City of London Corporation Committee Report

Committee(s): Investment Committee – For Information	**Dated:** 27 May 2025
Subject: Treasury Management Update as at 31 March 2025	**Public report:** For Discussion
This proposal: • **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:	Adam Buckley, Senior Accountant - Treasury

Summary

This report provides a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 March 2025. The report includes an update on the current asset allocation of the short-term investment portfolio and its performance. A monthly investment review report produced by the Corporation's treasury management consultants, MUFG Corporate Markets (previously called Link Treasury Services), is included at Appendix 2.

The treasury position was last reviewed by the Investment Committee at the meeting on 17 February 2025, when they received a report outlining the treasury position as at 31 December 2024.

The treasury management investment portfolio had a market value of £956.6m as at 31 March 2025, which is a decrease of £164.7m from the balance previously reported as at 31 December 2024 (£1,121.3m).

The Consumer Prices Index (CPI) rose by 2.6% in the 12 months to March 2025, down from 2.8% in the 12 months to February. The Bank of England's Monetary Policy Committee (MPC) voted to reduce interest rates by 25bps to 4.25% at its meeting in May 2025, after previously voting to maintain interest rates at the March MPC. The market expectation is for two further rate cuts in 2025, with no further cuts expected in the first three meetings out to April 2026, reaching a low of 3.5% during 2026. However, this sentiment remains volatile and may change in the near-term on

the back of fresh central bank events, as well as both domestic and international data releases.

The increase in rates throughout 2023/24 were maintained at the start of 2024/25, allowing the Corporation to obtain higher yields across its asset allocations, however interest income began to decrease in the second half of 2024/25 and officers expect this to continue over 2025/26 if the MPC's restrictive policy stance continues to loosen.

Recommendation(s)

Members are asked to note the report.

Main Report

Background

1. The Investment Committee will receive an update on the treasury management portfolio at each meeting. Officers have compiled this report to provide additional context to the short-term investment portfolio as at 31 March 2025.

Current Position

2. The treasury management investment portfolio had a market value of £956.6m as at 31 March 2025, which is a decrease of £164.7m from the balance previously reported as at as at 31 December 2024 (£1,121.3m). This decrease is principally due to:-
    - business rates payments to central government of £316.5m;
    - expenditure on Major Projects of £84.0m
    - the transfer of financial investment drawdowns to the *BlackRock ICS Sterling Liquidity Fund* ("liquidity reserve") totalling £59.0m;
    - Museum of London drawdown payments totalling £45.0m;
    - property insurance premium payment of £18.2m; and
    - the Mayoral Community Infrastructure Levy (CIL) Q3 payment to Transport for London (TfL) totalling £8.7m; partly offset by
    - business rates income of £234.0m;
    - financial investment drawdowns of £90.0m;
    - drawdown from the *BlackRock ICS Sterling Liquidity Fund* of £53.0m
    - additional Home Office income for the National Lead Force grant of £37.8m; and
    - the settlement from the Department for Education (DfE) of £18.6m in relation to funding for the City Of London Primary Academy Islington (COLPAI) project.

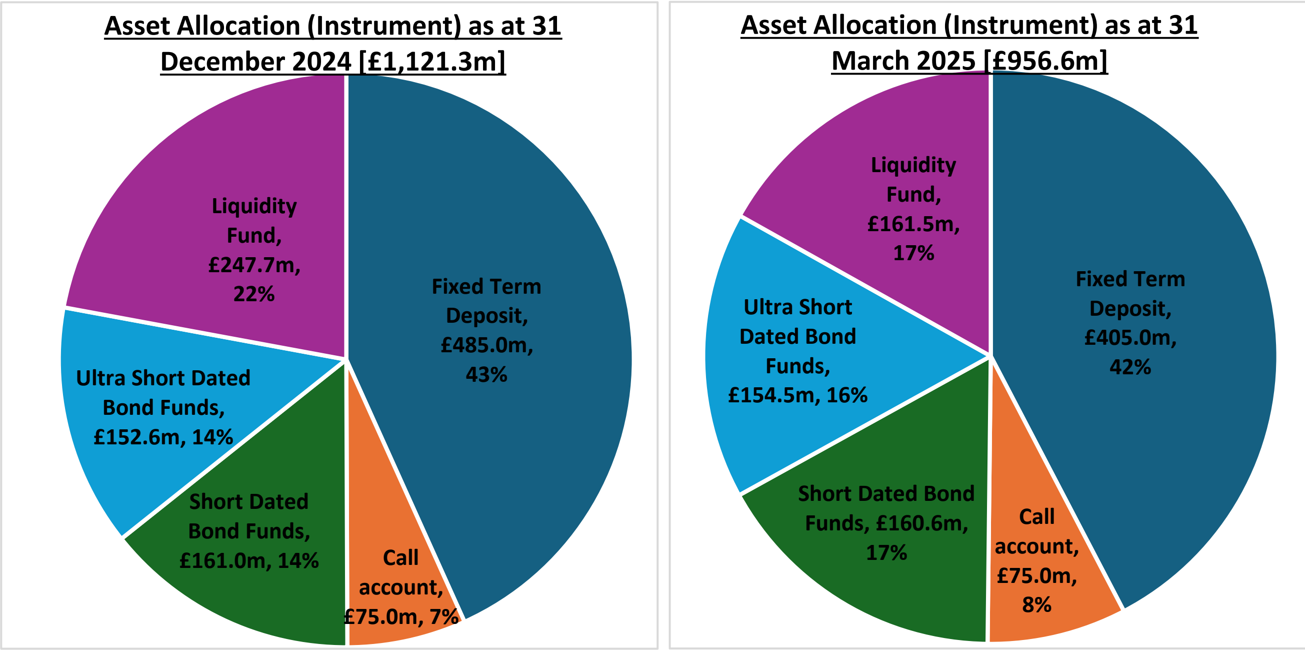
3. Members should note that during the period £90M was divested from City's Estate Financial Investment portfolio (£59M in January and £31M in February), with £59M initially invested in the **BlackRock ICS Sterling Liquidity Fund** (a money market fund MMF) in January to be drawn down as required to support the City's Major Projects programme. During February, £53M was subsequently drawn down from the BlackRock MMF to support this expenditure. This MMF sits outside of the remit of Treasury, and is held as part of City's Estate Financial Investment Portfolio.

Asset Allocation

4. In accordance with the current Treasury Management Strategy Statement 2025/26, surplus cash is invested first and foremost with the aim of securing the Corporation's financial assets and secondly in line with the organisation's liquidity requirements (i.e. ensuring the cash is available when needed to meet the Corporation's spending obligations). Once these two objectives have been satisfied, the Corporation targets the best returns available in the sterling money markets.

5. A summary of the asset allocation by instrument type as at 31 December 2024 and 31 March 2025 is set out in Figure 1 below.

Figure 1: Asset allocation as at 31 December 2024 and 31 March 2025.



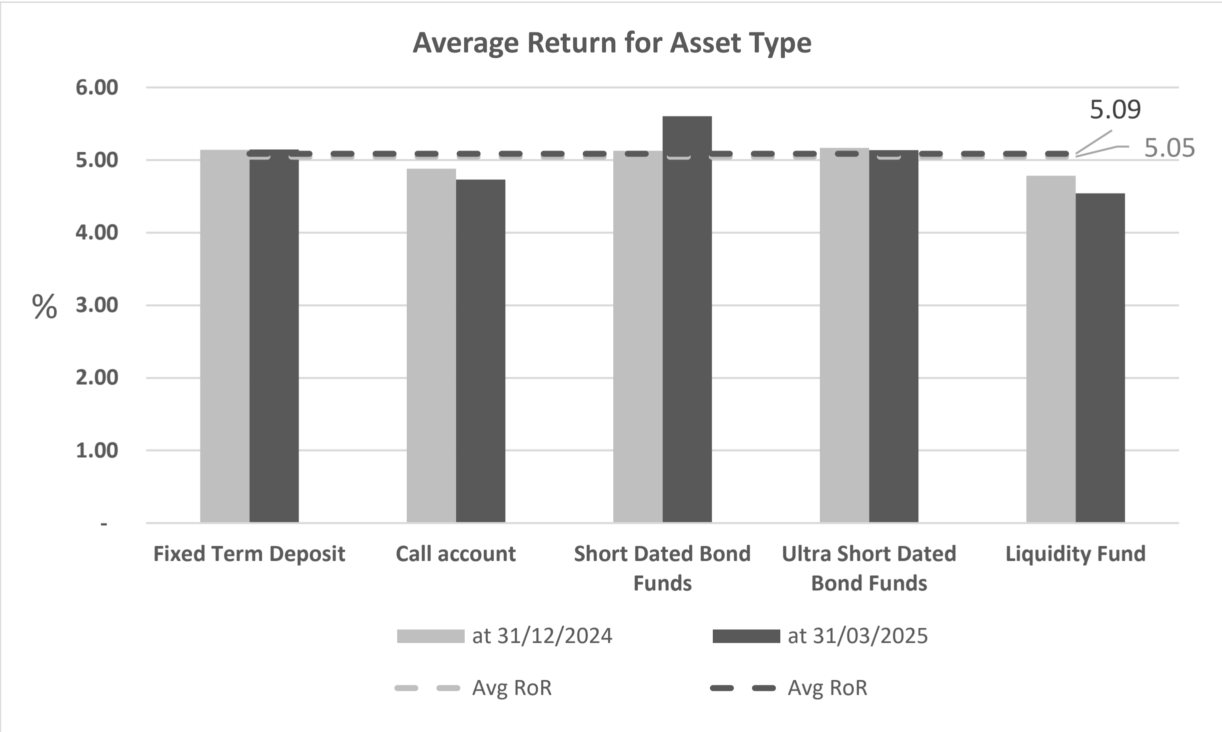
6. As at 31 March 2025, most of the Corporation's cash balances are invested on a short term (under one year) basis with eligible banks, with the highest allocation via fixed term deposits (42%); a decrease of £80m from the previous reporting date, due to the decrease in the portfolio total as detailed at paragraph 2. Liquidity funds now make up around 17% of the portfolio; these balances are very liquid and can be accessed on the day. There have been no changes in the amount of funds that are invested in notice accounts, which make up 8% of the portfolio.

7. The ultra-short dated bond funds account for 16% of the treasury portfolio. These instruments are also very liquid (funds can be redeemed with two to three days' notice) but their market value is more volatile than liquidity funds. Ultra-short dated bond funds are suitable for surplus cash balances with an investment horizon of six months or more. The remaining portion of the portfolio (17%) continues to be invested in short dated bond funds. These funds are invested in investment grade credit instruments and currently have a duration (weighted average time to maturity) of around 3 years. The value of the short dated bond funds can be volatile in the short term and should only be used for surplus cash balances with an investment horizon of at least three years (In light of this volatility, the Treasury Management Strategy Statement (TMSS) was amended with effect from 1 April

2022, so that only City Fund would maintain exposure to the short dated bond funds).

8. A summary of the average return by asset type, as well as the overall average rate of return (RoR), as at 31 December 2024 and 31 March 2025 is shown in Figure 2. Further analysis on the composition of the portfolio as at 31 March 2025 is provided in the Monthly Investment Report at Appendix 2, which demonstrates the average rate of return for the portfolio as at 31 March 2025 is 5.09 % (31 December 2024: 5.05%). A summary of counterparty exposure is also included at Appendix 1, as well as an *Economic, Social, & Governance (ESG)* checklist of Treasury Management Counterparties (excluding local authorities) at Appendix 3.

Figure 2: Average Return for Asset Type as at 31 December 2024 and 31 March 2025



Performance

9. The Consumer Prices Index (CPI) rose by 2.6% in the 12 months to March 2025, down from 2.8% in the 12 months to February, and well below its peak of 11.1% in October 2022.

10. The Bank of England's (BoE) Monetary Policy Committee (MPC) maintained interest rates at 4.50% at its March meeting, with just one member voting for a 25bps cut. More recently, the MPC voted by a majority of 5-4 to cut Bank Rate to 4.25% at its May meeting, though two members voted for a more aggressive cut of 50bps to 4.00%, whilst the remaining two members preferred to maintain Bank Rate at 4.50%. The more aggressive voters commented that *"…global developments in energy and trade policy pointed to potential downward risks to global growth and to world export prices"*, whilst those opting for no change cited concerns over inflationary persistence caused by structural supply side conditions in the UK. However, the two dissenters appear to have lowered expectations of successive base rate cuts, particularly after Governor Andrew Bailey said in a statement accompanying the decision that, *"The past few weeks have shown how unpredictable the global economy can be. That's why we need to stick to a gradual and careful approach."*

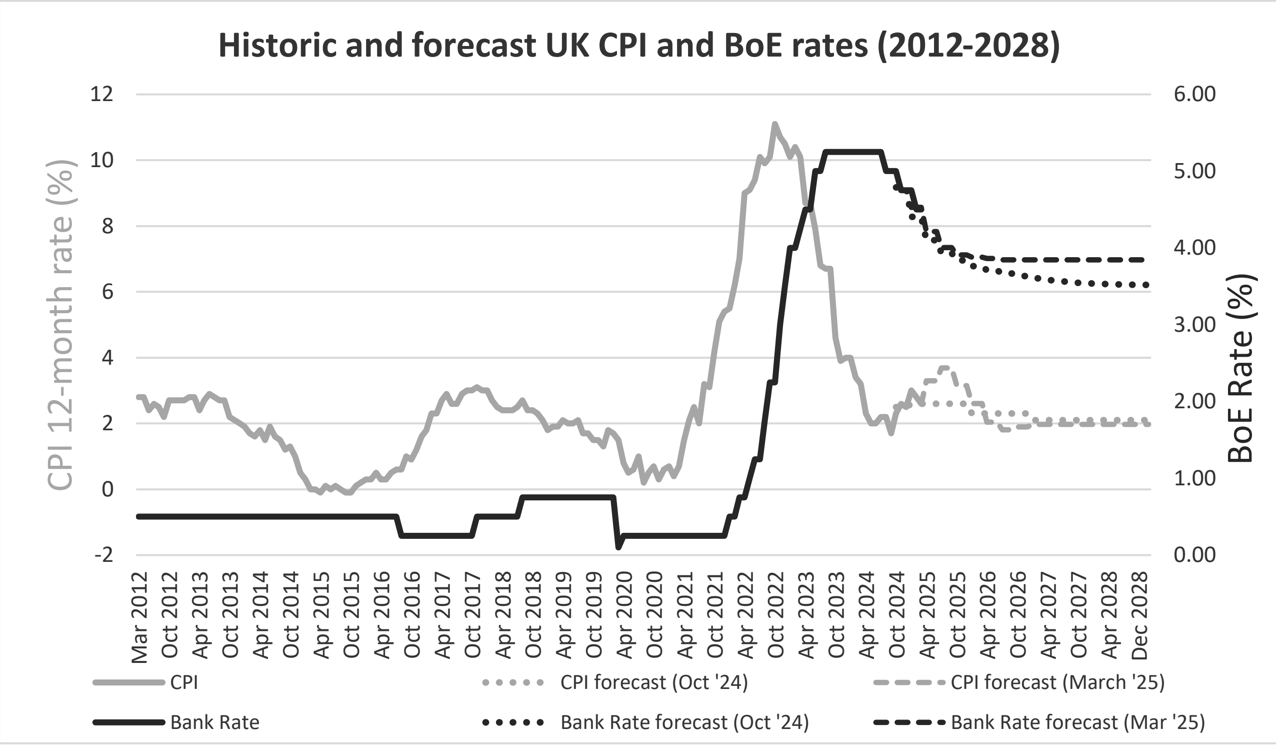
11. Whilst the BoE's decision to cut the rate cited the need to prepare for the impact of US trade policies, despite the subsequent UK-US trade deal, the BoE made clear that the main threat to the UK is from the global impact of US tariffs on Britain's open economy, saying there will be a hit to activity due to higher costs and greater global uncertainty, and therefore maintained the position that *"Monetary Policy will need to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further".*

12. Looking ahead, markets are wavering between August or September 2025 for the next cut, with a second cut easing out to the final meeting of the year in December, and no further cuts expected in the first three meetings out to April 2026 reaching a low of 3.5% during 2026.

13. MUFG Corporate Markets (previously called Link), our treasury management consultants, prior to the May 2025 MPC decision, were forecasting bank rate to decline to 4.25% by June 2025, 4.00% by December 2025, and 3.75% by March 2026, where it is forecast to remain until a further cut to 3.50% at the end of 2026 where it will plateau. However, this sentiment remains volatile and may change in the near-term on the back of fresh central bank events, as well as both domestic and international data release.

14. A graph showing the historic and forecast UK CPI 12-month rate and Bank of England base rate (forecast based on the Office for Budget Responsibility (OBR) 'Economic and fiscal outlook' October 2024 and March 2025,) from 2018 to 2028 is shown below in Figure 3.

Figure 3: UK CPI 12-month rate / Bank of England base rate



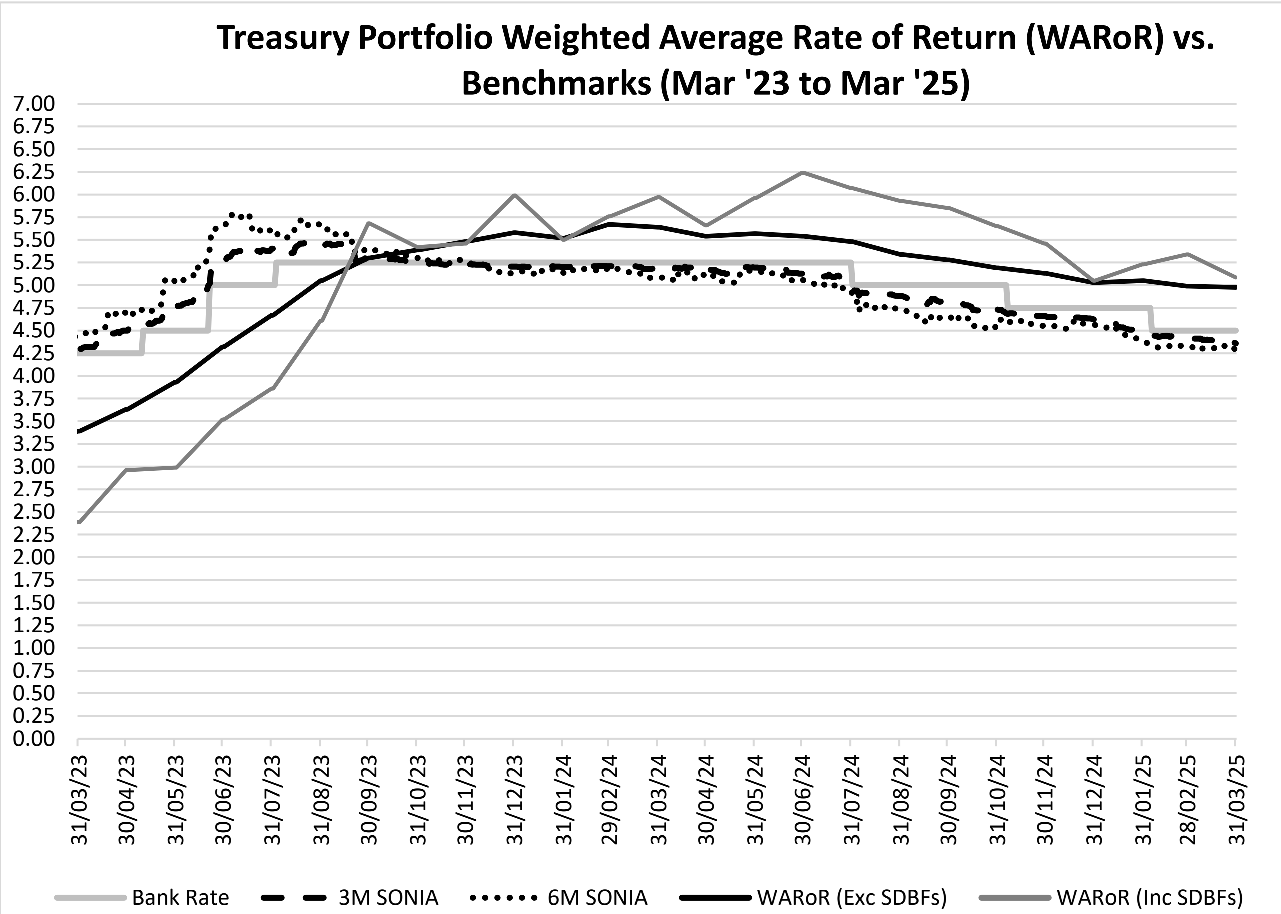
15. As the Bank Rate is the primary determinant of short-term interest rates in the UK, these changes impact the treasury investment portfolio, broadly in two ways:

   a. As yields decrease, the capital value of the Corporation's bond fund investments will usually increase (i.e. when interest rates increase, bond prices increase and vice versa). These investments are exposed to interest rate risk which the Corporation manages by ensuring the allocations are consistent with a longer-term investment horizon for this minority portion of the portfolio.

b. For the majority of the portfolio – which is invested in short term money market instruments – an increase in interest rates would result in enhanced returns on new deposits and shorter term liquidity funds. However, the recent and forecast decrease in interest rates will result in reduced future returns from short term money market instruments.

16. These effects can be seen in the weighted average rate of return (WARoR) for the portfolio over the past 2 years and is shown in figure 4 below. In this chart, the two WARoR lines represent the level of returns achieved by the Corporation while the “dashed”, and solid Bank Rate, lines represent suitable performance comparators.

Figure 4: Treasury Portfolio Weighted Average Rate of Return vs. Benchmarks



17. Post the exit of the then Prime Minister (Liz Truss) in October 2022, Sterling money market rates continued to trend upwards in line with expected Bank Rate increases as the MPC moved to try and ease inflation as shown in Figure 4 for 3-month and 6-month Sterling Overnight Index Average Rate (SONIA). The Bank Rate reached a peak of 5.25% at the start of August 2023, and sterling money market rates began to decrease in the second half of 2023 as the market priced in a number of Bank Rate cuts over the next 12 months.

18. Money market rates steadied in the first half of 2024 as expectations on future price cuts were pushed back further, though decreased in the second half of 2024 and into 2025 as the Bank of England initiated the loosening cycle, with the MPC’s

decision to cut interest rates for the first time since March 2020 in August 2024 by 0.25% to 5.00% in November 2024 to 4.75% following the Autumn Statement and US Presidential Election, a third cut in the cycle to 4.50% in February 2025, and a fourth cut to 4.25% in May 2025 continuing to gradually remove policy restriction.

19. Returns on the Corporation's short term investment portfolio excluding short dated funds are now trending downwards as the restrictive monetary policy is eased, as higher yielding deposits mature and are replaced with new investments. This is visible in the weighted average return excluding short dated bond funds above (which omits the two longer-term short dated bond fund investments in the portfolio). Officers expect this trend to continue into 2025/26, as maturing deposits are likely to be reinvested at rates below those achieved in 2024/25, reflecting the current market expectation that the MPC will look to continue bank rate cuts in 2025/26.

20. As month-to-month returns from the ultra-short and short dated bond fund investments can be volatile, for these instruments, officers have used the trailing 12-month total return to 31 March 2025 in calculating the portfolio returns displayed in figure 4 (i.e. the WARoR (Weighted Average Rate of Return)). Returns on these investments faced periods of volatility throughout 2024 primarily driven by geopolitical tensions, central bank decisions, and fluctuating interest rate expectations in the face of inflationary pressures. Following a tough end to 2024, with notable sell-offs in major government bond markets with various factors influencing investor sentiment across the globe, the first quarter of 2025 started off strongly as bond yields fell (meaning prices rose) reflecting lower interest rate expectations. However, this momentum was derailed by the announcement of tariffs, and credit spreads widened, reflecting increased risk aversion among investors, yet despite this, overall bonds were broadly positive in the first quarter as investors sought a 'flight to safety' as they navigated economic and policy uncertainties.

21. To aid an effective assessment of performance, table 1 shows the historical return of the ultra-short and short dated bond fund investments on a total return basis over various time horizons under one year.

Table 1: Bond Fund Total Returns as at 31 March 2025

Fund	1 Month Return (28/02/2025 to 31/03/2025)	3 Month Return (31/12/2024 to 31/03/2025)	12 Month Return (31/03/2024 to 31/03/2025)
Federated Hermes Sterling Cash Plus Fund	0.37%	1.18%	5.07%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.35%	1.19%	5.23%
Payden Sterling Reserve Fund	0.25%	1.26%	5.08%
L&G Short Dated Sterling Corporate Bond Index Fund	0.00%	1.32%	5.38%
Royal London Investment Grade Short Dated Credit Fund	0.15%	1.64%	5.83%

22. The most conservative fund (Federated) is listed first in table 1 and the longer-term investments (L&G and Royal London) are listed at the bottom to the table.

23. As noted above, the capital values of the bond funds – particularly the short-dated bond funds – can be volatile over the short term but they are expected to produce higher returns over the longer term. The Corporation deliberately allocates a small portion of the overall portfolio to these investments - an amount that can sustainably be invested over the medium term.

24. It should also be noted that fluctuations in the market value of these pooled fund investments do not impact the City Fund's revenue position owing to the existence of the IFRS 9 statutory override, which was intended to be in place until 31 March 2025, which English local authorities are required to implement, and which requires unrealised capital (fair value) gains and losses to be charged to an unusable reserve on the balance sheet rather than reported via income and expenditure.

25. Following feedback from the Local Government Finance Settlement consultation at the end of February 2025, the IFRS9 statutory override will remain in place until 31 March 2029 for existing pooled fund investments held as of 1 April 2024 ('legacy investments'), but any new investments taken out after 1 April 2024 will be subject to IFRS 9 compliance and will require fair value movements to be recognised directly within City Fund income and expenditure.

26. As interest rates have risen the bond managers are generally able to reinvest the maturing bonds at a higher yield, thus raising the level of income in the portfolio, that is, income, rather than capital gains, has generally made up a greater part of the total return generated by these funds. The income (distribution) yield on the bond funds with Royal London and L&G are 5.11% and 4.5% respectively as at the end of March 2025. As we now rotate to a decreasing interest rate environment, price appreciation should see the capital value of the funds increase. The interest from these investments is distributed quarterly for Royal London and half yearly for L&G.

<u>Interest on average cash balances</u>

27. A summary of the interest on *average cash balances* (i.e. the returns on the treasury management investment portfolio) for the 2024/25 financial year (1 April 2024 to 31 March 2025) as applicable to City Fund and City's Estate is shown in Table 2 below.

Table 2: Interest on Cash Balances as at 31 March 2025

	2024/25 Original Budget	**2024/25 Actual**	**2024/25 Better / (Worse)**
	£'000	**£'000**	**£'000**
City Fund	**28,900**	**54,228**	**25,328**
City's Estate	**(770)**	**2,354**	**3,124**
Total City Fund & City's Estate Interest on average cash Balances	**28,130**	**56,582**	**28,452**

28. Income from interest on *average cash balances* exceeded the original budget by £28.4m principally due to the increase in the level of average cash balances held, and hence available for investment, and upon which interest was applied,

compared to that anticipated when the budget was set in November 2023. This is largely as a result of the re-phasing of capital and major project expenditure.

29. As noted above in accordance with the Treasury Management Strategy Statement (TMSS) for 2024/25, due to the volatility of the income and capital returns of the 2 non-specified investments (i.e. the two short dated bond funds (SDBF's)), only City Fund maintains exposure to these, including the interest earned – overall, in 2024/25 City Fund received an interest allocation of 5.00% on *average cash balances* held totalling £54.2m.

30. For all other funds, including City's Estate (i.e. those excluding the two SDBF's) an interest allocation of 4.38% on *average cash balances* held was made for 2024/25.

Cash Flow Forecast

31. The City Fund's medium-term cash flow forecast, including all the capital projects, and major projects, is monitored & updated regularly to ensure the funding strategy remains appropriate.

Conclusion

32. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 March 2025. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2025/26.

33. Since the Investment Committee last reviewed the treasury position as at 31 December 2024, the Bank of England's Monetary Policy Committee (MPC) voted to reduce interest rates to 4.25% at its May meeting, having previously voted to maintain the rate at 4.50% at its March meeting. The market expectation is for two further rate cuts in 2025, with no further cuts expected in the first three meetings out to April 2026, reaching a low of 3.5% during 2026, with MUFG Corporate Markets, our investment consultants, forecasting prior to the May 2025 MPC decision, a decrease to 3.75% by March 2026.

34. Returns on the Corporation's short term investment portfolio excluding short dated funds and are now trending downwards. Officers expect this trend to continue in 2025/26, reflecting the current market expectation that the MPC's previous restrictive policy stance continues to loosen in 2025/26.

35. The returns on the Corporation's Short dated bond fund investments remain positive, despite a number of periods of volatility. These investments are appropriate for surplus cash balances that can be invested sustainably over the medium term given the expectation for higher returns over this time horizon, and they continue to generate strong income returns. The interest from these investments is distributed, quarterly for RLAM and twice yearly for L&G.

Appendices

- Appendix 1 – Counterparty Exposure as at 31 March 2025
- Appendix 2: Monthly Investment Analysis Review March 2025
- Appendix 3: Treasury Management Counterparties 2024/25: Economic, Social & Governance (ESG) Checklist

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COUNTERPARTY EXPOSURE AS AT 31 MARCH 2025

APPENDIX 1

	Counterparty Limit £M	Total Invested as at 31-Mar-25 £M	Average Rate of Return %
TOTAL INVESTED		**956.6**	**5.09%**
FIXED TERM DEPOSITS			
UK BANKS			
Goldman Sachs	100.0	20.0	4.60%
NatWest	100.0	90.0	5.30%
Standard Chartered	100.0	20.0	4.54%
		130.0	
FOREIGN BANKS			
Australia & New Zealand	100.0	20.0	4.80%
Helaba	100.0	20.0	5.27%
Rabobank	100.0	20.0	5.00%
Toronto Dominion	100.0	50.0	5.05%
		110.0	
LOCAL AUTHORITIES			
Central Bedfordshire	25.0	20.0	4.90%
Cornwall	25.0	20.0	5.75%
Doncaster Council	25.0	20.0	5.20%
Lancashire CC	25.0	20.0	4.80%
Rochdale Council	25.0	10.0	4.75%
RB Kensington & Chelsea	25.0	20.0	6.24%
Stockport MBC	25.0	20.0	4.90%
Surrey CC	25.0	25.0	5.54%
Walsall Council	25.0	10.0	4.75%
		165.0	
LIQUIDITY FUNDS			
Aberdeen SLI Liquidity Fund	100.0	30.0	4.54%
CCLA - Public Sector Deposit Fund	100.0	20.0	4.50%
Deutsche Global Liquidity Fund	100.0	30.0	4.52%
Federated Prime Liquidity Fund	100.0	30.0	4.53%
Invesco Sterling Liquidity Fund	100.0	51.5	4.58%
		161.5	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	68.6	5.08%
Aberdeen SLI Short Duration Fund	100.0	57.3	5.24%
Federated Sterling Cash Plus Fund	100.0	28.6	5.07%
		154.5	
SHORT DATED BOND FUNDS			
L&G	100.0	80.3	5.38%
Royal London	100.0	80.3	5.83%
		160.6	
NOTICE ACCOUNTS			
Australia and New Zealand 185 Days Account	100.0	45.0	4.68%
Goldman Sachs 272 Days Account	100.0	30.0	4.81%
		75.0	
TOTAL		**956.6**	