

<b>Committee:</b> Financial Investment Board	<b>Dated:</b> 14 September 2021
<b>Subject:</b> Treasury Management Update as at 31 July 2021	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>All</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	<b>£N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> 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 July 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

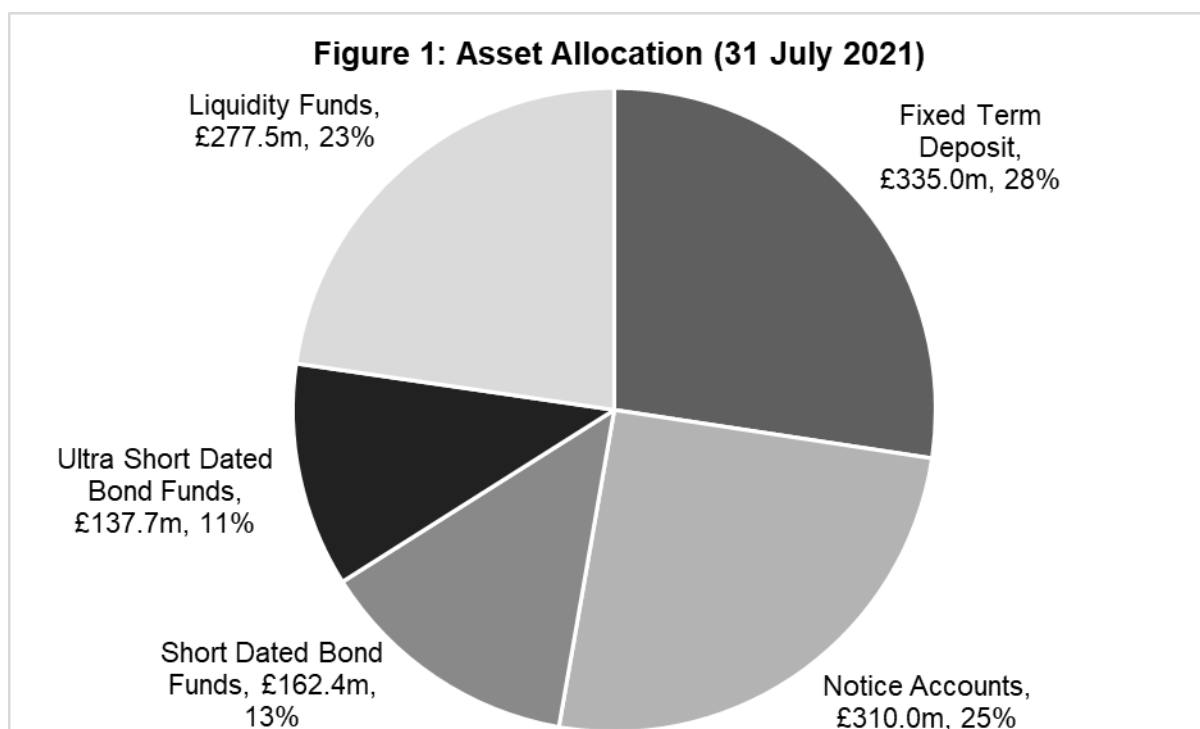
1. The Financial Investment Board receives an update on the treasury management portfolio at each meeting. At its meeting on 9 February 2021 the Board requested an update on the current cash flow forecast at its next meeting. Officers have compiled this report to provide additional context to the short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

#### Current Position

2. The treasury management investment portfolio had a market value of £1,222.6m as at 31 July 2021. This represents a net increase in cash of £243.5m over the two-month period from 31 May 2021 (when the portfolio amounted to £979.1m). City's Cash took receipt of the second tranche of private placement (market) debt in July, which at £200m, explains the significant increase in funds. The remaining net inflow is comprised of changes in working capital.

## 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 July 2021 is displayed in figure 1.

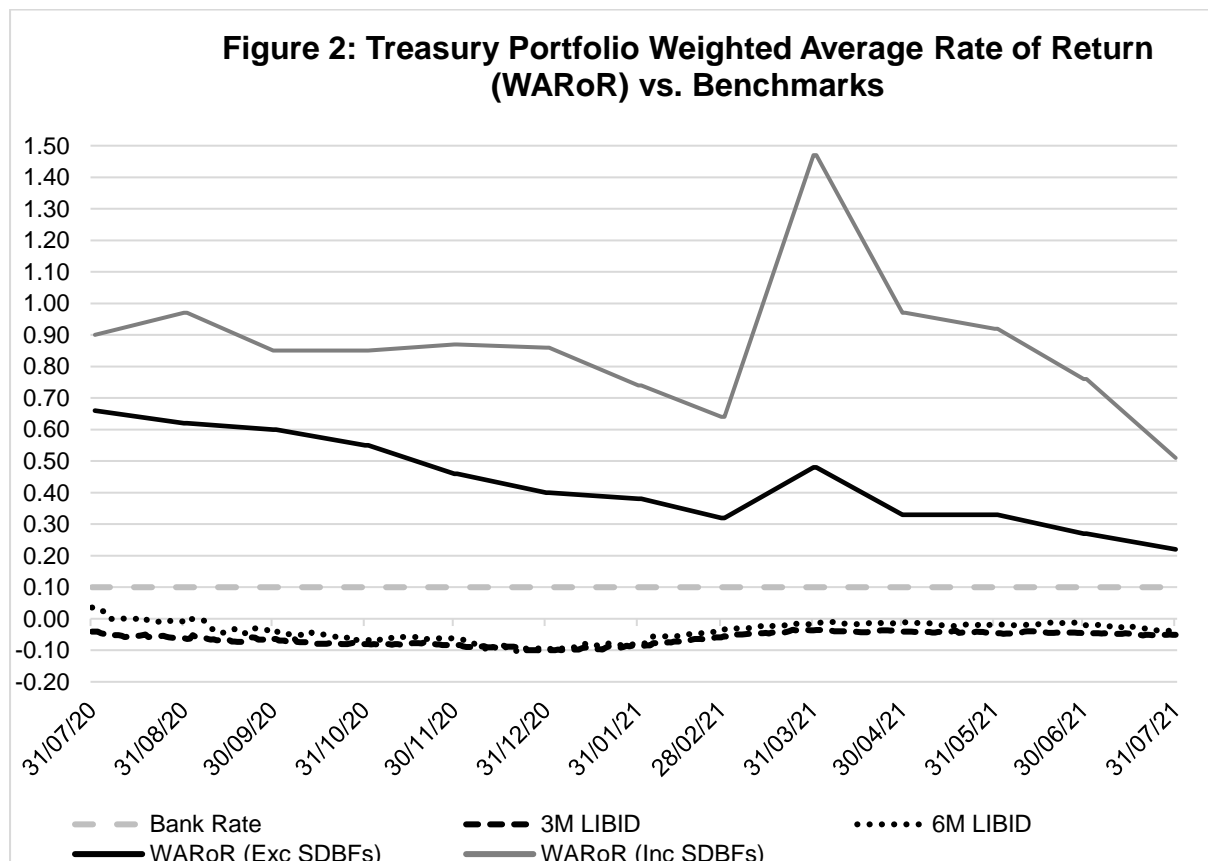


5. As at 31 July 2021, most of the Corporation's cash balances were invested on a short term (under one year) basis with eligible banks, building societies and local authorities via fixed term deposits (28%) and notice accounts (25%).
6. Fixed term deposits includes term deposits with a new counterparty, Landesbank Hessen-Thüringen Girozentrale (also known as "Helaba"). Helaba is a German-domiciled bank with an A+ long term rating with Fitch and is an eligible counterparty under the current Treasury Management Strategy. Prior to depositing funds with Helaba, the Chamberlain undertook due diligence around the bank's financial standing (with a particular focus on the bank's liquidity and capitalisation levels which are both comfortably above minimum regulatory thresholds and commensurate with peers already used by the Corporation). By introducing Helaba, the Corporation is able to diversify its credit risk exposure.

7. A further 23% was held in liquidity funds. These balances are very liquid and can be accessed on the day. 11% 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.
8. The remaining portion of the portfolio (13%) 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.
9. Further analysis on the composition of the portfolio as at 31 July 2021 is provided in the Monthly Investment Report at Appendix 2. A summary of counterparty exposure is also included at Appendix 1.

### Performance

10. 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.



11. Sterling money market rates have been relatively stable recently and remain close to zero, as seen in figure 2 via the readings for 3-month and 6-month

London Interbank Bid Rate (LIBID), which indicates very little change in market expectations for a change in rates in the next few months.

12. Returns on the Corporation's short term investment portfolio have continued to trend downwards 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).
13. 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 July 2021 in calculating the portfolio returns displayed in figure 2. Returns on these investments have slowed in recent months (as shown in the weighted average rate or return including short dated bond funds in figure 2) as the effects of the strong recovery in mid-2020 have dropped out of the calculation.
14. 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 July 2021**

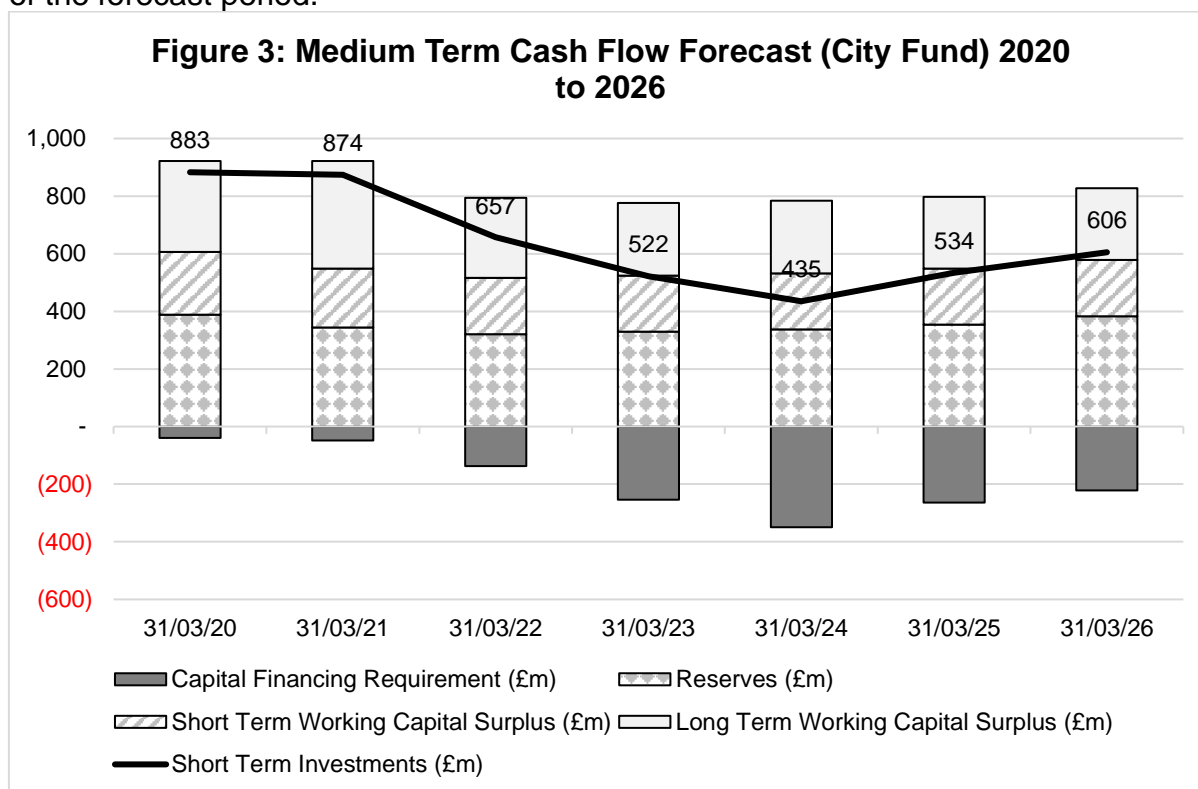
<b>Fund</b>	<b>1 Month Return (30/06/2021 to 31/07/2021)</b>	<b>3 Month Return (30/04/2021 to 31/07/2021)</b>	<b>12 Month Return (31/07/2020 to 31/07/2021)</b>
Federated Hermes Sterling Cash Plus Fund	-0.01%	0.00%	0.08%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.00%	0.02%	0.28%
Payden Sterling Reserve Fund	0.03%	0.11%	0.70%
L&G Short Dated Sterling Corporate Bond Index Fund	0.02%	0.58%	2.33%
Royal London Investment Grade Short Dated Credit Fund	0.30%	0.74%	2.53%

15. 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 July 2021.

### Cash Flow Forecast

16. 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%).

17. 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.



18. The forecast is largely unchanged from the projection reported to the Board at its last meeting on 30 June. The forecast will continue to be reviewed by officers in tandem with the medium term financial planning process.

19. 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.

20. 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**

21. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 July 2021. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's Treasury Management Strategy Statement 2021/22. The Corporation added a new counterparty, Helaba, to its list of approved counterparties during the reporting period after undertaking due diligence. The addition is intended to increase the range of counterparties the Corporation uses to diversify its credit risk exposure. 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. Performance from the ultra-short 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 July 2021

Appendix 2: Monthly Investment Analysis Review July 2021

## **Background Papers**

### **James Graham**

Group Accountant – Pensions & Treasury Management

T: 020 7332 1137

E: [James.Graham@cityoflondon.gov.uk](mailto:James.Graham@cityoflondon.gov.uk)

**APPENDIX 1: COUNTERPARTY EXPOSURE AS AT 31 JULY 2021**

	Counterparty Limit	Total Invested as at 31-Jul-21	Average Rate of Return
	£M	£M	%
<b><u>TOTAL INVESTED</u></b>		<b><u>1,222.6</u></b>	<b><u>0.51%</u></b>
<b><u>FIXED TERM DEPOSITS</u></b>			
<b><u>UK BANKS</u></b>			
Barclays	100.0	25.0	0.14%
Goldman Sachs	100.0	20.0	0.13%
Lloyds	150.0	40.0	0.10%
NatWest	100.0	90.0	0.23%
		<u>175.0</u>	
<b><u>BUILDING SOCIETIES</u></b>			
Leeds	20.0	20.0	0.14%
Skipton	20.0	5.0	0.35%
Nationwide	120.0	60.0	0.07%
		<u>85.0</u>	
<b><u>FOREIGN BANKS</u></b>			
Australia & New Zealand	100.0	10.0	0.12%
Helaba	100.0	50.0	0.16%
		<u>60.0</u>	
<b><u>LOCAL AUTHORITIES</u></b>			
LB Waltham Forest	25.0	5.0	0.33%
Stockport City Council	25.0	10.0	0.10%
		<u>15.0</u>	
<b><u>LIQUIDITY FUNDS</u></b>			
Aberdeen SLI Liquidity Fund	100.0	23.3	0.01%
CCLA - Public Sector Deposit Fund	100.0	75.4	0.02%
Deutsche Global Liquidity Fund	100.0	63.4	0.02%
Federated Prime Liquidity Fund	100.0	48.0	0.01%
Invesco Sterling Liquidity Fund	100.0	67.4	0.01%
		<u>277.5</u>	
<b><u>ULTRA SHORT DATED BOND FUNDS</u></b>			
Payden Sterling Reserve Fund	100.0	61.9	0.70%
Aberdeen SLI Short Duration Fund	100.0	50.4	0.28%
Federated Sterling Cash Plus Fund	100.0	25.4	0.08%
		<u>137.7</u>	
<b><u>SHORT DATED BOND FUNDS</u></b>			
L&G	100.0	81.2	2.33%
Royal London	100.0	81.2	2.53%
		<u>162.5</u>	

	<b>Counterparty Limit</b>	<b>Total Invested as at 31-Jul-21</b>	<b>Average Rate of Return</b>
	<b>£M</b>	<b>£M</b>	<b>%</b>
<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	0.33%
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>1,222.6</u>	