Agenda Item No 6
Overview & Scrutiny Committee
28th September 2022

Title: Treasury Management Activity Report for period 1 Oct 2021 to 31 March 2022
Lead Officer: Karen Allison, Assistant Accountant (Capital and Treasury) 01926-456334
Portfolio Holder: Councillor Richard Hales
Wards of the District directly affected: All

Summary

This report details the Council's Treasury Management performance for the period 1 October 2021 to 31 March 2022.

Recommendation(s)

(1) That Finance and Audit Scrutiny Committee notes the contents of this report.

---

1 Background/Information

1.1 The Council's 2021/22 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.

1.2 LIBOR and LIBID rates ceased from the end of 2021. For benchmarking purposes they have been replaced with SONIA (Sterling Overnight Index Average) and Warwick District Council treasury team have decided to use 'backward' looking rates.

2 Alternative Options available to Finance and Audit Committee

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

3 Consultation and Member's comments

3.1 Not Applicable.

4 Implications of the proposal

4.1 Legal/Human Rights Implications

4.1.1 None directly arising from the Council's Treasury Management activity.

4.2 Financial

4.2.1 Treasury Management can have a significant impact on Warwick District Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital.

4.2.2 Warwick District Council is reliant on interest received to help fund the services it provides. The actual investment interest in 2021/22 compared with the original and latest budgets is shown in the following table:

	Latest 2021/22 Budget £'000	**Original 2021/22 Budget £'000**	**Actual 2021/22 £'000**
Gross Investment Interest	544	649	538
less HRA allocation	-115	-123	-15
Net interest to General Fund	**430**	**526**	**523**

4.2.3 On 31 March 2022 the Council advanced a further £10m to the Joint Venture (JV) using two £5 million PWLB loans of 1.5 and 3.5 years, with the repayments matching those from the JV. The General Fund is paying the interest costs on the total six PWLB loans but will be receiving interest receipts from the JV, creating a net income.

4.3 **Council Plan**

4.3.1 The treasury management activity in this report applies to Warwick District Council, in accordance with the statutory framework and local Treasury Management Strategy and Treasury Management Practices.

4.3.2 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.

4.3.3 **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.

4.3.4 **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.

4.3.5 **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.

4.4 **Environmental/Climate Change Implications**

4.4.1 The recommendation to divest from direct ownership of fossil fuels companies or commingled funds that include fossil fuel public equities by no later than 2025, in pursuance of the Council's Climate Emergency Declaration was realised ahead of target. Both Royal London and Columbia Threadneedle Equity funds were divested on 20 to 21 September 2021, with notice being given on 15 September.

4.5 **Analysis of the effects on Equality—not applicable**

4.6 **Data Protection**

4.6.1 Treasury Management activity is compliant with Data Protection Act.

4.7 **Health and Wellbeing-not applicable**

5 Risk Assessment

5.1 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.

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

In addition to credit ratings themselves, the Council will also have regard to any ratings watch notices issued by the three 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.

Corporate Bonds and Floating Rate Notes (FRNs) – 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 FRNs 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.

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.

Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, but they consequently introduce the risk of capital loss due to market price fluctuations, as illustrated in paragraph 4.2.3. 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 had been created, which could have been released to revenue either to cover or at least mitigate the impact of any deficits.

6 Conclusion/Reasons for the Recommendation

6.1 This report is for information purposes and is a statement of fact.

Background papers:

Appendix A - Interest Rate Environment, Investment Performance, Counterparty

Credit Ratings, Benchmarking, Borrowing, Prudential Indicators and 2022/23 Treasury Management Strategy.

Appendix B – Investment Performance Analysis

Appendix C – Counterparty Rating at Time of Investment

Appendix D – Standard lending List @ March 2022

Appendix E - Link Asset Services Commentary on the Current Economic Background

Supporting documents:

None.

Appendix A

1. Interest Rate Environment

The major influence on the Council's investments is the Bank Rate. The Council uses Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The forecast on 7th February is below.

Qtr Ending	Mar 2022	June 2022	Sept 2022	Dec 2022	Mar 2023	Jun 2023	Sept 2023	Dec 2023	Mar 2024	Jun 2024	Sept 2024
Current Forecast as at Feb 2022											
Bank Rate %	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Forecast as at January 2021 (when Original Budgets were set)**:**											
Bank Rate %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

The forecast as at January 2021 is shown for comparison purposes as this forecast was used in calculating the original budgets.

The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2021/22 was approved by Council on 24 Feb 2021. 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 current lending list is shown as Appendix D.

2. Investment Performance

2.1 Core Investments

During 2021/22 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 B illustrates the performance of the in-house function during this first half year for each category normally invested in.

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

During October to March eighteen core investments matured. Length of re-investment was kept mostly short (up to 3 months)in order to take advantage of any interest rate increase. In all the periods, the Council out-performed against the Benchmark.

Given that counterparty security is of the utmost importance over return of yield, the level of performance achieved in this second half year continues to be satisfactory within the new economic reality.

2.2 **Cash Flow Derived Funds & Accounts**

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 B.

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

As with the Money Market investments, the SONIA 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 B that the total interest under-performed against the benchmark. This is mostly due to the representational issue when investors converted from using LIBID to a SONIA-related benchmark.

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.

During the second half of 2021/22 the Council earned £5,445 realised interest on its Money Market Fund investments at an average rate of 0.03% and the average balance in the funds during the period was £31,590,800.

2.3 **Call Accounts**

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

The Council earned £6,507 interest on its call accounts in the second half year at an average rate of 0.16% and the average balance in the funds during the period was £8,038,031.

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 £	21	11	11
Money Market Funds	5	38	-33
Call A/c's £	7	7	-
Total £	**33**	**56**	**-22**

It should be noted that the total investment return of £33,000 shown in the table above will not all be received in 2021/22 as it is an annualised figure and will include interest relating to 2020/21 and 2022/23.

An analysis of the overall in-house investments held by the Council at the end of March 2022 is shown in the following table:

(The previous half year is shown for comparison)

Type of Investment	Closing Balance @ 30 September 2021 £'000	Closing Balance @ 31 March 2022 £'000
Money Markets incl. CD's & Bonds	31,592	32,500
Money Market Funds	34,195	32,756
Business Reserve Accounts incl. Call Accounts	5,000	9,528
Total In House Investments	**70,787**	**74,784**

Counterparty Credit Ratings

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 C.

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

Also attached for the Committee's information as Appendix D is the Council's current 2021/22 Counterparty lending list.

Benchmarking

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 0.14% was above Link's model portfolio. For the final quarter the WARoR was 0.50% which was inline with Link's model portfolio.

Borrowing

During the half year, there was long term PWLB borrowing activity of £10 million (two £5 million loans, one of 1.5 years and the other of 3 years 5 months) alongside paying the second 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.

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 3.60% 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.

Prudential Indicators

The 2021/22 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.

2022/23 Treasury Management Strategy

Work will commence in the current quarter on preparing the 2022/23 Treasury Management and Investment Strategies.

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.

Appendix B

Investment Performance Analysis

Table 1 – Summary Performance

Period	Investment Return (Annualised)	LIBID/SONIA Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	301	-614	915
October to March 2022	0.33%	0.08%	0.25%
Interest earned 2nd half year £	249	58	191
Rate for year	0.02%	-0.02%	0.04%
Value of Interest earned in Year	550	-556	1,106
Over 7 days & Up to 3 months			
April to September 2021	0.16%	0.02%	0.15%
Interest earned 1st half year £	7,864	748	7,116
October to March 2022	0.25%	0.15%	0.10%
Interest earned 2nd half year £	7,490	4,545	2,945
Rate for year	0.19%	0.07%	0.13%
Value of Interest earned in Year	15,354	5,293	10,061
Over 3 months & Up to 6 months			
April to September 2021	0.23%	0.00%	0.23%
Interest earned 1st half year £	10,496	57	10,439
October to March 2022	0.30%	0.13%	0.17%
Interest earned 2nd half year £	13,708	6,015	7,693
Rate for year	0.27%	0.07%	0.20%
Value of Interest earned in Year	24,203	6,071	18,132
Over 6 months to 365 days			
No Investments			
1 year and over			
April to September 2021	0.35%	0.13%	0.22%
Interest earned 1st half year £	20,700	7,798	12,902
October to March 2022- No Investments			
Rate for year	0.35%	0.13%	0.22%
Value of Interest earned in Year	20,700	7,798	12,902
TOTAL INTEREST FIRST HALF YEAR £	**39,361**	**7,989**	**31,372**
TOTAL INTEREST SECOND HALF YEAR £	**21,446**	**10,618**	**10,828**
TOTAL INTEREST FOR YEAR £	**60,807**	**18,607**	**42,200**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	LIBID 1st half year/SONIA 2nd half year Benchmark (Annualised)	Out/(Under) Performance
Goldman Sachs (CNAV)			
April to September 2021	0.00%	-0.02%	0.02%
Interest earned 1st half year £	0	-292	292
October to March 2022	0.11%	0.20%	-0.09%
Interest earned 2nd half year £	3,597	6,399	-2,802
Rate for year	0.08%	0.20%	-0.12%
Value of Interest earned in Year	3,597	6,107	-2,510
Deutsche (LVNAV)			
April to September 2021	0.00%	-0.02%	0.02%
Interest earned 1st half year £	0	-292	292
October to March 2022	0.07%	0.20%	-0.13%
Interest earned 2nd half year £	2,409	6,766	-4,357
Rate for year	0.07%	0.20%	-0.13%
Value of Interest earned in Year	2,409	6,474	-4,065
Invesco (CNAV)			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	401	-829	1,229
October to March 2022	0.04%	0.20%	-0.16%
Interest earned 2nd half year £	1,566	7,642	-6,076
Rate for year	0.04%	0.20%	-0.16%
Value of Interest earned in Year	1,967	6,813	-4,846
Aberdeen Standard (LVNAV)			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	466	-950	1,417
October to March 2022	0.13%	0.20%	-0.08%
Interest earned 2nd half year £	6,244	10,041	-3,797
Rate for year	0.07%	0.20%	-0.13%
Value of Interest earned in Year	6,710	9,091	-2,380
Federated Constant Net Asset Value (CNAV)			
April to September 2021	0.02%	-0.02%	0.05%
Interest earned 1st half year £	176	-144	320
October to March 2022	0.17%	0.20%	-0.03%
Interest earned 2nd half year £	1,186	1,418	-232
Rate for year	0.10%	0.20%	-0.10%
Value of Interest earned in Year	1,362	1,274	88
Federated Cash Plus Account (VNAV)			
April to September 2021	0.04%	-0.02%	0.06%
Interest earned 1st half year £	573	0	573
October to March 2022	-0.06%	0.20%	-0.26%
Interest earned 2nd half year £	-859	3,080	-3,939
Rate for year	-0.01%	0.20%	-0.21%
Value of Interest earned in Year	-286	3,080	-3,366

Royal London Cash Plus Account (VNAV)/Short Term Fixed Income Acc			
April to September 2021	0.04%	-0.02%	0.06%
Interest earned 1st half year £	1,187	317	870
October to March 2022	0.20%	0.20%	0.00%
Interest earned 2nd half year £	-8,697	3,120	-11,818
Rate for year	-0.24%	0.20%	-0.45%
Value of Interest earned in Year	-7,511	3,437	-10,948
TOTAL INTEREST FIRST HALF YEAR £	**2,803**	**-1,898**	**4,701**
TOTAL INTEREST SECOND HALF YEAR £	**5,445**	**38,466**	**-33,021**
TOTAL INTEREST FOR YEAR £	**8,248**	**36,568**	**-28,320**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2021	0.00%	-0.02%	0.02%
Interest earned 1st half year £	0	-275	275
October to March 2022	0.20%	0.20%	0.00%
Interest earned 2nd half year £	6,036	6,050	-15
Rate for year	0.14%	0.20%	-0.06%
Value of Interest earned in Year	6,036	5,775	260
Svenska Handelsbanken Account			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	101	-207	308
October to March 2021	0.07%	0.15%	-0.08%
Interest earned 2nd half year £	471	2,034	-1,563
Rate for year	0.03%	0.20%	-0.17%
Value of Interest earned in Year	572	1,827	-1,255
TOTAL INTEREST FIRST HALF YEAR £	**101**	**-482**	**583**
TOTAL INTEREST SECOND HALF YEAR £	**6,507**	**8,084**	**-1,577**
TOTAL INTEREST FOR YEAR £	**6,608**	**7,602**	**-994**

Appendix C

Counterparty Rating at Time of Investment

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)			
Building Societies		**n/a**	**n/a**	
National Counties	£1,000,000	n/a	n/a	95
National Counties	£1,000,000	n/a	n/a	90
WDC Minimum	(Fitch)	**A**	**n/a**	
Banks				
Landesbanken Hessen-Thueringen Girozentral (Helaba)	£2,000,000	A+	F1+	7
Landesbanken Hessen-Thueringen Girozentral (Helaba)	£2,000,000	A+	F1+	7
Landesbanken Hessen-Thueringen Girozentral (Helaba)	£2,000,000	A+	F1+	28
DBS Bank Ltd	£2,000,000	AA-	F1+	90
Al Rayan	£3,000,000	A+	F1	179
Standard Chartered	£3,000,000	A+	F1	181
Standard Chartered	£2,500,000	A+	F1	92
Standard Chartered	£2,500,000	A+	F1	184
Standard Chartered	£3,000,000	A+	F1	244
Qatar National Bank	£4,000,000	A+	F1	28
Qatar National Bank	£4,000,000	A+	F1	92
Qatar National Bank	£4,000,000	A+	F1	184
Qatar National Bank	£3,000,000	A+	F1	181
Local Authority		**n/a**	**n/a**	
Thurrock Council	£3,000,000	n/a	n/a	182

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
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+			
Goldman Sachs	£4,604,574	Fund retained its rating throughout half year		liquid
Deutsche	£3,435,306			
Invesco	£7,853,597	Fund retained its rating throughout half year		liquid
Federated	£4,472,501	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,638,739	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£3,103,623	Fund retained its rating throughout half year		liquid
<u>Call Accounts</u>				
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£4,347,457	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£2,021,989	Counterparty retained its rating throughout period of AA long term, F1+ short term,		liquid

APPENDIX D

Warwick District Council Standard Lending List as at March 2022

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*

Investment/ Counterparty type:	S/term	L/term Min	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
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)*	

BANK NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
	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)		
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) –		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
The Hong Kong & Shanghai Banking Corporation Ltd		
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)		
Barclays Bank plc(NRFB)		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
Goldman Sachs International Bank		
Handelsbanken Plc		
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		
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 NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
	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 • Nationwide	F1	A	UK Sovereign	£4m	365 days
Building Societies - category B • Coventry • Leeds • Yorkshire • Skipton	F1		UK Sovereign	£2m	365 days
Building societies – assets > £500m (Category C) • Principality • West Bromwich				£1m	3 months

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
• Newcastle (Fitch removed ratings 7.9.16) • Nottingham • Cumberland • National Counties • Progressive • Cambridge • Newbury • Leek United • Monmouthshire • Saffron • Furness • Hinckley & Rugby • Ipswich • Darlington • Marsden					

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 / DMO	n/a	n/a	UK Sovereign	Unlimited	365 days
Milverton Homes **WDC 100% subsidiary	n/a	n/a	n/a	£0.5m	Not defined
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	365 days
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£10m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
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	AAA / Govt Guarantee			£5m	365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Or any other Supranational/Multi-Lateral Development Bank meeting criteria.					
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
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

Investment/ Counterparty type:		S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
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

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

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

Appendix E

Link Asset Services Commentary on the Current Economic Background

- **UK. Economy.** Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

  The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

  Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

  Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

- **Average inflation targeting.** This was the major change in 2020/21 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 2020 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 mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

- **USA.** The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

  In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

  The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

  More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

- **EU.** With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

  While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

- **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; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

- **Japan.** The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

- **World growth.** World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

- **Deglobalisation.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

- **Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

Report Information Sheet

Committee/Date	Overview and Scrutiny Committee 28th September 2022	
Title of report	Treasury Management Activity Report for period 1 October 2021 to 31 March 2022	
Consultations undertaken		
Consultee *required	**Date**	**Details of consultation /comments received**
Ward Member(s)		N/A
Portfolio Holder	07/09/2022	Cllr Richard Hales
Financial Services *	05/09/2022	Karen Allison/Richard Wilson
Legal Services *		N/A
Other Services		N/A
Chief Executive(s)		Chris Elliott
Head of Service(s)		Andrew Rollins (Interim)
Section 151 Officer		Andrew Rollins (Interim)
Monitoring Officer	06/09/2022	Andrew Jones
CMT (WDC)		N/A
Leadership Co-ordination Group (WDC)		N/A
Other organisations		N/A
Final decision by this Committee or rec to another Ctte/Council?		Final decision
Contrary to Policy/Budget framework		No/~~Yes~~
Does this report contain exempt info/Confidential? If so, which paragraph(s)?		No/~~Yes, Paragraphs :~~
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?		No/~~Yes, Forward Plan item – scheduled for ………………………~~
Accessibility Checked?		File/Info/Inspect Document/Check Accessibility