WARWICK DISTRICT COUNCIL	**Finance & Audit Scrutiny Committee - 30 June 2015**	**Agenda Item No.** **4**

Title	Treasury Management Activity Report for the period 1st October 2014 to 31st March 2015.
For further information about this report please contact	Karen Allison, Assistant Accountant 01926 456334 Karen.allison@warwickdc.gov.uk
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	n/a
Background Papers	Treasury Management File L2/9 Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	10/06/2015	Andrew Jones
Head of Service	N/A	
CMT	N/A	
Section 151 Officer	10/06/2015	Mike Snow
Monitoring Officer	N/A	
Finance	9/06/2015	Roger Wyton
Portfolio Holder(s)	N/A	
Consultation & Community Engagement		
None		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. Summary

1.1 This report details the Council's Treasury Management performance for the period 1st October 2014 to 31st March 2015.

2. Recommendations

2.1 That Finance and Audit Scrutiny Committee notes the contents of this report.

3. Reasons for the Recommendation

3.1 The Council's 2014/15 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis.

3.2 This report informs Members of past performance, hence Members are just asked to note the information contained within it.

4. Policy Framework

4.1 **Policy Framework** -The Treasury Management function enables the Council to achieve its objectives within the strategy and policies.

4.2 **Fit for the Future** – The Treasury Management function enables the Council to meet its vision of a great place to live work and visit as set out in the Sustainable Community.

4.3 **Impact Assessments** – No impacts of new or significant policy changes proposed in respect of Equalities.

5. Budgetary framework

5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital. The Council is reliant upon interest received to help fund the services it provides. The actual investment interest earned in 2014/15 compared with the original and latest budgets is shown in the table below:

	2014/15 Actual £	**Latest 2014/15 Budget (Jan 15) £**	**Original 2014/15 Budget (Jan 14) £**
Gross Investment Interest	428,947	399,932	311,100
Less HRA allocation	178,300	167,500	137,600
Net interest to General Fund	**250,647**	**232,432**	**173,500**

6. Risks

6.1 Investing the Council's funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the SLY principle. Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y).

6.2 In addition, the introduction, for 2014/15, of Variable Net Asset Money Market Funds into the portfolio potentially increases capital risk. This is through potential capital loss due to market price fluctuations, for instance if investments have to be withdrawn early. This is mitigated by good cash flow management ensuring that investments are available for the necessary length of time to ensure that there is no negative impact on the capital value of the fund. In addition, mitigation is achieved by having a lower investment limit than for Constant Net Asset Value Money Market Funds in which there is no risk of capital loss. In 2014/15 the Council invested in the Federated Cash Plus Fund which is a variable net asset Money Market fund and suffered no loss in capital as a result of doing so.

6.3 Corporate Bonds and Floating Rate Notes (FRN's) introduce Counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRN's with a strong Fitch credit rating, in this case A+ and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy. The Council made no use of these instruments in 2014/15.

7. Alternative Option(s) considered

7.1 None.

8. Background

A detailed commentary by our Treasury Consultants, Capita Asset Services, of the economic background surrounding this quarter appears as Appendix A.

9. Interest rate environment

9.1. The major influence on the Council's investments is the Bank Rate. The Bank Rate remained at 0.5% for the second half of the year to 31st March 2015. The Council's Treasury Management Advisors, Capita Asset Services, provided the following forecast for future Bank Rates:

<u>Capita Asset Services Bank Rate Forecasts:</u>

Qtr ending	Now (April 15)	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017
Current Forecast, as at April 2015:											
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%
Forecast, as at January 2014, (when Original Budgets were set):											
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	n/a	n/a

The forecast as at January 2014 is shown for comparison purposes as this forecast was used in calculating the original budgets.
Forecasting interest rates remains difficult. However the MPC's latest thoughts on the economic circumstances surrounding the potential for a bank rate rise are listed below:-

- There has been very little change in Capita's forecasts since their previous forecast in February. They have moved back the start of the increases in Bank Rate by one quarter, to quarter 2 of 2016, to reflect a lowering of forecasts for growth, and in line with comments from the Bank of England.
- In its May Inflation Report, the Bank of England reduced its forecasts for annual growth from 2.9% to 2.5% in 2015 and 2.7% in 2016. 2017 growth was forecast at 2.4% from 2.7%. There were a number of contributing factors to these downward revisions.
- UK quarterly growth in quarter 1 2015 was disappointing and slowed to 0.3% (2.4% y/y), from 0.6% (3.0% y/y), in the previous quarter.
- The Bank also took a more pessimistic view on the rate of, and timing, of the keenly hoped for recovery of growth in labour productivity and of increases in wages; it cut its forecast for wages growth in 2015 from 3.5% to 2.5%. This is despite strong growth in employment and continuing reductions in the rate of unemployment; employment increased by 202,000 in the three months January to March and by 1.25m over the last two years. Unemployment has dropped by 386,000 over the last year and the unemployment rate has fallen to 5.5%. On the other hand, job vacancies stood at 736,000 in the last quarter, close to their highest level since records began in 2001. Despite all this positive news, annual wage increases (excluding bonuses), in the last three months were only 1.9%. For this recovery to become sustainable over the longer term, there must be a recovery in the growth of productivity and real wages in excess of the rate of inflation.
- The election of a majority Conservative Government which is going to implement significant cuts in government expenditure in order to reduce the size of the annual budget deficit, will slow GDP growth marginally.
- CPI inflation dipped into deflation territory last month to -0.1%. This dip into deflation will only last for a short period until the fall in the prices of oil and food drop out of the twelve month calculation of CPI, especially during Q4 2015, when inflation is expected to tick up markedly. The latest Inflation Report clearly shows an anticipated rise in inflation to being slightly above the 2% target in the two to three year time horizon.
- Greece: the Greek government led by the anti EU and anti-austerity party Syriza, is making a strong push to renegotiate the austerity programme and debt repayments. This has been met with a robust rejection by the ECB, EU and IMF. There is, therefore, a risk that this could end with Greece leaving the Euro. However, the Eurozone has put in place sufficient firewalls that a Greek exit would have little direct impact on the rest of the EZ and the Euro. It now also appears that the trauma experienced by Greece this year has severely depressed support for anti-austerity political parties in other EU countries and they are not expected to gain much influence in general elections coming up in the next year or so.
- Capita remain concerned at the level of potential risk surrounding the government and corporate debt of several of the major emerging economies, from the perspective of both the potential for default in some countries and also a sharp swing in investor sentiment: investors have previously sought out higher yields in these economies during an extended period when yields in western countries have been heavily suppressed.
- Capita expect a high level of volatility in PWLB rates over 2015, depending on how long it takes to decide what will happen in Greece and as other factors impinge on market and investor sentiment. They would not be surprised to see PWLB rates swinging by 50 bps in a quarter, which makes any forecasts in the shorter term subject to a much higher level of volatility than has been usual.

9.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy

2015/16 was approved by Council on 11th February 2015. This approved the current lending criteria which reflect the level of risk appetite of the Council. However, the Council continues to review its Standard Lending List as a result of frequent changes to Banking Institutions credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the April 2015 lending list is shown as Appendix B. This list includes the recommendations from the 2015/16 Treasury Management Strategy report concerning new investment vehicles and limits.

10 INVESTMENT PERFORMANCE

Money Market Investments

10.1. During 2014/15, the in house function has invested its core cash in fixed term deposits in the Money Markets. The table below illustrates the performance of the in house function during this second half year for each category normally invested in:

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) performance
Up to 7 days			
April to Sept 2014	No investments made in this half year.		
Oct to Mar 2015	No investments made in this half year		
Year to Date	No investments made in year		
Over 7 days & Up to 3 Months			
April to Sept 2014	0.48%	0.48%	0.00%
Value of Interest earned first half year	£4,756	£4,748	+£8
Oct to Mar 2015	No investments made in this half year		
Rate for Year	0.48%	0.48%	0.00%
Value of Interest earned in Year	£4,756	£4,748	+£8
Over 3 Months & Up to 6 Months			
April to Sept 2014	0.68%	0.61%	+0.07%
Value of Interest earned first half year	£23,755	£21,543	+£2,212
Oct to Mar 2015	0.66%	0.62%	+0.04%
Value of Interest earned second half year	£6,546	£6,178	+£368
Rate for Year	0.67%	0.62%	+0.05%
Value of Interest earned in Year	£30,301	£27,721	+£2,580
Over 6 Months to 365 days			
April to Sept 2014	0.91%	0.94%	-0.03%
Value of Interest earned first half year	£90,655	£93,975	-£3,320
Oct to Mar 2015	0.92%	0.92%	0.00%
Value of Interest earned second half	£63,924	£64,204	-£280

year			
Rate for Year	0.91%	0.93%	-0.02%
Value of Interest earned in Year	£154,579	£158,179	-£3,600
Period	**Investment Return (Annualised)**	**LIBID Benchmark (Annualised)**	**Out/(Under) performance**
1 year and over			
April to Sept 2014	0.95%	1.10%	-0.15%
Value of Interest earned first half year	£28,526	£33,105	-£4,579
Oct to Mar 2014	1.00%	0.92%	+0.08%
Value of Interest earned second half year	£40,137	£36,915	+£3,222
Rate for Year	0.98%	1.00%	-0.02%
Value of Interest earned in Year	£68,663	£70,020	-£1,357
TOTAL INTEREST FIRST HALF YEAR	£147,692	£153,371	-£5,679
TOTAL INTEREST SECOND HALF YEAR	£110,607	£107,297	+£3,310
TOTAL INTEREST FOR YEAR	**£258,299**	**£260,668**	**-£2,369**

10.2 All the LIBID rates in the table above and referred to below include a margin of 0.0625%.

10.3 During October to March, nine core investments matured. Capita's advice for this period was 'given the expectation that interest rates will remain low for some time, there is value in longer dated investments with the stronger rated counterparties'. Therefore when a three month Nordea Bank CD matured it was replaced by a RBS CD for 364 days. Due to the good yield and security (as a part nationalised UK Bank) of this counterparty, a further two RBS CDs were purchased following maturities of Glasgow City Council and DBS Bank investments. This higher yield is reflected in the table above in the 'over 6 months to 1 year' section as the underperformance compared to the first half year has reduced.

10.4 Lloyds Banking Group was still offering enhanced rates for 1 year deposits therefore three investments were rolled over. Two of these were converted from 6 month durations.

10.5 A £2 million DBS Bank investment which matured in March was held in the HSBC Business Deposit Account whilst a Royal London Asset Management Cash Plus Fund was in the process of being opened for 2015/16.

10.6 During January to March the Council's cash flow investments began to unwind themselves as cash outflows (Precepts, NNDR payments to DCLG etc.)

exceeded the inflows and any cash flow investments during this period were made into the Money Market Funds.

10.7 Given that the current Bank Rate is only 0.50% and counterparty security is of the utmost importance over return of yield, the level of performance achieved in this half year continues to be satisfactory.

Money Market Funds & Call Accounts

10.8 The in house function continues to utilise the Money Market Funds and Call Accounts to assist in managing its short term liquidity needs. Their performance in this period together with a summary of the performance for the full year is shown in the following table:

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche			
April to Sept 2014	0.36%	0.41%	-0.05%
Value of Interest earned first half year	£199	£227	-£28
Oct to Mar 2015	0.40%	0.42%	-0.01%
Value of Interest earned second half year	£312	£326	-£14
Rate for Year	0.38%	0.42%	-0.04%
Value of Interest earned in year	£511	£553	-£42
Goldman Sachs			
April to Sept 2014	0.38%	0.41%	-0.03%
Value of Interest earned first half year	£1,082	£1,155	-£73
Oct to Mar 2015	0.43%	0.42%	+0.01%
Value of Interest earned second half year	£1,391	£1,360	+£31
Rate for Year	0.41%	0.42%	-0.01%
Value of Interest earned in Year	£2,473	£2,515	-£42
Invesco Aim			
April to Sept 2014	0.42%	0.41%	+0.01%
Value of Interest earned first half year	£1,658	£1,614	+£44
Oct to Mar 2015	0.42%	0.42%	0.00%

Value of Interest earned second half year	£1,877	£1,854	+£23
Rate for Year	0.42%	0.42%	0.00%
Value of Interest earned in Year	£3,535	£3,468	+£67
Federated Prime Rate Constant Net Asset Value (CNAV)			
April to Sept 2014	0.46%	0.41%	+0.05%
Value of Interest earned first half year	£9,056	£8,070	+£986
Oct to Mar 2015	0.50%	0.42%	+0.08%
Value of Interest earned second half year	£7,503	£6,260	+£1,243
Rate for Year	0.48%	0.42%	+0.06%
Value of Interest earned in Year	£16,559	£14,330	+£2,229
Federated Prime Rate Variable Net Asset Value (VNAV) from 29th April 2014			
April to Sept 2014	0.62%	0.61%	+0.01%
Value of Interest earned first half year	£15,811	£15,652	+£159
Oct to Mar 2015	0.70%	0.62%	+0.08%
Value of Interest earned second half year	£21,081	£18,636	+£2,445
Rate for Year	0.66%	0.62%	+0.04%
Value of Interest earned in Year	£36,892	£34,288	+£2,604
Ignis			
April to Sept 2014	0.45%	0.41%	+0.04%
Value of Interest earned first half year	£19,201	£17,494	+£1,707
Oct to Mar 2015	0.47%	0.42%	+0.05%
Value of Interest earned second half year	£19,817	£17,533	+£2,284
Rate for Year	0.46%	0.42%	+0.04%
Value of Interest earned in Year	£39,018	£35,027	+£3,991
TOTAL INTEREST FIRST HALF YEAR	**£47,007**	**£44,212**	**+£2,795**

TOTAL INTEREST SECOND HALF YEAR	**£51,981**	**£45,969**	**+£6,012**
TOTAL INTEREST FOR YEAR	**£98,988**	**£90,181**	**+£8,807**

10.9 As with the Money Market investments in paragraph 10.1, the LIBID benchmark which in this case is the 7 day rate (except for the Federated Prime Rate Variable Net Asset Fund where a 6 month LIBID rate is used) has been increased by a margin of 0.0625% and it can be seen from the table above that the total interest out performance of the benchmark continues to be satisfactory. The Council continued to concentrate its investments in the three highest performing funds Prime Rate (variable and constant net asset value funds), Ignis, and Goldman Sachs along with the two call accounts, HSBC Business Deposit Account and Svenska Handelsbanken.

10.10 During 2014/15 the Council earned £98,988 interest on its Money Market Fund investments at an average rate of 0.52%. The average balance during the year was £19,078,603.

Call Accounts

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit a/c			
April to Sept 2014	0.39%	0.41%	-0.02%
Value of Interest earned first half year	£4,894	£5,205	-£311
Oct to Mar 2015	0.39%	0.42%	-0.03%
Value of Interest earned second half year	£4,332	£4,744	-£412
Rate for Year	0.38%	0.42%	-0.04%
Value of Interest earned in year	£9,226	£9,949	-£723
Svenska Handelsbanken a/c			
April to Oct 2014	0.55%	0.41%	+0.14%
Value of Interest earned first half year	£13,808	£10,283	+£3,525
Oct to Mar 2015	0.55%	0.42%	+0.13%
Value of Interest earned second half year	£13,751	£10,244	+£3,507
Rate for Year	0.55%	0.42%	+0.13%
Value of Interest earned in Year	£27,559	£20,527	+£7,032
TOTAL INTEREST FIRST HALF YEAR	**£18,702**	**£15,488**	**+£3,214**

TOTAL INTEREST SECOND HALF YEAR	**£18,083**	**£14,988**	**+£3,095**
TOTAL INTEREST FOR YEAR	**£36,785**	**£30,476**	**+£6,309**

10.11 In February 2015 £5 million was transferred from our Svenska Handelsbanken Deposit Account to their 35 Day Notice Account to allow us to still take advantage of a 0.55% interest rate.

10.12 As with the Money Market investments in paragraph 10.1, the LIBID benchmark, which in this case is the 7 day rate, has been increased by a margin of 0.0625%. The return for the second half year in the Svenska accounts outperformed the benchmark rate. However, there was a continuation of an underperformance on HSBC BDA account due to adverse cash flows towards the end of the year.

10.13 During 2014/15 the Council earned £36,785 interest on its Call Accounts at an average rate of 0.49% and the average balance held was £7,415,686.

10.14 In addition the Council operates a Business Reserve account with Lloyds Banking Group. If sufficient balances are maintained these accounts offer a guaranteed rate of return equivalent to Bank Rate or slightly higher. However, the rate offered on this Reserve account wasn't attractive and therefore the account was not used.

10.15 The following table brings together the investments made in the various investment vehicles during the year to give an overall picture of the investment return:-

Investment Vehicle	**Investment Return (Annualised) £**	**LIBID Benchmark (Annualised) £**	**Out/(Under) Performance £**
Money Markets	258,299	260,688	-2,389
Money Market Funds	98,988	90,181	+8,807
Call Accounts	36,785	30,476	+6,309
Total	**394,072**	**381,345**	**+12,727**

The original estimate of annual external investment interest for 2014/15 was £311,100 gross and this was subsequently revised to £399,900, the increase being mainly due to additional interest earned on increased balances as a result of variations in the 2013/14 and 2014/15 revenue and capital programmes (+£57,000) and in addition a higher than expected interest rate due to the markets expectations that bank rate will rise in the relatively near future (+£32,000). The actual outturn for 2014/15 is £394,072 which is comparable with the latest estimate of £399,900. It should be noted that the total investment return of £394,072 shown in the table above will not all be received in 2014/15 as it is an annualised figure and will include interest relating to 2015/16.

10.16 An analysis of the overall in house investments held by the Council at the end of March 2015 is shown below:

(The previous half year is shown for comparison)

Type of Investment	Closing Balance first half year as at 30th Sept 2014	Closing Balance as at 31st March 2015
	£	**£**
Money Markets incl. CD's	36,000,000	32,000,000
Money Market Funds	15,842,000	15,541,000
Business Reserve Accounts including Call Accounts	5,666,000	7,278,000
Total	**57,508,000**	**54,819,000**

11. **COUNTERPARTY CREDIT RATINGS**

11.1 The investments made in the second half year and the credit ratings applicable to the counterparty at the point at which the investment was made is shown in the table below:-

Counterparty	**Investment Amount £**	**Credit Rating**			
		Long Term	**Short Term**	**Viability**	**Support**
UK Government Part Owned Banks					
WDC Minimum	(Fitch)	**A**	**F1**	**BBB**	**1**
RBS (CD)	£2,000,000	A	F1	BBB	1
RBS (CD)	£2,000,000	A	F1	BBB	1
RBS (CD)	£1,000,000	A	F1	BBB	1
Lloyds TSB Bank	£1,000,000	A	F1	A-	1
Lloyds TSB Bank	£2,000,000	A	F1	A-	1
Lloyds TSB Bank	£3,000,000	A	F1	A-	1
Building Societies					
WDC Minimum		< A+	F1	N/A	N/A
Nationwide	£2,000,000	A	F1	A	1

MoneyMarket Funds (Investment amount is average principal in fund during the half year)		
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+	
Deutsche	£156,268	Fund retained its rating throughout period
Federated Prime Rate	£9,000,000	Fund retained its rating throughout period
Ignis	£23,006	Fund retained its rating throughout period
Goldman Sachs	£651,308	Fund retained its rating throughout period
Invesco	£888,070	Fund retained its rating throughout period
Call Accounts		
HSBC Business Deposit Account	£2,272,072	Counterparty retained its rating throughout period of AA- long term, F1+ short term, A+ viability and 1 for support.
Svenska Handelsbanken	£5,000,000	Counterparty retained its rating throughout period of AA- long term, F1+ short term, A+ viability and 1 for support.

11.2 It can be seen that all investments made within the second half year were in accordance with the Council's credit rating criteria.

11.3 Also attached for the Committee's information as Appendix B is the Council's current 2014/15 Counterparty lending list.

12. BENCHMARKING

12.1 With regard to the Capita Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils, the results are published quarterly. Analysis of the results for quarters three and four show that the Councils weighted average rate of return on its investments at 0.71% and 0.77% respectively was in-line with Capita's model portfolio band range.

12.2 Analysis of the benchmarking groups' data suggests that the continuing trend has been to invest longer term with the highly rated counter parties in line with the advice from Capita Asset Services as in paragraph 10.3.

13. BORROWING

13.1 During the second half year, there was no long term borrowing activity other than to pay the second half year interest instalment on the £136.157m PWLB borrowing taken out in March 2012 for the HRA Self Financing settlement which amounted to £2.383m.

13.2 During the half year it was not necessary to undertake any Money Market borrowing to fund cashflow deficits, with any deficits being managed within the Council's £50,000 overdraft facility with HSBC. The interest rate on this facility is 2% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e. overdrawn. In the second half year no overdraft interest was paid. Overdraft interest is normally offset by the interest earned at 1% below Bank Rate on the days when the end of day balance was in credit; however, with Bank Rate at 0.50% this is not applicable.

14 PRUDENTIAL INDICATORS

14.1 The 2014/15 Treasury Management Strategy included a number of Prudential Indicators within which the Council must operate. The two major ones are the Authorised Limit and Operational Boundary for borrowing purposes. It is confirmed that during the half year neither indicator has been exceeded.

APPENDIX A

1. CAPITA ASSET SERVICES COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND

1.1 During the quarter ended 31 March: -

1.1.1 After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then growth in 2014 of 0.6% in Q1, 0.8% Q2, 0.6% Q3 and 0.6% Q4 (annual rate for 2014 of 2.8% - the strongest rate since 2006), there are good grounds for optimism that the growth rate will increase further during 2015 as the positive effects from the fall in the price of oil feeds through to consumers and other parts of the economy. In its February quarterly Inflation Report, the Bank of England maintained its GDP forecast for 2015 at 2.9%, but revised up its forecasts for 2016 and 2017 to 2.9% and 2.7% respectively, from 2.6% in both years.

1.1.2 The main source of upward revisions came from higher consumption growth, which is now expected to accelerate to 3.75% in 2015 due primarily to a 3.5% rise in real post-tax household income growth. Income growth is also supported by solid employment growth and a pick-up in average weekly pay growth of 3.5% in 2014 and 4.0% in 2016 and 2017. Unit labour cost growth is consequently forecast to be 2.0% in 2015 and 2.75% in 2016 which then pushes up the inflation forecast slightly in two years' time to 1.96%, while in three years' time it is forecast at 2.15%.

1.1.3 The American economy is well on track to making a full recovery from the financial crash. GDP quarterly growth rates (annualised) for Q2, Q3 and Q4 of 4.6%, 5.0% and 2.2%, (2.4% for 2014 as a whole), hold great promise for strong growth going forward and for further falls in unemployment. It is therefore confidently predicted that the Federal Open Market Committee will start on the first increase in the Fed funds rate during 2015 and is likely to be ahead of the UK in being the first major western country to raise rates.

1.1.4 As for the Eurozone, on 21 January 2015 the ECB fired its big bazooka in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is currently intended to run initially to September 2016. However, it remains to be seen whether this will have a significant enough effect in terms of boosting growth and employment, though the fall in the price of oil will provide additional support.

APPENDIX B

WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT APRIL 2015

BANKS

Investments up to 364 days (3 months for explicitly guaranteed subsidiaries)
Maximum investment limit with any one part or fully nationalised bank = £9m
Maximum investment limit with any one private sector bank = £5m

Group limit = £5m (£9m UK govt part owned banks) (group = other banks on WDC list as identified below* including explicitly guaranteed subsidiaries)
Minimum Fitch ratings credit rating = long term a+ (UK govt part owned a), short term f1, viability rating of BBB and support rating of 1. Sovereign country rating – at least equal to that of the UK (currently AA+).

Investments over 364 days
As above but maximum overall investment per counterparty and/or group is £5m for a maximum of two years, subject to an overall limit of £15m (including category a building societies, corporate bonds, corporate bond funds and property funds) seek advice from capita asset services before placing deals in this category to ensure that the interest rate offered is appropriate.

Nb - £15m over 364 day limit only applies to those investments where at 1st April the remaining term is greater than 364 days. Any over 364 day investment with 364 days or less to maturity at 1st April is deemed to be short term**.**

BANK NAME	**OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc)**	**GROUP LIMIT APPLIES**
AUSTRALIA (AAA)		
Australia & New Zealand Banking Group Ltd		
Commonwealth Bank of Australia		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale Clydesdale Bank*	Yes
Westpac Banking Corporation		
CANADA (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	

National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
FINLAND (AAA)		
Nordea Bank Finland	Nordea Bank Denmark* Nordea Bank AB Nordea Bank Norge* Nordea Bank North America*	Yes
GERMANY (AAA)		
Commerzbank AG		
Deutsche Bank AG	Bankers Trust International plc* Deutsche Asset Management* Deutsche Bank Americas Finance LLC* Deutsche Bank Securities * Deutsche Bank Trust Company Americas* Deutsche Trust Corporation New York*	
Landesbank Baden Weurttemberg		
HONG KONG (AA+)		
The Hong Kong & Shanghai Banking Corporation Ltd		
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS(AAA)		
ING Bank NV	ING Belgium*	
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
Nordea Bank AB	Nordea Bank Denmark* Nordea Bank Finland Nordea Bank Norge* Nordea Bank North America*	Yes
Skandinaviska Enskilde	SEB Bolan*	

Banken AB		
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
UNITED KINGDOM (AA+)		
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
Standard Chartered Bank-		
Lloyds Banking Group Including :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
Royal Bank of Scotland Group Including :- Royal Bank of Scotland	Citizens Financial Group Inc* First Active plc (Ireland)* National Westminster Bank* Ulster Bank*	Yes
UNITED STATES OF AMERICA (AAA)		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
HSBC Bank USA NA	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC UK Hang Seng Bank*	Yes
JP Morgan Chase Bank NA	Bank One Corp* Bank One Financial LLC* Bank One NA * First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc*	

	Chase Bank USA* Robert Fleming Ltd*	
State Street Bank and Trust Company	State Street Banque* State Street Corporation*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

BUILDING SOCIETIES – CATEGORY A

INVESTMENTS UP TO 364 DAYS
Maximum investment limit with any one building society = £4m
Minimum Fitch ratings credit rating = at least equal to UK sovereign rating (currently AA+), long term A+ and short term F1.

None

INVESTMENTS OVER 364 DAYS
Category A building societies up to £1m for up to 2yrs subject to overall £15m limit for over 364 day investments.

BUILDING SOCIETIES – CATEGORY B
Maximum investment limit = £2m
Maximum length of investment = 364 days
Minimum Fitch ratings credit rating = at least equal to UK (currently AA+) sovereign rating, long term less than A+ and short term F1 or above

- Coventry
- Nationwide

BUILDING SOCIETIES – CATEGORY C

All other building societies in the top 20 (at 04.04.15) ranked by asset value (floor £500m)
Maximum investment limit = £1m
Maximum length of investment = 3 months
Group limit = £8m

- Yorkshire
- Skipton
- Leeds
- Principality
- West Bromwich
- Newcastle
- Nottingham
- Progressive
- Cumberland
- National Counties
- Saffron
- Cambridge
- Monmouthshire
- Furness
- Leek United
- Newbury
- Manchester
- Ipswich

NATIONALISED INDUSTRIES AND PUBLIC CORPORATIONS

Maximum investment limit = £9m
Maximum length of investment = 364 days

LOCAL AUTHORITIES INCLUDING POLICE & FIRE AUTHORITIES

Maximum investment limit = £9m

Maximum length of investment	Short term – up to and including 364 days
	Long term – over 364 days and up to 5 years subject to overall over 364 day limit of £15m

Any local authority in Great Britain and Northern Ireland at the discretion of the Head of Finance

SUPRANATIONAL INSTITUTIONS / MULTI-LATERAL DEVELOPMENT BANKS

Minimum Fitch credit rating = AAA or government guaranteed

Maximum investment limit = £5m per counterparty
Maximum length of investment = 364 days. Seek advice from capita asset services before placing deals in this category to ensure that the interest rate offered is appropriate.

European Community
European Investment Bank
African Development Bank
Asian Development Bank
Council of Europe Development Bank
European Bank for Reconstruction & Development
Inter-American Development Bank
International Bank of Reconstruction & Development
Or any other Supranational/Multi-Lateral Development Bank meeting criteria

CNAV MONEY MARKET FUNDS

Minimum credit rating – Standard and Poors aaam or Moodys aaa-mf or Fitch AAAMMF
Maximum investment limit = £9m
Maximum length of investment = not defined – depends on cash flow

CURRENT
Aim Global (£9m limit)
Deutsche (£9m limit)
Prime Rate (£9m limit)
Goldman Sachs (£9m limit)
Ignis (£9m limit)

Any other MMF satisfying above credit rating criteria (£9m limit)

VNAV MONEY MARKET FUNDS

Minimum credit rating – Standard and Poors aaafs1 or Moodys aaa-bf or Fitch AAA/v1
Maximum investment limit = £6m (also group limit)
Maximum length of investment = not defined – depends on cash flow

CORPORATE BONDS AND FLOATING RATE NOTES – CATEGORY 1

SHORT TERM
Senior Unsecured Corporate Bonds and Floating Rate Notes issued by Financial Institutions with minimum Fitch rating of A+ and sovereign rating at least equal to that of the UK at the time of purchasing the bond or note - maximum limit per counterparty =£5m for maximum of 364 days subject to overall group limit of £5m.

LONG TERM – CORPORATE BONDS ONLY
Senior Unsecured Corporate Bonds issued by Financial Institutions with minimum Fitch rating of A+ and sovereign rating at least equal to that of the UK at the time of purchasing the bond - maximum limit per counterparty =£5m for maximum of 2 years subject to overall group limit of £5m and overall over 364 day limit of £15m

CORPORATE BONDS AND FLOATING RATE NOTES – CATEGORY 2

SHORT TERM
Senior Unsecured Corporate Bonds and Floating Rate Notes issued by Financial Institutions part or wholly owned by the UK Government and with minimum Fitch rating of A and sovereign rating at least equal to that of the UK at the time of purchasing the bond or note- maximum limit per counterparty =£9m for maximum of 364 days subject to overall group limit of £9m.

LONG TERM – CORPORATE BONDS ONLY
Senior Unsecured Corporate Bonds issued by Financial Institutions part or wholly owned by the UK Government and with minimum Fitch rating of A and sovereign rating at least equal to that of the UK at the time of purchasing the bond - maximum limit per counterparty =£9m for maximum of 2 years subject to overall group limit of £9m and overall over 364 day limit of £15m

CORPORATE BONDS AND FLOATING RATE NOTES – CATEGORY 3

SHORT TERM
Senior Unsecured Corporate Bonds and Floating Rate Notes issued by Corporate Entities with minimum Fitch rating of A + and sovereign rating at least equal to that of the UK at the time of purchasing the bond or note - maximum limit per counterparty =£3m for maximum of 364 days.

LONG TERM – CORPORATE BONDS ONLY
Senior Unsecured Corporate Bonds issued by Corporate Entities with minimum Fitch rating of A + and sovereign rating at least equal to that of the UK at the time of purchasing the bond - maximum limit per counterparty =£3m for maximum of 2 years subject to overall 364 day limit of £15m.

CORPORATE BOND FUNDS

LONG TERM ONLY

Any Corporate Bond Fund with a minimum investment grade rating of BBB (Fitch). £5m per counterparty for a maximum of 10 years subject to Corporate Bond Fund/Property Fund group limit of £10m and overall over 364 day limit of £15m.

POOLED PROPERTY FUNDS (E.G. REITS)

LONG TERM ONLY
Any Pooled Property Fund authorised by the FS&MA. £5m per counterparty for a maximum of 10 years subject to Corporate Bond Fund/Property Fund group limit of £10m and overall over 364 day limit of £15m.

CCLA PROPERTY FUND

LONG TERM ONLY
£5m for a maximum of 10 years subject to Corporate Bond Fund/Property Fund group limit of £10m and overall over 364 day limit of £15m.

UK GOVERNMENT

UK Government Debt Management Account Facility

Maximum investment limit = £12m
Maximum length of investment = 364 days

UK Government Gilt Edges Securities
UK Government Treasury Bills

Maximum investment limit = £9m
Maximum length of investment = not defined.