Committee: Financial Investment Board Audit and Risk Management	**Dated:** 14 September 2021 5 October 2021
Subject: Treasury Management Outturn 2020/21	**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

The Treasury Management Strategy Statement for 2020/21 was approved by the Financial Investment Board and the Finance Committee in February 2020 and by the Court of Common Council on 5 March 2020.

Under CIPFA's Code of Practice on Treasury Management, which was adopted by the Court of Common Council on 3 March 2010, there is a requirement to provide an end of year report. The main points to note are as follows:

- As at 31 March 2021, the City had treasury balances totalling some £947.1m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances decreased by £67.6m over the course of the year, which is largely due to the Corporation's capital programme.
- Short term investment returns were very low during the year following the Bank of England's decision to decrease its base rate on 11 March 2020 (from 0.75% to 0.25%) and again on 19 March 2020 (to 0.10%).
- The investment of funds during the year conformed to the approved strategy and there were no liquidity difficulties or breaches of the approved creditworthiness policy.
- The treasury management strategy remained the same throughout 2020/21.
- In November 2020, HM Treasury revised its requirements for new borrowers using the Public Works Loan Board (PWLB facility), effectively removing the ability of local authorities to borrow for commercial yield. At the same time PWLB reduced the margin added to gilt yields used to price new loans by 100 basis points.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. The City of London Corporation (the City) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by the Financial Investment Board (11 February 2020), Finance Committee (18 February 2020) and the Court of Common Council (5 March 2020). During 2020/21 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2021

3. The City's treasury position at the start and end of 2020/21 was as follows:

Table 1	**31 March 2020**			**31 March 2021**		
	Principal	Rate of Return	Average Life	Principal	Rate of Return	Average Life
	£m	%	Years	£m	%	Years
Fixed rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Variable rate funding						
- PWLB	0			0		
- Market	(250.0)			(250.0)		
	(250.0)			(250.0)		
Total debt	**(250.0)**			**(250.0)**		
Total investments	**1,014.7**	**0.63**	**0.39**	**947.1**	**1.47**	**0.38**
Net Investments	**764.7**			**697.1**		

Table 1 demonstrates that short term investments declined from £1,014.7m as at 31 March 2020 to £947.1m as at 31 March 2021, which is largely due to the capital programme. The rate of return refers to the weighted average return of the portfolio as at the balance sheet date, rather than income earned in the period (which is discussed further at paragraph 17). The overall rate of return as at 31 March 2021 was higher than a year earlier, which is predominantly due to changes in the market value of the City's short dated bond fund investments at each respective date. The weighted average duration, or average life, of the portfolio was largely unchanged from last year at 0.38 years or circa 139 days.

The Strategy for 2020/21

4. The Treasury Management Strategy for 2020/21 was approved prior to the emergence of the global pandemic. The expectation for interest rates within the treasury management strategy was that the Bank of England’s base rate (Bank Rate) would stay at 0.75% for most of the year and increase modestly to 1.00% in Q1 2021.

5. The actual path of interest rates in the reporting year took a significantly different trajectory from the path envisaged as the Bank of England loosened monetary policy in order to counter the economic effects of the coronavirus pandemic. Immediately prior to the start of the reporting year (in mid to late March 2020), the Bank of England reduced Bank Rate twice from 0.75% to 0.25% and then again to 0.10% whilst simultaneously expanding its quantitative easing programme. The effect of this action was to immediately reduce the returns available to investors in the sterling money markets. The investment outturn is discussed below at paragraphs 16 and 17.

6. The Corporation’s creditworthiness policy was designed to prioritise the security of the Corporation’s assets whilst also enabling diversification of risk amongst a range of high quality counterparties. Given the increase in economic uncertainty, the creditworthiness criteria set out in the original strategy was maintained throughout the year.

7. The Corporation maintained sufficient liquidity through the selective use of highly liquid money market funds, cash flow forecasting, and active management of the portfolio’s maturity profile.

8. The treasury management function complied with the parameters established in the Treasury Management Strategy Statement 2020/21 for the entirety of the reporting period and the City’s treasury cash continues to be invested in a diversified balanced portfolio commensurate with proper and prioritised levels of security and liquidity.

9. The 2020/21 TMSS also included a number of prudential and treasury indicators for the year which are shown in Appendix 1. The City complied with all indicators in 2020/21.

The Borrowing Requirement and Debt

10. The Corporation did not anticipate (but did not rule out) undertaking any new external borrowing during 2020/21 and instead intended to temporarily use cash balances to support capital expenditure as an interim measure. This policy of internal borrowing was prudent as investment returns were very low (and thus there was a cost of carry associated with any new external debt that was not immediately used to fund capital expenditure) and the outlook for interest rates was relatively benign, with only gradual rises in long term borrowing rates expected over the medium term.

11. UK gilt yields, which had briefly spiked during March 2020, were suppressed by central bank activity (quantitative easing) and remained very low until the vaccine roll out increased the prospects of an economic recovery. Yields continued to rise over the second half of the reporting year and finished the year close to pre-pandemic levels: At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

12. The majority of local authority borrowing is undertaken via the Public Works Loan Board (PWLB), a government agency. PWLB loans are priced on the basis of prevailing gilt yields plus a margin. As previously reported, the Government increased the margin from its long term position of 80 basis points to 180 basis points in 2019/20 and simultaneously announced a review of the future lending arrangements of the PWLB. These measures were prompted by concerns within Government over the use of PWLB loans to fund commercial investments for yield. On 25 November 2020, the Chancellor announced the conclusion to the review and reversed the earlier 100 basis point increase to the margins whilst simultaneously introducing a prohibition to deny access to borrowing from the PWLB for any local authority which planned to purchase assets for yield in its three year capital programme.

13. No external borrowing was undertaken by the City Fund during the 2020/21, and actual capital expenditure in that year (£62m) was lower than anticipated in the 2020/21 TMSS (£151m). The City Fund's capital financing requirement is expected to increase in the next few years as a result of the planned capital expenditure and it is likely that at least a portion of this borrowing need will be met through internal borrowing. This strategy remains prudent in the current interest rate environment given the City Fund's cash balances. However, the Chamberlain will continue to monitor the outlook for interest rates to ensure the borrowing strategy remains appropriate.

14. City's Cash did not issue any new debt during the year having obtained market debt of £450m in the previous year (£200m of which was deferred for receipt in 2021/22).

15. Bridge Houses Estates did not enter into any borrowing during the year.

Investment Outturn for 2020/21

16. **Investment Policy** – the City's investment policy is governed by MHCLG guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the annual investment strategy approved by the Court of Common Council on 5 March 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

17. The income yield on short term investments was 0.75% in 2020/21, which compares to 1.03% in 2019/20 and a budgeted assumption of 0.75%. Interest income proved to be relatively resilient during the year relative to the sharp decline

in money market returns, generally. The portfolio continued to hold relatively high yielding fixed rate instruments arranged in the previous financial year for a significant portion of the reporting period. These investments supported the overall rate of return during the first half of the year, although as they expired, the reinvested proceeds necessarily earned a lower return in lower yielding investments.

18. Aside from interest earned on deposits, the portfolio is also exposed to gains and losses on the market value of the Corporation's short dated and ultra-short dated bond funds, which are held at fair value. Each of these investments, and in particular the short dated bond funds which have the highest interest rate sensitivity, appreciated in value over the course of the year (bond prices have an inverse relationship with interest rates) although it should be noted that this followed a decline in value at the end of the previous financial year.

19. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

Conclusion

20. Treasury management activities over the past financial year were carried out in accordance with the 2020/21 TMSS, which remained unchanged over the course of the year.

21. Money market investment returns, which are heavily determined by central bank activity, were reduced to very low levels following the Bank of England's moves to support the economy by loosening monetary policy.

Appendices
Appendix 1 – Treasury Indicators

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Appendix 1

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2019/20	2020/21	2020/21
	Actual	Estimate	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
Borrowing	£0	£0	£0
other long term liabilities	£13,770	£13,653	£13,653
TOTAL	£13,770	£13,653	£13,653
Operational Boundary for external debt -			
Borrowing	£0	£0	£0
other long term liabilities	£13,770	£13,653	£13,653
TOTAL	£13,770	£13,653	£13,653
Actual external debt	£0	£0	£0
Upper limit for total principal sums invested for over 364 days	£0m	£500m	£0m
(per maturity date)			

TABLE 2: Maturity structure of fixed rate borrowing during 2019/20	upper limit	lower limit
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%