**CLACKMANNANSHIRE COUNCIL**

| THIS PAPER RELATES TO ITEM 13 ON THE AGENDA |
|---|

**Report to Council**

**Date of Meeting: 15th May 2014**

**Subject: Treasury Management Strategy Statement 2014-2015**

**Report by: Chief Accountant**

## 1.0 Purpose

1.1. The purpose of this report is to present the Council's Treasury Management Strategy Statement for 2014/15.

1.2. 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."*

## 2.0 Recommendations

2.1. It is recommended that Council

2.1.1. Approve the Treasury Management Strategy Statement for 2014/15 attached as Appendix A.

## 3.0 Considerations

**Background**

3.1 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 commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3.2 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.

**Reporting Requirements**

3.3 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** - The first, and most important report covers:

- the capital plans (including prudential indicators);
- 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).

The first element on Prudential Indicators was presented and approved at the Special Council meeting on 21st February. This report takes forward the Treasury Manageemnt Strategy and Investment Strategy.

**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.

**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.

**Treasury Management Strategy for 2014/15**

3.4 The strategy for 2014/15 covers the following areas:

- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment policy;
- creditworthiness policy;
- country limits; and
- the investment strategy.
- policy on use of external providers

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

### Training

3.5 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Regular training is held for members and the last refresher was held on the 22nd April 2014. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

### Treasury Management Consultants

3.6 The Council uses Capita Asset Services as its external treasury management advisors.

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. The current contract is in place until July 2014 and the tender process is underway to secure appropriate Treasury support for future years.

### Impact of the Referendum

3.7 The Treasury Management Strategy report has been prepared on the basis of current market conditions. Any impact as a result of the referendum vote in September will be incorporated into the monitoring of Treasury activities and reported throughout the year.

## 4.0 Conclusion

4.1 The Treasury Management Strategy for 2014/15 builds on and consolidates the Council's existing Investment Strategy and Prudential Borrowing framework.

4.2 The strategy supports the delivery of the Councils capital investment plans but also remains intent on reducing the Council's overall relative level of external debt compared to Scottish averages.

## 5.0 Sustainability Implications

5.1 There are no sustainability implications.

## 6.0 Resource Implications

*6.1 Financial Details*

6.2 There are no direct financial implications arising from the recommendations in this report. Yes ☑

6.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☑

*6.4 Staffing*

*6.5 None*

**7.0 Exempt Reports**

Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☑

**8.0 Declarations**

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box ☑)

| | |
|---|---|
| The area has a positive image and attracts people and businesses | ☐ |
| Our communities are more cohesive and inclusive | ☐ |
| People are better skilled, trained and ready for learning and employment | ☐ |
| Our communities are safer | ☐ |
| Vulnerable people and families are supported | ☐ |
| Substance misuse and its effects are reduced | ☐ |
| Health is improving and health inequalities are reducing | ☐ |
| The environment is protected and enhanced for all | ☐ |
| The Council is effective, efficient and recognised for excellence | ☑ |

**(2) Council Policies** (Please detail)

**9.0 Equalities Impact**

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
Yes ☐ No ☑

**10.0 Legality**

10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☑

## 11.0 Appendices

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A - Treasury Management Strategy Statement & Annual Investment Strategy

Appendix B - Investment Portfolio as at 31st March 2014

## 12.0 Background Papers

12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☑ (please list the documents below) No ☐

Treasury Management in Public Service; Code of Practice and Cross Sectoral Guidance Notes 2011

The Prudential Code for Capital Finance in Local Authorities 2011

Interest rate forecasts

Economic background

Treasury management practice 1 - credit and counterparty risk management

Treasury management scheme of delegation

The treasury management role of the section 95 officer

**Author(s)**

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**Approved by**

| NAME | DESIGNATION | SIGNATURE |
|---|---|---|
| Nikki Bridle | Director of Finance and Corporate Services | [redacted] |
| Elaine McPherson | Chief Executive | [redacted] |

**Appendix A**

# 2014/15 TREASURY MANAGEMENT STRATEGY STATEMENT & ANNUAL INVESTMENT STRATEGY

The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon the Council's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services.

The strategy for 2014/15 covers the following areas:

- the current portfolio position;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment policy;
- creditworthiness policy;
- country limits; and
- the investment strategy.

**Borrowing**

The capital expenditure plans approved at the Special Council meeting on 21st February provided details of the service activity of the Council. 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 approporiate borrowing facilities. The strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

## *1 Current Portfolio Position*

The Council's treasury portfolio position at 31 March 2013 with forward projection are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the capital financing requirement - CFR), highlighting any over or under borrowing.

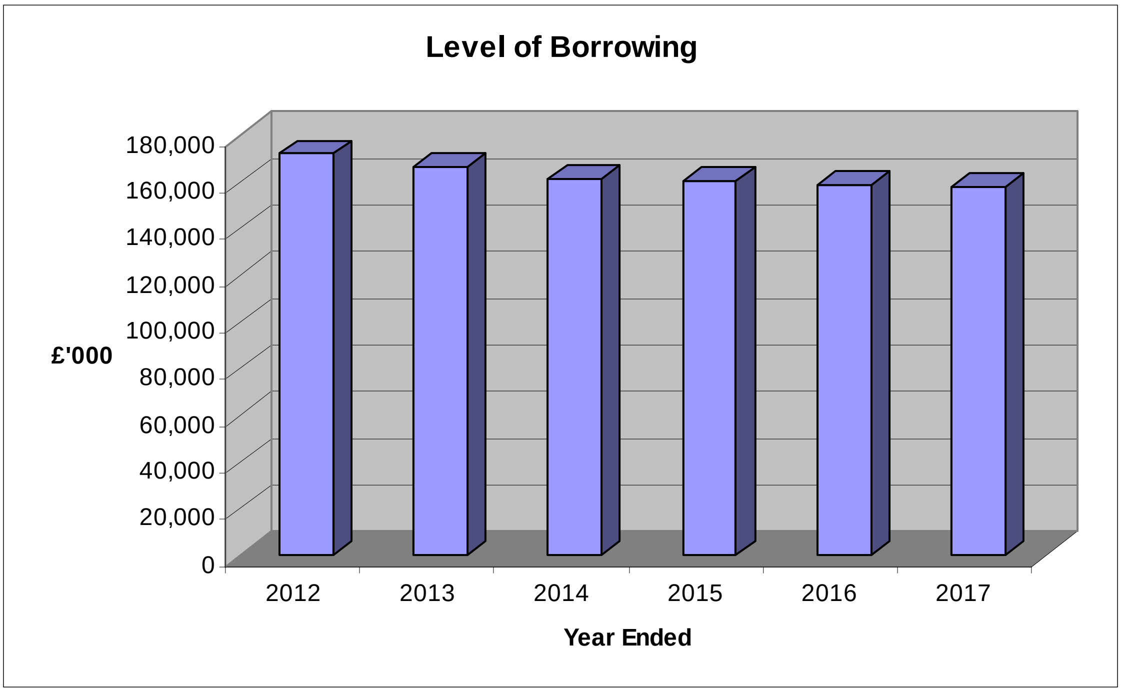
| £000 | 2012/13 Actual | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|---|---|---|---|---|---|
| **External Debt** | | | | | |
| Debt at 1 April | 123,732 | 119,726 | 115,726 | 115,726 | 115,726 |
| Expected change in Debt | (4,006) | (4,000) | 0 | 0 | 0 |
| Other long-term liabilities (OLTL) at 1 April | 48,706 | 47,476 | 46,248 | 45,005 | 43,715 |
| Expected change in OLTL | (1,230) | (1,228) | (1,243) | (1,290) | (1,311) |
| **Actual gross debt at 31 March** | **167,202** | **161,974** | **160,731** | **159,441** | **158,130** |
| **The Capital Financing Requirement** | **166,147** | **168,025** | **171,591** | **168,837** | **167,622** |
| **Under / (over) borrowing** | **(1,055)** | **6,051** | **10,860** | **9,396** | **9,492** |

At the end of 2012/13 the Council's Gross Debt was greater than the Capital Financing Requirement resulting in an over-borrowing position of £1.055m. By the end of 2013/14 and in future years the Council's Capital Financing Requirement is forecast to fall back below Gross Debt resulting in a consistent under-borrowed position.

The table demonstrates a potential reduction in loan debt of £4m in 2013/14 as loans reach maturity. Maturing debt in future years is assumed to be replaced as cash balances are now at a sufficient level. The level of cash balances and interest rates will be monitored throughout the year and the strategy reviewed should there be significant changes.

The steady reduction in other long term liabilities reflects the annual repayments of the PFI debt and street lighting finance lease.

The continuing trend in reducing the Council's level of borrowing is consistent with the Treasury Strategy. This is illustrated in the following chart, demonstrating actual and forecast level of debt upto 21016/17.




## 2 *Prospects for Interest Rates*

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita central view.

| Annual Average % | Bank Rate | PWLB Borrowing Rates (including certainty rate adjustment) | | |
|---|---|---|---|---|
| | | 5 year | 25 year | 50 year |
| March 2014 | 0.50 | 2.60 | 4.40 | 4.40 |
| June 2014 | 0.50 | 2.60 | 4.40 | 4.50 |
| Sept 2014 | 0.50 | 2.70 | 4.50 | 4.50 |
| Dec 2014 | 0.50 | 2.80 | 4.60 | 4.60 |
| March 2015 | 0.50 | 2.90 | 4.70 | 4.70 |

| | | | | |
|---|---|---|---|---|
| June 2015 | 0.50 | 2.90 | 4.70 | 4.80 |
| Sept 2015 | 0.50 | 3.00 | 4.80 | 4.90 |
| Dec 2015 | 0.75 | 3.10 | 4.90 | 5.00 |
| March 2016 | 0.75 | 3.20 | 5.00 | 5.10 |
| June 2016 | 1.00 | 3.20 | 5.00 | 5.10 |
| Sept 2016 | 1.25 | 3.30 | 5.10 | 5.10 |
| Dec 2016 | 1.50 | 3.40 | 5.10 | 5.20 |
| March 2017 | 1.75 | 3.50 | 5.10 | 5.20 |

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors; services, construction and manufacturing. This is very encouraging as there does need to be a move away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established.

One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/15 and beyond;

- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

### *3 Borrowing Strategy*

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Director of Finance and Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

**Borrowing Requirement**

The Council's borrowing requirement shown in the table below is based on the in year borrowing estimated to be needed to fund the net expenditure in the Financial Plans / Capital Budgets for both Housing and General Fund Services which were approved at the Special Council meeting in February 2014.

The actual timing of any borrowing will be influenced by prevailing interest rates and expectations for future movement on rates. It may for instance be beneficial to delay borrowing until later than expected if interest rates are projected to fall. Similarly, any slippage in the delivery of the capital programme or conversely new initiatives requiring funding, will influence the timing of borrowing.

Replacement borrowing may be required for loan debt which is due to mature during the years shown. The report to Council on Prudential Indicators assumed that this debt will need to be replaced in the year it matures, although this will be reviewed to take account of levels of cash balances held and interest rate movements. This is consistent with our existing strategy to reduce overall level of external debt compared to Scottish averages.

| | **2014/15 Estimate £000** | **2015/16 Estimate £000** | **2016/17 Estimate £000** |
|---|---:|---:|---:|
| Net New External Borrowing | 3,566 | (2,753) | (1,216) |
| Replacement Borrowing | 10,000 | 6,000 | 6,200 |
| **Total Borrowing Requirement** | **13,566** | **3,247** | **4,984** |

It should be noted that if replacement borrowing takes place it does not increase the level of the Council's total debt because by its nature this borrowing is replacing debt which already exists. The impact on the Council's external debt position would therefore only be the net new borrowing requirement shown.

## Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

| £m | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|
| **Interest rate exposures** | | | |
| | **Upper** | **Upper** | **Upper** |
| **Limits on fixed interest rates based on net debt** | 90% | 90% | 90% |
| **Limits on variable interest rates based on net debt** | 25% | 25% | 25% |
| **Maturity structure of fixed interest rate borrowing 2014/15** | | | |
| | | **Lower** | **Upper** |
| Under 12 months | | 0% | 25% |
| 12 months to 2 years | | 0% | 25% |
| 2 years to 5 years | | 0% | 50% |
| 5 years to 10 years | | 0% | 75% |
| 10 years and above | | 0% | 100% |

### *4 Policy on borrowing in advance of need*

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### *5 Debt Rescheduling*

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Council at the earliest meeting following its action.

## Annual Investment Strategy

### *1 Investment Policy*

Opportunities for investment arise naturally through Treasury Management activity and in particular the management of cash flows which can result in peaks and troughs in the amount of cash required during the year. The Council can also choose to have its various funds and reserves backed by cash held. Accordingly at any given point in time the Council is likely to have sizeable sums of cash available and in a best value context it is incumbent upon the Council to generate a return on such surplus cash by investing it wisely. It should be noted that these cash balances currently amount to almost £40m. Income generated on the use of surplus cash contributes to keeping the net expenditure of the Council lower than it otherwise would be.

The Council's investment policy has regard to the Scottish Government's Investments Investment (Scotland) Regulations (and accompanying Finance Circular) 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 and then return.

In accordance with guidance from the Scottish Government and CIPFA, 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, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita Asset Services ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, 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 fully integrated into the credit methodology provided by the advisors, Capita in producing its colour codings which show the varying degrees of suggested creditworthiness.

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 and Counterparty limits will be as set through the Council's treasury management practices – schedules.

## *2. Creditworthiness Policy*

The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and 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 the Council to determine the suggested 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 100 days
- No colour not to be used

The Capita Asset 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 a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating 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 Capita Asset 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 spreads 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 the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

### *3. Country limits*

The Council has determined that it will only use approved counterparties registered to take deposits in the United Kingdom.

### *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).

**Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.75%
- 2016/17 1.75%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk.

Taking account of the current investment returns the suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

| | |
|---|---|
| 2014/15 | 0.50% |
| 2015/16 | 0.60% |
| 2016/17 | 1.50% |

**Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council'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.

The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums invested > 364 days | | | |
|---|---|---|---|
| £m | 2014/15 | 2015/16 | 2016/17 |
| Principal sums invested > 364 days | £10m | £10m | £10m |

For its cash flow generated balances, the Council will seek to utilise its bank instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

### *5. 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.

**Appendix B**

## INVESTMENT PORTFOLIO AS AT 31ST MARCH 2014

| Borrower | Principal (£) | Interest Rate | Start Date | Maturity Date | Lowest Long Term Rating | Historic Risk of Default |
|---|---|---|---|---|---|---|
| Bank of Scotland Plc | 5,000,000 | 1.01% | 03/07/2013 | 03/07/2014 | A | 0.023% |
| Bank of Scotland Plc | 5,000,000 | 0.98% | 03/10/2013 | 03/10/2014 | A | 0.045% |
| Bank of Scotland Plc | 8,030,000 | 0.49% | Instant Access | | A | 0.000% |
| **Total Investments** | **18,030,000** | **0.77%** | | | | **0.019%** |