



Financial Investment Board

Date: THURSDAY, 2 FEBRUARY 2017
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
Alderman Peter Hewitt
Tom Hoffman
Alderman Robert Howard
Edward Lord
Clare James
Deputy Henry Pollard
James de Sausmarez
Ian Seaton
Philip Woodhouse

Enquiries: Philippa Sewell
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Lunch will be served in 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 1 December 2016.

For Decision
(Pages 1 - 4)
4. **OUTSTANDING ACTIONS**
Report of the Town Clerk.

For Information
(Pages 5 - 6)
5. **MONTHLY INVESTMENT ANALYSIS REVIEW**
Report of the Chamberlain.

For Information
(Pages 7 - 18)
6. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18**
Report of the Chamberlain.

For Decision
(Pages 19 - 50)
7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
9. **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

10. **PRESENTATION - M&G INVESTMENTS**
To receive a presentation from M&G Investments.

For Information
11. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 1 December 2016.

For Decision
(Pages 51 - 52)
12. **NON-PUBLIC OUTSTANDING ACTIONS**
Report of the Town Clerk.

For Information
(Pages 53 - 54)
13. **DRAFT INVESTMENT STRATEGY STATEMENT**
Report of the Chamberlain (to follow).

For Decision
14. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
15. **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

Thursday, 1 December 2016

Minutes of the meeting of the Financial Investment Board held at Committee Rooms
- West Wing, Guildhall on Thursday, 1 December 2016 at 1.45 pm

Present

Members:

Andrew McMurtrie (Chairman)	Deputy Henry Pollard
Nicholas Bensted-Smith (Deputy Chairman)	James de Sausmarez Ian Seaton
Henry Colthurst	
Clare James	

In Attendance

Michael Welbank (Chief Commoner)

Officers:

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

1. APOLOGIES

Apologies were received from Alderman Peter Hewitt, Tom Hoffman, Alderman Robert Howard, Edward Lord and Philip Woodhouse.

The Chairman welcomed the Chief Commoner to the meeting.

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

There were no declarations.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED - That the public minutes and non-public summary of the meeting held on 27 October 2016 be agreed as a correct record.

4. OUTSTANDING ACTIONS

Members received and discussed the list of Outstanding Actions, noting that the need for a presentation from the Charities Pool fund manager would be reviewed after the survey results had been received.

RESOLVED – That the report be noted.

5. **TREASURY MANAGEMENT**

The Board received two reports of the Chamberlain regarding the Treasury Management Strategy Statements for 2015/16 (end of year review) and 2016/17 (mid-year review), and the monthly review for October 2016. Members discussed the cash reserves, noting that a review was being undertaken; initial analysis had been carried out and the financial forecasts were being prepared. After this had been completed, advice could be sought as to how it could be invested. In response to a Member's query regarding the Approved Counterparties list, officers advised that this would be reviewed with the Treasury Management Strategy in January/February.

RESOLVED – That the reports 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, 14	3
13	-

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

RESOLVED – That, subject to two amendments, the non-public minutes of the meeting held on 27 October 2016 be agreed as a correct record.

10. **NON-PUBLIC OUTSTANDING ACTIONS**

Members received and discussed the list of Outstanding Actions.

RESOLVED – That the report be noted.

11. **PROPOSED DELEGATION OF INVESTMENT MANAGEMENT POWERS**

Members received a joint report of the Chamberlain and Comptroller & City Solicitor regarding a proposed delegation of investment powers to the Financial Investment Board.

RESOLVED – That the report be noted.

12. **INVESTMENT PERFORMANCE MONITORING**

The Board received two reports from the Chamberlain and Mercer regarding the investment performances of the Pension Fund, City's Cash, and Bridge House Estates portfolios.

RESOLVED – That the reports be noted.

13. PROPERTY INVESTMENT OPTIONS

The Board considered a report of Mercer.

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

There were no non-public questions.

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

There was one item of other business.

The meeting ended at 2.30 pm

Chairman

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philippa.sewell@cityoflondon.gov.uk**

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Financial Investment Board – Outstanding Actions

Item	Date	Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
1.	2 July 2015	Hampstead Heath objectives	Corporate Treasurer / Chamberlain	Update at February Board meeting	Officers at Hampstead Heath be contacted for their views after accounts are signed off in November.
2.	2 July 2015	Charities Pool objectives and allocations	Corporate Treasurer / Chamberlain	Update at February Board meeting	Survey to be sent with accounts.
3.	9 Sep 2015	Review of Fees	Corporate Treasurer / Chamberlain	May Board meeting	Postponed until new Fund Managers are in place. This will also be the criteria for pooling the LPGS investments, and will include information on 'hidden' costs.
4.	30 Jun 2016	Charities Pool	Corporate Treasurer / Chamberlain	Once the survey results have been received	The need for a presentation to the larger investors would be reviewed once the survey results had been received.

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CAPITA

Treasury solutions

Asset Services

City Of London Corporation

Monthly Investment Analysis Review

December 2016



City Of London Corporation Monthly Economic Summary

General Economy

As announced earlier this month, tax cuts, increased government spending and deregulation are a few economic tools that President-elect, Donald Trump, will look to use in order to boost US economic growth. Therefore, the unanimous decision by the Federal Reserve to raise interest rates for the first time since December 2015, to 0.5% - 0.75% was universally expected. This rate hike was just the second since the onset of the Financial Crisis, which saw the Federal Reserve cut rates to almost zero in order to stabilise the economy. The accompanying economic forecasts from the central bank were altered to reflect a faster pace of tightening in the coming year. These now suggest three rate hikes in 2017, up from two previously anticipated. Fed Chair, Janet Yellen, announced that the rate hike was in response to the “expected labour market conditions and inflation”, as the unemployment rate fell to a 9-year low in November at 4.6% and non-farm payrolls rose 156,000 from the revised figure of 135,000 in October. Moreover, Q3 GDP was finalised at its best rate in two years, at 3.5% annually, as consumer expenditure continued to perform strongly. Both pieces of data supported the decision to increase interest rates. Meanwhile, the potential impact of “Trumponomics” bolstered the view on a more aggressive rate outlook, despite an uncertain global economic outlook.

Moving on to the UK economy, the Purchasing Managers’ Index (PMI) figures released for November all revealed how the slump in Sterling after the Brexit vote has variously affected the Services, Construction and Manufacturing sectors. Unexpectedly, manufacturing activity cooled, with the headline reading falling to 53.4 from 54.2 in October. The survey revealed that higher input prices for factories and a fall in export orders took its toll on the index. In contrast, the construction PMI reading hit an 8-month high of 52.8 from 52.6 in October. The improvement was as a result of stronger productivity in commercial and civil engineering, as well as robust growth in house building. Likewise, the services sector PMI remained upbeat, rising to 55.2 from 54.5 in October, as Britain’s dominant sector grew at its fastest pace since January. Despite this strength in current conditions, the continued rise in inflation forecasted over the coming months is likely to raise input prices, which will be fed through to consumers in the form of higher prices. This saw most respondents to the survey having a negative outlook about the year ahead.

Consumer-level inflation figures hit a 2-year high of 1.2% in November, with rising prices for clothing and technology goods being key components of the increase. At the wholesale level, core prices (which exclude volatile elements such as food, drink and petrol) increased by 2.2% on the year, the highest annual increase since February. Looking ahead, the cost of imports will continue to upwardly impact on prices, with the Bank of England (BoE) forecasting consumer level prices to rise to 2.8% by mid-2018. Nevertheless, Mark Carney has previously stated that the Bank will tolerate some overshoot of its inflation target, hence why the MPC stuck to the status quo in its December meeting. In terms of growth, the final reading of Q3 GDP came in higher than the forecasted 0.5%, at 0.6%, while the annual rate was lowered due to revisions to growth figures in the first half of the year. Overall, while growth may have moderated from the first half of the year, it has not been as negatively affected by Brexit as some had feared.

Elsewhere, figures showed that the number of people in the labour force fell for the first time in more than a year. The drop of 6,000 came despite the unemployment rate falling to 4.8% in the three months to October, from 4.9% previously. Average weekly earnings excluding bonuses rose by 2.5% on an annual basis, from 2.4% in the three months to September. This rise was the joint strongest in more than a year. However, as Britain’s relationship with the EU creates uncertainty, it is widely expected that the unemployment rate will rise over the coming months as companies hold off from hiring until solid foundations about Britain’s future outside the EU have been made.

Discounts on ‘Black Friday’ saw the majority of consumer expenditure occurring in the last week of November, damaging sales for retailers such as clothing stores who did not take part as much as department stores. Higher fuel prices also impacted last month as the annual rate of retail sales fell to 5.9% in November from 7.2% in October. Nevertheless, the October rate was always seen as unsustainable. Furthermore, the BoE has warned that despite retail sales growth being relatively robust even after the Brexit vote, the depreciation in Sterling will increasingly feed through into the economy in the form of higher prices next year, causing growth to slow.

Public Finances seemed to be on track, when compared with the new deficit reduction goals set out by Chancellor Philip Hammond last month. The deficit for November was the lowest for a month since 2007 coming in at £12.6 billion, 4.4% lower than the deficit for the same month in 2015. The Office for Budget Responsibility (OBR) stated that the recent deterioration in public finances is a reflection of weaker tax revenue for this financial year as tax revenue growth for November of 3.6%, was some way below the average 4.4% seen so far in 2016.

Meanwhile, the European Central Bank (ECB) altered its policy during their monthly meeting. While it left the Asset Purchase Programme at its current monthly pace of €80 billion until the end of March 2017, new policy purchases thereafter will be at €60 billion per month until the end of December 2017, or beyond, if necessary. While ECB President Draghi insisted this was not policy tapering, market participants were not convinced, pushing up bond yields across the currency bloc. Elsewhere, data for the Eurozone showed growth had remained steady in the third quarter at 0.3%, with the year-on-year growth figure being revised to 1.7% from 1.6%. The latter figure matched that recorded in the second quarter. The unemployment rate for October was the lowest rate recorded in the Euro area since July 2009, as it fell to 9.8% from 9.9% in September.

Over the coming months the economic outlook for Britain remains unclear as plans for Brexit have yet to be finalised. While the threat of this and higher prices via Sterling depreciation weighed in, the GfK consumer confidence index registered a modest increase in December. In addition to Brexit progress, the spotlight will focus on the inauguration of Donald Trump on the 20th January as the effect of his administration on the US economy and that of its major trading partners in the coming years will become clearer.

Housing

House price growth sped up in November for the first time since March, according to Halifax. However, looking ahead, it is suggested that price increases may slow. On the month, prices increased by 0.2%, with the three month annual figure increasing by 6.0%, up from the 5.2% growth recorded in the three months to October. Nationwide reported that house prices continued to rise in December with annual house prices growth up 4.5%, from 4.4% in November. However, economic uncertainty is likely to slow the pace of growth in 2017 with Nationwide currently forecasting house prices to rise by just 2% in 2017.

Forecast

Capita Asset Services (CAS) did not alter their forecasts this month with a rate hike to 0.50% forecast in Q3 2019. Capital Economics now expect the bank rate to remain at 0.25% from Q4 2016 to Q2 2019 when it will increase to 0.50% and then increase again to 0.75% in Q4 2019.

Bank Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%

City Of London Corporation

Current Investment List

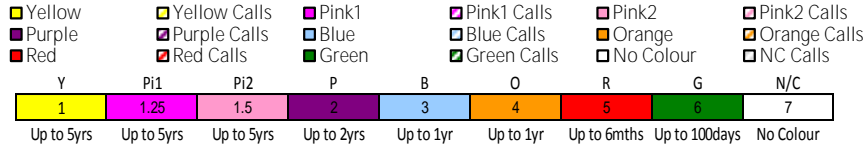
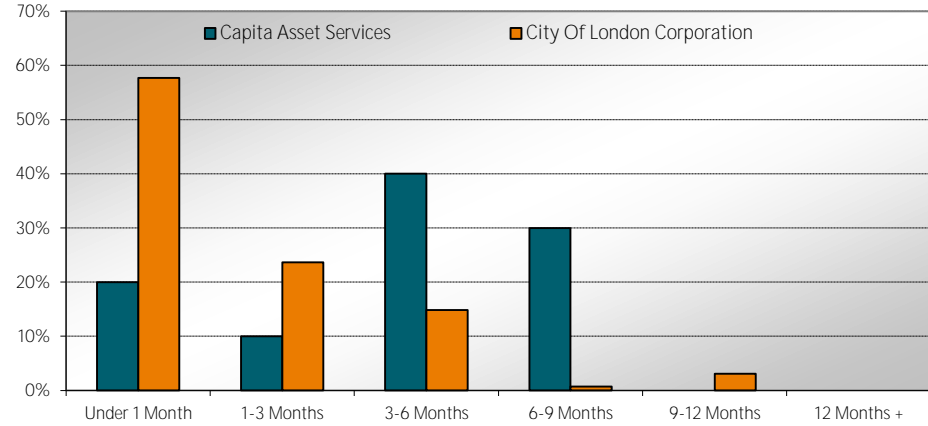
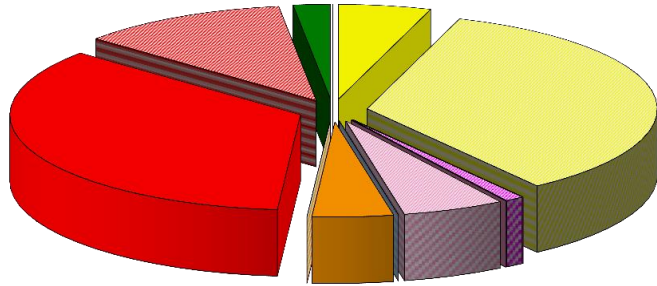
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
ECF Payden Sterling Reserve Fund	55,000,000	1.36%		ECF	AAA	0.000%
ECF Federated Sterling Cash Plus Fund	5,000,000	0.70%		ECF	AAA	0.000%
ECF Standard Life Short Duration Cash Fund	5,000,000	0.83%		ECF	AAA	0.000%
MMF CCLA	10,000,000	0.26%		MMF	AAA	0.000%
MMF Standard Life	53,900,000	0.28%		MMF	AAA	0.000%
Lloyds Bank Plc	12,800,000	0.25%		Call	A	0.000%
MMF Invesco	112,800,000	0.40%		MMF	AAA	0.000%
MMF Federated Investors (UK)	81,800,000	0.30%		MMF	AAA	0.000%
MMF Aberdeen	79,700,000	0.32%		MMF	AAA	0.000%
Lloyds Bank Plc	10,000,000	0.90%	01/04/2016	02/01/2017	A	0.000%
Australia and New Zealand Banking Group Ltd	5,000,000	0.26%	03/10/2016	03/01/2017	AA-	0.000%
Leeds Building Society	7,000,000	0.66%	20/06/2016	03/01/2017	A-	0.001%
Leeds Building Society	5,000,000	0.66%	20/06/2016	03/01/2017	A-	0.001%
Nationwide Building Society	25,000,000	0.88%	06/04/2016	06/01/2017	A	0.001%
Lloyds Bank Plc	14,600,000	0.50%	07/10/2016	09/01/2017	A	0.002%
Leeds Building Society	8,000,000	0.66%	27/06/2016	11/01/2017	A-	0.002%
Svenska Handelsbanken AB	18,600,000	0.32%	12/10/2016	12/01/2017	AA-	0.000%
Lloyds Bank Plc	1,800,000	0.50%	13/10/2016	13/01/2017	A	0.002%
Surrey County Council	20,000,000	0.35%	15/12/2016	16/01/2017	AA	0.000%
Lloyds Bank Plc	2,700,000	0.50%	20/10/2016	20/01/2017	A	0.004%
Lloyds Bank Plc	5,700,000	0.50%	26/10/2016	26/01/2017	A	0.005%
Lloyds Bank Plc	3,200,000	0.50%	27/10/2016	27/01/2017	A	0.005%
Lloyds Bank Plc	1,200,000	0.50%	28/10/2016	30/01/2017	A	0.006%
Australia and New Zealand Banking Group Ltd	15,000,000	0.30%	31/10/2016	31/01/2017	AA-	0.001%
Lloyds Bank Plc	10,600,000	1.50%	01/02/2016	01/02/2017	A	0.006%
Lloyds Bank Plc	1,100,000	0.50%	02/11/2016	02/02/2017	A	0.006%
Nationwide Building Society	9,400,000	0.31%	07/11/2016	07/02/2017	A	0.007%
Lloyds Bank Plc	2,800,000	0.45%	10/11/2016	10/02/2017	A	0.008%
Coventry Building Society	10,600,000	0.33%	04/10/2016	20/02/2017	A	0.009%
Coventry Building Society	5,300,000	0.33%	05/10/2016	27/02/2017	A	0.011%
Nationwide Building Society	6,700,000	0.39%	03/10/2016	03/03/2017	A	0.011%
Australia and New Zealand Banking Group Ltd	5,000,000	0.28%	05/09/2016	06/03/2017	AA-	0.001%
Coventry Building Society	4,100,000	0.37%	05/09/2016	06/03/2017	A	0.012%
Nationwide Building Society	4,300,000	0.42%	06/09/2016	06/03/2017	A	0.012%
Nationwide Building Society	5,300,000	0.36%	06/10/2016	06/03/2017	A	0.012%
Lloyds Bank Plc	4,000,000	0.45%	05/12/2016	06/03/2017	A	0.012%
Nationwide Building Society	19,400,000	0.50%	07/09/2016	07/03/2017	A	0.012%

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Nationwide Building Society	3,800,000	0.43%	15/09/2016	15/03/2017	A	0.014%
GLOUCESTERSHIRE COUNTY COUNCIL	10,000,000	0.35%	16/12/2016	16/03/2017	AA	0.001%
Lloyds Bank Plc	27,800,000	0.45%	22/12/2016	22/03/2017	A	0.015%
Nationwide Building Society	10,200,000	0.44%	07/10/2016	24/03/2017	A	0.015%
Nationwide Building Society	5,000,000	0.43%	26/09/2016	27/03/2017	A	0.016%
London Borough of Barking & Dagenham	10,000,000	0.35%	14/12/2016	28/03/2017	AA	0.002%
Barclays Bank Plc	25,000,000	0.53%	30/09/2016	30/03/2017	A-	0.016%
Plymouth City Council	10,000,000	0.35%	23/12/2016	30/03/2017	AA	0.002%
Barclays Bank Plc	39,000,000	0.45%	28/11/2016	31/03/2017	A-	0.017%
Nationwide Building Society	23,700,000	0.45%	02/11/2016	03/04/2017	A	0.017%
Santander UK Plc	100,000,000	0.65%		Call95	A	0.017%
Skipton Building Society	20,000,000	1.05%	22/04/2016	24/04/2017	BBB	0.047%
Nationwide Building Society	7,200,000	0.65%	30/08/2016	30/08/2017	A	0.044%
Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.051%
Total Investments	£969,100,000	0.53%				0.008%

Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.14

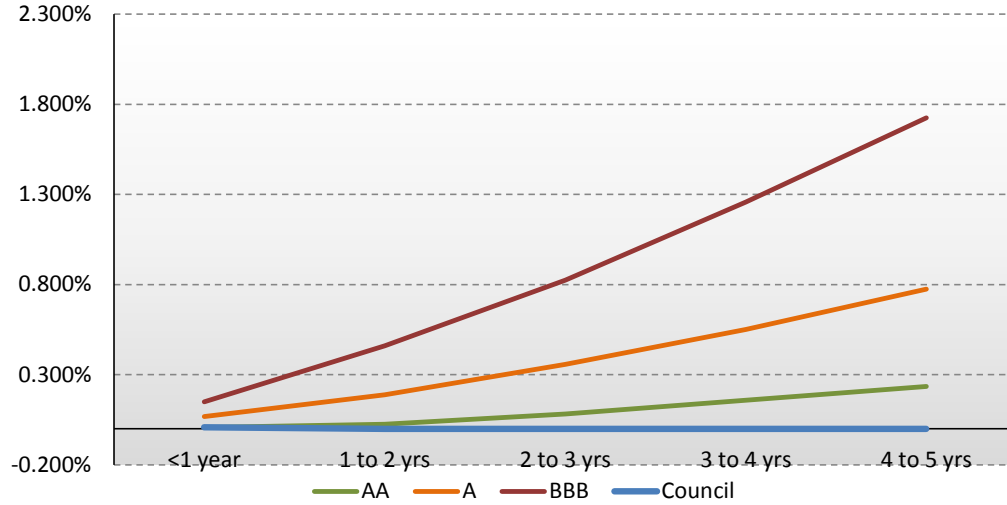
WARoR = Weighted Average Rate of Return

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	Excluding Calls/MMFs/ECFs	
									WAM	WAM at Execution
Yellow	40.06%	£388,200,000	87.12%	£338,200,000	34.90%	0.34%	7	9	57	71
Pink1	1.03%	£10,000,000	100.00%	£10,000,000	1.03%	0.77%	0	0	0	0
Pink2	5.68%	£55,000,000	100.00%	£55,000,000	5.68%	1.36%	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	4.50%	£43,600,000	0.00%	£0	0.00%	0.30%	24	102	24	102
Red	46.67%	£452,300,000	24.94%	£112,800,000	11.64%	0.60%	81	161	80	186
Green	2.06%	£20,000,000	0.00%	£0	0.00%	1.05%	114	367	114	367
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£969,100,000	53.25%	£516,000,000	53.25%	0.53%	44	91	73	173

Investment Risk and Rating Exposure

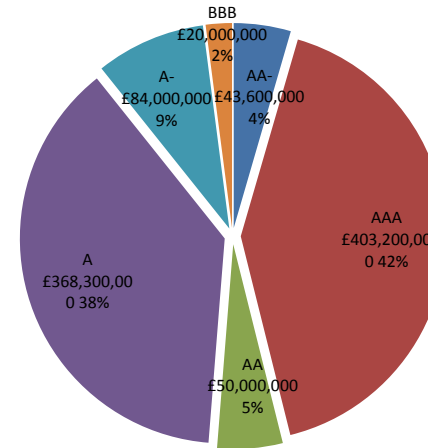
Investment Risk Vs. Rating Categories



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%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.008%	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
14/12/2016	1491	Goldman Sachs International Bank	U.K	Long Term Rating affirmed at 'A', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'F1'.
28/12/2016	1495	Belgium Sovereign Rating	Belgium	Sovereign Rating downgraded to 'AA-' from 'AA', Outlook changed to Stable from Negative.

City Of London Corporation

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
08/12/2016	1489	Italy Sovereign Rating	Italy	Sovereign Rating affirmed at 'Baa2', Outlook changed to Negative from Stable
13/12/2016	1490	Barclays Bank Plc	U.K	Long Term Rating upgraded to 'A1' from 'A2', Negative Outlook. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	DBS Bank Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	Oversea-Chinese Banking Corporation Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.
14/12/2016	1492	United Overseas Bank Ltd.	Singapore	Long Term Rating affirmed at 'Aa1', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'.

City Of London Corporation

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
16/12/2016	1493	Commerzbank AG	Germany	Long Term Rating affirmed at 'BBB+', removed from Stable Outlook and placed on Positive Watch. Short Term affirmed at 'A-2'.
16/12/2016	1493	Deutsche Bank AG	Germany	Long Term Rating affirmed at 'BBB+', removed from Negative Outlook and placed on Positive Watch. Short Term affirmed at 'A-2'.
19/12/2016	1494	Goldman Sachs International Bank	U.K	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.
19/12/2016	1494	Bank of America, N.A.	U.S.A	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.
19/12/2016	1494	Citibank, N.A.	U.S.A	Long Term Rating upgraded to 'A+' from 'A', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'A-1'.

MONTHLY INVESTMENT REVIEW AS AT 31 DECEMBER 2016

	Couterparty Limit	Total Invested as at 31-Dec-16
	£M	£M
<u>TOTAL INVESTED</u>		<u>969.10</u>
UK BANKS		
Barclays	100.0	64.0
HSBC	100.0	-
Lloyds	150.0	128.3
RBS	100.0	-
	<u>450.0</u>	<u>192.3</u>
BUILDING SOCIETIES		
Coventry	20.0	20.0
Leeds	20.0	20.0
Nationwide	120.0	120.0
Skipton	20.0	20.0
Yorkshire	20.0	-
	<u>200.0</u>	<u>180.0</u>
FOREIGN BANKS		
Australia & New Zealand	25.0	25.0
National Australia Bank	25.0	-
Svenska Handelsbanken	25.0	18.6
	<u>75.0</u>	<u>43.6</u>
LIQUIDITY FUNDS		
Aberdeen Liquidity Fund	100.0	79.7
CCLA - Public Sector Deposit Fund	100.0	10.0
Deutsche Global Liquidity Fund	100.0	-
Federated Prime Liquidity Fund	100.0	86.8
Invesco Sterling Liquidity Fund	100.0	98.2
Payden Sterling Reserve Fund	100.0	55.0
Standard Life (Ignis) Liquidity Fund	100.0	73.5
	<u>600.0</u>	<u>403.2</u>
NOTICE ACCOUNTS		
Santander 95 Days Account	100.0	100.0
	<u>100.0</u>	<u>100.0</u>
LOCAL AUTHORITIES		
Gloucestershire County Council	25.0	10.0
LB Barking and Dagenham	25.0	10.0
Plymouth City Council	25.0	10.0
Surrey County Council	25.0	20.0
	<u>100.0</u>	<u>50.0</u>

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Agenda Item 6

Committee: Financial Investment Board	Date: 2 February 2017
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2017/18	Public
Report of: The Chamberlain	For Decision
Report author: Kate Limna – Chamberlain’s Department	

Summary

The attached document sets out the City’s Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18. 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 - 2017 Budget Report” being considered by the Finance Committee on 21 February 2017.

The only change to the Treasury Strategy for 2017/18 is to the Non Specified Investments (Appendix 4) where, following discussions with the Chairman and Deputy Chairman of the Financial Investment Board, UK Index Linked Gilts have been included.

The key areas to highlight are:

- As at 31 December 2016, the City had cash balances totalling some £969.1m. The majority of balances are held for payment to third parties; they are either restricted reserves, or will be drawn down over the coming years to fund various projects such as the Museum of London. Some £200m is being held as part of the City’s contribution to Crossrail and this is expected to be paid either towards the end of this financial year (2016/17) or at the start of the next financial year (2017/18) (section 3).
- 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 7.2) This is unchanged from previous years.
- It is proposed that the City continues to be prepared to lend monies for up to three years’ duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. As the current returns on deposits for 2 and 3 years are considered insufficient, no new long term deposits have been made (sections 7.4 & 7.5).
- Capita Asset Services, the City’s Treasury Management advisors are looking at alternative investment options, taking into consideration the City’s forecasted expenditure over the coming years.
- It is anticipated that the City will remain debt free during 2017/18 but it should be noted that it is possible that there may be a borrowing requirement in future years, depending on the funding strategy for the Museum of London project (section 6).

It is unlikely that there will be a borrowing requirement before 2019 and the Treasury Management Strategy Statement and Annual Investment Strategy will be amended when necessary.

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

Recommendation

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18, and recommends that Finance Committee submits it to the Court for formal adoption as part of the City Fund - 2017 Budget Report.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2017/18

Kate Limna

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2017/18

Treasury Management Strategy Statement and Annual Investment Strategy 2017/18

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 2017/18

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 2017/18 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 which limit the treasury risk and activities of the City
- 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 2017/18 to 2019/20

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 2016 comprised:

Table 1		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	0	0	-
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
Gross debt			0	-
Total investments			969.1	0.53
Net Investments			969.1	

4. Treasury Indicators for 2017/18 – 2019/20

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.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2016	0.25	1.60	2.30	2.90	2.70
Mar 2017	0.25	1.60	2.30	2.90	2.70
Jun 2017	0.25	1.60	2.30	2.90	2.70
Sep 2017	0.25	1.60	2.30	2.90	2.70
Dec 2017	0.25	1.60	2.30	3.00	2.80
Mar 2018	0.25	1.70	2.30	3.00	2.80
Jun 2018	0.25	1.70	2.40	3.00	2.80
Sep 2018	0.25	1.70	2.40	3.10	2.90
Dec 2018	0.25	1.80	2.40	3.10	2.90
Mar 2019	0.25	1.80	2.50	3.20	3.00
Jun 2019	0.50	1.90	2.50	3.20	3.00
Sep 2019	0.50	1.90	2.60	3.30	3.10
Dec 2019	0.75	2.00	2.60	3.30	3.10
Mar 2020	0.75	2.00	2.70	3.40	3.20

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter

2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets.

The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth, but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries. The degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:

- Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
- Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
- Dutch general election March 2017;
- French presidential election April/May 2017;
- French National Assembly election June 2017;
- German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats.
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in 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.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- 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.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2017/18.

7. Annual Investment Strategy

7.1. 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) security; and
- (b) liquidity.

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.

7.2. 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, the Deputy Chamberlain, 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

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council’s counterparty list are set out in Appendix 5.

7.3. 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 (which is currently rated as AA) will be excluded from this stipulated minimum sovereign rating requirement.

7.4. Investment Strategy

7.5. **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 2018/19 financial year.

7.6. **Investment returns expectations:** The Bank Rate is forecast to stay flat at 0.25% until quarter 2 of 2019 and not to rise above 0.75% by quarter 1 of 2020. Bank Rate forecasts for financial year ends (March) are as follows:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

Capita consider that the overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, upside risk may increase i.e. Bank Rate increases occur earlier and / or at a quicker pace.

The Chamberlain and his Treasury Officers consider that the base rate will not increase until June 2019 at the earliest and even then is unlikely to increase rapidly following the initial rises. Currently available interest rates over the longer term (2 to 3 years) are not significantly above 0.75% to 1.0% and are therefore considered insufficient to place funds on 2 or 3 year deposit at present.

For 2016/17 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2017/18 and 2018/19 include interest earnings based on an average investment return of 0.50%.

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 (up to three years)			
	2017/18	2018/19	2019/20
	£M	£M	£M
Principal sums invested >364 days	300	300	300

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 **£403.2m** as at 31 December 2016, 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

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. 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 2017-2020
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 2017 - 2020

Capita Asset Services Interest Rate View													
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of 1st November 2012. The Bank of England base rate was cut from 0.5% to 0.25% on 4 August 2016.

ECONOMIC BACKGROUND

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in

October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative

easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, the **ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government

as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15 March 2017**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 13 April; second round 7 May 2017.
- **French National Assembly election** June 2017.
- **German Federal election** August 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy away from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from

the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

TREASURY INDICATORS

TABLE 1: TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£27,510	£27,460	£27,410	£27,360
TOTAL	£0	£27,510	£27,460	£27,410	£27,360
Operational Boundary for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£27,510	£27,460	£27,410	£27,360
TOTAL	£0	£27,510	£27,460	£27,410	£27,360
Actual external debt	£0	£0	£0	£0	£0
Upper limit for fixed interest rate exposure					
Expressed as either:-					
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Expressed as either:-					
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days					
(per maturity date)	£200m	£300m	£300m	£300m	£300m

TABLE 2: Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
- under 12 months	0%	0%
- 12 months and within 24 months	0%	0%
- 24 months and within 5 years	0%	0%
- 5 years and within 10 years	0%	0%
- 10 years and above	0%	0%

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.

	Minimum ‘High’ Credit Criteria	Use
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/mmf (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 categories set out below.

	Minimum Credit Criteria	Use	Maximum	Maximum Maturity Period
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	£300m 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
UK Index Linked Gilts	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 2016

FITCH RATINGS	BANK CODE	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA- F1+	40-53-71	HSBC -----	Up to 3 years
A F1	20-00-00 20-00-52	BARCLAYS CAPITAL BARCLAYS BANK -----	Up to 3 years
A+ F1	30-15-57	LLOYDS BANK incl. Bank of Scotland -----	Up to 3 years
BBB+ F2	16-75-80	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS -----	Up to 3 years
A F1	09-02-22	SANTANDER UK	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A F1	Nationwide	225	120	Up to 3 years
A- F1	Yorkshire	39	20	Up to 1 year
A F1	Coventry	36	20	Up to 1 year
A- F1	Skipton	18	20	Up to 1 year
A- F1	Leeds	14	20	Up to 1 year

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
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)

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

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 16 December 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.

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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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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