



## Financial Investment Board

**Date:** THURSDAY, 4 FEBRUARY 2016  
**Time:** 1.45 pm  
**Venue:** COMMITTEE ROOMS - WEST WING, GUILDHALL

**Members:** Andrew McMurtrie (Chairman)  
Nicholas Bensted-Smith (Deputy Chairman)  
Deputy Roger Chadwick  
Henry Colthurst  
Simon Duckworth  
Tom Hoffman  
Alderman Robert Howard  
Clare James  
Deputy Henry Pollard  
James de Sausmarez  
Ian Seaton  
Philip Woodhouse

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Lunch will be served in the Guildhall Club at 1pm  
**NB: Part of this meeting could be the subject of audio or video recording**

**John Barradell**  
Town Clerk and Chief Executive

# **AGENDA**

## **Part 1 - Public Agenda**

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES OF THE PREVIOUS MEETING**  
To agree the public minutes and non-public summary of the meeting held on 8 December 2015.  
**For Decision**  
(Pages 1 - 2)
4. **OUTSTANDING ACTIONS**  
Report of the Town Clerk.  
**For Information**  
(Pages 3 - 4)
5. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17**  
Report of the Chamberlain.  
**For Decision**  
(Pages 5 - 34)
6. **MONTHLY INVESTMENT ANALYSIS REVIEW**  
Report of the Chamberlain.  
**For Information**  
(Pages 35 - 46)
7. **LOCAL GOVERNMENT PENSION SCHEME - INVESTMENT REFORM CRITERIA & GUIDANCE AND CONSULTATION ON INVESTMENT REGULATIONS**  
Report of the Chamberlain.  
**For Information**  
(Pages 47 - 58)
8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
10. **EXCLUSION OF THE PUBLIC**  
MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

## **Part 2 - Non-Public Agenda**

11. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

To agree the non-public minutes of the meeting held on 8 December 2015.

**For Decision**  
(Pages 59 - 62)

12. **PRIVATE EQUITY PORTFOLIO REVIEW**

Report of Mercer.

**For Decision**  
(Pages 63 - 72)

13. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

14. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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## **FINANCIAL INVESTMENT BOARD**

**Tuesday, 8 December 2015**

**Minutes of the meeting of the Financial Investment Board held at the Guildhall EC2 at 1.45 pm**

### **Present**

#### **Members:**

Andrew McMurtrie (Chairman)  
Nicholas Bensted-Smith (Deputy  
Chairman)  
Clare James

James de Sausmarez  
Ian Seaton  
Philip Woodhouse

#### **Officers:**

Philippa Sewell	- Town Clerk's Department
Peter Kane	- Chamberlain
Caroline Al-Beyerty	- Chamberlain's Department
Kate Limna	- Chamberlain's Department

Catrina Arbuckle	- Mercer
Andy Farrington	- Mercer

#### **1. APOLOGIES**

Apologies were received from Roger Chadwick, Henry Colthurst, Tom Hoffman and Deputy Henry Pollard.

#### **2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

Philip Woodhouse declared a non-pecuniary interest by virtue of being acquainted with executives in Ruffer, Lindsell Train and Majedie.

#### **3. MINUTES OF THE PREVIOUS MEETING**

**RESOLVED** - That the public minutes and non-public summary of the meeting held on 29 October 2015 be agreed as a correct record.

#### **4. OUTSTANDING ACTIONS**

Members discussed and updated the Outstanding Actions table, noting some revisions to the timescales and adding a further action regarding the approach taken by Mercer.

**RESOLVED** – That the report be noted.

#### **5. MONTHLY INVESTMENT ANALYSIS REVIEW**

The Board received the monthly review for October 2015, which detailed the list of current investments and also listed them by entity (as requested at the previous meeting). In response to Members' queries, officers undertook to confirm rates for the Santander and Aberdeen accounts, and advised that the three foreign banks were the only ones currently in the Treasury Management Strategy, which was due for review in February.

**RESOLVED** – That the report be noted.

**6. QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no questions.

**7. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There was no other business.

**8. EXCLUSION OF THE PUBLIC**

**RESOLVED** - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

Item No.	Paragraph(s) in Schedule 12A
9-12	3
13-14	-

**9. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

**RESOLVED** - That the non-public minutes of the meeting held on 29 October 2015 be agreed as a correct record.

**10. INVESTMENTS PERFORMANCE MONITORING TO 30 SEPTEMBER 2015**

Members received a report of the Chamberlain.

**11. QUARTERLY MONITORING REPORT Q3 2015**

Members received a report of Mercer.

**12. UK EQUITY MANAGER: MAJEDIE FEES**

Members considered a report of the Chamberlain.

**13. NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no non-public questions.

**14. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There was no other business.

**The meeting closed at 3.14 pm**

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Chairman

**Contact Officer: Philippa Sewell**  
**tel. no.: 020 7332 1426**  
**philippa.sewell@cityoflondon.gov.uk**

## Financial Investment Board – Outstanding Actions

Item	Date	Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
1.	27 May 2015	<b>Review of Private Equity</b> The Tactical Plan is due for review in 6-12 months.	Corporate Treasurer / Chamberlain	May 2016	Report to February FIB
2.	2 July 2015	<b>Review of Investment Strategy for Hampstead Heath and Charities Pool objectives and allocations</b>	Corporate Treasurer / Chamberlain	Shape of the review to be in place by the end of Feb 2016	Corporate Treasurer to meet with the Deputy Chairman on 1 Feb. Verbal update to be provided at the meeting.
3.	9 Sep 2015	<b>Review of Fees</b>	Corporate Treasurer / Chamberlain	To begin in February 2016	Postponed until new Fund Managers are in place. This will also be the criteria for pooling the LPGS investments
4	8 Dec 2015	The Corporate Treasurer to confirm rates for Santander and Aberdeen accounts.	Corporate Treasurer	For February meeting	

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<b>Committee:</b>	<b>Date:</b>
Financial Investment Board	4 February 2016
<b>Subject:</b> Treasury Management Strategy Statement and Annual Investment Strategy 2016/17	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Kate Limna, Chamberlain's Department	

## Summary

The attached document sets out the City's Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17. 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 - 2016 Budget Report" being considered by the Finance Committee on 16 February 2016.

The only change to the Treasury Strategy for 2015/16 is the increase in the maximum investment loans with maturity in excess of one year from £200m to £300m due to the increase in the City's overall cash holdings and the change to the Crossrail payment date (section 7.7).

The key areas to highlight are:

- As at 31 December 2015, the City had cash balances totalling some £882.3m. The majority of the balances are held for payment to third parties or are restricted reserves. Some £200m is being held as part of the City's contribution to Crossrail and a potential property purchase. The contribution to Crossrail was originally due to be paid in March 2016 but this has been pushed back to March 2017 (section 3).
- Changes to credit methodology used by the main rating agencies (Fitch, Moody's and Standard & Poor's) including the removal of "uplifts" that came from sovereign support and a wider reassessment of methodologies which includes, taking account of additional factors such as regulatory capital levels (section 7.1).
- In assessing the creditworthiness of prospective counterparties the City uses a risk weighted scoring system rather than just using the lowest rating from the credit rating agencies (section 7.3) 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 7.6 & 7.7).

The main changes to the document from last year's version are highlighted.

### **Recommendation**

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17, and submits it to the Court for formal adoption.

### **Appendices**

- Treasury Management Strategy Statement and Annual Investment Strategy 2016/17

### **Kate Limna**

Corporate Treasurer

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# **TREASURY MANAGEMENT STRATEGY STATEMENT**

**AND**

## **ANNUAL INVESTMENT STRATEGY**

**2016/17**

# **Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Strategy and Annual Investment Strategy 2016/17**

## **1. Introduction**

### **1.1 Background**

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.

The second main function of the treasury management service is the funding of capital expenditure plans. The City is not anticipating any borrowing at this time.

### **1.2 The Treasury Management Policy Statement**

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 transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

### **1.3 CIPFA Requirements**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010:

The primary requirements of the Code are as follows:

- (i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

- (ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- (iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- (iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

#### **1.4 Treasury Management Strategy for 2016/17**

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Court of Common Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included in section 7 of this report); this sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2016/17 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Capita Asset Services, Treasury Solutions.

The strategy covers:

- the current treasury position
- treasury indicators in force which will limit the treasury risk and activities of the City
- Treasury Indicators
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

## 1.5 Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the City to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the City for the foreseeable future.

## 2. Treasury Limits for 2016/17 to 2018/19

It is a statutory duty under Section 3 (1) of the Local Government Finance Act and supporting regulations, for the City to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The City must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3.

## 3. Current Portfolio Position

The City’s treasury portfolio position at 31 December 2015 comprised:

<b>Table 1</b>		<b>Principal</b>		<b>Ave. rate</b>
		<b>£m</b>	<b>£m</b>	<b>%</b>
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
<b>Gross debt</b>			<b>0</b>	<b>-</b>
<b>Total investments</b>			<b>882.3</b>	<b>0.63</b>
<b>Net Investments</b>			<b>882.3</b>	

#### 4. Treasury Indicators for 2016/17 – 2018/19

Treasury Indicators (as set out in Appendix 3) are relevant for the purposes of setting an integrated treasury management strategy.

The City is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted by the Court of Common Council on 9 March 2004 and the revised 2009 Code was adopted on 3 March 2010.

#### 5. Prospects for Interest Rates

The City of London has appointed Capita Asset Services (Capita) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate) and longer term interest rates and Appendix 2 provides a more detailed economic commentary. The following table and accompanying text below gives the Capita central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2016	0.50	2.00	2.60	3.40	3.20
Jun 2016	0.50	2.10	2.70	3.40	3.20
Sep 2016	0.50	2.20	2.80	3.60	3.30
Dec 2016	0.75	2.30	2.90	3.60	3.40
Mar 2017	0.75	2.40	3.00	3.70	3.50
Jun 2017	1.00	2.50	3.10	3.70	3.60
Sep 2017	1.00	2.60	3.20	3.80	3.70
Dec 2017	1.25	2.70	3.30	3.90	3.80
Mar 2018	1.25	2.80	3.40	4.00	3.90
Jun 2018	1.50	2.90	3.50	4.00	3.90
Sep 2018	1.50	3.00	3.60	4.10	4.00
Dec 2018	1.75	3.10	3.60	4.10	4.00
Mar 2019	1.75	3.20	3.70	4.10	4.00

**UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

**USA.** The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

**EZ.** In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

**Greece.** During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully



implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

*Portugal and Spain.* The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

## **6. Borrowing Strategy**

It is anticipated that there will be no capital borrowings required during 2016/17.

## **7. Annual Investment Strategy**

### **7.1 Introduction: Changes to Credit Rating Methodology**

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ..... This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

## **7.2 Investment Policy**

The City of London's investment policy will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code"). The City's investment priorities are:

- (a) the security of capital and
- (b) the liquidity of its investments.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the City will engage with its

advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 4 under the ‘specified’ and ‘non-specified’ investments categories.

### **7.3 Creditworthiness policy**

The City uses the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moody's and Standard & Poor's. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

The City will not specifically follow the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties but will have regard to the approach adopted by Capita's creditworthiness service which incorporates ratings from all three agencies and uses a risk weighted scoring system, thereby not giving undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a daily basis. The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the City's minimum criteria, its further use as a possible investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the City will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution and possible removal from the City's lending list.

Sole reliance will not be placed on the use of this external service. In addition the City will also use market data and market information, information from any external source and credit ratings.

Regular meetings are held involving the Chamberlain, Financial Services Director, Corporate Treasurer and Members of the Treasury Team, when the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

The primary principle governing the City's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City's prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Financial Investment Board **for approval** as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension which will be reviewed regularly.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:
  - (i) are UK banks; and/or
  - (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA (Fitch rating)

and have, as a minimum the following Fitch, credit rating:

- |                |    |
|----------------|----|
| (i) Short-term | F1 |
| (ii) Long-term | A  |

- Banks 2 – Part Nationalised UK banks – Royal Bank of Scotland. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.
- Banks 3 – The City's own banker (Lloyds Banking Group) for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.
- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:
  - (i) have assets in excess of £9bn; or
  - (ii) meet the ratings for banks outlined above
- Money Market Funds (MMF) – with minimum credit ratings of AAA/mmF
- UK Government – including government gilts and the debt management agency deposit facility.
- Local authorities.

A limit of £300m will be applied to the use of non-specified investments.

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties

**Term and monetary limits applying to investments.** The term and monetary limits for institutions on the Council's counterparty list are set out in Appendix 5.

#### 7.4 Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent. . The counterparty list, as shown in Appendix 6, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. It is proposed that the UK will be excluded from this stipulated minimum sovereign rating requirement.

#### 7.5 Investment Strategy

**In-house funds:** The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City does not currently have any term deposits which span the 2017/18 financial year.

**7.6 Investment returns expectations:** The Bank Rate has been unchanged from 0.50% since March 2009. Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are as follows:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

Capita considers that the overall balance of risk to this forecast is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

The Chamberlain and his Treasury Officers consider that the base rate will not increase until towards the end of 2016 at the earliest and even then are unlikely to increase rapidly over the next 2 to 3 years. Currently available interest rates over the longer term (2 to 3 years) are not significantly above 1.0% to 1.5% and are considered insufficient to place funds on 2 or 3 year deposit at present.

For 2015/16 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2016/17 include interest earnings based on an average investment return of 0.50% with an increase to 0.75% in 2017/18.

In managing its cash as effectively as possible, the City aims to benefit from the highest available interest rates for the types of investment vehicles invested in, whilst ensuring that it keeps within its credit criteria as set out in this document. Currently, the City invests in a call account with Lloyds Bank, money market funds, short-dated deposits (three months to one year) and a 95 day notice account. These investments are relatively liquid and therefore as and when interest rates improve balances can be invested for longer periods.

## 7.7 Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end.

The Board is asked to approve the treasury indicator and limit:

Maximum principal sums invested for more than 364 days (upto three years)

<u>£M</u>	<u>2016/17 (£M)</u>	<u>2017/18 (£M)</u>	<u>2018/19 (£M)</u>
Principal sums invested >364 days	300	300	300

It should be emphasised that the City is prepared to lend monies for periods of up to three years which is longer than most other local authorities which tend to opt for shorter durations.

## 7.8 End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

## 7.9 External fund managers

A proportion of the City's funds, amounting to £325.7m as at 31 December 2015, are externally managed on a discretionary basis by Aberdeen Asset Management, Deutsche Asset Wealth Management, Standard Life Investments (formally Ignis Asset Management), Invesco Fund Managers Ltd, Federated UK LLP, CCLA Investment Management Ltd and Payden Global Funds Plc. The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Money Market Fund Managers include a diversified



portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Money Market Funds are monitored on a regular basis by Treasury staff.

The credit criteria to be used for the selection of the cash fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Payden Sterling Reserve Fund is rated by Standard and Poor's at AAA/f.

#### **7.10 Policy on the use of external service providers**

The City uses Capita Asset Services, Treasury Solutions as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

#### **7.11 Scheme of Delegation**

Please see Appendix 7.

#### **7.12 Role of the Section 151 officer**

Please see Appendix 8.

#### **7.13 Training**

Members with responsibility for treasury management should receive adequate training. This especially applies to Members responsible for scrutiny. Training was last provided by the City's external Consultant on 30 October 2014 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

## **APPENDICES**

1. Interest Rate Forecasts 2016-2019
2. Economic Background (Capita Asset Services)
3. Treasury Indicators
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
6. Approved Countries for Investments
7. Treasury Management Scheme of Delegation
8. The Treasury Management Role of the Section 151 Officer



**CAPITA INTEREST RATE FORECASTS 2016-2019**

Capita Asset Services Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

**Note:** The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of 1<sup>st</sup> November 2012

**ECONOMIC BACKGROUND****The UK Economy**

**UK.** UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead

the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

**USA.** GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

**EZ.** In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December

meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

**Greece.** During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

**Portugal and Spain.** The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

**China and Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.



**Emerging countries.** There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

## **CAPITA ASSET SERVICES FORWARD VIEW**

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19 January 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. . There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 4 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

**TREASURY INDICATORS**

<b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>actual</b>	<b>probable outturn</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt -</b>					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
<b>TOTAL</b>	£0	£0	£0	£0	£0
<b>Operational Boundary for external debt -</b>					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
<b>TOTAL</b>	£0	£0	£0	£0	£0
<b>Actual external debt</b>	£0	£0	£0	£0	£0
<b>Upper limit for fixed interest rate exposure</b>					
Expressed as either:-					
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%	100%
OR:-					
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
<b>Upper limit for variable rate exposure</b>					
Expressed as either:-					
Net principal re variable rate borrowing / investments	100%	100%	100%	100%	100%
OR:-					
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
<b>Upper limit for total principal sums invested for over 364 days</b>	£200m	£200m	£300m	£300m	£300m
(per maturity date)					

<b>TABLE 2: Maturity structure of fixed rate borrowing during 2015/16</b>	<b>upper limit</b>	<b>lower limit</b>
- 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%

**TREASURY MANAGEMENT PRACTICES (TMP 1) – Credit and Counterparty Risk Management**

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where appropriate.

	<b>* Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	Fund Managers
Money Market Funds	AAA/mmfs (or equivalent)	In-house & Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	Fund Managers
Sovereign Bond issues (other than the UK government)	AAA	Fund Managers

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of **£300m** will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

	<b>* Minimum Credit Criteria</b>	<b>Use</b>	<b>Maximum</b>	<b>Maximum Maturity Period</b>
Term deposits - other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits - banks and building societies (with maturities in excess of one year)	Long-term A, Short-term F1,	In-house and Fund Managers	<b>£300m</b> overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AAA	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years



**APPROVED COUNTERPARTIES**

**BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES as at 31 DECEMBER 2015**

<b>FITCH RATINGS</b>	<b>BANK CODE</b>	<b>LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)</b>	<b>Duration</b>
<b>AA- F1+</b>	40-53-71	HSBC -----	Up to 3 years
<b>A F1</b>	20-00-00 20-00-52	BARCLAYS CAPITAL BARCLAYS BANK -----	Up to 3 years
<b>A+ F1</b>	30-15-57	LLOYDS TSB BANK incl. Bank of Scotland -----	Up to 3 years
<b>BBB+ F2</b>	16-75-75	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS -----	Up to 3 years
<b>A F1</b>	09-02-22	SANTANDER UK	Up to 3 years

**BUILDING SOCIETIES**

<b>FITCH RATINGS</b>	<b>GROUP</b>	<b>ASSETS £BN</b>	<b>LIMIT £M</b>	<b>Duration</b>
<b>A F1</b>	Nationwide	195	120	Up to 3 years
<b>A- F1</b>	Yorkshire	37	20	Upto 1 year
<b>A F1</b>	Coventry	31	20	Upto 1 year
<b>BBB+ F2</b>	Skipton	16	20	Upto 1 year
<b>A- F1</b>	Leeds	12	20	Upto 1 year

### **MONEY MARKET FUNDS**

<b>FITCH RATINGS</b>	<b>MONEY MARKET FUNDS Limit of £100M per fund</b>	<b>DURATION</b>
AAA/mmf	Goldman Sachs Sterling Liquidity Reserve Fund	Liquid
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Liquidity Fund	Liquid
AAA/mmf	Standard Life Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA / f	Payden Sterling Reserve Fund	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Deutsche Liquidity Fund	Liquid

### **FOREIGN BANKS**

(with a presence in London)

<b>FITCH RATINGS</b>	<b>BANK CODE</b>		<b>LIMIT £M</b>	<b>Duration</b>
<b>AA- F1+</b>	20-32-53	<b><u>AUSTRALIA</u></b> AUSTRALIA & NZ BANKING GROUP	25	Up to 3 years
<b>AA- F1+</b>	16-55-90	NATIONAL AUSTRALIA BANK	25	Up to 3 years
<b>AA- F1+</b>	40-51-62	<b><u>SWEDEN</u></b> SVENSKA HANDELSBANKEN	25	Up to 3 years

### **LOCAL AUTHORITIES**

<b>LIMIT OF £25M PER AUTHORITY</b>
Any UK local authority

**APPROVED COUNTRIES FOR INVESTMENT**

This list is based on those countries which have sovereign ratings of AAA as at 20 January 2016

**AAA**

- Australia
- Canada
- Denmark
- Germany
- Luxembourg\*
- Netherlands
- Norway \*
- Singapore
- Sweden
- Switzerland

**AA+**

- United Kingdom

\* Currently no eligible banks to invest in either country as per the Capita Asset Services weekly list

**TREASURY MANAGEMENT SCHEME OF DELEGATION**

The roles of the various bodies of the City of London Corporation with regard to treasury management are:

**(i) Court of Common Council**

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

**(ii) Financial Investment Board and Finance Committee**

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.

**(iii) Audit & Risk Management Committee**

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Working closely with and considering recommendations of the Section 151 officer on the compliance with legal statute and statements of recommended practice.

**THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER**

**The Chamberlain**

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.

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City Of London Corporation  
Monthly Investment Analysis Review  
December 2015



## Monthly Economic Summary

### General Economy

December was dominated by anticipation regarding the outcome of the Federal Reserve meeting. In a watershed moment for the global economy, the first hike in nearly a decade was reported, pushing several months of uncertainty to one side.

The UK services PMI grew for a second month running, reaching 55.9 last month, the fastest pace of expansion since July. This rise from October's 54.9 is set to point towards stronger economic growth in the upcoming months.

For the first time since July, UK CPI returned to positive territory, rising 0.1% annually in November. The ONS numbers reflected rises in transport costs and alcohol and tobacco prices which exerted upside price pressures; however this was slightly offset by a dip in clothing prices, leaving the month-on-month CPI figure standing at 0% for November. With the Brent Crude oil benchmark hovering around \$37 a barrel, analysts warn that this positive inflation figure is unlikely to be permanent.

Unemployment within the UK fell to its lowest since the three months to January 2006, with the unemployment rate dwindling to 5.2% in October, confounding forecasts of 5.3%. Nonetheless, in the month alone, regular wages rose by 1.7%, the slowest increase since January. Despite this, with inflation hovering around the zero-mark, rising earnings are expected to translate into notable increases in living standards.

Across "The Pond", US non-farm payrolls increased solidly in November, by 211,000, with the unemployment rate remaining at 5%, the lowest figure for seven-and-a-half years. Data from September and October was revised to show an additional 35,000 more jobs created than previously reported.

Following the robust non-farm data, markets stood prepared and priced in their outlook of a December rate hike, resulting in stocks rising sharply prior to the Fed meeting. The outcome of the much-anticipated meeting was in line with expectations, with the target Federal Funds rates finally increased, by a unanimous vote in favour, for the first time since 2006, by 25bps to 0.25%-0.50%. The subsequent statement revealed the opinion that the economy had expanded "at a moderate pace", alongside considerable improvements in the US labour market this year. Immediately following the announcement of the hike, the US Dollar appreciated further against Sterling, with the rate falling back below the \$1.50 level. Many of the European stock markets welcomed the rate rise, including the FTSE 100 index, which rose by 1.1% following the news.

The third and final estimate of UK GDP for Q3 revealed that economic growth was slower than previously thought, mainly weighed down by a worse-than-expected performance in the dominant services sector, which accounts for well over 70% of UK economic activity. The ONS revised the Q3 GDP figure from 0.5% to 0.4%, alongside a slowdown of the annual growth, from the previous estimate of 2.3% to 2.1%, the weakest it has been since Q3 2013. Despite the UK being the fastest growing economy in the G7 last year, it is evident that risks to the economy still remain.

UK retail sales outperformed forecasts in November, mainly driven by the sales on Black Friday. Alongside a 1.7% m/m increase from October, sales grew 5% compared with the same time last year, offering evidence that strong consumer confidence, alongside higher employment and rising real wage growth, has contributed to robust retail sales figures. Despite this, data from GfK has disclosed that although confidence amongst consumers in the UK has edged up from a 6-month low, households are more concerned about the economy than they were in December 2014.

The disappointing figures for November's public finances lead analysts to believe that George Osborne will find difficulty in meeting the OBR's public borrowing forecast for the fiscal year. With public sector net borrowing (excluding public sector banks) reaching a total of £14.2bn, expectations of £11.9bn were greatly exceeded, as was last year's November total of £12.9bn, it seems almost impossible now for the Chancellor to meet the forecasts set.

### Currency

Sterling opened the month at \$1.506 against the US dollar and closed at \$1.483. Against the Euro, Sterling opened at €1.424 and closed at €1.359.

### Forecast

Capita Asset Services did not alter its forecast this month. Capita Asset Services expects the first rate hike to come in the second quarter of 2016. Capital Economics left their forecast unchanged in December. They expect the first Bank Rate increase to come in Q2 2016.

Bank Rate	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Capita Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.50%	0.75%	0.75%	1.00%	1.00%



# City Of London Corporation

## Current Investment List

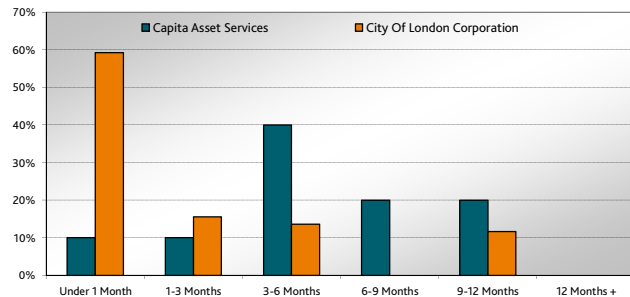
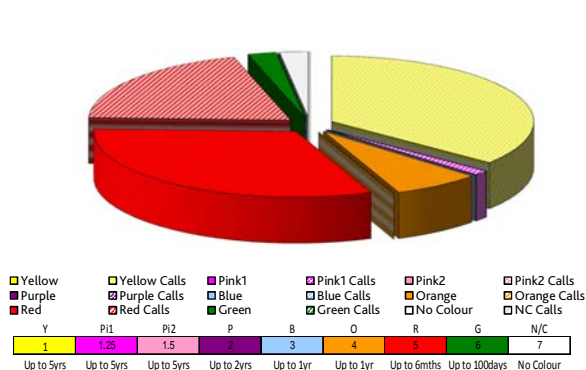
	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	MMF Aberdeen	9,900,000	0.50%		MMF	AAA	0.000%
	MMF CCLA	10,000,000	0.45%		MMF	AAA	0.000%
	MMF Deutsche	48,400,000	0.48%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	53,600,000	0.49%		MMF	AAA	0.000%
	EMMF Federated Sterling Cash Plus Fund	5,000,000	0.47%		EMMF	AAA	0.000%
	MMF Invesco	58,000,000	0.49%		MMF	AAA	0.000%
	MMF Payden & Rygel	55,000,000	0.56%		MMF	AAA	0.000%
	MMF Standard Life	80,800,000	0.49%		MMF	AAA	0.000%
	EMMF Standard Life Short Duration Cash Fund	5,000,000	0.70%		EMMF	AAA	0.000%
	Lloyds Bank Plc	75,100,000	0.50%		Call	A	0.000%
	Coventry Building Society	5,400,000	0.45%	01/10/2015	04/01/2016	A	0.001%
	Nationwide Building Society	10,800,000	0.53%	01/10/2015	04/01/2016	A	0.001%
	Nationwide Building Society	14,200,000	0.53%	02/10/2015	04/01/2016	A	0.001%
	Nationwide Building Society	7,800,000	0.52%	05/10/2015	05/01/2016	A	0.001%
	Svenska Handelsbanken AB	20,000,000	0.54%	06/10/2015	06/01/2016	AA-	0.000%
	National Australia Bank Ltd	7,200,000	0.48%	08/10/2015	08/01/2016	AA-	0.000%
	Coventry Building Society	7,800,000	0.45%	12/10/2015	12/01/2016	A	0.002%
	Nationwide Building Society	5,400,000	0.51%	16/10/2015	18/01/2016	A	0.003%
	Nationwide Building Society	10,500,000	0.50%	28/10/2015	19/01/2016	A	0.003%
	Barclays Bank Plc	25,000,000	0.76%	20/07/2015	20/01/2016	A-	0.003%
	Lloyds Bank Plc	3,800,000	0.57%	26/10/2015	29/01/2016	A	0.005%
	Lloyds Bank Plc	3,600,000	0.57%	29/10/2015	29/01/2016	A	0.005%
	Lloyds Bank Plc	15,000,000	0.57%	02/11/2015	02/02/2016	A	0.006%
	Yorkshire Building Society	6,000,000	0.47%	06/11/2015	05/02/2016	A-	0.006%
	National Australia Bank Ltd	3,800,000	0.45%	06/11/2015	08/02/2016	AA-	0.001%
	National Australia Bank Ltd	3,600,000	0.43%	10/11/2015	10/02/2016	AA-	0.001%
	Yorkshire Building Society	3,400,000	0.47%	10/11/2015	10/02/2016	A-	0.007%
	Leeds Building Society	6,000,000	0.41%	03/11/2015	22/02/2016	A-	0.009%
	National Australia Bank Ltd	3,400,000	0.46%	03/11/2015	22/02/2016	AA-	0.001%
	Nationwide Building Society	7,000,000	0.53%	03/11/2015	22/02/2016	A	0.009%
	Yorkshire Building Society	3,400,000	0.47%	03/11/2015	22/02/2016	A-	0.009%
	Nationwide Building Society	6,300,000	0.55%	10/11/2015	22/02/2016	A	0.009%
	Nationwide Building Society	2,300,000	0.50%	23/11/2015	23/02/2016	A	0.009%
	Nationwide Building Society	3,900,000	0.50%	26/11/2015	26/02/2016	A	0.010%
	Australia and New Zealand Banking Group Ltd	7,000,000	0.52%	30/11/2015	29/02/2016	AA-	0.001%
	Nationwide Building Society	1,500,000	0.50%	30/11/2015	03/03/2016	A	0.011%
	Nationwide Building Society	10,000,000	0.70%	04/09/2015	04/03/2016	A	0.011%
	Nationwide Building Society	4,000,000	0.66%	04/09/2015	04/03/2016	A	0.011%

# City Of London Corporation

## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Australia and New Zealand Banking Group Ltd	5,000,000	0.52%	14/12/2015	14/03/2016	AA-	0.001%
Nationwide Building Society	5,200,000	0.50%	15/12/2015	15/03/2016	A	0.013%
Svenska Handelsbanken AB	5,000,000	0.52%	15/12/2015	15/03/2016	AA-	0.001%
Coventry Building Society	1,800,000	0.45%	16/12/2015	16/03/2016	A	0.013%
Yorkshire Building Society	7,200,000	0.47%	16/12/2015	16/03/2016	A-	0.013%
National Australia Bank Ltd	7,000,000	0.43%	17/12/2015	17/03/2016	AA-	0.001%
Nationwide Building Society	2,300,000	0.50%	18/12/2015	18/03/2016	A	0.013%
Nationwide Building Society	7,000,000	0.52%	17/12/2015	21/03/2016	A	0.014%
Coventry Building Society	5,000,000	0.46%	18/12/2015	22/03/2016	A	0.014%
Nationwide Building Society	5,100,000	0.52%	17/12/2015	24/03/2016	A	0.014%
Santander UK Plc	100,000,000	0.90%		Call95	A	0.016%
Skipton Building Society	20,000,000	1.05%	22/04/2015	22/04/2016	BBB	0.047%
Barclays Bank Plc	39,000,000	1.00%	27/11/2015	28/11/2016	A-	0.057%
Barclays Bank Plc	36,000,000	1.03%	21/12/2015	21/12/2016	A-	0.060%
Lloyds Bank Plc	27,800,000	1.05%	22/12/2015	22/12/2016	A	0.061%
<b>Total Investments</b>	<b>£882,300,000</b>	<b>0.63%</b>				0.011%

# Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.52

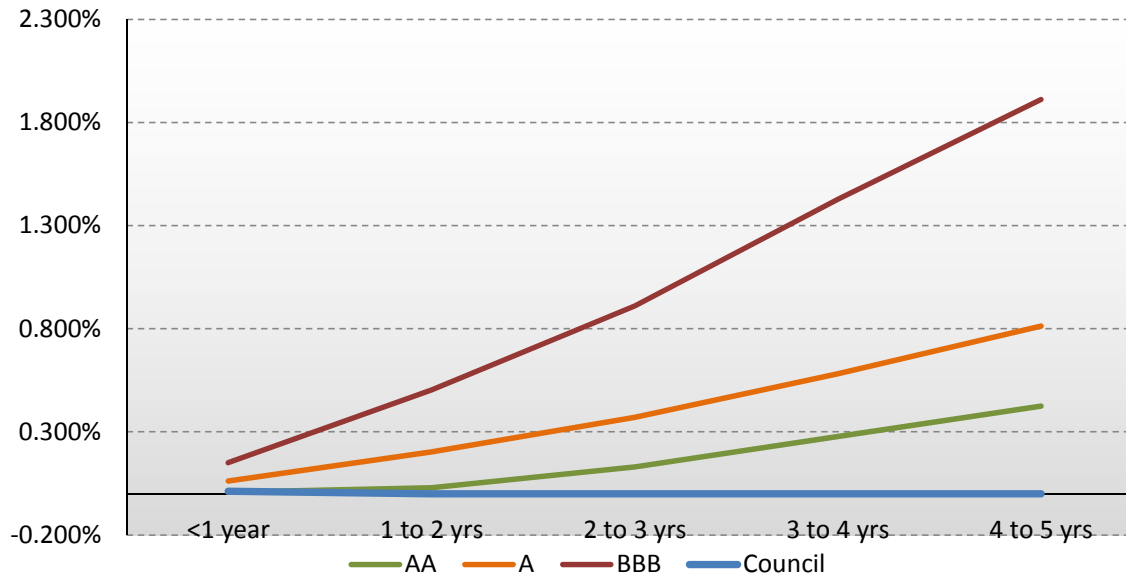
WARoR = Weighted Average Rate of Return

WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM Excluding Calls/MMFs/EMMFs	WAM at Execution Excluding Calls/MMFs/EMMFs
Yellow	35.78%	£315,700,000	100.00%	£315,700,000	35.78%	0.50%	0	0	0	0
Pink1	1.13%	£10,000,000	100.00%	£10,000,000	1.13%	0.59%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	7.03%	£62,000,000	0.00%	£0	0.00%	0.50%	38	93	38	93
Red	51.52%	£454,600,000	38.52%	£175,100,000	19.85%	0.73%	113	148	150	207
Green	2.27%	£20,000,000	0.00%	£0	0.00%	0.47%	54	95	54	95
No Colour	2.27%	£20,000,000	0.00%	£0	0.00%	1.05%	113	366	113	366
<b>Total</b>	<b>100.00%</b>	<b>£882,300,000</b>	<b>56.76%</b>	<b>£500,800,000</b>	<b>56.76%</b>	<b>0.63%</b>	<b>65</b>	<b>93</b>	<b>126</b>	<b>191</b>

## Investment Risk and Rating Exposure

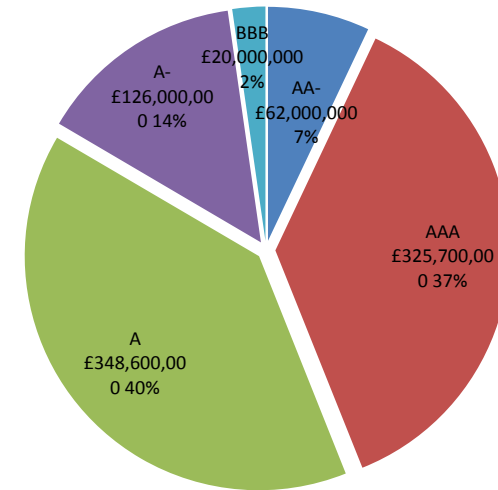
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	0.029%	0.130%	0.278%	0.425%
A	0.062%	0.202%	0.370%	0.581%	0.813%
BBB	0.150%	0.502%	0.910%	1.428%	1.912%
Council	0.011%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



### Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

### Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

### Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

## City Of London Corporation

### Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
09/12/2015	1404	UBS Ltd, UBS AG	UK, Switzerland	The Outlook on both bank Long Term rating was changed from 'Stable' to 'Positive'.
09/12/2015	1405	Deutsche Bank AG	Germany	The Long Term Rating on Deutsche Bank was downgraded from 'A' to 'A-'. The Viability Rating was downgraded from 'a' to 'a-'. The Short Term Rating was affirmed at 'F1'. The Outlook on its Long Term rating was changed from 'Negative' to 'Stable'.

## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
15/12/2015	1407	The Royal Bank of Scotland plc, National Westminster Bank Plc, The Royal Bank of Scotland Plc	UK	Outlook on the banks' long term rating was changed from 'Stable' to 'Positive'.

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
03/12/2015	1402	Skandinaviska Enskilda Banken AB, Swedbank AB	Sweden	Swedbank AB: Long term and short term ratings raised to 'AA-/A-1+' from 'A+/A-1'. Skandinaviska Enskilda Banken AB: Long term and short term ratings have been affirmed at 'A+/A-1'
03/12/2015	1403	BNP Paribas Fortis, BNP Paribas, Credit Agricole Corporate and Investment Bank, Credit Agricole SA, Societe Generale, ABN AMRO Bank N.V., Rabobank, UBS AG, UBS Ltd	Belgium, France, Netherlands, Switzerland	Multiple outlook changes but no colour changes
11/12/2015	1406	Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank, National Bank of Canada	Canada	Outlooks revised on Canadian banks that is viewed as having either 'high' or 'moderate' systematic importance to stable from negative. The credit ratings on the banks remain unchanged.

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**MONTHLY INVESTMENT REVIEW AS AT 31 DECEMBER 2015**

	<b>Couterparty Limit</b>	<b>Total Invested as at 31-Dec-15</b>
	<b>£M</b>	<b>£M</b>
<b><u>TOTAL INVESTED</u></b>		<b><u>882.30</u></b>
UK BANKS		
Barclays	100.0	100.0
HSBC	100.0	-
Lloyds	150.0	125.3
RBS	100.0	-
	<u>450.0</u>	<u>225.3</u>
BUILDING SOCIETIES		
Coventry	20.0	20.0
Leeds	20.0	6.0
Nationwide	120.0	103.3
Skipton	20.0	20.0
Yorkshire	20.0	20.0
	<u>200.0</u>	<u>169.3</u>
FOREIGN BANKS		
Australia & New Zealand	25.0	12.0
National Australia Bank	25.0	25.0
Svenska Handelsbanken	25.0	25.0
	<u>75.0</u>	<u>62.0</u>
LIQUIDITY FUNDS		
Aberdeen Liquidity Fund	100.0	9.9
CCLA - Public Sector Deposit Fund	100.0	10.0
Deutsche Global Liquidity Fund	100.0	48.4
Federated Prime Liquidity Fund	100.0	58.6
Invesco Sterling Liquidity Fund	100.0	58.0
Payden Sterling Reserve Fund	100.0	55.0
Standard Life (Ignis) Liquidity Fund	100.0	85.8
	<u>600.0</u>	<u>325.7</u>
NOTICE ACCOUNTS		
Santander 95 Days Account	100.0	100.0
LOCAL AUTHORITIES		
Any Local Authority	25.0	-

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<b>Committee:</b>	<b>Date:</b>
Financial Investment Board	4 February 2016
<b>Subject:</b> Local Government Pension Scheme – Investment Reform Criteria & Guidance and Consultation on Investment Regulations	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>
<b>Report author:</b> Kate Limna, Chamberlain's Department	

## Summary

The Government has published its the Investment Reform Criteria and Guidance (Criteria and Guidance) for the Local Government Pension Scheme (LGPS) alongside a consultation on new draft Investment Regulations to replace the 2009 LGPS (Management and Investment of Funds) Regulations.

Local authorities are expected to bring forward proposals for pooling their investments whilst the consultation on the Investment Regulations proposes to relax the current regulatory framework, but also to introduce safeguards including measures to ensure that those authorities who do not bring forward ambitious proposals for pooling should be required to pool.

In terms of the City's response to the Investment Reform Criteria and Guidance we will use the London CIV's response as the basis for our response. The response will be circulated to the Chairmen of Investment Committee, Financial Investment Board, Policy and Resources Committee, Finance Committee and the Town Clerk prior to submission to the Government. For the draft Investment Regulations, Officers are considering how best to respond to this consultation and any response will be circulate to the Chairman of the Financial Investment Board.

## Recommendation

Members are asked to note the report.

## Main Report

### Background

1. In the July 2015 budget, the Chancellor announced that it was the Government's intention to invite administering authorities of England and Wales to bring forward proposals for pooling the Local Government Pension Scheme (LGPS) investments to deliver significantly reduced costs, whilst maintaining investment performance. The initial indications were for 5-6 pools of investments of £25-30bn.
2. In November 2015, the Government published the Investment Reform Criteria and Guidance (Criteria and Guidance) alongside a consultation on new draft

Investment Regulations to replace the 2009 LGPS (Management and Investment of Funds) Regulations. Responses are required by 19 February 2016 on

- (i) how authorities plan to pool investments in outline and
  - (ii) whether the amended regulations provide sufficient flexibility for authorities to undertake pooling.
3. The Investment Reform Criteria and Guidance is not a consultation document - the criteria are predetermined and authorities are now being invited to submit proposals for pooling their assets which the Government will assess against the criteria and guidance laid out in the paper. Further detailed proposals for pooling are required by 15 July 2016
  4. The documents can be found at <https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance> and <https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme>.
  5. The Government has also published its response to the 2014 consultation *Opportunities for collaboration, cost savings and efficiencies* which received 200 responses. This can be found at <https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>
  6. The City has been involved in the establishment of the London CIV as way to deliver fee savings and wider governance benefits to the LGPS in London and along with 30 other London authorities, is a shareholder. At this stage the Government has asked for “initial proposals” which should include “*a commitment to pooling and a description of progress towards formalising arrangements*”. The Government are happy to receive collective responses from pools and/or individual responses from LGPS funds.
  7. The London CIV have drafted a response for submission although some London authorities are planning to submit a separate response. There will be considerable work to be done between February and July to pull together all of the information that the Government requires. In addition all authorities will need to identify elements of the Pension Fund that might be kept out of the pool at the outset (e.g. property funds with long duration).
  8. The City of London is a Member of the London CIV and the Chairman of Policy and Resources Committee is the Chairman of the Pension CIV Sectoral Joint Committee.
  9. Authorities are expected to make plans to transfer assets to pools as soon as is practicable with liquid assets being transferred into pools over a relatively short time frame beginning from April 2018 and illiquid assets transitioning over a longer period of time.

## Investment Reform Criteria and Guidance

10. The government's objectives are clear in the Ministerial Foreword to the Criteria and Guidance:

*“Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth.”*

11. In their submissions, authorities should include a commitment to pooling and a description of progress towards formalisation of arrangements with other authorities. Authorities can choose whether to submit individual or joint proposals or both at this stage. The submissions in July are expected to address fully the criteria set out by Government and comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

12. The Criteria and Guidance sets out four criteria and it is for authorities to suggest how their pooling arrangements will be constituted.

- Asset Pool(s) that achieve the benefits of scale
- Strong Governance and decision making
- Reduced costs and excellent value for money
- An improved capacity to invest in infrastructure

Appendix 1 sets out in detail what Authorities are expected to explain in their submissions. The Criteria and Guidance includes a number of additional points that should be noted and these are set out in Appendix 2.

13. The initial submissions will be evaluated against the criteria with the Government providing feedback to highlight areas that may fall outside of the criteria or where additional evidence may be required. Once the final proposals have been submitted and assessed against the criteria, a brief report will be provided highlighting any aspects of the guidance that they believe has not been adequately addressed.

14. For authorities who do not develop sufficiently ambitious proposals, the Government will, in the first instance, work with them to help deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers including the use of “backstop” legislation.

15. The Government has emphasised that authorities should continue to manage their investment strategies and any manager appointments until new arrangements are in place.
16. To assist authorities in developing their proposals the Government has provided for information only a copy of PwC's technical analysis of different collective investment vehicles (<https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>) and strongly encourages authorities to learn from others who have already begun the journey of developing collective investment vehicles such as the London CIV and the LPFA/Lancashire venture.
17. Once the London CIV have finalised their response, Officers will use this as the basis of the City's response. The response will be circulated to the Chairmen of Investment Committee, Financial Investment Board, Policy and Resources Committee, Finance Committee and the Town Clerk prior to submission to the Government.

#### **CONSULTATION – Revoking and Replacing the LGPS Management and Investment of Funds) Regulations 2009**

18. The Government has issued a consultation paper on revoking and replacing the LGPS (Management and Investment of Funds) Regulations 2009. Amending or replacing the 2009 Regulations has been under discussion for a number of years and with the requirement for pooling, this has reinforced the need to amend the existing investment regulations.
19. The consultation proposes to relax the current regulatory framework, but to introduce safeguards. The Chancellor's July Budget indicated that measures should be introduced to ensure that those authorities who do not bring forward ambitious proposals for pooling, in keeping with the Criteria should be required to pool and these are included in the draft Regulations.
20. There are two main areas of reform:
  - A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. (Proposal 1)
  - The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary. (Proposal 2)
21. The Government is seeking views on whether the revisions will enable sufficient flexibility for authorities to determine a suitable investment strategy that appropriately takes account of risk and whether the proposals to introduce the power of intervention as a safeguard will enable the Secretary of State to intervene (were appropriate) to ensure that authorities take advantage of the

benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.

22. Appendix 2 sets out the proposals in more detail along with the 8 questions that authorities are being asked to respond to.

23. Officers are considering how best to respond to this consultation and any response will be circulated to the Chairman of the Financial Investment Board.

## **Conclusion**

24. The City is intending to respond to the Criteria and Guidance using the London CIV response as a basis, and the consultation on the draft Investment Regulations.

## **Appendices**

- Appendix 1 - Investment Reform Criteria and Guidance
- Appendix 2 - Investment Reform Criteria and Guidance – Additional Points
- Appendix 3 - Consultation – Revoking and Replacing the LGPS Management and Investment Regulations 2009

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**Investment Reform Criteria and Guidance**

**Asset Pool(s) that achieve the benefits of scale** – the 90 Administering Authorities in England and Wales should collaborate to establish and invest through pools of at least £25bn of assets. Authorities are therefore now required to explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

**Strong Governance and decision making** – The proposed governance structure for the pools should:

- a) At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
- b) At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long- term view, and a culture of continuous improvement is adopted.

Authorities are also required to explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.



- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

**Reduced costs and excellent value for money** – Proposals are required explaining how the pool(s) will deliver substantial savings in investment fees both in the near term and over the next 15 years, whilst at the same time maintaining investment performance.

It further emphasizes that active fund management should only be used where it can be shown to deliver value and authorities are required to report how fees and net performance in each listed asset class compare to a passive index. Authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term period rather than focusing on short term performance comparisons. As part of the proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

**An improved capacity to invest in infrastructure** – Only a small proportion of LPGS assets are currently invested in infrastructure - it is estimated at 0.3% compared to large international pension funds of 10-15% of assets under management. The Government sees the scales that investment pools bring as offering real scope to increase the exposure to infrastructure assets. Authorities are therefore required as part of their submission to cover:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

**Investment Reform Criteria and Guidance – Additional Points**

- Government expects all administering authorities in England and Wales to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.
- It expects authorities to collaborate and invest through no more than six large asset pools each with at least £25bn of LGPS assets under management once fully operational.
- There may be limited scope to allow smaller pools but only for bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class such as infrastructure, direct holdings in property and locally targeted investment.
- Whilst the presumption is that all investments should be made through the pool, the Government recognize that there may be a limited number of existing investments that might be less suited to pooled arrangements such as local initiatives or products tailored towards specific liabilities, although any exemptions must be minimal and demonstrate clear value for money.
- The Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.
- Determining the investment strategy and setting the strategic asset allocation should remain with individual authorities but that the implementation of that strategy will be delegated to officers or the pool. Manager selection will need to be undertaken at the pool level.
- When developing proposals, authorities need to take into consideration procedures and mechanisms to facilitate long term responsible investing and stewardship through the pool.
- Environmental, social and corporate governance policy (ESG) should be taken into consideration both at an individual authority and pool level and how the authority's individual views can be reflected in the pool. The Government intends to issue guidance to authorities that ESG policies should not run contrary to Government policy.
- The extent to which passive management is used will remain a decision for each authority or pool, but authorities are encouraged to keep their balance of active and passive management under review
- The Local Government Pension Scheme Advisory Board is commissioning advice to help authorities fully assess all investment costs which should be taken into account when coming forward with proposals.
- No overall savings target from the proposals has been set, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs whilst maintaining performance.
- Developing larger investment pools will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth.

- Authorities are expected to make plans to transfer assets to pools as soon as is practicable. Government expects liquid assets are transferred into pools over a relatively short time frame beginning from April 2018 with illiquid assets transitioning over a longer period of time. Investments with high penalty costs for early exit should not be wound up early on account of the pooling arrangements but should be transferred across as soon as is practicable taking into account value for money.

**CONSULTATION – Revoking and Replacing the LGPS Management and Investment of Funds) Regulations 2009**

**Proposal 1: Adopting a Local Approach to Investment**

**Deregulation and Adopting a local approach to investment**

In coming forward with this proposal the Government is seeking to deregulate and simplify the investment regulations that have been in place since 2009 by removing a number of restrictions, e.g. the requirement for funds to ensure an adequate number of managers and removing restrictions around the choice and terms of investment manager appointments.

**Investment Strategy Statement**

The proposals will also see the removal of the existing schedule of limitations on investments with authorities expected instead to adopt a 'prudential' approach, demonstrating they have given consideration to the suitability of different types of investments, have appropriate diversification, corporate governance and risk management. A new Investment Strategy Statement will be required of Funds, replacing the current Statement of Investment Principles. This Statement must cover:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

Authorities will be required to publish an Investment Strategy Statement no later than 6 months after the regulations come into force (expected to be 1st April 2016) and existing provisions in current regulations around restrictions will remain in force until such time as the authority publishes its first Statement.

**Non-Financial Factors**

Included within the consultation is a section on non-financial factors, as follows:

*"The Secretary of State has made clear that using pensions and procurement policies to pursue boycotts, divestments and sanctions against foreign nations and the UK defence industry are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Secretary of State has said, "Divisive policies undermine good community relations, and harm the economic security of families by pushing up council tax. We need to challenge and prevent the politics of division."*

*The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 already require administering authorities to publish and follow a statement of investment principles, which must comply with guidance issued by the Secretary of State. The draft replacement Regulations include provision for administering authorities to publish their policies on the extent to which environmental, social and corporate governance matters are taken into account in the selection, retention and realisation of investments. Guidance on how these policies should reflect foreign policy and related issues will be published ahead of the new Regulations coming into force. This will make clear to authorities that in formulating these policies their predominant concern should be the pursuit of a financial return on their investments, including over the longer term, and that, reflecting the position set out in the paragraph above, they should not pursue policies which run contrary to UK foreign policy.”*

### Questions

The questions raised under the consultation are set out below:

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?
2. Are there any specific issues that should be reinstated? Please explain why.
3. Is six months the appropriate period for the transitional arrangements to remain in place?
4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?

### **Proposal 2: Introducing a safeguard – Secretary of State Power of Intervention**

In proposing new flexibilities around investment under Proposal the Government is keen to ensure that such flexibilities are used appropriately. The consultation therefore proposes to introduce a power for the Secretary of State to intervene in the investment function of an Administering Authority if the Secretary of State believes that the Authority has not had regard to guidance and regulations. In addition, the draft power to intervene could be used to address authorities that do not bring forward proposals for pooling their assets in line with the published criteria and guidance.

#### Determining to intervene and process of intervention

In reaching a decision on whether to intervene, the Secretary of State will need to consider evidence as to whether the authority has failed to have regard to the regulations or guidance issued under regulation, such evidence could include ignoring information on best practice, failing to follow investment regulations and guidance or undertaking a pension-related function poorly e.g. in respect of actuarial valuations where they are not consistent with other authority valuations. If the Secretary of State is satisfied that intervention is required, then he/she can draw on

external advice to determine what specific intervention might be necessary. Examples of proposed intervention might include but are not limited to:

- Requiring an administering authority to develop a new investment strategy statement that follows guidance published under draft Regulation 7(1).
- Directing an administering authority to invest all or a portion of its assets in a particular way that more closely adheres to the criteria and guidance, for instance through a pooled vehicle.
- Requiring that the investment functions of the administering authority are exercised by the Secretary of State or his nominee.
- Directing the implementation of the investment strategy of the administering authority to be undertaken by another body.

The Secretary of State will write to the authority outlining the proposed intervention, which as a minimum will include:

- A detailed explanation of why there is an intervention and the evidence used to arrive at this determination.
- A clear description of the proposed intervention and how it will be implemented and monitored.
- The timetable for the intervention, including the period of time until the intervention is formally reviewed.
- The circumstances under which the intervention might be lifted prior to review.

### Questions

The questions raised under the consultation are set out below:

5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?
6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?
7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?
8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

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