

<b>Committee:</b>	<b>Date:</b>
Financial Investment Board	5 February 2014
<b>Subject:</b> Treasury Management Strategy Statement and Annual Investment Strategy 2014/15	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>

### Summary

The attached document sets out the City's Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15. 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 - 2014 Budget Report" being considered by the Finance Committee on 18 February 2014.

The only change to the treasury strategy for 2014/15 is the reduction in the maximum investment of loans with a maturity in excess of one year from £300m to £200m due to a continuing decrease in the City's overall cash holdings following partial re-investment into other, higher-earning asset classes.

The report highlights that in assessing the creditworthiness of prospective counterparties the City uses a risk weighted scoring system rather than just using the lowest rating from the credit rating agencies. In addition, it is proposed that the City continues to be prepared to lend monies for up to three years' duration when considered appropriate which differs from the policy of most other local authorities which tend to favour shorter investments.

Members are asked to consider whether a short training event should be made to the Board which could be advantageous and would be considered to be best practice.

### **Recommendations**

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15, and submits it to the Court for formal adoption.

**TREASURY MANAGEMENT  
STRATEGY STATEMENT**

**AND**

**ANNUAL INVESTMENT  
STRATEGY**

**2014/15**

# **Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Strategy and Annual Investment Strategy 2014/15**

## **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. However, 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:

1. 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.
2. 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.
3. 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 Statutory Requirements**

The Local Government Act 2003 (the Act) and supporting regulations requires 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 City to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 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.

## 1.4 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 and for the execution and administration of treasury management decisions 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.

## 1.5 Treasury Management Strategy for 2014/15

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 as paragraph 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 2014/15 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Capita Asset Services, Treasury Solutions.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the City
- Treasury Indicators
- the current treasury position
- the borrowing requirement

- 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.

## **1.6 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 2014/15 to 2016/17**

It is a statutory duty under Section 3 of the 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 of this report.

### 3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2013 comprised:

<b>Table 1</b>		<b>Principal</b>		<b>Ave. rate</b>
		<b>£m</b>	<b>£m</b>	<b>%</b>
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
<b>Gross debt</b>			<b>0</b>	<b>-</b>
<b>Total investments</b>			<b>492.1</b>	<b>1.1</b>
<b>Net Investments</b>			<b>492.1</b>	

### 4. Treasury Indicators for 2014/15 – 2016/17

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

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

### 5. Prospects for Interest Rates

The City of London has appointed Capita Asset Services 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 current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

<b>Annual Average %</b>	<b>Bank Rate %</b>	<b>PWLB Borrowing Rates % (including certainty rate adjustment)</b>		
		<b>5 year</b>	<b>25 year</b>	<b>50 year</b>
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are

strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. 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 even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

## **6. Borrowing Strategy**

It is anticipated that there will be no capital borrowings required during 2014/15.

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

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

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the City has clearly stipulated below the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published announcements by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Capita Asset Services ratings service potential counterparties ratings are monitored on a real time basis with knowledge of any changes notified electronically when the agencies issue modifications.

Further, the City's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the City will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and use that information alongside 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.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thereby mitigate concentration risk.

The overall objective of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendices 4 & 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits are set within these appendices.

## **7.2 Creditworthiness policy**

The City uses the creditworthiness service provided by Capita Asset Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

The City will not specifically follow the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties but will have regard to the approach adopted by Capita Asset Services 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 changes to ratings of all three agencies through its use of the Capita Asset Services 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 weekly basis. Extreme market movements may result in downgrade of an institution and possible removal from the City 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 on government support for banks and the credit ratings of that government support. Regular meetings are held involving the Chamberlain, Financial Services Director, Corporate Treasurer and Members of the Treasury Team, when the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

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

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

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

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
(iii) Viability/financial strength	bbb
(iv) Support	3
- Banks 2 – Part Nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised, or they meet the ratings in Banks 1 above.
- Banks 3 – The City's own banker 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) meet the ratings for banks outlined above; or
  - (ii) have assets in excess of £9bn.
- Money Market Funds – with minimum credit ratings of AAA
- UK Government – including government gilts and the debt management agency deposit facility.
- Local authorities.

A limit of £200m will be applied to the use of non-specified investments.

### 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 from Fitch Ratings (or equivalent from other agencies if Fitch does not provide a rating). The counterparty list, as shown in Appendix 6, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. It is proposed that the UK will be excluded from this stipulated minimum sovereign rating requirement.

### 7.4 Investment Strategy

**In-house funds:** The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City has recently reviewed its cash holdings and has decided to invest as much as possible in alternative, higher return earning asset classes, such as property, absolute return bond funds, equities and bonds. The surplus cash available for money market activities is therefore expected to reduce further as these alternative investment allocations are made.

The City does not currently have any term deposits which span the 2014/15 financial year.

**7.5 Investment returns expectations:** Bank Rate has been unchanged at 0.50% since March 2009. Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are as follows:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

Capita Asset Services considers that there are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England forecasts for the rate of fall of unemployment were to prove to be too optimistic.

The Chamberlain and his Treasury Officers consider there is a likelihood of interest rates remaining at very low levels for some considerable time, and in view of the importance of interest earnings included in forward financial forecasts, opportunities have been taken to lock-in some of the 'core balances' cash holdings to 2 and 3 year deals when attractive interest rates have been available, having regard however to the alternative investment opportunities already agreed.

For 2013/14 the City has budgeted for an average investment return of 1.15% on investments placed during the financial year and previously. Financial forecasts for the period 2014/15 to 2016/17 include interest earnings based on an average investment return of 0.75%.

For its cash flow generated balances, the City will seek to utilise its business reserve accounts, money market funds, and short-dated deposits (overnight to twelve months) in order to benefit from the compounding of interest.

## 7.6 Investment Treasury Indicator and Limit

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

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

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

<u>£m</u>	<u>2014/15 (£m)</u>	<u>2015/16 (£m)</u>	<u>2016/17 (£m)</u>
Principal sums invested >364 days	200	200	200

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

## 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 £120m as at 31 December 2013, are externally managed on a discretionary basis by Ignis Asset Management, Invesco, Prime Rate, CCLA Liquidity Fund and Payden Global Funds Plc. The City's external fund managers will comply with the Annual Investment Strategy, and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Money Market Fund Managers include a diversified portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Money Market Funds are monitored on a regular basis by Treasury staff.

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

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

The City uses Capita Asset Services 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.

Capita Asset Services offer a range of training events targeted at elected Members responsible for treasury management matters which will be offered to Members of the Financial Investment Board as appropriate. In addition, Members of the Board are invited to request any specific training requirement that they would like to receive.

## **7.10 Scheme of delegation**

Please see appendix 8.

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

Please see appendix 9.

## **APPENDICES**

1. Interest Rate Forecasts
2. Economic Background
3. Treasury Indicators
4. Specified and Non Specified Investments
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8. Treasury Management Scheme of Delegation
9. The Treasury Management Role of the Section 151 Officer

**APPENDIX 1: Interest Rate Forecasts 2014 - 2017**

<b>Capita Asset Services Interest Rate View</b>													
	<b>M ar-14</b>	<b>Jun-14</b>	<b>Sep-14</b>	<b>Dec-14</b>	<b>M ar-15</b>	<b>Jun-15</b>	<b>Sep-15</b>	<b>Dec-15</b>	<b>M ar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>M ar-17</b>
<b>Bank Rate View</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
<b>3 M onth LIBID</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
<b>6 M onth LIBID</b>	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
<b>12 M onth LIBID</b>	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
<b>5yrPW IB Rate</b>	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
<b>10yrPW IB Rate</b>	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
<b>25yrPW IB Rate</b>	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
<b>50yrPW IB Rate</b>	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
<b>Bank Rate</b>													
<b>Capita Asset Services</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
<b>UBS</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	-	-	-	-	-
<b>Capital Economics</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	-	-	-	-	-
<b>5yrPW IB Rate</b>													
<b>Capita Asset Services</b>	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
<b>UBS</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Capital Economics</b>	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%	-	-	-	-	-
<b>10yrPW IB Rate</b>													
<b>Capita Asset Services</b>	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
<b>UBS</b>	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%	-	-	-	-	-
<b>Capital Economics</b>	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%	-	-	-	-	-
<b>25yrPW IB Rate</b>													
<b>Capita Asset Services</b>	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
<b>UBS</b>	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%	-	-	-	-	-
<b>Capital Economics</b>	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	-	-	-	-	-
<b>50yrPW IB Rate</b>													
<b>Capita Asset Services</b>	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
<b>UBS</b>	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%	-	-	-	-	-
<b>Capital Economics</b>	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%	-	-	-	-	-

## APPENDIX 2: Economic Background

### THE UK ECONOMY

**Economic growth.** Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

*In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

**Forward guidance.** The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing

its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

**Credit conditions.** While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

**Inflation.** Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

**AAA rating.** The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

## THE GLOBAL ECONOMY

**The Eurozone (EZ).** The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to



government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

**USA.** The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its \$85bn per month asset purchases programme of quantitative easing by \$10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until ‘well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal’. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

**China.** There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

**Japan.** The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

## **CAPITA ASSET SERVICES FORWARD VIEW**

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

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

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

### APPENDIX 3 - Treasury Indicators

<b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>actual</b>	<b>probable outturn</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt -</b>					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
<b>TOTAL</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
<b>Operational Boundary for external debt -</b>					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
<b>TOTAL</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
<b>Actual external debt</b>	£0	£0	£0	£0	£0
<b>Upper limit for fixed interest rate exposure</b>					
expressed as either:-					
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
<b>Upper limit for variable rate exposure</b>					
expressed as either:-					
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
<b>Upper limit for total principal sums invested for over 364 days</b>	£300m	£300m	£200m	£200m	£200m
(per maturity date)					

<b>TABLE 2: Maturity structure of fixed rate borrowing during 2012/13</b>	<b>upper limit</b>	<b>lower limit</b>
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

## **APPENDIX 4 – Treasury Management Practice (TMP1)**

- Credit and Counterparty Risk Management, Specified and Non-Specified Investments and Limits

**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.

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of £200m will be held in aggregate in non-specified investment.

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

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

### **SPECIFIED INVESTMENTS:**

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ rating criteria where applicable)

	<b>* Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A, Viability bbb, Support 3	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A, Viability bbb, Support 3	Fund Managers
Money Market Funds	AAA	In-house and Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	Fund Managers
Sovereign Bond issues (other than the UK government)	AAA	Fund Managers

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment Criteria with maturities in excess of 1 year. A maximum of £200m will be held in aggregate in non-specified investments.

	<b>* Minimum Credit Criteria</b>	<b>Use</b>	<b>Maximum</b>	<b>Maximum Maturity Period</b>
Term deposits - other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits - banks and building societies (with maturities in excess of one year)	Long-term A, Short-term F1, Viability bbb, Support 3	In-house and Fund Managers	£200m 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, Viability bbb, Support 3	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

**APPENDIX 5 – Approved Counterparties and Countries for Investments**

**BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES**

<b>FITCH RATINGS</b>	<b>BANK CODE</b>	<b>MMS CODE</b>	<b>LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)</b>	<b>BALANCES 31 Dec 2013 £m</b>	<b>Duration</b>
<b>AA - F1 + a + 1</b>	40.53.71	<b>FA</b>	HSBC -----	- =====	Up to 3 years
<b>A F1 a 1</b>	20.00.00 20.00.52	<b>CA</b>	BARCLAYS CAPITAL BARCLAYS BANK -----	35.7 =====	Up to 3 years
<b>A F1 bbb+ 1</b>	30.15.57	<b>LJ</b>	LLOYDS TSB BANK incl. Bank of Scotland -----	67.9 =====	Up to 3 years
<b>A F1 bbb 1</b>	16.75.75	<b>RA</b>	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS	74.3	Up to 3 years
<b>A - F1 ccc 1</b>	98.00.05	<b>LX</b>	ULSTER BANK	- -----	On Hold
			TOTAL -----	177.9 =====	

**BUILDING SOCIETIES**

<b>FITCH RATINGS</b>	<b>GROUP</b>	<b>ASSETS £bn</b>	<b>LIMIT £mn</b>	<b>BALANCES 31 Dec 2013 £m</b>	<b>Duration</b>
<b>A F1 a 1</b>	Nationwide	191	120	95.7	Up to 3 years
<b>BBB + F2 bbb + 5</b>	Yorkshire	33	20	15.3	Upto 1 year
<b>A F1 a 5</b>	Coventry	27	20	20.0	Upto 1 year
<b>BBB - F3 bbb - 5</b>	Skipton	14	20	20.0	Upto 1 year
<b>A - F2 a - 5</b>	Leeds	10	20	20.0	Upto 1 year
				<u>171.0</u>	

**MONEY MARKET FUNDS**

<b>FITCH RATINGS</b>	<b>MONEY MARKET FUNDS Overall Limit £250m</b>	<b>BALANCES 31 Dec 2013 £m</b>	<b>DURATION</b>
AAA/mmf	Insight Investment Liquidity Fund	0	Liquid
AAA/mmf	Goldman Sacs Sterling Liquidity Reserve Fund	0	Liquid
AAA/mmf	CCLA	10.0	Liquid
AAA/mmf	Prime Rate Liquidity Fund	16.4	Liquid
AAA/mmf	Ignis Asset Management Liquidity Fund	37.7	Liquid
AAA/mmf	Invesco	0.9	Liquid
AAA / f	Payden Sterling Reserve Fund	55.0	Liquid
	<b>TOTAL</b>	<b>120.0</b>	<b>Liquid</b>

**FOREIGN BANKS**

(with a presence in London)

<b>FITCH RATINGS</b>	<b>BANK CODE</b>	<b>MMS CODE</b>		<b>LIMIT £M</b>	<b>BALANCES 31 Dec 2012 £m</b>	<b>Duration</b>
<b>AA- F1+ aa - 1</b>	20.32.53	<u>NZ</u>	<b><u>AUSTRALIA</u></b> AUSTRALIA & NZ BANKING GROUP	25	Nil =====	Up to 3 years
<b>AA- F1+ aa- 1</b>	16.55.90	EQ	NATIONAL AUSTRALIA BANK	25	<u>23.2</u> =====	Up to 3 years
<b>AAA F1+ 1</b>			<b><u>NETHERLANDS</u></b> BANK NEDERLANDSE GEMEENTEN	25	Nil =====	Up to 3 years
<b>AA- F1+ aa - 1</b>	40.51.62	EB	<b><u>SWEDEN</u></b> SVENSKA HANDELSBANKEN	25	Nil =====	Up to 3 years
			<b>TOTAL</b>		<b>23.2</b>	

**OVERALL TOTAL            £492.1M**

**LOCAL AUTHORITIES**

<b>FITCH RATINGS</b>	<b>BANK CODE</b>	<b>MMS CODE</b>	<b>LIMIT OF £25M PER AUTHORITY</b>	<b>BALANCES</b>	<b>NOTES</b>
			Any UK local authority		

**NB. DO NOT LEND TO THE FOLLOWING LOCAL AUTHORITIES**



## **APPENDIX 6 - Approved Countries for Investments – Based on Fitch Ratings**

### **AAA**

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

### **AA+**

- United Kingdom

## **Appendix 7 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management**

The CLG issued Investment Guidance in 2010, and this forms the structure of the City's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the City to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, will apply its principles to all investment activity. In accordance with the Code, the Chamberlain has produced its Treasury Management Practices (TMPs). These cover investment counterparty policy requiring approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the City will use. These are high security (i.e. high credit rating, although this is defined by the City, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the City is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Fitch rating agencies.
5. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the City has set additional criteria to set the time and amount of monies which will be invested in these bodies. The criteria limits investments to £100m per group for UK banks and their wholly owned subsidiaries and £150m for Lloyds TSB banking group, £120m for Nationwide Building Society, £20m for other building societies, £25m for foreign banks with a presence in London and £250m overall for Money Market Funds. For

building societies which do not meet the minimum credit rating criteria, an asset holding of £9+bn can act as a substitute rating.

**Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Non Specified Investment Category	Limit (£ or %)
A local authority, parish council or community council	£25m per local authority
Any <b>bank or building society</b> that has a minimum long term credit rating of A, viability rating of bbb and support 1 for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£200m overall
<b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term sovereign ratings Maximum duration of upto 3 years
The <b>City's own banker</b> if it fails to meet the basic credit criteria. In this instance, balances will be minimised as far as is possible.	-

**The Monitoring of Investment Counterparties** - The credit rating of counterparties will be monitored regularly. The City receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Corporate Treasurer upon repayment of any outstanding deposits but no new investments will be placed with them. If required, new counterparties which meet the criteria will be added to the list.

**Use of External Fund Managers** – It is the City's policy on a regular basis to consider the use of external fund managers for a part or the whole of its cash investment portfolio. No funds are managed externally in an external segregated portfolio at the present time, other than the pooled Money Market Funds.

## **APPENDIX 8 – Treasury Management Scheme of Delegation**

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

### **(i) Court of Common Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

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

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

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

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

## **APPENDIX 9 - 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.