

<b>Committee:</b> Financial Investment Board Audit and Risk Management	<b>Date:</b> 17 September 2019 19 Nov 2019
<b>Subject:</b> End of Year Treasury Management Review 2018/19	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
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### **Summary**

The Treasury Management Strategy Statement for 2018/19 was approved by the Financial Investment Board and the Finance Committee in February 2018 and by the Court of Common Council on 8 March 2018.

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 2019, the City had treasury balances totalling some £865.9m. The majority of the balances are held for payment to third parties or are restricted reserves.
- Short term investment returns continue to be low, although interest rates increased moderately in line with the Bank of England decision to increase Bank Rate from 0.50% to 0.75% in August 2018.
- The investment strategy during the year conformed to the approved strategy and there were no liquidity difficulties.
- The strategy was amended by the Court of Common Council part way through the year to enable City's Cash to borrow for capital expenditure.

### **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 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Financial Investment Board (1 February 2018), Finance Committee (20 February 2018) and the Court of Common Council (8 March 2018). During 2018/19 the Financial Investment Board received investment analysis reports at each Board meeting.

### Overall Treasury Position as at 31 March 2019

3. The City's treasury position at the start and end of 2018/19 was as follows:

<b>Table 1</b>	<b>31/03/18 Principal £m</b>	<b>Rate/ Return %</b>	<b>Average Life Yrs</b>	<b>31/03/19 Principal £m</b>	<b>Rate/ Return %</b>	<b>Average Life Yrs</b>
Fixed rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Variable rate funding						
- PWLB	0			0		
- Market	0			(125) <sup>(i)</sup>		
	0			(125)		
<b>Total debt</b>	<b>0</b>			<b>(125)</b>		
<b>Total investments</b>	<b>790.5</b>	<b>0.52</b>	<b>0.25</b>	<b>865.9</b>	<b>0.97</b>	<b>0.21</b>
<b>Net Investments</b>	<b>790.5</b>	<b>0.52</b>		<b>745.9</b>		

(i) Bridging facility for City's Cash drawn down March 2019

### The Strategy for 2018/19

4. The expectation for interest rates within the TMSS for 2018/19 was that Bank Rate would increase steadily but slowly over the next few years, with a 0.25% increase anticipated in 2018/19. This outlook was contingent upon economic conditions and political developments and under these circumstances the City's treasury cash would continue to be invested in a balanced portfolio that prioritised security and liquidity considerations. For longer term borrowing rates, the overall long run trend was for gilt yields to rise, albeit gently. It was also understood that bond yields can

be subject to exceptional levels of volatility from time to time. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5. The original TMSS did not anticipate any borrowing across the City's Funds during 2018/19. As the organisation's capital spending plans developed through the year, the mid-year review of the TMSS highlighted the potential need for borrowing for City's Cash. On 11 December 2018 the Finance Committee approved an amendment to the 2018/19 TMSS to include a borrowing policy for City's Cash. This amendment was approved by the Court of Common Council at their meeting on 10 January 2019. This borrowing policy helps the organisation to ensure that any borrowing entered into by City's Cash is prudent, sustainable and affordable.
6. There were no other changes to the TMSS during the year.
7. The 2018/19 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 2018/19.

### **The Borrowing Requirement and Debt**

8. UK gilt yields rose gently from April through to October 2018 after which they entered a general downwards trend. There was a significant correlation with US treasury yields at a time when the Federal Reserve underwent a "pivot" from tighter to looser monetary policy. The market began to perceive a need for the Fed to cut rates by December 2018 which pushed US treasury yields down, with a corresponding impact on UK gilt yields.
9. City's Cash acquired short term, variable rate market borrowing of £125m during 2018/19 to fulfil a planned financing requirement created by capital expenditure. This balance was outstanding at year end.
10. The City Fund and Bridge Houses Estates did not enter into any borrowing during the year. It is anticipated that the City Fund will require new borrowing in future years to finance the capital programme.

### **Investment Outturn for 2018/19**

11. **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 2018. 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.)
12. Investment returns remained low during 2018/19. Expectations of an increase in Bank Rate in early 2018 were suppressed by relatively weak GDP growth for the first few months of the year. The Bank of England ultimately increased its base rate from 0.50% to 0.75% in August 2018. Sterling money market rates were thereafter on a gently rising trend from April to October but rose sharply after the Monetary

Policy Committee noted building inflationary pressures at its meeting of 1 November. However soft GDP data after December and continued uncertainty around Brexit resulted in investment rates falling back at the end of the year.

13. The City's average interest rate on cash under management for 2018/19 was 0.97%, which compares to a return of 0.52% in 2017/18 and a budgeted assumption of 0.65%. The increase in income was driven by an uplift in the Bank of England's base rate noted above, which supported higher rates in the sterling money markets. The City also benefitted from stronger returns available on its short-dated bond fund investments.
14. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

## **Conclusion**

15. The year was characterised by continuing low levels of investment return although the increase in the Bank of England's Base Rate from 0.50% to 0.75 supported moderately higher returns in the sterling money markets.
16. City's Cash acquired a short-term borrowing facility amounting to £125m to support capital expenditure.

## **Appendices**

Appendix 1 – Treasury Indicators

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## Appendix 1

### Treasury Indicators

<b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2018/19</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt -</b>			
borrowing	£0	£0	£0
other long term liabilities	£14,006	£13,888	£13,888
TOTAL	£14,006	£13,888	£13,888
<b>Operational Boundary for external debt -</b>			
borrowing	£0	£0	£0
other long term liabilities	£14,006	£13,888	£13,888
TOTAL	£14,006	£13,888	£13,888
<b>Actual external debt</b>	£0	£0	£0
<b>Upper limit for fixed interest rate exposure</b>			
expressed as either:-			
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%
<b>Upper limit for variable rate exposure</b>			
expressed as either:-			
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%
<b>Upper limit for total principal sums invested for over 364 days</b>	£0m	£300m	£0m
(per maturity date)			

<b>TABLE 2: Maturity structure of fixed rate borrowing during 2018/19</b>	<b>upper limit</b>	<b>lower limit</b>
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%