

Committee: Financial Investment Board Audit and Risk Management	Date: 20 September 2018 6 November 2018
Subject: End of Year Treasury Management Review 2017/18	Public
Report of: The Chamberlain	For Information
Report author: Kate Limna – Corporate Treasurer	

Summary

The Treasury Management Strategy Statement for 2017/18 was approved by the Financial Investment Board and the Finance Committee in February 2017 and by the Court of Common Council on 9 March 2017.

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 2018, the City had treasury balances totalling some £790.5m. The majority of the balances are held for payment to third parties or are restricted reserves.
- The period was characterised by very low returns with the Bank of England base rate remaining at 0.25% until 2 November 2017 when it was increased to 0.5%.
- The investment strategy during the year conformed to the approved strategy and there were no liquidity difficulties.
- Following a review of treasury balances, £100m was invested into two short dated bond funds.
- Under MiFID II, the City successfully opted up to professional status with all relevant counterparties and consultants

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 2017/18. 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 for 2017/18 was approved by the Financial Investment Board (2 February 2017), Finance Committee (21 February 2017) and the Court of Common Council (8 March 2017). During 2017/18 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2018

3. At the beginning and the end of 2017/18 the City's treasury position was as follows:

Table 1	31/03/17 Principal £m	Rate/ Return %	Average Life Yrs	31/03/18 Principal £m	Rate/ Return %	Average Life Yrs
Fixed rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Variable rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Other long term liabilities	0			0		
Gross debt	0			0		
Total investments	768.9	0.60	1	790.5	0.52	1
Net Investments	768.9	0.60	1	790.5	0.52	1

The Strategy for 2017/18

4. The expectation for interest rates within the treasury management strategy for 2017/18 anticipated low but rising base rate, and that Bank Base Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5. The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.
6. There were no changes to the Strategy during 2017/18.
7. During the year and following a review of the treasury balances held by the City of London, the City's treasury advisors, Link Asset Services (Link) were commissioned to look at alternative investment options taking into consideration the City's forecasted expenditure at that time, over the coming years. Most options required a long term time horizon of at least five years and were not considered to be suitable. However there was potentially scope to invest some £100m for up to 3 years in a mixture of short-dated/ultra-short dated bond funds.
8. Link reviewed what funds were available in the short-dated/ultra-short dated bond funds arena and following consultation with the Chairman and Deputy Chairman, it was agreed to invest a total of £100m in two short dated bond funds (Legal & General and Royal London).
9. The 2017/18 Strategy did not specifically allow investment in short dated bond funds. It was agreed that this should be included in the 2018/19 Strategy and this was approved by the Court of Common Council on 8 March 2018. The Court also agreed that the 2018/19 Strategy could take effect immediately and £50 million was invested in each short dated bond fund before 31 March 2018.

The Borrowing Requirement and Debt

10. No capital borrowing was required during 2017/18. However, going forward it is highly likely that the City will need to borrow to fund some of its projects such as the Museum of London in the near future and this will result in changes to the Strategy.

Investment Rates in 2017/18

11. Investment rates for 3 months and longer had been on a rising trend during the second half of the year in the expectation of Bank Base Rate increasing from its floor of 0.25%. The Bank Base Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. Further increases are expected over the next few years and the MPC increased the Bank Base Rate to 0.75% on 2 August 2018. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

Investment Outturn for 2017/18

12. **Investment Policy** – the City's investment policy is governed by MHCLG guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the annual investment strategy approved by the Court of Common Council on 8 March 2017. 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.).

13. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.
14. **Investments held by the City** - the City maintained an average balance of £873.4m of internally managed funds. The internally managed funds earned an average rate of return of 0.52% as at 31 March 2018, a significant uplift on the base rate of 0.25% which remained for more than half the financial year (1 April 2017 to 2 November 2017). This was also ahead of the forecasted return for 2017/18 (0.5%).

Markets in Financial Instruments Directive II (MiFID II)

15. The EU's regulatory reforms, known as MiFID II, came into effect across Europe on 3 January 2018. It is designed to offer greater protection for all investor and covers virtually all aspects of trading within the EU reaching across the financial services industry from banks to institutional investors, brokers and hedge funds.
16. MiFID II affected all local authorities in two capacities – as the administering authority for the Pension Fund and for their treasury management function - and they would be treated as “retail clients” unless they were opted up by individual institutions to an “elective professional client” status. The opt up process included both a qualitative and quantitative test that was assessed by the individual institutions and the criteria applied separately to the local authorities depending on the capacity in which they are acting – either as treasury manager or pensions administrator. The decision to opt up a local authority lay solely with the institution to whom the application was made
17. In its role as treasury manager, the City have been opted up to professional status with its treasury management advisor (Link Asset Services) and each institution dealing with us apart from for cash deposits with banks and building societies.

Conclusion

18. The year was characterised by continuing low levels of return although the Bank Base Rate was increased from 0.25% to 0.5% on 2 November 2017 the Bank of England base rate reduced to 0.25% (from 0.5%) and deposit rates continued at previous depressed levels. £100m was invested in two short dated bond funds, and the City successfully opted up with all relevant counterparties and advisors for MiFID II.

Appendices

Appendix 1 – Treasury Indicators

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Appendix 1

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2017/18
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£0	£0	£0
TOTAL	£0	£0	£0
Operational Boundary for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£0	£0	£0
TOTAL	£0	£0	£0
Actual external debt	£0	£0	£0
Upper limit for fixed interest rate exposure			
expressed as either:-			
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£300m	£300m	£300m
(per maturity date)			

TABLE 2: Maturity structure of fixed rate borrowing during 2017/18	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%