Agenda Item No 4
Finance and Audit Scrutiny Committee
3rd November 2021

Title: Treasury Management Activity Report for period 1 April 2021 to 30 September 2021

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

Summary

This report details the Council's Treasury Management performance for the period 1 April 2021 to 30 September 2021.

Recommendation(s)

(1) That Finance and Audit Scrutiny Committee notes the contents of this report.

(2) That Council approve the amendments to the Authorised Lending List for the Debt Managent Office and Milverton Homes Ltd.

(3) That Council notes the breach of the Council's Authorised Lending List in August 2021 in order to facilitate the housing Joint Venture.

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1 Background/Information

1.1 The Council's 2021/22 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.

1.2 LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). Therefore the use of LIBID for benchmarking purposes will also change.

2 Alternative Options available to Finance and Audit 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.

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 maximise its investment interest income and minimize 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 2021/22 will be 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. Also the actual 2020/21 is based on the revised figure in the Treasury Management Strategy 2021/22.

	Latest 2021/22 Budget £'000	**Original 2021/22 Budget £'000**	**Actual 2020/21 Budget £'000**
Gross Investment Interest	649	649	602
less HRA allocation	-123.2	-123.2	-154.5
Net interest to General Fund	**525.8**	**525.8**	**447.2**

4.2.3 The divestment from the Council's two corporate equity funds, as part of its Climate Change Emergency targets, during September 2021 has realised actual capital gains of £405,593, taking the opportunity when it was believed that equities were near an optimum 'high' to sell at a favourable time. This can be compared with the position at 31 March 2021 when there would have been a loss of £94,585 and at 31 March 2020 when the loss would have been over £1.4m.

4.2.4 There will be a reduction in investment interest as a consequence, the reduction in dividends for 2021/22 being around £40,000. The reduction for 2022/23 would be in the order of £150,000 but this will be countered by (a) looking for an alternative investment opportunity and (b) lower borrowing costs by utillising the £6m as 'internal borrowing' in place of external PWLB loans, due to the lower carrying costs. It is estimated this could reduce the net loss of interest by around 2/3rds in the short term.

4.2.5 On 27 August 2021 the Council entered into a housing Joint Venture (JV) arrangement, advancing £50m to the JV using a series of PWLB loans of between 3.5 and 5.5 years, with the repayments matching those from the JV. The General Fund is paying the interest costs on the four PWLB loans but will be receiving interest receipts from the JV, creating a net income. The net interest the Council will receive is approximately £8.7m.

4.2.6 The £50m of PWLB loans were taken on 5 August 2021, at a stage when the legal negotiations appeared to be nearing finalisation. When it was necessary to defer the payment of these loans to the JV until the legal agreement was completed, the £50m had to be invested short-term and on a rolling-basis. This scenario had not been anticipated in the Council's 2021/22 Treasury Management Strategy and the associated Authorised Lending List, so it was essential to find the safest possible 'haven' for these funds. Consequently, the funds were placed with the Debt Management Office (DMO), the other side of HM Treasury to the PWLB, meaning that this UK Government-backed organisation is extremely 'safe'.

4.2.7 While the Treasury Management Strategy for 2021/22 had included the loans to the JV, it did not anticipate that the Council would need to hold the £50m beyond a working day. By lending short-term to the DMO the Council have technically breached its lending limit and this report is formally asking for the Authorised Lending List to be amended to allow for unlimited lending to the DMO, given its status as a Government organisation.

4.2.8 A further £10m is likely to be borrowed by the JV in April 2022. It is expected that this would be borrowed from the PWLB and passed on to the JV within a working day.

4.2.9 Part of the creation of the JV and its objectives was the establishment of the Council's stand-alone housing company, Milverton Homes Ltd (MH), which is one to the three parties in the JV, to enable the provision of social housing not possible by the Housing Revenue Account. In order for MH to have operational cash balances until it begins to generate rent income streams, the Council has invested £200,000 in MH as a share issue. This is to be treated as a Treasury Management investment, but due to the length of this investment being beyond 12 months and to a non-rated organisation, albeit a Council related company, this £200,000 is a 'non-specified' investment within the Authorised Lending List. This amount was paid to MH on 23 September.

4.2.10 Recommendation 2 is to approve, retrospectively, these new counterparties and their limits.

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. Both Royal London and Columbia Threadneedle Equity funds were divested on 20 to 21 September 2021, with notice being given on 15 September. Further details are included in paragraphs 4.2.3 and 4.2.4.

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

4.6 **Data Protection**

4.6.1 Treasury Management activity is compliant with Data Protection Act.

4.7 **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.

Corporate Bonds and Floating Rate Notes (FRNs) – 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 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 in order 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, as illustrated in paragraph 4.2.3. 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 As outlined in paragraph 4.2.7, the Council has breached a lending limit and due to the complexity and timescales of the Joint Venture negotiations it was not possible to seek Council approval for a change in lending limits before investing with the Debt Management Office (the DMO, also referred to as the Debt Management Agency Deposit Facility - DMADF). The Chief Executive and

Portfolio Holder approved this action, which was needed to enable this transaction to proceed, and which had been approved by the Council. Recommendation 3 is formal recognition of this breach.

6.2 Recommendation 2 will allow the Council to deposit, retrospectively, with the DMO with no upper limit.

6.3 This recommendation also covers the investment in Milverton Homes outlined in paragraph 4.2.9.

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 @ October 2021

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

Supporting documents:

None.

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 29th September is below. There are now three increases in Bank Rate, to end at 0.75%.

Qtr Ending	Sept 2021	Dec 2021	Mar 2022	June 2022	Sept 2022	Dec 2022	Mar 2023	Jun 2023	Sept 2023	Dec 2023	Mar 2024
Current Forecast as at Sept 2021:											
Bank Rate %	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
Forecast as at January 2021 (when Original Budgets were set)**:**											
Bank Rate %	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

The forecast as at January 2021 is shown for comparison purposes as this forecast was used in calculating the original budgets.

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.

2. Investment Performance

2.1 Core Investments

During 2021/22 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.

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

During April to September five core investments matured. In all the periods, the Council out-performed against the Benchmark.

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.

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 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 B that the total interest out-performance of the benchmark remains satisfactory.

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.

During the first half of 2021/22 the Council earned £2,800 realised interest on its Money Market Fund investments at an average rate of 0.02% and the average balance in the funds during the period was £27,839,200.

2.3 Call Accounts

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

The Council earned £101 interest on its call accounts in the first half year at an average rate of 0.01% and the average balance in the funds during the period was £2,709,170.

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 £	39	10	29
Money Market Funds	3	(2)	5
Call A/c's £	-	(1)	1
Total £	**42**	**7**	**35**

It should be noted that the total investment return of £42,000 shown in the table above will not all be received in 2021/22 as it is an annualised figure and will include interest relating to 2020/21 and 2022/23.

An analysis of the overall in-house investments held by the Council at the end of September 2021 is shown in the following table:

(The balance at 31 March 2021 is shown for comparison)

Type of Investment	Closing Balance 30 Sept 2021 £'000	Closing Balance 31 March 2021 £'000
Money Markets incl. CD's & Bonds	31,592	33,000
Money Market Funds	34,195	12,334
Business Reserve Accounts incl. Call Accounts	5,000	2,003
Total In House Investments	**70,787**	**47,337**
Corporate Equity Funds	0	6,000
Total Investments	**70,787**	**53,337**

2.4 **Corporate Equity Funds**

Columbia Threadneedle and Royal London Asset Management equity funds were both given notice to seel the Council's holdings on 15 September 2021. This was as a result of the movement of the fund's share price in the period leading up to this date. It was deemed to be the optimal time to close the funds bearing in mind the Council's Climate Change Emergency Declarartion.

Fund	Value of Fund 15 Sept 2021 £'000	Value of Fund 31 March 2021 £'000	Variation in 1st half year to closure £'000
Royal London UK Equity Fund	3,597	3,284	313
Columbia Threadneedle UK Equity Income Fund	3,657	3,357	300
TOTAL	**7,255**	**6,641**	**614**

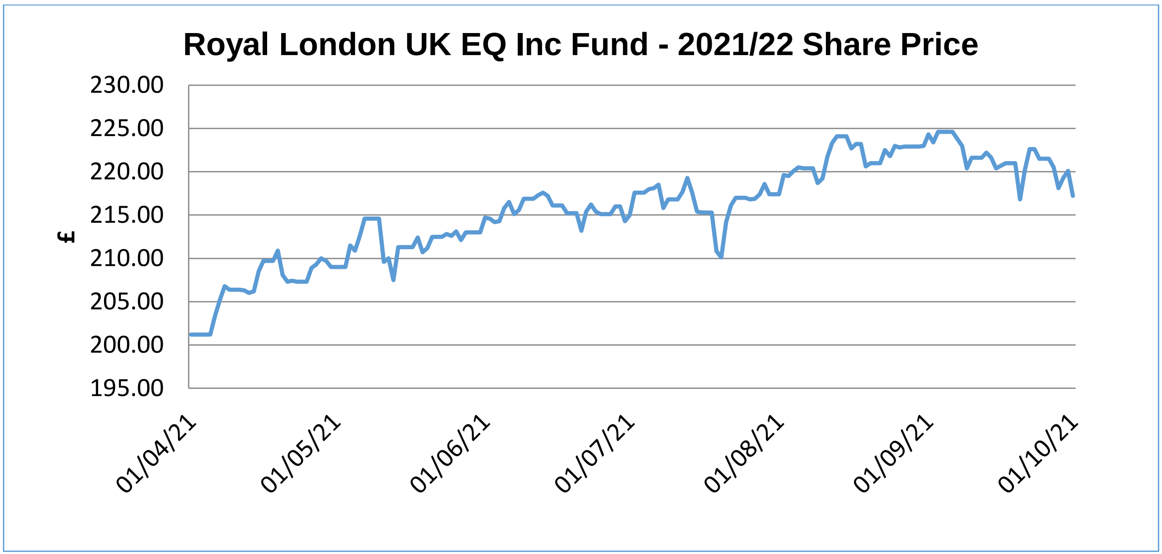
It can be seen from the table above that both funds had a positive variation in value from 1st April to 15th September 2021, despite volatility in the markets.

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

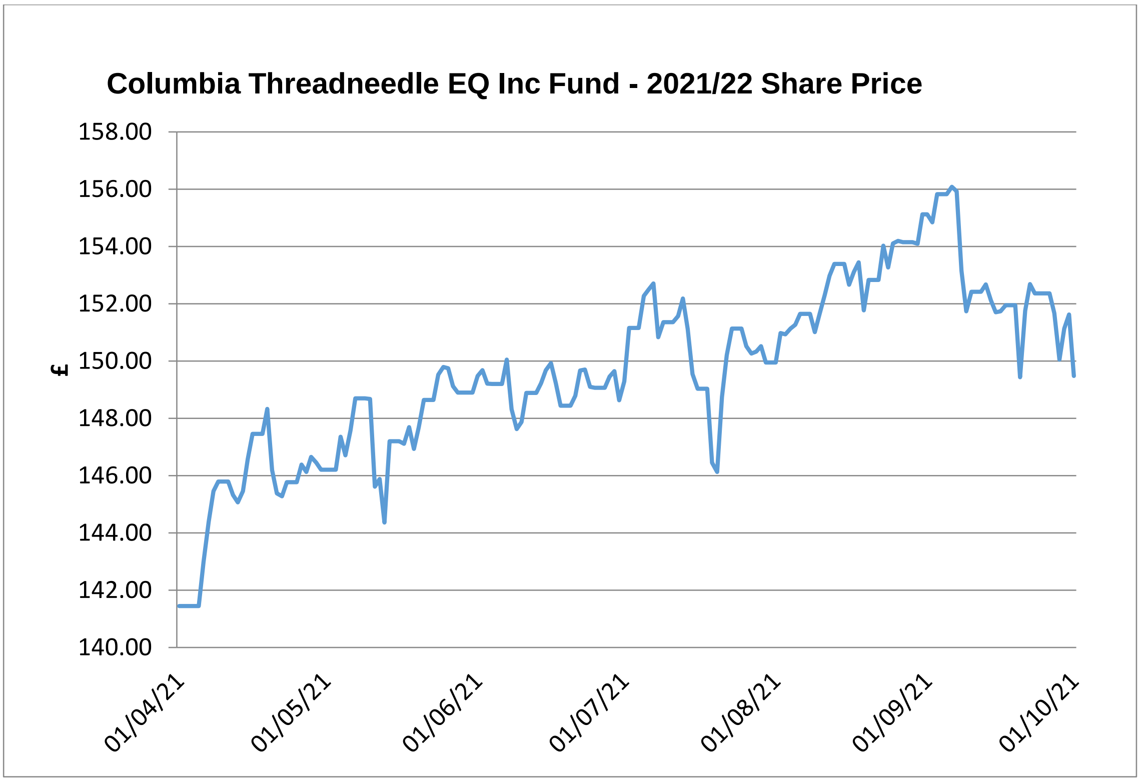
Period	Capital Element	Income Element	Total growth	Capital Element	Income Element	Total growth
Royal London Asset Management	**£'000s**	**£'000s**	**£'000s**	**%**	**%**	**%**
3 months (April 2021 to June 2021)	185	28.8	213.8	5.3	0.8	6.1
3 months (July 2021 to 15th September 2021)	67.9	31.7	99.6	1.9	0.9	2.8
6 months (April 2021 to 15th September 2021)	252.9	60.5	313.4	7	1.7	8.7
Since inception 04.04.2017	58.8	538.6	597.4	2	18	20
Columbia Threadneedle--						
3 months (April 2021 to June 2021)	190	19.2	215.2	5.56	0.53	6.09
3 months (July 2021 to 15th September 2021)	93.3	35.3	118.4	2.62	0.97	3.59
6 months (April 2021 to 15th September 2021)	289.8	54.6	314.9	8.63	1.49	10.12
Since inception 13.04.2017	657.3	490.8	1,148.1	21.9	16.36	38.26

During the quarter April to June 2021 Royal London UK Equity Fund was ahead of both the FTSE All-Share index and competitors. The financials sector was a key driver of performance, with holdings in Paragon, Investec and Brewin Dolphin noteworthy contributors. The holdings in the engineering company IMI and the homewares retailer Dunelm both performed well after releasing strong trading statements and the water utility Pennon also performed well after announcing a large return of capital to shareholders alongside results and the acquisition of Bristol Water.

**At the time of writing this report the second quarter factsheet wasn't available. However I can report that for July and September the fund was trailing the FTSE All-Share and placed 55th percentile in its peer group. For August it outperformed the FTSE All-Share and was placed 37th percentile of its peer group.



Columbia Threadneedle Equity Fund outperformed its peer group in April, June, August and September compared to trailing in May and July. Against the FTSE All-Share, it outperformed in April, June and July but underperformed in May, August and September. Positive contributors were WM Morrison, M&S, Rentokil, Morgan Sindall, AstraZenteca, Oxford Instruments and Electrocomponents. Detractors included BT, ITV, Imperial Brands, Pearson, Royal Dutch Shell, Phoenix Group and Tate & Lyle.



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 2021/22 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 0.12% was inline 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 long term PWLB borrowing activity of £50 million (four loans of varying terms and amounts) alongside 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 and also interest of £110,400 on the £12 million PWLB borrowing taken out in September 2019.

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 no overdraft interest.

Prudential Indicators

The 2021/22 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.

2022/23 Treasury Management Strategy

Work will commence in the current quarter on preparing the 2022/23 Treasury Management and Investment Strategies.

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)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	301	-614	915
Over 7 days & Up to 3 months			
April to September 2021	0.16%	0.02%	0.15%
Interest earned 1st half year £	7,864	748	7,116
Over 3 months & Up to 6 months			
April to September 2021	0.23%	0.04%	0.19%
Interest earned 1st half year £	10,496	1,958	8,538
Over 6 months to 365 days			
No Investments			
1 year and over			
April to September 2021	0.35%	0.13%	0.22%
Interest earned 1st half year £	20,700	7,798	12,902
TOTAL INTEREST FIRST HALF YEAR £	**39,361**	**9,890**	**29,471**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Goldman Sachs (CNAV)			
April to September 2021	0.00%	-0.02%	0.02%
Interest earned 1st half year £	0	-292	292
Invesco (CNAV)			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	401	-829	1,229
Aberdeen Standard (LVNAV)			
April to September 2021	0.01%	-0.02%	0.03%
Interest earned 1st half year £	466	-950	1,417
Federated Constant Net Asset Value (CNAV)			
April to September 2021	0.02%	-0.02%	0.05%
Interest earned 1st half year £	176	-144	320
Federated Cash Plus Account (VNAV)			
April to September 2021	0.04%	-0.02%	0.06%
Interest earned 1st half year £	573	0	573
Royal London Cash Plus Account (VNAV)			
April to September 2021	0.04%	-0.02%	0.06%
Interest earned 1st half year £	1,187	317	870
TOTAL INTEREST FIRST HALF YEAR £	**2,803**	**-1,898**	**4,701**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2020	0.00%	-0.02%	0.02%
Interest earned 1st half year £	0	-275	275
Svenska Handelsbanken Account			
April to September 2020	0.01%	-0.02%	0.03%
Interest earned 1st half year £	101	-207	308
TOTAL INTEREST FIRST HALF YEAR £	**101**	**-482**	**583**

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	92
WDC Minimum	(Fitch)	**A**	**n/a**	
Banks				
Al Rayan	£3,000,000	A+	F1	92
Al Rayan	£3,000,000	A+	F1	123
Al Rayan	£3,000,000	A+	F1	365
Standard Chartered	£3,000,000	A+	F1	92
Standard Chartered	£2,500,000	A+	F1	92
National Bank Of Kuwait (International) plc	£3,000,000	AA-	F1+	365
Qatar National Bank	£3,000,000	A+	F1	92
Qatar National Bank	£4,000,000	A+	F1	92
Local Authority		**n/a**	**n/a**	
Thurrock Council	£3,000,000	n/a	n/a	92
Government		**n/a**	**n/a**	
Debt Management Office	£50,000,000	n/a	n/a	5
Debt Management Office	£50,000,000	n/a	n/a	1
Debt Management Office	£50,000,000	n/a	n/a	1
Debt Management Office	£50,000,000	n/a	n/a	5
Debt Management Office	£50,000,000	n/a	n/a	3
Debt Management Office	£50,000,000	n/a	n/a	4
Debt Management Office	£50,000,000	n/a	n/a	3
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+			

Counterparty	**Investment Amount** **£**	**Credit Rating**		**Duration of Investment** **(days)**
		Long Term	**Short Term**	
Goldman Sachs	£2,858,180	Fund retained its rating throughout half year		liquid
Invesco	£8,107,585	Fund retained its rating throughout half year		liquid
Federated	£4,472,649	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,296,078	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£3,104,664	Fund retained its rating throughout half year		liquid
<u>Call Accounts</u>				
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£2,688,072	Counterparty retained its rating throughout period AA- long term,F1+ short term.		liquid
Svenska Handelsbanken	£2,021,098	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid

APPENDIX D

Warwick District Council Standard Lending List as at October 2021

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*

Investment/ Counterparty type:	S/term	L/term Min	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
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)*	

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	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)		
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) –		

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
The Hong Kong & Shanghai Banking Corporation Ltd		
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		
Al Rayan Bank Plc		
Barclays Bank UK plc(RFB)		

BANK NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
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* 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 Bank of Kuwait (International) plc		
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		
UNITED STATES OF AMERICA (AAA)		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)*	

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	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 • 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				£1m	3 months

Investment/ Counterparty type:	**S/term**	**L/term**	**Security/ Min credit rating**	**Max limit per counter-party**	**Max. Maturity period**
• Newcastle (Fitch removed ratings 7.9.16) • Nottingham • Cumberland • National Counties • Progressive • Cambridge • Newbury • Leek United • Monmouthshire • Saffron • Furness • Hinckley & Rugby • Ipswich • Darlington • 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.

Other Counterparties

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	Unlimited	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

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
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	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**
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 eg: REITS	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.			£5m	10 years

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

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

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

MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, **the MPC had been prepared to look through a temporary spike in inflation.**
- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to **faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement;** this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.
- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.
- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.

4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.
- **US.** During the first part of the year, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

  1. A fast vaccination programme has enabled a rapid opening up of the economy.
  2. The economy has been growing strongly during 2021.
  3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
  4. And the Fed was still providing stimulus through monthly QE purchases.

  These factors could cause an excess of demand in the economy which could then unleash strong inflationary pressures. This could then force the Fed to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that in the September Fed meeting, Fed members again moved forward their expectation of when the first increases in the Fed rate will occur. In addition, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of stronger jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards maximum employment" for a first increase in the Fed rate.

  A further concern in financial markets is when will the Fed end QE purchases of treasuries and how will they gradually wind them down. These purchases are currently acting as a downward pressure on treasury yields. In his late August speech at the Jackson Hole conference, Fed Chair Powell implied that the central bank plans to start tapering its asset purchases before the end of this year. But the plan is conditional on continued improvement in the labour market, which the August employment report suggests is proceeding more slowly than the Fed anticipated. That may mean that any announcement of tapering is pushed back, possibly even into early 2022.

  As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases are likely to be faster and stronger than Bank Rate increases in the UK. Nonetheless, any upward pressure on treasury yields could put upward pressure on UK gilt yields too.

- There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down.

How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on

- **EU.** The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

- **German** general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **Japan.** 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

- **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.
- **Supply shortages**. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

Report Information Sheet

Please complete and submit to Democratic Services with draft report

Committee/Date	Finance and Audit Scrutiny Committee 3rd November 2021
Title of report	Treasury Management Activity Report for period 1 April 2021 to 30 September 2021

Consultations undertaken		
Consultee *required	**Date**	**Details of consultation /comments received**
Ward Member(s)		N/A
Portfolio Holder WDC & SDC *	19/10/21	Cllr Richard Hales
Financial Services *	19/10/21	Karen Allison/Richard Wilson
Legal Services *		N/A
Other Services		N/A
Chief Executive(s)	19/10/21	Tony Perks (Deputy Chief Executive)
Head of Service(s)	18/10/21	Mike Snow
Section 151 Officer	18/10/21	Mike Snow
Monitoring Officer	19/10/21	Tony Perks
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