

Committee:	Date:
Financial Investment Board	12 February 2019
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2019/20	Public
Report of: The Chamberlain	For Decision
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Summary

The attached document sets out the City’s Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20. The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the City’s capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity. The main proposals within the document are incorporated within the separate report entitled “City Fund - 2019 Budget Report” being considered by the Finance Committee on 19 February 2019 and by the Court of Common Council on 7 March 2019.

The Treasury Management Strategy and Annual Investment Statement for 2019/20 has been revised to accommodate the organisation’s capital plans, which create a borrowing requirement in 2019/20 and in future years. As the City will only borrow for capital purposes, an overview of the organisation’s capital plans is provided for context (section 2) and a borrowing strategy for 2019/20 has been added under section 7 of the report.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City’s Cash and Bridge House Estates. As City’s Cash borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy via the City’s Cash Borrowing Policy Statement, which was approved by Finance Committee on 11 December 2018 and the Court of Common Council on 10 January 2019 in order to enable borrowing in 2018/19. The City’s Cash Borrowing Policy Statement is included in this report at Appendix 9

Responsibility for approving the City’s borrowing plans remains with the Court of Common Council, not the Financial Investment Board.

The key areas to highlight are:

- As at 31 December 2018, the City had cash balances totalling some £871.8m. The majority of balances are held for payment to third parties or represent restricted reserves.
- 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.
- In assessing the creditworthiness of prospective counterparties, the City does not rely solely on the ratings issued by the credit rating agencies but uses additional market information such as credit default swap prices and rating watches and outlooks (section 8.2). Credit ratings are monitored on daily basis by Link Asset Services (the City’s treasury management consultant) and treasury team officers are alerted to any changes.
- The structure of major UK banks changed in 2018 under “ring-fencing” reforms. The largest banks (with £25bn or more in deposits) have been required by law to

separate core retail banking services from their investment and international banking activities by 1st January 2019. For these banks, core retail banking now takes place within the ring-fenced bank (RFB) whilst more complex and “riskier” activities are contained within a non-ring-fenced bank (NRFB). The City’s approved counterparty list (Appendix 5) has been updated to reflect the fact that it will now be transacting with either category when investing surplus cash balances. However, this does not represent a change from the City’s creditworthiness policy, which concentrates on the credit quality of any institution, regardless of ring-fencing status.

- It is anticipated that the City Fund will remain debt free for the remainder of 2018/19 but that a borrowing requirement will develop in 2019/20 and in future years. The operational boundary and authorised limit for external debt (Appendix 3) have been revised in order to facilitate the management of this borrowing need, including enabling the City to secure external debt to meet some or all of the borrowing requirement.
- The Minimum Revenue Provision (MRP) Policy Statement has also been updated to accommodate for the borrowing requirement arising from the City Fund capital expenditure plans. 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 MRP Policy statement for 2019/20 is included at Appendix 3.

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

Recommendations

It is recommended that:

- (i) the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20, and submits it to the Finance Committee and the Court of Common Council as part of the City Fund – 2019 Budget Report for formal adoption.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

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