

Committee: Financial Investment Board	Date: 26 October 2017
Subject: End of Year Treasury Management Review 2016-17	Public
Report of: The Chamberlain	For Information
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Summary

The Treasury Management Strategy Statement for 2016/17 was approved by the Financial Investment Board and the Finance Committee in February 2016 and by the Court of Common Council on 3 March 2016.

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 an end of year report. The main points to note are as follows:

- As at 31 March 2017, the City had cash balances totalling some £768.9m. The majority of the balances are held for payment to third parties or are restricted reserves.
- The period was characterised by very low returns and the Bank of England base rate was cut on 4 August 2016, from 0.5% to 0.25%
- The investment strategy during the year conformed to the approved strategy and there were no liquidity difficulties.
- As the cash holdings in money market funds are considerable, in consultation with its Treasury Management Advisors, Capita Asset Services, the City is in the process of selecting an Ultra Short Dated/Short Dated Bond Fund as an additional mandate for its cash balances.

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. The City of London Corporation (the City) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
2. The Treasury Management Strategy Statement for 2016/17 was approved by the Financial Investment Board (4 February 2016), Finance Committee (16 February 2016) and the Court of Common Council (3 March 2016). During 2016/17 the Financial Investment Board received investment analysis reports at each Board meeting.

Overall Treasury Position as at 31 March 2017

3. At the beginning and the end of 2016/17 the City's treasury position was as follows:

Table 1	31/03/16 Principal £m	Rate/ Return %	Average Life Yrs	31/03/17 Principal £m	Rate/ Return %	Average Life Yrs
Fixed rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Variable rate funding						
- PWLB	0			0		
- Market	0			0		
	0			0		
Other long term liabilities	0			0		
Gross debt	0			0		
Total investments	858.8	0.67	1	768.9	0.60	1
Net Investments	858.8	0.67	1	768.9	0.60	1

The Strategy for 2016/17

4. The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising base rate, (starting in quarter 1 2017), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5. Following the UK's decision to leave the European Union on 23 June 2016 and the Bank of England's subsequent decision to reduce the base rate from 0.5% to 0.25%, on 4 August this expectation was modified to a stable base rate of 0.25% for the remainder of 2016/17. At time of writing money markets appear to have priced in an uplift in base rate at November 2017 MPC meeting but officers remain cautious.
6. There were no changes to the Strategy during 2016/17.

The Borrowing Requirement and Debt

7. No capital borrowing was required during 2016/17

Investment Rates in 2016/17

8. After the EU referendum, the base rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

Investment Outturn for 2016/17

9. **Investment Policy** – the City's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management Code which has been implemented in the annual investment strategy approved by the Court of Common Council on 3 March 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).
10. The investment activity during the year conformed to the approved strategy, and the City of London had no liquidity difficulties.
11. **Investments held by the City** - the City maintained an average balance of £975.2m of internally managed funds. The internally managed funds earned an average rate of return of 0.60% as at 31 March 2017, a significant uplift on the base rate of 0.25% which remained for more than half the financial year (4 August 2016 to 31 March 2017). This was also ahead of the forecasted return for 2016/17 (0.5%).

Conclusion

12. The year was characterised by continuing low levels of return as the Bank of England base rate reduced to 0.25% (from 0.5%) and the subsequent comparable fall in rates offered across the counterparty list for all money market funds and fixed term deposit durations. Cash balances decreased from £858.8m

at the start of the year to £768.9m at by 31 March 2017 following the settlement of £200m to HM Treasury as part of the City's contribution to Crossrail In conjunction with Capita Asset Services, the City's Treasury Management advisors, your officers are in the process of selecting an Ultra Short Dated/Short Dated Bond Fund as an additional mandate for its cash balances.

Appendices

Appendix 1 – Treasury Indicators

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Appendix 1:

Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2016/17
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£0	£0	£0
TOTAL	£0	£0	£0
Operational Boundary for external debt -			
borrowing	£0	£0	£0
other long term liabilities	£0	£0	£0
TOTAL	£0	£0	£0
Actual external debt	£0	£0	£0
Upper limit for fixed interest rate exposure			
expressed as either:-			
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%
Upper limit for variable rate exposure			
expressed as either:-			
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£200m	£200m	£200m
(per maturity date)			

TABLE 2: Maturity structure of fixed rate borrowing during 2016/17	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%