

City of London Corporation Committee Report

Committee(s): Investment Committee – For Information Audit and Risk Management Committee – For Information	Dated: 1 December 2025 12 January 2026
Subject: Mid-Year Treasury Management Review 2025/26	Public report: For Information
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
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Summary

The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2025/26 was approved by the Investment Committee and the Finance Committee in February 2025 and by the Court of Common Council on 6 March 2025 and came into effect on 1 April 2025.

Under CIPFA’s Code of Practice on Treasury Management, which was adopted by the Court of Common Council on 3 March 2010, there is a requirement to provide a mid-year review. The main points to note are as follows:

- The strategy has been reviewed to take account of economic and market developments over the first half of the year, particularly with regard to changes in interest rate expectations.
- The annual Consumer Prices Index (CPI) was 3.5% in April 2025, falling to 3.4% in May, however inflationary pressures have since resurfaced with CPI inflation hitting 3.8% in July where it remained in both August and September. The Bank of England’s Monetary Policy Committee (MPC) cut Bank Rate from 4.50% to 4.25% at their May meeting, and implemented a further cut to 4.00% at their meeting in August. The Bank rate remained unchanged at the September and

November MPC meetings, with the accompanying statement to the November meeting commenting that further reductions to Bank Rate would depend on the evolution of the outlook for inflation. The revised path for interest rates over the medium term provided by our Treasury advisors, MUFG Corporate Markets, is for the Bank Rate to decline to 3.75% by March 2026, with a further cut to 3.50% by September 2026, where it will plateau.

- Under this scenario of falling interest rates, investment returns as a whole are expected to decrease over the rest of the financial year and the medium term, as maturing investments are reinvested at reduced rates. However, as yields decrease, the capital value of the Corporation's (City Fund) bond fund investments increase as bond prices have an inverse relationship with interest rates (i.e. when interest rates decrease, bond prices increase and vice versa).
- As at 30 September 2025, the City had cash balances totalling £1,038.7m. Most of the balances are held for payment to third parties or are restricted reserves. Cash balances are expected to reduce meaningfully over the medium term as spending on the capital programme increases.
- In light of the above, the Corporation's priorities remain as security and liquidity (ahead of yield). Given the current risk environment, officers do not recommend that the Corporation relaxes its risk appetite for the remainder of the year.
- No approved counterparty limits were breached during the first half of 2025/26, and the City has experienced no liquidity concerns.
- No external borrowing has been entered into by City Fund, and it is not anticipated that City Fund will require any external borrowing during the remainder of the financial year.

Recommendation(s)

Members are asked to note the report.

Main Report

Background

1. The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.
2. The second main function of the treasury management service is the funding of capital expenditure plans. In September 2019 the City issued fixed rate market debt on behalf of City's Cash via a private placement, which will support that entity's long term capital financing plans. The first tranche of borrowing proceeds of £250M were received in September 2019. The second tranche of borrowing proceeds of £200M were received in July 2021. The City has not undertaken any new borrowing in the first half of this year and does not at this stage anticipate any external borrowing in the remainder of 2025/26.

3. The City's treasury management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) which was adopted by the Court of Common Council on 3 March 2010.
4. The City defines its treasury management activities as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
5. The Chartered Institute of Public Finance and Accountancy is currently consulting local authorities in respect of potential changes to the Codes. At this juncture, the focus seems to primarily be on the Non-Treasury investment aspects of local authority activity. Officers will provide an update on any material developments/changes in due course.

Economic Update

6. According to the Office for National Statistics (ONS) Gross Domestic Product (GDP) grew by 0.3% in the quarter April to June 2025 following a 0.7% expansion in the first three months of the year. However, the financial year got off to a bumpy start with a 0.3% fall in real GDP in April as front-running of US tariffs in Q1 weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. Despite the subsequent upside in May and June, the economy stagnated in July with no growth, with the hike in taxes for businesses which took place in April likely playing a part in restraining growth.
7. UK headline consumer prices inflation (CPI) fell slightly from an annual rate of 3.5% in April 2025 to 3.4% in May 2025, however inflationary pressures have since resurfaced with CPI inflation hitting 3.8% in July where it has remained in both August and September. With food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be necessary for UK inflation to return to 2.0% by the Bank of England's anticipated timeline of early 2027.
8. The Monetary Policy Committee (MPC) cut Bank Rate from 4.50% to 4.25% at their May meeting, and implemented a further cut to 4.00% at their meeting in August. Governor Bailey was the casting vote in a 5-4 split, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". As expected, the September MPC meeting saw rates remain unchanged, with the two dissenting voters in a 7-2 split voting for a further 25bps reduction.
9. More recently, rates again remained unchanged at the November meeting, though there was a surprise 5-4 split with Governor Bailey once more casting the deciding vote. The accompanying statement said that "...the extent of further reductions would therefore depend on the evolution of the outlook for inflation" and Governor Bailey's commented 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 in December, a period which will also include the Autumn Budget on 26 November.

10. Over the period (1 April to 31 September), the UK 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%. The yield rose in April following wider global bond market volatility stemming from US Tariffs, easing back as trade tensions began to de-escalate, then in May as concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, though reduced again as trade tensions continued to ease and markets increasingly began to price in looser monetary policy. More recently, there was a short lived spike in yield in July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concern, highlighting the UK's fragile fiscal position, and that in an era of high-debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic.
11. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated at over 4.70%.
12. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. With the November Budget edging nearer, the UK public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. Therefore, what matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the government's current fiscal rules have set out for day-to-day costs to be met by revenues and therefore at which point the government should only be borrowing to invest.

Treasury Management Strategy Statement and Annual Investment Strategy Update

13. The Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 was approved by the Investment Committee (17 February 2025), the Finance Committee (18 February 2025) and the Court of Common Council (6 March 2025).
14. Having considered the strategy, officers believe that it remains appropriate for the second half of 2025/26 and do not recommend any fundamental changes are made.

Investment Strategy

15. The Corporation held £1,038.7m of investments as at 30 September 2025 (£956.6m at 31 March 2025). Most of the balances are held for payment to third parties or are restricted reserves; they also include debt issued by City's Cash in 2019/20 and in the first half of 2021/22. As the Corporation's capital programme progresses, cash balances are projected to decline as internal borrowing

increases (see paragraph 26 below). The weighted average rate of return on the City's treasury management portfolio at the end of September was 4.71%.

16. The weighted average rate of return was boosted by the short-dated bonds (i.e. non-specified investments) as their 12 month-trailing returns reached over 6% at the end of September 2025 (the weighted average rate of return excluding short-dated bonds funds was 4.46%). Bond prices have an inverse relationship with interest rates (i.e. when interest rates increase, bond prices decrease and vice versa), and hence there has been a corresponding increase in short-dated bond fund returns over the first half of 2025/26, with appreciation of capital value as interest rates have fallen, whilst yield has remained high.
17. As non-specified investments, only the City Fund will have exposure to the short-dated bond funds (as ratified by the Court of Common Council in December 2022), and as the IFRS9 override has been extended for existing pooled fund investments held as of 1 April 2024 ('legacy investments') until 31 March 2029, any capital gains/losses will continue not to be taken through the General Fund. 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.
18. In accordance with the CIPFA Treasury Management Code of Practice, the Corporation's investment priorities are:
 - Security of capital
 - Liquidity
 - Yield
19. The Corporation aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Corporation's risk appetite. In the current economic climate, it is considered appropriate to retain sufficient capacity to cover planned and potentially unanticipated cash flow needs, but also to seek out value by placing deposits with high credit rated counterparties where possible. The current investment strategy remains appropriate for facilitating these aims by limiting lending to only high-quality borrowers whilst also not being so restrictive as to create an overconcentration of exposure to any single counterparty.
20. At the outset of the year, the Corporation, based on MUFG Corporate Market's central forecast for interest rates, estimated for a pattern to evolve whereby Bank Rate cuts would be made quarterly in keeping with the release of the Bank of England's quarterly monetary policy reports, though with any eventual movement below a 4% Bank Rate very much dependent on inflation data in the second half of 2025.
21. MUFG Corporate Markets' latest forecast on 11 August sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.
22. MUFG's revised path for interest rates over the medium term, is for Bank Rate to remain at 4.00% by the end of 2025, then cuts to 3.75% by March 2026 and 3.50% by September 2026, where the rate would be maintained until a further decrease by September 2027, leaving rates at around 3.25% for the rest of the 2027/28 financial year (see Appendix 1). Under this scenario, investment returns as a

whole are still expected to decrease over the rest of the financial year and the medium term, as previously forecast.

23. In light of the above, the prime objective is to ensure cash is safe and available when needed, and the Corporation's priorities remain as security and liquidity, ahead of yield. It is not recommended that the Corporation relaxes its creditworthiness criteria at this stage to protect income as this would contradict the primary obligation of keeping the Corporation's cash assets secure, before considering yield.
24. No approved counterparty limits were breached during the first half of 2025/26, and the City has experienced no liquidity concerns. The Treasury Management Strategy remains appropriate in enabling the City to pursue its prime objectives of security and liquidity, followed by yield.

Borrowing Strategy

City Fund

25. The City Fund has not acquired any external borrowing in the first half of the year and it is not anticipated that any external borrowing will be required in the remainder of 2025/26.
26. Although the City Fund is forecast to have a growing capital financing requirement forecast in the years ahead, it expects to be able to fund this in the short term via internal borrowing. Entering into new external borrowing now would increase the Corporation's revenue pressures in the immediate term (i.e. there would be a cost of carry), however the Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

City's Cash

27. City's Cash issued £450m of market debt in 2019/20, £200m of which was deferred for receipt until 2021/22. The Corporation took receipt of these borrowing proceeds in July 2021, and they were held in the short term investments portfolio until required by the capital programme. By deferring receipt of this borrowing until 2021, the City avoided paying additional interest costs whilst at the same time securing fixed rate borrowing on competitive terms. There are no plans to undertake any further borrowing on behalf of City's Cash in the second half of the year at this stage, but this will be monitored by officers as the Medium term Financial Plan (MTFP) is finalised.

Conclusion

28. The City has effectively executed the 2025/26 Treasury Management Strategy during the first six months of the year considering the original strategy against the current treasury management environment, officers judge that the investment strategy remains appropriate for the second half of the year.

Appendices

- Appendix 1 – Interest Rate Forecasts 2025/26 – 2028/29

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APPENDIX 1: Interest Rate Forecasts 2025/26 – 2028/29

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Please note, the lower Housing Revenue Account PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

Comparison of Link Group current August 2025 interest rate forecast vs February 2025 forecast

Bank Rate	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
11.08.25	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25
10.02.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Change	-0.25	0.00	0.00	0.00	-0.25	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25