

 <b>Finance and Audit Scrutiny Committee</b> <b>27<sup>th</sup> June 2017.</b>		<b>Agenda Item No.</b>  <b>5</b>
<b>Title</b>	<b>Treasury Management Activity Report for the period 1st October 2016 to 31st March 2017.</b>	
<b>For further information about this report please contact</b>	Karen Allison, Assistant Accountant 01926 456334 <a href="mailto:Karen.allison@warwickdc.gov.uk">Karen.allison@warwickdc.gov.uk</a>	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	n/a	
<b>Background Papers</b>	Treasury Management File L2/9 Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.	

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

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	06.06.2017	Andrew Jones
Head of Service	N/A	
CMT	N/A	
Section 151 Officer	06.06.2017	Mike Snow
Monitoring Officer	N/A	
Finance	05.06.2017	Roger Wyton
Portfolio Holder(s)	07.06.2017	Peter Whiting
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 2016 to 31<sup>st</sup> March 2017.

## 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 2016/17 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis.
- 3.2 This report informs Members of past performance, hence Members are just asked to note the information contained within it.

## 4. Policy Framework

- 4.1 **Policy Framework** -The Treasury Management function enables the Council to achieve its objectives within the strategy and policies.
- 4.2 **Fit for the Future** – The Treasury Management function enables the Council to meet its vision of a great place to live work and visit as set out in the Sustainable Community.
- 4.3 **Impact Assessments** – No impacts of new or significant policy changes proposed in respect of Equalities.

## 5. Budgetary framework

- 5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital. The Council is reliant upon interest received to help fund the services it provides. The actual investment interest earned in 2016/17 compared with the original and latest budgets is shown in the table below:

	<b>Original 2016/17 Budget ( Jan 16 ) £</b>	<b>Latest 2016/17 Budget ( Jan 17 ) £</b>	<b>2016/17 Actual  £</b>
Gross Investment Interest	487,500	537,500	510,000
Less HRA allocation	195,500	195,500	208,400
Net interest to General Fund	<b>292,000</b>	<b>342,000</b>	<b>301,600</b>

## 6. Risks

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

- 6.2 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 Capita benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by Capita Asset Services – Treasury Solutions to determine the suitability of investing with counterparties.
- 6.3 Corporate Bonds and Floating Rate Notes (FRN's) introduce Counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRN's with a strong Fitch credit rating, in this case A and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.
- 6.4 Covered Bonds also reduces risk 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.
- 6.5 Corporate Equity Funds have potential capital loss due to market price fluctuations. This is mitigated by ensuring the investments are available for the necessary length of time to ensure that there is no negative impact on the capital value of the fund. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. The introduction of a "stop loss" limit in the case of Bond/Equity Funds whereby if the value in the fund(s) goes below a defined limit, the holdings in that fund will be sold thus limiting further losses will also reduce risk as will the use of a "volatility" reserve as a certain proportion of the annual return on the fund will be credited to the reserve and then when required released to revenue to either 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 6 months. It is a statement of fact.

## **8. Background**

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

## **9. Interest rate environment**

- 9.1. The major influence on the Council's investments is the Bank Rate. The Bank Rate remained at 0.25% for the second half of the year to 31<sup>st</sup> March 2017. 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 (Feb 17)	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19
<b>Current Forecast, as at Feb 2017:</b>											
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%
<b>Forecast, as at January 2016, (when Original Budgets were set):</b>											
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	n/a

The forecast as at January 2016 is shown for comparison purposes as this forecast was used in calculating the original budgets.

- 9.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2016/17 was approved by Council on 24th February 2016. 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 March 2017 lending list is shown as Appendix D. This list includes the recommendations from the 2017/18 Treasury Management Strategy report concerning new investment vehicles and limits.

## **10 INVESTMENT PERFORMANCE**

### **Money Market Investments**

- 10.1. During 2016/17, the in house function has invested its core cash in fixed term deposits in the Money Markets. The table in Appendix A illustrates the performance of the in house function during this second half year for each category normally invested in.
- 10.2 All the LIBID rates in the table and referred to below include a margin of 0.0625%.
- 10.3 During October to March, thirteen core investments matured. The majority of these were then invested for a period of 364 days.
- 10.4 Four ING Fixed Bonds totalling £4,703k matured in December at which time officers were starting to collate information on Corporate Equity Funds with a view to opening two accounts for a total of £6 million. Also the Leisure Centre Refurbishments were underway and there was a likelihood of some imminent significant expenditure. Therefore it was necessary to keep most of this money fairly liquid hence £4 million was invested in the Svenska Handelsbanken 35 day account.
- 10.5 The Lloyds Bank maturities, £1 million in January and £2 million in February were not rolled over because their counterparty limit would have been exceeded as they progressed from being classed as a part-Government owned bank to a private bank. Therefore investments were made in a Goldman Sachs International Bank fixed deposit and a Credit Industriel Et Commercial CD.

- 10.6 Lloyds Banking Group was still offering enhanced rates for 1 year deposits therefore one investment was rolled over and another one which matured on 31<sup>st</sup> March 2017 was then re-invested in April 2017 once the Treasury Management Strategy 2017/18 took effect allowing an increase in this counterparty limit.
- 10.7 During January to March the Council's cash flow investments began to unwind themselves as cash outflows (Precepts, NNDR payments to DCLG etc.) exceeded the inflows and any cash flow investments during this period were made into the Money Market Funds.
- 10.8 Given that the current Bank Rate is only 0.25% 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 with an out performance of £8,690.

### **Money Market Funds & Call Accounts**

- 10.9 The in house function continues to utilise the Money Market Funds and Call Accounts to assist in managing its short term liquidity needs. Their performance in this period is shown in table 2 of Appendix A.
- 10.10 During the half year, the Council's cash flow investments were into the Money Market Funds and the HSBC Business Deposit Account.
- 10.11 As with the Money Market investments in paragraph 10.1, the LIBID benchmark which in this case is the 7 day rate (plus a margin of 0.0625%) is used for comparing the CNAV funds performance. For the Federated Prime Rate Variable Net Asset Fund and the Royal London Cash Plus Account the 6 month LIBID rate (plus a margin of 0.0625%) is used. It should be noted that the investment return on both of these includes fees and so is not directly comparable with the benchmark return. It can be seen from table 2 in Appendix A that the total interest out performance of the benchmark continues to be satisfactory. The Council continued to concentrate its investments in the four highest performing funds Federated (variable and constant net asset value funds), Royal London Cash Plus, Standard Life and Invesco.
- 10.12 During 2016/17 the Council earned £149,792 interest on its Money Market Fund investments at an average rate of 0.45%. The average balance during the year was £33,042,854.

### **Call Accounts**

- 10.13 As with the Money Market investments in paragraph 10.1, the LIBID benchmark, which in this case is the 7 day rate for HSBC and 1 month for Svenska Handelsbanken, has been increased by a margin of 0.0625%. The return for the second half year in the Svenska accounts outperformed the benchmark rate. There was a continuation of an underperformance on HSBC BDA account due to the lowering of the base rate which forms the basis of the interest rate on this account.
- 10.14 During 2016/17 the Council earned £21,304 interest on its Call Accounts at an average rate of 0.35% and the average balance held was £6,037,690.

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

<b>Vehicle</b>	<b>Return (Annualised) £</b>	<b>Benchmark (Annualised) £</b>	<b>Performance £</b>
Money Markets £	344,797	327,111	17,686
Money Market Funds & Call A/c's £	171,097	117,567	53,529
<b>Total £</b>	<b>515,894</b>	<b>444,678</b>	<b>71,215</b>

The table below provides a breakdown of original estimate against actual outturn 2016/17:-

<b>Original Estimate</b>		<b>Actual Outturn</b>	
Original estimate of annual external investment interest and other interest such as car loan and long term investments for 2016/17	£484,200	Actual outturn for 2016/17	£514,700
Revised to	£456,900	Latest Estimate	£456,900
Decrease of	- £27,300	Increase of	£57,800
<b>Mainly due to</b> 1) Additional interest earned on increased balances as a result of variations in the 2015/16 and 2016/17 revenue and capital programmes.	+£100,300	<b>Mainly due to</b> 1) Overall interest rate for the year being slightly higher than expected.	+£28,900
2) Offset by a lower than expected interest rate due to the Bank Rate not rising in line with previous predictions as a result of continuing economic difficulties.	-£127,600	2) Additional interest arising from increased balances due to underspendings in revenue and capital budgets.	+£28,900

It should be noted that the total investment return of £514,700 shown in the table above is in respect of investments made by the in house team and does not include the other interest received and not all will be received in 2016/17 as it is an annualised figure and will include interest relating to 2017/18.

- 10.16 An analysis of the overall in house investments held by the Council at the end of March 2017 is shown below:  
(The previous half year is shown for comparison)

<b>Type of Investment</b>	<b>Closing Balance @ 31st March 2017</b>	<b>Closing Balance @ 30th September 2016</b>
	<b>£</b>	<b>£</b>
Money Markets incl. CD's & Bonds	35,362,000	40,440,000

Money Market Funds	31,125,000	28,161,000
Business Reserve Accounts incl. Call Accounts	4,047,000	3,299,000
<b>Total</b>	<b>70,534,000</b>	<b>71,900,000</b>

## **11. CORPORATE EQUITY FUNDS**

11.1 On 22<sup>nd</sup> March 2017 two corporate equity income funds were selected with the assistance of Capita Asset Services. After interviewing five contenders it was decided to appoint Columbia Threadneedle Investments and Royal London Asset Management with a £3 million investment in each in April 2017.

11.2 The two funds were chosen for their stable capital growth outlook and potential to provide a steady dividend yield. Also, their styles and approaches were attractive. Historically both funds have presented good returns. Whilst some funds have out-performed them, these two have not been subject to the same degree of volatility. The differing approaches of the two funds selected are believed to be somewhat complementary.

## **12. COUNTERPARTY CREDIT RATINGS**

12.1 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 Appendix B.

12.2 It can be seen that 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 B is the Council's current 2016/17 Counterparty lending list.

## **13. BENCHMARKING**

13.1 With regard to the Capita Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils, the results are published quarterly. Analysis of the results for quarters three and four show that the Councils weighted average rate of return on its investments at 0.59% and 0.58% respectively was above Capita's model portfolio band range.

13.2 The results for quarters three and four also show that the Council's weighted average rate of return was above that of the local group and the weighted average credit risk in the portfolio was either below or in line with that of the local group thus demonstrating that the Council is balancing its aim of achieving the best rate of return on its investments whilst protecting the security of those investments.

## **14. BORROWING**

14.1 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.

- 14.2 During the half year it was not necessary to undertake any Money Market borrowing to fund cashflow deficits, with any deficits being managed within the Council's £50,000 overdraft facility with HSBC. The interest rate on this facility is 2% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e. overdrawn. In the second half year no overdraft interest was paid.
- 14.3 The Council is due to take out long term borrowing to part finance the works to the leisure centres. However, as long term borrowing will cost more than the investment interest earned on internal balances, it has not been appropriate to take out any long term debt yet. However, it is expected that a proportion of the long term debt will be taken out soon within 2017/18.

## **15 PRUDENTIAL INDICATORS**

- 15.1 The 2016/17 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.



**Investment Performance Analysis****Table 1- Money Market Investments**

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 3 months			
April to September 2016	No investments were made		
October to March 2017	No investments were made		
Year to date	No investments were made		
Over 3 months & Up to 6 months			
April to September 2016	0.73%	0.58%	0.15%
Interest earned 1st half year £	9,876	7,866	2,010
October to March 2017	No investments were made		
Rate for year	0.73%	0.58%	0.15%
Value of Interest earned in Year	9,876	7,866	2,010
Over 6 months to 365 days			
April to September 2016	0.84%	0.82%	0.02%
Interest earned 1st half year £	145,281	141,488	3,793
October to March 2017	0.76%	0.71%	0.05%
Interest earned 2nd half year £	132,957	124,267	8,690
Rate for year	0.80%	0.76%	0.04%
Value of Interest earned in Year	278,238	265,755	12,483
1 year and over			
April to September 2016	0.91%	0.86%	0.05%
Interest earned 1st half year £	56,683	53,490	3,193
October to March 2017	No investments were made		
Rate for year	0.91%	0.86%	0.05%
Value of Interest earned in Year	56,683	53,490	3,193
TOTAL INTEREST FIRST HALF YEAR £	211,840	202,844	8,996
TOTAL INTEREST SECOND HALF YEAR £	132,957	124,267	8,690
TOTAL INTEREST FOR YEAR	344,797	327,111	17,686

**Table 2- Money Market Funds**

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
<b>Deutsche</b>			
April to September 2016	0.46%	0.35%	0.11%
Interest earned 1st half year £	2,019	1,518	501
October to March 2017	0.26%	0.18%	0.08%
Interest earned 2nd half year £	6,597	4,563	2,034

	Investment Return	LIBID Benchmark	
Rate for year	0.29%	0.26%	0.03%
Value of Interest earned in Year	8,616	6,081	2,535
Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
<b>Goldman Sachs</b>			
April to September 2016	0.43%	0.35%	0.08%
Interest earned 1st half year £	1,856	1,507	349
October to March 2017	0.26%	0.18%	0.08%
Interest earned 2nd half year £	2,917	2,293	624
Rate for year	0.28%	0.26%	0.02%
Value of Interest earned in Year	4,773	3,800	973
<b>Invesco</b>			
April to September 2016	0.47%	0.35%	0.12%
Interest earned 1st half year £	18,486	13,615	4,871
October to March 2017	0.31%	0.18%	0.13%
Interest earned 2nd half year £	13,699	7,962	5,737
Rate for year	0.38%	0.26%	0.12%
Value of Interest earned in Year	32,185	21,577	10,608
<b>Standard Life</b>			
April to September 2016	0.48%	0.35%	0.13%
Interest earned 1st half year £	21,458	15,301	6,157
October to March 2017	0.31%	0.18%	0.13%
Interest earned 2nd half year £	13,950	8,065	5,885
Rate for year	0.40%	0.26%	0.13%
Value of Interest earned in Year	35,408	23,366	12,042
<b>Federated Constant Net Asset Value (CNAV)</b>			
April to September 2016	0.53%	0.35%	0.18%
Interest earned 1st half year £	13,400	8,698	4,702
October to March 2017	0.36%	0.18%	0.18%
Interest earned 2nd half year £	8,860	4,502	4,358
Rate for year	0.44%	0.26%	0.18%
Value of Interest earned in Year	22,260	13,200	9,060
<b>Federated Variable Net Asset Value (VNAV)</b>			
April to September 2016	0.53%	0.35%	0.18%
Interest earned 1st half year £	19,547	13,912	5,635
October to March 2017	0.61%	0.47%	0.14%
Interest earned 2nd half year £	11,560	8,203	3,357
Rate for year	0.58%	0.41%	0.17%
Value of Interest earned in Year	31,107	22,115	8,992
<b>Royal London Cash Plus Account (VNAV)</b>			
April to September 2016	0.79%	0.58%	0.21%
Interest earned 1st half year £	9,127	5,791	3,336
October to March 2017	0.78%	0.47%	0.31%
Interest earned 2nd half year £	6,316	4,706	1,610
Rate for year	0.78%	0.52%	0.26
Value of Interest earned in Year	15,443	10,497	4,946
<b>TOTAL INTEREST FIRST HALF YEAR £</b>	<b>85,893</b>	<b>60,342</b>	<b>25,551</b>

	Investment Return	LIBID Benchmark	
<b>TOTAL INTEREST SECOND HALF YEAR £</b>	<b>63,899</b>	<b>40,295</b>	<b>23,605</b>
<b>TOTAL INTEREST FOR YEAR £</b>	<b>149,792</b>	<b>100,637</b>	<b>49,156</b>

\*\* It should be noted that the Royal London rates have been re-stated for the first half year.

### **Table 3- Call Accounts**

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
<b>HSBC Business Deposit Account</b>			
April to September 2016	0.21%	0.35%	-0.14%
Interest earned 1st half year £	1,979	3,209	-1,230
October to March 2017	0.15%	0.18%	-0.03%
Interest earned 2nd half year £	2,371	2,935	-564
Rate for year	0.17%	0.26%	-0.09%
Value of Interest earned in Year	4,350	6,144	-1,794
<b>Svenska Handelsbanken Account</b>			
April to September 2016	0.55%	0.37%	0.18%
Interest earned 1st half year £	13,347	8,932	4,415
October to March 2017	0.35%	0.18%	0.17%
Interest earned 2nd half year £	3,607	1,854	1,753
Rate for year	0.49%	0.28%	0.21%
Value of Interest earned in Year	16,954	10,786	6,168
<b>TOTAL INTEREST FIRST HALF YEAR £</b>	<b>15,326</b>	<b>12,141</b>	<b>3,185</b>
<b>TOTAL INTEREST SECOND HALF YEAR £</b>	<b>5,978</b>	<b>4,790</b>	<b>1,189</b>
<b>TOTAL INTEREST FOR YEAR £</b>	<b>21,304</b>	<b>16,931</b>	<b>4,374</b>

## APPENDIX B

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)	
		Long Term	Short Term		
Banks					
WDC Minimum	( Fitch )	A	F1		
Santander UK-bond	£625,000	A			309
Barclays Bank	£1,000,000	A	F1		364
Societe Generale	£2,000,000	A	F1		364
Societe Generale	£1,000,000	A	F1		364
Credit Industriel Et Commercial CD	£2,000,000	A+	F1		364
Credit Industriel Et Commercial CD	£2,000,000	A+	F1		362
Landesbanken Hessen Thuringen-Helaba	£1,000,000	A+	F1+		364
Barclays Bank	£2,000,000	A	F1		364
Goldman Sachs International	£2,000,000	A	F1		364
Goldman Sachs International	£1,000,000	A	F1		364
Lloyds Bank	£3,000,000	A+	F1		364
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	£5,086,025	Fund retained its rating throughout half year		liquid	
Invesco Aim	£8,875,460	Fund retained its rating throughout half year		liquid	
Federated Prime Rate	£9,000,000	Fund retained its rating throughout half year		liquid	
Standard Life	£8,990,165	Fund retained its rating throughout half year		liquid	
Goldman Sachs	£2,556,219	Fund retained its rating throughout half year		liquid	
Royal London Asset Management	£2,000,000	Fund retained its rating throughout half year		liquid	
Call Accounts					
WDC Minimum	( Fitch )	A+		F1	
HSBC Business Deposit Account	£3,271,911	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid	
Svenska Handelsbanken	£2,066,875	Counterparty retained its rating throughout period of AA- long term, F1+ short term.		liquid	

## **CAPITA ASSET SERVICES COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND**

### **APPENDIX C**

- During the second half year ended 31 March 2017:
  - The economy maintained its momentum then lost some despite Brexit;
  - Rising inflation started to dent household consumption;
  - The labour market continued to tighten but wage growth softened;
  - One MPC member voted for an increase in Bank Rate as CPI inflation exceeded the 2% target;
  - The Brexit process was started with the triggering of Article 50.
- Having finished 2016 strongly, the economy looks to have lost a little momentum in Q1 of 2017. Quarterly GDP growth of 0.7% in Q4 2016 marked an acceleration of growth from 0.5% in the preceding quarter. However, the Markit/CIPS all-sector PMI fell from an average of 54.5 in Q4 to an average of 53.9 in January and February, which is consistent with quarterly GDP growth of about 0.5%.
- A slowdown in consumer spending, which was the key driver of growth in 2016, looks to be behind this overall slowdown in growth. While retail sales rose by 1.4% on the month in February, that followed three consecutive monthly declines. Indeed, retail sales would have to post a monthly increase of over 3% in March to prevent sales from falling on a quarterly basis in Q1. That said, retail sales only account for around a third of household spending and recent evidence on other areas of household spending has been more encouraging; e.g. the Bank of England's Agents' Score of consumer services turnover has held steady at a fairly high level.
- But some marginal slowdown in household consumption seems inevitable. Q4's National Accounts revealed a second consecutive quarterly decline in households' real disposable incomes. As a result, the 0.7% rise in overall household spending in the same quarter had to be funded entirely through households reducing the proportion of income that they save. With wage growth still subdued and inflation continuing to rise, it seems unlikely that households will be able to maintain that pace of spending growth.
- Indeed, wage growth slowed a touch in January. Headline annual average weekly earnings growth eased from 2.6% to 2.2%. However, that slowdown is at odds with the tight labour market with the unemployment rate falling from 4.8% to 4.7%, the equal-lowest since 1975. What's more, despite the limited number of individuals still looking for work, annual employment growth has maintained its recent pace of around 1%. Looking ahead, we doubt that Brexit-related job losses will put a significant dent in employment. Indeed, survey measures of firms' employment intentions are consistent with private sector employment continuing to grow at its current pace in the near-term.
- Meanwhile, inflation has picked up faster than had been expected. CPI inflation rose from an average of 1.2% in Q4 2016, to 1.9% in January and 2.3% in February,

breaching the MPC's 2% target for the first time since November 2013. The February print was an upside surprise to both the market and the Bank of England, who had expected inflation of 2.1%. The increase was mainly due to inflation on exchange rate-sensitive components as the pound's post Brexit-vote depreciation fed into higher prices on imported goods.

- Producer input price inflation has also picked up markedly, reaching around 20% in January and February up from an average of around 14% in Q4. Given the substantial time it takes for changes in producer input prices to work their way through to CPI inflation, further increases in the latter are in the pipe line. We expect CPI inflation to reach a peak of around 3.3% in October before starting to fall back as the effects of the fall in the exchange rate on consumer price inflation statistics starts to fade.
- While the March MPC meeting came before the latest increase in inflation, the Committee's tolerance for higher inflation appeared to have already diminished somewhat. Kristen Forbes voted for a Bank Rate increase while it would reportedly take "little further upside news on the prospects for activity or inflation", for some other members to join her. However, given subdued domestically generated inflation, as emphasised by the recent slowdown in wage growth, we think the majority of the MPC will "look-through" an exchange rate driven bout of inflation as they have previously said that they would do. Indeed, we expect rates to remain on hold until around mid-2018.
- In contrast, the US Fed hiked rates, as had been widely anticipated, by 25 bp in March, taking the Fed funds target range to between 0.75% and 1.00%. Meanwhile, the ECB stuck to its plan of slowing the pace of its asset purchases from April 2017, and then continuing purchases at the lower level until December 2017, and has been quick to counter speculation that tightening could be around the corner given the improvement in the economic data. As a result, we have seen what we think will prove the beginnings of a historically-unusual divergence in Western monetary policy over the next year or so.
- Meanwhile, the public finances improved much faster than the OBR had forecast at the time of the Autumn Statement. PSNB ex in the first eleven months of the fiscal year of £47.8bn was 29% below that from a year earlier whereas the OBR had forecast a 10% reduction.
- But OBR judged the negative effects of Brexit on activity and the public finances to have been merely delayed rather than diminished in their spring Budget forecast, denying the Chancellor a vastly lower borrowing forecast. In terms of measures, the Budget was a quiet affair, at least from a fiscal point of view. Chancellor Hammond delivered a small increase in social care spending which was set to be offset by a rise in national insurance contributions, until the latter was reversed within days. But given that the OBR forecast that the cyclically adjusted budget deficit in 2020-21 will be 1.1% of GDP, below Hammond's target of 2%, the Chancellor still has some wriggle room.
- In the US, President Trump's difficulty in getting support from Congress and the Senate is likely to be a sign that it will take longer than originally anticipated to pass a fiscal stimulus. By next year, however, we see tax cuts being passed in contrast to continued austerity in the UK. We think that US GDP will rise by 2.7% in 2017 and 2.2% in 2018.

- Meanwhile, in financial markets, the FTSE 100 rose by 2.5% between the quarter ends of Q4 and Q1, and touched a fresh record high in the interim reflecting the continuing improvement of global inflation and growth data. As for the FTSE UK local index, which only includes firms for which most of their sales are generated in the UK, (this excludes the boost to equity prices from the lower pound), this has recovered to its pre-referendum level. Meanwhile, 10-year gilt yields fell back by 10bps to around 1.1% during Q1, but that only partially reversed the 50bps rise seen in Q4.
- Finally, the UK Government triggered Article 50 at the end of March. The initial exchanges have been constructive, with both sides seemingly wanting to pursue a free trade deal, but talks on that will only begin once the EU is satisfied with progress on the terms of Britain's withdrawal. The withdrawal negotiations will begin in June with the UK's exit bill the first potential sticking point. The outcome of the negotiations is set to be ratified by the UK and EU parliaments in late 2018. But any future trade deal can't be officially agreed until the UK has left the EU. Therefore, upon the UK's exit in March 2019, a transitional arrangement is likely while the details of a future trading relationship are finalised.

**WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT MARCH 2017**

**BANKS**

**INVESTMENTS UP TO 364 DAYS** (3 months for explicitly guaranteed subsidiaries)

<b>Investment / Counterparty type:</b>	<b>S/term</b>	<b>L/term</b>	<b>Security / Min credit rating</b>	<b>Max limit per counterparty</b>	<b>Max. Maturity period</b>	<b>Use</b>
Bank deposits	F1	A	UK Sovereign	£	364 days	In House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	364 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 364 DAYS**

<b>Investment / Counterparty type:</b>	<b>S/term</b>	<b>L/term</b>	<b>Security / Min credit rating</b>	<b>Max limit per counterparty</b>	<b>Max. Maturity period</b>	<b>Use</b>
Bank deposits	F1	A	UK Sovereign	£5m.	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.

**NB -** £20m over 364 day limit only applies to those investments where at 1<sup>st</sup> April the remaining term is greater than 364 days. Any over 364 day investment with 364 days or less to maturity at 1<sup>st</sup> April is deemed to be short term.



<b>BANK NAME</b>	<b>OTHER BANKS IN GROUP (* = Not on list but included for information re potential problems etc.)</b>	<b>GROUP LIMIT APPLIES</b>
<b>AUSTRALIA ( AAA ) Monitoring @ 01.04.2016</b>		
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		
<b>BELGIUM (AA)MONITORING</b>		
BNP Paribas Fortis		
<b>CANADA ( AAA )</b>		
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- negative outlook	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
<b>DENMARK (AAA)</b>		
Danske Bank		
<b>FINLAND ( AA+)- monitoring</b>		
Nordea Bank Finland DO NOT DEAL DIRECT AS NOW DOMICILED IN SWEDEN UNDER NORDEA BANK AB BUT CD'S ETC OK WITH K&S. <b>PER CAPITA 3/1/17 NOW ABSORBED INTO NORDEA BANK SWEDEN AND RATINGS WITHDRAWN BY FITCH – DO NOT USE</b>	Nordea Bank Denmark* Nordea Bank AB Nordea Bank Norge* Nordea Bank North America*	Yes
<b>FRANCE (AA)-monitoring</b>		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
Societe Generale		
<b>GERMANY (AAA)</b>		
DZ Bank AG (Deutsche Zentral-genossenschaftsbank)		

Landesbanken Hessen-Thuringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
<b>HONG KONG ( AA+ ) – not on Capita's list as not active</b>		
The Hong Kong & Shanghai Banking Corporation Ltd		
<b>LUXEMBOURG ( AAA )</b>		
Clearstream Banking		
<b>NETHERLANDS (AAA) monitoring</b>		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
<b>QATAR (AA)OUT OF RANGE</b>		
Qatar National Bank		
<b>SINGAPORE ( AAA )</b>		
DBS Bank Ltd	DBS Bank ( Hong Kong )*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
<b>SWEDEN (AAA )</b>		
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		
<b>SWITZERLAND (AAA)</b>		
Credit Suisse AG-monitoring		
UBS AG		
<b>UNITED ARAB EMIRATES (AA)-out of range</b>		
National Bank of Abu Dhabi		
<b>UNITED KINGDOM (AA)monitoring</b>		
Abbey National Treasury Services plc		
Barclays Bank plc		
Close Brothers		
Goldman Sachs		
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking	Yes

	Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	
Lloyds Banking Group Including (now classed as private bank by CAPITA) :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
Santander UK plc		
Standard Chartered Bank-monitoring		
Sumitomo Mitsui Banking Corporation Europe Ltd-negative outlook		
UBS Ltd		
<b>UNITED STATES OF AMERICA ( AAA )</b> MONITORING		
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
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-negative outlook	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

## **BUILDING SOCIETIES**

### **INVESTMENTS 364 DAYS OR LESS**

<b>Investment / Counterparty type:</b>	<b>S/term</b>	<b>L/term</b>	<b>Security / Min credit rating</b>	<b>Max limit per counterparty</b>	<b>Max. Maturity period</b>
Building Societies - category A	F1	A	UK Sovereign	£4m	364 days
Building Societies - category B <ul style="list-style-type: none"> <li>Coventry</li> <li>Nationwide</li> <li>Leeds</li> </ul>	F1		UK Sovereign	£2m	364 days
Building societies -				£1m	3 months

assets > £500m (Category C) <ul style="list-style-type: none"> <li>• Yorkshire</li> <li>• Skipton</li> <li>• Leeds</li> <li>• Principality</li> <li>• West Bromwich</li> <li>• Newcastle(Fitch removed ratings 7.9.16)</li> <li>• Nottingham</li> <li>• Progressive</li> <li>• Cumberland</li> <li>• National Counties</li> <li>• Saffron</li> <li>• Cambridge</li> <li>• Monmouthshire</li> <li>• Furness</li> <li>• Leek United</li> <li>• Newbury</li> <li>• Hinckley &amp; Rugby</li> <li>• Ipswich</li> </ul>					
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### **INVESTMENTS OVER 364 DAYS**

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

**NB.** Group limit of £8m.

### **OTHER COUNTERPARTIES**

<b>Investment / Counterparty type</b>	<b>S/term</b>	<b>L/term</b>	<b>Security / Min credit rating</b>	<b>Max limit per counterparty</b>	<b>Max. Maturity period</b>
DMADF	n/a	n/a	UK Sovereign	£12m	364 days
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations / Nationalised Industries.	n/a	n/a	High viability/support	£9m	364 days
Money Market Fund(CNAV)	AAA-m / Aaa-mf/AAAmmf			£9m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/AAA/V1			£6m	liquid
<b>Corporate bonds</b> - 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	
<b>Covered bonds - category 1</b>		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	
<b>Bonds -</b> 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	364 days
<b>Floating Rate Notes</b> - category 1		A		£4m	364 days
		A+		£5m	
		AA - & ABOVE		£6m	
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
<b>Corporate Equity Funds - low risk (UK</b>	n/ a	Maximum investment limit subject to 10% capital growth i.e.		£4m	10 years

Equity Income Funds)		maximum is 110% of original investment.			
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 Govt

Category 3: Issued by Corporates