Agenda Item 5

Finance and Audit Scrutiny
Date of meeting: 11th August 2021

Title: Treasury Management Activity Report for the period 1 Oct 2020 to 31 March 2021
Lead Officer: Karen Allison, Assistant Accountant, karen.allison@warwickdc.gov.uk, 01926 456334
Portfolio Holder: Cllr Richard Hales & Cllr Mary Noone
Public report / Confidential report Public – not confidential
Wards of the District directly affected: All

Contrary to the policy framework: No
Contrary to the budgetary framework: No
Key Decision: No
Included within the Forward Plan: Yes Ref # 1234
Equality Impact Assessment Undertaken: No-not relevant
Consultation & Community Engagement:
Final Decision:
Accessibility checked:

Officer/Councillor Approval

Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	16/07/21	Andrew Jones
Head of Service	15/07/21	Mike Snow
CMT		
Section 151 Officer	15/07/21	Mike Snow
Monitoring Officer	16/07/21	Andrew Jones
Finance	21/07/21	Karen Allison/Richard Wilson
Portfolio Holder(s)	22/07/21	Cllr Richard Hales & Cllr Mary Noone

1. Summary

1.1 This report details the Council's Treasury Management performance for the period 1 October 2020 to 31 March 2021.

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 2020/21 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 in accordance with the Treasury Management Code of Practice.

4. Policy Framework

4.1 Fit for the Future (FFF)

4.1.1. The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

4.1.2. The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it, the details of which can be found on the Council's website The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

4.2 FFF Strands

4.2.1. External impacts of proposals

The Treasury Management function is an underpinning activity that enables the Council to meet its vision by maximising investment returns and minimising borrowing costs, while managing the risk to the Council's funds and maintaining liquidity, so that the Council can meet its financial obligations through a well-managed cash flow. This protects services and benefits the Council's customers and other stakeholders.

People - Health, Homes, Communities – Treasury Management indirectly enables financial resources to be ready for the Council to meet the following intended outcomes: Improved health for all; Housing needs for all met; Impressive cultural and sports activities; Cohesive and active communities.

Services - Green, Clean, Safe – Treasury Management is a support function towards to overall achievement of the Council's intended outcomes: Becoming a net-zero carbon organisation by 2025; Total carbon emissions within Warwick District are as close to zero as possible by 2030; Area has well looked after public spaces; All communities have access to decent open space; Improved air quality; Low levels of crime and ASB. In terms of becoming a net-zero carbon organisation, the Council aims to disinvest the equity funds from any carbon-related organisations at the earliest opportunity – and no later than the end of 2023 - that the current economic conditions allow, and seek new 'green' investment opportunities that meet the overarching Treasury Management framework that the Council must operate within.

Money- Infrastructure, Enterprise, Employment – Treasury Management is a fundamental part of effective money management and indirectly aids the following intended outcomes: Dynamic and diverse local economy; Vibrant town centres; Improved performance/productivity of local economy; Increased employment and income levels.

4.2.2. **Internal impacts of the proposals**

The Treasury Management function enables the Council to meet its vision, primarily through having suitably qualified and experienced staff deliver the service in accordance with the Council's Treasury Management Practices and the national framework that local government operates.

People - Effective Staff –All staff are properly trained; All staff have the appropriate tools; All staff are engaged, empowered and supported and that the right people are in the right job with the right skills and right behaviours. Staff have access to the Council's treasury management advisers, the Link Group, who provide additional support and training to staff and members.

Services - Maintain or Improve Services – Treasury Management indirectly helps with the following intended outcomes: Focusing on our customers' needs; Continuously improve our processes and Increase the digital provision of services.

Money - Firm Financial Footing over the Longer Term - Treasury Management is a fundamental part of effective both short and long term money management and indirectly aids the following intended outcomes: Better return/use of our assets; Full Cost accounting; Continued cost management; Maximise income earning opportunities and Seek best value for money.

4.3 **Supporting Strategies**

4.3.1. Each strand of the FFF Strategy has a number of supporting Strategies. The Treasury Management function is consistent with the relevant supporting strategies. Following the Treasury Management principles of Security, Liquidity and Yield (SLY) maximises financial stability in order for the Council to operate effectively.

4.4 **Changes to Existing Policies**

4.4.1. The Treasury Management function is in accordance with existing policies (set out in the Treasury Management Practices) and national regulatory framework.

4.5 **Impact Assessments**

4.5.1. There are no impacts of new or significant policy changes proposed in respect of Equalities.

5. Budgetary Framework

5.1. Treasury Management can have a 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.

5.2. The Council is reliant on interest received to help fund the services it provides. The actual investment interest in 2020/21 compared with the original and latest budgets is shown in the following table:

	Original 2020/21 Budget £'000	Latest 2020/21 Budget £'000	Actual 2020/21 Budget £'000
Gross Investment Interest	945	602	748
less HRA allocation	-437	-155	-225
Net interest to General Fund	**508**	**447**	**523**

5.3. Further details are contained in the Annual 2020/21 Treasury Management report.

6. Risks

6.1. Continued uncertainty in the aftermath of the 2008 financial crisis, brought into even sharper focus by the COVID-19 pandemic, has promoted a cautious approach, whereby investments are now dominated by low counterparty risk considerations, with low returns compared to borrowing rates.

6.2. 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). It's accepted that longer duration investments increase the security risk within the portfolio, however this is inevitable in order to achieve the best possible return and still comply with the SLY principle which is a cornerstone of treasury management within local authorities.

6.3. In addition to credit ratings themselves, the Council will also have regard to any ratings watch notices issued by the 3 agencies as well as articles in the Financial press, market data and intelligence from Link Asset Services benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by Link Asset Services – Treasury Solutions to determine the suitability of investing with counterparties.

6.4. Corporate Bonds and Floating Rate Notes (FRN's) – when used -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.

6.5. Covered Bonds also reduce risk in the portfolio as the bond is "backed" by high quality assets such as prime residential mortgages thus ensuring that if the bond issuer defaults there are sufficient assets that can be realised in order to repay the bond in full.

6.6. While Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, they consequently introduce the risk of capital loss due to market price fluctuations. This is mitigated by ensuring the investments are held for a sufficiently long period. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. "Stop loss" limits (whereby if the value in the fund goes below a defined limit, the holdings in that fund will be sold) reduce risk by limiting losses. Finally, a volatility reserve has been created - a proportion of the annual return on the funds will be credited to this reserve and then when required can be released to revenue either to cover or at least mitigate the impact of any deficits.

7. Alternative Option(s) considered

7.1. This report retrospectively looks at what has happened during the last six months and is, therefore, a statement of fact.

8. Background

8.1. A detailed commentary by our Treasury Consultants, Link Asset Services (part of the Link Group), of the economic background surrounding this report appears as Appendix C.

9. Interest Rate Environment

The major influence on the Council's investments is the Bank Rate. While it remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

9.1. The Council's Treasury Management Advisors, Link Asset Services, provided the following forecast on 8 March 2021 for future Bank Rates.

Qtr Ending	Mar 2021	June 2021	Sept 2021	Dec 2021	Mar 2022	Jun 2022	Sept 2022	Dec 2022	Mar 2023	Jun 2023	Sept 2023
Current Forecast as at March 2021:											
Bank Rate %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Forecast as at January 2020 (when Original Budgets were set)**:**											
Bank Rate %	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25	n/a	n/a

9.2. The forecast as at January 2020 is shown for comparison purposes as this forecast was used in calculating the original budgets.

9.3. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2020/21 was approved by Council on 20 May 2020. 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 because 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 current lending list is shown as Appendix D.

10. Investment Performance

10.1. Core Investments

10.1.1 During 2020/21 to date, the in-house function has invested core cash funds in fixed term deposits and notice accounts in the Money Markets. Table 1 in Appendix A illustrates the performance of the in-house function during this second half year for each category normally invested in.

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

10.1.3 During October to March nine core investments matured. One of which for £4 million was turned into cashflow. In the periods 7 days to 3 months and 3 months to 6 months no investments were made. In period 6 months to 1 year the one investment outperformed.

10.1.4 Given that Bank Rate remains at 0.10% and counterparty security is of the utmost importance over return of yield, the level of performance achieved in this first half year continues to be satisfactory within the new economic reality.

10.2. Cash Flow Derived Funds & Accounts

10.2.1 The in-house function utilises Money Market Funds and Call Accounts to assist in managing its short-term liquidity needs. Performance in this period is shown in table 2 of Appendix A.

10.2.2 During the half year, the Council's cash flow investments were mainly into the Money Market Funds.

10.2.3 As with the Money Market investments in paragraph 10.1.1, 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 table 2 in Appendix A that the second half year underperformed due to poor interest rates. However, the total interest for the year out-performance of the benchmark remains satisfactory.

10.2.4 The Council continued to concentrate its investments in the highest performing funds: Federated (variable and low volatility net asset value funds), Aberdeen Standard, Invesco, Federated and Royal London Cash Plus.

10.2.5 During the second half of 2020/21 the Council earned £15,307 realised interest on its Money Market Fund investments at an average rate of 0.35% and the average balance in the funds during the period was £39,200,900.

10.3. **Call Accounts**

10.3.1 As with the Money Market investments the 7-day LIBID benchmark is increased by a margin of 0.0625%.

10.3.2 The Council earned £640 interest on its call accounts in the second half year at an average rate of 0.05% and the average balance in the funds during the period was £1,467,600.

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

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets £	9	8	1
Money Market Funds	15	29	(14)
Call A/c's £	1	2	(1)
Total £	**25**	**39**	**-14**

10.3.4 It should be noted that the total investment return of £25,000 shown in the table above will not all be received in 2020/21 as it is an annualised figure and will include interest relating to 2019/20 and 2021/22.

10.3.5 An analysis of the overall in-house investments held by the Council at the end of March 2021 is shown in the following table:

(The previous half year is shown for comparison)

Type of Investment	Closing Balance @ 31 March 2021 £'000	Closing Balance @ 30 September 2020 £'000
Money Markets incl. CD's & Bonds	33,000	35,503
Money Market Funds	12,334	35,561
Business Reserve Accounts incl. Call Accounts	2,003	3,000
Total In House Investments	**47,337**	**74,064**
Corporate Equity Funds	6,000	6,000
Total Investments	**53,337**	**80,064**

11. Corporate Equity Funds

11.1. The equity income fund values for the second half year are as follows:

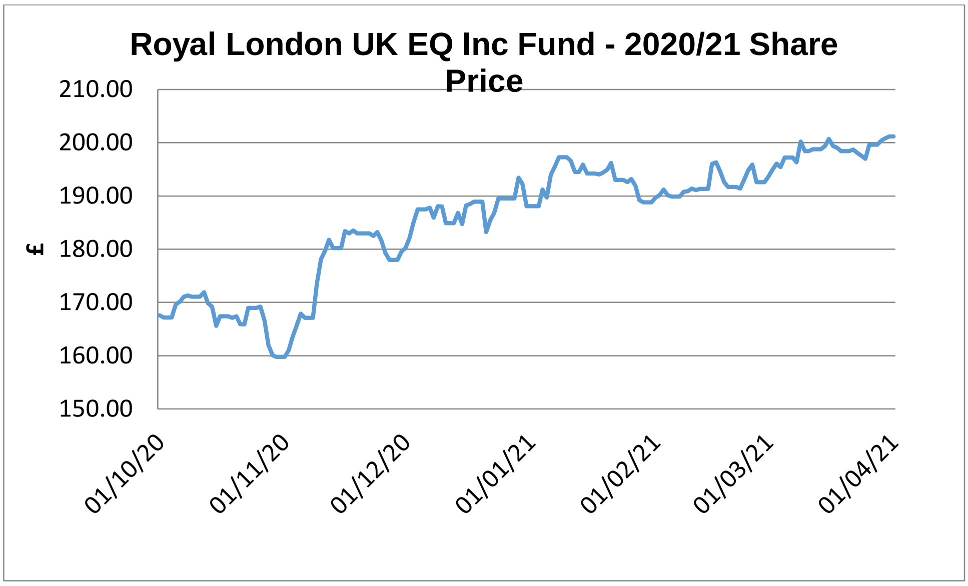
Fund	Value of Fund @ 31 March 2021 £'000	Value of Fund @ 30 September 2020 £'000	Variation in 1st half year £'000
Royal London UK Equity Fund	3,284	2,705	579
Columbia Threadneedle UK Equity Income Fund	3,357	2,803	554
TOTAL	**6,641**	**5,508**	**1,133**

11.2. It can be seen from the table above that both funds had a positive variation in value from October 2020 to March 2021, despite volatility in the markets.

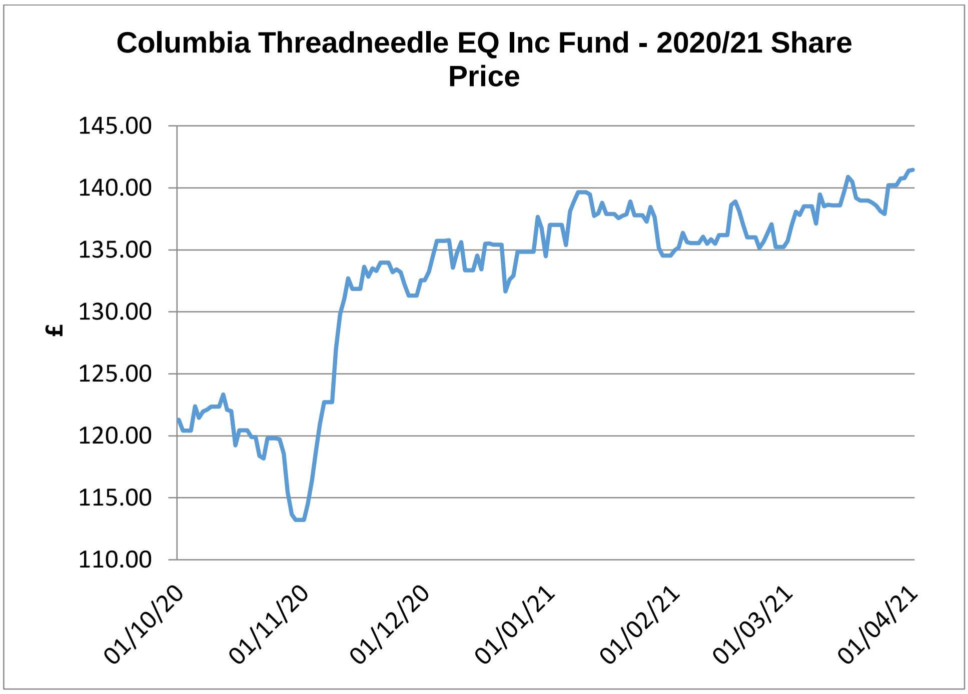
11.3. The table below gives a breakdown of income and capital elements of growth.

Period	Capital Element	Income Element	Total growth	Capital Element	Income Element	Total growth
Royal London Asset Management	**£'000s**	**£'000s**	**£'000s**	**%**	**%**	**%**
3 months (Jan 2021 to March 2021)	190.2	23.6	213.8	5.8	0.7	6.5
3 months (Oct 2020 to December 2020)	339.4	26.2	365.6	11.1	0.9	12
6 months (Oct 2020 to March 2021)	529.6	49.8	579.4	16.9	1.6	18.5
Since inception 04.04.2017	-222.9	506.9	284	-7.4	16.9	9.5
Columbia Threadneedle						
3 months (Jan 2021 to March 2021)	335	24.5	359.5	10.6	0.77	11.3
3 months (Oct 2020 to December 2020)	187.5	23.8	211.3	5.6	0.71	6.3
6 months (Oct 2020 to March 2021)	522.5	48.3	570.8	15.6	1.44	17
Since inception 13.04.2017	356.80	449.70	806.5	10.6	13.4	24

11.4. Royal London UK Equity Fund was behind competitor funds in the fourth quarter to December 2020 but ahead of the FTSE All Share index. Performance benefitted from a number of stocks including McCarthy & Stone, WH Smith, ITV, Paragon and Signature Aviation. The fund’s performance was negatively impacted by several stocks such as Dunelm, Hargreaves, Lansdown, IG Group, Segro and Pennon Group. During the first quarter to March 2021 the fund was ahead of both competitor funds and FTSE All Share Index. Positive contributors to performance were among the biggest detractors to 2020 performance such as Restaurant Group and WH Smith. It can be seen from the graph below that share prices began to rise again in November 2020 after a short-term dip towards end of October 2020.



11.5. Columbia Threadneedle Equity Fund had a similar pattern in share price. Its performance fluctuated each month between underperforming to peer group and FTSE in October 2020 to outperforming in both areas in March 2021. Underperformers included AstraZeneca, Imperial Brands, Tate & Lyle, Rentokil, BP, 3i, Barclays and Electrocomponents. Outperformers included Rentokil, Imperial Brands, Pearson, Johnson Matthey, Electrocomponents, BT, Wincanton and Rank Group.



11.6. These investments are classed as long-term investments and share prices can fluctuate. Disposals of shares needs to be done over a phased period in order to minimise capital losses.

12. Counterparty Credit Ratings

12.1. The investments made in the second half year and the long and short term credit ratings applicable to the counterparty at the point at which the investment was made is shown in Appendix B.

12.2. All investments made within the second half year were in accordance with the Council's credit rating criteria.

12.3. Also attached for the Committee's information as Appendix D is the Council's current 2020/21 Counterparty lending list.

13. Benchmarking

13.1. With regard to the Link Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils and the results are published quarterly. Analysis of the results for the third quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 0.44% was above Link's model portfolio.

13.2. The result for the fourth quarter was 0.13% WARoR which was within Link's model portfolio band range.

13.3. A comparison between Warwick District Council and the benchmarking group reveals that during the both quarters the Council's WARoR and the weighted average risk were higher.

14. Borrowing

14.1. During the half year, there was no long term borrowing activity other than to pay the first half year interest instalment on the £136.157 million PWLB borrowing for the HRA Self Financing settlement which amounted to £2.383 million and also interest of £110,400 on the £12 million PWLB borrowing taken out in September 2019.

14.2. During the half year it was not necessary to undertake any Money Market borrowing to fund cash flow deficits, with any deficits being managed within the Council's £50,000 overdraft facility. The interest rate on this facility is 2.93% 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 half year there was no overdraft interest.

15. Prudential Indicators

15.1. The 2020/21 Treasury Management Strategy included a few 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.

16. 2021/22 Treasury Management Strategy.

16.1. Whilst security of the funds will be paramount, it is intended that the Council will continue to achieve the best returns possible but within Environment, Social and Governance ("ESG" – aka "ethical") criteria, where possible. Details were included within the Treasury Management report in February 2021.

APPENDIX A

Investment Performance Analysis

Table 1 – Summary Performance

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
No Investments			
Over 7 days & Up to 3 months			
April to September 2020	0.38%	0.17%	0.21%
Interest earned 1st half year £	3,710	1,678	2,032
October to March 2021--no investments			
Rate for year	0.38%	0.17%	0.21%
Value of Interest earned in Year	3,710	1,678	2,032
Over 3 months & Up to 6 months			
April to September 2020	0.77%	0.27%	0.50%
Interest earned 1st half year £	31,889	11,308	20,581
October to March 2021	0.10%	0.12%	-0.02%
Interest earned 2nd half year £	5,040	6,450	-1,410
Rate for year	0.40%	0.19%	0.21%
Value of Interest earned in Year	36,929	17,758	19,171
Over 6 months to 365 days			
April to September 2020	0.24%	0.41%	-0.17%
Interest earned 1st half year £	16,488	28,891	-12,403
October to March 2021	0.21%	0.07%	0.14%
Interest earned 2nd half year £	4,188	1,306	2,882
Rate for year	0.23%	0.34%	-0.11%
Value of Interest earned in Year	20,676	30,197	-9,521
1 year and over			
No Investments			
TOTAL INTEREST FIRST HALF YEAR £	**52,087**	**41,877**	**10,210**
TOTAL INTEREST SECOND HALF YEAR £	**9,228**	**7,756**	**1,472**
TOTAL INTEREST FOR YEAR £	**61,315**	**49,633**	**11,682**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche (CNAV)			
April to September 2020	0.12%	0.01%	0.11%
Interest earned 1st half year £	3,010	224	2,786
October to March 2021	0.01%	0.15%	-0.14%
Interest earned 2nd half year £	240	4,709	-4,469
Rate for year	0.06%	0.08%	-0.02%
Value of Interest earned in Year	3,250	4,933	-1,683
Goldman Sachs (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	502	26	476
October to March 2021	0.01%	0.15%	-0.14%
Interest earned 2nd half year £	18	445	-427
Rate for year	0.09%	0.08%	0.01%
Value of Interest earned in Year	520	471	49
Invesco (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	7,768	394	7,374
October to March 2021	0.01%	0.15%	-0.14%
Interest earned 2nd half year £	372	5,054	-4,682
Rate for year	0.11%	0.08%	0.03%
Value of Interest earned in Year	8,140	5,448	2,692
Aberdeen Standard (LVNAV)			
April to September 2020	0.24%	0.01%	0.23%
Interest earned 1st half year £	11,779	455	11,324
October to March 2021	0.03%	0.15%	-0.12%
Interest earned 2nd half year £	1,299	7,228	-5,929
Rate for year	0.13%	0.08%	0.05%
Value of Interest earned in Year	13,078	7,683	5,395
Federated Constant Net Asset Value (CNAV)			
April to September 2020	0.26%	0.01%	0.25%
Interest earned 1st half year £	4,233	149	4,084
October to March 2021	0.03%	0.15%	-0.12%
Interest earned 2nd half year £	567	2,416	-1,849
Rate for year	0.15%	0.08%	0.07%
Value of Interest earned in Year	4,800	2,565	2,235
Federated Cash Plus Account (VNAV)			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	12,470	273	12,197
October to March 2021	0.13%	0.15%	-0.02%
Interest earned 2nd half year £	3,968	4,472	-504
Rate for year	0.27%	0.08%	0.19%

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Value of Interest earned in Year	16,438	4,745	11,693
Royal London Cash Plus Account (VNAV)			
April to September 2020	0.58%	0.01%	0.57%
Interest earned 1st half year £	66,016	278	65,738
October to March 2021	0.29%	0.15%	0.14%
Interest earned 2nd half year £	8,843	4,500	4,343
Rate for year	1.23%	0.08%	1.15%
Value of Interest earned in Year	74,859	4,778	70,081
TOTAL INTEREST FIRST HALF YEAR £	**105,778**	**1,799**	**103,979**
TOTAL INTEREST SECOND HALF YEAR £	**15,307**	**28,824**	**-13,517**
TOTAL INTEREST FOR YEAR £	**121,085**	**30,623**	**90,462**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2020	0.00%	0.01%	-0.01%
Interest earned 1st half year £	0	39	-39
October to March 2021	0.00%	0.15%	-0.15%
Interest earned 2nd half year £	0	88	-88
Rate for year	0.00%	0.07%	-0.07%
Value of Interest earned in Year	0	127	-127
Svenska Handelsbanken Account			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	44	1	43
October to March 2021	0.07%	0.15%	-0.08%
Interest earned 2nd half year £	640	1,446	-806
Rate for year	0.07%	0.07%	0.00%
Value of Interest earned in Year	684	1,447	-763
TOTAL INTEREST FIRST HALF YEAR £	**44**	**40**	**4**
TOTAL INTEREST SECOND HALF YEAR £	**640**	**1,534**	**-894**
TOTAL INTEREST FOR YEAR £	**684**	**1,574**	**-890**

APPENDIX B

Counterparty Rating at Time of Investment

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)	**A**	**n/a**	
Local Authority		**n/a**	**n/a**	
Brentwood Borough Council	£2,500,000	n/a	n/a	181
Maidstone Borough Council	£2,000,000	n/a	n/a	182
Blaenau Gwent Council	£3,000,000	n/a	n/a	181
Thurrock Council	£3,000,000	n/a	n/a	181
North Lanarkshire Council	£2,000,000	n/a	n/a	364
Money Market Funds (Investment amount is average principal in fund during half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+			
Deutsche	£5,624,226	Fund retained its rating throughout half year		liquid
Goldman Sachs	£602,242	Fund retained its rating throughout half year		liquid
Invesco	£7,724,427	Fund retained its rating throughout half year		liquid
Federated	£9,317,221	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,954,364	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£6,000,000	Fund retained its rating throughout half year		liquid
Call Accounts				
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£481,940	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£985,655	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Lloyds 95 Day Notice A/c	£1,000,000	A+		liquid

APPENDIX C

Link Asset Services Commentary on the Current Economic Background

1.1 UK

Coronavirus. The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

Monetary Policy Committee. Cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

1.2 USA

The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

1.3 EU

Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. The ECB did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, unlikely to be a euro crisis while the ECB is able to maintain this level of support.

1.4 China

After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

1.5 Japan

Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

1.6 World growth

World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

APPENDIX D

Warwick District Council Standard Lending List as at June 2021

Banks

Investments up to 365 days (3 months for explicitly guaranteed subsidiaries)

Investment / Counterparty type:	S/term	L/term minimum	Security / Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £7m if L/term rating minimum A+,£5m if L/Term rating A.	365 days	In-House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	365 days	In-House +Advice & EFM*
Bank subsidiaries of UK Banks	Unrated	Unrated	Explicit Parent Guarantee	£5m	3 months	In-House +Advice & EFM*

NB. Includes Business Call Reserve Accounts and special tranches and any other form of investment with that institution e.g. Certificate of Deposits, Corporate Bonds and Repo's except where the Repo collateral is more highly credit rated than the counterparty in which case the counterparty limit is increased by £3m with a maximum in Repo's of £3m.

Counterparty Limit is also the Group Limit where investments are with different but related institutions.

Investments over 365 days

Investment/ Counterparty type:	S/term	L/term Min	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £7m if L/term rating minimum A+,£5m if L/Term rating A.	2 years	In-House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	2 years	In-House +Advice & EFM*

NB. Includes Business Call Reserve Accounts and special tranches and any other form of investment with that institution e.g. Certificate of Deposits, Corporate Bonds and Repo's.

Counterparty limit is also the Group Limit where investments are with different but related institutions.

£15m overall limit for Corporate Bond / Property Funds & £20m limit for all counterparties.

£20m over 365 day limit only applies to those investments where at 1 April the remaining term is greater than 365 days. Any over 365 day investment with 365 days or less to maturity at 1 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		
Macquarie Bank Ltd		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale) Clydesdale Bank*	Yes
Westpac Banking Corporation		
BELGIUM (AA-)		
BNP Paribas Fortis		
KBC Bank NV		
CANADA (AA+)		
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*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Abp	Nordea Bank Denmark* Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) –		
The Hong Kong & Shanghai Banking Corporation Ltd		
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS (AAA)		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
QATAR (AA-)		
Qatar National Bank		
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
Skandinaviska Enskilde Banken AB	SEB Bolan*	
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
SWITZERLAND (AAA)		
Credit Suisse AG		
UBS AG		
UNITED ARAB EMIRATES (AA)		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA-)		
Abbey National Treasury Services plc		
Al Rayan Bank Plc		
Barclays Bank UK plc(RFB)		
Goldman Sachs International Bank		
Handelsbanken Plc		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
HSBC Bank plc (NRFB)	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
HSBC UK Bank Plc (RFB)		
Lloyds Banking Group :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
Lloyds Bank plc (RFB)		
National Bank of Kuwait (International) plc		
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland (RFB)		
Santander UK plc		
Standard Chartered Bank		
Sumitomo Mitsui Banking Corporation Europe Ltd		
UBS Ltd		
UNITED STATES OF AMERICA (AAA)		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
Citibank		
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*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

Building Societies

Investments up to 365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Building Societies - category A	F1	A	UK Sovereign	£4m	365 days
Building Societies - category B • Coventry • Nationwide • Leeds • Yorkshire • Skipton	F1		UK Sovereign	£2m	365 days
Building societies – assets > £500m (Category C) • Principality • West Bromwich • Newcastle (Fitch removed ratings 7.9.16) • Nottingham • Cumberland • National Counties • Progressive • Cambridge • Newbury • Leek United • Monmouthshire • Saffron • Furness • Hinckley & Rugby • Ipswich • Darlington • Marsden				£1m	3 months

Investments over 365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Building societies Category A & B (see above)	F1	A	UK Sovereign	£1m	2 years

NB. Group limit of £8m.

Other Counterparties

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
DMADF	n/a	n/a	UK Sovereign	£12m	365 days
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£10m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid
Corporate bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Bonds - Supranational / Multi Lateral Development Banks 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.	AAA / Govt Guarantee			£5m	365 days
Floating Rate Notes - category 1		A		£4m	364 days
		A+		£6m	
		AA - & ABOVE		£7m	
Floating Rate Notes - category 2		A		£9m	364 days
Floating Rate Notes - category 3		A		£4m	364 days
		A+		£5m	
		AA - & ABOVE		£6m	
Eligible Bank Bills	n/a		Determined by EFM	£5m	364 days

Investment/ Counterparty type:		S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Sterling Securities guaranteed by HM Government		n/a		UK Sovereign	£9m	Not defined
Local Authorities		n/a	Viability/support= High £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£9m	5 years
Corporate Equity Funds - low risk (UK Equity Income Funds)		n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£4m	10 years
Corporate Equity Funds - medium risk (UK Capital Growth Funds)		n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£2m	10 years
Corporate Bond Funds		BBB	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£5m	10 years
Pooled property fund eg: REITS	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.				£5m	10 years
CCLA property funds	n/a	Security of Trustee of fund (LAMIT) controlled by LGA, COSLA who appoint the members and officers of LAMIT. £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.			£5m	10 years

Categories for Covered Bonds, Corporate Bonds (must be Senior Unsecured), Floating Rate Notes:

Category 1: Issued by private sector Financial Institutions
Category 2: Issued by Financial institutions wholly owned or part owned by the UK Government
Category 3: Issued by Corporates