

Committee:	Date:
Investment Committee Finance Committee* Investment Committee of the City Bridge Foundation Board Audit & Risk Management (For Information)	12 February 2024 20 February 2024 Delegated 26 February 2024
Subject: Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2024/25	Public
Report of: The Chamberlain	For Decision
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** This report is for information for the Finance Committee. The Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 is included as an appendix to the City Fund 2024/25 Budget report, which will be for approval.*

Summary

The attached document sets out the Corporation’s Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) (TMSS) for 2024/25. The Treasury Management Strategy and Annual Investment Statement (relating to Treasury Management) for 2024/25 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 Estate (previously City’s Cash) and City Bridge Foundation (previously Bridge House Estates). As City’s Estate 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 Estate 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 2024/25 Budget” being considered by the Finance Committee on 20 February 2024 and by the Court of Common Council on 7 March 2024.

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

The Investment Committee of the City Bridge Foundation Board is responsible for approving the TMSS on behalf of City Bridge Foundation. A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted. These included the power to borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. However, there are no current plans for borrowing to take

place in the short to medium term, and thus the most relevant section for the City Bridge Foundation Board is section 5, of the Annual Investment Strategy (for Treasury Management), 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 City Bridge Foundation's Investment Strategy Statement). By adopting in the Corporation's treasury management policies, the City Bridge Foundation 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:

Capital financing and borrowing

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Estate. City's Estate has partially addressed this borrowing requirement through the issuance of £450m market debt in recent years. In addition, Stanhope Capital LLP has been appointed to provide a strategic investment advisory function working alongside the City's in-house Corporate Treasury and Investment Property teams, to provide expert advice on the investment strategy/allocation advice between property and financial investments; and advice on how to secure the best rates of return for the differing requirements for City Fund and City's Estate: this work is currently on-going.
- The City Fund borrowing requirement is expected to increase to £345.5m and £359.0m by 2025/26 and 2026/27 respectively, falling to £227.2m in 2027/28. 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 2024/25.
- 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 now assumed to have peaked at 5.25%, and LINK, the City's treasury investment consultants, are currently forecasting no further changes in the rate until a decrease in the third quarter of 2024, reaching 4.25% by December 2024, and 3.0% by September 2025, where it is assumed to plateau, as inflationary pressures subside. However, there remains uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, if reduced too soon and inflationary pressures may well build up further, but reduced too late and any downturn or potential 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 2024/25 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2023, the Corporation has “cash” balances totalling £1,005.1m the majority of which is invested in money market funds and fixed income instruments. Cash is expected to decrease in 2024/25 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 cash balances. Although these balances are expected to decline in the next few years as the capital programme progresses, a 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.

Training

- In November 2023, two Treasury Management training sessions were held for Members of the Investment Committee and Finance Committee.

Recommendations

It is recommended that the **Investment Committee** reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2024/25 Budget Report for formal adoption.

Under the delegated authority agreed at the **Investment Committee of the City Bridge Foundation Board** on 6 December 2023, the Town Clerk in consultation with the Chairman and Deputy Chairman of this Committee, is recommended to review and approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 on behalf of **City Bridge Foundation**.

Appendix - Treasury Management Strategy Statement and Annual Investment Strategy (relating Treasury Management) 2024/25 (*for Finance Committee this appendix is within the City Fund 2024/25 Budget report*).

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