Agenda Item 4

Finance and Audit Scrutiny Committee
11 November 2020

Title: Treasury Management Activity Report for the period 1 April 2020 to 30 September 2020

Lead Officer: Karen Allison, Assistant Accountant,
karen.allison@warwickdc.gov.uk, 01926 456334

Portfolio Holder: Cllr Richard Hales
Public report / Confidential report: Public – not confidential
Wards of the District directly affected: All

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

Officer/Councillor Approval

Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	28.10.2020	Andrew Jones
Head of Service	28.10.2020	Mike Snow
CMT		
Section 151 Officer	28.10.2020	Mike Snow
Monitoring Officer	28.10.2020	Andrew Jones
Finance	27.10.2020	Karen Allison/Richard Wilson
Portfolio Holder(s)	28.10.2020	Cllr Richard Hales

1. Summary

1.1 This report details the Council's Treasury Management performance for the period 1 April 2020 to 30 September 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 2020/21 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis in accordance with the Treasury Management Code of Practice.

4. Policy Framework

4.1 Fit for the Future (FFF)

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

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

4.2 FFF Strands

4.2.1. External impacts of proposals

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

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

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

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

4.2.2. **Internal impacts of the proposals**

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

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

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

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

4.3 **Supporting Strategies**

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

4.4 **Changes to Existing Policies**

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

4.5 **Impact Assessments**

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

5. Budgetary Framework

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

5.2. The Council is reliant on interest received to help fund the services it provides. The latest (revised / post COVID-19) estimate for investment interest in 2020/21 is being revised during the budget setting process and is not available in time for this report so for this report it remains the same as the original:

	Latest 2020/21 Budget £'000	**Original 2020/21 Budget £'000**	**Actual 2019/20 Budget £'000**
Gross Investment Interest	944.6	944.6	1,718
less HRA allocation	-436.5	-436.5	-490
Net interest to General Fund	**508.1**	**508.1**	**1,228**

*Note- the 2020/21 figure for net interest to General Fund includes £17,700 of deferred capital receipts interest and long-term debtor loans of £233,600.

5.3. Initial estimates made for the Medium Term Financial Strategy for the impact of Covid-19 was that the overall reduction in the Gross Investment Interest would be in the order of £500,000, with £300,000 being borne by the Housing Revenue Account (HRA) and the net reduction to the General Fund being £200,000.

5.4. The interest paid to the HRA is based on the HRA's equated balances for the year and the interest rate earned on relevant investments. The reduction from the original budget is mainly due to increased capital spending reducing the equated balances, with a smaller impact of the Base Rate not increasing, as had been expected, on interest rates.

6. Risks

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

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

6.3. In addition to credit ratings themselves, the Council will also have regard to any ratings watch notices issued by the 3 agencies as well as articles in the

Financial press, market data and intelligence from Link Asset Services benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by Link Asset Services – Treasury Solutions to determine the suitability of investing with counterparties.

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

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

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

7. Alternative Option(s) considered

7.1. This report retrospectively looks at what has happened during the last six months and is, therefore, a statement of fact. The Treasury Management Strategy for 2021/22 will consider the options available to the Council following the seismic changes during 2020.

8. Background

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

9. Interest Rate Environment

9.1. The major influence on the Council's investments is the Bank Rate. The Monetary Policy Committee (MPC) voted to keep the bank rate of 0.10% on 16 September 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good. The Council's Treasury Management Advisors, Link Asset Services, provided the following forecast on 11 August 2020 for future Bank Rates.

Qtr Ending	Sept 2020	Dec 2020	Mar 2021	June 2021	Sept 2021	Dec 2021	Mar 2022	Jun 2022	Sept 2022	Dec 2022	Mar 2023
Current Forecast as at October 2020:											
Bank Rate %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Forecast as at January 2020 (when Original Budgets were set)**:**											
Bank Rate %	0.75	0.75	1.00	1.25	1.00	1.00	1.00	1.25	1.25	1.25	1.25

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

9.3. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2020/21 was approved by Council on 20 May 2020. This approved the current lending criteria which reflect the level of risk appetite of the Council. However, the Council continues to review its Standard Lending List 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

10.1. Core Investments

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

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

10.1.3 During April to September eleven core investments matured. In the periods 7 days to 3 months and 3 months to 6 months the Council out-performed against the Benchmark. An underperformance for period 6 months to 1 year was due to a 9 month investment made on 30 September 2020 to Plymouth City Council as that was the best available rate on the day.

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

10.2. **Cash Flow Derived Funds & Accounts**

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

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

10.2.3 Government grants of over £33 million in relation to COVID-19 were also placed in the Money Market Funds in April 2020 until such time they were required to be paid out to businesses.

10.2.4 As with the Money Market investments in paragraph 10.1.1, the LIBID benchmark which in this case is the 7-day rate, has been increased by a margin of 0.0625% and it can be seen from table 2 in Appendix A that the total interest out-performance of the benchmark remains satisfactory.

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

10.2.6 During the first half of 2020/21 the Council earned £105,700 realised interest on its Money Market Fund investments at an average rate of 0.54% and the average balance in the funds during the period was £39,427,000.

10.3. **Call Accounts**

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

10.3.2 The Council earned £44 interest on its call accounts in the first half year at an average rate of 0.41% and the average balance in the funds during the period was £865,000.

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

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets £	54	42	12
Money Market Funds	106	2	104
Call A/c's £	-	-	-
Total £	**160**	**44**	**116**

10.3.4 It should be noted that the total investment return of £160,000 shown in the table above will not all be received in 2020/21 as it is an annualised figure and will include interest relating to 2019/20 and 2021/22.

10.3.5 An analysis of the overall in-house investments held by the Council at the end of September 2020 is shown in the following table:

(The balance at 31 March 2020 is shown for comparison)

Type of Investment	Closing Balance @ 30 September 2020 £'000	Closing Balance @ 31 March 2020 £'000
Money Markets incl. CD's & Bonds	35,503	42,500
Money Market Funds	35,561	18,125
Business Reserve Accounts incl. Call Accounts	3,000	5,000
Total In-House Investments	**74,064**	**65,625**
Corporate Equity Funds	6,000	6,000
Total Investments	**80,064**	**71,625**

11. Corporate Equity Funds

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

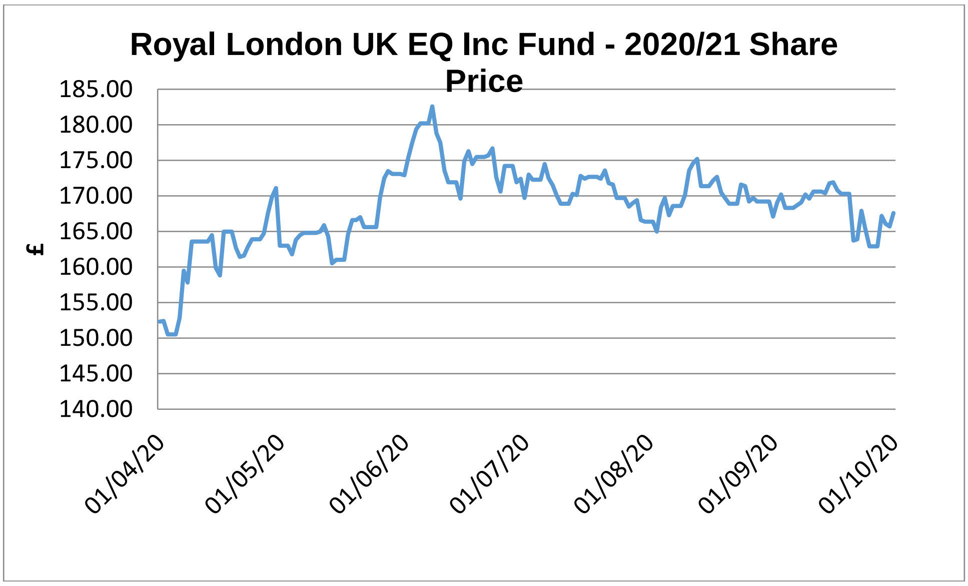
Fund	Value of Fund @ 30 September 2020 £'000	Value of Fund @ 31 March 2020 £'000	Variation in 1st half year £'000
Royal London UK Equity Fund	2,705	2,553	152
Columbia Threadneedle UK Equity Income Fund	2,803	2,569	234
TOTAL	**5,508**	**5,122**	**386**

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

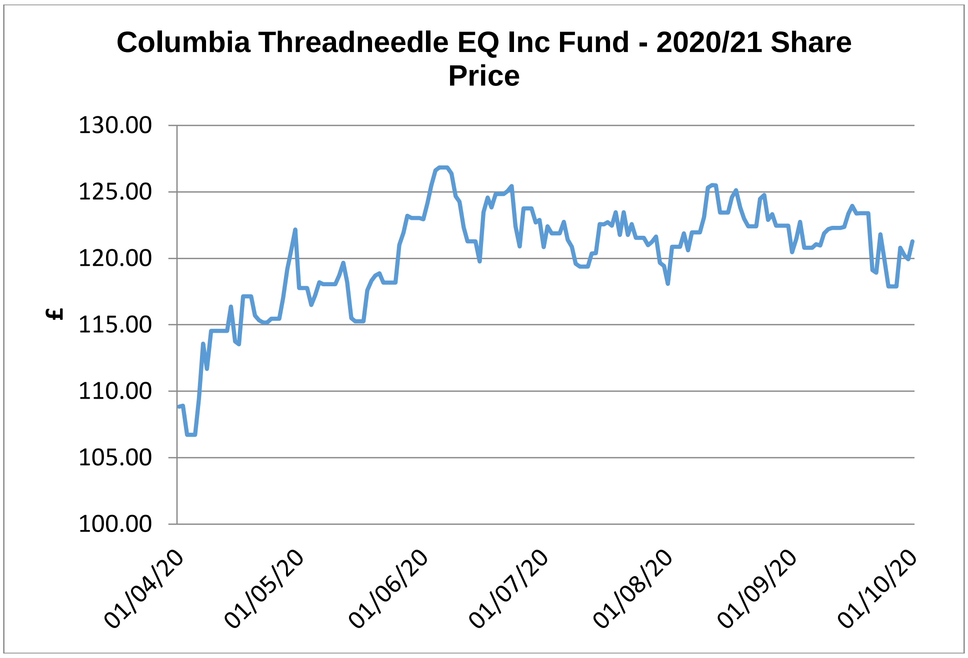
11.3. The table below gives a breakdown of income and capital elements of growth.

Period	Capital Element £'000	Income Element £'000	Total growth £'000	Capital Element %	Income Element %	Total growth %
Royal London Asset Management						
3 months (April 2020 to June 2020)	229.7	31.5	261.2	8	1.2	9.2
3 months (July 2020 to September 2020)	-125.2	15.8	-109.4	-4.6	0.6	-4
6 months (April 2020 to September 2020)	104.5	47.3	151.8	3.4	1.8	5.5
Since inception 13.04.2017	-682.4	387	-295.4	-22.7	12.9	-9.8
Columbia Threadneedle						
3 months (April 2020 to June 2020)	280.6	25.3	305.9	10.9	1	11.9
3 months (July 2020 to September 2020)	-41.8	22.2	-19.6	-1.5	0.8	-0.7
6 months (April 2020 to September 2020)	233.8	47.5	281.3	9.1	1.9	11
Since inception 13.04.2017	-197.40	401.40	204	-6.6	16.4	9.8

11.4. Royal London UK Equity Fund was behind competitor funds in the first quarter to June 2020 but ahead of the FTSE All Share index. Performance benefitted from a number of stocks including Dunelm, IG Group and Signature Aviation. The fund's performance was negatively impacted by several stocks such asBAE Systems, Spectris, WH Smith, Close Brothers and Marshalls. During the second quarter to September 2020 the fund was in line with competitor funds but behind with the FTSE All Share Index. Positive contributors to performance were 3i Group, Dunelm,IMI and Segro. Stocks such as Informa, Stobart Group and Imperial Brands detracted from performance. It can be seen from the graph below that share prices began to rise again in April 2020 but continued along a volatile path.



11.5. Columbia Threadneedle Equity Fund had a similar pattern in share price. It was slightly behind its peer group and the FTSE All-Share during the period to June 2020 but retained its year-to-date gains over both benchmarks. The underperformance against the peer group was due to unfavourable sector positioning. In particular, the overweight in healthcare detracted in a weak month for these stocks. Outperformers included Pearson, Oxford Instruments and Electrocomponents. For the second quarter, the fund outperformed its peer group and the FTSE All-Share. Notable contributors included Electrocomponents and AstraZeneca.



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

12. Counterparty Credit Ratings

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

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

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

13. Benchmarking

13.1. With regard to the Link Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils and the results are published quarterly. Analysis of the results for the first quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 0.72% was above Link's model portfolio.

13.2. The result for the September quarter was 0.44% WARoR which was above Link's model portfolio band range.

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

14. Borrowing

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

14.2. During the half year it was not necessary to undertake any Money Market borrowing to fund cash flow deficits, with any deficits being managed within the Council's £50,000 overdraft facility. The interest rate on this facility is 2.93% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e. overdrawn. In the half year there was overdraft interest of £147.

15. Prudential Indicators

15.1. The 2020/21 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.

16. 2021/22 Treasury Management Strategy.

16.1. Work will commence in the current quarter on preparing the 2021/22 Treasury Management and Investment Strategies.

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

APPENDIX A

Investment Performance Analysis

Table 1 – Summary Performance

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
No Investments			
Over 7 days & Up to 3 months			
April to September 2020	0.38%	0.17%	0.21%
Interest earned 1st half year £	3,710	1,678	2,032
Over 3 months & Up to 6 months			
April to September 2020	0.77%	0.27%	0.50%
Interest earned 1st half year £	31,889	11,308	20,581
Over 6 months to 365 days			
April to September 2020	0.26%	0.41%	-0.15%
Interest earned 1st half year £	18,302	28,891	-10,589
1 year and over			
No Investments			
TOTAL INTEREST FIRST HALF YEAR £	**53,901**	**41,877**	**12,024**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche (CNAV)			
April to September 2020	0.12%	0.01%	0.11%
Interest earned 1st half year £	2,924	221	2,703
Goldman Sachs (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	502	26	476
Invesco (CNAV)			
April to September 2020	0.18%	0.01%	0.17%
Interest earned 1st half year £	7,768	394	7,374
Aberdeen Standard (LVNAV)			
April to September 2020	0.24%	0.01%	0.23%
Interest earned 1st half year £	11,779	455	11,324
Federated Constant Net Asset Value (CNAV)			
April to September 2020	0.26%	0.01%	0.25%
Interest earned 1st half year £	4,233	149	4,084
Federated Cash Plus Account (VNAV)			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	12,470	273	12,197
Royal London Cash Plus Account (VNAV)			
April to September 2020	0.58%	0.01%	0.57%

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Interest earned 1st half year £	66,016	278	65,738
TOTAL INTEREST FIRST HALF YEAR £	**105,692**	**1,796**	**103,896**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2020	0.00%	0.01%	-0.01%
Interest earned 1st half year £	0	39	-39
Svenska Handelsbanken Account			
April to September 2020	0.42%	0.01%	0.41%
Interest earned 1st half year £	44	1	43
TOTAL INTEREST FIRST HALF YEAR £	**44**	**40**	**4**

APPENDIX B

Counterparty Rating at Time of Investment

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)			
Building Societies		**n/a**	**n/a**	
Newcastle Building Society	£1,000,000	n/a	n/a	90
National Counties	£1,000,000	n/a	n/a	89
West Bromwich Building Society	£1,000,000	n/a	n/a	89
WDC Minimum	(Fitch)	**A**	**n/a**	
Banks				
Close Brothers	£2,000,000	A	F1	100
Close Brothers	£2,000,000	A	F1	182
Local Authority		**n/a**	**n/a**	
Plymouth City Council	£5,000,000	n/a	n/a	273
Thurrock Council	£3,000,000	n/a	n/a	212
Thurrock Council	£2,000,000	n/a	n/a	276
Money Market Funds (Investment amount is average principal in fund during half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+			
Deutsche	£4,883,809	Fund retained its rating throughout half year		liquid
Goldman Sachs	£601,284	Fund retained its rating throughout half year		liquid
Invesco	£8,598,896	Fund retained its rating throughout half year		liquid
Federated	£9,000,000	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,919,781	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	£842,724	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£0	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Lloyds 95 Day Notice A/c	£2,000,000	A+		liquid
Lloyds 95 Day Notice A/c	£3,000,000	A+		liquid
Santander 95 Day Notice A/c	£6,500,000	A+		liquid

APPENDIX C

Link Asset Services Commentary on the Current Economic Background

1.1 UK

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.

Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

One key addition to the Bank's forward guidance was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate

The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

1.2 USA

The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

1.3 EU

The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

1.4 China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

1.5 Japan

There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth 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. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

1.6 World growth

Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

APPENDIX D

Warwick District Council Standard Lending List as at October 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, £7m if L/term rating minimum A+,£5m if L/Term rating A.	365 days	In-House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	365 days	In-House +Advice & EFM*
Bank subsidiaries of UK Banks	Unrated	Unrated	Explicit Parent Guarantee	£5m	3 months	In-House +Advice & EFM*

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

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

Investments over 365 days

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

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

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

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

£20m over 365 day limit only applies to those investments where at 1 April the remaining term is greater than 365 days. Any over 365 day investment with 365 days or less to maturity at 1 April is deemed to be short term.

BANK NAME	**OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
AUSTRALIA (AAA)		
Australia & New Zealand Banking Group Ltd		
Commonwealth Bank of Australia		
Macquarie Bank Ltd		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale) Clydesdale Bank*	Yes
Westpac Banking Corporation		
BELGIUM (AA-)		
BNP Paribas Fortis		
KBC Bank NV		
CANADA (AA+)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Abp	Nordea Bank Denmark* Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		

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

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

<u>Building Societies</u>

Investments up to 365 days

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

Investments over 365 days

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

NB. Group limit of £8m.

Other Counterparties

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

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

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

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

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