

**CHERWELL DISTRICT COUNCIL**  
**Treasury Management Strategy**

Annual Investment Statement

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2013/14

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# 1. Introduction

## 1.1 Background

The Council 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 Council'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 the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

*“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

## 1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee. This role is undertaken by the Accounts Audit & Risk Committee.

**Report 1 - Treasury Strategy including Prudential and Treasury Indicators** (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time) - Not applicable to CDC
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**Report 2 - A Mid Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

**Report 3 - An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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### **1.3 Treasury Management Strategy for 2013/14**

The strategy for 2013/14 covers two main areas:

#### **Treasury management Issues**

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

#### **Capital Issues**

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy

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.

### **1.4 Training**

CIPFA's Code of Practice requires the Responsible Officer to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receives appropriate training relevant to their needs and fully understands their roles and responsibilities.

The Council's approach is:

- To identify Members who require training;
- To assess the level of training required and procure training from an external organisation with expertise in this area, including the Council's Treasury Advisor, Sector;
- To monitor the ongoing training needs of Members based on legislative, regulatory and best-practice requirements.

The training needs of treasury management officers are periodically reviewed.

### **1.5 Treasury Management Consultants**

This is required by the 2011 Guidance Notes.

The Council uses Sector as its external treasury management advisors.

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The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our 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 Council 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.

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## 2. Treasury Management Strategy

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy. The treasury management function works in accordance with the treasury management practices that are reviewed annually by the Accounts, Audt and Risk Committee.

### 2.1 Current treasury position;

The Council has £11.7 m invested with fund manager Investec. In addition it has around £70m managed in-house (including Eco Town funds of £11.5m) which fluctuates during the year.

The 2012/13 interest projections as at January 31st 2013 show an expected investment income of £1m which is over budget and of this up to £ 150k will be added to Eco Town funding pots with the residual considered in the Quarter three report to the Executive. All investments are compliant with the strategy.

The 2012/13 Annual Report on Treasury Management will be presented to the Accounts, Audit and Risk Committee and the Executive in June 2013 along with the Revenue and Capital Outturn reports. This report will give full information on the performance of the Council's fund managers and in-house operation.

### 2.2 Treasury indicators which will limit the treasury risk and activities of the Council;

Prudential and Treasury Indicators (**Appendix 1** to this report) are relevant for the purposes of setting an integrated treasury management strategy. These indicators will be approved by the Council as part of the 2013/14 Budget process in February 2013.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Code was adopted on 1<sup>st</sup> March 2002 by the full Council

### 2.3. Prospects for Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Appendix 2** 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.

Annual Average %	Bank Rate	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
Sept 2013	0.50	1.60	3.80	4.00

Dec 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
Sept 2014	0.50	1.80	4.00	4.20
Dec 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
Sept 2015	1.25	2.50	4.60	4.80
Dec 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;

There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

**Appendix 3** provides more on the current economic background,

## 2.4 Borrowing Strategy

The Council is debt free and has no plans to enter into any long term debt arrangements. As such this section is irrelevant for the 2013/14 Treasury Management Strategy. This would be reviewed in subsequent years if there was a decision to go back into debt. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

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## 2.5. Annual Investment Strategy

### 2.5.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated 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 by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Sector ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council'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 Council 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. This is encapsulated within the credit methodology provided by the advisors, Sector.

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 thus avoidance of concentration risk.

The intention 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 **Appendix 4** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

### 2.5.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
  - CDS spreads to give early warning of likely changes in credit ratings;
  - sovereign ratings to select counterparties from only the most creditworthy countries.
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This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands

- Yellow 5 years \*\*
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

*\*\*Note :- this category is for AAA rated Government debt or its equivalent.*

The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be (Fitch or equivalents) Short Term rating F1, Long Term rating A-, Viability ratings of A- and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council 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 or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

### **2.5.3 Country limits**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

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## 2.5.4 Investment Strategy

### In-house funds.

Investments will 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).

### External fund managers

£11.8m of the Council's funds are externally managed on a discretionary basis by Investec

The Council's external fund manager will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The minimum credit criteria to be used by Investec is as follows: -

	Fitch	Moody's	Standard and Poors
Long term	A	A2	A
Short term	F1	P-1	A-1
Viability Rating	B B+	BB+	N/A

All investments held with Investec can be liquidated immediately if required and do not have to be held to maturity. Obviously there may be a cost implication which would impact on the total returns:

**Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 1 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2012/ 2013 0.50%
- 2013/ 2014 0.50%
- 2014/ 2015 0.75%
- 2015/ 2016 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next four years are as follows:

2012/13	0.50%
2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

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For its cash flow generated balances, the Council will seek to utilise its business reserve accounts 30 day notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

### **2.5.5 2013-14 Minimum Revenue Provision (MRP) Statement**

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) places a duty on local authorities to make prudent provision for debt redemption. Guidance on Minimum Revenue Provision (MRP) has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method;
- Option 2: CFR Method;
- Option 3: Asset Life Method;
- Option 4: Depreciation Method.
- NB This does not preclude other prudent methods.

MRP in 2013-14: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4.

This MRP Statement is being submitted before the start of the 2013-14 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be submitted as at that time.

The Authority will apply Option 3 in respect of supported and unsupported Non-HRA capital expenditure funded from borrowing.

The MRP in respect of leases’ schemes which were brought onto the Balance Sheet under the International Financial Reporting Standards (IFRS) Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

**2.5.6 Icelandic Bank Investments** –The council has received repayment of £5.7m of the initial Capital Investment of £6.5m with the remaining capital balance of £730k currently remaining in Iceland. The interest element attributed to the investment made - £624k also currently resides in Iceland.

The Council continues to pursue this with the LGA and Bevan Brittan for the transfer of these funds to the UK. It is too early to provide a definitive policy on how any exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

### **2.6 End of year investment report**

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

### **2.7 Scheme of delegation and Role of the section 151 officer**

Please see **Appendix 6**.

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## Appendix

1. Prudential & Treasury Indicators
  2. Interest rate forecasts
  3. Economic background
  4. Treasury Management practice - Specified and non specified investments and limits
  5. Approved countries for investments
  6. Treasury management scheme of delegation and the role of the section 151 officer
  7. Glossary
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## Appendix 1 Prudential and Treasury Indicators

### Existing Investment & Debt Portfolio Position

	<b>31/01/13 Actual Portfolio £m</b>
<b>External Borrowing:</b>	
- Total External Borrowing	0
<b>Other Long Term Liabilities:</b>	
- Finance Leases	0
<b>Total Gross External Debt</b>	<b>0</b>
<b>Investments:</b>	
<b>Managed in-house</b>	
- Short-term monies (Deposits/ monies on call / MMFs)	64,159
- Long-term investments	5,000
<b>Managed externally</b>	
- By Fund Managers	11,700
- Pooled Funds (please list)	0
<b>Total Investments</b>	<b>80,859</b>

#### Background:

It is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

#### Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium-term net borrowing will only be for a capital purposes, the local authority needs to ensure that the net external borrowing does not (except in the short term) exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Director of Resources reports that the authority had no difficulty meeting this requirement in 2012-13, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

### Estimates of Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, considers the impact on Council Tax.

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This total expenditure can be paid for immediately by resources such as capital receipts, capital grants etc. However, where these resources are insufficient any residual expenditure will form a borrowing need.

	<b>2012/13 Actual £000s</b>	<b>2013/14 Estimated £000s</b>	<b>2014/15 Estimated £000s</b>	<b>2015/16 Estimated £000s</b>
Capital Expenditure	5,817	9,243	5,091	2,758
<b>Financed by:</b>				
Capital receipts	(4,517)	(8,498)	(4,716)	(2,758)
Capital grants	(375)	(375)	(375)	-
Revenue funded reserves	(925)	(370)	-	-
Direct Revenue Financing	-	-	-	-
<b>Net financing need for the year</b>	-	-	-	-

### Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2012-13 Approved %</b>	<b>2012-13 Revised%</b>	<b>2013-14 Estimate %</b>	<b>2014-15 Estimate %</b>	<b>2015-16 Estimate %</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Capital Financing Requirement:

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the

Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

The Council is debt free and has no plans to enter into any long term debt arrangements. As such this section is largely irrelevant but is included for completeness if there was a decision to go back into debt. Therefore, the Council has a nil Minimum Revenue Provision for 2012/13.

The Council is asked to **approve a NIL CFR projection.**

### **Actual External Debt:**

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

<b>Actual External Debt as at 31/03/2012</b>	<b>£m</b>
Borrowing	0
Other Long-term Liabilities	0
<b>Total</b>	<b>0</b>

### **Incremental Impact of Capital Investment Decisions:**

This is an indicator of affordability that shows the impact of capital investment decisions on the Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

The Council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, revenue and capital receipts) and that any increase in the underlying need to borrow is supported through the Revenue Support Grant system.

### **Adoption of the CIPFA Treasury Management Code:**

This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 27 <sup>th</sup> February 2012.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

This Council is aware that there is now a new indicator on net debt which has been considered; however, this is not detailed further as the Council currently has no plans to go into debt during the 2013-14 financial year.

### Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments:

	Existing level (or Benchmark level) at 31/03/12 %	2012-13 Approved £m or %	2012-13 Revised £m or %	2013-14 Estimate £m or %	2014-15 Estimate £m or %	2015-16 Estimate £m or %
Upper Limit for Fixed Interest Rate Exposure	-£0.030	-£0.030	-£0.030	-£0.030	-£0.030	-£0.030
Upper Limit for Variable Interest Rate Exposure	-£0.012	-£0.012	-£0.012	-£0.012	-£0.012	-£0.012

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

As the Council's investments are substantially in excess of its borrowing, these calculations have resulted in a negative figure.

### Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

<b>Maturity structure of fixed rate borrowing</b>	<b>Existing level (or Benchmark level) at 31/03/12 %</b>	<b>Lower Limit for 2013/14 %</b>	<b>Upper Limit for 2013/14 %</b>
Less than twelve months	0%	0%	100%
12 months – 10 years	0%	0%	100%
10 years plus	0%	0%	100%

### **Credit Risk:**

The Council considers security, liquidity and yield, in that order, when making investment decisions with Security the most important. With the uncertainty in market, the Council is seeking to place investments for a short term and is effectively forgoing return in order to protect capital.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

### **Upper Limit for total principal sums invested over 364 days:**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2012-13 Approved £m</b>	<b>2012-13 Revised £m</b>	<b>2013-14 Estimate £m</b>	<b>2014-15 Estimate £m</b>	<b>2015-16 Estimate £m</b>
	15.0	15.0	15.0	15.0	15.0

## **Appendix 3: Economic Background**

### **The Global economy**

The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which

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is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth @ 0.9% in quarter 3 is unlikely to prove anything more than a washing out of the dip in the previous quarter before a probable return to negative growth in quarter 4; this would leave overall growth in 2012 close to zero and could then lead into negative growth in quarter 1 of 2013, which would then mean that the UK was in its first triple dip recession since records began in 1955.

The **Eurozone sovereign debt crisis** abated following the ECB's commitment to a programme of Outright Monetary Transactions i.e. a pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request, (for a national bailout), and so surrendering its national sovereignty to IMF supervision. However, the crisis in Greece has subsided, for the time being, as a result of the Eurozone agreement to provide a further €50bn financial support package in December. Many commentators, though, still view a Greek exit from the Euro as being likely in the longer term as successive rounds of austerity packages could make it more difficult to bring down the annual deficit and total debt as ratios of GDP due to the effect they have on shrinking the economy and reducing employment and tax revenues. However, another possible way out would be a major write down of total Greek debt; this has now been raised by the German Chancellor as a possible course of action, but not until 2014-15, and provided the Greek annual budget is in balance.

Sentiment in financial markets has improved considerably since this ECB action and additional financial support for Greece to ensure that the Eurozone remained intact during 2012. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and do not address the huge obstacle of unemployment rates of over 25% in Greece and Spain. It is also possible that the situations in Portugal and Cyprus could deteriorate further in 2013 and, although they are minor economies, such developments could unnerve financial markets. There are also general elections coming up in Italy and Germany which could potentially produce some upsets on the political scene. It is, therefore, quite possible that sentiment in financial markets could turn during 2013 after the initial burst of optimism at the start of the year. While equity prices have enjoyed a strong start to 2013, the foundations for this stock market recovery are shallow given the economic fundamentals in western economies. In addition, QE has to come to an end at some point in time and there is a distinct increase in doubt in the central banks of the US and UK as to the effectiveness of any further QE in stimulating economic growth. An end to central purchases of bonds may lead to a fall in bond prices.

**The US economy** has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the President at the start of 2013 has been a major dampener discouraging business from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. The fiscal cliff, and raising the total debt ceiling, still await final resolution by the end

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of February. The housing market, though, does look as if it has, at long last, reached the bottom and house prices are now on the up.

Hopes for a broad based recovery have, therefore, focused on the **emerging markets**. Recent news from China appears to indicate that the economy has returned to a healthier rate of growth. However, there are still concerns around the unbalanced nature of the economy which is heavily dependent on new investment expenditure. The potential for the bubble in the property sector to burst, as it did in Japan in the 1990s, could have a material impact on the economy as a whole.

### **The UK economy**

The Government's austerity measures, aimed at getting the public sector deficit into order, have now had to be extended, in the autumn statement, over a longer period than the original four years. Achieving this new extended timeframe will still be dependent on the UK economy returning to a reasonable pace of growth towards the end of this period.

Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. However, the subsiding of market concerns over the Eurozone has unwound some of the attractiveness of gilts as a safe haven and led to a significant rise in gilt yields. There is little evidence that UK consumer confidence levels are recovering, nor that the manufacturing sector is picking up. The dominant services sector disappointed in December with the PMI survey indicating the first fall in activity in two years. On the positive side, banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had time to make a significant impact in respect of materially increasing overall borrowing in the economy. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

**Economic Growth.** Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. Quantitative Easing (QE) increased by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the MPC to vote for a further round of QE in early 2013 to try to stimulate economic activity. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) was also effectively a further addition of QE.

**Unemployment.** The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

**Inflation and Bank Rate.** Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% by the end of the year, though it is expected to fall back to reach the 2% target level within the two year horizon.

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**AAA rating.** The UK continues to enjoy an AAA sovereign rating. However, the three main credit rating agencies have stated that they will be reviewing this rating in early 2013; they will, thereafter, also be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

### **Sector's forward view**

Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the Greek government was unable to eliminate the annual budget deficit and the costs of further support were to be viewed as being prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself. The same considerations could also apply to Spain;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- elections due in Italy and Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China;
- the potential for action to curtail the Iranian nuclear programme;
- the situation in Syria deteriorating and impacting other countries in the Middle East.

The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

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Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Sector believes that 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 the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields;
  - Reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;
  - Reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone;
  - Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth;
  - The possibility of a UK credit rating downgrade.
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## Appendix 4 : 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' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies	Green	In-house
Term deposits – banks and building societies	Short-term F1, Long-term A, Viability BB+	Investec

### Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max £	Max. maturity period
UK part nationalised banks	Green	In-house	<b>£15m including Investec's limit</b>	<b>364 days</b>
UK part nationalised banks	UK sovereign rating or Short-term F1, Long term A ,Viability BB+	Investec	<b>Max 15% of fund</b>	<b>364 days</b>

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house and Investec
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	Investec
UK Government Gilts	UK sovereign rating	Investec
Bonds issued by multilateral development banks	AA-	Investec
Sovereign bond issues (other than the UK govt)	AA-	Investec
Treasury Bills	UK sovereign rating	In house and Fund Managers

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	AAA	In-house
2. Money Market Funds	AAA	In-house

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**NON-SPECIFIED INVESTMENTS:** A maximum of 30% will be held in aggregate in non-specified investment

. Maturities of ANY period

	* Minimum Credit Criteria	Use	Max % of fund	Max. maturity period
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Investec	15%	2 years
Commercial paper other	Short-term F1, Long-term A, Viability BB+	In- house and Investec	15%	2 years
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	Short-term F1, Long-term A, Viability BB+	In- house and Investec	15%	2 years

## Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council'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 this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 01/03/2002 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its Treasury Management Practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires 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 Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, 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 Council 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. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled
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investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

5. 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, P-1, or A-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is: \_

#### **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	Green	In-house
Term deposits – banks and building societies	Short-term F1, Long-term A, Viability BB+	Investec

#### **Term deposits with nationalised banks and banks and building societies**

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max £</b>	<b>Max. maturity period</b>
UK part nationalised banks	Green	In-house	<b>£15m including Investec's limit</b>	<b>364 days</b>
UK part nationalised banks	Short-term F1, Long-term A, Viability BB+	Investec	<b>Max 15% of fund</b>	<b>364 days</b>

Collateralised deposit	UK sovereign rating	In-house and Fund Managers
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	Green	In-house and Investec
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating or Short-term F, Long-term A, Viability BB+	Investec



UK Government Gilts	UK sovereign rating	Investec
Bonds issued by multilateral development banks	AA-	Investec
Sovereign bond issues (other than the UK govt)	AA-	Investec
Treasury Bills	UK sovereign rating	In house and Fund Managers

<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -</b>		
1. Government Liquidity Funds	AAA	In-house
2. Money Market Funds	AAA	In-house

**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:

	<b>Non Specified Investment Category</b>	<b>Limit (£ or %)</b>
a.	<b>Supranational Bonds greater than 1 year to maturity</b> <b>(a) Multilateral development bank bonds</b> - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).	AA- long term ratings
b.	<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.	100%

**The Monitoring of Investment Counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector 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 Director of Resources or Head of Finance & Procurement, and if required new counterparties which meet the criteria will be added to the list.

**Use of External Fund Managers** – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. The performance of each manager is reviewed at least monthly by the Head of Finance & Procurement and the managers are contractually required to comply with the annual investment strategy

## **Appendix 5 : Approved countries for investments**

*Based on lowest available rating*

### AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

### AA+

- France
- Hong Kong
- U.S.A.

### AA

- Qatar
- UAE

### AA-

- Belgium
  - Saudi Arabia
-

## **Appendix 6 : Scheme of Delegation**

### **6.0 Scheme of delegation**

#### **6.1 Full council**

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

#### **6.2 Executive**

- 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.

#### **6.3 Accounts Audit & Risk Committee**

reviewing the treasury management policy and procedures and making recommendations to the responsible body.

#### **6.4 Role of the section 151 officer**

##### **The S151 (responsible) officer**

- 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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## Appendix 7: Glossary

<b>Asset Class Limits</b>	Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies
<b>Asset Life</b>	The length of the useful life of an asset e.g. a school
<b>Borrowing / Investment Portfolio</b>	A list of loans or investments held by the Council.
<b>Borrowing Requirement</b>	The amount that the Council needs to borrow to finance capital expenditure and manage debt.
<b>Callable deposit</b>	Funds placed with a financial institution without a fixed maturity date (i.e. the money can be 'called' or withdrawn at any time).
<b>Capitalisation direction</b>	Government approval to use capital resources to fund revenue expenditure.
<b>Cash deposits</b>	Funds placed with a financial institution with a fixed maturity date and interest rate.
<b>Certificates of deposits</b>	(CD). CDs evidence fixed maturity time deposits with issuing banks or other deposit-taking institutions. Maturities range from less than a week to five years. They are normally negotiable and enjoy a liquid secondary market. They state the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties.
<b>CIPFA Code of Practice on Treasury Management</b>	A code of practice issued by CIPFA detailing best practice for managing the treasury management function.
<b>Collateralised Deposit</b>	Term deposits with UK institutions where such deposits are secured against a collateral pool comprised of loans made to UK local authorities.
<b>Counterparty</b>	Banks, Building Societies and other financial institutions that the Council transacts with for borrowing and lending.
<b>Credit Arrangements</b>	Methods of financing such as the use of finance leases
<b>Credit Ratings</b>	A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poors to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions.
<b>Creditworthiness</b>	How highly rated an institution is according to its credit rating.
<b>Debt Management Office</b>	An agency of the HM Treasury and its responsibilities include debt and cash management for the UK

	Government
<b>Debt Rescheduling</b>	Refinancing loans on different terms and rates to the original loan.
<b>Financial instrument</b>	Document (such as a bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
<b>Fitch Ratings</b>	A credit rating agency.
<b>Forward commitment</b>	Written agreement by a lender to advance a loan on a future date at a specified interest rate. It automatically expires if not exercised by the potential borrower.
<b>Gilts</b>	Also known as Gilt-edged Securities. UK central Government debt. It may be dated (redeemable) or undated. Undated gilts are perpetual debt, paying a fixed periodic coupon but having no final redemption date. Gilt yields are conventionally quoted in the UK markets on a semi-annual basis.
<b>Interest Rate exposures</b>	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
<b>Lender Option Borrower Option (LOBO)</b>	Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan.
<b>Limits for external debt</b>	A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford.
<b>Liquidity</b>	Access to cash that is readily available.
<b>Lowest Common Denominator</b>	Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Council's lending list.
<b>Maturity</b>	The date when an investment is repaid or the period covered by a fixed term investment.
<b>Maturity Structure of Borrowings</b>	A profile of the Council's loan portfolio in order of the date in which they expire and require repayment.
<b>Minimum Revenue Provision</b>	The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt.
<b>Money Market Funds</b>	Open ended collective investment fund that invests in highly-liquid short-term financial instruments (with maturities typically 90 days to less than one year).
<b>Moody's</b>	A credit rating agency.
<b>Non Specified Investments</b>	Investments deemed to have a greater potential of

	risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during
<b>Portfolio</b>	A number of different assets, liabilities, or assets and liabilities together, considered as a whole. For example, a diversified investment portfolio. An investor in such a portfolio might hold a number of different investment assets within the portfolio, with the objectives of growing the total value of the portfolio and limiting the risk of losses.
<b>Prudential Borrowing</b>	Borrowing undertaken by the Council that does not attract government support to help meet financing costs.
<b>Prudential Code for Capital Finance in Local Authorities</b>	The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford.
<b>Prudential Indicators</b>	The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this.
<b>Public Works Loan Board (PWLB)</b>	A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow.
<b>Credit Rated</b>	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
<b>Risk Control</b>	Putting in place processes to control exposures to events.
<b>Security</b>	Placing cash in highly rated institutions.
<b>Sovereign debt rating</b>	Assessment of the international rating agencies of the likelihood that a particular country will default on its loans.
<b>Specified Investments</b>	Investments that offer high security and liquidity. They must have a maturity of no longer than 364 days.
<b>Standard and Poors</b>	A credit rating agency.
<b>Supranational Institutions</b>	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
<b>UK Government Investments</b>	Debt Management Office (DMO) deposits and bonds (gilts) for which maturity date at time of purchase is less than 365 days away

<b>Yield</b>	The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today's yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today's market value to the redemption amount payable at maturity.

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