Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2019/20

Summary

Report to advise members of the Treasury Management Service performance and to illustrate the compliance with the Prudential Indicators for 2019/20

Portfolio - Finance

Date signed off: 30 September 2020

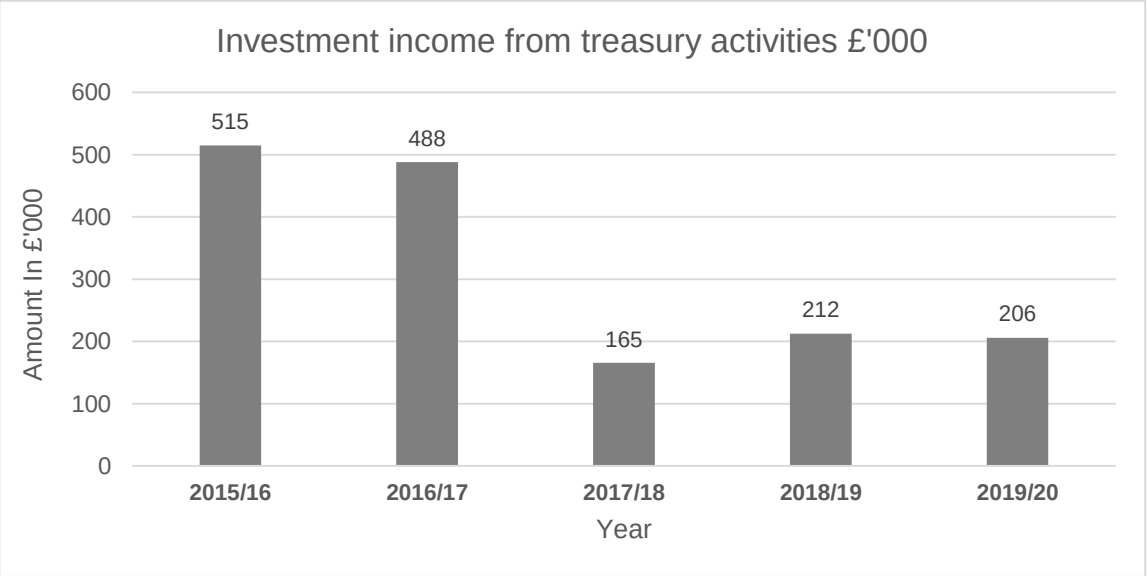
Wards Affected - All

RECOMMENDATION

The Executive is asked to RESOLVE to note the report on Treasury Management including compliance with the 2019/20 Prudential Indicators

1. Resource Implications

1.1 None directly as a result of this paper, but the Authority is heavily dependent on investment income to support its current revenue expenditure. The graph below shows investment income from treasury activities from 2015/16 to 2019/20.



1.2 Treasury income returns decreased in 2019/20 compared to the previous year partly due to the Bank of England's decision to decrease Bank Rate from 0.75% in August 2018 to 0.10% in March 2020. Treasury income in

2019/20 was £206k which was a reduction of £6k compared to 2018/19. However the 2019/20 income was still above the budgeted income of £140k.

2. Key Issues

2.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.2 Treasury management is defined as: "The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.3 The Authority's treasury management strategy for 2019/20 was approved at a meeting on 19th February 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

2.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 19th February 2019.

2.5 This report is the annual report for the 2019/20 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2019/20 Prudential Indicators.

3. Options

3.1 The Executive can endorse, amend, note or reject the recommendations made.

4. Proposals

4.1 It is proposed that the Executive notes the report on Treasury Management including compliance with the 2019/20 Prudential Indicators.

5. Supporting Information

Treasury Management Strategy 2019/20

5.1 The Authority approved the 2019/20 Treasury Management Strategy, which includes the investment strategy, at its meeting on the 19th February 2019. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Investment Strategy 2019/20

5.2 The approved investment strategy for 2019/20 adopted a view to investment that sought to balance risk against return. It maintained a policy, on the advice of our treasury advisors Arlingclose, of diversifying investments including longer term investment funds which give a good return but can be more volatile. The Authority maintained its longer term investment in the CCLA Property Fund.

5.3 The Authority continued to use local authorities and money markets with investments being placed generally for short periods only.

Borrowing Strategy 2019/20

5.4 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

5.5 The Authority uses a combination of short term borrowing from local authorities coupled with long term loans mainly from the PWLB to achieve this objective.

Other Local Authority Regulatory Changes

5.6 IFRS16: CIPFA/LASAAC has proposed delaying the implementation of the new IFRS16 Leases accounting standard for a further year to 2021/22.

Treasury Advisors

5.7 The Authority uses Arlingclose Limited as its treasury management advisors to provide advice on all aspects of treasury management including interest rate forecasts, counterparty lists and management advice. They have provided an Economic Review, counterparty update and market data by way of background information and this is included in Annex C.

Borrowing and Investment Activity in 2019/20

Borrowing Activity 2019/20

5.8 At 31/03/2020 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £193.5m,

while usable reserves and working capital which are the underlying resources available for investment were £80.6m on an accruals basis.

5.9 The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR arises directly from the capital activity of the Authority and the resources applied to fund the capital spend, and represents the unfinanced element of capital expenditure.

5.10 At 31/03/2020, the Authority had £160.7m (£175.7m at 31 March 2019) of actual borrowing and £13.8m (£30.3m at 31 March 2019) of treasury investments. The net of borrowing and investments was £146.9m (£145.4m at 31 March 2019). This is less than the CFR of £193.5m above and working capital as the Authority is able to use “Internal borrowing” to fill this gap subject to holding a minimum short-term investment balance of £5m.

5.11 Working capital is money available to the Authority for its day-to-day operations and is calculates as the current assets less the current liabilities. Internal borrowing is a treasury management practice whereby an authority delays the need to borrow externally by temporarily using cash it holds for other purposes

5.12 A large proportion of the Authority’s borrowing consisted of short term loans. This enabled the Authority to reduce borrowing costs by taking advantage of low interest rates. In 2019/20 the average interest rate on 6 month borrowing was 0.87% (2018/19 - 0.90%).

5.13 However, in order to manage interest rate risk, the Authority arranged in 2017/18, £50million of forward starting loans. Loan 1 which is for £25m will commence in 2020/21 at a rate of 2.853% and Loan 2 also for £25m will commence in 2021/22 at a rate of 2.908%. Both loans will be repayable over 40 years.

5.14 Based on the current capital programme, the Authority is predicted to have a decreasing CFR of approximately £1m over the next year.

5.15 In 2019/20, the Authority repaid £15m of short term borrowing. In 2018/19 the Authority took advantage of the low PWLB rates by arranging borrowing just before the financial year end. These loans were then invested and used to repay short term borrowing that became due in the first period of the financial year 2019/20. The Authority’s borrowing activity is shown in the table below:

	31.03.19 Balance £m	**2019/20 Movement £m**	**31.03.20 Balance £m**	**31.03.20 Rate %**
Public Works Loan Board	(57)	1	(56)	2.54%
Local authorities (long term)	(1)	0	(1)	0.00%
	(118)	14	(104)	0.87%
Total Borrowing	(176)	15	(161)	1.14%

5.16 The outturn for debt interest paid in 2019/20 was £2.3m (2018/19 - £1.6m) on an average debt portfolio of £161m (2018/19 - £175.7m).

Investment Activity 2019/20

5.17 The Authority held investments which represent income received in advance of expenditure plus balances and reserves held. During the year, the Authority's average investment balance was £13million. The CIPFA code and government guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

5.18 The table below shows a summary of the investment activity for 2019/20:

Investment Counterparty	Balance on 01/04/19	Investments Made	Maturities/ Investments Sold	Balance on 31/03/20	Average Rate at 31st March
	£000s	£000s	£000s	£000s	%
UK Central Government					
- Short Term	27,506	197,550	(223,056)	2,000	0.48%
- Long Term	0	0	0	0	-
UK Local Authorities					
- Short Term	0	0	0	0	-
- Long Term	0	0	0	0	-
Banks, Building Societies & Other Organisations					
- Short Term	651	104,688	(104,870)	469	0.15%
- Long Term	0	0	0	0	-
AAA-rated Money Market Funds					
- Short Term Cash Equivalents	0	38,266	(29,255)	9,011	0.34%
Property Investments					
- Long Term **	2,209	0	(102)	2,106	4.23%
Total Investments	**30,366**	**340,503**	**(357,282)**	**13,587**	**1.30%**

***Property Investments - Long Term. The 102k partly represents the bid price adjustment at the financial year end.*

5.19 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.20 Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy for 2019/20.

5.21 Investments held during the year included:

- Deposits with the Debt Management Office
- Deposits with Other Local Authorities
- Investments in AAA-rated constant and variable net asset value Money Market Funds
- Longer Term Property Fund

Credit Risk

5.22 Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2017	4.99	A+	3.06	AA
31/03/2018	4.42	AA-	3.65	AA-
31/03/2019	3.85	AA-	3.24	AA
31/03/2020	4.07	AA-	3.57	AA-

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A+ or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Budgeted Income and Outturn

5.23 £2m of the Authority's investments are held in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £26k (0.95%), comprising a £105k (4.23%) income return which is used to support services in year, and £78k (3.57%) of unrealised capital loss.

5.24 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but

credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.

5.25 The Authority is invested in property funds. The falls in the capital values of the underlying assets were reflected in the 31st March fund valuations with most funds registering negative capital returns over 12 months to March. Several March-end dividend details are awaited, but early calculations suggest that, despite decent income returns in 2019-20, these funds will post negative total return over the one-year period due to the capital component of total returns.

5.26 These unrealised capital losses will not have an impact on the General Fund as the Authority has elected to present changes in the funds' fair values in other comprehensive income (FVOCI).

5.27 Because this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of the fund's performance over the long-term and the Authority's latest cash flow forecasts, investment in this funds has been maintained.

5.28 In 2019/20 the Authority's budgeted investment income was £0.14m and the outturn was £0.20m. The outturn figure of £0.20m includes CCLA Property fund income of £0.11m. The balance of income was from investments in money market funds, banks and the Debt Management Office.

Externally Managed Funds

5.29 The Authority maintained its investment in the CCLA Property fund. The property fund which is operated on a variable net asset value (VNAV) basis offers diversification of investment risk, coupled with the services of a professional fund manager; it also offers enhanced returns over the longer term but is more volatile in the short-term. The Authority's CCLA property fund is in the distributing share class which pays out the income generated.

Non-Treasury Investments

5.30 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), in which the definition of investments is further broadened to also include all such assets

held partially for financial return. The performance of the Authority's non-treasury investments is reported separately to members twice a year.

Compliance

5.31 The Authority confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is shown in the table below:

Investment Limits

	2019/20 Maximum	31.3.20 Actual £m	2019/20 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£3m each	-	£3m each	Yes
UK Central Government	Unlimited	2.0	Unlimited	Yes
Any group of organisations under the same ownership	£3m per group	0.7	£3m per group	Yes
Any group of pooled funds under the same management	£5m per manager	2.8	£5m per manager	Yes
Money Market Funds	£10m in total	9.0	£10m in total	Yes

5.32 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

Debt Limits

	2019/20 Maximum £m	31.3.20 Actual £m	2019/20 Operational Boundary £m	2019/20 Authorised Limit £m	Complied? Yes/No
Borrowing	185.0	160.7	185.0	190.0	Yes
Finance Leases		0.1			Yes
Total debt	185.0	160.8	185.0	190.0	

6. Corporate Objectives and Key Priorities

6.1 This report demonstrates how treasury management supports Key priority 2.

7. Policy Framework

7.1 The 2019/20 Annual Investment Strategy together with the Treasury Management Strategy was approved by Full Council on 19th February 2019. These set out the parameters under which Treasury Management operates including the Prudential Indicators.

7.2 The Authority fully complies with the requirements of the CIPFA Code of Practice on Treasury Management. The relevant criteria and constraints incorporated into the Treasury Management Policy Statement are:

- New borrowing is contained within the limits approved by the Authority, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Authority's Prudential Indicators.

- Investments are made in accordance with the MHCLG guidance on Local Authority Investments, on the basis of the three main credit ratings agencies and as detailed in the Treasury Management Policy statement and approved schedules and practices.

- Sufficient funds are available to meet the Authority's estimated outgoings for any day.

- Investment objectives are to maximise the return to the Authority, subject to the overriding need to protect the capital sum.

8. Legal Issues

8.1 The Authority is required to comply with the Prudential Code as laid down by the Government.

9. Risk Management

9.1 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The key treasury risks being managed are:

- credit risk,
- liquidity risk,
- interest rate risk,
- refinancing risk, and
- operational risk

The techniques employed to manage these risks are covered in detail in the Authority's Treasury Management Practices, and include:

- robust counterparty monitoring and selection criteria,
- prudent cash flow forecasting,
- a range of exposure limits and indicators, and
- procedures designed to prevent fraud and error.

9.2 The Authority's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate ofreturn.

9.3 The limits applied in respect of counterparties and investments are the overall limits approved by Authority in the annual Treasury Management Strategy. However from time to time these may be tightened temporarily by the Executive Head of Finance in consultation with the Portfolio Holder for Finance to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

9.4 It should be noted that investment ratings provided by credit rating agencies are only a guide and do not give 100% security. There remains a risk that an institution may be unable to repay its loans whatever the credit rating.

9.5 The Authority measures its exposures to treasury management risks using a range of indicators as recommended by the CIPFA Code of Practice on Treasury Management.

9.6 The Authority is exposed to interest rate risk on its borrowings. Although steps have been taken to mitigate this risk, through the use of forward starting loans, for example, the risk still remains. However, based on advice from our Treasury Advisors, the risk is considered to be low for the current year.

Annexes	Annex A – Investments as at 31st March 2020 Annex B - Compliance with Prudential Indicators Annex C – Economic and other background information from Arlingclose Limited.
Background Papers	CIPFA Code of Practice: Treasury Management in the Public Services – 2018 Edition Ministry of Housing, Communities and Local Government (MHCLG) - Statutory Guidance of Local Government Investments
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Annex A

Treasury Related Investment Balances as at 31st March 2020

Investments	Notes	Maturity Date	Average Interest Rate %	Principal
				£
Cash and Cash Equivalents				
UK Central Government				
Debt Management Office		17/04/2020	0.48%	2,000,000
Banks				
NatWest Business Reserve Account	On call		0.20%	483,147
NatWest Central Account			0.10%	183,667
Money Market Funds				
BlackRock			variable	311,231
CCLA Public Sector Deposit Fund			variable	700,000
Federated Investors			variable	3,000,000
Legal and General			variable	2,000,000
Aberdeen Standard			variable	3,000,000
Total Cash and Cash Equivalents				**11,678,045**
Long Term Investments				
Available for Sale				
CCLA Property Fund	Long term		4.23%	2,106,424
Total Long Term Investments				**2,106,424**
Total Investments				**13,784,469**

Annex B

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2019/20 which were set in February 2019.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed:

	31.3.20 Actual	2019/20 Limit	Complied?
Upper limit on fixed interest rate exposure	£1.4m	£3.6m	Yes
Upper limit on variable interest rate exposure	£0.7m		Yes
Total	£2.1m	£3.6m	

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target	Actual	Complied?
Portfolio average credit rating	A+	AA-	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. The Authority also has the option to borrow on a daily basis on the open market.

	31.3.20 Actual	2019/20 Target
Total cash available within 3 months	£9m	£5m

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.20 Actual	Upper Limit	Lower Limit
Under 12 months	67%	100%	10%
12 months and within 24 months	1%	100%	10%
24 months and within 5 years	2%	100%	10%
5 years and within 10 years	3%	100%	10%
10 years and above	27%	100%	10%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£2m	£2m	£2m
Actual	£2m	£2m	£2m
Complied	Yes	Yes	Yes

Annex C

External Context provided by the Authority's Treasury Advisors, Arlingclose Limited

Economic background:
The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but

COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets:
Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review:
In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.