

City of London Corporation Committee Report

Committee(s): Investment Committee – For Information	Dated: 01 December 2025
Subject: Treasury Management Update as at 31 October 2025	Public report: For 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:	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 October 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, is included at Appendix 2.

The treasury position was last reviewed by the Investment Committee at the meeting on 06 October 2025, when they received a report outlining the treasury position as at 31 August 2025.

The treasury management investment portfolio had a market value of £1,001.9m as at 31 October 2025, which is a decrease of £18.9m from the balance previously reported as at as at 31 August 2025 (£1,020.8m).

The Consumer Prices Index (CPI) rose by 3.8% in the 12 months to September 2025, unchanged from August and July 2025. The Bank of England’s Monetary Policy Committee (MPC) voted to maintain interest rates at its meetings in September and November, after previously voting to reduce interest rates by 25bps to 4.00% at the August MPC. The market expectation is for a further rate cut before March 2026, with the potential of a further cut in the first half of 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, continuing in the first half of 2025/26, and officers expect this to continue in the last quarter of 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 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 October 2025.

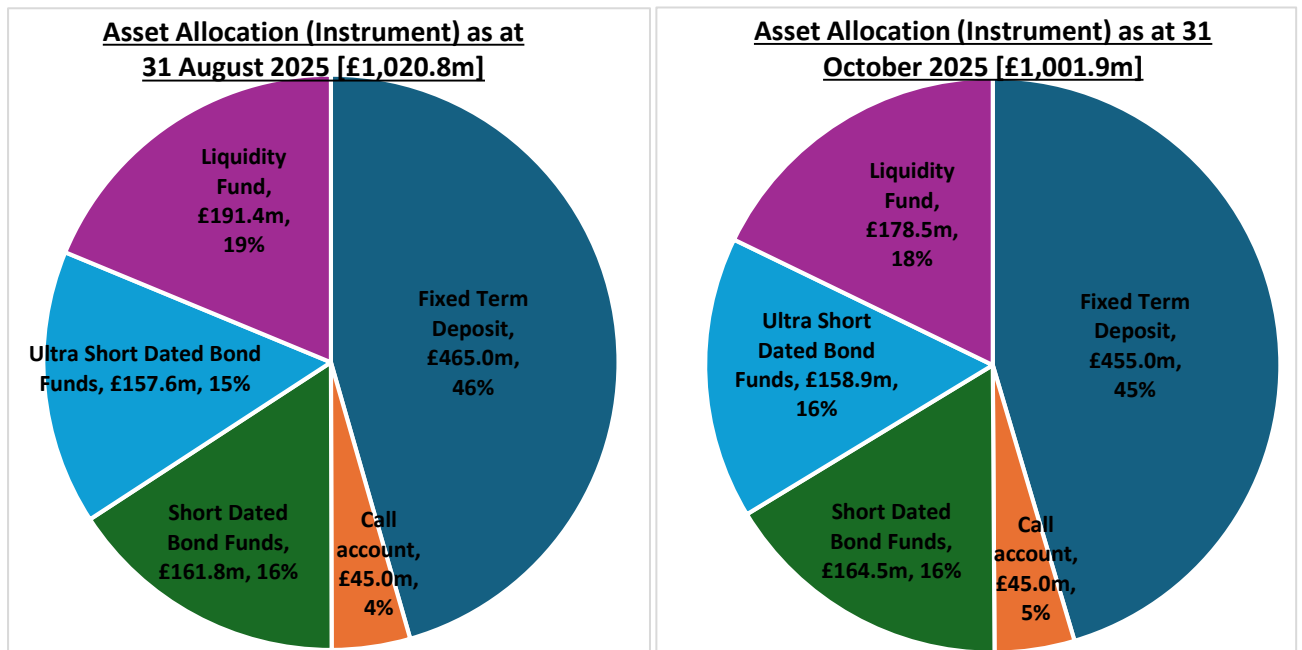
Current Position

2. The treasury management investment portfolio had a market value of £1,001.9m as at 31 October 2025, which is a decrease of £18.9m from the balance previously reported as at as at 31 August 2025 (£1,020.8m). This decrease is principally due the following significant transactions in the period:
 - expenditure on Major Projects of £38.2m; and
 - Museum of London drawdown payment totalling £33.0m; offset by
 - drawdowns from Financial Investments totalling £41.1m; and
 - property disposal receipts of £14.4m and £2.3m.

Asset Allocation

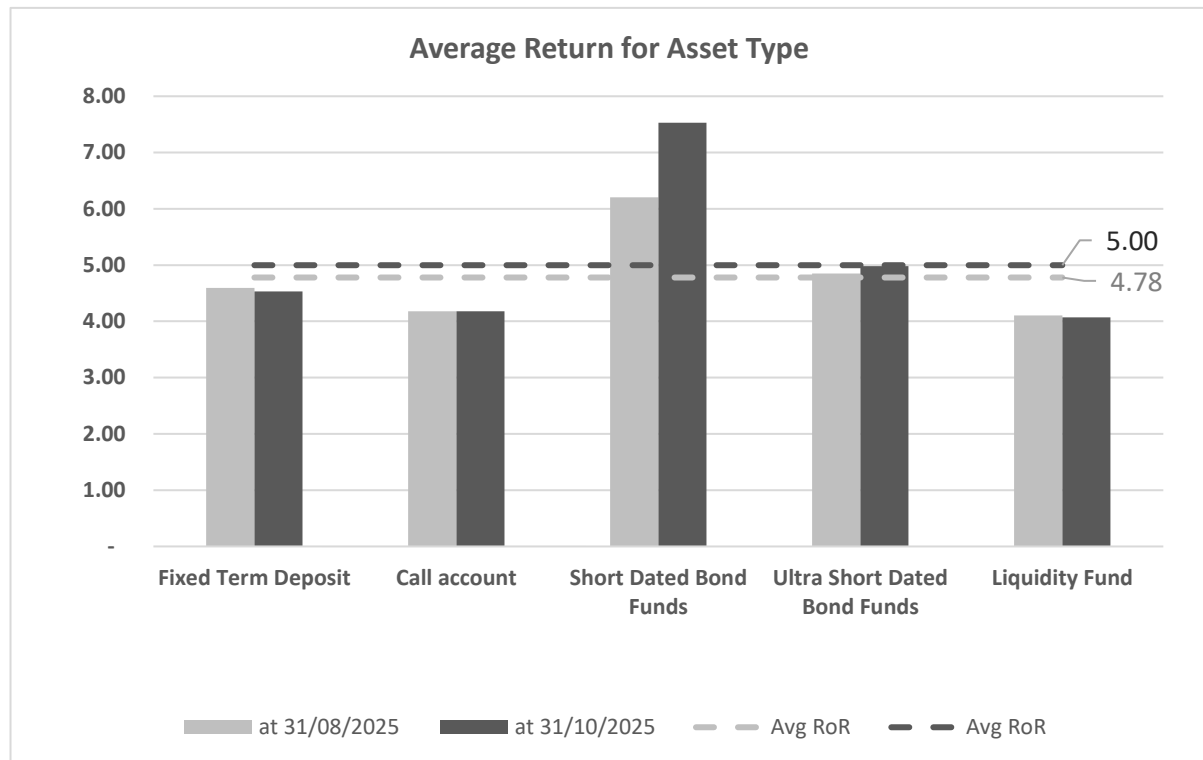
4. In accordance with the current Treasury Management Strategy Statement 2025/26, surplus cash is invested first and foremost with the aim of securing the Corporation's financial assets and secondly in line with the organisation's liquidity requirements (i.e. ensuring the cash is available when needed 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 August 2025 and 31 October 2025 is set out in Figure 1 below.

Figure 1: Asset allocation as at 31 August 2025 and 31 October 2025.



6. As of 31 October 2025, the majority of the Corporation's cash balances are invested on a short-term (under one year) basis with eligible banks, primarily through fixed-term deposits, which account for 45% of the total. This represents a £10m decrease from the previous reporting date, due to the overall reduction in the portfolio as outlined in paragraph 2. Liquidity funds now make up around 18%, 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 5% 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 (16%) 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 August 2025 and 31 October 2025 is shown in Figure 2. Further analysis on the composition of the portfolio as at 31 October 2025 is provided in the Monthly Investment Report at Appendix 2, which demonstrates the average rate of return for the portfolio as at 31 October 2025 is 5.00% (31 August: 4.78%). 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 August 2025 and 31 October 2025



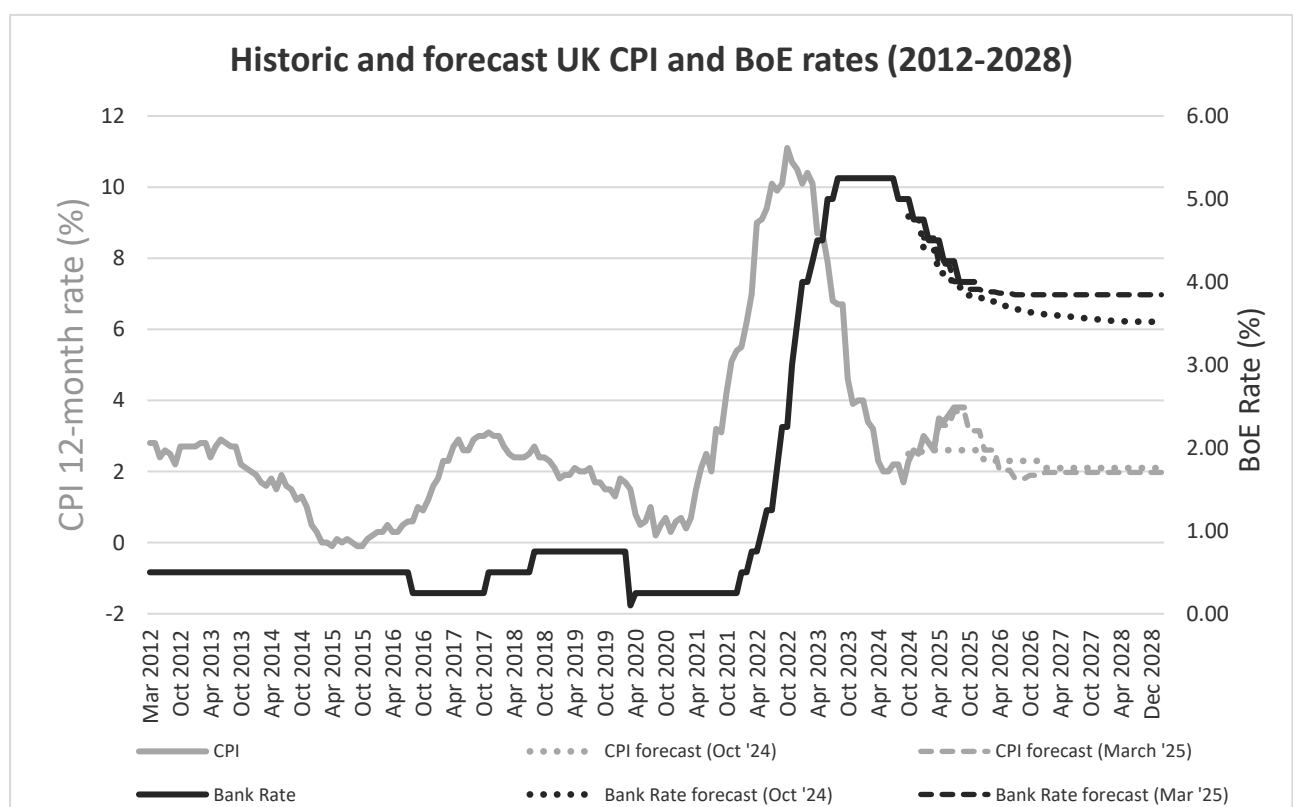
Performance

9. The Consumer Prices Index (CPI) rose by 3.8% in the 12 months to September 2025, unchanged from August 2025. The updated Bank of England forecast sees the 3.8% inflation rate of September as the peak, with it slowing to 3.2% by March 2026 and to settle around its 2% target in the second quarter of 2027.
10. The Bank of England's Monetary Policy Committee (MPC) kept the bank rate unchanged at 4.00% at its September meeting. The decision was in line with market expectations, though two members voted to cut rates by a further 25bps. The accompanying policy statement mentioned "*there appeared... to be less of an immediate risk that the labour market would loosen rapidly*" even whilst "*downside domestic and geopolitical risks around economic activity remain*". As in August, there was an emphasis that "*a gradual and careful*" approach was still appropriate, whilst leaving the door open to continuing rate cuts in the future.
11. More recently, the MPC again kept bank rate unchanged at its November meeting, and although the decision was in line with market expectations, the surprise was the 5-4 vote, with Governor Bailey the "swing" voter on the decision. The accompanying statement said that the restrictiveness of monetary policy had fallen as Bank Rate had been reduced and that "*...the extent of further reductions would therefore depend on the evolution of the outlook for inflation. If progress on disinflation continued, Bank Rate was likely to continue on a gradual downward path*" - note the removal of "*careful*" from the guidance.
12. This meeting was the first to include individual member views in the minutes, with Governor Bailey saying that "*Upside risks to inflation have become less pressing since August, and I see further policy easing to come if disinflation becomes more clearly established in the period ahead*". This could come from two more rounds of inflation and jobs data between the November MPC and the next meeting on 18 December, a period which will also include the Autumn Budget on 26

November. Following the meeting, market expectations for a move in December were little changed at 65-70%, with the first cut fully priced in for February 2026. However, following the release of a softer than expected labour market data set, December's expectations have picked up to 85%, with February still the point a 25bps cut is fully priced in and then a second move pencilled in for the meeting in April.

13. MUFG Corporate Markets (previously called Link), our treasury management consultants, correctly anticipated no change to bank rate at the November MPC meeting, and are currently forecasting the bank rate to decrease to 3.75% by March 2026, where it is forecast to remain until a further cut to 3.50% in the second half 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 2012 to 2028 is shown below in Figure 3. The OBR will be releasing the October 2025 forecast with the Autumn budget on 26 November.

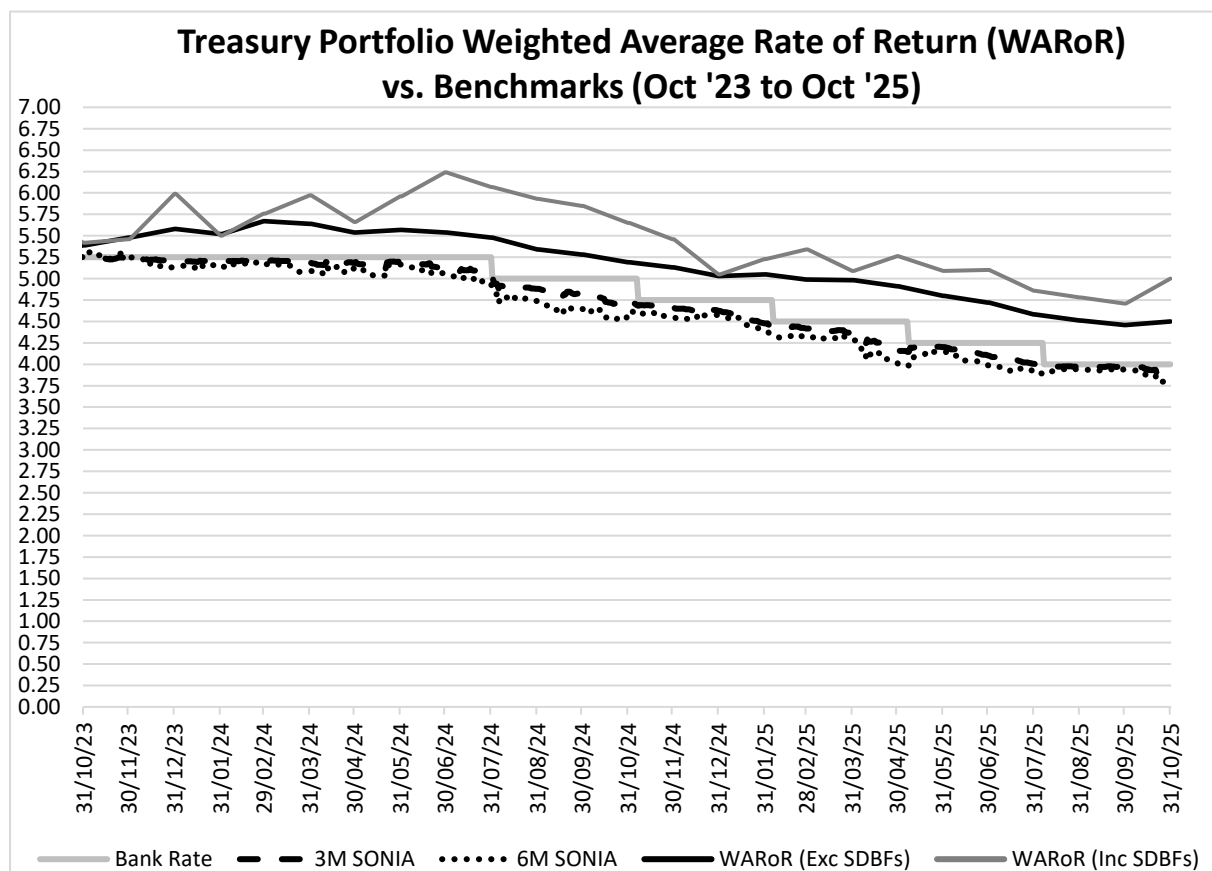
Figure 3: UK CPI 12-month rate / Bank of England base rate



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 decrease, 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. The Bank Rate reached a peak of 5.25% at the start of August 2023, and sterling money market rates began to decrease, as shown in Figure 4 for 3-month and 6-month Sterling Overnight Index Average Rate (SONIA) in the second half of 2023 as the market priced in a number of Bank Rate cuts as inflation eased.
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, a fourth cut to 4.25% in May 2025, and finally a fifth cut in August 2025 to 4.00% 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 make further cuts to bank rate over the next 12 months.
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 October 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. This momentum was derailed by the announcement of tariffs, and credit spreads widened, reflecting increased risk aversion among investors, however bond markets steadied in the second quarter of 2025 as inflation expectations fell and central banks signalled a more dovish stance. The third quarter began with rising global bond yields due to fiscal concerns in advanced economies, however markets rebounded in August as inflation fears eased and central banks signalled potential rate cuts. During October market returns were generally positive, with yields falling across major regions amid supportive central bank policies, though a US government shutdown and tariff concerns decreased investors' appetite for risk. Despite volatility, bond markets delivered steady returns, supported by improving sentiment and policy outlooks.
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 October 2025

Fund	1 Month Return (30/09/2025 to 31/10/2025)	2 Month Return (31/08/2025 to 31/10/2025)	12 Month Return (31/10/2024 to 31/10/2025)
Federated Hermes Sterling Cash Plus Fund	0.39%	0.72%	4.60%
Aberdeen Standard Liquidity Fund Ultra Short Duration Sterling	0.40%	0.76%	4.74%
Payden Sterling Reserve Fund	0.56%	0.94%	5.35%
L&G Short Dated Sterling Corporate Bond Index Fund	1.01%	1.54%	7.11%
Royal London Investment Grade Short Dated Credit Fund	1.21%	1.85%	7.95%

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 5.03% and 4.6% respectively as at the end of October 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.

Interest on average cash balances

27. A summary of the interest on *average cash balances* (i.e. the returns on the treasury management investment portfolio) for the 2025/26 financial year (1 April 2025 to 31 March 2026) as applicable to City Fund and City's Estate is shown in Table 2 below.

Table 2: Interest on average Cash Balances - forecast as at 31 October 2025

	2025/26 Original Budget	2025/26 Forecast outturn	2025/26 Better / (Worse)
	£'000	£'000	£'000
City Fund	22,603	37,716	15,113
City's Estate	2,050	707	(1,343)
Total City Fund & City's Estate Interest on average cash Balances	24,653	38,423	13,770

28. Income from interest on *average cash balances* is currently forecast to exceed budget by £13.77m overall, principally due to changes in the level of average cash

balances held, and hence available for investment, and upon which interest is applied, compared to that anticipated when the budget was set in November 2024. This is largely as a result of the re-phasing of capital and major project expenditure, and the timing of receipts from the planned property disposals.

Cash Flow Forecast

29. 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

30. This report has provided a summary of the City of London Corporation's treasury management portfolio (investments) as at 31 October 2025. Cash is invested across a range of counterparties and instruments in accordance with the Corporation's current Treasury Management Strategy Statement 2025/26.
31. Since the Investment Committee last reviewed the treasury position as at 31 August 2025, the Bank of England's Monetary Policy Committee (MPC) voted to maintain interest rates at 4.00% at its November meeting, having also kept rates unchanged at its September meeting. The market expectation is for a further rate cut before March 2026 with the potential of further cuts in 2026, with MUFG Corporate Markets, our investment consultants, forecasting a decrease to 3.75% by March 2026.
32. 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 and at the start of 2026/27.
33. 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 Royal London and twice yearly for L&G.

Appendices

- Appendix 1 – Counterparty Exposure as at 31 October 2025
- Appendix 2: Monthly Investment Analysis Review October 2025
- Appendix 3: Treasury Management Counterparties 2025/26: Economic, Social & Governance (ESG) Checklist

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COUNTERPARTY EXPOSURE AS AT 31 OCTOBER 2025

APPENDIX 1

	Counterparty Limit	Total Invested as at 31-October-25	Average Rate of Return
	£M	£M	%
<u>TOTAL INVESTED</u>		<u>1,001.9</u>	<u>5.00%</u>
<u>FIXED TERM DEPOSITS</u>			
<u>UK BANKS</u>			
Goldman Sachs	100.0	90.0	4.24%
NatWest	100.0	90.0	5.37%
Standard Chartered	100.0	45.0	4.26%
		<u>225.0</u>	
<u>FOREIGN BANKS</u>			
Australia & New Zealand	100.0	30.0	4.38%
DBS	100.0	10.0	4.11%
Helaba	100.0	40.0	4.34%
Toronto Dominion	100.0	10.0	4.53%
United Overseas Bank	100.0	90.0	4.25%
		<u>180.0</u>	
<u>LOCAL AUTHORITIES</u>			
Doncaster Council	25.0	10.0	4.75%
Lancashire CC	25.0	20.0	4.50%
Rochdale Council	25.0	10.0	4.75%
Walsall Council	25.0	10.0	4.75%
		<u>50.0</u>	
<u>LIQUIDITY FUNDS</u>			
Aberdeen SLI Liquidity Fund	100.0	30.0	4.07%
CCLA - Public Sector Deposit Fund	100.0	25.0	4.02%
Deutsche Global Liquidity Fund	100.0	30.0	4.07%
Federated Prime Liquidity Fund	100.0	35.6	4.08%
Invesco Sterling Liquidity Fund	100.0	57.9	4.09%
		<u>178.5</u>	
<u>ULTRA SHORT DATED BOND FUNDS</u>			
Payden Sterling Reserve Fund	100.0	70.8	5.34%
Aberdeen SLI Short Duration Fund	100.0	58.8	4.74%
Federated Sterling Cash Plus Fund	100.0	29.3	4.60%
		<u>158.9</u>	
<u>SHORT DATED BOND FUNDS</u>			
L&G	100.0	82.2	7.11%
Royal London	100.0	82.3	7.95%
		<u>164.5</u>	
<u>NOTICE ACCOUNTS</u>			
Australia and New Zealand 185 Days Account	100.0	45.0	4.18%
		<u>45.0</u>	
<u>TOTAL</u>		<u>1,001.9</u>	