for. The expectation within the Treasury Management Strategy Statement for 2023/24, based on the forecast from December 2022 when the Bank of England base rate was at 3.5%, was for an in-year increase up to 4.50%, with an expectation that the base rate would fall back to 4.00% by the end of 2023/24. However, stepped increases of 0.5% in February and 0.25% in March, May, June and August 2023 increased the base rate to an assumed peak of 5.25% where it remained until the end of the financial year in March 2024.
9. By January 2024 it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March

¹ Following the general election on 4 July 2024, DLUHC has reverted to the Ministry of Housing, Communities and Local Government (MHCLG).

² **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments

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

2024 that the next move in Bank Rate would be downwards. As at September 2024 the Bank of England base rate is 5.00%, following an initial cut of 0.25% on 1 August 2024, with the expectation for further cuts to base rate in 2024/25.

10. The upward sloping yield curve that prevailed throughout 2023/24 meant the continued challenge of pro-active investment of surplus cash, with the need to seek the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in investment rates as duration was extended, became an on-going feature of the investment landscape. In August 2023 the Corporation placed a small amount of the investment portfolio (£30m) in a 3-year fixed term deposit with an approved counterparty, to take advantage of the favourable and assumed peak in interest rates priced into the market, and to lock-in higher investment returns for longer while maintaining sufficient liquidity.
11. In Accordance with the 2023/24 TMSS, the City can place deposits up to a maximum of £25m with individual local authorities and an overall limit of £250m for outstanding lending to local authorities as a whole at any given time. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above those available in other markets. The Corporation placed 3 deposits totalling £50m with local authorities in this period. Although the overall credit standing of the local authority sector is considered high, officers performed additional due diligence on individual prospective local authority borrowers prior to entering into any lending.
12. The Corporation’s creditworthiness policy was designed to prioritise the security of the Corporation’s assets whilst also enabling diversification of risk amongst a range of high-quality counterparties. The creditworthiness criteria set out in the original strategy was maintained throughout the year. During the year, a new counterparty was onboarded, United Overseas Bank (UOB), and has been added as an approved counterparty in the Treasury Management Strategy Statement for 2024/25. The inclusion of UOB as an approved counterparty did not change the overall average credit rating of the short-term investment portfolio but allowed the Corporation to further diversify counterparty risk further and reduce reliance on existing counterparties.
13. The Corporation maintained sufficient liquidity through the selective use of highly liquid money market funds, cash flow forecasting, and active management of the portfolio’s maturity profile.
14. The treasury management function complied with the parameters established in the 2023/24 TMSS for the entirety of the reporting period and the City’s treasury cash continues to be invested in a diversified balanced portfolio commensurate with proper and prioritised levels of security and liquidity.
15. The 2023/24 TMSS also included a number of prudential and treasury indicators for the year which are shown in Appendix 1. The City complied with all indicators in 2023/24.

The Borrowing Requirement and Debt

16. The Corporation did not anticipate (but did not rule out) undertaking any new external borrowing during 2023/24 and instead intended to temporarily use cash balances to support capital expenditure as an interim measure. This policy of internal borrowing was prudent as long-term borrowing costs are expected to fall back through 2024 and 2025 as inflation concerns are dampened.
17. The majority of local authority borrowing is undertaken via the Public Works Loan Board (PWLB), a government agency. PWLB loans are priced on the basis of

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

18. The PWLB guidance was updated on 15 June 2023, in particular publishing a new Housing Revenue Account (HRA) rate, at 40 basis points above prevailing gilts, available from 15 June 2023 for 1 year, with its continuation subject to review. This rate is solely intended for use by HRA and primarily for new housing delivery. Furthermore, the guidance, in line with the Prudential Code, reinforced that local authorities will “...*only borrow the amount needed to finance capital expenditure and not borrow extra amounts purely to invest and make a financial return*” (previously noted purely for yield). Following the Autumn Statement, the availability of this rate has been extended to the end of June 2025.
19. No external borrowing was undertaken by the City Fund during the 2023/24 financial year, and actual capital expenditure in that year (£168m) was lower than anticipated in the 2023/24 TMSS (£444m). The City Fund’s capital financing requirement is expected to increase in the next few years as a result of the planned capital expenditure and it is likely that at least a portion of this borrowing need will be met through internal borrowing. This strategy remains prudent in the current interest rate environment given the City Fund’s cash balances. However, the Chamberlain will continue to monitor the outlook for interest rates to ensure the borrowing strategy remains appropriate.
20. City’s Cash did not issue any new debt during the year having obtained market debt of £450m in 2019/20.
21. City Bridge Foundation did not enter into any borrowing during the year.

Investment Outturn for 2023/24

22. **Investment Policy** – the City’s investment policy is governed by DLUHC³ guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the Annual Investment Strategy approved by the Court of Common Council on 9 March 2023. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).
23. The amendment to bifurcate the Annual Investment Strategy within the TMSS into two strategies (see paragraph 6): one for City Fund which includes exposure to the full range of investments (both *specified* and *non-specified* i.e. including the short-dated bond funds) and a second strategy for others which restricts exposure to *specified investments* only (i.e. excluding the short-dated bond funds), has resulted in two income yields for 2023/24, one for City Fund and one for all other funds.

³ Following the general election on 4 July 2024, DLUHC has reverted to the Ministry of Housing, Communities and Local Government (MHCLG).

24. The income yield on short term investments for 2023/24 was 4.82% for City Fund and 4.29% for all other funds. (2022/23: 2.13% for City Fund and 1.83% across all other funds). The increase in income reflects higher returns available from the money markets in 2023/24, largely as a result of the continued tightening of monetary policy in place for the early part of the reporting period.
25. Aside from interest earned on deposits, the portfolio is also exposed to gains and losses on the market value of the Corporation's short-dated and ultra-short-dated bond funds, which are held at fair value. Each of these investments, and in particular the short-dated bond funds which have the highest interest rate sensitivity, appreciated in value over the course of the year as interest rates plateaued (bond prices have an inverse relationship with interest rates).
26. Throughout most of 2023 bond prices weakened amid concerns that major central banks would keep increasing interest rates in order to quell inflation. 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 at the end of 2023. However, in a partial reversal of the positive performance experienced over the final quarter of 2023, bond yields rose in Q1 2024 (meaning prices fell) as the likelihood of interest rate cuts as soon as March were pushed out until later in the year. Despite this, the capital value of the portfolio's short-dated bond fund investments produced a positive return of +0.29% for the year (2022/23: a negative return of -0.79%). As in 2022/23, these movements are debited as an unrealised gain on investments, which is accordance with the IFRS9 current mandatory statutory override (paragraph 5), are reversed and not taken through City Fund.
27. Previously, interest generated from short-dated bond funds was automatically reinvested, either by accumulating more shares or by increasing the price of the shares already held. Since the start of the reporting period, officers have instructed for interest from these investments to be distributed with the initial quarterly distribution received in December 2023. In the 7-month period ended 31 March 2024 the interest distributed from these funds totalled £3.2m.
28. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

Conclusion

29. Treasury management activities over the past financial year were carried out in accordance with the 2023/24 TMSS, which remained unchanged over the course of the year.
30. Money market investment returns, which are heavily determined by central bank activity, have increased as the base rate increased throughout the start of 2023/24 reaching a peak of 5.25% in August 2023. The bank rate is currently 5.00% and rates are forecast to decrease further over the rest of 2024 and 2025, with an expectation of a decrease to 4.50% by the end of 2024 and 3.00% by the end of 2025.

Appendices

Appendix 1 – Treasury Indicators

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Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2023/24
	Actual	Estimate	Actual
	£M	£M	£M
Authorised Limit for external debt (City Fund)-			
Borrowing	£0	£0	£0
other long-term liabilities	£12.8	£12.7	£12.7
TOTAL	£12.8	£12.7	£12.7
Operational Boundary for external debt (City Fund) -			
Borrowing	£0	£0	£0
other long-term liabilities	£12.8	£12.7	£12.7
TOTAL	£12.8	£12.7	£12.7
Actual external debt	£0	£0	£0
Upper limit for total principal sums invested for over 364 days (per maturity date)	£300.0	£300.0	£30.0

TABLE 2: Maturity structure of fixed rate borrowing during 2023/24	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%

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Agenda Item 8

Committee: Investment Committee	Dated: 3 October 2024
Subject: Treasury Management Update as at 31 August 2024	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 August 2024. 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 25 July 2024, when they received a report outlining the treasury position as at 31 May 2024.

The treasury management investment portfolio had a market value of £1,134.5m as at 31 August 2024, which is an increase of £77.0m from the balance previously reported as at as at 31 May 2024 (£1,057.5m).

The Consumer Prices Index (CPI) rose by 2.2% in the 12 months to August 2024, unchanged from July 2024, and up from 2.0% in the 12 months to both June and May 2024. The Bank of England's Monetary Policy Committee (MPC) voted to cut interest rates for the first time since March 2020, from 5.25% to 5.00%, at its meeting in August 2024. The market expectation is for further cuts in Q4 of 2024 and Q1 of 2025. However, this sentiment remains volatile and may change in the near-term on the back of fresh central bank events, as well as both domestic and international data releases.

The increase in rates throughout 2023/24 were maintained at the start of 2024/25, allowing the Corporation to obtain higher yields across its asset allocations, however interest income has begun to decrease and officers expect this to continue over 2024/25 if the MPC's restrictive policy stance continues to loosen.

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 August 2024.

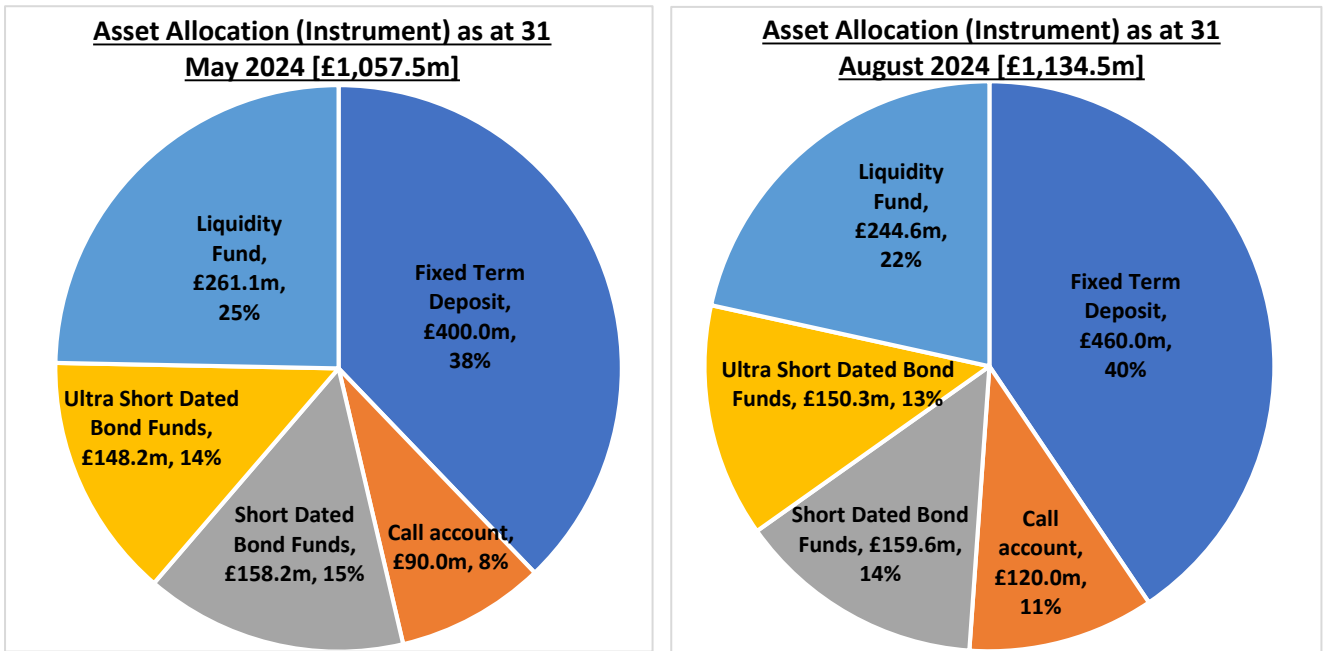
Current Position

2. The treasury management investment portfolio had a market value of £1,134.5m as at 31 August 2024, which is an increase of £77.0m from the balance previously reported as at as at 31 May 2024 (£1,057.5m). This increase is principally due to:-
 - Home Office grant income totalling £52.2m;
 - income from GLA regarding the Museum of London relocation project: £30m;
 - financial investment redemptions in the period totalling £33.6m;
 - receipt from the sale of 1-5 Wormwood St & 105-109 Bishopsgate of £6.7m; offset by
 - payments to HMRC in the period (£26.7m);
 - expenditure on Major Projects (£19.3m); and
 - Museum of London drawdown payments (£10.4m).

Asset Allocation

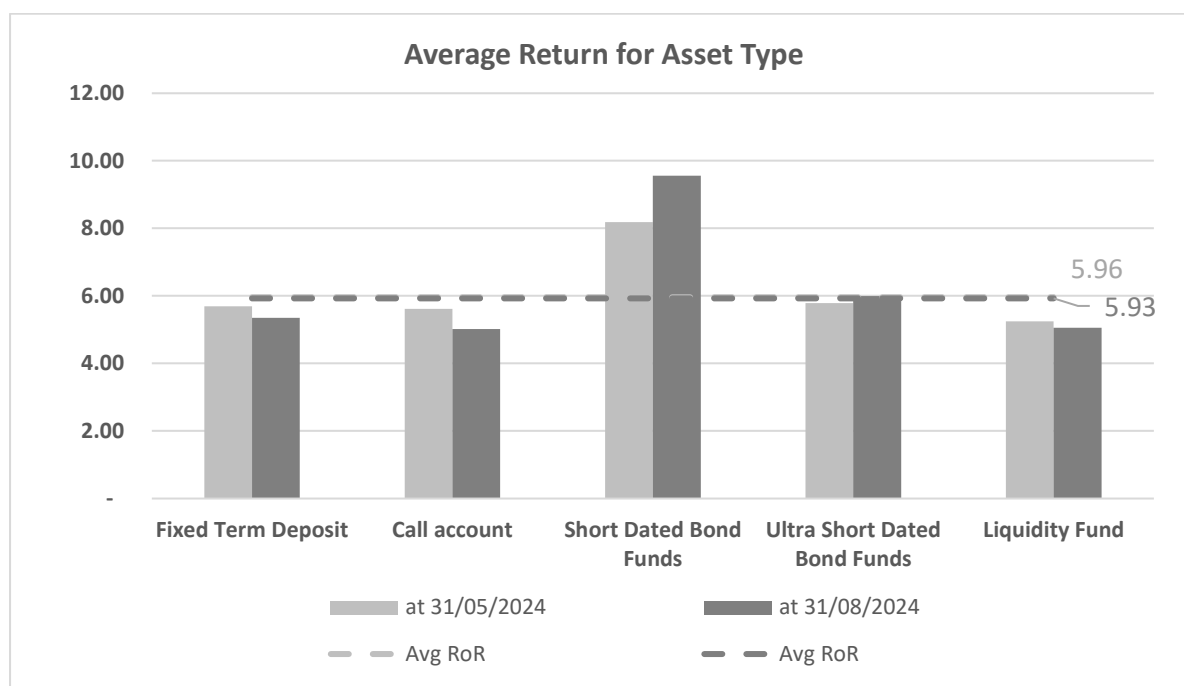
3. In accordance with the current Treasury Management Strategy Statement 2024/25, surplus cash is invested first and foremost with the aim of securing the Corporation's financial assets and secondly in line with the organisation's liquidity requirements (i.e. ensuring the cash is available when needed 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 May 2024 and 31 August 2024 is set out in Figure 1 below.

Figure 1: Asset allocation as at 31 May 2024 and 31 August 2024



5. As at 31 August 2024, 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 (40%); a rise of £60m from the previous reporting date, due to the increase in the portfolio total as detailed at paragraph 2 above. Liquidity funds now make up around 22% of the portfolio; these balances are very liquid and can be accessed on the day. Notice accounts now make up 11% of the portfolio, as an additional £30m was invested during the reporting period.
6. The ultra-short dated bond funds account for 13% of the treasury portfolio. These instruments are also very liquid (funds can be redeemed with two to three days' notice) but their market value is more volatile than liquidity funds. Ultra-short dated bond funds are suitable for surplus cash balances with an investment horizon of six months or more. The remaining portion of the portfolio (14%) 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. A summary of the average return by asset type, as well as the overall average rate of return (RoR), as at 31 May 2024 and 31 August 2024 is shown below in Figure 2. Further analysis on the composition of the portfolio as at 31 August 2024 is provided in the Monthly Investment Report at Appendix 2, which demonstrates the average rate of return for the portfolio as at 31 August 2024 is 5.93% (31 May 2024: 5.96%). A summary of counterparty exposure is also included at Appendix 1, as well an *Economic, Social, & Governance (ESG)* checklist of Treasury Management Counterparties (excluding local authorities) at Appendix 3.

Figure 2: Average Return for Asset Type as at 31 May 2024 and 31 August 2024

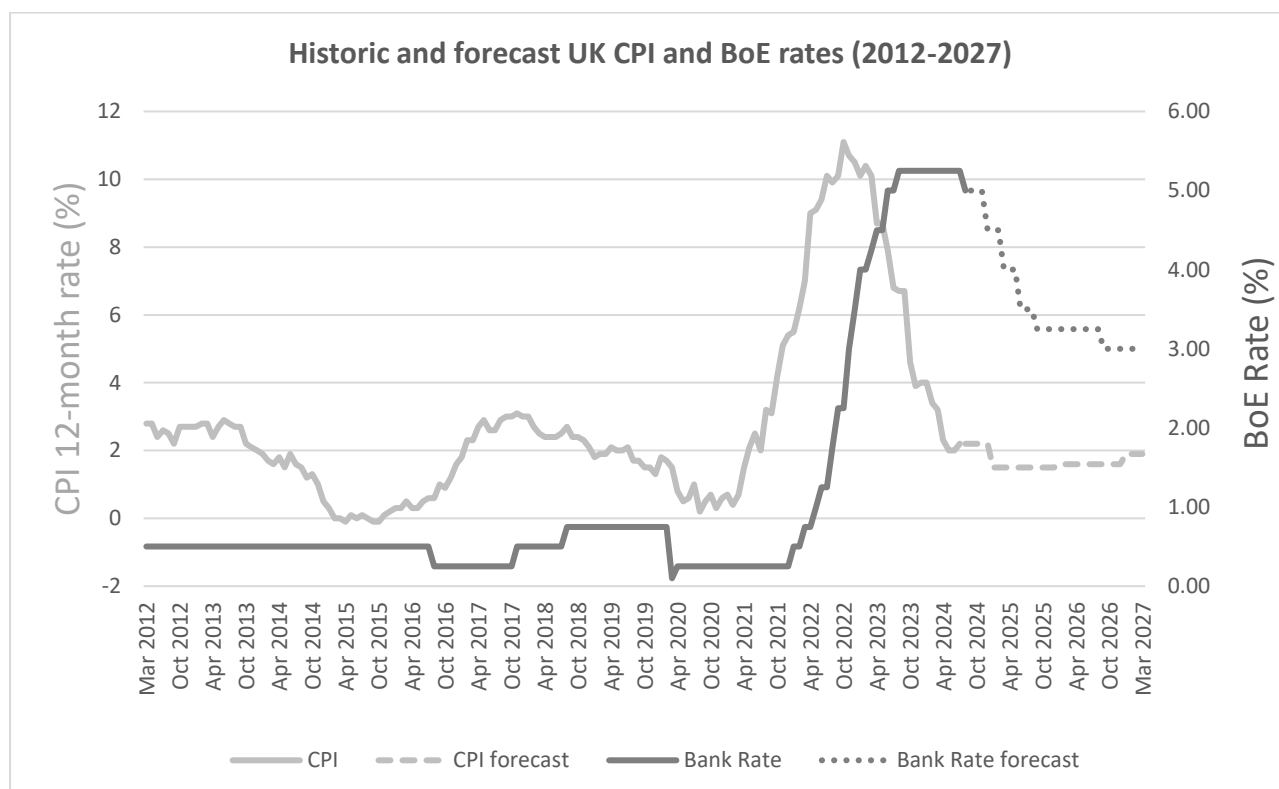


Performance

8. The Consumer Prices Index (CPI) rose by 2.2% in the 12 months to August 2024, unchanged from July, and up from 2.0% in the 12 months to both June and May 2024.
9. The Bank of England's Monetary Policy Committee (MPC) voted to cut interest rates for the first time since March 2020 at its August meeting. Five members of the MPC voted to reduce bank rate by 0.25% to 5.00% while four members voted to hold interest rates. The MPC's forward guidance suggests it wants to see more evidence of waning inflationary pressures before embarking on further rate cuts. The accompanying statement gave guidance that policy would *"remain restrictive for sufficiently long until the risks to inflation returning to the 2% target had dissipated further"*, and the MPC have emphasised it *"will decide the appropriate degree of monetary policy restrictiveness at each meeting"*.
10. Market pricing remains biased towards no change in rates at the next MPC meeting in September, but a cut to 4.75% in November. Further out, sentiment towards a further cut in bank rate in December has eased back, being pushed out to the early stages of 2025. Markets currently forecast bank rate to reach 3.5% by August 2025. However, this sentiment remains volatile and may change in the near-term on the back of fresh central bank events, as well as both domestic and international data releases.
11. LINK, our treasury management consultants, are currently forecasting a decrease in the rates in Q4 of 2024 and Q1 of 2025 reaching 4.0% by March 2025, to be followed by further rate cuts through 2025.
12. A graph showing the historic and forecast UK CPI 12-month rate (based on the Office for Budget Responsibility (OBR) 'Economic and fiscal outlook' March 2024)

and Bank of England base rate (forecast from LINK) from 2012 to 2027 is shown below in Figure 3.

Figure 3: UK CPI 12-month rate / Bank of England base rate

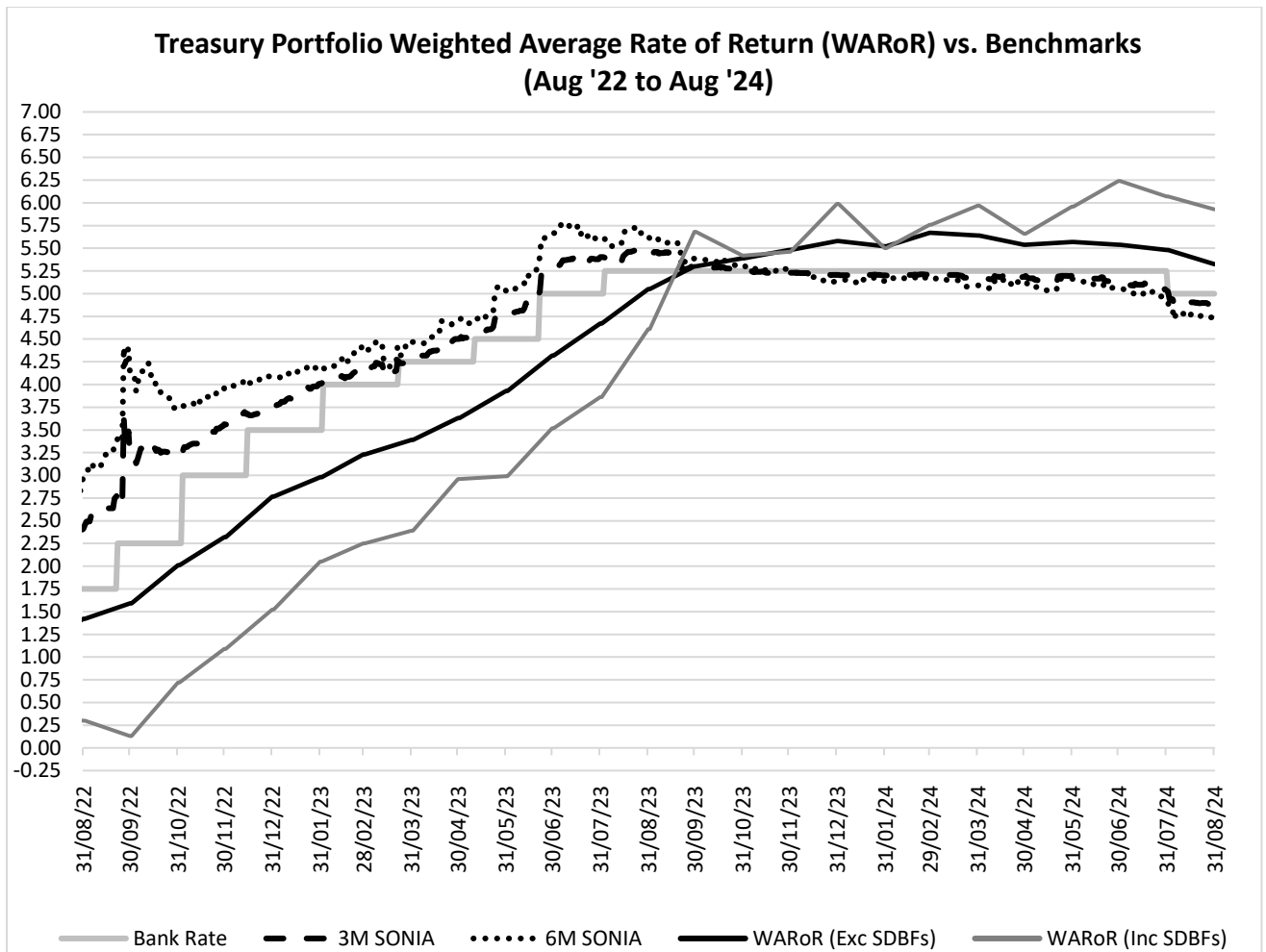


13. As the Bank Rate is the primary determinant of short-term interest rates in the UK, these changes impact the treasury investment portfolio, broadly in two ways:

- 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). 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.

14. These effects can be seen in the weighted average rate of return (WARoR) for the portfolio over the past 2 years and is shown in figure 4 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.

Figure 4: Treasury Portfolio Weighted Average Rate of Return vs. Benchmarks



15. 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 Government's 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 3 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 began to decrease in the second half of 2023 as the market priced in a number of Bank Rate cuts over the next 12 months. Money market rates steadied in the first half of 2024 as expectations on future price cuts were pushed back further, and have now begun to decrease as the Bank of England started the loosening cycle, with the MPC's decision to cut interest rates for the first time since March 2020, in August 2024 by 0.25% to 5.00%.

16. Returns on the Corporation's short term investment portfolio excluding short dated funds trended upwards in 2023, as lower yielding deposits matured and 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). Rates were maintained at the end of 2023/24 and the start of 2024/25 as the restrictive monetary policy continued; however the current rate of return on the portfolio has begun to decrease slightly, and officers expect this to continue over the rest of 2024/25, as maturing deposits are likely to be reinvested at rates below those achieved in 2023/24, reflecting the market expectation that the MPC’s restrictive policy stance will continue to loosen over the remainder of 2024/25.

17. 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 August 2024 in calculating the portfolio returns displayed in figure 4 (i.e. the WARoR (Weighted Average Rate of Return)). Returns on these investments faced somewhat of a reality check at the start of 2024 following their historic end to 2023. Throughout most of 2023 bond prices weakened amid concerns that major central banks would keep increasing interest rates in order to quell inflation. 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 at the end of 2023. However, in a partial reversal of the positive performance experienced over the final quarter of 2023, bond yields rose in Q1 2024 (meaning prices fell) as the likelihood of interest rate cuts as soon as March were pushed out until later in the year.
18. Whilst inflationary pressures look to be subsiding, non-committal statements from central banks on the future trajectory of interest rates was enough to “spook” investors and hence some of the earlier gains have been given back. The upward trend in yields continued in April 2024, driven by stronger than expected inflation data, albeit this volatility subsided in May 2024, and yields continued to soften in June and July as inflationary pressures eased as markets reacted to evolving monetary policies and major election results. However, volatility surged again at the start of August amidst fears of economic weakness and the biggest one day fall on the Japanese stock market, albeit this was short-lived.
19. To aid an effective assessment of performance, table 1 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 1: Bond Fund Total Returns as at 31 August 2024

Fund	1 Month Return (31/07/2024 to 31/08/2024)	3 Month Return (31/05/2023 to 31/08/2024)	12 Month Return (31/08/2023 to 31/08/2024)
Federated Hermes Sterling Cash Plus Fund	0.44%	1.40%	5.55%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.47%	1.38%	5.76%
Payden Sterling Reserve Fund	0.43%	1.57%	6.41%

L&G Short Dated Sterling Corporate Bond Index Fund	-1.52%	0.52%	9.35%
Royal London Investment Grade Short Dated Credit Fund	-0.73%	1.15%	9.77%

20. The most conservative fund (Federated) is listed first in table 1 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.
21. 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.
22. 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 currently been extended 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.
23. 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 4.80% and 3.90% respectively as at the end of July 2024. The interest from these investments is distributed quarterly for Royal London and half yearly for L&G.

Interest on average cash balances

24. A summary of the interest on *average cash balances* (i.e. the returns on the treasury management investment portfolio) for the 2024/25 financial year (1 April 2024 to 31 March 2025) as applicable to City Fund and City’s Estate is shown in Table 2 below.

Table 2: Interest on Cash Balances as at 31 August 2024

	2024/25 Original Budget	2024/25 Forecast Outturn	2024/25 Better / (Worse)
	£’000	£’000	£’000
City Fund	28,900	40,485	11,585
City’s Estate	(770)	1,296	2,066

Total City Fund & City's Estate Interest on average cash Balances	28,130	41,781	13,651
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25. Income from interest on *average cash balances* is currently forecast to exceed budget by £13.6m, principally due to the increase in the level of average cash balances held, and hence available for investment, and upon which interest is applied, compared to that anticipated when the budget was set in November 2023. This is largely as a result of the re-phasing of capital and major project expenditure – as noted at paragraph 27 below the cashflow forecast is currently being reviewed, and will be finalised post the Resource Allocation Sub Committee (RASC) at the end of October 2024.
26. It should be noted that the forecast currently assumes the average split of cash held amongst funds to August 2024 will continue for the rest of the year.

Cash Flow Forecast

27. The City Fund's medium-term cash flow forecast is currently being reviewed along with all the capital projects, including the major projects, to develop a detailed forecast and appropriate funding strategy. Stanhope Capital LLP has been appointed to provide a strategic investment advisory function working alongside the City's in-house Corporate Treasury and Investment Property teams, to provide expert advice on the investment strategy/allocation advice between property and financial investments. Following spending decisions to be taken at Resource Allocation Sub Committee (RASC) at the end of October 2024 the cashflow will be finalised.

Conclusion

28. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 August 2024. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2024/25.
29. Since the Investment Committee last reviewed the treasury position as at 31 May 2024, the Bank of England's Monetary Policy Committee (MPC) voted to cut interest rates from 5.25% to 5.00% at its August meeting. The markets view is that further cuts will occur over the remainder of 2024/25, with LINK, our investment consultants, currently forecasting a decrease to 4.00% in March 2025.
30. The increase in sterling money market rates in 2023 allowed the Corporation to obtain higher yields, though officers expect the current rate of return on the portfolio to decrease over 2024/25, reflecting the market expectation that the MPC's previous restrictive policy stance continues to loosen over the remainder of 2024/25.
31. The 12 month returns on the Corporation's Short dated bond fund investments remain strong, as yields continued to soften (meaning prices rose) as inflationary pressures ease as markets react to evolving monetary policies and major election results. 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 August 2024

Appendix 2: Monthly Investment Analysis Review August 2024

Appendix 3: Treasury Management Counterparties 2024/25: Economic, Social & Governance (ESG) Checklist

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