Treasury Management Strategy Statement

Annual Investment Strategy

2020/21

1.INTRODUCTION

1.1 Background

Transport for the North 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 Transport for the North'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 Transport for the North's capital plans. As Transport for the North does not have the power to raise short or long-term credit, this activity is limited to ensuring grant drawdowns are aligned to expenditure plans.

The contribution the treasury management function makes to Transport for the North is critical to ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to Transport for the North.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

Transport for the North has not engaged in any commercial investments and has no non-treasury investments.

1.2 Reporting requirements

1.2.1 Capital Strategy

A capital strategy report is designed to show how local authorities will finance and fund long-term investment plans. They are designed to evidence that investment plans are both affordable in the short-term and sustainable in the long-term.

Transport for the North has no pwoers to enter into credit liabilities, so cannot borrow to finance investment. Transport for the North also owns no assets which could be disposed of to generate capital receipts. Finally, Transport for the North has no revenue raising powers, which could be used to raise cash for capital investment.

Instead, Transport for the North is an entirely grant funded organisation. All capital investments are grant funded, with no additional financing or funding issues.

Transport for the North's capital expenditure profiles are outlined later in this appendix.

1.2.2 Treasury Management reporting

Transport for the North Board is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers the aspects relevant to Transport for the North – notably management of cash and investments:
   - the capital plans, (including prudential indicators);
   - the treasury management strategy, (how the investments are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The following bodies within TfN's governance receive Treasury Management Reporting:

- The Scrutiny Committee;
- The Audit & Governance Committee;
- The Executive Board; and,
- The TfN Board.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators.

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Transport for the North will review training requirements for members in the new financial year.

The training needs of finance officers involved in treasury management are periodically reviewed.

The Transport for the North Financial Controller retains a Certificate in International Treasury Management (Public Finance) qualification, awarded from the Association of Corporate Treasurers.

1.5 Treasury management consultants

Transport for the North uses Link Asset Services, Treasury solutions as its external treasury management advisors.

Transport for the North recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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. Transport for the North 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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

Regulation requires Transport for the North to present its capital prudential indicators. This reflects that, for most authorities, capital expenditure plans are a key driver of treasury management activity. This is principally because those plans will be underpinned by financing strategies that use debt or cash balances to finance activity.

Transport for the North's statutory position means that is not able to raise credit, and its funding environment means that it is unlikely to generate significant long-term cash surpluses. Instead, Transport for the North's capital investment plans will be funded from grant awards.

These factors mean the capital prudential indicators are largely insignificant, though they do reflect the parameters in which Transport for the North operates.

2.1 Capital expenditure

This a summary of Transport for the North's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£m	£m	£m	£m	£m
Total	£9.10m	£6.95m	£4.45m	£0.00m	£0.00m

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources.

Financing of capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Grants	£9.10m	£6.95m	£4.45m	£0.00m	£0.00m
Net financing need for the year	£0m	£0m	£0m	£0m	£0m

The reduction in capital expenditure reflects movements in TfN's Integrated and Smart Ticketing programme. That programme is currently formed of three phases of activity:

1. ITSO on Rail
2. Customer Information
3. Accounts Based Back Office

Phases 1 and 2 of the programme are due to conclude their capital delivery activity in financial year 2020/21. The previously planned capital delivery activity for Phase 3 has been withdrawn following the shortfall in bus-operator support for the planned delivery model.

Work is underway within TfN - in collaboration with the Department for Transport and local partners - to develop proposals for a smaller 'Smart on Rail' scheme, along with local projects that could achieve the wider policy objectives.

At the time of writing this activity was insufficiently developed to include in budget and capital programme estimates. Should activity be brought forward through TfN, any capital expenditure will be wholly funded from discrete grant.

2.2 Core funds and expected investment balances

Transport for the North's cash balances are largely determined by its reserve strategy and working capital fluctuations. Transport for the North is funded on a needs basis, so only draws upon grant it requires to meet its expenditure plans. It does, however, hold cash in reserve to guard against financial shock. In the table below working capital is assumed at £0m on a prudent basis, though it is likely that cash owed to creditors will be held from one accounting period to the next:

Year End Resources £m	**2018/19 Actual**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Fund balances / reserves	£5.58m	£5.89m	£4.59m	£4.00	£3.40m
Total core funds	£5.58m	£5.89m	£4.59m	£4.00	£3.40m
Working capital*	£8.79m	£4.11m	£0	£0m	£0m
Expected investments	£14.37m	£10.00m	£4.59m	£4.00	£3.40m

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.3 Prospects for interest rates

TfN has appointed Link Asset Services as its treasury advisor in part to assist in formulating a view on interest rates. The following table gives Link's central view.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment policy – management of risk

Transport for the North's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

Transport for the North's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. Transport for the North has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration Transport for the North 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.

3. **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.

4. Transport for the North has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Transport for the North will not use these investment categories.

5. **Non-specified investments limit.** Transport for the North has determined that it will not invest in any non-specified investment categories.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.3.

7. **Transaction limits** are set for each type of investment in paragraph 3.3.

8. Transport for the North will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 3.2).

10. Transport for the North has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of Transport for the North in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2018/19 under **IFRS 9,** Transport for the North will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

However, Transport for the North will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.2). Regular monitoring of investment performance will be carried out during the year.

3.2 Changes in risk management policy from last year.

Over the last year Transport for the North has engaged with treasury management advisors to shape its investment strategy. This has resulted in the adoption of Link Asset Services creditworthiness service to choose investment counterparties.

3.3 Creditworthiness policy

Transport for the North applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. 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.

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 Transport for the North to determine the suggested duration for investments.

This approach is then tempered by Transport for the North's funding environment, and in particular its funding relationship with the Department for Transport. This environment sees Transport for the North directly funded every quarter for activity, and thus negates the need for, and the possibility of, running up significant cash balances over a long duration.

Transport for the North will therefore use counterparties within the following durational bands*:*

- Yellow 3 months
- Dark pink 3 months
- Light pink 3 months
- Purple 3 months
- Blue 3 months
- Orange 3 months
- Red 3 months
- Green 1 month
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Before consideration of underlying sovereign rating, typically the minimum credit ratings criteria Transport for the North use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. 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. Transport for the North is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting Transport for the North's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings Transport for the North will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from Transport for the North's lending list.

Sole reliance will not be placed on the use of this external service. In addition Transport for the North will also use market data and market information, information on any external support for banks to help support its decision making process.

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

See Appendix 4.7 for an indicative counterparty list	**Colour (and long term rating where applicable)**	**Money and/or % Limit**	**Transaction limit**	**Time Limit**
Banks *	**yellow**	**100%**	**£5m**	**3 months**
Banks	**purple**	**100%**	**£5m**	**3 months**

Banks	**orange**	**100%**	**£5m**	**3 months**
Banks – part nationalised	**blue**	**100%**	**£5m**	**3 months**
Banks	**red**	**100%**	**£5m**	**3 months**
Banks	**green**	**100%**	**£5m**	**1 month**
Banks	**No colour**	**Not to be used**	**£0m**	**-**
Limit 3 category – TfN's banker^	**n/a**	**100%**	**n/a**	**3 days**
DMADF	**UK sovereign rating**	**unlimited**	**n/a**	**3 months**
Local authorities	**n/a**	**100%**	**£5m**	**3 months**
	Fund rating	**Money and/or % Limit**		**Time Limit**
Money Market Funds CNAV	**AAA**	**100%**	**£5m**	**liquid**
Money Market Funds LVNAV	**AAA**	**100%**	**£5bm**	**liquid**

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.*

^ Transport for the North retains the ability to directly invest its cash surpluses with its own bank above the defined transaction limit where necessary. This includes managing unexpected cash flows, dealing with urgent matters, or where other options are not available to.

UK banks – ring fencing
The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. Transport for the North will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

3.4 Country limits

Due care will be taken to consider the exposure of Transport for the North's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** Transport for the North has determined that it will not use non-specified investment products.

b) **Country limit.** Transport for the North has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

3.5 Investment strategy

Investment Durations

Transport for the North's approach to investments is influenced by its funding environment. Transport for the North has no revenue raising powers, nor ability to raise credit. This limits its ability to raise surplus cash unilaterally, and also obviates the need for retaining significant amounts of cash to pay down debt obligations.

Transport for the North is funded on a needs basis from the Department for Transport, receiving periodical grants to meet its cash requirements. This funding arrangement is supplemented by a reserve strategy that enables Transport for the North to retain cash balances from its flexible Core Grant to mitigate against financial shock.

These arrangements mean that it is unlikely Transport for the North will have significant amounts of surplus cash that does not have a short-term call upon it. This in turn engenders a short-term view on investments, with the primacy of consideration being on security and liquidity.

Transport for the North considers that it will not invest for time-periods beyond 3 months.

Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 - 0.75%
- Q1 2022 - 1.00%
- Q1 2023 - 1.25%

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

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to Transport for the North's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. Transport for the North's funding environment is such that it will limit itself to investments of periods not greater than 3 months.

Transport for the North is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	£0m	£0m	£0m
Current investments as at 15.01.19 in excess of 1 year maturing in each year	£0m	£0m	£0m

3.6 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security – Transport for the North has opted for a particularly prudent approach to security
Liquidity – in respect of this area Transport for the North seeks to maintain:

- Liquid short-term deposits of at least £1m available with a day's notice in its own bank.
- Weighted average life benchmark is expected to be no greater than 3 months.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7-day LIBID rate

3.7 End of year investment report

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

4 APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Economic background and interest rate forecasts
3. Treasury management practice 1 – credit and counterparty risk management (option 1)
4. Treasury management practice 1 – credit and counterparty risk management Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer
7. Indicative counterparty list

4.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22 AND MRP STATEMENT

Transport for the North's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.1.1 Capital expenditure

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Integrated & Smart Ticketing Programme	£9.10m	£6.95m	£4.45m	£0.00m	£0.00m
Total	**£9.10m**	**£6.95m**	**£4.45m**	**£0.00m**	**£0.00m**

4.1.2 Affordability prudential indicators

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream. Transport for the North does not have powers to raise credit, so has no costs of capital.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	0%	0%	0%	0%	0%

4.2 ECONOMIC BACKGROUND

UK. Brexit. 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. The Conservative Government gained a large overall majority in the **general election** on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.

GDP growth took a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.
However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.
The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress,

this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Coronavirus. The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

USA. After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.
The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as

being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

"The NEW NORMAL." The Fed chairman has given an overview of the current big picture of the economy by summing it up as **A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.** This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.
It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels "at least through to the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy. There have been

no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was ‘tilted to the downside’ and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB
On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

4.3 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 3 months**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. Transport for the North will not use investment classes that fall under this category.

	Minimum credit criteria / colour band	**Max % of total investments/**	**Max. maturity period**
DMADF – UK Government	UK sovereign rating	**100%**	**3 months**
UK Government gilts	UK sovereign rating	100%	3 months
UK Government Treasury bills	UK sovereign rating	100%	3 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	100%	3 months
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA	100%	Liquid
Local authorities	N/A	100%	3 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour		3 months 3 months 3 months 1 month Not for use

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by Transport for the North. To ensure that Transport for the North 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.

4.4 APPROVED COUNTRIES FOR INVESTMENTS

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

4.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Transport for the North Board

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

(ii) Scrutiny Committee

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

(iii) Audit and Governance Committee

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

4.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer (Transport for the North Finance Director)

- 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.

4.7 INDICATIVE COUNTERPARTY LIST

List of Suggested Counterparties for Lending for Transport for the North

Any values highlighted in yellow have undergone a change in the past 14 days.

Counterparty		Fitch Ratings		Moodys Ratings		S&P Ratings								
		Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Band Name	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
Australia		SB AAA		SB Aaa		SB AAA			24.89					
Banks	Australia and New Zealand Banking Group Ltd.	SB AA-	F1+	SB Aa3	P-1	NO AA-	A-1+	Non UK Banks	69.74	●	O - 12 mths	5 Million	3 Months	
	Commonwealth Bank of Australia	NO AA-	F1+	SB Aa3	P-1	NO AA-	A-1+	Non UK Banks	71.16	●	O - 12 mths	5 Million	3 Months	
	Macquarie Bank Ltd.	SB A	F1	SB A2	P-1	EO A	A-1	Non UK Banks			R - 6 mths	5 Million	3 Months	
	National Australia Bank Ltd.	SB AA-	F1+	SB Aa3	P-1	NO AA-	A-1+	Non UK Banks	71.16	●	O - 12 mths	5 Million	3 Months	
	Westpac Banking Corp.	SB AA-	F1+	SB Aa3	P-1	NO AA-	A-1+	Non UK Banks	71.19	●	O - 12 mths	5 Million	3 Months	
Canada		SB AAA		SB Aaa		SB AAA			35.59					
Banks	Bank of Montreal	SB AA-	F1+	SB Aa2	P-1	SB A+	A-1	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Bank of Nova Scotia	SB AA-	F1+	SB Aa2	P-1	SB A+	A-1	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Canadian Imperial Bank of Commerce	SB AA-	F1+	SB Aa2	P-1	SB A+	A-1	Non UK Banks			O - 12 mths	5 Million	3 Months	
	National Bank of Canada	SB A+	F1	SB Aa3	P-1	SB A	A-1	Non UK Banks			R - 6 mths	5 Million	3 Months	
	Royal Bank of Canada	SB AA	F1+	SB Aa2	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Toronto-Dominion Bank	SB AA-	F1+	SB Aa1	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
Denmark		SB AAA		SB Aaa		SB AAA			9.78					
Banks	Danske A/S	NO A	F1	NO A2	P-1	NO A	A-1	Non UK Banks	65.16	●	R - 6 mths	5 Million	3 Months	
Finland		PO AA+		SB Aa1		SB AA+			10.80					
Banks	Nordea Bank Abp	SB AA-	F1+	SB Aa3	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
	OP Corporate Bank plc	WD	WD	SB Aa3	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
France		SB AA		PO Aa2		SB AA			24.06					
Banks	BNP Paribas	SB A+	F1	SB Aa3	P-1	PO A	A-1	Non UK Banks	70.33	●	O - 12 mths	5 Million	3 Months	
	Credit Agricole Corporate and Investment Bank	SB A+	F1	PO A1	P-1	SB A+	A-1	Non UK Banks	52.79	●	O - 12 mths	5 Million	3 Months	
United Arab Emirates		SB AA		SB Aa2		SB AA			69.23					
Banks	First Abu Dhabi Bank PJSC	SB AA-	F1+	SB Aa3	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
United Kingdom		NO AA		SB Aa2		NO AA			35.43					
AAA rated and Government backed securities	Debt Management Office							DMO			Y - 60 mths		12 Months	(M)
								DMO			Y - 60 mths		3 Days	(M)
Banks	Abbey National Treasury Services PLC	SB A	F1	SB Aa3	P-1			UK Banks			R - 6 mths	5 Million	3 Months	
	Bank of Scotland PLC (RFB)	SB A+	F1	SB Aa3	P-1	SB A+	A-1	UK Banks	69.93	●	O - 12 mths	5 Million	3 Months	
	Barclays Bank PLC (NRFB)	SB A+	F1	SB A2	P-1	SB A	A-1	UK Banks	95.02	●	R - 6 mths	5 Million	3 Months	
	Barclays Bank UK PLC (RFB)	SB A+	F1	SB A1	P-1	SB A	A-1	UK Banks			R - 6 mths	5 Million	3 Months	
	Close Brothers Ltd	SB A	F1	SB Aa3	P-1			UK Banks			R - 6 mths	5 Million	3 Months	
	Goldman Sachs International Bank	SB A	F1	NO A1	P-1	SB A+	A-1	UK Banks	101.29	●	R - 6 mths	5 Million	3 Months	
	Handelsbanken Plc	SB AA	F1+			SB AA-	A-1+	UK Banks			O - 12 mths	5 Million	3 Months	
	HSBC Bank PLC (NRFB)	SB AA-	F1+	SB Aa3	P-1	SB AA-	A-1+	UK Banks	49.67	●	O - 12 mths	5 Million	3 Months	
	HSBC UK Bank Plc (RFB)	SB AA-	F1+			SB AA-	A-1+	UK Banks			O - 12 mths	5 Million	3 Months	
	Lloyds Bank Corporate Markets Plc (NRFB)	SB A	F1	SB A1	P-1	SB A	A-1	UK Banks			R - 6 mths	5 Million	3 Months	
	Lloyds Bank Plc (RFB)	SB A+	F1	SB Aa3	P-1	SB A+	A-1	UK Banks	73.56	●	O - 12 mths	5 Million	3 Months	
	Santander UK PLC	SB A+	F1	PO Aa3	P-1	SB A	A-1	UK Banks			O - 12 mths	5 Million	3 Months	
	Standard Chartered Bank	SB A+	F1	SB A1	P-1	SB A	A-1	UK Banks	62.41	●	R - 6 mths	5 Million	3 Months	
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB A	F1	SB A1	P-1	PO A	A-1	UK Banks	60.04	●	R - 6 mths	5 Million	3 Months	
	UBS Ltd.	SB AA-	F1+	SB Aa3	P-1	SB A+	A-1	UK Banks	48.22	● •	O - 12 mths	5 Million	3 Months	
Building Society	Coventry Building Society	SB A	F1	SB A2	P-1			UK Banks			R - 6 mths	5 Million	3 Months	
	Nationwide Building Society	SB A	F1	NO Aa3	P-1	PO A	A-1	UK Banks			R - 6 mths	5 Million	3 Months	
United States		SB AAA		SB Aaa		SB AA+			17.76					
Banks	Bank of America N.A.	SB AA-	F1+	PN Aa3	P-1	SB A+	A-1	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Bank of New York Mellon, The	SB AA	F1+	SB Aa1	P-1	SB AA-	A-1+	Non UK Banks			P - 24 mths	5 Million	3 Months	
	Citibank N.A.	SB A+	F1	PN A1	P-1	SB A+	A-1	Non UK Banks	81.22	●	O - 12 mths	5 Million	3 Months	
	JPMorgan Chase Bank N.A.	SB AA	F1+	SB Aa1	P-1	SB A+	A-1	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Wells Fargo Bank, NA	SB AA-	F1+	NO Aa1	P-1	SB A+	A-1	Non UK Banks	70.88	●	O - 12 mths	5 Million	3 Months	
Banks	Credit Industriel et Commercial	SB A+	F1	SB Aa3	P-1	SB A	A-1	Non UK Banks			R - 6 mths	5 Million	3 Months	
	Societe Generale	SB A	F1	SB A1	P-1	PO A	A-1	Non UK Banks	71.56	●	R - 6 mths	5 Million	3 Months	
Germany		SB AAA		SB Aaa		SB AAA			10.72					
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB AA-	F1+	SB Aa1	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Landesbank Berlin AG			SB Aa2	P-1			Non UK Banks			O - 12 mths	5 Million	3 Months	
	Landesbank Hessen-Thueringen Girozentrale	SB A+	F1+	SB Aa3	P-1	PO A	A-1	Non UK Banks	40.47	●	O - 12 mths	5 Million	3 Months	
	Landwirtschaftliche Rentenbank	SB AAA	F1+	SB Aaa	P-1	SB AAA	A-1+	Non UK Banks			P - 24 mths	5 Million	3 Months	
	NRW BANK	SB AAA	F1+	SB Aa1	P-1	PO AA-	A-1+	Non UK Banks			P - 24 mths	5 Million	3 Months	
Netherlands		SB AAA		SB Aaa		SB AAA			10.17					
Banks	ABN AMRO Bank N.V.	SB A+	F1	SB A1	P-1	PO A	A-1	Non UK Banks			R - 6 mths	5 Million	3 Months	
	Bank Nederlandse Gemeenten N.V.	SB AA+	F1+	SB Aaa	P-1	SB AAA	A-1+	Non UK Banks			P - 24 mths	5 Million	3 Months	
	Cooperatieve Rabobank U.A.	SB AA-	F1+	SB Aa3	P-1	PO A+	A-1	Non UK Banks	40.49	●	O - 12 mths	5 Million	3 Months	
	ING Bank N.V.	PO A+	F1	SB Aa3	P-1	SB A+	A-1	Non UK Banks	41.97	●	O - 12 mths	5 Million	3 Months	
	Nederlandse Waterschapsbank N.V.			SB Aaa	P-1	SB AAA	A-1+	Non UK Banks			P - 24 mths	5 Million	3 Months	
Singapore		SB AAA		SB Aaa		SB AAA								
Banks	DBS Bank Ltd.	SB AA-	F1+	SB Aa1	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Oversea-Chinese Banking Corp. Ltd.	SB AA-	F1+	SB Aa1	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
	United Overseas Bank Ltd.	SB AA-	F1+	SB Aa1	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
Sweden		SB AAA		SB Aaa		SB AAA			9.47					
Banks	Skandinaviska Enskilda Banken AB	SB AA-	F1+	SB Aa2	P-1	SB A+	A-1	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Svenska Handelsbanken AB	SB AA	F1+	SB Aa2	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
	Swedbank AB	SB AA-	F1+	SB Aa2	P-1	SB AA-	A-1+	Non UK Banks			O - 12 mths	5 Million	3 Months	
Switzerland		SB AAA		SB Aaa		SB AAA			19.00					
Banks	Credit Suisse AG	PO A	F1	SB A1	P-1	PO A	A-1	Non UK Banks	104.96	●	R - 6 mths	5 Million	3 Months	
	UBS AG	SB AA-	F1+	SB Aa2	P-1	SB A+	A-1	Non UK Banks	48.22	●	O - 12 mths	5 Million	3 Months	