WARWICK DISTRICT COUNCIL	**Finance and Audit Scrutiny Committee.** **10th June 2014.**	**Agenda Item No. 9**

Title	Treasury Management Activity Report for the period 1st October 2013 to 31st March 2014.
For further information about this report please contact	Karen Allison, Assistant Accountant 01926 456334 Karen.allison@warwickdc.gov.uk Roger Wyton, Principal Accountant 01926 456801 roger.wyton@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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No1
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	27/5/2014	Chris Elliott
Head of Service	N/A	
CMT	N/A	
Section 151 Officer	28/5/2014	Mike Snow
Monitoring Officer	N/A	
Finance	27/5/2014	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 2013 to 31st March 2014.

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 2013/14 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 Treasury Management will support the Council in achieving its aims as set out in "Fit for the Future".

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 2013/14 compared with the original and latest budgets is shown in the table below:

	2013/14 Actual £	**Latest 2013/14 Budget (Jan 14) £**	**Original 2013/14 Budget (Jan 13) £**
Gross Investment Interest	374,087	371,507	323,400
Less HRA allocation	131,700	137,800	117,900
Net interest to General Fund	**242,387**	**233,707**	**205,500**

6. ALTERNATIVE OPTION CONSIDERED

6.1 None.

7. ECONOMIC BACKGROUND

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

8. **INTEREST RATE ENVIRONMENT**

8.1. 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 2014. The Council's Treasury Management Advisors, Capita Asset Services, provided the following forecast for future Bank Rates:

Capita Asset Services Bank Rate Forecasts:

Qtr ending	Now (April 14)	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016
Current Forecast, as at April 2014:											
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%
Forecast, as at January 2013, (when Original Budgets were set):											
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	n/a	n/a

The forecast as at January 2013 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:-

- The MPC estimates there is spare capacity in the economy of 1-1.5% of GDP, mainly in the labour market, although there is considerable uncertainty around this estimate. That slack is only expected to be gradually used up over the next three years and at the end of the forecast period, in mid 2017, the unemployment rate is still about 6%.
- They will refrain from raising Bank Rate until a significant inroad has been made into reducing this spare capacity.
- They will provide additional forecasts based on eighteen economic indicators which they will take into account in considering the path of Bank Rate and QE.
- Inflation to be well behaved over the next two years: rising to 2.0% in two years' time from 1.7% in Q2 2015.
- First increase in Bank Rate unlikely to be before April 2015.
- Rate rises will be slow and gradual (translation - probably 25bp per quarter).
- In February, they stated that the expected that Bank Rate would be around 2% in three years time i.e. Q1 2017.
- Bank Rate is unlikely to get back up to pre-crisis levels of 5% even when the economy has returned to normal.
- They will not sell any of their portfolio of asset purchases before the first rise in the Bank Rate (but that does NOT necessarily mean they will start even then) and will also reinvest maturing gilts until then.

- Growth in productivity has only started to marginally improve although it is expected to gradually rise back to its average historical rate.
- They will make it a priority to protect growth in the economy provided inflation remains subdued.

Capita Asset Services undertook a review of its interest rate forecasts in April after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 4 of 2015 (previously quarter 2 of 2016, and quarter 1 of 2015 when the 2013/14 original was agreed).

8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2014/15 was approved by Council on 12th March 2014. 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 2014 lending list is shown as Appendix B. This list includes the recommendations from the 2014/15 Treasury Management Strategy report concerning new investment vehicles and limits.

9 INVESTMENT PERFORMANCE

Money Market Investments

9.1. During 2013/14, the in house function has invested its core cash funds 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 2013	No investments made in this half year.		
Oct to Mar 2014	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 2013	No investments made in this half year.		
Oct to Mar 2014	0.49%	0.44%	+0.05%
Value of Interest earned second half year	£9,220	£8,028	+£1,192
Rate for Year	0.49%	0.44%	+0.05%
Value of Interest earned in Year	£9,220	£8,028	+£1,192
Over 3 Months & Up to 6 Months			
April to Sept 2013	0.53%	0.53%	+0.00%
Value of Interest earned first half year	£5,344	£5,340	+£4

Oct to Mar 2014	0.51%	0.54%	-0.03%
Value of Interest earned second half year	£9,294	£9,911	-£617
Period	**Investment Return (Annualised)**	**LIBID Benchmark (Annualised)**	**Out/(Under) performance**
Rate for Year	0.52%	0.54%	-0.02%
Value of Interest earned in Year	£14,638	£15,251	-£613
Over 6 Months to 364 days			
April to Sept 2013	1.03%	0.82%	+0.21%
Value of Interest earned first half year	£82,374	£65,636	+£16,738
Oct to Mar 2014	0.66%	0.83%	-0.17%
Value of Interest earned second half year	£67,020	£84,174	-£17,154
Rate for Year	0.82%	0.82%	+0.00%
Value of Interest earned in Year	£149,393	£149,809	-£416
365 days and over			
April to Sept 2013	No investments made in this half year.		
Oct to Mar 2014	0.99%	0.98%	+0.01%
Value of Interest earned second half year	£135,585	£133,574	+£2,011
Rate for Year	0.99%	0.98%	+0.01%
Value of Interest earned in Year	£135,585	£133,574	+£2,011

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

9.3 During October to March, various core investments matured. Sector'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 two maturing 364 day local authority investments which earned 0.50% and 0.47% were combined and deposited with another local authority for 704 days increasing the interest rate to 1%. Also a maturing local authority investment of 362 days earning 0.48% was reinvested for 729 days to increase the return to 0.98%. As shown in the table above these two new combined long term investments have exceeded the benchmark by 0.01% and the return will be double compared to if they had been reinvested for only 364 days. Of course, if interest rates were to increase in the short term, the benchmark may not continue to be exceeded. Other investments included a Lloyds TSB Bank deposit which was rolled over for 364 days, two local authority investments for almost one year each, two DBS Bank investments for 364 days each and a Standard Charter CD for 273 days.

9.4 In order to gain a little extra return without significantly increasing the security risk in the portfolio a three month investment with a building society was made which gave a respectable return of 0.65% compared to the average LIBID rate of 0.44%. As shown in the table above in the 'up to 3 months' section this produced an out-performance for that period.

9.5 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.

9.6 To fall in line with Capita Asset Services guidance as explained in 9.3 above, within the 3 to 6 month category an investment was made for 5 months with a highly rated bank but the interest rate gained was less than the market rate being offered which reflected the high security of this counterparty, hence an under performance of 0.02%.

9.7 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

9.8 The in house function continues to utilise the Money Market Funds 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			
Oct to Mar 2014	0.37%	0.42%	-0.05%
Value of Interest earned second half year	£546	£608	-£62
Rate for Year	0.37%	0.42%	-0.05%
Value of Interest earned in year	£546	£608	-£62
Goldman Sachs			
April to Sept 2013	0.37%	0.42%	-0.05%
Value of Interest earned first half year	£1,946	£2,242	-£296
Oct to Mar 2014	0.37%	0.41%	-0.04%
Value of Interest earned second half year	£1,106	£1,224	-£118
Rate for Year	0.37%	0.41%	-0.04%
Value of Interest	£3,052	£3,466	-£414

earned in Year			
Invesco Aim			
April to Sept 2013	0.32%	0.42%	-0.10%
Value of Interest earned first half year	£135	£177	-£42
Fund	**Investment Return (Annualised)**	**LIBID Benchmark (Annualised)**	**Out/(Under) Performance**
Oct to Mar 2014	No investments made		
Rate for Year	0.32%	0.42%	-0.10%
Value of Interest earned in Year	£135	£177	-£42
Prime Rate			
April to Sept 2013	0.48%	0.42%	+0.06%
Value of Interest earned first half year	£21,464	£19,034	+£2,430
Oct to Mar 2014	0.46%	0.41%	+0.05%
Value of Interest earned second half year	£20,803	£18,432	+£2,371
Rate for Year	0.47%	0.41%	+0.06%
Value of Interest earned in Year	£42,267	£37,466	+£4,801
Ignis			
April to Sept 2013	0.43%	0.42%	+0.01%
Value of Interest earned first half year	£18,421	£18,097	+£324
Oct to Mar 2014	0.44%	0.41%	+0.03%
Value of Interest earned second half year	£17,136	£16,083	+£1,053
Rate for Year	0.43%	0.41%	+0.02%
Value of Interest earned in Year	£35,557	£34,180	+£1,377
TOTAL INTEREST FIRST HALF YEAR	**£41,966**	**£39,550**	**+£2,416**
TOTAL INTEREST SECOND HALF YEAR	**£39,591**	**£36,347**	**+£3,244**

TOTAL INTEREST FOR YEAR	**£81,557**	**£75,897**	**+£5,660**

9.9 During the half year, the Council continued to invest in the Money Market Funds. As with the Money Market investments in paragraph 9.1, the LIBID benchmark which in this case is the 7 day rate 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, Ignis, and Goldman Sachs.

9.10 During 2013/14 the Council earned £81,557 interest on its Money Market Fund investments at an average rate of 0.45%. The average balance during the year was £18,226,238.

Call Accounts

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit a/c			
April to Sept 2013	0.40%	0.42%	-0.02%
Value of Interest earned first half year	£5,955	£6,353	-£398
Oct to Mar 2014	0.39%	0.41%	-0.02%
Value of Interest earned second half year	£5,562	£5,837	-£275
Rate for Year	0.39%	0.41%	-0.02%
Value of Interest earned in year	£11,517	£12,190	-£673
Svenska Handelsbanken			
Oct to Mar 2014	0.54%	0.41%	+0.13%
Value of Interest earned second half year	£5,729	£4,376	+£1,353
Rate for Year	0.54%	0.41%	+0.13%
Value of Interest earned in Year	£5,729	£4,376	+£1,353
TOTAL INTEREST FIRST HALF YEAR	**£5,955**	**£6,353**	**-£398**
TOTAL INTEREST SECOND HALF YEAR	**£11,291**	**£10,213**	**+£1,078**
TOTAL INTEREST FOR	**£17,246**	**£16,566**	**+£680**

YEAR			

9.11 In previous reports the HSBC BDA account has been included within the Money Market table but with the advent of a new deposit account with Svenska Handelsbanken it is deemed appropriate to create a new table for these accounts.

9.12 In January 2014 a Svenska Handelsbanken Deposit Account was opened with £5 million. This Swedish bank has almost 750 branches in 24 countries worldwide and it first established a UK presence in 1982. They have a decentralised approach and our account is held locally in Holly Walk, Royal Leamington Spa. Sweden itself has a highest possible credit rating of AAA and the Fitch ratings of Handelsbanken are long term AA-, short term F1+, viability AA- and support 1. The initial opening rate of 0.50% was increased to 0.55% in February 2014 after negotiating with our relationship manager. This rate is comparable with a fixed local authority deposit of 0.50% for 364 days.

9.13 As with the Money Market investments in paragraph 9.1, the LIBID benchmark, which in this case is the 7 day rate, has been increased by a margin of 0.0625%. Due to the introduction of the new Svenska Handelsbanken Deposit Account with a rate of 0.55%, the return for the second half year out performed the benchmark rate compared to the underperformance in the first half year based just on HSBC BDA account.

9.14 During 2013/14 the Council earned £17,246 interest on its Call Accounts at an average rate of 0.42% and the average balance held was £3,993,514.

9.15 In addition the Council operates two Business Reserve accounts with Santander and 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 rates offered on these Reserve accounts weren't attractive and therefore these accounts were not used.

9.16 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	135,585	133,574	+2,011
Money Market Funds	81,557	75,897	+5,660
Call Accounts	17,246	16,566	+680
Total	**234,388**	**226,037**	**+8,351**

The original estimate of annual external investment interest for 2013/14 was £323,400 gross and this was subsequently revised to £371,500, the increase being mainly due to additional interest earned on increased balances as a result of variations in the 2012/13 and 2013/14 revenue and capital programmes (+£92,000) which has been offset by a lower than expected interest rate due to the continuing low interest rate environment reflecting the current economic conditions (-£43,000). The actual outturn for 2013/14 is £374,100 which is comparable with the latest estimate of £371,500. It should be noted that the total investment return of £234,388 shown in the table above will not all be received in 2013/14 as it is an annualised figure and will include interest relating to 2014/15 which is not included in the table shown in 5.1 above. Similarly, the £374,100 actual return for 2013/14 includes investment returns on investments placed prior to 2013/14 which are not reflected in the table above.

9.17 An analysis of the overall in house investments held by the Council at the end of March 2014 is shown below:
(The previous half year is shown for comparison)

Type of Investment	Closing Balance first half year as at 31st Sept 2013	Closing Balance second half year as at 31st March 2014
	£	**£**
Money Markets	30,000,000	34,000,000
Money Market Funds	18,005,000	12,671,000
Business Reserve Accounts including Call Accounts	0	5,739,000
Total	**48,005,000**	**52,410,000**

10. COUNTERPARTY CREDIT RATINGS

10.1 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
Banks					
WDC Minimum	(Fitch)	**A+**	**F1**	**BBB**	**1**
Nordea Bank Finland (CD)	£3,000,000	AA-	F1+	AA-	1
Nordea Bank Finland (CD)	£3,000,000	AA-	F1+	AA-	1
Standard Charter (CD)	£2,000,000	AA-	F1+	AA-	1
Standard Charter (CD)	£3,000,000	AA-	F1+	AA-	1
Skandinaviska Enskilde Banken AB	£2,000,000	A+	F1	A+	1
DBS Bank Ltd	£2,000,000	AA-	F1+	AA-	1
DBS Bank Ltd	£1,000,000	AA-	F1+	AA-	1
UK Government Part Owned Banks					
WDC Minimum	(Fitch)	**A**	**F1**	**BBB**	**1**
Lloyds TSB Bank	£1,000,000	A	F1	BBB+	1
Local Authorities					
WDC Minimum	**N/A**				
Dudley Metropolitan Council	£2,000,000				
Cornwall Council	£2,000,000				
Glasgow City Council	£2,000,000				
Doncaster City Council	£5,000,000				
Glasgow City	£2,000,000				

Council		

Counterparty	**Investment Amount £**	**Credit Rating**
Unrated Building Societies		
WDC Minimum	**Must be in Top 20 ranked by Asset Value**	
National Counties	£1,000,000	Ranked 12
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	£148,656	Fund retained its rating throughout period
Prime Rate	£4,503,555	Fund retained its rating throughout period
Ignis	£3,929,576	Fund retained its rating throughout period
Goldman Sachs	£299,106	Fund retained its rating throughout period
Call Accounts		
HSBC Business Deposit Account	£1,426,215	Counterparty retained its rating throughout period of AA- long term, F1+ short term, A+ viability and 1 for support.
Svenska Handelsbanken	£1,069,087	Counterparty retained its rating throughout period of AA- long term, F1+ short term, AA- viability and 1 for support

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

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

11. **BENCHMARKING**

11.1 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 and analysis of the results for the March quarter show that the Councils weighted average rate of return on its investments at 0.67% was marginally below Capita's model portfolio rate of return based on the risk in our portfolio which was 0.68%. This slight difference of 0.01% meant that Capita classed our performance as 'inline' with their model.

11.2 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 9.3.

12. BORROWING

12.1 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.

12.2 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 overdraft interest of £57.75 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.

13 PRUDENTIAL INDICATORS

13.1 The 2013/14 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: -

- Indicators suggested that the economic recovery had retained its vigour;
- Household spending rose again;
- Inflation fell to its lowest level in over 4 years;
- Unemployment edged closer to the MPC's 7% forward guidance 'phase one' threshold;
- The MPC's revamped guidance appeared to keep market rates anchored;
- The Budget indicated that the fiscal shackles remained firmly in place.

1.2 After another strong quarterly expansion in UK GDP of 0.7% in Q4, some of the early indicators suggested that the economic recovery had retained its vigour into the first quarter and the CIPS/Markit business activity surveys still point to robust quarterly GDP growth in Q1. That being said, the survey data have overdone the strength of the recovery over recent months. January's industrial production figures suggested that the recovery in manufacturing output did not gather much pace from Q4's 0.5% q/q outturn. The 2.4% monthly fall in the volume of exports in January highlights that the recovery is still struggling to broaden out to the external sector.

1.3 Household spending may have made a decent contribution to GDP growth in Q1. Although it fell in January, the official measure of retail sales volumes rebounded by 1.7% in February. On the basis of past form, the average reading of the reported sales balance is consistent with annual growth in the official measure of retail sales volumes of around 3%. The more forward-looking survey balances of expected sales also point towards a further pick-up in consumer spending in the near-term.

1.4 Growth in sales off the high street has also been strong. For example, annual growth in new car registrations averaged around 17% in January and February, up from 12% in Q4. This all suggests that overall household spending may have strengthened.

1.5 Household spending growth has been supported by further improvement in the labour market. However, the jobs recovery has lost a little pace over recent months. Indeed, the 105,000 increase in employment between the three months to October and the three months to January was the smallest rise since July. Although the headline (three-month average) unemployment rate fell from 7.4% in October to 7.2% in January, this remained above November's recent low of 7.1%. As a result, the unemployment rate is still just above the 7% threshold as set out in 'phase one' of the Monetary Policy Committee's forward guidance:

1. The MPC decided to tweak its forward guidance at the time of the February Inflation Report. Forward guidance 'phase two' contains no less than five elements: –

    - The MPC sets policy to achieve the 2% inflation target, and, subject to that, to support the Government's economic policies, including those for growth and employment.
    - Despite the sharp fall in unemployment, there remains scope to absorb spare capacity further before raising Bank Rate
    - When Bank Rate does begin to rise, the appropriate path so as to eliminate slack over the next two to three years and keep inflation close to the target is expected to be gradual (i.e. probably 25bp)
    - Even when the economy has returned to normal levels of capacity utilisation and inflation is close to the target, the appropriate level of Bank Rate is likely to be materially below the 5% level set on average by the Committee prior to the financial crisis.
    - The MPC will not sell any of the holding of £375bn of gilts before the first rise in Bank Rate.

2. All members voted in favour of this new guidance. That being said, divisions within the MPC regarding the amount of slack in the economy have opened up, with several members revealing their own personal 'best estimate' of the output gap in recent speeches, to spurious degrees of accuracy. The Bank's own estimate of the output gap is a range of between 1% to 1.5%.

3. CPI inflation fell to 1.7% in February, the lowest rate since October 2009. Further increases in the value of sterling over the first quarter will exert downward pressure on import prices, which, combined with past falls in commodity prices, should mean that inflation continues to trend downwards. This all emphasises the fact that interest rates will be on hold for a long while yet.

4. Fiscal policy is not set to ease any time soon. Indeed, the package of measures announced in the Budget in March were, broadly speaking, fiscally neutral. Admittedly, there were a few measures to help businesses and consumers, notably another increase in the annual investment allowance for businesses and in the personal income tax allowance, but these amount to small beer relative to the size of the overall fiscal tightening yet to come. The OBR's forecasts for borrowing were not materially revised from those in

the Autumn Statement, indicating that the Chancellor is still expected to meet his primary fiscal mandate – to return the cyclically-adjusted current budget to balance over a rolling five-year period – a year early.

5. Mr Osborne also refrained from bowing to pressure to take the heat out of the housing market. In fact, he added further support to the flagship Help to Buy Scheme by extending the first phase, (the equity loan part), until 2020, though the more controversial mortgage-guarantee part of the scheme was left untouched. The latest housing market data will have done little to alleviate fears of a bubble. Prices rose at an annual rate of 10.2% and 9.2% in February according to the Halifax and Nationwide measures, respectively. Admittedly, the fall in the new buyer enquiries balance of February's RICS survey suggests that demand may be beginning to wane. But the new sales instructions balance fell further into negative territory. On the basis of past form, the difference between these two balances points to house prices continuing to rise strongly in the near-term.

6. Internationally, the US Fed made tweaks to its own forward guidance in March, when it dropped its explicit unemployment rate threshold in favour of a more qualitative form of forward guidance. Although economic activity was weakened by adverse weather, the Federal Open Market Committee (FOMC), decided to continue with its monthly reduction in stimulus taper; reducing asset purchases by a further $10bn to $55bn per month, (originally $85bn). Markets also brought forward their expectations for the timing of the first rise in interest rates from around the end of 2015, to mid-2015 as a result of upward revisions to the Fed's interest rate projections. In the Fed Chair Janet Yellen's comments in the post-FOMC meeting press conference, she suggested that the "considerable period" language used for forward guidance, (for rates remaining low), could be interpreted as meaning that rates might begin to rise six months or so after the Fed ends its monthly asset purchases: this caused a sell-off in US equity markets.

7. Activity indicators for the Eurozone continue to suggest that the currency bloc is recovering, albeit very slowly. The economy expanded by 0.3% in Q4, following a mere 0.1% quarterly expansion in Q3. Survey data, such as the PMIs, suggest that the recovery may not have gathered much pace in Q1. Moreover, the spectre of deflation continues to hang over the region. Average Eurozone HICP inflation was 0.8% in February, well below the ECB's target of below, but close to, 2%. However, this average meant that some individual countries were experiencing deflation which is particularly unhelpful for heavily indebted countries, and especially for those also struggling with low or negative growth. The large

amount of spare capacity in the Eurozone economy, combined with further increases in value of the euro, suggest that disinflationary pressures are unlikely to go away soon. Accordingly, the ECB may be forced to act soon to prevent the crisis from reigniting.

8. Meanwhile, domestic equities performed poorly over the quarter as a whole, with the FTSE falling by 2% to around 6615, compared to a rise of 0.5% in the S&P 500. Emerging markets were undermined by the tapering of Fed purchases which has led to a marked flow of funds back out of emerging markets to western economies due to the better prospects for growth in the latter. Financial markets were also rattled by concerns about the fallout from political troubles surrounding Ukraine and by renewed worries about credit conditions and a slowdown in economic growth in China. The MSCI Emerging Market Local Currency Index has fallen by 1.1% since the turn of the year. These fears have led to a return of volatility and some renewal of safe haven flows from equities to bonds; developed country bond markets have, therefore, rallied, with gilt yields and treasury yields both falling by over 30bp since the start of 2014.

APPENDIX B

WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT APRIL 2014

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 - **care as 'monitoring' CDS status @ 02.05.14**		
Commonwealth Bank of Australia **- care as 'monitoring' CDS status @ 02.05.14**		
National Australia Bank Ltd— **care as 'monitoring' CDS status @02.05.14**	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale Clydesdale Bank*	Yes
Westpac Banking Corporation **care as 'monitoring' CDS status @ 02.05.14**		
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

FRANCE (AA+) Monitoring CDS status @2.5.14		
BNP Paribas	BNP Paribas Finance* BancWest Corporation (California)* Banca Nazionale Del Lavoro SpA* First Hawaiian Bank* United Overseas Bank*	
Credit Industriel et Commercial		
GERMANY (AAA)		
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*	
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 Banken AB	SEB Bolan*	
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- **check CDS status before using as 'monitoring' @ 02/05/14**		
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 04.04.14) 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