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| <b>Committee:</b>  | <b>Date:</b>   |
| Financial Investment Board<br>Finance Committee *<br>Bridge House Estates Board                  | 17 February 2023<br>21 February 2023<br>22 February 2023 |
| <b>Subject:</b><br>Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 | <b>Public</b>  |
| <b>Report of:</b><br>The Chamberlain   | <b>For Decision</b>                                      |
| <b>Report author:</b><br>Kate Limna – Chamberlain’s Department                                   |  |

\* *This report is for information for the Finance Committee. The Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 is included as an appendix to the City Fund 2023/24 Budget report, which will be for approval.*

### **Summary**

The attached document sets out the City Corporation’s Treasury Management Strategy Statement and Annual Investment Strategy (TMSS) for 2023/24. The Treasury Management Strategy and Annual Investment Statement for 2023/24 has been updated taking account of the latest information concerning the organisation’s capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation’s capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City’s Cash and Bridge House Estates. As City’s Cash borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City’s Cash Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled “City Fund 2023/24 Budget” being considered by the Finance Committee on 21 February 2023 and by the Court of Common Council on 9 March 2023.

Responsibility for approving the Corporation’s borrowing plans remains with the Court of Common Council, not the Financial Investment Board.

The Bridge House Estates Board is responsible for approving the TMSS on behalf of the Bridge House Estates. The Charity does not currently have borrowing powers and thus the most relevant section for the BHE Board is section 5, of the Annual Investment Strategy, which sets out how surplus cash balances will be managed in the forthcoming year (it does not apply to the Charity’s longer term investments which are subject to the BHE Investment Strategy Statement). By adopting in the Corporation’s treasury management policies, the BHE Board can ensure that treasury risks associated with the Charity’s surplus cash balances are managed efficiently and effectively.

The key areas to highlight are:

### **Changes to the Treasury Management and Prudential Codes**

CIPFA published revised versions of the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20th December 2021.

The revised Codes make several changes as detailed at sections 1.4 and 9 of the TMS, including:-

- i) an explicit ban on borrowing to invest primarily for financial return;
- ii) the adoption of a new liability benchmark treasury indicator; as well as
- iii) other revisions to key definitions and reporting requirements, including the requirement of the Chief Finance Officer to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly as part of the authority's integrated revenue, capital and balance sheet monitoring; and
- iv) to maintain a formal and comprehensive knowledge and skills or training policy for those responsible for the scrutiny of treasury management.

### **Capital financing and borrowing**

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Cash. City's Cash has partially addressed this borrowing requirement through the issuance of £450m market debt in recent years.
- The City Fund borrowing requirement is expected to increase to £276.2m and £299.8m by 2024/25 and 2025/26 respectively. For the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can continue to temporarily use its own cash balances (internal borrowing) for the foreseeable future. Any new external borrowing would serve to increase cash balances and create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2023/24.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. Interest rates are expected to reach a peak of 4.5% by June 2023, and incrementally reduce to 2.5% by September 2025 as inflationary pressures subside. However, there is uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, reduced too soon and inflationary pressures may well build up further, but reduced too late and any downturn or recession may be prolonged. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 2 of the TMSS) have been revised to enable the Corporation to secure external debt to meet some or all of the borrowing requirement.

- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2023/24 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

## **Investments**

- As at 31 December 2022, the Corporation has “cash” balances totalling £1,252.5m the majority invested in money market funds and fixed income instruments. Cash is expected to decrease in 2023/24 as the Corporation progresses spending on the major projects programme. Most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund’s balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.
- The Corporation currently manages significant short term investment balances. Although these balances are expected to decline in the next few years as the capital programme progresses, a significant level of core cash will persist for the next ten years based on current financial plans. One of the most acute challenges within the treasury management strategy is preventing the gradual erosion of the real value of these long-term cash balances from the effects of inflation. This is particularly important in the current external environment which is characterised by relatively high inflation and low investment returns (by historical standards).
- It is proposed that the City continues to be prepared to lend monies for up to three years’ duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. No changes to the Corporation’s creditworthiness policy (as set out in section 5 of the TMSS) are proposed. Officers judge that the current criteria allow the Corporation to achieve adequate diversification amongst a range of high-quality counterparties.

The main changes to the document from last year’s version are highlighted in yellow and underlined.

## **Recommendations**

It is recommended that the **Financial Investment Board** reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2023/24, and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2023/24 Budget Report for formal adoption.

It is recommended that the **Bridge House Estates Board** reviews and approves the Treasury Management Strategy Statement and Annual Investment Strategy for 2023/24 on behalf of Bridge House Estates.

**Appendix** (for Finance Committee this appendix is within the City Fund 2023/24 Budget report).

- Treasury Management Strategy Statement and Annual Investment Strategy 2023/24

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