

<b>Committee:</b>	<b>Date:</b>
Financial Investment Board	1 February 2018
<b>Subject:</b> Treasury Management Strategy Statement and Annual Investment Strategy 2018/19	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Tom Broughton– Chamberlain’s Department	

### Summary

The attached document sets out the City’s Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19. The document includes the various Prudential Indicators required to be set for the City Fund to ensure that the City’s capital investment plans are affordable, prudent and sustainable. The main proposals within the document are incorporated within the separate report entitled “City Fund - 2018 Budget Report” being considered by the Finance Committee on 20 February 2018 and by the Court of Common Council on 8 March 2018.

The only change to the Treasury Management Strategy and Annual Investment Statement for 2018/19 is to the Non-Specified Investments (Appendix 4) where, following discussions with the Chairman and Deputy Chairman of the Financial Investment Board, Short Dated Bond Funds have been included. It should be noted that Ultra Short Dated Bond Funds were previously classified under Money Market Funds but now must be classified separately; the City currently has three such funds outlined in Appendix 5.

The key areas to highlight are:

- As at 31 December 2017, the City had cash balances totalling some £873.4m. The majority of balances are held for payment to third parties; they are either restricted reserves, or will be drawdown over the coming years to fund various projects, such as the Museum of London. A 10 year cash flow forecast is being completed at the request of Resource Allocation Sub-Committee and we will therefore review the appropriate balances to be maintained in light of that forecast.
- In assessing the creditworthiness of prospective counter-parties the City uses a risk weighted scoring system rather than just using the lowest rating from the credit rating agencies (section 7.2). This is unchanged from previous years.
- 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. As the current returns on deposits for 2 and 3 years are considered insufficient, no new long-term deposits have been made (sections 7.4 & 7.5).
- In consultation with its Treasury Management advisors, Link Asset Services, (previously known as Capita Asset Services) the City is in the process of selecting one or more Ultra Short Dated/Short Dated Bond Fund as an additional mandate for its cash balances.
- It is anticipated that the City will remain debt free during 2018/19 but it should be noted that is possible that there may be a borrowing requirement in future years, depending on the funding strategy for the Museum of London project (section 6). It is unlikely that there will be a borrowing requirement before 2020/2021 and the Treasury Management Strategy Statement and Annual Investment Strategy will be amended when necessary.

- New European Money Market Fund regulations are due to come into effect from 21 July 2018. There are currently two broad categories of Money Market Funds (MMFs): short-term MMFs and standard MMFs. Under existing regulations, the standard MMF can only be run as a variable net asset value (VNAV) fund, while the short-term MMF can be run as either a constant net asset value (CNAV) or VNAV fund. The new regulations introduce a couple of changes to the short-term MMF category (Appendix 4).
- A Minimal Revenue Provision (MRP) Policy Statement now must be included as the City makes use of internal borrowing to fund Capital expenditure. The MRP Policy statement for 2017/18 is included at Appendix 3 and will be updated for 2018/19 and included in the “City Fund – 2018 Budget Report” for the February Finance Committee and March Court of Common Council.
- Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, financial service institutions (fund managers, advisors, consultants, banks etc.) must automatically categorise local authority Treasury Management Functions as “retail clients”. The City of London, acting as Treasury Managers, has successfully opted up to “elective professional client” status for all relevant institutions to maintain all previously existing investment relationships.
- Members are asked to consider whether a short training event should be run for the Board which could be advantageous and would be considered to be best practice.

The main changes to the document from last year’s version are highlighted in yellow.

### **Recommendations**

It is recommended that:

- (i) the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19, and submits it to the Court for formal adoption.
- (ii) A short training event be organised for the Board.

### **Annex**

Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

#### **Tom Broughton**

Group Accountant – Pensions & Treasury Management

T: 020 7332 1137

E: [Tom.Broughton@cityoflondon.gov.uk](mailto:Tom.Broughton@cityoflondon.gov.uk)