WARWICK DISTRICT COUNCIL	**Finance and Audit Scrutiny Committee.** **24th July 2018.**	**Agenda Item No.** **5**

Title	Treasury Management Activity Report for the period 1st October 2017 to 31st March 2018.
For further information about this report please contact	Karen Allison, Assistant Accountant 01926 456334 Karen.allison@warwickdc.gov.uk
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	n/a
Background Papers	Treasury Management File L2/9 Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

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

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	13/07/2018	Andrew Jones
Head of Service	13/07/2018	Mike Snow
CMT	13/07/2018	
Section 151 Officer	12/07/2018	Mike Snow
Monitoring Officer	13/07/2018	Andrew Jones
Finance	13/07/2018	Karen Allison & Jenny Clayton
Portfolio Holder(s)	13/07/2018	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 2017 to 31st March 2018.

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 2017/18 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.

4. Policy Framework

4.1 Fit for the Future (FFF)

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.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy."

FFF Strands		
People	**Services**	**Money**
External		
Health, Homes, Communities	**Green, Clean, Safe**	**Infrastructure, Enterprise, Employment**
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision.	The Treasury Management function enables the Council to meet its vision.	The Treasury Management function enables the Council to meet its vision.

Internal		
Effective Staff	**Maintain or Improve Services**	**Firm Financial Footing over the Longer Term**
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision.	The Treasury Management function enables the Council to meet its vision.	The Treasury Management function enables the Council to meet its vision.

4.2 **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies.

4.3 **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies.

4.4 **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 2017/18 compared with the original and latest budgets is shown in the following table:

	Original 2017/18 Budget (Jan 17) £	**Latest 2017/18 Budget (Jan 18) £**	**2017/18 Actual £**
Gross Investment Interest	413,300	513,400	388,800
Less HRA allocation	(177,800)	(225,800)	(171,100)
Net interest to General Fund	**235,500**	**287,600**	**217,700**

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 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.

6.3 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, Link 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 increased to 0.50% in November 2017. The Council's Treasury

Management Advisors, Link Asset Services (formerly known as Capita Asset Services), provided the following forecast for future Bank Rates:

Link Asset Services Bank Rate Forecasts:

Qtr ending	Now (Feb 18)	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20
Current Forecast, as at Feb 2018:											
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%
Forecast, as at January 2017, (when Original Budgets were set):											
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	0.75%

The forecast as at January 2017 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 2017/18 was approved by Council on 22nd February 2017. 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.

10 INVESTMENT PERFORMANCE

Core Investments

10.1. During 2017/18, 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 Benchmark rates in the table and referred to below include a margin of 0.0625%.

10.3 During October to March, fifteen core investments matured. The majority of these were then invested for a period of around 363 days along with four shorter dated ones.

10.4 A Close Brothers investment in October was only invested for 4 months in anticipation of the interest rate rise.

10.5 Investments that enabled us to out-perform the benchmark include Leeds City Council fixed deposit, Rabobank CD, 3 Goldman Sachs International fixed deposits and a GE Capital UK Funding Bond.

10.6 During January to March the Council’s cash flow investments began to unwind themselves as cash outflows (Precepts, NNDR payments to Pool etc.) exceeded the inflows and any cash flow investments during this period were made into the Money Market Funds.

Cash Flow Derived Funds & Accounts

10.7 The in house function utilises 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.

10.8 During the half year, the Council's cash flow investments were into the Money Market Funds and the HSBC Business Deposit Account. The latter account is linked to the base rate hence in November, when the rate increased, this was topped up to its maximum.

10.9 As with the Money Market investments in paragraph 10.1, the LIBID benchmark which in this case is the 7 day rate has been increased by a margin of 0.0625% and the results can be found in table 2 in Appendix A.

10.10 The Council continued to concentrate its investments in the highest performing funds Federated (variable and constant net asset value funds), Royal London Cash Plus, Standard Life and Invesco.

10.11 During 2017/18 the Council earned £122,261 interest on its Money Market Fund investments at an average rate of 0.57%. The average balance during the year was £21,306,912.

Call Accounts

10.12 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%.

10.13 During 2017/18 the Council earned £24,906 interest on its Call Accounts at an average rate of 0.38% and the average balance held was £6,635,071.

10.14 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:-

Vehicle	Return (Annualised) £	Benchmark (Annualised) £	Performance £
Money Markets £	236,800	216,700	20,100
Money Market Funds £	122,300	110,500	11,800
Call Accounts £	24,900	21,000	3,900
Total £	**384,000**	**348,200**	**35,800**

Actual Outturn

10.15 The table below provides a breakdown of original estimate against actual outturn 2017/18:-

Original Estimate Compared To Outturn		Latest Estimate to Outturn	
Original estimate of annual external investment interest and other interest such as car loan and long term investments for 2017/18	£439,500	Latest Estimate	£513,400
Outturn	£391,500	Outturn	£391,500
Decrease of	- £48,000	Decrease of	-£121,900
<u>Mainly due to</u> 1) Additional interest earned on increased balances as a result of variations in the 2016/17 and 2017/18 revenue and capital programmes. 2) Correction of budgeted accrued interest in respect of bonds. 3) Investment principal above budgeted expectation.	 +£25,500 -£113,100 +£68,000	**<u>Mainly due to</u>** 1) Additional interest earned on increased balances as a result of variations in the 2016/17 and 2017/18 revenue and capital programmes. 2) Correction of budgeted accrued interest in respect of bonds.	 +£25,500 -£113,100
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.	-£28,400	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.	-£34,300

It should be noted that the total investment return of £384,000 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 2017/18 as it is an annualised figure and will include interest relating to 2018/19.

10.16 An analysis of the overall in house investments held by the Council at the end of March 2018 is shown below:

(The previous half year is shown for comparison)

Type of Investment	Closing Balance @ 31st March 2018	Closing Balance @ 30th September 2017
	£	£
Money Markets incl. CD's & Bonds	46,745,000	32,604,000
Money Market Funds	23,000,000	34,670,000
Business Reserve Accounts incl. Call Accounts	6,055,000	4,500,000
Total In House Investments	**75,800,000**	**71,774,000**
Corporate Equity Funds	6,000,000	6,000,000
Total Investments	**81,800,000**	**77,774,000**

11. CORPORATE EQUITY FUNDS

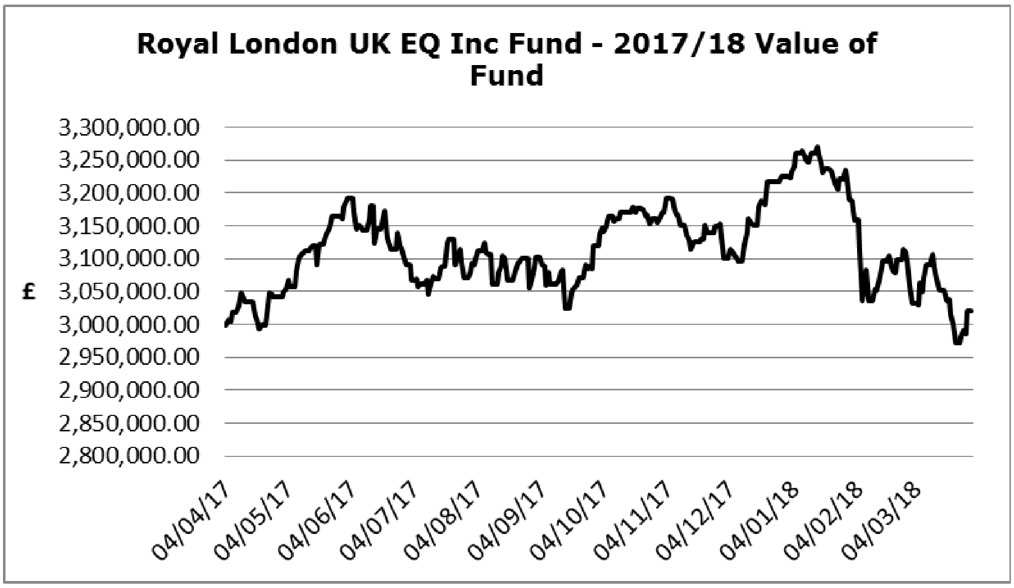
11.1 The equity income fund values for the second half year are as follows:-

Fund	Value of Fund @ 31st March 2018	Value of Fund @ 30th September 2017	Variation in 2nd half year
	£	£	£
Royal London UK Equity Fund	3,019,587	3,119,151	-99,564
Columbia Threadneedle UK Equity Income Fund	2,875,661	3,043,780	-168,119

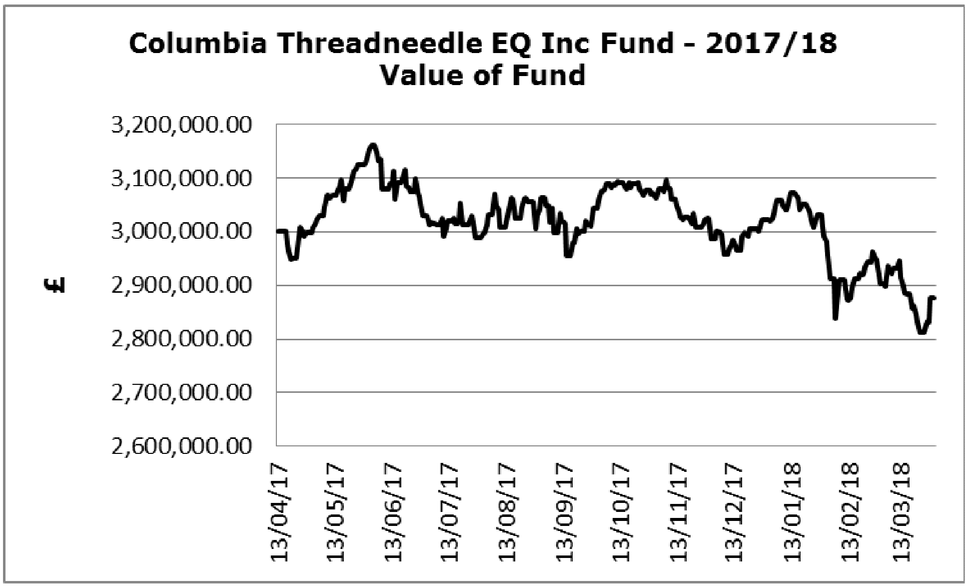
11.2 The Royal London fund has experienced fluctuations between £3.26m and £2.97m, this is after dividend received of £94.1k into the fund. The Columbia fund has fluctuated from a high of £3.19m to a low of £2.82m, with a dividend of £99.5k being paid in fund shares, so increasing the number of shares held. The net loss on the funds as at 31 March from the nominal £6m invested of £105k was funded from the Available for Sale Financial Instrument Reserve in accordance with the Accounting Code of Practice.

11.3 The equity funds pay dividend based upon the portfolio performance. Royal London is cash growth and the dividend remains within the portfolio as capital growth whereas the Columbia’s dividend automatically purchases additional shares in the fund. As the timescale requirement for operational use of the cash is undecided no fixed drawdown date was defined. Funds may be withdrawn at any time, depending on the Council’s need for cash or the funds’ return. However, throughout, it has been intended to regard the investments as long term, potentially for five years plus.

11.4 Royal London UK Equity Income Fund share prices generally continued to rise or stabilise from October 2017 to end of January. February and March were more volatile in line with the broader equity market as shown in the graph below.



11.5 Columbia Threadneedle Equity Income Fund had an overall stable trend from October to end of January 2018 but February and March 2018 declined as shown in the graph below, due to factors explained in 11.4 and 11.5.



11.6 In early February, UK and global equities struggled and volatility spiked as signs of rising wage growth in US reinforced fears that post-crisis era of low rates and copious central bank stimulus could soon come to a close. Over the month as a whole, the FTSE All-Share lost 3.3% in total return terms.

11.7 In March the FTSE All-Share posted a total return of -1.8%. UK equities remained under pressure from ongoing uncertainties over Brexit and concern about the outlook for business and the broader political environment.

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 2017/18 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, 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 0.55% and 0.60% respectively was inline with Link'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 only marginally above 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 3.35% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e. overdrawn. In the second half year overdraft interest of £27 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 in the year. However, it is expected that a proportion of the long term debt will be taken out in the next financial year.

15 PRUDENTIAL INDICATORS

15.1 The 2017/18 Treasury Management Strategy included a number of Prudential Indicators within which the Council must operate. The two major ones are the Authorised Limit and Operational Boundary for borrowing purposes. It is confirmed that during the half year neither indicator has been exceeded.

APPENDIX A

Investment Performance Analysis

Table 1- Money Market Investments

Period	Investment Return	LIBID Benchmark	Out/(Under) Performance
Up to 3 months			
April to September 2017	No investments were made		
October to March 2017	0.80%	0.46%	0.34%
Interest earned 2nd half year £	2,038	1,163	875
Rate for year	0.80%	0.46%	0.34%
Value of Interest earned in Year	2,038	1,163	875
Over 3 months & Up to 6 months			
April to September 2017	0.51%	0.38%	0.13%
Interest earned 1st half year £	893	665	228
October to March 2017	0.71%	0.55%	0.16%
Interest earned 2nd half year £	15,559	11,984	3,575
Rate for year	0.69%	0.54%	0.15%
Value of Interest earned in Year	16,452	12,649	3,803
Over 6 months to 365 days			
April to September 2017	0.61%	0.59%	0.02%
Interest earned 1st half year £	55,172	53,031	2,141
October to March 2017	0.79%	0.75%	0.04%
Interest earned 2nd half year £	142,061	134,123	7,938
Rate for year	0.73%	0.70%	0.03%
Value of Interest earned in Year	197,233	187,154	10,079
1 year and over			
April to September 2017	0.82%	0.59%	0.23%
Interest earned 1st half year £	16,400	11,758	4,642
October to March 2017	0.90%	0.75%	0.15%
Interest earned 2nd half year £	4,722	3,933	789
Rate for year	0.84%	0.62%	0.22%
Value of Interest earned in Year	21,122	15,691	5,431
TOTAL INTEREST FIRST HALF YEAR £	**72,465**	**65,454**	**7,011**
TOTAL INTEREST SECOND HALF YEAR £	**164,380**	**151,203**	**13,177**
TOTAL INTEREST FOR YEAR £	**236,845**	**216,657**	**20,188**

Table 2- Money Market Funds

Fund	Investment Return	LIBID Benchmark	Out/(Under) Performance
Deutsche			
April to September 2017	0.16%	0.17%	-0.01%
Interest earned 1st half year £	1,907	2,114	-207
October to March 2017	0.24%	0.38%	-0.14%
Interest earned 2nd half year £	3,459	5,395	-1,936
Rate for year	0.20%	0.28%	-0.08%
Value of Interest earned in Year	5,366	7,509	-2,143
Goldman Sachs			
April to September 2017	0.17%	0.17%	0.00%
Interest earned 1st half year £	1,400	1,441	-41
October to March 2017	0.32%	0.38%	-0.06%
Interest earned 2nd half year £	6,022	7,142	-1,120
Rate for year	0.27%	0.28%	-0.01%
Value of Interest earned in Year	7,422	8,583	-1,161
Invesco			
April to September 2017	0.23%	0.17%	0.06%
Interest earned 1st half year £	10,143	7,833	2,310
October to March 2017	0.33%	0.38%	-0.05%
Interest earned 2nd half year £	14,712	16,717	-2,005
Rate for year	0.28%	0.28%	0.00%
Value of Interest earned in Year	24,855	24,550	305
Standard Life			
April to September 2017	0.24%	0.17%	0.07%
Interest earned 1st half year £	10,458	7,692	2,766
October to March 2017	0.35%	0.38%	-0.03%
Interest earned 2nd half year £	15,815	17,083	-1,268
Rate for year	0.30%	0.27%	0.03%
Value of Interest earned in Year	26,273	24,775	1,498
Federated Constant Net Asset Value (CNAV)			
April to September 2017	0.28%	0.17%	0.11%
Interest earned 1st half year £	6,913	4,386	2,527
October to March 2017	0.41%	0.38%	0.03%
Interest earned 2nd half year £	10,319	9,494	825
Rate for year	0.34%	0.28%	0.06%
Value of Interest earned in Year	17,232	13,880	3,352
Federated Variable Net Asset Value (VNAV)			
April to September 2017	0.37%	0.17%	0.20%
Interest earned 1st half year £	10,152	4,845	5,307
October to March 2017	0.44%	0.38%	0.06%
Interest earned 2nd half year £	13,189	11,399	1,790
Rate for year	0.40%	0.37%	0.03%

Value of Interest earned in Year	23,341	16,244	7,097
Royal London Cash Plus Account (VNAV)			
April to September 2017	0.35%	0.17%	0.18%
Interest earned 1st half year £	7,605	3,494	4,111
October to March 2017	0.34%	0.38%	-0.04%
Interest earned 2nd half year £	10,167	11,456	-1,289
Rate for year	0.34%	0.29%	0.05%
Value of Interest earned in Year	17,772	14,950	2,822
TOTAL INTEREST FIRST HALF YEAR £	**48,578**	**31,805**	**16,773**
TOTAL INTEREST SECOND HALF YEAR £	**73,683**	**78,686**	**-5,003**
TOTAL INTEREST FOR YEAR £	**122,261**	**110,491**	**11,770**

Table 3- Call Accounts

Fund	Investment Return	LIBID Benchmark	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2017	0.05%	0.17%	-0.12%
Interest earned 1st half year £	12	42	-30
October to March 2017	0.40%	0.37%	0.03%
Interest earned 2nd half year £	8,326	7,647	679
Rate for year	0.40%	0.27%	0.13%
Value of Interest earned in Year	8,338	7,689	649
Svenska Handelsbanken Account			
April to September 2017	0.35%	0.19%	0.16%
Interest earned 1st half year £	7,954	4,326	3,628
October to March 2017	0.38%	0.40%	-0.02%
Interest earned 2nd half year £	8,614	9,029	-415
Rate for year	0.37%	0.30%	0.07%
Value of Interest earned in Year	16,568	13,355	3,213
TOTAL INTEREST FIRST HALF YEAR £	**7,966**	**4,368**	**3,598**
TOTAL INTEREST SECOND HALF YEAR £	**16,940**	**16,676**	**264**
TOTAL INTEREST FOR YEAR £	**24,906**	**21,044**	**3,862**

Table 4- Summary of all investment interest 2017/18

Vehicle	Return (Annualised) £	Benchmark (Annualised) £	Performance £
Money Markets £	236,800	216,700	20,100
Money Market Funds £	122,300	110,500	11,800
Call A/c's £	24,900	21,000	3,900
Total £	**384,000**	**348,200**	**35,800**

APPENDIX B

Counterparty	**Investment Amount £**	**Credit Rating**		**Duration of Investment (days)**
		Long Term	**Short Term**	
Banks				
WDC Minimum	(Fitch)	**A**	**F1**	
Close Brothers	£1,000,000	A	F1	123
Close Brothers	£1,000,000	A	F1	120
Rabobank CD	£3,000,000	AA-	F1+	186
Societe Generale	£1,000,000	A	F1	364
Goldman Sachs Internationale	£1,000,000	A	F1	364
Credit Industriel Et Commercial CD	£2,000,000	A+	F1	364
Societe Generale	£1,000,000	A	F1	364
Goldman Sachs Internationale	£2,000,000	A	F1	363
Goldman Sachs Internationale	£1,000,000	A	F1	363
Helaba	£2,000,000	A+	F1+	363
Helaba	£2,000,000	A+	F1+	363
Credit Industriel Et Commercial CD	£2,000,000	A+	F1	360
Helaba	£2,000,000	A+	F1+	363
Credit Industriel Et Commercial CD	£2,000,000	A+	F1	362
GE Capital UK Funding Bond	£2,000,000	A+	F1	383
Local Authority				
Leeds City Council	£3,000,000	n/a	n/a	31 days
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	£3,103,390	Fund retained its rating throughout half year		liquid
Invesco Aim	£8,889,075	Fund retained its rating throughout half year		liquid
Federated Prime Rate	£10,758,904	Fund retained its rating throughout half year		liquid
Standard Life	£9,000,000	Fund retained its rating throughout half year		liquid
Goldman Sachs	£3,027,183	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	£4,188,398	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Svenska Handelsbanken	£4,500,000	Counterparty retained its rating throughout period of AA- long term, F1+ short term.		liquid

LINK SERVICES COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND

- UK growth picked up in quarter 3 to 0.5% before dipping back to 0.4% in quarter 4. Annual growth for 2017, therefore, came in at an overall figure of 1.8%, the same as the upwardly revised figure for 2016, (which meant the UK was equal to Germany in having the strongest GDP growth figure of the G7 countries in 2016).
- The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.
- The Monetary Policy Committee (MPC) meeting minutes of 14 September 2017 surprised markets and forecasters by using a much more aggressive tone in its words, warning that Bank Rate would need to rise shortly. CPI inflation duly peaked at 3.1% in November 2017 as the MPC had forecast, but the February 2018 MPC forecast still sees CPI above its target rate of 2% in two years' time. The primary reason why the MPC has become more aggressive with its wording around the pace of increases in Bank Rate in, and since September, is due to an emerging view that with unemployment falling to 4.3%, the lowest level since 1975, and improvements in productivity being so weak, the amount of spare capacity in the economy has also significantly diminished. In particular, the MPC has also been concerned at building pressure on rising average wage rates. It was, therefore, no surprise that the MPC increased Bank Rate by 0.25% to 0.5% in November.
- Their forward guidance of two more increases of 0.25% by 2020 was viewed as being more dovish than markets had expected. Unsurprisingly then, at their February 2018 meeting, the wording became more aggressive still and indicated that Bank Rate would be going up faster than had previously been indicated to the markets. Nevertheless, while there remains so much uncertainty around the Brexit negotiations, consumer spending levels and business investment, it is still far too early to be confident about how strong growth and inflationary pressures will be over the next two years, and therefore the pace of any rate increases.
- Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of Quantitative Easing. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus, with an overall GDP figure for 2017

likely to be around 2.5%. Nevertheless, despite providing massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

- Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%. Unemployment in the US has also fallen to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75%. There could be a further two or more increases in 2018. In October 2017, the Fed became the first major western central bank to make a start on unwinding Quantitative Easing by phasing in a gradual reduction in respect of reinvesting maturing debt.
- Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.
- GDP growth in Japan has been improving during 2017 to reach an annual figure of 2.1% in quarter 4. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.
- Equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT MARCH 2018

BANKS

INVESTMENTS UP TO 364 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	£7m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A.	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

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	£7m AA- & above, £6m if L/term rating minimum A+,£4m 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.

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

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
AUSTRALIA (AAA)		
Australia & New Zealand Banking Group Ltd –		
Commonwealth Bank of Australia		
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 (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce -negative outlook	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 Finland	Nordea Bank Denmark* Nordea Bank AB Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
Societe Generale		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		
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)OUT OF RANGE—negative watch		
Qatar National Bank- negative outlook, monitoring		
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
Nordea Bank AB	Nordea Bank Denmark* Nordea Bank Finland Nordea Bank Norge* Nordea Bank North America*	Yes
Skandinaviska Enskilde Banken AB	SEB Bolan*	
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
SWITZERLAND (AAA)		
Credit Suisse AG		
UBS AG		
UNITED ARAB EMIRATES (AA)		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA) negative outlook		
Abbey National Treasury Services plc		
Barclays Bank plc- LT Watch		
Close Brothers		
Goldman Sachs International Bank		
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
Lloyds Banking Group :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment	Yes

	Partnership* Scottish Widows plc*	
Santander UK plc		
Standard Chartered Bank		
Sumitomo Mitsui Banking Corporation Europe Ltd		
UBS Ltd		
UNITED STATES OF AMERICA (AAA)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 N.A		
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 364 DAYS OR LESS

Investment / Counterparty type:	S/term	L/term	Security / Min credit rating	Max limit per counterparty	Max. Maturity period
Building Societies - category A	F1	A	UK Sovereign	£4m	364 days
Building Societies - category B • Coventry • Nationwide (negative outlook) LT=A	F1		UK Sovereign	£2m	364 days
Building societies - assets > £500m (Category C) • Yorkshire • Skipton • Leeds • Principality • West Bromwich • Newcastle(Fitch removed ratings 7.9.16)				£1m	3 months

• Nottingham • Progressive • Cumberland • National Counties • Saffron • Cambridge • Monmouthshire • Furness • Leek United • Newbury • Hinckley & Rugby • Ipswich					

INVESTMENTS OVER 364 DAYS

Investment / Counterparty type	S/term	L/term	Security / Min credit rating	Max limit per counterparty	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 counterparty	Max. Maturity period
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)	AAAm / Aaa-mf/AAAmmf			£9m	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	364 days
Floating Rate Notes - 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
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	£5m	10 years

		counterparties.		
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