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| Committee: Financial Investment Board | Dated: 30 June 2021 |
| Subject: Treasury Management Update as at 31 May 2021 | Public |
| Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly? | All |
| Does this proposal require extra revenue and/or capital spending? | No |
| If so, how much? | £N/A |
| What is the source of Funding? | N/A |
| Has this Funding Source been agreed with the Chamberlain's Department? | N/A |
| Report of: The Chamberlain | For Information |
| Report author: James Graham – Chamberlain's Department | |

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 May 2021. The report includes an update on the current asset allocation of the short term investment portfolio and its performance and also includes the latest cash flow forecast. A monthly investment review report produced by the Corporation's treasury management consultants, Link Asset Services, is included at Appendix 2.

Recommendation

Members are asked to note the report.

Main Report

Background

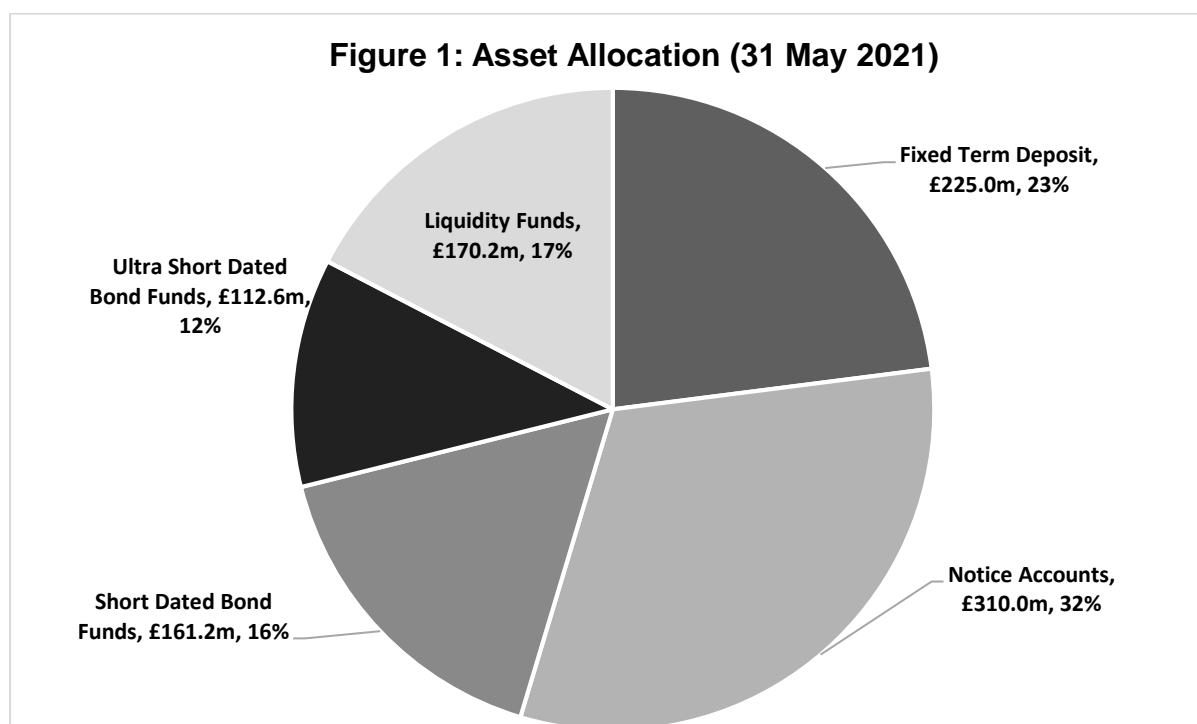
1. The Financial Investment Board receives an update on the treasury management portfolio at each meeting. At its meeting on 9 February 2021 the Board requested an update on the current cash flow forecast at its next meeting. Officers have compiled this report to provide additional context to the short term investment portfolio and the forecast for short term investments as at 31 May 2021.

Current Position

2. The treasury management investment portfolio had a market value of £979.1m as at 31 May 2021. This represents a net increase in cash of £32.0m over the two-month period from 31 March 2021 (when the portfolio amounted to £947.1m). Historically, the Corporation has experienced higher cash balances at the start of the financial year compared to the end of the prior year due to the profile of business rates income received by the City Fund.

Asset Allocation

3. In accordance with the Treasury Management Strategy Statement 2021/22, surplus cash is invested first and foremost with the aim of securing the Corporation's financial assets and secondly in line with the organisation's liquidity requirements (i.e. ensuring the cash is available when needed to meet the Corporation's spending obligations). Once these two objectives have been satisfied, the Corporation targets the best returns available in the sterling money markets.
4. A summary of the asset allocation by instrument type as at 31 May 2021 is displayed in figure 1.

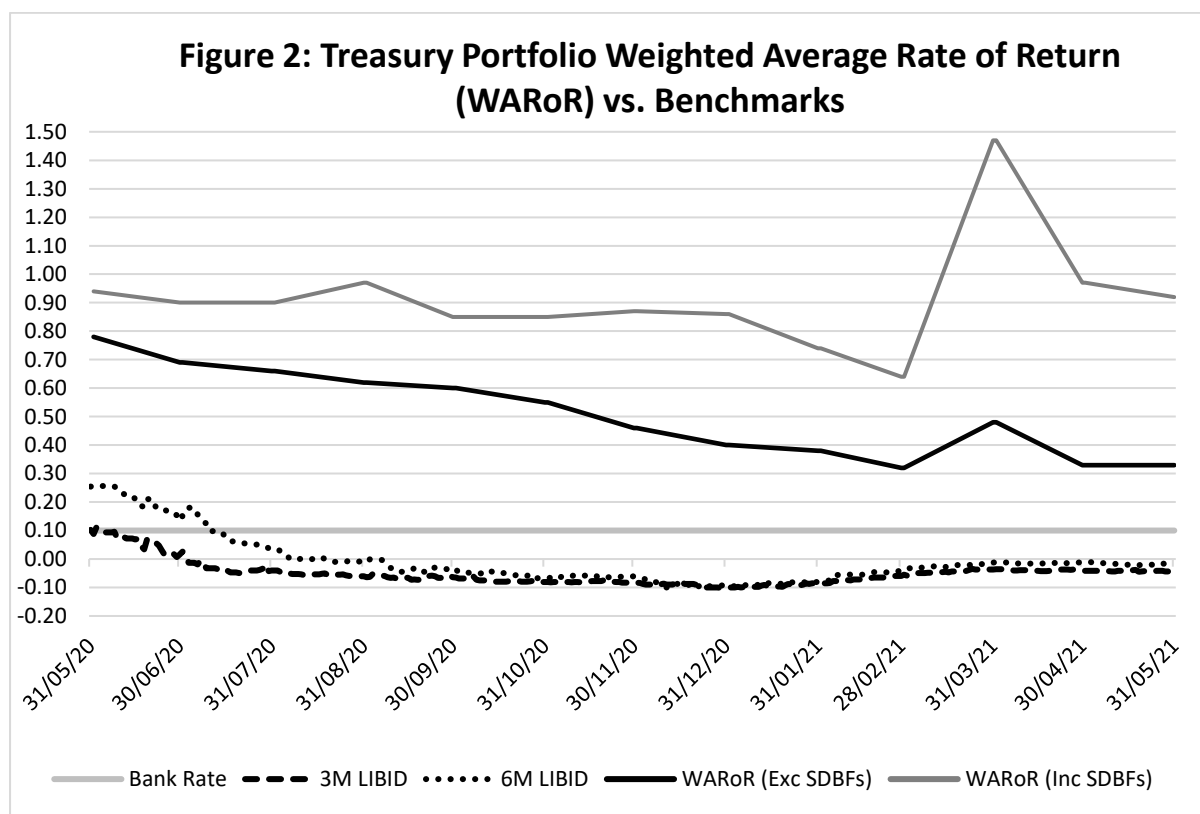


5. As at 31 May 2021, most of the Corporation's cash balances were invested on a short term (under one year) basis with eligible banks, building societies and local authorities via fixed term deposits (23%) and notice accounts (32%).
6. A further 17% was held in liquidity funds. These balances are very liquid and can be accessed on the day. 12% was invested in ultra-short dated bond funds. These instruments are also highly liquid (funds can be redeemed with two to three days' notice) but they are more volatile than liquidity funds. Ultra-short dated bond funds are suitable for surplus cash balances with an investment horizon of six months or more.
7. The remaining portion of the portfolio (16%) was invested in short dated bond funds at the reporting date. These funds are invested in investment grade credit instruments with an average duration of 2-3 years. Short dated bond funds can be volatile in the short term and should only be used for surplus cash balances with an investment horizon of at least two years.

8. Further analysis on the composition of the portfolio as at 31 May 2021 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

Performance

9. The weighted average rate of return for the portfolio over the past 12 months is shown in figure 2 below. In this chart, the solid lines represent the level of returns achieved by the Corporation while the “dashed” lines represent suitable performance comparators.



10. After declining for much of 2020, sterling money market rates have stabilised somewhat recently and have even shown signs of recovery in 2021. This has occurred against an improving economic backdrop where the debate over appropriate monetary policy has moved from further loosening to possible tightening in order to manage inflation (the Bank of England’s policy rate remains the key determinant of money market returns). This is evident in figure 2 by the 3-month and 6-month London Interbank Bid Rate (LIBID).

11. The Corporation’s short term investment portfolio has followed this trend (albeit with a lag) as existing, higher yielding deposits have matured and been replaced with new investments at a lower yield. This is visible in the weighted average return excluding short dated bond funds above (which omits the two longer-term short dated bond fund investments in the portfolio).

12. As month-to-month returns from the ultra-short and short dated bond fund investments can be volatile, for these instruments, officers have used the trailing 12 month total return to 31 May 2021 in calculating the portfolio returns displayed in figure 2. The short dated bond funds recovered strongly from the abrupt downturn in March 2020 (which explains the sudden “bump” in the one year return to 31 March 2021 shown in figure 2 above, as a short-term decline in values experienced in the month of March 2020 dropped out of the performance calculation).

13. To aid an effective assessment of performance, table 1 shows the historical return of the ultra-short and short dated bond fund investments on a total return basis over various time horizons under one year.

Table 1: Bond Fund Returns as at 31 May 2021

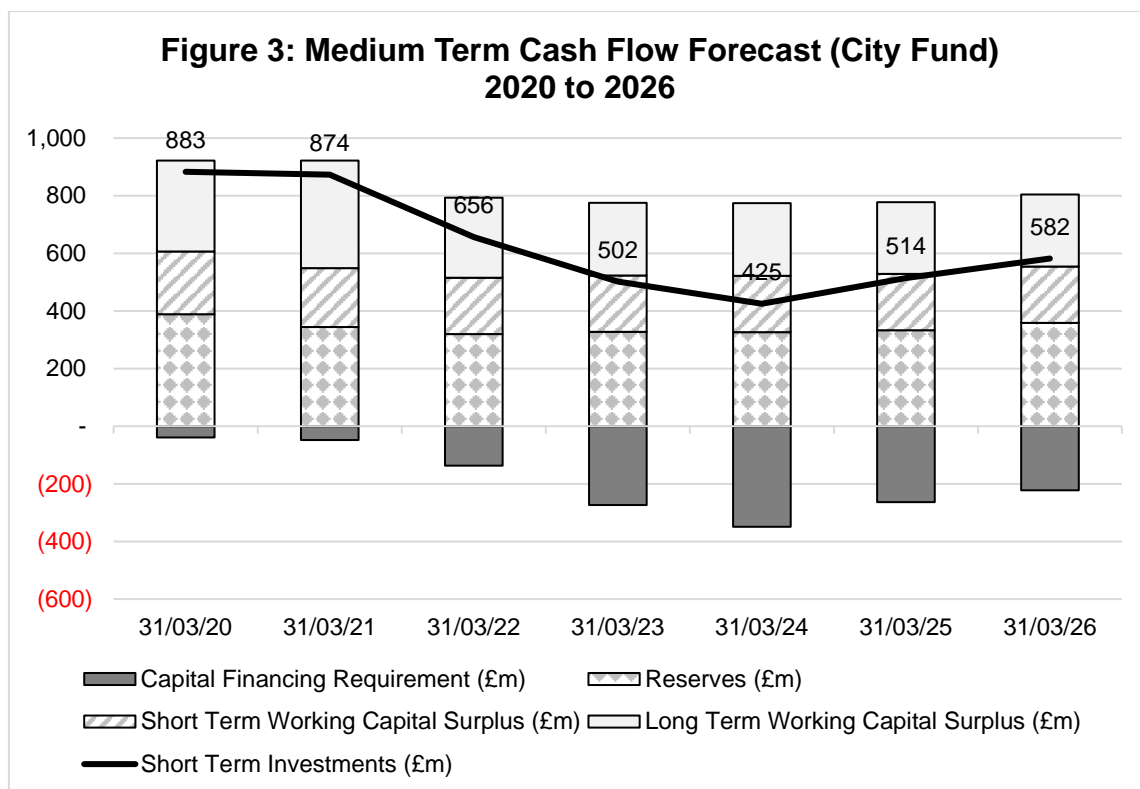
| Fund | 1 Month Return (30/04/2021 to 31/05/2021) | 3 Month Return (28/02/2021 to 31/05/2021) | 12 Month Return (31/05/2020 to 31/05/2021) |
|--|--|--|---|
| Federated Hermes Sterling Cash Plus Fund | 0.00% | 0.00% | 0.14% |
| Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling | 0.01% | 0.05% | 1.15% |
| Payden Sterling Reserve Fund | 0.04% | 0.13% | 1.32% |
| L&G Short Dated Sterling Corporate Bond Index Fund | 0.52% | 0.07% | 4.24% |
| Royal London Investment Grade Short Dated Credit Fund | -0.49% | 0.46% | 3.64% |

14. The most conservative fund (Federated) is listed first in table 1 and the longer term investments (L&G and Royal London) are listed at the bottom to the table. All funds have produced positive returns over the year to the end of May 2021 and the two short dated bond funds managed by L&G and Royal London have performed strongly.

Cash Flow Forecast

15. The City Fund’s medium-term cash flow forecast is shown below in figure 3. City Fund’s cash investments amount to £874m as at 31 March 2021, or 92% of the total cash under management in the treasury portfolio at that time. The remainder belongs to City’s Cash (1%), Bridge House Estates (3%) and other bodies (4%).

16. Cash investments (represented by the black line in figure 3) are expected to be below historic levels over the next few years before recovering towards the end of the forecast period.



17. Compared to the position reported the Board at its last meeting, officers have updated the composition of cash balances as at 31 March 2021 using new information from the final accounts process. As a result, the long-term working capital surplus is larger than previously forecast, although the fundamental direction of expected cash balances is unchanged. The forecast will be reviewed by officers in tandem with the medium term financial planning process.

18. While this forecast is based on the City Fund's current financial plans it includes several assumptions and it is unlikely that actual cash balances will materialise exactly as forecast. In particular, Members should note the following:

- Historically planned capital expenditure has been subject to re-profiling ("slippage"). If the City Fund's current capital spending plans are re-profiled during the forecast period then the forecast will shift to the right.
- The forecast will need to be continually updated in line with the medium-term financial planning process and the Corporation's financial decisions.
- Officers also expect to make methodological improvements to the forecast calculation to improve its accuracy.

19. In terms of the key financial assumptions implicit in the forecast, Members may observe that the critical factor driving the forecast is the pace at which the City Fund's capital spending plans are progressed. The forecast assumes spending on the major projects programme (City Fund components) will increase in intensity over the next few years and be substantively complete by the end of 2025/26. The forecast assumes the programme will be funded in the main by a mixture of capital receipts, grant funding, fundraising and internal borrowing (i.e. no external borrowing is assumed).

Conclusion

20. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 May 2021. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's Treasury Management Strategy Statement 2021/22. Returns have been driven by the prevailing rates available in the sterling money markets, which in turn are dominated by an ultra-low interest rate environment. Rates have shown some tentative signs of recovery recently (although remain near historic lows) in the context of a more positive economic outlook. Performance from the ultra- and short dated bond fund investments has been positive over the year to date. The City Fund's short term investment balances are forecast to decline gradually over the next few years before increasing again towards the end of the medium-term forecast period. The forecast is highly contingent on the pace of the capital programme.

Appendices

Appendix 1: Counterparty Exposure as at 31 May 2021

Appendix 2: Monthly Investment Analysis Review May 2021

Background Papers

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APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 MAY 2021

| | Counterparty Limit £M | Total Invested as at 31-May-21 £M | Average Rate of Return % |
|--|-----------------------------|--|-----------------------------------|
| <u>TOTAL INVESTED</u> | | <u>979.1</u> | <u>0.92%</u> |
| <u>FIXED TERM DEPOSITS</u> | | | |
| <u>UK BANKS</u> | | | |
| Barclays | 100.0 | 20.0 | 0.19% |
| Goldman Sachs | 100.0 | 20.0 | 0.13% |
| Lloyds | 150.0 | 40.0 | 0.10% |
| NatWest | 100.0 | 95.0 | 0.26% |
| | | <u>175.0</u> | |
| <u>BUILDING SOCIETIES</u> | | | |
| Leeds | 20.0 | 20.0 | 0.10% |
| Skipton | 20.0 | 5.0 | 0.35% |
| | | <u>25.0</u> | |
| <u>FOREIGN BANKS</u> | | | |
| Australia & New Zealand | 100.0 | 10.0 | 0.12% |
| | | <u>10.0</u> | |
| <u>LOCAL AUTHORITIES</u> | | | |
| LB Waltham Forest | 25.0 | 5.0 | 0.33% |
| Stockport City Council | 25.0 | 10.0 | 0.10% |
| | | <u>15.0</u> | |
| <u>LIQUIDITY FUNDS</u> | | | |
| Aberdeen SLI Liquidity Fund | 100.0 | 47.2 | 0.01% |
| CCLA - Public Sector Deposit Fund | 100.0 | 40.1 | 0.04% |
| Deutsche Global Liquidity Fund | 100.0 | 33.0 | 0.01% |
| Federated Prime Liquidity Fund | 100.0 | 13.4 | 0.01% |
| Invesco Sterling Liquidity Fund | 100.0 | 36.5 | 0.02% |
| | | <u>170.2</u> | |
| <u>ULTRA SHORT DATED BOND FUNDS</u> | | | |
| Payden Sterling Reserve Fund | 100.0 | 61.9 | 1.32% |
| Aberdeen SLI Short Duration Fund | 100.0 | 25.4 | 0.51% |
| Federated Sterling Cash Plus Fund | 100.0 | 25.4 | 0.14% |
| | | <u>112.7</u> | |
| <u>SHORT DATED BOND FUNDS</u> | | | |
| L&G | 100.0 | 81.0 | 4.24% |
| Royal London | 100.0 | 80.2 | 3.58% |
| | | <u>161.2</u> | |

| | Counterparty Limit | Total Invested as at 31-Mar-21 | Average Rate of Return |
|---------------------------------------|-------------------------------|---|---------------------------------------|
| | £M | £M | % |
| <u>NOTICE ACCOUNTS</u> | | | |
| Australia and New Zealand 185 Days Ac | 100.0 | 90.0 | 0.40% |
| Goldman Sachs 185 Days Account | 100.0 | 20.0 | 0.24% |
| Goldman Sachs 185 Days Account | 100.0 | 20.0 | 0.23% |
| Goldman Sachs 185 Days Account | 100.0 | 20.0 | 0.23% |
| Goldman Sachs 270 Days Account | 100.0 | 20.0 | 0.53% |
| Lloyds 95 Days Account | 150.0 | 40.0 | 0.05% |
| Santander 95 Days Account | 100.0 | 20.0 | 0.40% |
| Santander 180 Days Account | 100.0 | 30.0 | 0.58% |
| Santander 365 Days Account | 100.0 | 50.0 | 0.68% |
| | | <u>310.0</u> | |
| <u>TOTAL</u> | | <u>979.1</u> | |