

<b>Committee:</b> Financial Investment Board Audit and Risk Management	<b>Dated:</b> 21 October 2022 22 November 2022
<b>Subject:</b> Treasury Management Outturn 2021/22	<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 Discussion/ Information</b>
<b>Report author:</b> Kate Limna – Chamberlain's Department	

### Summary

The Treasury Management Strategy Statement for 2021/22 was approved by the Financial Investment Board and the Finance Committee in February 2021 and by the Court of Common Council on 4 March 2021.

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 2022, the City had treasury balances totalling some £1,226.0m. The majority of these balances are held for payment to third parties or are restricted reserves.
- Cash balances increased by £278.9m over the course of the year, which is largely due to the second tranche of the private placement debt being received, pending capital spend.
- City's Cash received the second tranche of £200m of its private placement debt in July 2021.
- Short term investment returns were very low for most of the year although between December and March, the Bank of England increased the base rate in successive move to 0.75%.
- 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 20221/22.
- 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 2021/22. 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 2021/22 was approved by the Financial Investment Board (9 February 2021), Finance Committee (16 February 2021) and the Court of Common Council (4 March 2021). During 2021/22 the Financial Investment Board received investment analysis reports at each Board meeting.

### Overall Treasury Position as at 31 March 2022

3. The City's treasury position at the start and end of 2021/22 was as follows:

Table 1	31 March 2021			31 March 2022		
	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)			(450.0)		
	(250.0)			(450.0)		
<b>Total debt</b>	<b>(250.0)</b>			<b>(450.0)</b>		
<b>Total investments</b>	<b>947.1</b>	<b>1.47</b>	<b>0.38</b>	<b>1,226.0</b>	<b>0.08 *</b>	<b>0.39</b>
<b>Net Investments</b>	<b>697.1</b>			<b>776.0</b>		

\* This rate of return includes the short dated bond funds. The rate of return excluding the short dated bond funds was 0.5%. This was reported to Members at the May Board meeting.

Table 1 demonstrates that short term investments increased from £947.1m as at 31 March 2021 to £1,226.0m as at 31 March 2022, which is largely due to second tranche of the private placement borrowing being received in July 2021. 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 16). The overall rate of return as at 31 March 2022 was lower 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 0.39 years or circa 142days.

## **The Strategy for 2021/22**

4. Investment returns remained low for most of the year. The expectation for interest rates within the treasury management strategy was that the Bank of England's base rate (Bank Rate) would stay at 0.1% throughout 2022 and 2023. In the event whilst the base rate remained unchanged for the first 9 months of the year and then increase to 0.25 in December 2021, 0.50% in February 2022 and 0.75% in March 2022.
5. The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the Monetary Policy Committee (MPC) can focus on tackling the second - round effects of inflation, now that the CPI measure has already risen to 10.1% in the 12 months to July 2022 (its highest level since 1982) with some commentators expecting it to rise to 18% before year end. A major component in the data is the surging prices in food and drink; it takes 6 months for supply prices in food stuffs to filter through to the high street, which suggest households will be paying higher prices in the shops for a while to come.
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 2021/22 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 2021/22 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 2021/22.

## **The Borrowing Requirement and Debt**

10. The Corporation did not anticipate (but did not rule out) undertaking any new external borrowing during 2021/22 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. 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.
12. No external borrowing was undertaken by the City Fund during the 2021/22, and actual capital expenditure in that year (£130m) was lower than anticipated in the 2021/22 TMSS (£245m). 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.
13. City's Cash did not issue any new debt during the year having obtained market debt of £450m in 2019/20. The second and final tranche of that debt of £200m was received in July 2021.
14. Bridge Houses Estates did not enter into any borrowing during the year.

### **Investment Outturn for 2021/22**

15. **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 4 March 2021. 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.)
16. The income yield on short term investments was 0.5% which compares to 0.75% in 2020/21, and a budgeted assumption of 0.5%. The reduction in income reflects lower returns available from the money markets in 2021/22, largely as a result of ultra -loose monetary policy in place for much of the reporting period.. As yields have risen, the capital value of the portfolio's short dated bond fund investments declined resulting in a negative return of 0.71% for the year (2020/21: +0.67%) As in 2020/21. These movements are debited as an unrealised loss (previously a gain) on investments. Although capital movements are volatile in the short term, the allocation to short dated bond funds is expected to deliver superior returns over the medium term when compared to traditional deposits.

17. 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, depreciated in value over the course of the year (bond prices have an inverse relationship with interest rates).
18. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.

## **Conclusion**

19. Treasury management activities over the past financial year were carried out in accordance with the 2021/22 TMSS, which remained unchanged over the course of the year.
20. Money market investment returns, which are heavily determined by central bank activity, have increased as the base rate has increased. There has also been an increase in the dates for fixed term deposits and this is expected to continue as the base rate is expected to rise over the next few months to circa 2.25% by March 2023.

## **Appendices**

Appendix 1 – Treasury Indicators

### **Kate Limna**

Corporate Treasurer

T: 020 7332 3952

E: [kate.limna@cityoflondon.gov.uk](mailto:kate.limna@cityoflondon.gov.uk)

## Appendix 1

### Treasury Indicators

<b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2021/22</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>
<b>Authorised Limit for external debt (City Fund)-</b>			
Borrowing	£0	£0	£0
other long term liabilities	£13.7	£13.5	£13.5
TOTAL	£13.7	£13.5	£13.5
<b>Operational Boundary for external debt (City Fund) -</b>			
Borrowing	£0	£0	£0
other long term liabilities	£13.7	£13.5	£13.5
TOTAL	£13.7	£13.5	£13.5
<b>Actual external debt</b>	£0	£0	£0
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	£0m	£500m	£0m

<b>TABLE 2: Maturity structure of fixed rate borrowing during 2019/20</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%