

City of London Corporation Committee Report

Committee(s): Investment Committee of the City Bridge Foundation Board (For Decision) Investment Committee (For Decision) Finance Committee* (For Information) Audit & Risk Management (For Information)	Dated: 13 February 2025 17 February 2025 18 February 2025 12 May 2025
Subject: Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2025/26	Public report: For Decision/Information
This proposal: <ul style="list-style-type: none"> • delivers Corporate Plan 2024-29 outcomes • provides statutory duties • provides business enabling functions 	Diverse Engaged Communities; Dynamic Economic Growth; Leading Sustainable Environment; Vibrant Thriving Destination; Providing Excellent Services; and Flourishing Public Spaces
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
Report author:	Kate Limna

* This report is for information for the Finance Committee. The Treasury Management Strategy Statement and Annual Investment Strategy 2025/26 is included as an appendix to the City Fund 2025/26 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 2025/26. The Treasury Management Strategy and Annual Investment Statement (relating to Treasury Management) for 2025/26 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 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 2025/26 Budget*' being considered by the Finance Committee on 18 February 2025 and by the Court of Common Council on 6 March 2025.

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:

Updates to Accounting Requirements impacting the 2025/26 Treasury Management Strategy

- ***International Financial Reporting Standard (IFRS) 9: Financial Instruments - Local Authority Statutory Override (see Appendix pages 23-24)***

Since 2018/19, a statutory accounting override ("the override") has been in place that allows councils to disapply part of International Financial Reporting Standard 9 (IFRS 9), which would otherwise require councils to make provision in their budgets for changes in value (gains or losses) of certain types of financial investments (pooled investment funds).

Due to the current IFRS 9 statutory override, only the income portion of the total return on pooled investment funds (i.e. Bond Funds for the City of London Corporation) impacts the City Fund (i.e. General Fund) revenue outturn, whilst the more volatile capital component (i.e. Fair Value (FV) movement) is absorbed by an unusable reserve. As at 31 December 2024 the City had £313.6M invested in external funds (excluding MMF's), through its allocation to ultra-short dated and short-dated bond funds representing 28% of the portfolio. Whilst market volatility has seen the capital value (FV) fluctuate, they provide an income return and are held with a long term view.

The IFRS 9 Statutory Override, which mandates that fluctuations in the fair value of pooled fund investments are taken to an unusable reserve on balance sheet may cease on 31 March 2025 pending response to the current '*Local Government Finance Settlement*' consultation. From 1 April 2025, if the statutory override ceases, fluctuations in the fair value will therefore be reflected in the revenue account as at 31 March 2026. To mitigate against any reduction in value, a ringfenced IFRS9 reserve will be created in 2024/25 with funding from the overachievement of investment income - the initial transfer to this reserve will be determined based on the outcome of the consultation and the 2024/25 outturn position in consultation with the Chamberlain.

- ***International Financial Reporting Standard (IFRS) 16: Leases (see Appendix page 13 & Appendix 2 on page 28)***

IFRS16 became effective 1 April 2024 and requires that leases previously expensed through expenditure are now recognised as a right of use asset with an equal value liability, where the lease is longer than 12 months and not insignificant. The estimated balance as at 31 March 2025 includes £11.6 million of leases included as a result of the impact of IFRS16 which has been incorporated into the capital forecasts, with the *operational boundary* and *authorised limit* debt ceilings set at a level to accommodate these.

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 partially addressed this borrowing requirement through the issuance of £450m market debt in recent years. In addition, Investment Committee have approved investment strategies for both City Fund and City's Estate, including risk and return measures to secure the differing rates of return required for each fund. For City's Estate asset allocation target ranges have been set for the allocation between property and financial investments. Both the City Fund and City's Estate capital programme over the next few years to 2028/29 will be supported by Investment Property disposals (as recommended on a separate report on today's agenda), whilst City's Estate will also be supported by Financial Investment liquidations (n.b. these are not held in Treasury Management portfolio) in the short term, pending a disposal programme over the 3-5 year horizon.
- The City Fund borrowing requirement is expected to increase to £226.8m during 2024/25 where it will remain until 2028/29 predicated by proposed Investment Property disposals. Therefore, for the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can also 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 currently 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 2025/26, as supported by the proposed Investment property disposals.
- 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 peaked at 5.25% in August 2023 where they remained until 1 August 2024 with a reduction to 5.00%, and a further reduction to 4.75% in November 2024. MUFG Corporate Markets (previously known as LINK), the City's treasury investment consultants, are currently forecasting a 25bps reduction to 4.50% in Q1 of 2025, with further quarterly reductions of 25bps reaching 3.75% by March 2026, with no further changes until December 2026 where it assumed to reach 3.50% and plateau. However, there remains uncertainty surrounding the forecast, particularly following the impact on the UK from the Government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact of Donald Trump's US Presidential Election victory and uncertainties around US domestic and foreign policy, and the ongoing geo-political risks in Europe, the Middle East and Asia.
- 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 2025/26 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2024, the Corporation has “cash” balances totalling £1,121.3m the majority of which is invested in money market funds and fixed income instruments. Cash is expected to decrease in 2025/26 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, the programme across City’s Estate will be supported by Financial Investment liquidations (those not held in Treasury) and Investment property disposals, with the City Fund programme only having available the support of property disposals and lease premiums. Under these circumstances, 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.
- 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 **Investment Committee** reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26 and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2025/26 Budget Report for formal adoption.

It is recommended that the **Investment Committee of the City Bridge Foundation Board** reviews and approves the Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26 on behalf of **City Bridge Foundation**.

Appendix - Treasury Management Strategy Statement and Annual Investment Strategy (relating Treasury Management) 2025/26 (*for Finance Committee this appendix is within the City Fund 2025/26 Budget report*).

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