 Finance and Audit Scrutiny Committee. 27th November 2018.		Agenda Item No. 4
Title	Treasury Management Activity Report for the period 1st April 2018 to 30th September 2018.	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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	07/11/2018	Andrew Jones
Head of Service	N/A	
CMT	N/A	
Section 151 Officer	06/11/2018	Mike Snow
Monitoring Officer	N/A	
Finance	06/11/2018	Roger Wyton
Portfolio Holder(s)	13/11/2018	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 2018 to 30th September 2018.

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 2018/19 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis in accordance with the Treasury Management Code of Practice.

4. **Policy Framework**

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

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

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. The Prudential Code 2017 introduced a new requirement for local authorities to produce an annual Capital Strategy with full implementation in 2019/20. This will be reported alongside the 2019/20 Budget and Treasury Management reports in February 2019.

- 4.4 The Money Market Fund sector is introducing new regulations which will see existing non-government Constant Net Asset Value (CNAV) funds such as those currently invested in by the Council e.g. Invesco and Goldman Sachs convert to Low Volatility Net Asset Value (LVNAV) pricing. It is understood that there is little likelihood of the unit price in such funds varying from the current CNAV practice i.e. £1 in = £1 out and the current credit rating for CNAV funds also applies to the new LVNAV funds. This change is expected to occur in the very early stages of 2019. Therefore this needs to be reflected in the 2018/19 Treasury Management Strategy and investment counterparty list in order for the Council to continue using the current CNAV funds that it invests in. There is no change to the current regulations affecting Variable Net Asset Value (VNAV) funds such as those utilised by the Council e.g. the RLAM Cash Plus Fund.
- 4.5 It is therefore recommended that in addition to the current CNAV and VNAV MMF categories within the Council's approved investment counterparty list, a new category of LVNAV fund is introduced with immediate effect and that the

current counterparty limits for CNAV funds will also apply to the new LVNAV funds.

- 4.6 **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 2018/19 is shown in the following table:

	Latest 2018/19 Budget £	Original 2018/19 Budget (Jan 18) £
Gross Investment Interest	651,400	651,400
Less HRA allocation	(213,300)	(213,300)
Net interest to General Fund	438,100	438,100

*Note- the figure of £461,500 for net interest to General Fund in the budget book 2018/19 includes £23,400 of deferred capital receipts interest.

The original estimate will be revised during the budget setting process.

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 Link Asset Services benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by Link Asset Services – Treasury Solutions to determine the suitability of investing with counterparties.
- 6.3 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 reduce risk in the portfolio as the bond is "backed" by high quality assets such as prime residential mortgages thus ensuring that if the bond issuer defaults there are sufficient assets that can be realised in order to repay the bond in full.

- 6.5 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 has been created - a proportion of the annual return on the funds will be credited to this reserve and then when required can be released to revenue either to cover or at least mitigate the impact of any deficits.

7. Alternative Option(s) considered

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

8. Background

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

9. Interest Rate Environment

- 9.1 The major influence on the Council's investments is the Bank Rate. The Monetary Policy Committee voted to raise the bank rate from 0.50% to 0.75% on 2nd August 2018. The Council's Treasury Management Advisors, Link Asset Services, provided the following forecast as at October 2018 for future Bank Rates:-

Qtr End- ing	Now- Sept 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	Jun 2020	Sept 2020	Dec 2020	Mar 2021
Current Forecast, as at October 2018:											
Bank Rate %	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
Forecast, as at January 2018, (when Original Budgets were set):											
Bank Rate %	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25

The forecast as at January 2018 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 2018/19 was approved by Council on 21st Feb 2018. 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 2018/19, 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% to give the Benchmark.
- 10.3 During April to September eight core investments matured. In all the periods up to 365 days the Council out-performed against the benchmark.
- 10.4 In April 2018 a 365 day floating rate note was purchased based on the fact that interest rates could rise. The interest rate applicable to this particular note was 3 month LIBOR (London Inter-Bank Borrowing Rate) plus 12 basis points. The interest rate on this instrument is refixed every 3 months. Therefore it was anticipated to produce a better yield as LIBOR was expected to increase over the period of the investment. When LIBOR re-set in July it unfortunately decreased from 0.87662% to 0.8325% but has subsequently increased to 0.92513% in October. It is still expected that this investment will provide a useful pick-up in interest for the Council on maturity.
- 10.5 Given that Bank Rate only increased in August 2018 from 0.50% to 0.75% 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 Cash Plus along with the HSBC Business Deposit Account (base rate linked) from August when interest rates increased.
- 10.10 During the first half of 2018/19 the Council earned £121,700 interest on its Money Market Fund investments at an average rate of 0.60% and the average balance in the funds during the period was £20,415,900.

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 £17,500 interest on its call accounts in the first half year at an average rate of 0.49% and the average balance in the funds during the period was £3,541,000.

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	82,500	75,700	6,800
Money Market Funds	121,700	120,200	1,500
Call A/c's	17,500	18,400	-900
Total	221,700	214,300	7,400

It should be noted that the total investment return of £221,700 shown in the table above will not all be received in 2018/19 as it is an annualised figure and will include interest relating to 2017/18 and 2019/20.

10.14 An analysis of the overall in house investments held by the Council at the end of September 2018 is shown in the following table:

(The balance at 31st March 2018 is shown for comparison)

Type of Investment	Closing Balance @ 30th September 2018	Closing Balance @ 31st March 2018
	£	£
Money Markets incl. CD's & Bonds	37,822,700	46,745,000
Money Market Funds	35,957,000	23,000,000
Business Reserve Accounts incl. Call Accounts	4,503,300	6,055,000
Total In House Investments	78,283,000	75,800,000
Corporate Equity Funds	6,458,700	5,895,300
Total Investments	84,283,000	81,695,300

11. CORPORATE EQUITY FUNDS

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

Fund	Value of Fund @ 30th September 2018	Value of Fund @ 31st March 2018	Variation in 1st half year
	£	£	£

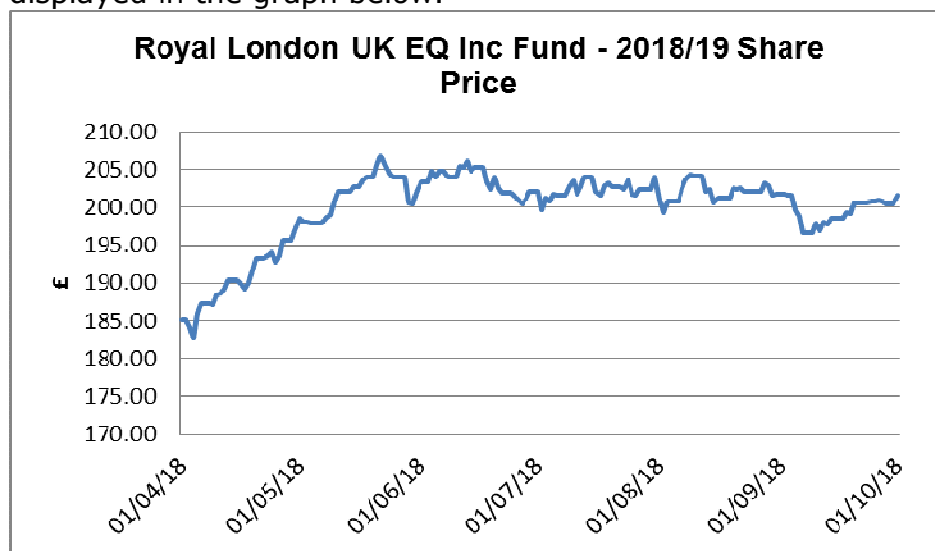
Royal London UK Equity Fund	3,272,600	3,019,600	253,000
Columbia Threadneedle UK Equity Income Fund	3,186,100	2,875,700	310,400
TOTAL	6,458,700	5,895,300	563,400

11.2 It can be seen from the table above that both funds had a positive variation in value from April 2018 to September 2018.

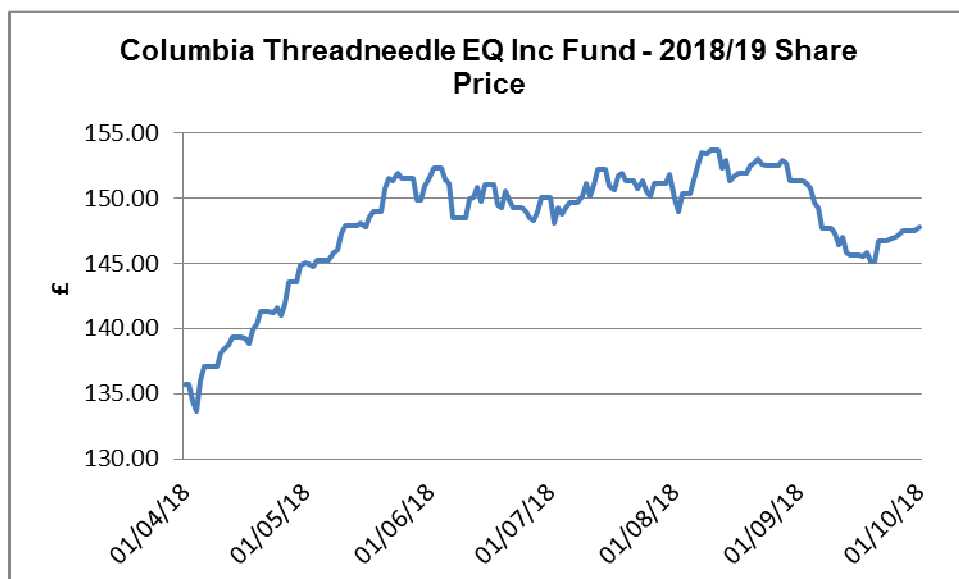
11.3 The table below gives a breakdown of income and capital elements of growth.

	Investment	Value as at 30.09.2018	Total Growth	Income element of growth	Income element of growth	Capital element of growth	Capital element of growth
	£	£	£	£	%	£	%
Royal London	3,000,000	3,272,600	272,600	35,800	13%	236,800	87%
Columbia Threadneedle	3,000,000	3,186,100	186,100	39,900	21%	146,100	79%

11.4 Royal London UK Equity Fund enjoyed a steady rise in share price from April to May 2018. Thereafter, for the remainder of the first half year, it fluctuated as displayed in the graph below.



11.5 Columbia Threadneedle Equity Fund had a similar pattern in share price.



- 11.6 Members will be aware that stock market prices have recently dropped. This has impacted on the value of these funds. A further update will be given to the meeting. However, members will remember that these investments are classed as long term investments.

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 2018/19 Counterparty lending list.

13. BENCHMARKING

- 13.1 With regard to the Link Asset Services Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils and the results are published quarterly. Analysis of the results for the first quarter show that the Councils weighted average rate of return (WARoR) on its investments at 0.62% was in-line with Link's model portfolio.
- 13.2 The result for the September quarter was 0.72% WARoR which again was in-line with Link'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 only marginally lower than 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 2.8% 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 The Council is due to take out long term borrowing to part finance the works to the leisure centres. However, as long term borrowing will cost more than the investment interest earned on internal balances, it has not been appropriate to take out any long term debt so far. However, it is expected that a proportion of the long term debt will be taken out in this financial year, for which officers are in discussion with the Council's Treasury Management advisors.

15 PRUDENTIAL INDICATORS

- 15.1 The 2018/19 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. 2019/20 Treasury Management Strategy.

- 16.1 Work is about to commence on preparing the 2019/20 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.

Investment Performance Analysis**Table 1**

Core Investments	Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days				
	April to September 2018	0.50%	0.50%	0.00%
	Interest earned 1st half year £	240	239	1
Over 7 days & Up to 3 months				
	April to September 2018	0.75%	0.67%	0.08%
	Interest earned 1st half year £	5,610	4,999	611
Over 3 months & Up to 6 months				
	April to September 2018	0.79%	0.78%	0.01%
	Interest earned 1st half year £	15,893	15,704	189
Over 6 months to 365 days				
	April to September 2018	1.08%	0.94%	0.14%
	Interest earned 1st half year £	52,310	45,339	6,971
1 year and over				
	April to September 2018	0.85%	0.94%	-0.09%
	Interest earned 1st half year £	8,466	9,381	-915
TOTAL INTEREST FIRST HALF YEAR £		82,519	75,662	6,245

Table 2

Cash Flow Derived Funds & Accounts	Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche (CNAV)				
	April to September 2018	0.46%	0.50%	-0.04%
	Interest earned 1st half year £	3,561	3,872	-311
Goldman Sachs(CNAV)				
	April to September 2018	0.49%	0.50%	-0.01%
	Interest earned 1st half year £	10,475	10,582	-107
Invesco(CNAV)				
	April to September 2018	0.53%	0.50%	0.03%
	Interest earned 1st half year £	23,596	22,097	1,499
Standard Life(CNAV)				
	April to September 2018	0.56%	0.50%	0.06%
	Interest earned 1st half year £	25,148	22,592	2,556
Federated Constant Net Asset Value (CNAV)				
	April to September 2018	0.61%	0.50%	0.11%
	Interest earned 1st half year £	15,362	12,559	2,803
Federated Variable Net Asset Value (VNAV)				
	April to September 2018	0.70%	0.50%	0.20%
	Interest earned 1st half year £	21,197	15,093	6,104
Royal London Cash Plus Account (VNAV)				
	April to September 2018	0.74%	0.50%	0.24%
	Interest earned 1st half year £	22,312	15,083	7,229

TOTAL INTEREST FIRST HALF YEAR £	121,651	101,878	19,773
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Table 3

<u>Call Accounts</u>	Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account				
	April to September 2018	0.57%	0.50%	0.07%
	Interest earned 1st half year £	7,266	6,356	910
Svenska Handelsbanken Account				
	April to September 2018	0.45%	0.53%	-0.08%
	Interest earned 1st half year £	10,202	11,997	-1,795
	TOTAL INTEREST FIRST HALF YEAR £	17,468	18,353	-885

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	£2,000,000	A+	F1	294
DBS Bank Ltd	£3,000,000	AA-	F1+	91
DBS Bank Ltd	£3,000,000	AA-	F1+	185
Standard Charter-CD	£1,000,000	A+	F1	184
WDC Minimum	(Fitch)	A	F1	
Close Brothers Ltd	£2,000,000	A	F1	275
WDC Minimum	(Fitch)	A	n/a	
Metropolitan Life Global Funding-FRN	£1,000,000	AA-	n/a	365
GE Capital UK Funding- Bond	£2,000,000	A	n/a	313
Local Authority				
Manchester City Council	£2,500,000	n/a	n/a	7
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	£1,547,869	Fund retained its rating throughout half year		liquid
Goldman Sachs	£4,230,537	Fund retained its rating throughout half year		liquid
Invesco	£8,833,698	Fund retained its rating throughout half year		liquid
Federated	£11,049,420	Fund retained its rating throughout half year		liquid
Standard Life	£9,000,000	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£6,000,000	Fund retained its rating throughout half year		liquid
Call Accounts				
WDC Minimum	(Fitch)			
HSBC Business Deposit Account	£2,540,965	Counterparty retained its rating throughout period of AA- long term, F1+ short term,		liquid
Svenska Handelsbanken	£4,500,000	Counterparty retained its rating throughout period of AA- long term, F1+ short term.		liquid

LINK ASSET SERVICES COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND

- 1.1 UK.** The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

- 1.2 USA.** President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between

2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

- 1.3 EUROZONE.** Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.
- 1.4 CHINA.** 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.
- 1.5 JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

**WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT OCTOBER
2018**

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)		
Australia & New Zealand Banking Group Ltd –		
Commonwealth Bank of Australia		
Macquarie Bank Ltd		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale Clydesdale Bank*	Yes
Westpac Banking Corporation		
BELGIUM (AA)		
BNP Paribas Fortis		
KBC Bank NV		
CANADA (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada- negative outlook	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Finland	Nordea Bank Denmark* Nordea Bank AB Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
Societe Generale		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenschaftsbank)		
Landesbanken Hessen-		

Thuringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) -		
The Hong Kong & Shanghai Banking Corporation Ltd		
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS (AAA)		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
QATAR (AA)OUT OF RANGE—negative watch		
Qatar National Bank-monitoring		
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
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	Stadshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
SWITZERLAND (AAA)		
Credit Suisse AG		
UBS AG		
UNITED ARAB EMIRATES (AA)-out of range		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA)negative outlook		
Abbey National Treasury Services plc		
Barclays Bank plc- LT Watch		
Close Brothers		
Goldman Sachs International Bank		
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation*	Yes

	HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	
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 <ul style="list-style-type: none"> Coventry Nationwide 	F1		UK Sovereign	£2m	364 days
Building societies - assets > £500m (Category C) <ul style="list-style-type: none"> Yorkshire Skipton 				£1m	3 months

<ul style="list-style-type: none"> 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 					
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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)	AAA-m / 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		£4m	
		A+		£5m	

		AA - & ABOVE	UK Sovereign	£6m	2 years
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 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	n/ a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original		£2m	10 years

Funds)		investment.			
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