Agenda Item No 4
Audit & Standards Committee
22nd November 2022

Title: Treasury Management Activity Report for period 1 April 2022 to 30 September 2022

Lead Officer: Karen Allison (01926-456334)
Portfolio Holder: Councillor Richard Hales
Wards of the District directly affected: All

Summary

This report details the Council's Treasury Management performance for the period 1 April 2022 to 30 September 2022.

Recommendation(s)

(1) That Audit & Standards Committee notes the contents of this report.

---

1 Background/Information

1.1 The Council's 2022/23 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.

2 Alternative Options available to Audit & Standards Committee

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

3 Consultation and Member's comments

3.1 Not Applicable. This is a report on fact and subject to following reporting guidelines.

4 Implications of the proposal

4.1 Legal/Human Rights Implications

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

4.2 Financial

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

4.2.2 Warwick District Council is reliant on interest received to help fund the services it provides. The latest estimate for investment interest in 2022/23 will be revised during the budget setting process and is not available in time for this report so it remains the same as the original.

	Latest 2022/23 Budget £'000	Original 2022/23 Budget £'000	Actual 2021/22 Budget £'000
Gross Investment Interest	455	455	538
less HRA allocation	-106	-106	-15
Net interest to General Fund	**349**	**349**	**523**

4.3 **Council Plan**

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

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

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

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

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

4.4 **Environmental/Climate Change Implications**

4.4.1 The recommendation to divest from direct ownership of fossil fuels companies or commingled funds that include fossil fuel public equities by no later than 2025, in pursuance of the Council's Climate Emergency Declaration was realised ahead of target. The Council has no Treasury investments that can be directly attributed to any fossil fuel holdings.

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

4.5 **Data Protection**

4.5.1 Treasury Management activity is compliant with Data Protection Act.

4.6 **Health and Wellbeing-not applicable**

5 Risk Assessment

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

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

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

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

The following three financial instruments could be used by the Council’s treasury management function but have not been used during this six-month period.

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

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

Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, but they consequently introduce the risk of capital loss due to market price fluctuations. This is mitigated by ensuring the investments are held for a sufficiently long period. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. ‘Stop loss’ limits (whereby if the value in the fund goes below a defined limit, the holdings in that fund will be sold) reduce risk by limiting losses. Finally, a volatility reserve had been created, which could have been released to revenue either to cover or at least mitigate the impact of any deficits.

6 Conclusion/Reasons for the Recommendation

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

Background papers:

Appendix A - Interest Rate Environment, Investment Performance, Counterparty Credit Ratings, Benchmarking, Borrowing, Prudential Indicators and 2022/23 Treasury Management Strategy.

Appendix B – Investment Performance Analysis

Appendix C – Counterparty Rating at Time of Investment

Appendix D – Standard Lending List at October 2022

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

Supporting documents:

None.

Appendix A

1. Interest Rate Environment

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

The latest forecast on 28th September is below.

Qtr Ending	Sept 2022	Dec 2022	Mar 2023	June 2023	Sept 2023	Dec 2023	Mar 2024	Jun 2024	Sept 2024	Dec 2024	Mar 2025
Current Forecast as at Sept 2022:											
Bank Rate %	2.25	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75
Forecast at January 2022 (when Original Budgets were set)**:**											
Bank Rate %	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25

The forecast at January 2022 is shown for comparison purposes as this forecast was used in calculating the original budgets, highlighting the unpredictable nature and volatility in interest rates that national and world events can have.

The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2022/23 was approved by Council on 23 March 2022. 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 because of frequent changes to Banking Institutions' credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the current lending list is shown as Appendix D.

2. Investment Performance

2.1 Core Investments

During 2022/23 to date, the in-house function has invested core cash funds in fixed term deposits and notice accounts in the Money Markets. Table 1 in Appendix B illustrates the performance of the in-house function during this first half year for each category normally invested in.

SONIA (forward-looking) rates on the day of investment in the table and referred to below are now exclusively used for benchmarking, following the ending of LIBID.

During April to September nine core investments matured. The Council out-performed against the benchmark in periods 3 to 6 months and 6 to 12 months. There was a marginal under-performance of 0.09% in period 7 days to 3 months.

Markets have been very volatile, which means movements were aggressive and impacts on market expectations (forward-looking rates). Together with counterparty security being 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.

2.2 **Cash Flow Derived Funds & Accounts**

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

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

As with the Money Market investments, the SONIA (forward-looking) rates are used for the benchmark which in this case is the overnight rate. It can be seen from table 2 in Appendix B that the total interest under-performed against the benchmark mostly due to the nature of the two Short Term Fixed Income Funds (formerly known as Cash Plus funds). These contain non-money market instruments such as floating-rate notes and covered bonds which were negatively affected by fears of inflation and slowing growth. However, yields have now risen materially on the funds.

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

During the first half of 2022/23 the Council earned £144,865 realised interest on its Money Market Fund investments at an average rate of 1.08% and the average balance in the funds during the period was £26,766,800.

2.3 **Call Accounts**

As with the Money Market Fund investments, the overnight SONIA (forward-looking) benchmark was used.

The Council earned £43,795 interest on its call accounts in the first half year at an average rate of 1.01% and the average balance in the funds during the period was £8,677,803.

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 £	269	259	9
Money Market Funds	145	217	-72
Call A/c's £	44	52	-9
Total £	**458**	**528**	**-72**

It should be noted that the total investment return of £458,000 shown in the table above will not all be received in 2022/23 as it is an annualised figure and will include interest relating to 2021/22 and 2023/24.

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

(The balance at 31 March 2022 is shown for comparison)

Type of Investment	Closing Balance @ 30 September 2022 £'000	Closing Balance @ 31 March 2022 £'000
Money Markets (incl. CDs & Bonds*)	28,547	32,500
Money Market Funds	20,551	32,756
Business Reserve Accounts incl. Call Accounts	7,359	9,528
Total In House Investments	**56,457**	**74,784**

* where applicable

Counterparty Credit Ratings

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

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

Also attached for the Committee's information as Appendix D is the Council's current 2022/23 Counterparty lending list.

Benchmarking

With regard to the Link Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils and the results are published quarterly. Analysis of the results for the first quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 0.93% was in line with Link's model portfolio.

**The results for the September quarter was unavailable at the time of writing this report.

Borrowing

During the half year, there was no long term PWLB borrowing activity, apart from (a) paying 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, (b) a total of £349,072 interest on the £60 million joint venture loans and (c) interest of £110,400 on the £12 million PWLB borrowing taken out in September 2019. The Council has continued to utilise internal borrowing, particularly with PWLB rates being much higher that in recent years, and an expectation that they will ease off the peaks of the last couple of months. The decision when to borrow remains under review.

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 5.15% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e., overdrawn. In the half year there was no overdraft interest.

Prudential Indicators

The 2022/23 Treasury Management Strategy included several 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.

2023/24 Treasury Management Strategy

Work will commence soon on preparing the 2023/24 Treasury Management Strategy report, to be considered by Council on 27 February 2023.

Whilst security of the funds will be paramount, it is intended that the Council will continue to achieve the best returns possible but within Environment, Social and Governance (‘ESG‘– aka ’ethical‘) criteria, where possible.

Appendix B

Investment Performance Analysis

Table 1 – Summary Performance

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
April to September 2022	NO INVESTMENTS MADE		
Over 7 days & Up to 3 months			
April to September 2022	1.95%	2.04%	-0.09%
Interest earned 1st half year £	76,184	79,775	-3,591
Over 3 months & Up to 6 months			
April to September 2022	2.68%	2.50%	0.18%
Interest earned 1st half year £	152,867	142,823	10,044
Over 6 months to 365 days			
April to September 2022	1.75%	1.62%	0.13%
Interest earned 1st half year £	39,699	36,828	2,871
1 year and over			
April to September 2022	NO INVESTMENTS MADE		
TOTAL INTEREST FIRST HALF YEAR £	**268,749**	**259,426**	**9,323**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
Goldman Sachs (CNAV)			
April to September 2022	1.06%	1.22%	-0.16%
Interest earned 1st half year £	32,962	37,860	-4,898
Invesco (CNAV)			
April to September 2022	1.37%	1.22%	0.14%
Interest earned 1st half year £	46,977	42,027	4,950
Aberdeen Standard (LVNAV)			
April to September 2022	1.12%	1.22%	-0.10%
Interest earned 1st half year £	34,575	37,716	-3,141
Deutsche (LVNAV)			
April to September 2022	0	0	-0.14%
Interest earned 1st half year £	4	4	-1
Federated Constant Net Asset Value (CNAV)			
April to September 2022	1.23%	1.22%	0.01%
Interest earned 1st half year £	8,731	8,671	60
Federated Cash Plus Account (VNAV)			
April to September 2022	0.99%	1.22%	-0.24%
Interest earned 1st half year £	15,176	18,820	-3,644
Royal London Cash Plus Account (VNAV)			
April to September 2022	0.41%	1.22%	-0.81%
Interest earned 1st half year £	6,440	19,014	-12,574

TOTAL INTEREST FIRST HALF YEAR £	**144,861**	**164,109**	**-19,248**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2022	1.11%	1.22%	-0.11%
Interest earned 1st half year £	37,190	40,792	-3,602
Svenska Handelsbanken Account			
April to September 2022	0.65%	1.22%	-0.57%
Interest earned 1st half year £	6,604	12,413	-5,808
TOTAL INTEREST FIRST HALF YEAR £	**43,795**	**53,205**	**-9,411**

Appendix C

Counterparty Rating at Time of Investment

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)			
Building Societies		**n/a**	**n/a**	
National Counties	£1,000,000	n/a	n/a	91
WDC Minimum	(Fitch)	**A**	**n/a**	
Banks				
Landesbank Hessen-Thueringen Girozentral (Helaba)	£3,000,000	A+	F1+	175
Al Rayan	£3,000,000	A+	F1	185
Standard Chartered (Sustainability)	£2,500,000	A+	F1	181
National Bank Of Kuwait (International) plc	£3,000,000	A+	F1	91
Qatar National Bank	£3,000,000	A+	F1	183
National Bank Of Kuwait (International) plc	£4,000,000	A+	F1	100
Local Authority		**n/a**	**n/a**	
Thurrock Council	£3,000,000	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+			
Goldman Sachs	£6,174,970	Fund retained its rating throughout half year		liquid
Invesco	£6,854,777	Fund retained its rating throughout half year		liquid
Federated	£4,482,826	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£6,151,559	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£3,101,136	Fund retained its rating throughout half year		liquid
Call Accounts				
WDC Minimum	(Fitch)	**A+**		**F1**

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
HSBC Business Deposit Account	£6,653,303	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£2,024,499	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Lloyds Bank 95 Day Notice Account	£500,416	Counterparty retained its rating throughout period of A+ long term, F1 short term,		Liquid but 3 months' notice required
Santander 95 Day Notice Account	£6,620,732	Counterparty retained its rating throughout period of A+ long term, F1 short term,		Liquid but 3 months' notice required

APPENDIX D

Warwick District Council Standard Lending List at October 2022

Banks

Investments up to 365 days (3 months for explicitly guaranteed subsidiaries)

Investment / Counterparty type:	S/term	L/term minimum	Security / Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £7m if L/term rating minimum A+,£5m if L/Term rating A.	365 days	In-House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	365 days	In-House +Advice & EFM*
Bank subsidiaries of UK Banks	Unrated	Unrated	Explicit Parent Guarantee	£5m	3 months	In-House +Advice & EFM*

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

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

Investments over 365 days

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

BANK NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
	Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Abp	Nordea Bank Denmark* Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+)		
The Hong Kong & Shanghai Banking Corporation Ltd		
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS (AAA)		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		

BANK NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
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)		
UBS AG		
UNITED ARAB EMIRATES (AA)		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA-)		
Abbey National Treasury Services plc		
Al Rayan Bank Plc		
Barclays Bank UK plc(RFB)		
Barclays Bank plc(NRFB)		
Goldman Sachs International Bank		
Handelsbanken Plc		
HSBC Bank plc (NRFB)	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance*	Yes

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	HSBC USA Hang Seng Bank*	
HSBC UK Bank Plc (RFB)		
Lloyds Banking Group :- Lloyds Bank Corporate Markets Plc (NRFB) Lloyds Bank PLC (RFB) Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
National Bank of Kuwait (International) plc		
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland (RFB)		
Santander Financial Services plc & Santander UK plc		
Standard Chartered Bank		
Sumitomo Mitsui Banking Corporation Europe Ltd		
UNITED STATES OF AMERICA (AAA)		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank 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*	

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc* Chase Bank USA* Robert Fleming Ltd*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

Building Societies

Investments up to 365 days

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

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

Investments over 365 days

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

NB. Group limit of £8m.

<u>Other Counterparties</u>

Investment/ Counterparty type:	**S/term**	**L/term**	**Security/ Min credit rating**	**Max limit per counter-party**	**Max. Maturity period**
DMADF / DMO	n/a	n/a	UK Sovereign	£12m	365 days
Milverton Homes **WDC 100% subsidiary	n/a	n/a	n/a	£0.5m	Not defined
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	365 days
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£10m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid
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

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
		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		£6m	

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
		- & ABOVE			
Eligible Bank Bills	n/a		Determined by EFM	£5m	364 days
Sterling Securities guaranteed by HM Government	n/a		UK Sovereign	£9m	Not defined
Local Authorities	n/a	Viability/support= High £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£9m	5 years
Corporate Equity Funds - low risk (UK Equity Income Funds)	n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£4m	10 years
Corporate Equity Funds - medium risk (UK Capital Growth Funds)	n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£2m	10 years
Corporate Bond Funds		BBB	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.	£5m	10 years
Pooled property fund eg: REITS	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.			£5m	10 years
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

Appendix E

Link Asset Services Commentary on the Current Economic Background

- The second quarter of 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.
- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.
- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Report Information Sheet

Please complete and submit to Democratic Services with draft report

Committee/Date	Audit and Standards Committee 22nd November 2022
Title of report	Treasury Management Activity Report for period 1 April 2022 to 30 September 2022

Consultations undertaken		
Consultee *required	**Date**	**Details of consultation /comments received**
Ward Member(s)		N/A
Portfolio Holder WDC & SDC *	08/11/22	Cllr Richard Hales
Financial Services *	03/11/22	Karen Allison/Richard Wilson
Legal Services *		N/A
Other Services		N/A
Chief Executive(s)		Chris Elliott-no comments
Head of Service(s)	08/11/22	Andrew Rollins
Section 151 Officer	08/11/22	Andrew Rollins
Monitoring Officer	09/11/22	Andrew Jones
CMT (WDC)		N/A
Leadership Co-ordination Group (WDC)		N/A
Other organisations		N/A

Final decision by this Committee or rec to another Ctte/Council?		Final decision
Contrary to Policy/Budget framework		No/~~Yes~~
Does this report contain exempt info/Confidential? If so, which paragraph(s)?		No/~~Yes, Paragraphs :~~
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?		No/~~Yes, Forward Plan item – scheduled for ……………………….~~
Accessibility Checked?		File/Info/Inspect Document/Check Accessibility