

# **TREASURY MANAGEMENT STRATEGY STATEMENT**

**AND**

# **ANNUAL INVESTMENT STRATEGY**

**2021/22**

# Treasury Management Strategy Statement and Annual Investment Strategy 2021/22

## 1. Introduction

### 1.1. Background

The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of capital expenditure plans. These capital plans provide a guide to the borrowing needs of the City, essentially the longer-term cash flow planning, to ensure that the organisation can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

### 1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

*The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

### **1.3. CIPFA Requirements**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010. The Code of Practice was revised in November 2017.

The primary requirements of the Code are as follows:

- (i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- (ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- (iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- (iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy. The capital strategy provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how the associated risk is managed and the implications for future financial sustainability. The Treasury Management Strategy Statement is reported separately from the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset.

### **1.4. Treasury Management Strategy for 2021/22**

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable. The City's Prudential Indicators are set in its annual Budget Report

and Medium-Term Financial Strategy, while Treasury Indicators are established in this report (Appendix 2).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 7 of this report) and to prepare an Annual Investment Strategy (section 8 of this report). The Investment Strategy sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2021/22 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Link Asset Services, Treasury Solutions.

The strategy covers:

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the City
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the local Government Act 2003, the CIPFA Prudential Code, the MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

## **2. Capital Expenditure Plans and Prudential Indicators**

The City's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

The City's capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2021/22 Budget Report and Medium-Term Financial Strategy, which also contains the City's Prudential Indicators. The Prudential Indicators summarise the City Fund's annual capital expenditure and financing plans for the medium term.

## 2.1. Estimate of Capital Expenditure and Financing (City Fund)

Table 1	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
<b>Capital Expenditure:</b>					
Non-HRA	41.9	93.0	180.0	201.3	232.5
HRA	10.8	30.9	65.1	32.4	-
<b>Total</b>	<b>52.7</b>	<b>123.9</b>	<b>245.1</b>	<b>233.7</b>	<b>232.5</b>
<b>Financed by:</b>					
Capital grants	17.0	48.6	75.1	52.9	38.5
Capital reserves	18.3	50.7	65.7	5.8	127.4
Revenue	17.4	24.6	43.5	35.4	27.6
<b>Total</b>	<b>52.7</b>	<b>123.9</b>	<b>184.3</b>	<b>94.1</b>	<b>193.5</b>
<b>Net financing need:</b>	<b>-</b>	<b>-</b>	<b>60.8</b>	<b>139.6</b>	<b>39.0</b>

The Prudential Indicators also establish the City Fund's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the City Fund's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource (the net financing need in Table 1), will increase the CFR.

## 2.2. Estimate of the Capital Financing Requirement (City Fund)

Table 2	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	45.3	64.9	104.8	232.1	270.9
HRA	0	0	19.2	29.8	28.2
<b>Total</b>	<b>45.3</b>	<b>64.9</b>	<b>124.0</b>	<b>261.9</b>	<b>299.1</b>

## 2.3. Minimum Revenue Provision (City Fund)

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The City's MRP Policy is detailed in Appendix 2.

## 2.4. City's Cash

As with the City Fund, any capital expenditure incurred by City's Cash which has not immediately been paid for through a revenue or capital resource, will increase the

City's Cash borrowing requirement. Table 3 summarises the planned City's Cash borrowing over the next few years.

## 2.5. City's Cash Borrowing

<b>Table 3</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	£250m	£250m	£450m	£450m	£450m

As with the MRP for the City Fund, borrowing for City's Cash will be reduced gradually over time through the application of a debt financing reserve as set out in the City's Cash Borrowing Policy Statement (Appendix 8).

## 3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2020 comprised:

<b>Treasury Portfolio</b>				
	<b>Actual</b>	<b>Actual</b>	<b>Current</b>	<b>Current</b>
	<b>31/03/20</b>	<b>31/03/20</b>	<b>31/12/20</b>	<b>31/12/20</b>
<b>Treasury investments</b>	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Banks	£475.5	47%	£460.0	44%
Building societies (rated)	£28.4	3%	£25.0	2%
Local authorities	£111.0	11%	£75.0	7%
Liquidity funds	£184.8	18%	£266.8	25%
Ultra-short dated bond funds	£65.0	6%	£85.0	8%
Short dated bond funds	£150.0	15%	£150.0	14%
<b>Total treasury investments</b>	<b>£1,014.7</b>	<b>100%</b>	<b>£1,061.8</b>	<b>100%</b>
<b>Treasury external borrowing</b>				
Long term market debt (City's Cash)	£250.0	100%	£250.0	100%
<b>Total external borrowing</b>	<b>£250.0</b>	<b>100%</b>	<b>£250.0</b>	<b>100%</b>

The overall weighted average rate of return on investments was 0.83% as at 31 December 2020 compared to 0.63% as at 31 March 2020.

## 4. Treasury Indicators for 2021/22 – 2023/24

Treasury Indicators (as set out in Appendix 2) are relevant for the purposes of setting an integrated treasury management strategy.

## 5. Prospects for Interest Rates

The City of London has appointed Link Asset Services (Link) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate – also known as “the Bank of England base rate”) and longer term interest rates. The following table and accompanying text below gives the Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2021	0.10	0.80	1.10	1.50	1.30
Jun 2021	0.10	0.80	1.10	1.60	1.40
Sep 2021	0.10	0.80	1.10	1.60	1.40
Dec 2021	0.10	0.80	1.10	1.60	1.40
Mar 2022	0.10	0.90	1.20	1.60	1.40
Jun 2022	0.10	0.90	1.20	1.70	1.50
Sep 2022	0.10	0.90	1.20	1.70	1.50
Dec 2022	0.10	0.90	1.20	1.70	1.50
Mar 2023	0.10	0.90	1.20	1.70	1.50
Jun 2023	0.10	1.00	1.30	1.80	1.60
Sep 2023	0.10	1.00	1.30	1.80	1.60
Dec 2023	0.10	1.00	1.30	1.80	1.60
Mar 2024	0.10	1.00	1.30	1.80	1.60

The Coronavirus outbreak has had a highly significant impact on the UK economy and economies around the world. The Bank of England took emergency action in March 2020 to reduce Bank Rate to 0.25% and then to 0.10%; the Governor of the Bank of England has made it clear that negative rates will do more damage than good and quantitative easing is favoured instead. The forecasts above show that no increase in Bank Rate is expected as the economic recovery is expected to be gradual and therefore prolonged.

Gilt yields spiked during March and since have fallen sharply to unprecedented lows as investors moved into safe haven assets. However major western central banks took rapid action and started quantitative easing purchases of government bonds. This acted by putting downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As shown above there is expected to be little upward movement in PWLB rates over the next two years as it will take economies a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9<sup>th</sup> November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

## Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. Borrowing rates have also been impacted by changes in Government policy. In October 2019, the Government increased the margin above Gilts that is used to set PWLB lending rates by 1%. The Government consulted on the future lending arrangements of the PWLB in 2020 and following the conclusion of the consultation the margin above gilts applied to new loans was reduced by 1%, restoring the status quo ante. However, alongside this change, a new prohibition was introduced on using PWLB borrowing to fund commercial investments: any local authority whose capital programme for the following three years includes plans to purchase assets for yield is now unable to borrow from the PWLB, with effect from 26 November 2020.
- Because borrowing rates are expected to be higher than investment rates, any new borrowing undertaken by the City will have a “cost of carry” (the difference between higher borrowing costs and low investment returns) which will cause a temporary increase in cash balances and will most likely incur a revenue cost.

## 6. Interest Rate Exposure

The City is required to set out how it intends to manage interest rate exposure.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

## 7. Borrowing Strategy

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 5 above, respectively.

For both the City Fund and City’s Cash, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City’s capital programme as planned.

The City can choose to manage the borrowing requirements through obtaining external debt from a variety of sources; through the temporary use of its own cash resources (“internal borrowing”); or via a combination of these methods.



## 7.1. City Fund

The City Fund has a positive Capital Financing Requirement, and this is expected to grow in the next few years (see table 2 above). As the City Fund currently has no external debt, it is therefore maintaining an under-borrowed position which is forecast to increase if the City Fund does not acquire external debt. This means that the capital borrowing need is being managed within internal resources, i.e. cash supporting the City Fund's reserves, balances and cash flow is being used as a temporary measure. This strategy is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the City is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing (i.e. the risk that the City Fund will need to replace internal borrowing with external borrowing in the future when interest rates are high).

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Finance Committee and the Court of Common Council at the next available opportunity.

The City must set two treasury indicators representing the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code in order to ensure borrowing is affordable and is consistent with the City Fund's capital expenditure requirements.

- The **operational boundary for external debt** should represent the most likely scenario for external borrowing. It is acceptable for actual borrowing to deviate from this estimate from time to time. The proposed limit is set to mirror the estimated CFR for the forthcoming year and the following two years.
- The **authorised limit for external debt** is the maximum threshold for external debt for over 2021/22, 2022/23 and 2023/24. This limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

The proposed limits for 2021/22 are set out in Appendix 2.

The City is also required to set a treasury indicator in respect of the maturity structure of external debt to ensure that the external debt portfolio remains appropriately balanced over the long term. Under the revised Treasury Management Code of Practice, the City is required to set limit for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

## 7.2. City's Cash

The capital expenditure plans for City's Cash also create a borrowing requirement. City's Cash has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m will be received in 2021/22. It is not anticipated that any new external borrowing will be acquired by City's Cash in 2021/22. However, the Chamberlain will keep this position under review and in doing so will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The regulatory framework established through the CIPFA professional codes and MHCLG guidance pertains to the City's local authority function, the City Fund. To facilitate effective management of the City's Cash borrowing requirement, this organisation has adopted the City's Cash Borrowing Policy Statement (Appendix 8), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Cash. Under this framework, the City has resolved to establish two further treasury indicators, which will help the organisation to ensure its borrowing plans remain prudent, affordable and sustainable:

- **Estimates of financing costs to net revenue stream.** This indicator is given as a percentage and establishes the amount of the City's Cash net revenue that is used to service borrowing costs.
- **Overall borrowing limits.** This indicator represents an upper limit for external debt which officers cannot exceed.

The proposed indicators for 2021/22 are set out in Appendix 2 alongside the City Fund treasury indicators.

## 7.3. Policy on borrowing in advance of need

The City will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the City can ensure the security of such funds.

## 7.4. Debt rescheduling

The City does not anticipate any debt rescheduling in the near term. However, should any opportunities for debt rescheduling arise (through a decrease in borrowing rates, for instance), such cases will need to be considered in the context of the current treasury position and the size of the cost of debt repayment (i.e. any penalties incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;

- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Court of Common Council, at the earliest meeting following its action.

## **7.5. Sources of borrowing**

Historically, the main source of borrowing for UK local authorities has been the PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised lending arrangements with effect from 26 November 2020. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for new loans. Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency.

## **8. Annual Investment Strategy**

### **8.1. Investment Policy**

The City of London's investment policy will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2017 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2018.

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, (e.g. commercial property), are covered in the Capital Strategy, (a separate report).

The City's investment priorities are:

- (a) security; and
- (b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the City will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **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 which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

The City will also set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 2).

## 8.2. Creditworthiness policy

The primary principle governing the City’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City’s prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Financial Investment Board for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

Regular meetings are held involving the Chamberlain, the Deputy Chamberlain, Corporate Treasurer and members of the Treasury team, where the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension, which will be reviewed in light of market conditions.

All credit ratings will be monitored daily. The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Link creditworthiness service.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:
  - (i) are UK banks; and/or
  - (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of **AA+** (Fitch rating)

and have, as a minimum the following Fitch, credit rating:

- (i) Short-term – F1
  - (ii) Long-term – **A-**
- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.
- Banks 3 – The City's own banker (Lloyds Banking Group) for transactional purposes and if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.
- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.
- Building Societies – The City may use all societies which:
  - (i) have assets in excess of £10bn; or
  - (ii) meet the ratings for banks outlined above

- Money Market Funds (MMFs) Constant Net Asset Value (CNAV)\* – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) Low-Volatility Net Asset Value (LVNAV)\* – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) Variable Net Asset Value (VNAV)\* – with minimum credit ratings of AAA/mmf
- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)
- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, the City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.
- UK Government – including government gilts and the debt management agency deposit facility.
- Local authorities

A limit of £500m will be applied to the use of non-specified investments.

**\*European Money Market Reform.** Under EU money market reforms implemented in 2018/19, three new classifications of money market funds have been created:

- Constant Net Asset Value (“CNAV”) MMFs – must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant net asset value.
- Low Volatility Net Asset Value (“LVNAV”) MMFs – permitted to maintain a constant dealing net asset value provided that certain criteria are met, including that the market net asset value of the fund does not deviate from the dealing net asset value by more than 20 basis points.

Variable Net Asset Value (“VNAV”) MMFs – price assets using market pricing and therefore offer a fluctuating dealing net asset value

### **8.3. Use of additional information other than credit ratings.**

Additional requirements under the Code require the City to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties

### **8.4. Time and monetary limits applying to investments.**

The time and monetary limits for institutions on the Council’s counterparty list are as follows (these will cover both specified and non-specified investments):

	<b>Minimum Creditworthiness Criteria</b>	<b>Money Limit</b>	<b>Time Limit</b>
<b>Banks 1 higher quality</b>	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
<b>Banks 1 medium quality</b>	Fitch Long Term Rating Long Term: A Short Term: F1	£100m	1 year
<b>Banks 1 lower quality</b>	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months
<b>Banks 2 – part nationalised</b>	N/A	£100m	3 years
<b>Banks 3 – City’s banker (transactions only, and if bank falls below above criteria)</b>	N/A	£150m	1 working day
<b>Building Societies higher quality</b>	Fitch Long Term Rating A or assets of £150bn	£100m	3 years
<b>Building Societies medium quality</b>	Fitch Long Term Rating A- or assets of £10bn	£20m	1 year
<b>UK Government (DMADF, Treasury Bills, Gilts)</b>	UK sovereign rating	unlimited	3 years
<b>Local authorities</b>	N/A	£25m	3 years
<b>External Funds*</b>	<b>Fund rating</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	AAA	£100m	liquid
<b>Money Market Funds LVNAV</b>	AAA	£100m	liquid
<b>Money Market Funds VNAV</b>	AAA	£100m	liquid
<b>Ultra-Short Dated Bond Funds</b>	AAA	£100m	liquid
<b>Short Dated Bond Funds</b>	N/A	£100m	liquid

\*An overall limit of £100m for each fund manager will also apply.

A list of suitable counterparties conforming to this creditworthiness criteria is provided at Appendix 4. The Chamberlain will review eligible counterparties prior to

inclusion on the approved counterparty list and will monitor the continuing suitability of existing approved counterparties.

## 8.5. Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of **AA+** (Fitch) or equivalent. The country limits list, as shown in Appendix 5, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. The UK (which is currently rated as AA-) will be excluded from this stipulated minimum sovereign rating requirement.

## 8.6. Local authority limits

The City will place deposits up to a maximum of £25m with individual local authorities. In addition the City imposes an overall limit of £250m for outstanding lending to local authorities as a whole at any given time. Although the overall credit standing of the local authority sector is considered high, officers perform additional due diligence on individual prospective local authority borrowers prior to entering into any lending.

## 8.7. Investment Strategy

**In-house funds:** The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a longer period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

**Investment returns expectations:** Bank Rate is unlikely to rise from 0.10% for a considerable period given underlying economic expectations. In these circumstances it is likely that investment earnings from money market-related instruments will be below 0.50% for the foreseeable future. Bank Rate forecasts for financial year ends (March) are:

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.



## 8.8. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end. The Board is asked to approve the treasury indicator and limit:

<b>Maximum principal sums invested for more than 365 days (up to three years)</b>			
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>
Principal sums invested >365 days	500	500	500

## 8.9. Investment performance benchmarking

The City will monitor investment performance against Bank Rate and 3- and 6-month London Interbank Bid Rate (LIBID). The City is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to Members accordingly.

## 8.10. End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

## 8.11. External fund managers

A proportion of the City's funds, amounting to £501.8m as at 31 December 2020, are externally managed on a discretionary basis by the following fund managers:

- Aberdeen Standard Investments
- CCLA Investment Management Limited
- Deutsche Asset Management (UK) Limited
- Federated Investors (UK) LLP
- Invesco Global Asset Management Limited
- Legal and General Investment Management
- Payden & Rygel Global Limited
- Royal London Asset Management

The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond Fund managers (including the Payden & Rygel Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Standard Liquidity Fund (Lux) Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond Funds managed by Legal and General Investment Management and Royal London Asset Management. Both funds are unrated (as is typical of these instruments). The funds offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance.

## **9. Policy on the use of external service providers**

The City uses Link Asset Services, Treasury Solutions as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

## **10. Scheme of Delegation**

Please see Appendix 6.

## **11. Role of the Section 151 officer**

Please see Appendix 7.

## **12. Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. The training needs of members and treasury management officers are periodically reviewed. Training was most recently undertaken by Members in February 2019.

## **APPENDICES**

1. Interest Rate Forecasts 2021-2024
2. Treasury Indicators 2021/22 – 2023/24 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation

7. The Treasury Management Role of the Section 151 Officer
8. City's Cash Borrowing Policy Statement

**LINK INTEREST RATE FORECASTS 2021 – 2024**

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<b>BANK RATE</b>	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

**Note:** The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1<sup>st</sup> November 2012.

**TREASURY INDICATORS 2021/22 – 2023/24 AND MINIMUM REVENUE PROVISION STATEMENT**

<b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>actual</b>	<b>probable outturn</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Authorised Limit for external debt (City Fund) -</b>					
Borrowing	145.3	164.9	224.0	361.0	399.1
other long-term liabilities	13.8	13.7	13.5	13.4	12.2
<b>TOTAL</b>	<b>113.8</b>	<b>178.6</b>	<b>237.5</b>	<b>375.3</b>	<b>411.3</b>
<b>Operational Boundary for external debt (City Fund) -</b>					
Borrowing	45.3	64.9	124.0	261.0	299.1
other long-term liabilities	13.8	13.7	13.5	13.4	12.2
<b>TOTAL</b>	<b>13.8</b>	<b>78.6</b>	<b>137.5</b>	<b>275.3</b>	<b>311.3</b>
<b>Actual external debt (City Fund)*</b>	0	0			
<b>Upper limit for total principal sums invested for over 365 days (per maturity date)</b>	£300m	£500m	£500m	£500m	£500m

\*Actual external debt at the end of the financial year

<b>TABLE 2: Maturity structure of borrowing during 2020/21</b>	<b>upper limit</b>	<b>lower limit</b>
- 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%

<b>TABLE 3: CITY'S CASH BORROWING INDICATORS</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>actual</b>	<b>probable outturn</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Estimates of financing costs to net revenue stream</b>	5.1%	6.8%	11.1%	12.0%	10.9%
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Overall borrowing limits</b>	125	250	250	450	450

## MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2021/22

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow and will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund).

MHCLG regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:

- **Option 3: Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
- **Option 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;

For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. However, as loan repayments will commence in advance of the assets becoming operational, additional provision will be made in the early years so that MRP is at least equal to the amount of the loan principal repaid. This option provides for a reduction in the borrowing need over the approximate life of the assets.

As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City's MRP policy in respect of this form of internal borrowing is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then 'used again' when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.

The MRP liability for 2020/21 is **£1.1m** and is estimated at **£1.1m** for 2021/22.

**TREASURY MANAGEMENT PRACTICES (TMP 1) – Credit and Counterparty Risk Management**

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where appropriate.

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term <b>A-</b>	In-house via Fund Managers
Money Market Funds CNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	In-house & Fund Managers
Sovereign Bond issues (other than the UK government)	<b>AA+</b>	Fund Managers

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of £500m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories set out below.

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Maximum</b>	<b>Maximum Maturity Period</b>
Term deposits – other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits – banks and building societies (with maturities in excess of one year)	Long-term <b>A+</b> , Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term <b>A+</b> , Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AA-	In-house on a buy-and-hold basis and fund managers	£50m Overall	Three years
Short Dated Bond Funds	--	In-house via Fund Managers	£100m per Fund	n/a*

\*Short Dated Bonds Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access is typically T + 3 or 4.



**APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2020**

**UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES**

FITCH RATINGS		BANK*	LIMIT PER GROUP	DURATION
A+	F1	Barclays Bank PLC (NRFB) Barclays Bank UK PLC (RFB)	£100M	Up to 3 years
A+	F1			
A+	F1	Goldman Sachs International Bank	£100M	Up to 3 years
AA	F1+	Handelsbanken PLC	£100m	Up to 3 years
AA-	F1+	HSBC (RFB) HSBC (NRFB)	£100M	Up to 3 years
AA-	F1+			
A+	F1	Lloyds Bank Corporate Markets PLC (NRFB) Lloyds Bank PLC (RFB) Bank of Scotland PLC (RFB)	£150M	Up to 3 years
A+	F1			
A+	F1			
A+	F1	NatWest Markets PLC (NRFB) National Westminster Bank PLC (RFB) Royal Bank of Scotland PLC (RFB)	£100M	Up to 3 years
A+	F1			
A+	F1			
A+	F1	Santander UK PLC (RFB)	£100M	Up to 3 years

\*Under the ring-fencing initiative, the largest UK banks are now legally required to separate the core retail business into a ring-fenced bank (RFB) and to house their complex investment activities into a non-ring-fenced bank (NRFB).

**BUILDING SOCIETIES**

FITCH RATINGS		BUILDING SOCIETY	ASSETS	LIMIT PER GROUP	DURATION
A	F1	Nationwide	£260Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£44Bn	£20M	Up to 1 year
A-	F1	Coventry	£50Bn	£20M	Up to 1 year
A-	F1	Skipton	£25Bn	£20M	Up to 1 year
A-	F1	Leeds	£21Bn	£20M	Up to 1 year

**FOREIGN BANKS**

(with a presence in London)

FITCH RATINGS		COUNTRY AND BANK	LIMIT PER GROUP	DURATION
		<b>AUSTRALIA (AAA)</b>		
<b>A+</b>	<b>F1</b>	Australia and New Zealand Banking Group Ltd	£100M	Up to 3 years
<b>A+</b>	<b>F1</b>	National Australia Bank Ltd	£100M	Up to 3 years
		<b>CANADA (AA+)</b>		
<b>AA-</b>	<b>F1+</b>	Bank of Montreal	£100M	Up to 3 years
<b>AA</b>	<b>F1+</b>	Royal Bank of Canada	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	Toronto-Dominion Bank	£100M	Up to 3 years
		<b>GERMANY (AAA)</b>		
<b>A+</b>	<b>F1+</b>	Landesbank Hessen-Thueringen Girozentrale	£100M	Up to 3 years
		<b>NETHERLANDS (AAA)</b>		
<b>A+</b>	<b>F1</b>	Cooperatieve Rabobank U.A.	£100M	Up to 3 years
		<b>SINGAPORE (AAA)</b>		
<b>AA-</b>	<b>F1+</b>	DBS Bank Ltd.	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	United Overseas Bank Ltd.	£100M	Up to 3 years
		<b>SWEDEN (AAA)</b>		
<b>AA-</b>	<b>F1+</b>	Skandinaviska Enskilda Banken AB	£100M	Up to 3 years
<b>AA</b>	<b>F1</b>	Swedbank AB	£100M	Up to 3 years
<b>A+</b>	<b>F1+</b>	Svenska Handelsbanken	£100M	Up to 3 years

### MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA/mmf	Deutsche Liquidity Fund	Liquid

### ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Sterling Cash Plus Fund*	Liquid
AAA/f	Aberdeen Standard Investments Short Duration Managed Liquidity Fund**	Liquid

\*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated and Aberdeen Standard

### SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
-	Legal and General Short Dated Sterling Corporate Bond Index Fund	Liquid
-	Royal London Investment Grade Short Dated Credit Fund	Liquid

**LOCAL AUTHORITIES**

**LIMIT OF £25M PER  
AUTHORITY AND £250M  
OVERALL**

Any UK local authority

**APPROVED COUNTRIES FOR INVESTMENT**

This list is based on those countries which have sovereign ratings of AAA **and AA+** as at 11 January 2021.

**AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- United States

**AA+**

- Canada
- Finland

**AA-**

- United Kingdom

**TREASURY MANAGEMENT SCHEME OF DELEGATION**

The roles of the various bodies of the City of London Corporation with regard to treasury management are:

**(i) Court of Common Council**

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

**(ii) Financial Investment Board and Finance Committee**

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.

**(iii) Audit & Risk Management Committee**

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

**THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

**The Chamberlain**

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.

**CITY'S CASH BORROWING POLICY STATEMENT**

1. The City Corporation shall ensure that all of its City's Cash capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the overall fiscal sustainability of City's Cash.
2. Borrowing shall be undertaken on an affordable basis and total capital investment must remain within sustainable limits. When assessing the affordability of its City's Cash investment plans, the City Corporation will consider both the City's Cash resources currently available and its estimated future resources, together with the totality of its City's Cash capital plans, income and expenditure forecasts.
3. To ensure that the benefits of capital expenditure are matched against the costs, a debt financing reserve will be established.
4. To the greatest extent possible, expected finance costs arising from borrowing are matched against appropriate revenue income streams.
5. The City Corporation will organise its borrowing on behalf of City's Cash in such a way as to ensure that financing is available when required to manage liquidity risk (i.e. to make sure that funds are in place to meet payments for capital expenditure on a timely basis). The City Corporation will only borrow in advance of need on behalf of City's Cash on the basis of a sound financial case (for instance, to mitigate exposure to rising interest rates).
6. The City Corporation will ensure debt is appropriately profiled to mitigate refinancing risk.
7. The City Corporation will monitor the sensitivity of liabilities to inflation and will manage inflation risks in the context of the inflation exposures across City's Cash (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Cash).
8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Cash. Where internal borrowing (i.e. from City Fund or Bridge House Estates) is used as a source of funding, the City Corporation will keep under review the elevated risk of refinancing.
9. All borrowing is expected to be drawn in Sterling. Where debt is raised in foreign currencies, the City Corporation will consider suitable measures for mitigating the risks presented by fluctuation in exchange rates.
10. Interest rate movement exposure will be managed prudently, balancing cost against likely financial impact.
11. The City Corporation will maintain the following indicators which relate to City's Cash borrowing only:
  - Estimates of financing costs to net revenue stream
  - Overall borrowing limits