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Treasury Management Strategy Statement and Annual Investment Strategy 2021/22</td><td>Public</td></tr>
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The Chamberlain</td><td rowspan="2">For Decision</td></tr>
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Summary

The attached document sets out the City's Treasury Management Strategy Statement and Annual Investment Strategy (TMSS) for 2021/22. The Treasury Management Strategy and Annual Investment Statement for 2021/22 has been updated taking account of the latest information concerning the organisation's capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the 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.

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 in 2018/19 via the City's Cash Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled "City Fund - 2021 Budget Report" being considered by the Finance Committee on 16 February 2021 and by the Court of Common Council on 4 March 2021.

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:

<u>Capital financing and borrowing</u>

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Cash. City's Cash has addressed this borrowing requirement through the issuance of £450m market debt during 2018/19, £200m of which will be received in 2021/22.
- The City Fund borrowing requirement is expected to increase to £299.1m by 2023/24. For the City Fund, there is no immediate requirement to take on external borrowing in the upcoming year as in the near term, external borrowing would serve to increase cash balances. Furthermore, new borrowing would create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the

proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2021/22.

- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. The interest rate environment is judged to be sufficiently benign in the near term to accommodate an internal borrowing approach. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 2 of the TMSS) have been revised to enable the City to secure external debt to meet some or all of the borrowing requirement.
- In October 2019, the Government raised the interest rate payable by local authorities on new loans from the PWLB by 1% and commenced a consultation on the future of the PWLB's lending arrangements. The review concluded in November 2020 and the Government removed the previous 1% increase in rates for new loans. At the same time new controls were introduced (with immediate effect) with the aim of preventing the practice of "borrowing for yield". Local authorities will now need to submit a high-level description of capital spending for the next three years and the s151 officer will need to confirm that the authority has no intention of buying investment assets primarily for yield at any time in next three years. These conditions apply regardless of whether transactions would notionally be financed from a source other than the PWLB.
- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2021/22 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2020, the Corporation has cash balances totalling £1,061.8m. Cash is expected to increase in 2021/22 when the Corporation takes receipt of second tranche of City's Cash loan proceeds. However, most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund's balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.
- The Corporation's creditworthiness policy (as set out in section 8.2. of the main report) ensures that cash deposits are only placed with counterparties of suitable credit standing. Officers have reviewed the current limits and recommend changing the minimum threshold for banks from "A" to "A-". The rationale for this change is to ensure the Corporation can continue diversify credit risk sufficiently in the possible event of wide-ranging ratings actions

next year. However, to keep lending limits in line with Corporation's risk appetite, officers also recommend introducing a tiered approach to financial institutions as shown in Table 1, which will ensure that longer and larger deposits are restricted to only the highest quality counterparties. This information is excerpted from section 8.4. of the main report.

Table 1: Proposed Time and Monetary Limits for Banks

	Minimum Creditworthiness Criteria	Money Limit	Time Limit
Banks 1 higher quality	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
Banks 1 medium quality	Fitch Long Term Rating Long Term: A Short Term: F1	£75m	1 year
Banks 1 lower quality	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months

- Officers have also reviewed the country limits within the strategy (as set out in section 8.5.) and recommend that the minimum acceptable threshold is reduced from "AAA" to "AA+". As above, this will mean that the approved lending list will remain broad enough if any AAA sovereign ratings are downgraded by one notch.
- As agreed by the Board at its meeting on 23 September 2020, a formal overall limit of £250m will apply to outstanding loans to UK local authorities. This is in addition to the existing limit of £25m for each individual local authority borrower. This policy is set out in section 8.6. of the main report. The Chamberlain also conducts additional due diligence on an individual prospective local authority borrower prior to committing to any loans.
- The Corporation currently manages significant cash balances, the size of which is expected to reduce over the next few years in line with the Corporation's capital expenditure and financing plans. Notwithstanding this, officers anticipate that a layer of core cash will be consistently stable based on the current capital financing plans which may provide an opportunity to invest a proportion of the Corporation's cash balances on a longer term basis. Before embarking on any change in strategy the Board will need to conduct appropriate due diligence and consider varies important issues, including the following:

  a) Ensuring the Corporation continually maintains sufficient liquidity within its treasury management operations to meet its financial obligations as they fall due.

  b) Understanding the level of volatility in investment returns that the Corporation can tolerate.

c) Understanding the risk and return characteristics of any new investment category proposed for inclusion in the Treasury Management Strategy.

d) Understanding the appropriate accounting treatment of investment returns from any proposed new investment category under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

Officers intend to investigate the issues and report back to the Board in 2021/22 with advice on the viability of investing some funds on a longer term basis.

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

Recommendations

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22, and submits it to the Finance Committee and the Court of Common Council as part of the City Fund – 2021 Budget Report for formal adoption.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2021/22

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