WARWICK DISTRICT COUNCIL	**Finance and Audit Scrutiny Committee** **19 August 2020**	**Agenda Item No. 5**

Title	Treasury Management Activity Report for the period 1 October 2019 to 31 March 2020.
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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	6/8/20	Andrew Jones
Head of Service	1/8/20	Mike Snow
CMT		
Section 151 Officer	1/8/20	Mike Snow
Monitoring Officer	6/8/20	Andrew Jones
Finance	22/7/20	Karen Allison
Portfolio Holder(s)	4/8/20	Cllr Richard Hales
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 1 October 2019 to 31 March 2020.

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 2019/20 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> Becoming a net-zero carbon organisation by 2025. Total carbon emissions within Warwick District are as close to zero as possible by 2030. Area has well looked after public spaces. All communities have access to decent open space. Improved air quality Low levels of crime and ASB.	<u>Intended outcomes:</u> Dynamic and diverse local economy. Vibrant town centres. Improved performance/ productivity of local economy. Increased employment and income levels.

FFF Strands		
People	**Services**	**Money**
Impacts of Proposal		
The Treasury Management function enables the Council to meet its vision by maximising investment returns and minimising borrowing costs, while managing the risk to the Council's funds and maintaining liquidity. This protects services and benefits the Council's customers and other stakeholders.		
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.		

4.2 **Supporting Strategies**

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

4.3 **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies and national regulatory framework.

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 2019/20 compared with the original and latest budgets is shown in the following table:

	Original 2019/20 Budget £'000	Latest 2019/20 Budget £'000	2019/20 Actual £'000
Gross investment interest	1,096	1,091	1,228
less HRA allocation	-624	-422	-490
Net interest to General Fund	**472**	**670**	**738**

6. Risks

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

6.2 Investing the Council's funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the SLY principle. Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y). It is accepted that longer duration investments increase the security risk within the portfolio, however this is inescapable in order to achieve the best possible return and still comply with the SLY principle, which is a cornerstone of treasury management within local authorities.

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

6.4 Corporate Bonds and Floating Rate Notes (FRN's) introduce Counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRN's with a strong Fitch credit rating, in this case A and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.

6.5 Covered Bonds also 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.

6.6 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 decreased twice in March 2020 from 0.75% to 0.25% then to 0.10%. The Council's Treasury Management Advisors, Link Asset Services, provided the following forecast for future Bank Rates:

<u>Link Asset Services Bank Rate Forecasts:</u>

Qtr ending	Now (Feb 20)	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22
Current Forecast, as at Feb 2020:											
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%
Forecast, as at January 2019, (when Original Budgets were set):											
Bank Rate	1.00	1.25	1.25	1.25	1.50	1.50	1.75	1.75	1.75	2.00	n/a

The forecast as at January 2019 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 2019/20 was approved by Council on 20 February 2019. 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 2019/20, 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, twenty core investments matured. These were then reinvested in a laddered approach of length of investment in light of capital funding requirements and the uncertainty of interest rate movements.

10.4 All the investments taken out in the second half year out-performed the benchmark.

10.5 During 2019/20 the Council earned £409,938 interest on its Money Market investments at an average rate of 0.96%.

Cash Flow Derived Funds & Accounts

10.6 During January to March 2020 the Council's cash flow investments began to unwind themselves as cash outflows (precepts, NNDR payments to the Pool etc.) exceeded the inflows and any cash flow investments during this period were made into the Money Market Funds.

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.

10.9 As with the Money Market investments in paragraph 10.2, 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), Aberdeen Standard and Invesco.

10.11 During 2019/20 the Council earned £243,850 interest on its Money Market Fund investments at an average rate of 0.69%. The average balance during the year was £35,141,701.

Call Accounts

10.12 As with the Money Market investments in paragraph 10.2, the LIBID benchmark, has been increased by a margin of 0.0625%.

10.13 During 2019/20 the Council earned £2,573 interest on its Call Accounts at an average rate of 0.48% and the average balance held was £531,144.

10.14 In March 2020 most of the HSBC Business Deposit Account (BDA) account balance was used for cash flow purposes as there were two interest rate cuts to which the account is linked. However, towards the end of March 2020 £5 million was placed back into this account to ensure easy accessibility of liquid funds as COVID-19 impacted the way we worked i.e. homeworking and potential infection of staff.

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:

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets	410	344	66
Money Market Funds	244	206	38
Call A/c's	3	3	-1
Total	**656**	**554**	**103**

Actual Outturn

10.16 The table below provides a breakdown of original estimate against actual outturn 2019/20:

Original Estimate compared to Outturn £'000		**Latest Estimate to Outturn £'000**	
Original estimate of annual external investment interest and other interest such as car loan and long term investments for 2019/20	£1,038.6	Latest Estimate	£799.3
Outturn	£937.2	Outturn	£937.2
Decrease of	£101.4	Increase of	£137.9
Mainly due to: Less interest earned on investment balances due to lower than expected interest rates.	-£101.4	Mainly due to: 1) Less interest earned on balances due to lower than expected interest rates. 2) Higher than expected equated bank balances due to phasing of capital expenditure.	-£2.7 +£140.6

10.17 It should be noted that the total investment return of £937,200 shown in the table above is in respect of investments made by the in-house team. It does not include the other interest received and not all will be received in 2019/20, as it is an annualised figure that includes interest relating to 2020/21.

10.18 An analysis of the overall in house investments held by the Council at the end of March 2020 is shown below:

(The previous half year is shown for comparison)

Fund	Closing Balance @ 31 March 2020 £'000	Closing Balance @ 30 September 2019 £'000
Money Markets incl. CD's & Bonds	42,500	41,900
Money Market Funds	18,125	29,786
Business Reserve Accounts incl. Call Accounts	5,000	6,551
Total In House Investments	**65,625**	**78,237**
Corporate Equity Funds	6,000	6,000
Total Investments	**71,625**	**84,237**

11. CORPORATE EQUITY FUNDS

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

Fund	Value of Fund 31 March 2020 £'000	Value of Fund @ 30 September 2019 £'000	Variation in 2nd half year £'000
Royal London UK Equity Fund	2,552.8	3,377.0	-824.2
Columbia Threadneedle UK Equity Income Fund	2,568.7	3,202.7	-634.0
Total Equity Funds	**5,121.5**	**6,579.7**	**-1,458.2**

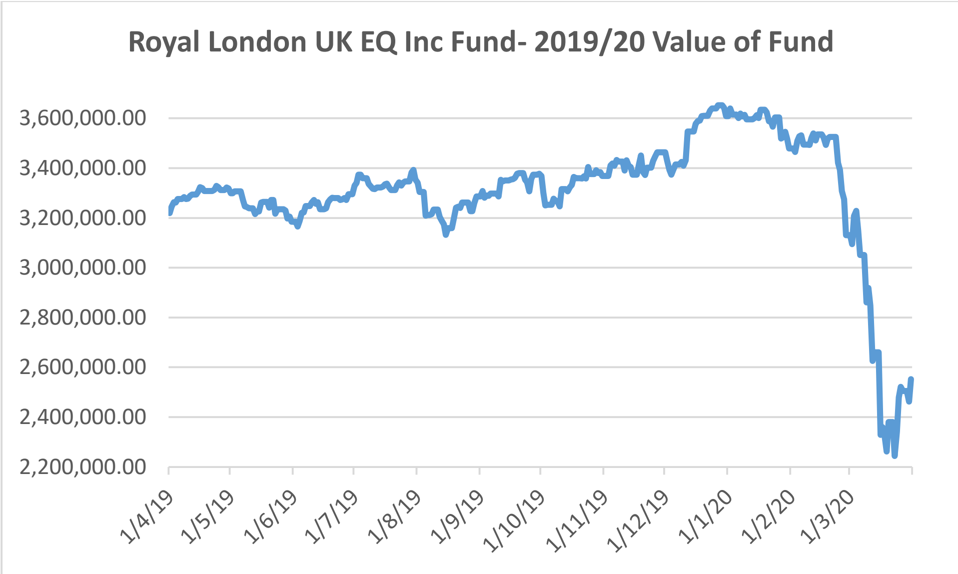
11.2 It can be seen from the table above that both funds had a negative value at year-end with Royal London having the most negative variation between the half years.

11.3 The table below gives a breakdown of income and capital elements of growth for the second half year, analysing the fund movement between accrued interest and capital gain or loss.

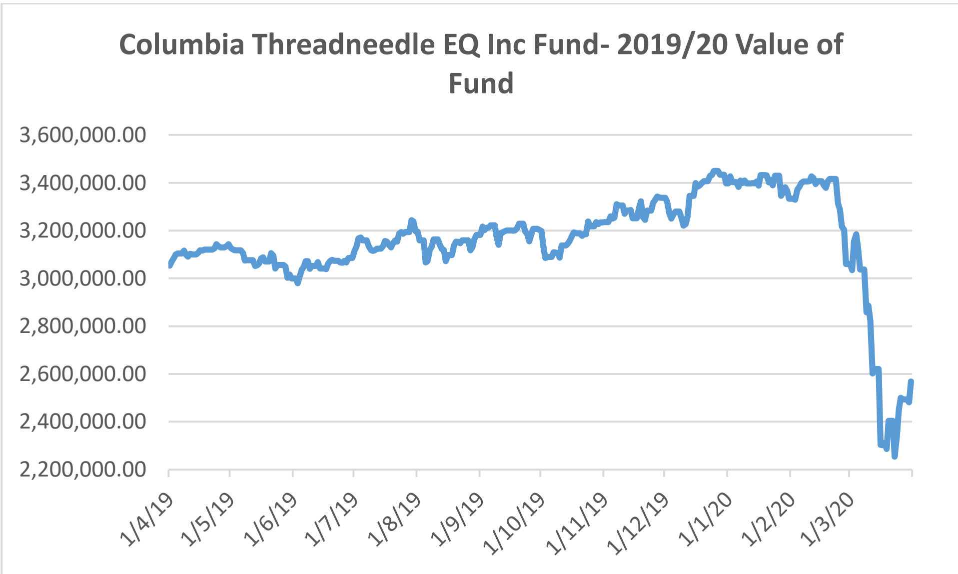
Equity Fund	Investment	Fund Value as at 31.03. 2020	Total Decline Oct 19 to Mar 20	Income element of growth	Income element of growth	Capital element of decline	Capital element of decline
	£'000	£'000	£'000	£'000	%	£'000	%
Royal London	3,000	2,553	447	83	19%	530	119%
Columbia Threadneedle	3,000	2,569	431	66	15%	497	115%

The equity funds pay dividend based on 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 undefined, no fixed drawdown date was set. Funds may be withdrawn at any time, depending on either the Council's need for cash or the funds' return. However, it has been intended to regard the investments as long term, potentially for five years plus, as equities tend to make good returns over a longer time frame but can be subject to market 'shocks', such as Brexit, the USA / China trade dispute or COVID-19, in the shorter term.

11.4 Royal London (RLAM) UK Equity Income Fund value started to decline drastically in February 2020 as the impact of COVID-19 filtered into the markets, as can be seen from the graph below. The Fund outperformed both competitor funds and the FTSE All Share index in the quarter October to December 2019 but underperformed in both areas during the next quarter to March 2020.



11.5 Columbia Threadneedle Equity Income Fund had a similar scenario as RLAM, as the stocks held were broadly effected by the same international events. The fund out-performed the peer group and the FTSE All-Share in October 2019, January 2020, February 2020 and March 2020 but under-performed both measures in November 2019.



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 D is the Council's current 2019/20 Counterparty lending list.

13. BENCHMARKING

13.1 Link Asset Services operate a Treasury Management Benchmarking Club; the Council is part of a local group comprising both district and county councils, with the results being published quarterly. Analysis of the results for quarters three and four show that the Council's weighted average rate of return on its investments were 0.86% and 0.83% respectively. These were in line and above, respectively, with Link's model portfolio band range.

13.2 The results for the Council's weighted average rate of return for quarter three showed that it was on a par with that of the local group and for quarter four it was above. The weighted average credit risk in the portfolio followed the same scenario to that of the local group. This is consistent with the Council balancing its aim of achieving the best rate of return on its investments while primarily protecting the security of these 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 and also the interest of £99k on the £12m PWLB borrowing taken out in September 2019 to replace internal borrowing of leisure centres.

14.2 During the half year it was not necessary to undertake any money market borrowing to fund cashflow deficits, with any shortfalls being managed within minimal use of the Council's £50,000 overdraft facility with HSBC. The interest rate on this facility is 3.6% 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 £234 was paid.

14.3 The Council may need to take out further long-term borrowing to finance some of the housing projects in 2020/21.

15 PRUDENTIAL INDICATORS

15.1 The 2019/20 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 (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
No Investments	No investments were made		
Over 7 days & Up to 3 months			
April to September 2019	0.88%	0.72%	0.16%
Interest earned 1st half year £	6,606	5,451	1,155
October to March 2020	0.84%	0.66%	0.18%
Interest earned 2nd half year £	6,308	4,924	1,384
Rate for year	0.86%	0.69%	0.17%
Value of Interest earned in Year	12,914	10,375	2,539
Over 3 months & Up to 6 months			
April to September 2019	0.90%	0.80%	0.10%
Interest earned 1st half year £	77,835	68,835	9,000
October to March 2020	0.93%	0.73%	0.20%
Interest earned 2nd half year £	62,439	49,009	13,430
Rate for year	0.91%	0.77%	0.14%
Value of Interest earned in Year	140,274	117,844	22,430
Over 6 months to 365 days			
April to September 2019	1.02%	0.89%	0.13%
Interest earned 1st half year £	81,245	71,362	9,883
October to March 2019	0.99%	0.82%	0.17%
Interest earned 2nd half year £	175,505	144,495	31,010
Rate for year	1.00%	0.84%	0.16%
Value of Interest earned in Year	256,750	215,857	40,893
366 days and over			
April to September 2019	No investments were made		
October to March 2020	No investments were made		
TOTAL INTEREST FIRST HALF YEAR £	**165,686**	**145,648**	**20,038**
TOTAL INTEREST SECOND HALF YEAR £	**244,252**	**198,428**	**45,824**
TOTAL INTEREST FOR YEAR £	**409,938**	**344,076**	**65,862**

Table 2 - Money Market Funds

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche (CNAV)			
April to September 2019	0.68%	0.63%	0.05%
Interest earned 1st half year £	3,377	3,127	250
October to March 2020	0.65%	0.55%	0.10%
Interest earned 2nd half year £	41	35	6
Rate for year	0.68%	0.59%	0.09%
Value of Interest earned in Year	3,418	3,162	256
Goldman Sachs (CNAV)			
April to September 2019	0.69%	0.63%	0.06%
Interest earned 1st half year £	2,416	2,220	196
October to March 2020	0.67%	0.55%	0.12%
Interest earned 2nd half year £	9,483	7,759	1,724
Rate for year	0.67%	0.59%	0.08%
Value of Interest earned in Year	11,899	9,979	1,920
Invesco (CNAV)			
April to September 2019	0.74%	0.63%	0.11%
Interest earned 1st half year £	28,084	24,049	4,035
October to March 2020	0.71%	0.55%	0.16%
Interest earned 2nd half year £	28,051	21,700	6,351
Rate for year	0.72%	0.59%	0.13%
Value of Interest earned in Year	56,135	45,749	10,386
Aberdeen Standard (Used to be Standard Life (CNAV)			
April to September 2019	0.75%	0.63%	0.12%
Interest earned 1st half year £	35,142	29,509	5,633
October to March 2020	0.71%	0.55%	0.16%
Interest earned 2nd half year £	34,530	26,584	7,946
Rate for year	0.73%	0.59%	0.14%
Value of Interest earned in Year	69,672	56,093	13,579
Federated Constant Net Asset Value (CNAV)			
April to September 2019	0.81%	0.63%	0.18%
Interest earned 1st half year £	15,074	11,772	3,302
October to March 2020	0.75%	0.55%	0.20%
Interest earned 2nd half year £	12,245	8,955	3,290
Rate for year	0.78%	0.59%	0.19%
Value of Interest earned in Year	27,319	20,727	6,592
Federated Variable Net Asset Value (VNAV)			
April to September 2019	0.88%	0.63%	0.25%
Interest earned 1st half year £	26,276	18,855	7,421
October to March 2020	0.66%	0.55%	0.11%
Interest earned 2nd half year £	19,909	16,652	3,257
Rate for year	0.76%	0.59%	0.17%
Value of Interest earned in Year	46,185	35,507	10,678
Royal London Cash Plus Account (VNAV)			

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
April to September 2019	0.58%	0.63%	-0.05%
Interest earned 1st half year £	35,066	18,900	16,166
October to March 2020	-0.19%	0.55%	-0.74%
Interest earned 2nd half year £	-5,844	16,500	-22,344
Rate for year	0.49%	0.59%	-0.10%
Value of Interest earned in Year	29,222	35,400	-6,178
TOTAL INTEREST FIRST HALF YEAR £	**145,435**	**108,432**	**37,003**
TOTAL INTEREST SECOND HALF YEAR £	**98,415**	**98,185**	**230**
TOTAL INTEREST FOR YEAR £	**243,850**	**206,617**	**37,233**

Table 3 - Call Accounts

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2019	0.62%	0.63%	-0.01%
Interest earned 1st half year £	2,285	2,337	-52
October to March 2020	0.12%	0.55%	-0.43%
Interest earned 2nd half year £	168	772	-604
Rate for year	0.48%	0.59%	-0.11%
Value of Interest earned in Year	2,453	3,109	-656
Svenska Handelsbanken Account			
April to September 2019	0.57%	0.66%	-0.09%
Interest earned 1st half year £	60	66	-6
October to March 2020	0.57%	0.55%	0.02%
Interest earned 2nd half year £	60	58	2
Rate for year	0.57%	0.59%	-0.02%
Value of Interest earned in Year	120	124	-4
TOTAL INTEREST FIRST HALF YEAR £	**2,345**	**2,403**	**-58**
TOTAL INTEREST SECOND HALF YEAR £	**228**	**830**	**-602**
TOTAL INTEREST FOR YEAR £	**2,573**	**3,233**	**-660**

Table 4 - Summary of all investment interest 2019/20

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets	410	344	66
Money Market Funds	244	206	38
Call A/c's	3	3	-1
Total	**656**	**554**	**103**

APPENDIX B

Counterparty Rating At Time Of Investment

Counterparty	Investment Amount	Credit Rating		Duration of Investment (days)
		Long Term	Short term	
Banks				
WDC Minimum	**(Fitch)**	**A**	**F1**	
DBS Bank Ltd	£4,000,000	AA-	F1+	364
Standard Chartered CD	£2,000,000	A+	F1	182
Standard Chartered CD	£2,000,000	A+	F1	182
Lloyds Banking Group	£1,000,000	A+	F1	274
Goldman Sachs International	£2,000,000	A	F1	274
Lloyds Banking Group	£3,000,000	A+	F1	304
Lloyds Banking Group	£1,000,000	A+	F1	363
Close Brothers Ltd	£1,000,000	A	F1	357
Goldman Sachs International	£2,000,000	A	F1	365
Local Authority				
Thurrock Council	£4,000,000	n/a	n/a	365
Surrey Heath Borough Council	£3,000,000	n/a	n/a	182
Highland Council	£3,000,000	n/a	n/a	244
Building Society				
National Counties Building Society	£1,000,000	n/a as unrated	n/a as unrated	91
National Counties Building Society	£1,000,000	n/a as unrated	n/a as unrated	91
West Bromwich Building Society	£1,000,000	n/a as unrated	n/a as unrated	91
Money Market Funds (Investment amount is average balance in fund during the half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S&P AAAm or Moody's AAA & Volatility Rating MR1+			
Deutsche	£12,739	Fund retained its rating throughout half year		Liquid
Invesco	£7,892,198			
Federated Prime Rate	£6,068,361			
Aberdeen Standard	£9,815,083			
Goldman Sachs	£2,822,055			
Royal London Asset Management	£6,068,641			
Call Accounts				
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£280,738	Counterparty retained its rating throughout period of AA- long term, F1+ short term		Liquid

APPENDIX C

Link Asset Services Commentary on the Current Economic Background

1.1 UK

Economic growth 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April when it came in at -24.5% y/y after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK Government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal **Brexit**. However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

After the Monetary Policy Committee left **Bank Rate** unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase **in quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

The Government and the Bank were also very concerned to **stop people losing their jobs** during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. **The ratio of debt to GDP is also likely to increase from 80% to around 105%.** In the Budget in March 2020, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

Inflation. The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession; this has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

1.2 USA

Growth in quarter 1 of 2020 fell by an annualised 5.0% and will fall sharply in quarter 2. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition, there was $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

Non-farm payrolls unexpectedly increased by 2.5 million jobs in May, beating market expectations of an 8 million fall, and after declining by a record 20.7 million in April. The figures suggest that the economic recovery in the US may happen much faster than initially expected. Some states started reopening in mid-May after a two-month shutdown but a few have had to reimpose localised lockdowns since then.

1.3 EUROZONE

The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. So far the ECB has been by far the most important institution in helping to contain the impact of coronavirus and the crisis on financial markets. Since 12 March, it has implemented a range of new policies including providing additional cheap loans for commercial banks and easing capital requirements for the banking sector. But, most importantly, the ECB has stepped up and reformed its asset purchase programmes. So far it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month that it was already committed to. The new purchases consist of an additional €120bn within the existing Public Sector Purchase Programme (PSPP), and €1,350bn in the Pandemic Emergency Purchase Programme (PEPP). At its 4 June monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases under the PEPP until at least the end of June 2021 and to continue to reinvest maturing principal payments under the PEPP until at least the end of 2022. It has also made clear that it would not hesitate to top up PEPP as much as needed to contain the risk of a crisis.

Just as important as the size of the PEPP is its flexibility. Whereas previous asset purchase programmes adhered to strict issuer limits, the PEPP was designed to be flexible across "time, asset classes and jurisdictions". This means that the ECB can act in the interests of the euro-zone as a whole rather than having to treat each national bond market equally. However, while this overall programme will provide protection over the next year or so, some vulnerable countries, particularly Italy, already started the crisis with a high level of debt to GDP and the crisis will make that level even worse at the same time as GDP growth prospects will have worsened. This leaves a big question over 'what happens after then when financial markets will be concerned that those debt levels are unsustainable?'

What is currently missing is a major coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure. The EU's recently-proposed rescue fund, (officially designated "Next Generation EU"), is a major first step towards financial integration in the EU. However, it is striking just how small this package is as the proposed €500 billion of grants amount to about 0.6% of average annual euro-zone GDP (over the seven-year budget period). It will therefore supply relatively little support to the weaker and more vulnerable countries within the EU. This has therefore left individual national governments to implement a patchwork of support measures within each country. This shows up how far away the EU is from being an effective fiscal union.

1.4 CHINA

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lockdown of the country and a major contraction of economic activity in February-March 2020. The Chinese economy shrank 6.8% y/y in Q1 2020, following 6% y/y growth in Q4 of 2019. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems. The post COVID-19 government measures to stimulate more infrastructure investment are likely to result in an increase in inefficient low reward investment.

1.5 JAPAN

Japan has been struggling to stimulate consistent significant GDP growth for years and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. Japan appears to have escaped the worst effects of the virus - as yet.

1.6 WORLD GROWTH

The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

Warwick District Council Standard Lending List as at March 2020

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, £6m if L/term rating minimum A+,£4m 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 Repos 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 minimum	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m 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.

£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 (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada-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*	
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)		

BANK NAME	**OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
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-monitoring		
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)- out of range		
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		
Handelsbanken Plc		
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 Partnership* Scottish Widows plc*	Yes
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland (RFB)		
Santander UK plc		
Standard Chartered Bank		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
Sumitomo Mitsui Banking Corporation Europe Ltd		
UBS Ltd		
UNITED STATES OF AMERICA (AAA) MONITORING		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
Citibank		
JP Morgan Chase Bank NA	Bank One Corp* Bank One Financial LLC* Bank One NA * First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc* Chase Bank USA* Robert Fleming Ltd*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

Building Societies

Investments up to 365 days

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

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
• Newbury • Hinckley & Rugby • Ipswich					

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.

<u>Other Counterparties</u>

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
DMADF	n/a	n/a	UK Sovereign	£12m	365 days
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	365 days
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£10m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid
Corporate bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Bonds - Supranational / Multi Lateral Development Banks European Community European Investment Bank African Development Bank Asian Development Bank Council of Europe Development Bank	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
European Bank for Reconstruction & Development Inter-American Development Bank International Bank of Reconstruction & Development *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 e.g.: REITS	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.			£5m	10 years
CCLA property funds	n/a	Security of Trustee of fund (LAMIT) controlled by LGA, COSLA who appoint the members and officers of LAMIT. £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£5m	10 years

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

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