Public Document Pack

Financial Investment Board

Date: **THURSDAY, 1 FEBRUARY 2018**

Time: **1.45 pm**

Venue: **COMMITTEE ROOMS - WEST WING, GUILDHALL**

Members:
Andrew McMurtrie (Chairman)
Nicholas Bensted-Smith (Deputy Chairman)
Alexander Barr
Henry Colthurst
Alderman Robert Howard
Deputy Jamie Ingham Clark
Deputy Clare James
Tim Levene
Andrien Meyers
Deputy Henry Pollard
James de Sausmarez
Ian Seaton
Deputy Philip Woodhouse
Alderman Peter Hewitt (Co-opted Member)

Enquiries: **Joseph Anstee**
tel. no.: 020 7332 1480
joseph.anstee@cityoflondon.gov.uk

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 30 November 2017.

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 - 22)

6. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018-19**
Report of the Chamberlain

For Decision
(Pages 23 - 56)

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.

For Decision

Part 2 - Non-Public Agenda

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 30 November 2017.

For Decision
(Pages 57 - 60)

11. **NON-PUBLIC OUTSTANDING ACTIONS**
Report of the Town Clerk

For Information
(Pages 61 - 62)

12. **PRESENTATION - LONDON CIV**
To receive a presentation from the London CIV.

For Information

13. **RESPONSIBLE INVESTMENT: ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) DRAFT POLICY AND ACTION PLAN - TO FOLLOW**
Report of the Chamberlain

For Decision

14. **INVESTMENT STRATEGY REVIEW PROPOSAL - CITY'S CASH AND BRIDGE HOUSE ESTATES**
Report of the Chamberlain and Mercer

For Decision
(Pages 63 - 70)

15. **INVESTMENT PERFORMANCE MONITORING REPORT TO 30 NOVEMBER 2017**
Report of the Chamberlain

For Information
(Pages 71 - 96)

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

17. **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, 30 November 2017

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

Present

Members:

Andrew McMurtrie (Chairman)
Nicholas Bensted-Smith (Deputy Chairman)
Alderman Robert Howard
Deputy Jamie Ingham Clark
Deputy Clare James
Tim Levene
Andrien Meyers
Deputy Henry Pollard
James de Sausmarez

Officers:

Joseph Anstee	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Tom Broughton	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Catrina Arbuckle	-	Mercer
Kate Brett	-	Mercer

1. **APOLOGIES**
   Apologies for absence were received from Alderman Peter Hewitt, Deputy Philip Woodhouse, Alexander Barr, Henry Colthurst and Ian Seaton.

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 26 October 2017 be agreed as a correct record.

4. **OUTSTANDING ACTIONS**
   The Board received a list of outstanding actions.

   On applications for elected professional client status, the Board noted that MIFID II would come into effect as of 3 January 2018. The Board was advised that there had been a reasonable amount of responses to the 32 letters sent to a combination of fund managers, advisors and counterparties. Reminders would be sent out the following week to those that had not confirmed the results of their opt-up application reviews.

RESOLVED – That the report be noted.

5. **MONTHLY INVESTMENT ANALYSIS REVIEW**

The Board received a report of the Chamberlain concerning the monthly investment analysis review for October 2017. The report detailed the list of current investments and their performance and provided an update on the general economic outlook.

Members noted that the Corporation's current treasury investments amounted to £860m with a weighted average rate of return of 0.53%. A Member queried the number of local authorities that appeared on the list of current investments. The Chamberlain confirmed that these were short-term deposits over which durations local authorities offered competitive lending rates. The recent rise in base rate had not fully filtered through all the money markets yet but the expectation is this will begin to impact the portfolio's overall return in the coming months.

RESOLVED – That the report be noted.

6. **MID-YEAR TREASURY MANAGEMENT REVIEW 2017-18**

The Board received a report of the Chamberlain concerning the mid-year treasury management review for the 2017/18 financial year. The Board was advised the Corporation was in the process of selecting an Ultra Short Dated/Short Dated Bond Fund as an additional mandate for its cash balances. A shortlist of fund managers had been drawn up for consideration by the Chamberlain and in consultation with the Chairman and Deputy Chairman the final selection process would shortly be carried out.

RESOLVED – That the report be noted.

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

There were no questions.

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

There was no other business.

9. **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**
10-17	3
18-19	-

10. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
RESOLVED - That the non-public minutes of the meeting held on 26 October 2017 be agreed as a correct record.

11. **NON-PUBLIC OUTSTANDING ACTIONS**
The Board received a list of non-public outstanding actions.

12. **ESG SURVEY RESULTS**
The Board received the results of the recent ESG Survey, presented by Mercer.

13. **CITY'S CASH AND BRIDGE HOUSE ESTATES STRATEGY REVIEW PROPOSAL**
The Board considered a report of Mercer.

14. **INVESTMENT MONITORING REPORTS**

a) **Investment Monitoring Report to 30 September 2017**

The Board received a report of the Chamberlain.

b) **Quarterly Monitoring Report**

The Board received a report of Mercer.

15. **LONDON CIV: APPOINTMENT OF MULTI ASSET MANAGER AND PRIVATE DEBT MANAGER**
The Board received a report of the Chamberlain.

16. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
Members asked questions on matters relating to the work of the Board.

17. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
The Board discussed urgent business.

The next meeting was scheduled for Thursday 1st February 2018.

The meeting closed at 3.00 pm

Chairman

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joseph.anstee@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.	5 September 2017	Applications for Elected Professional Client Status (MIFID II)	Corporate Treasurer / Chamberlain	3 January 2018	Fully opted up with all counterparties/ investment managers/consultants for whom an election to professional status was required

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LINK Asset Services

City Of London Corporation

Monthly Investment Analysis Review

December 2017

General Economy

Compared to November, in which we saw the first rate rise in a decade as well as a Budget, December was relatively tame. Most economic figures continued the trends we have seen throughout the year as markets and geopolitical positions generally remained unchanged.

The first economic release of the month was the Purchasing Manager's Index (PMI) survey for the manufacturing sector, which came in at a four year high of 58.2, exceeding polled expectations of 56.5. This figure suggests that growth in the sector has further accelerated in Q4, with sterling's slide seemingly providing ample support for manufacturers. Construction PMI also exceeded expectations of 51.0; the actual figure coming in at 53.1. Services PMI came in slightly below expectations of 55.0 at 53.8, however for many analysts this was arguably a simple reversal of October's sharp rise. The figure is still a little higher than Q3's average of 53.5. The survey did however suggest that cost pressures have intensified. A rise in input prices reversed some of the decline of previous months as a result of the recent rise in oil prices. Output prices also rose to their highest level since February 2008. However, with inflationary pressures caused by sterling's fall now starting to fade, commentators suggest that it should not be too long before pricing pressures begin to wane. The future activity component of the index also suggested that November's dip in sector activity could just be temporary, and that firms are not overly pessimistic about the near-term outlook. The rise in manufacturing and construction PMIs offset much of the weakening in services PMI, and the composite PMI points to Q4 GDP growth of 0.4-0.5%.

The headline inflation figure, Consumer Price Index (CPI), rose to 3.1%, its highest level in nearly six years, tightening the squeeze on households' spending. CPI was pushed up by the cost of air travel, computer games and chocolate as food costs reflected the impact of sterling's plunge after the 2016 referendum. Additionally, rising global oil prices suggested that factories were facing more price pressures. With inflation more than a percentage point over the Bank of England's (BoE) target of 2%, Bank Governor, Mark Carney, will have to write a letter to the Chancellor of the Exchequer, Philip Hammond, to explain how the Bank intends to respond to the elevated level of inflation.

Unemployment unexpectedly held at its four-decade low of 4.3% for October, against expectations of a further decrease to 4.2% according to a poll of economists. Employment figures dropped, suggesting employers are turning more cautious as the uncertainty over Brexit continued. Pay growth for British workers increased slightly in the three months to October, rising to 2.5% (including bonuses) against the previous month's 2.3%. No improvement had been expected, and while a welcome surprise wage growth is still being outstripped by inflation, meaning households are still feeling the squeeze as "real wages" are still negative.

As expected, the Monetary Policy Committee voted unanimously to keep the base rate at 0.5%, a month after raising them for the first time in more than a decade.

Public finances strengthened in November as tax revenues rose. The budget deficit edged down last month, boosted by robust income tax revenue and keeping finance minister Philip Hammond broadly on track to meet his new fiscal targets. Public sector net borrowing (excluding state owned banks) fell to £8.7 billion in November; 1.9% less than the same month last year and slightly below forecasts of it rising to £8.9 billion. In total, borrowing since the start of April 2017 has totalled £48.1 billion – 6.1% less than in the same period of 2016 and the lowest for this point in the financial year since 2007. Looking ahead, January typically brings a big surplus in public finances as annual income tax bills fall due.

The final estimate for Q3 UK GDP affirmed growth to be at 0.4% q/q, with the annual figure upwardly revised, by 0.2%, to 1.7%. For the first time, the Office for National Statistics (ONS) has used VAT returns from hundreds of thousands of Small / Medium sized Enterprises (SMEs) in order to bolster the data used for estimating GDP. This boosted GDP growth by an average of 0.05% per quarter in 2017. Although this change did not affect the quarterly figure, it did boost the annual rate of growth.

Across the channel, Eurozone Q3 GDP was confirmed to be 0.6% q/q. Meanwhile, the annual figure was revised slightly higher, to 2.6%, an increase from the upwardly revised Q2 figure of 2.4% y/y.

In the USA, Q3 GDP was downwardly revised to 3.2%. However, this is still an increase from the Q2 GDP figure of 3.1% and the fastest rate since Q1 2015. Non-Farm Payrolls rose by 228,000 in November. US Unemployment remained unchanged in 4.1%. Average hourly earnings increased by 0.2% in the month. Meanwhile, President Trump signed his long awaited legislation for an overhaul of the tax system containing $1.5 trillion in tax cuts.

Housing

House prices rose for the fifth month in a row according to Halifax. They rose 0.5% m/m in November, up from 0.3% in October. However, on an annual basis, they rose by 3.9%, down from a 4.5% rise in October.

Forecast

Neither Link Asset Services (LAS) or Capital Economics (CE) changed their bank rate forecasts during December. LAS suggest that the next interest rate rise will be to 0.75% in Q4 2018, with further rises of 25 basis points in Q4 2019 and Q3 2020. CE suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%

City Of London Corporation

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	10,000,000	0.34%		MMF	AAA	0.000%
MMF Federated Investors (UK)	5,000,000	0.45%		MMF	AAA	0.000%
MMF Federated Investors (UK)	47,900,000	0.39%		MMF	AAA	0.000%
MMF Invesco	72,400,000	0.40%		MMF	AAA	0.000%
Lloyds Bank Plc	11,100,000	0.40%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.76%		USDBF	AAA	0.000%
MMF Standard Life	5,000,000	0.60%		MMF	AAA	0.000%
MMF Standard Life	11,600,000	0.35%		MMF	AAA	0.000%
Leeds City Council	25,000,000	0.30%	18/09/2017	02/01/2018	AA	0.000%
North Lanarkshire Council	5,000,000	0.35%	05/10/2017	02/01/2018	AA	0.000%
Australia and New Zealand Banking Group Ltd	5,000,000	0.40%	03/07/2017	03/01/2018	AA-	0.000%
Fife Council	10,000,000	0.30%	08/09/2017	08/01/2018	AA	0.001%
London Borough of Barking & Dagenham	10,000,000	0.39%	28/09/2017	29/01/2018	AA	0.002%
Lloyds Bank Plc	22,600,000	0.57%		Call32	A	0.005%
Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.006%
London Borough of Newham	25,000,000	0.35%	03/11/2017	05/02/2018	AA	0.002%
Lloyds Bank Plc	21,400,000	0.39%	12/07/2017	12/02/2018	A	0.007%
Nationwide Building Society	11,100,000	0.33%	10/08/2017	12/02/2018	A	0.007%
Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.008%
Surrey County Council	25,000,000	0.30%	29/09/2017	28/02/2018	AA	0.004%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.009%
Australia and New Zealand Banking Group Ltd	10,000,000	0.53%	03/11/2017	05/03/2018	AA-	0.004%
North Tyneside Metropolitan Borough Council	5,000,000	0.31%	04/09/2017	05/03/2018	AA	0.004%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.011%
Northamptonshire County Council	5,000,000	0.32%	14/09/2017	14/03/2018	AA	0.005%
Nationwide Building Society	25,000,000	0.32%	01/09/2017	19/03/2018	A	0.012%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A	0.014%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.014%
Lloyds Bank Plc	15,000,000	0.60%	03/11/2017	03/04/2018	A	0.014%
Plymouth City Council	12,000,000	0.32%	25/09/2017	03/04/2018	AA	0.006%
Santander UK Plc	100,000,000	0.60%		Call95	A	0.015%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.052%
Telford & Wrekin Council	6,000,000	0.35%	27/09/2017	24/04/2018	AA	0.007%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A	0.018%
Lloyds Bank Plc	16,100,000	0.65%	02/11/2017	02/05/2018	A	0.019%

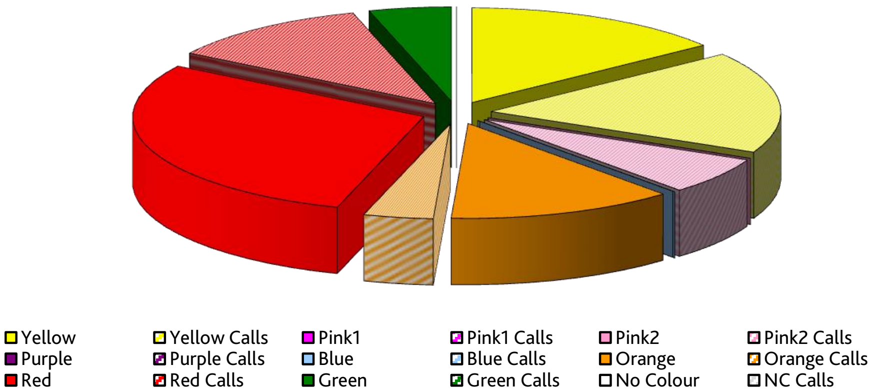
City Of London Corporation

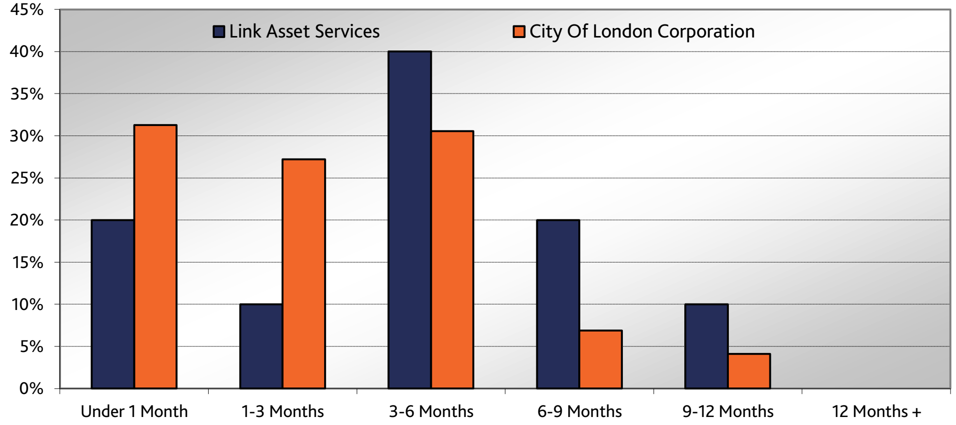
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Leeds Building Society	2,000,000	0.37%	16/08/2017	16/05/2018	A-	0.021%
Nationwide Building Society	13,800,000	0.37%	16/08/2017	16/05/2018	A	0.021%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.021%
Leeds Building Society	5,000,000	0.37%	05/09/2017	05/06/2018	A-	0.024%
Leeds Building Society	5,000,000	0.37%	07/09/2017	07/06/2018	A-	0.024%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.028%
Lloyds Bank Plc	15,000,000	0.75%	03/11/2017	03/08/2018	A	0.033%
Barclays Bank Plc	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.042%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.042%
Barclays Bank Plc	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.043%
Total Investments	**£873,400,000**	**0.56%**				0.013%

City Of London Corporation

Portfolio Composition by Link Asset Services' Suggested Lending Criteria





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

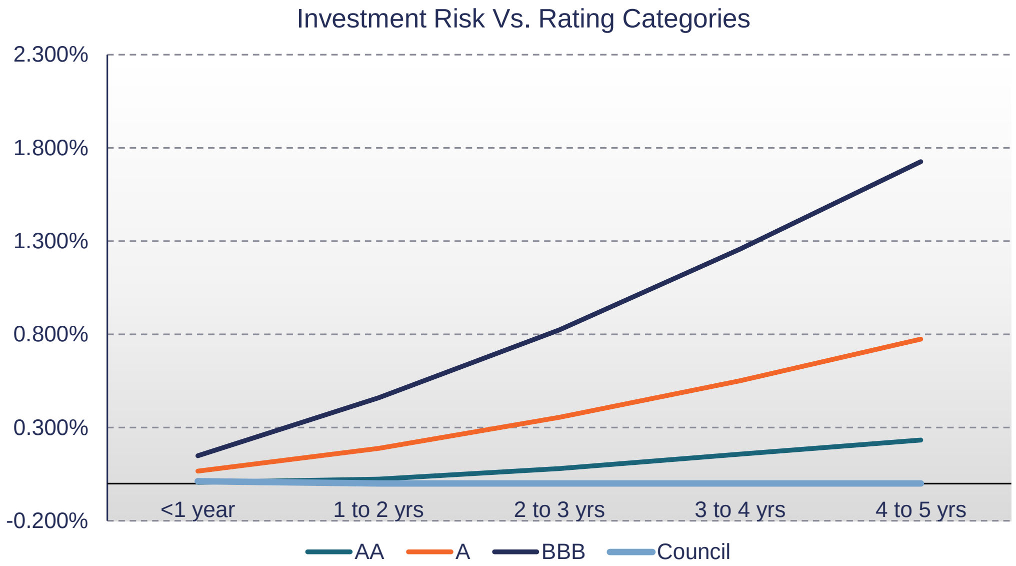
Portfolios weighted average risk number = 3.38

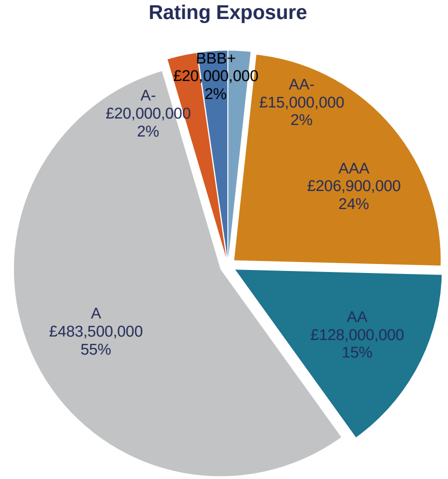
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	32.05%	£279,900,000	54.27%	£151,900,000	17.39%	0.36%	19	61	41	133
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.30%	£55,000,000	100.00%	£55,000,000	6.30%	0.76%	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	16.44%	£143,600,000	23.47%	£33,700,000	3.86%	0.57%	70	170	84	215
Red	40.63%	£354,900,000	28.18%	£100,000,000	11.45%	0.67%	141	255	159	318
Green	4.58%	£40,000,000	0.00%	£0	0.00%	0.59%	121	320	121	320
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£873,400,000**	**39.00%**	**£340,600,000**	**39.00%**	**0.56%**	**80**	**166**	**112**	**252**

City Of London Corporation

Investment Risk and Rating Exposure





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	0.013%	0.000%	0.000%	0.000%	0.000%

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
08/12/2017	1578	KBC Bank N.V.	Belgium	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.
13/12/2017	1580	Qatar National Bank	Qatar	Viability Rating affirmed and removed from Negative Watch.

City Of London Corporation

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
07/12/2017	1576	Bank of America N.A.	United States	Long Term Rating upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. Short Term Rating affirmed at 'P-1'. Link Asset Services Colour based on Ratings changed to 'Orange' from 'Red'.
08/12/2017	1577	Clydesdale Bank PLC	United Kingdom	Long Term Rating upgraded to 'Baa1' from 'Baa2', removed from Positive Watch and placed on Positive Outlook. Short Term Rating affirmed at 'P-2, removed from Positive Watch.
12/12/2017	1579	Commerzbank AG	Germany	Long and Short Term Ratings were affirmed, Outlook on the Long Term Rating was changed to Positive from Stable.

City Of London Corporation

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
				There were no rating updates from S&P over the month.

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MONTHLY INVESTMENT REVIEW AS AT 31 DECEMBER 2017

	Couterparty Limit £M	Total Invested as at 31-Dec-17 £M	Average Rate of Return %
TOTAL INVESTED		873.4	0.56%
UK BANKS			
Barclays	100.0	100.0	0.80%
Goldman Sachs International	100.0	80.0	0.91%
HSBC	100.0	-	-
Lloyds	150.0	128.6	0.58%
RBS	100.0	-	-
		308.6	
BUILDING SOCIETIES			
Coventry	20.0	-	-
Leeds	20.0	20.0	0.41%
Nationwide	120.0	74.9	0.36%
Skipton	20.0	20.0	0.77%
Yorkshire	20.0	-	-
		114.9	
FOREIGN BANKS			
Australia & New Zealand	25.0	15.0	0.49%
National Australia Bank	25.0	-	-
Svenska Handelsbanken	25.0	-	-
		15.0	
LIQUIDITY FUNDS			
Aberdeen Liquidity Fund	100.0	-	-
CCLA - Public Sector Deposit Fund	100.0	10.0	0.34%
Deutsche Global Liquidity Fund	100.0	-	-
Federated Prime Liquidity Fund	100.0	52.9	0.40%
Invesco Sterling Liquidity Fund	100.0	72.4	0.40%
Standard Life (Ignis) Liquidity Fund	100.0	16.6	0.43%
		151.9	
ULTRA SHORT DATED BOND FUNDS			
Payden Sterling Reserve Fund	100.0	55.0	0.76%
		55.0	
NOTICE ACCOUNTS			
Santander 95 Days Account	100.0	100.0	0.60%
		100.0	
PUBLIC SECTOR			
LB Barking & Dagenham	25.0	10.0	0.39%
Fife Council	25.0	10.0	0.30%
LB Newham	25.0	25.0	0.35%
Leeds City Council	25.0	25.0	0.30%
North Lanarkshire	25.0	5.0	0.35%
North Tyneside	25.0	5.0	0.31%
Northamptonshire CC	25.0	5.0	0.32%
Plymouth CC	25.0	12.0	0.32%
Surrey CC	25.0	25.0	0.30%
Telford & Wrekin BC	25.0	6.0	0.35%
		128.0	
TOTAL		873.40	

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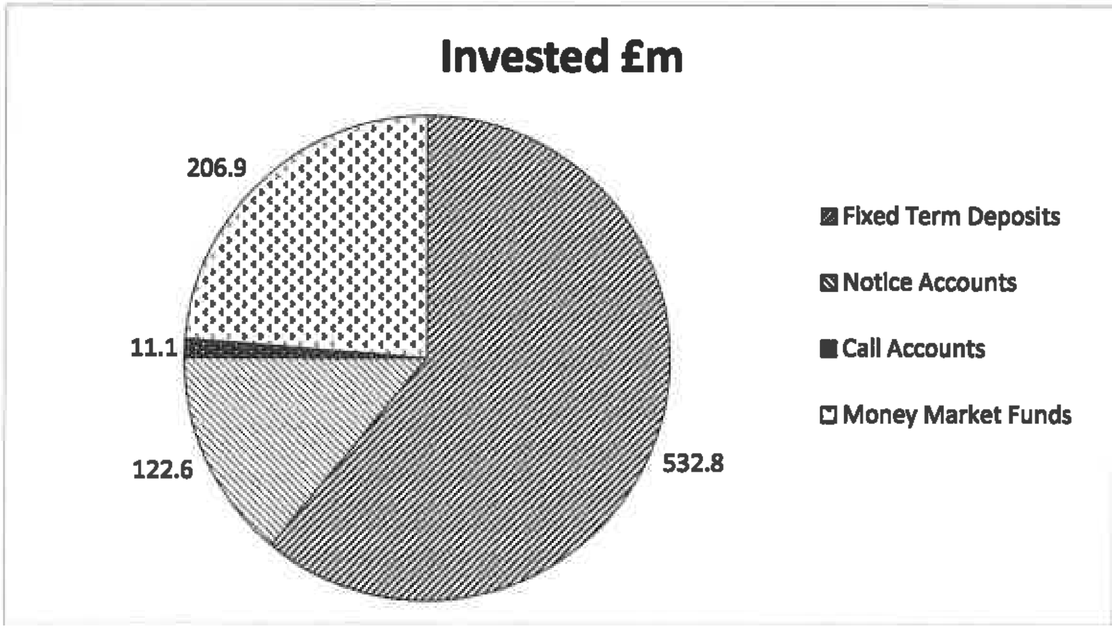
MONTH BY MONTH REPAYMENT PROFILE

		Invested as at 31-Dec-17 £M	Average Rate of Return %
Total		873.4	0.56%
Fixed Term Deposits			
Jan-18		55.0	
Feb-18		109.9	
Mar-18		105.0	
Apr-18		75.0	
May-18		61.9	
Jun-18		10.0	
Jul-18		20.0	
Aug-18		15.0	
Sep-18		25.0	
Oct-18		56.0	
Jan-19		0.0	
		532.8	0.58%
Money Market Funds			
- Same Day Access Constant NAV	141.9		
- Cash Enhanced Variable NAV	10.0		
- Ultra-Short Dated Bond Fund	55.0	206.9	0.49%
Notice Accounts			
- Santander 95 Days	100.0		
- Lloyds 32 Days	22.6	122.6	0.59%
Call Accounts			
- Lloyds Same Day Access		11.1	0.40%
		340.6	



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

Summary

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

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

The key areas to highlight are:

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

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

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

Recommendations

It is recommended that:

(i) the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19, and submits it to the Court for formal adoption.

(ii) A short training event be organised for the Board.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2018/19

Issue Date: 23/01/2018

Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

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 2018/19

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 2018/19 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, Link 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 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 2017 comprised:

Table 1		**Principal**		**Ave. rate**
		£m	**£m**	**%**
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
Gross debt			**0**	**-**
Total investments			**873.4**	**0.56**
Net Investments			**873.4**	

4. Treasury Indicators for 2018/19 – 2020/21

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 Link Asset Services (Link) 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 Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2017	0.50	1.50	2.10	2.80	2.50
Mar 2018	0.50	1.60	2.20	2.90	2.60
Jun 2018	0.50	1.60	2.30	3.00	2.70
Sep 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
Mar 2019	0.75	1.80	2.50	3.10	2.90
Jun 2019	0.75	1.90	2.60	3.20	3.00
Sep 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
Mar 2020	1.00	2.10	2.70	3.40	3.20
Jun 2020	1.00	2.10	2.80	3.50	3.30
Sep 2020	1.25	2.20	2.90	3.50	3.30
Dec 2020	1.25	2.30	2.90	3.60	3.40
Mar 2021	1.25	2.30	3.00	3.60	3.40

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The

Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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 balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2018/19.

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 achieve this consideration, 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 Link Asset Services. 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 Link’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 Link 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 Link 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 Link Asset Services, our treasury advisors, 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 bias outside the central rating view) 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 in light of market conditions.
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 CNAV – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) LVNAV – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) VNAV – with minimum credit ratings of AAA/mmf
- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)
- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, The City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.
- 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 City 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 City's counterparty list are set out in Appendix 5 as at 31st December 2017. The City may add managers to this list as appropriate.

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.

Investment Strategy

7.4. **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.

7.5. **Investment returns expectations**: Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are as follows:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

Link consider that the overall balance of risks to these forecasts is currently probably tilted towards 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 there may be a slow increase in base rate beginning in either late 2018 or early 2019, at the earliest. 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 2017/18 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2018/19 include interest earnings based on a weighted average investment return of 0.65%.

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.

7.6. **Investment Treasury Indicator and Limit**

Total principal funds invested for greater than 365 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 365 days (up to three years)			
	2018/19 £M	**2019/20 £M**	**2020/21 £M**

Principal sums invested >365 days	300	300	300

7.7. **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.

7.8. **External fund managers**

A proportion of the City's funds, amounting to £206.9m as at 31 December 2017, are externally managed on a discretionary basis by Standard Life Aberdeen plc, Deutsche Asset Wealth 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 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 Funds are monitored on a regular basis by Treasury staff.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond fund managers (including Payden Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Standard Life Investments Short Duration Managed Liquidity Fund) are all rated by Standard and Poor's as AAA/f.

Any newly appointed Short Dated Bond fund manager will be appointed on a distinct Investment Manager Agreement, under which the City will outline the minimum credit criteria to be maintained across the underlying fund composition. The funds are expected to offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance.

7.9. **Policy on the use of external service providers**

The City uses Link 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.

7.10. **Scheme of Delegation**

Please see Appendix 7.

7.11. **Role of the Section 151 officer**

Please see Appendix 8.

7.12. **Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The training needs of members and treasury management officers are periodically reviewed.

APPENDICES

1. Interest Rate Forecasts 2018-2021
2. Link Asset Services view on Economic Background
3. Treasury Indicators 2018/19 – 2020/21 and Minimum Revenue Provision Statement
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
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7. Treasury Management Scheme of Delegation
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APPENDIX 1

LINK INTEREST RATE FORECASTS 2018 - 2021

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1st November 2012. The Bank of England base rate was increased from 0.25% to 0.50% on 2 November 2017.

LINK ASSET SERVICES VIEW ON ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply ‘look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting**

of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may**

have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

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: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.

- 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 could also exit without any such agreements in the event of a breakdown of negotiations.
- 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 full 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

TREASURY INDICATORS 2018/19 – 2020/21 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	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	£14,124	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,124	£14,006	£13,888	£13.770	£13,653
Operational Boundary for external debt -					
Borrowing	£0	£0	£0	£0	£0
other long term liabilities	£14,124	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,124	£14,006	£13,888	£13.770	£13,653
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	£200m	£300m	£300m	£300m	£300m
(per maturity date)					

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%

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2017/18

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow.

A positive CFR will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund). The current Budget Strategy for the City Fund does not envisage any external borrowing, subject to the funding strategy for the Museum of London relocation which has yet to be agreed.

As at 31 March 2017 the City Fund CFR is expected to become positive for the first time as a result of internal borrowing. This has arisen through funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City's MRP policy is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then 'used again' when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

The MRP liability for 2016/17 is zero. The MRP liability for 2017/18 is estimated at £896k. Subsequent year MRPs are to be equal to the deferred income to be released

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 CNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via 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

Note:

New European Money Market Fund regulations are due to come into effect from 21 July 2018. There are currently two broad categories of Money Market Funds (MMFs): short-term MMFs and standard MMFs.

Under existing regulations, the standard MMF can only be run as a variable net asset value (VNAV) fund, while the short-term MMF can be run as either a constant net asset value (CNAV) or VNAV fund.

The new regulations introduce a couple of changes to the short-term MMF category. Until now, these have included government style funds and credit style funds. The new regulation provides optionality for investors, allowing for three new successor structures:

- A CNAV fund option, which will be permitted for "public debt" or government style funds.
- A low-volatility NAV (LVNAV) fund, which delivers a stable NAV and is also available for credit-style offerings.
- A VNAV fund option, offering a fluctuating dealing NAV, which could be a government fund or a credit fund.

All existing MMFs have to comply with the new rules by January 2019 whilst new MMF's must be in compliance by 21st July 2018.

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
Short Dated Bond Fund	--	In-house via Fund Managers	£100m Principal Overall	n/a*

*Short Dated Bonds Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access will be typically T+4.

APPENDIX 5

APPROVED COUNTERPARTIES as at 31 DECEMBER 2017

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA- F1+	HSBC	Up to 3 years
A F1	BARCLAYS BANK	Up to 3 years
A+ F1	LLOYDS BANK incl. Bank of Scotland	Up to 3 years
BBB+ F2	ROYAL BANK OF SCOTLAND	Up to 3 years
A F1	SANTANDER UK	Up to 3 years
A F1	GOLDMAN SACHS INTERNATIONAL BANK	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A+ F1	Nationwide	220	120	Up to 3 years
A- F1	Yorkshire	45	20	Up to 1 year
A F1	Coventry	38	20	Up to 1 year
A- F1	Skipton	18	20	Up to 1 year
A- F1	Leeds	16	20	Up to 1 year

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Standard Life Liquidity Fund** Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA/mmf	Deutsche Liquidity Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Sterling Cash Plus Fund*	Liquid
AAA/f	Standard Life Investments Short Duration Managed Liquidity Fund**	Liquid

*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated
**A combined limit of £100m applies to balances across the Money Market Funds and Ultra Short Dated Bond Fund all managed by Standard Life Aberdeen

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
n/a	To be confirmed	Liquid

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS		LIMIT £M	Duration
	AUSTRALIA		
AA- F1+	AUSTRALIA & NZ BANKING GROUP	25	Up to 3 years
AA- F1+	NATIONAL AUSTRALIA BANK	25	Up to 3 years
	SWEDEN		
AA F1+	SVENSKA HANDELSBANKEN	25	Up to 3 years

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPENDIX 6

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 18 December 2017

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 Link Asset Services weekly list

APPENDIX 7

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.

APPENDIX 8

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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Agenda Item 11

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Agenda Item 13

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Agenda Item 14

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