WARWICK DISTRICT COUNCIL	**Finance and Audit Scrutiny Committee. 28th November 2017.**	**Agenda Item No. 5**

Title	Treasury Management Activity Report for the period 1st April 2017 to 30th September 2017.
For further information about this report please contact	Karen Allison, Assistant Accountant 01926 456334 Karen.allison@warwickdc.gov.uk
Wards of the District directly affected	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	N/a
Background Papers	Treasury Management File L2/9 Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

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

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	12.11.17	Andrew Jones
Head of Service	N/A	
CMT	N/A	
Section 151 Officer	08.11.17	Mike Snow
Monitoring Officer	N/A	
Finance	08.11.17	Vicki Forrester
Portfolio Holder(s)	13.11.17	Peter Whiting
Consultation & Community Engagement		
None.		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. **Summary**

1.1 This report details the Council's Treasury Management performance for the period 1st April 2017 to 30th September 2017.

2. **Recommendation**

2.1 That Finance and Audit Scrutiny Committee notes the contents of this report.

3. **Reasons for the Recommendation**

3.1 The Council's 2017/18 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis.

4. **Policy Framework**

4.1 **Fit for the Future (FFF)**

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

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

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

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

On 03 July 2017, the Financial Conduct Authority (FCA) released details regarding the implementation of the Markets in Financial Instruments Directive (MIFID II), which comes into effect on 3rd January 2018. MIFID is the EU legislation that regulates firms who provide services to clients linked to "financial instruments" and it is now being revised to strengthen consumer protection and improve the functioning of markets in light of the 2008 financial crisis. Warwick District Council's Treasury management team are currently working on confirming our intention to be reclassified from 'retail' to 'elective professional' which will allow the continuation of the treasury function in all financial instruments.

4.2 **Supporting Strategies**

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

4.3 **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies.

4.4 **Impact Assessments** – No impacts of new or significant policy changes proposed in respect of Equalities.

5. **Budgetary Framework**

5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital. The Council is reliant upon interest received to help fund the services it provides. The current estimate for investment interest in 2017/18 is shown in the following table:

	Latest 2017/18 Budget (Oct 17) £	**Original 2017/18 Budget (Jan 17) £**
Gross Investment Interest	480,500	413,300
Less HRA allocation	(211,300)	(177,800)
Net interest to General Fund	**269,200**	**235,500**

The original estimate of external investment interest for 2017/18 was £413,300. This was revised in October to £480,500. The increase of £67,200 is due to the performance of the two Corporate Equity Funds which have exceeded the initial budgeted return.

6. Risks

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

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

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

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

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

7. Alternative Option(s) considered

7.1 This report retrospectively looks at what has happened during the last 6 months. It is a statement of fact.

8. Background

8.1 A detailed commentary by our Treasury Consultants, Capita Asset Services, of the economic background surrounding this report appears as Appendix C.

9. Interest Rate Environment

9.1 The major influence on the Council's investments is the Bank Rate. The Bank Rate remained at 0.25% for the 6 month period. The Council's Treasury Management Advisors, Capita Asset Services, provided the following forecast as at November 2017 for future Bank Rates:-

Qtr End-ing	Now-Sept 2017	Dec 2017	Mar 2018	June 2018	Sept 2018	Dec 2018	Mar 2019	Jun 2019	Sept 2019	Dec 2019	Mar 2020
Current Forecast, as at November 2017:											
Bank Rate %	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
Forecast, as at January 2017, (when Original Budgets were set):											
Bank Rate %	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.5	0.5	0.75	0.75

The forecast as at January 2017 is shown for comparison purposes as this forecast was used in calculating the original budgets.

9.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2017/18 was approved by Council on 22nd Feb 2017. This approved the current lending criteria which reflect the level of risk appetite of the Council. However, the Council continues to review its Standard Lending List as a result of frequent changes to Banking Institutions credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the current lending list is shown as Appendix D.

10 **INVESTMENT PERFORMANCE**

Core Investments

10.1. During 2017/18, the in house function has invested core cash funds in fixed term deposits in the Money Markets. Table 1 in Appendix A illustrates the performance of the in house function during this first half year for each category normally invested in.

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

10.3 During April to September six core investments matured. In the period '3 to 6 months' the Council's out-performance was achieved by purchasing a corporate bond.

10.4 The slight out-performance in the 'over 6 months to 364 days' period was mainly due to fixed deposits with Lloyds Bank and Close Brothers. Lastly in the "1 year and over" category, the Council purchased a Close Brothers fixed deposit @0.82% for 1 year which also produced an out-performance.

10.5 Given that the current Bank Rate is only 0.25% 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.

Cash Flow Derived Funds & Accounts

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

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

10.8 As with the Money Market investments in paragraph 10.1, the LIBID benchmark which in this case is the 7 day rate, has been increased by a margin of 0.0625% and it can be seen from table 2 in Appendix A that the total interest out performance of the benchmark remains satisfactory.

10.9 The Council continued to concentrate its investments in the highest performing funds Federated (variable and constant net asset value funds), Standard Life, Invesco and Royal London along with the Svenska Handelsbanken call account.

10.10 During the first half of 2017/18 the Council earned £48,600 interest on its Money Market Fund investments at an average rate of 0.26% and the average balance in the funds during the period was £18,381,200.

Call Accounts

10.11 As with the Money Market investments in paragraph 10.1, the LIBID benchmark, which in this case is the 7 day rate for HSBC and 1 month for Svenska Handelsbanken, has been increased by a margin of 0.0625%.

10.12 The Council earned £8,000 interest on its call accounts in the first half year at an average rate of 0.35% and the average balance in the funds during the period was £2,297,000.

10.13 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)	Benchmark (Annualised)	Performance

	£	£	£
Money Markets £	72,500	65,500	7,000
Money Market Funds & Call A/c's £	56,600	36,200	20,400
Total £	**129,100**	**101,700**	**27,400**

It should be noted that the total investment return of £129,017 shown in the table above will not all be received in 2017/18 as it is an annualised figure and will include interest relating to 2016/17 and 2018/19.

10.14 An analysis of the overall in house investments held by the Council at the end of September 2017 is shown in the following table:
(The balance at 31st March 2017 is shown for comparison)

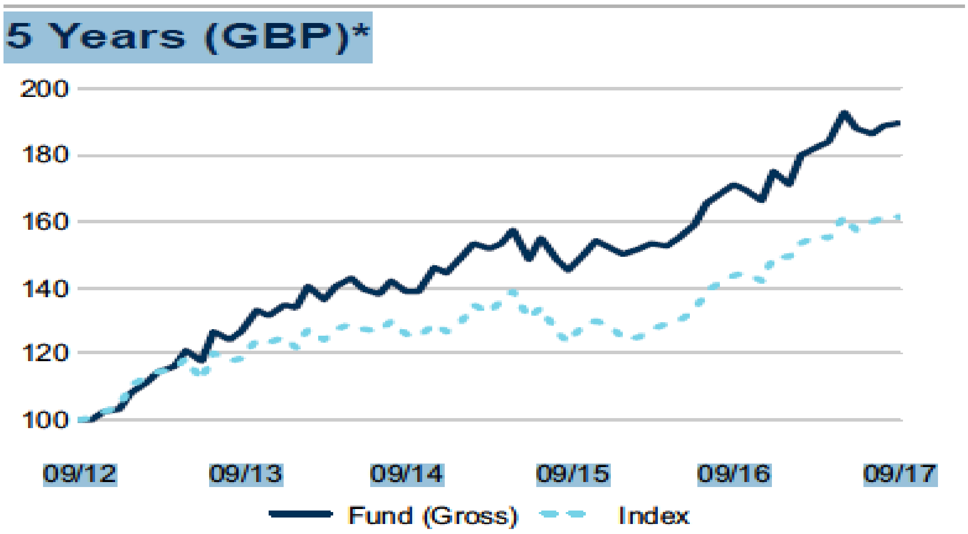
Type of Investment	Closing Balance @ 30th September 2017	Closing Balance @ 31st March 2017
	£	£
Money Markets incl. CD's & Bonds	32,604,000	35,362,000
Money Market Funds	34,670,000	31,125,000
Business Reserve Accounts incl. Call Accounts	4,500,000	4,047,000
Total In House Investments	**71,774,000**	**70,534,000**
Corporate Equity Funds	6,000,000	0
Total Investments	**77,774,000**	**70,534,000**

11. CORPORATE EQUITY FUNDS

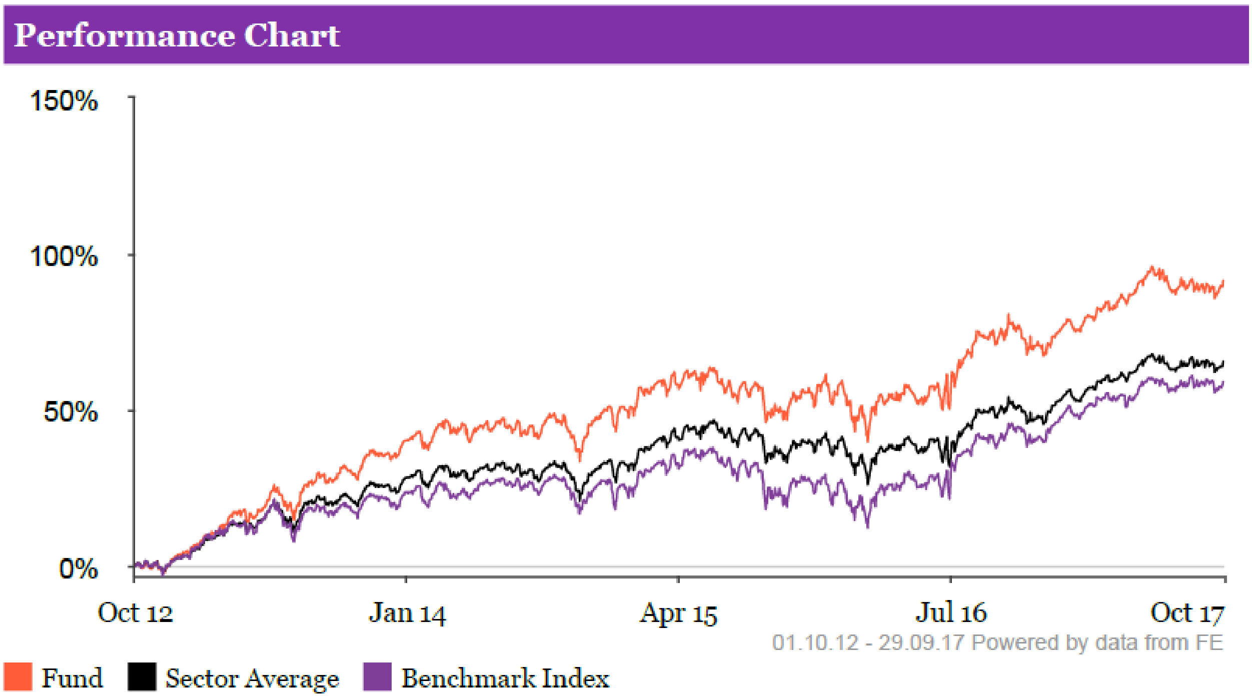
11.1 In March 2017, with guidance from Capita Asset Services, the Council selected two corporate equity fund managers- Columbia Threadneedle Investments and Royal London Asset Management.

11.2 The funds were opened in April 2017 with £3 million each.

11.3 Columbia Threadneedle UK Equity Income Fund has an investment objective to provide income with the potential to grow the amount that's invested. The Fund invests at least two-thirds of its assets in shares of UK companies. Its performance in this first half year, net of fees, was 3.44% which is benchmarked against the FTSE All Share of 2.8%. As at 30th September 2017 the fund was worth £3,043,800 which includes a distribution income on 7th August of £39,600. The table below shows the fund's performance against the FTSE All Share Index over the past 5 years:-



11.4 Royal London UK Equity Income Fund seeks to achieve a combination of income and some capital growth. It invests solely in high yielding UK stocks with a particular emphasis on companies generating significant free cashflow to fund sustainable dividend payments. The fund's performance, net of fees, in this first half year was 4.24% which is benchmarked against the FTSE All Share of 2.9%. As at 30th September 2017 the fund was worth £3,119,200 which includes a distribution income on 31st July 2017 of £32,700. The graph below shows the last five years performance of the fund compared to the Sector average and the benchmark of the FTSE All Share:-



12. COUNTERPARTY CREDIT RATINGS

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

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

12.3 Also attached for the Committee's information as Appendix B is the Council's current 2017/18 Counterparty lending list.

13. BENCHMARKING

13.1 With regard to the Capita 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 Councils weighted average rate of return (WARoR) on its investments at 0.53% was above Capita's model portfolio of 0.46%.

13.2 The result for the September quarter was 0.52% WARoR which again was above Capita's model portfolio band range.

13.3 A comparison between Warwick District Council and the benchmarking group reveals that during both quarters the Council's WARoR was one of the highest in the group and its weighted average risk was in the lower band.

14. BORROWING

14.1 During the half year, there was no long term borrowing activity other than to pay the first half year interest instalment on the £136.157m PWLB borrowing for the HRA Self Financing settlement which amounted to £2.383m.

14.2 During the half year it was not necessary to undertake any Money Market borrowing to fund cash flow deficits, with any deficits being managed within the Council's £50,000 overdraft facility. The interest rate on this facility is 2% 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 a minimal amount of overdraft interest.

14.3 In the near term we expect to undertake borrowing of £10.2 million in order to fund the leisure centre refurbishment programme. It has not been undertaken to date as the need has been negated by high levels of cash held by the Council and has instead effectively been funded by 'internal borrowing'. We continue to monitor the treasury position and the external environment and expect to borrow within 6 to 12 months when conditions are deemed to be most favourable.

15 PRUDENTIAL INDICATORS

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

16. 2018/19 Treasury Management Strategy.

16.1 Work is currently underway in preparing the 2018/19 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. Details will be included within the forthcoming Treasury Management report in February.

APPENDIX A

Investment Performance Analysis

Table 1

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
April to September 2017	No investments were made		
Over 7 days & Up to 3 months			
April to September 2017	No investments were made		
Over 3 months & Up to 6 months			
April to September 2017	0.51%	0.38%	0.13%
Interest earned 1st half year £	893	665	228
Over 6 months to 365 days			
April to September 2017	0.61%	0.59%	0.02%
Interest earned 1st half year £	55,172	53,031	2,141
1 year and over			
April to September 2017	0.82%	0.59%	0.23%
Interest earned 1st half year £	16,400	11,758	4,642
TOTAL INTEREST FIRST HALF YEAR £	**72,465**	**65,454**	**7,011**

Table 2

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche			
April to September 2017	0.16%	0.17%	-0.01%
Interest earned 1st half year £	1,907	2,114	-207
Goldman Sachs			
April to September 2017	0.17%	0.17%	0.00%
Interest earned 1st half year £	1,408	1,451	-43
Invesco			
April to September 2017	0.23%	0.17%	0.06%
Interest earned 1st half year £	10,143	7,833	2,310
Standard Life			
April to September 2017	0.24%	0.17%	0.07%
Interest earned 1st half year £	10,458	7,692	2,766
Federated Constant Net Asset Value (CNAV)			
April to September 2017	0.28%	0.17%	0.11%
Interest earned 1st half year £	6,913	4,386	2,527
Federated Variable Net Asset Value (VNAV)			
April to September 2017	0.37%	0.17%	0.20%
Interest earned 1st half year £	10,152	4,845	5,307
Royal London Cash Plus Account (VNAV)			
April to September 2017	0.35%	0.17%	0.18%
Interest earned 1st half year £	7,605	3,494	4,111
TOTAL INTEREST FIRST HALF YEAR £	**48,586**	**31,815**	**16,771**

Table 3

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2017	0.05%	0.17%	-0.12%
Interest earned 1st half year £	12	42	-30
Svenska Handelsbanken Account			
April to September 2017	0.35%	0.19%	0.16%
Interest earned 1st half year £	7,954	4,326	3,628
TOTAL INTEREST FIRST HALF YEAR £	**7,966**	**4,368**	**3,598**

APPENDIX B

Warwick District Council Counterparty Lending List

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
Banks				
WDC Minimum	(Fitch)	**A+**	**F1**	
Lloyds Bank	£3,000,000	A+	F1	360
Commonwealth Bank Of Australia	£2,000,000	AA-	F1+	364
Commonwealth Bank Of Australia	£2,000,000	AA-	F1+	364
UBS Ltd - CD	£1,050,000	A+	F1	250
WDC Minimum	(Fitch)	**A**	**F1**	
Close Brothers	£1,000,000	A	F1	276
Close Brothers	£2,000,000	A	F1	365
Corporations				
WDC Minimum	(Fitch)	**A+**	**n/a**	
BG Energy Capital plc - Bond	£554,000	A+		115
WDC Minimum	(Fitch)	**A**	**n/a**	
Prudential plc - Bond	£1,000,000	A		218
MoneyMarket Funds (Investment amount is average principal in fund during the half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+			
Deutsche	£2,413,565	Fund retained its rating throughout half year		liquid
Goldman Sachs	£1,656,497	Fund retained its rating throughout half year		liquid
Invesco	£8,943,736	Fund retained its rating throughout half year		liquid
Federated	£5,008,572	Fund retained its rating throughout half year		liquid
Standard Life	£8,782,761	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£4,357,635	Fund retained its rating throughout half year		liquid
Call Accounts				
WDC Minimum	(Fitch)			
HSBC Business Deposit Account	£24,236	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Svenska Handelsbanken	£2,272,611	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND

1.1 After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

1.2 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

1.3 It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

1.4 **EU.** Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

1.5 **USA.** Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

1.6 **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

1.7 **Japan** is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

APPENDIX D

WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT OCTOBER 2017

BANKS

INVESTMENTS UP TO 364 DAYS (3 months for explicitly guaranteed subsidiaries)

Investment / Counterparty type:	S/term	L/term minimum	Security / Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£7m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A.	364 days	In House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	364 days	In House +Advice & EFM*
Bank subsidiaries of UK Banks	Unrated	Unrated	Explicit Parent Guarantee	£5m	3 months	In House +Advice & EFM*

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

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

INVESTMENTS OVER 364 DAYS

Investment / Counterparty type:	S/term	L/term minimum	Security / Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£7m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A.	2 years	In House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	2 years	In House +Advice & EFM*

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

Counterparty limit is also the Group Limit where investments are with different but related institutions.
£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.

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

BANK NAME	**OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
AUSTRALIA (AAA) Monitoring @ 01.04.2016		
Australia & New Zealand Banking Group Ltd –		
Commonwealth Bank of Australia		
Macquarie Bank Ltd		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale Clydesdale Bank*	Yes
Westpac Banking Corporation		
BELGIUM (AA)		
BNP Paribas Fortis		
KBC Bank NV		
CANADA (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada-negative outlook	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Finland DO NOT DEAL DIRECT AS NOW DOMICILED IN SWEDEN UNDER NORDEA BANK AB BUT CD'S ETC OK WITH K&S. **PER CAPITA 3/1/17 NOW ABSORBED INTO NORDEA BANK SWEDEN AND RATINGS WITHDRAWN BY FITCH – DO NOT USE**	Nordea Bank Denmark* Nordea Bank AB Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		

Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
Societe Generale		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) – not on Capita's list as not active		
The Hong Kong & Shanghai Banking Corporation Ltd		
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS (AAA)		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
QATAR (AA)OUT OF RANGE—negative watch		
Qatar National Bank-negative watch		
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
Nordea Bank AB	Nordea Bank Denmark* Nordea Bank Finland Nordea Bank Norge* Nordea Bank North America*	Yes
Skandinaviska Enskilde Banken AB	SEB Bolan*	
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
SWITZERLAND (AAA)		
Credit Suisse AG		
UBS AG		
UNITED ARAB EMIRATES (AA)-out of range		
First Abu Dhabi Bank PJSC		

UNITED KINGDOM (AA)monitoring		
Abbey National Treasury Services plc		
Barclays Bank plc- LT Watch		
Close Brothers		
Goldman Sachs International Bank		
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
Lloyds Banking Group :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
Santander UK plc		
Standard Chartered Bank		
Sumitomo Mitsui Banking Corporation Europe Ltd		
UBS Ltd		
UNITED STATES OF AMERICA (AAA)MONITORING		
HSBC Bank USA NA	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC UK Hang Seng Bank*	Yes
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
Citibank		
JP Morgan Chase Bank NA	Bank One Corp* Bank One Financial LLC* Bank One NA * First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc* Chase Bank USA* Robert Fleming Ltd*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

BUILDING SOCIETIES

INVESTMENTS 364 DAYS OR LESS

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

Building Societies - category A	F1	A	UK Sovereign	£4m	364 days
Building Societies - category B • Coventry • Nationwide	F1		UK Sovereign	£2m	364 days
Building societies - assets > £500m (Category C) • Yorkshire • Skipton • Leeds • Principality • West Bromwich • Newcastle(Fitch removed ratings 7.9.16) • Nottingham • Progressive • Cumberland • National Counties • Saffron • Cambridge • Monmouthshire • Furness • Leek United • Newbury • Hinckley & Rugby • Ipswich				£1m	3 months

INVESTMENTS OVER 364 DAYS

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

NB. Group limit of £8m.

OTHER COUNTERPARTIES

Investment / Counterparty type	S/term	L/term	Security / Min credit rating	Max limit per counterparty	Max. Maturity period
DMADF	n/a	n/a	UK Sovereign	£12m	364 days
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	364 days
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£9m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid
Corporate bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	

		AA - & ABOVE		£6m	
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 1		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A	UK Sovereign	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Bonds - Supranational / Multi Lateral Development Banks European Community European Investment Bank African Development Bank Asian Development Bank Council of Europe Development Bank European Bank for Reconstruction & Development Inter-American Development Bank International Bank of Reconstruction & Development *Or* any other Supranational/Multi-Lateral Development Bank meeting criteria.	AAA / Govt Guarantee			£5m	364 days
Floating Rate Notes - category 1		A		£4m	364 days
		A+		£5m	
		AA - & ABOVE		£6m	
Floating Rate Notes - category 2		A		£9m	364 days
Floating Rate Notes - category 3		A		£4m	364 days
		A+		£5m	
		AA - & ABOVE		£6m	
Eligible Bank Bills	n/ a		Determined by EFM	£5m	364 days
Sterling Securities	n/		UK Sovereign	£9m	Not

guaranteed by HM Government	a				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 Govt
Category 3: Issued by Corporates