Report to Audit Committee

15 July 2020
By the Director of Corporate Resources
INFORMATION REPORT

Not exempt

Treasury Management Activity and Prudential Indicators 2019/20

Executive Summary

This report covers treasury activity and prudential indicators for 2019/20. At 31 March 2020, the Council had no external debt (£4m in 2018/19) and investments totalled £39.0m (£36.1m in 2018/19) including call accounts and Money Market Funds.

During 2019/20, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.879m (£0.887m in 2018/19) was earned on investments, an average return of 2.1% (2.1% in 2018/19). There was one instance in the year where the Council had an unplanned overdraft overnight with the Council's bank; otherwise all activity was within limits and in line with indicators.

Recommendations

The Committee is recommended to:

i) Note the Treasury Management stewardship report for 2019/20.
ii) Note the actual prudential indicators for 2019/20.

Reasons for Recommendations

i) The annual treasury report is a requirement of the Council's reporting procedures.
ii) This report also covers the actual Prudential Indicators for 2019/20 in accordance with the requirements of the relevant CIPFA Codes of Practice.

Background Papers

"Capital Strategy 2019/20 incorporating Investment and Treasury Management Strategy" - Audit Committee 12 December 2018
"Budget for 2019/20" - Cabinet 24 January 2019
"Treasury Management and Prudential Indicators mid-year report 2019/20"- Audit Committee 18 December 2019

Consultation: Arlingclose Ltd – the Council's Treasury Management advisers
Wards affected: All
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Background Information

1 **Introduction**

1.1 This report covers treasury management activity and prudential indicators for 2019/20. It meets the requirements of the 2017 editions of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to demonstrate that capital spending is prudent, affordable and sustainable and that treasury management decisions are taken in accordance with good professional practices. This report compares the approved indicators with the outturn position for 2019/20. Actual figures have been taken from or prepared on a basis consistent with the Council's Statement of Accounts. It should be noted that those statements are not yet signed off by the auditor.

1.3 The original prudential indicators for 2019/20 together with a Capital Strategy and Treasury Management Strategy 2019/20 were agreed by Council on 13 February 2019 having been approved by this Committee on 12 December 2018.

1.4 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. This is the first annual report including the extended set of indicators.

2 **The Council's Capital Expenditure and Financing 2019/20**

2.1 This is one of the required prudential indicators and shows total capital expenditure for the year and how this was financed. The estimates include revisions to the original indicators approved by the Council on 12 February 2020 as a part of the budget report.

2019/20 £m	**Actual £000**	**Estimate £000**	**Variance £000**
Total capital expenditure*	10.0	15.6	(5.6)
Resourced by:			
External resources	4.1	2.8	1.3
Internal Resources **	4.4	11.5	-7.1
Debt (unfinanced capital spend)	**1.5**	**1.3**	0.2
Total financing	**10.0**	**15.6**	(5.6)

*Capital expenditure here differs from capital outturn report by capitalised salaries
** Includes use of New Homes Bonus

2.2 The capital spend in 2019/20 was under the budget as revised in the 2020/21 budget report. The underspend resulted in a reduced need for financing from revenue reserves and capital receipts and contributions than estimated. The overall unfinanced capital spend was just slightly above estimate.

3 The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources.

3.2 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2019/20 MRP Policy, as required by Ministry of Housing, Communities & Local Government (MHCLG) Guidance, was approved on 13 February 2019 as a part of the 2019/20 Budget report.

3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. The movement in the CFR is generally in line with the estimate.

Capital Financing Requirement	Actual £m	Estimate £m	Variance £m
Opening balance 1 April 2019	33.2	33.2	0.0
Debt/unfinanced capital expenditure	1.5	1.3	0.2
less Minimum Revenue Provision	(0.8)	(0.9)	0.1
Closing balance 31 March 2020	**33.9**	**33.6**	**0.3**

4 Treasury Position at 31 March 2020

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Corporate Resources can manage the Council's actual borrowing position by either borrowing to the level of the CFR or choosing to utilise other available funds instead, sometimes termed under-borrowing. The Council is under-borrowed as it has no external debt.

4.2 Although the Council is under-borrowed relative to its CFR, it also holds investments and the summary treasury position on the 31 March 2020 compared with the previous year is shown below. This is a snapshot of investments on the date and will not necessarily be equal to the whole year average figures reported below.

Treasury position	31 March 2020		31 March 2019	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt	-	-	4.0	3.4%
Investments	(39.0)	2.1%	(36.1)	2.4%
Net borrowing position	**(39.0)**		**(32.1)**	

4.3 Returns continued at the historically low levels during 2019/20 reflecting the continuing low interest rates being offered by counterparties who are a good credit risk. The current outlook points to a continuation of low rates in the medium term. The use of pooled funds including a diversified selection of equity, bonds and property has lifted income to some extent but their use is limited by the desired overall risk profile of the Council's investments.

5 Prudential Indicators

5.1 **Gross Debt and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external debt must only be for a capital purpose. Gross debt should not therefore, except in the short term, exceed the CFR for 2019/20 plus the expected CFR movement over 2020/21 and 2021/22. As there is no external debt planned and the CFR is £33m and in the budget plans of the Council it is not projected to decrease over the relevant future period the Council has complied with this prudential indicator.

5.2 The **Authorised Limit** is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council set the Authorised Limit at £16m for 2019/20. The table below demonstrates that during 2019/20 the Council has maintained gross borrowing within its Authorised Limit.

5.3 The **Operational Boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. This indicator was set at £0m. There was no gross borrowing at year end.

5.4 **Actual financing costs as a proportion of net revenue stream** - This indicator shows the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This is a gauge of the affordability of capital spend. As shown in the table below, the actual indicator was at the estimate.

	2019/20
Authorised Limit	£16m
Operational Boundary	£0m
Maximum gross borrowing position in the year	£4.3m
Minimum gross borrowing position in the year	£0m
Financing costs as a proportion of net revenue stream	Actual 0% Estimate 0%

5.5 **Interest rate exposure** – This indicator is set to control the exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates is shown in the table below. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

	actual	Limit	Met?
Upper limit one-year revenue impact of a 1% rise in interest rates	£0.1m	£0.2m	✓
Upper limit one-year revenue impact of a 1% fall in interest rates	-£0.1m	-£0.2m	✓

5.6 **Maturity structures of fixed borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate loans falling due for refinancing. As the Council only had one longer term debt repaid on the first day of the financial year and had set the percentage range to allow it freedom to refinance the debt if necessary there was no danger of not meeting this indicator. The table below formally shows the 2019/20 estimates and the actual position.

Maximum percentage of borrowing in each age category	upper	lower	actual
Under 12 months	100%	0%	0%
12 months to 2 years	100%	0%	0%
2 years to 5 years	100%	0%	0%
5 years to 10 years	100%	0%	0%
10 years and above	100%	0%	0%

5.7 **Total Principal Funds Invested over a year** – This limit contains the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of investments. The limits and actuals on the long-term principal sum invested to final maturities beyond the period end are below and actuals were within limits.

£m	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	12	10	8

Economic and treasury management context for 2019/20

5.8 The Council's treasury management activities are critically affected by what is happening in the general economy which is subject to continuing uncertainty. The Council has engaged Arlingclose Ltd to advise on various aspects of Treasury Management and a part of that advice, a commentary on the economic background and the finance sector during 2019/20, is included as the appendix to this report.

Debt management activity during 2019/20

5.9 No new long term borrowing was undertaken. The only temporary borrowing was an unplanned overdraft of £4.3m overnight as a result of an oversight in the redemption of funds to cover outgoing payments. The circumstances were investigated and the instance was a one-off which cost the Council approximately £500 in fees.

5.10 As the CFR shown above is £33m the Council is using its internal resources in lieu of borrowing. This lowers overall treasury risk by reducing both external debt and temporary investments and was judged to be the best way of funding capital expenditure. Current borrowing costs are at historic lows (e.g. PWLB 50 year loan around 2.2%) and the Council's advisers predict that they will not be increasing significantly in the next three years.

6 Investment activity in 2019/20

6.1 The Council's objectives are to give priority to the security and liquidity of its funds before seeking the best rate of return. Its surplus cash is therefore held with local authorities, highly credit-rated banks, approved building societies and diversified pooled funds. The Council's treasury management activity fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Treasury Management Code of Practice and the MHCLG Investment guidance. These require the Council to approve an investment strategy before the start of each financial year and all investment activity during the year conformed to this strategy.

6.2 Both the CIPFA Code and government guidance require the Council 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 Council'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.

6.3 The Council's longer term cash balances comprise revenue and capital reserves and its core cash resources are shown in the table below. The Council is borrowing internally to cover its CFR which reduced the funds to be invested. It was judged prudent to continue internal borrowing in the year as any external borrowing would have had to have been invested at a lower rate than the borrowing rate producing a borrowing cost. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. As the resources available exceed the CFR the Council holds net investments as shown below.

Balance Sheet Resources	31 March 2020 £m
General fund CFR	-33.8
Less Usable reserves	63.1
Less working capital	9.7
Total	**39.0**

6.4 The breakdown of investments is

	31.3.19 Balance £m	Movement £m	31.3.20 Balance £m	31.3.20 Rate %
Call accounts	1.9	-1.4	0.5	0.2
Money Market Funds – call	4.0	1.5	5.5	0.4
Money Market Funds – cash plus or short bonds	9.4	-0.1	9.3	0.9
Short-term deposits	4.0	0	4.0	1.7
Pooled Funds - Property	5.0	-0.2	4.8	4.2
Pooled Funds – Multi-Asset	5.0	-0.5	4.5	4.3
Pooled Funds – Equity	3.5	-0.6	2.9	3.5
Pooled Funds – Bonds	3.3	2.2	5.5	2.9
REIT	0	2.0	2.0	1.1
Total Investments	**36.1**	**2.9**	**39.0**	**2.1**

6.5 **Yield** - The investment income budget for the year 2019/20 was £0.892m (£0.706m in 2018/19). The actual interest received was £0.879m (£0.887m in 2018/19). Cash balances were above budget due to slipping of capital spend, revenue underspending and receipts of developer contributions. Pooled funds boosted income while otherwise the returns available from 'good' quality counterparties remained at historic lows. An overall return of 2.1% (2.1% in 2018/19) was achieved.

6.6 **Security** – A benchmark is used as a way of expressing the credit risk of the whole portfolio of counterparties that the Council invests with. The Council has adopted a benchmark of an equivalent credit rating of A against which the portfolio was assessed at the end of each month. The portfolio average credit rating was a minimum of A+ in the year which is one notch above the benchmark.

6.7 **Liquidity benchmark** – The Council needs to ensure it has a sufficient level of liquidity so it has funds available when necessary. To ensure liquidity the Council set a benchmark of the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2019/20 the benchmark amount was £3m. The actual funds available were in excess of the benchmark for the whole year; the lowest amount available overnight was £1m with an additional £9m available within a week for the whole year.

6.8 **Compliance with strategy** – The strategy was compiled with throughout 2019/20. The unplanned overdraft mentioned above did not lead to any limit being breached as temporary borrowing is allowed within the strategy. Although not in the year in question a breach did occur in on the first day of 2020/21 when an investment of £5m was made with a local authority while the relevant limit was £4m. It was due to a misreading of limits during the early days of remote working when the Council was having to deal with abnormal amounts of cash being routed through the Council for emergency grants. The investment was returned without any issue in May. The detail of the instance will be reported in the half year report for 2020/21.

6.9 **Pooled funds** – The Council holds £17.6m in unrated pooled funds comprising equity, bonds and property. These funds yield 3.6% which is significantly more than the other investments available. An increased return generally brings an increase in risk and in this case the risk is to the capital value of the investments. The market reaction to the pandemic led to large falls in equity, bonds and property values which depressed the capital value of these investments to £1.9m below the initial investment. However, it should be remembered that these investments are longer term so the capital losses should not be overemphasised as the Council will hold the funds through periods of volatility. Markets have recovered to some extent with the funds value recovering by about £0.9m at the end of June 2020.

6.10 **Variable Net Asset Value Money Market Funds** – The Council uses Low Volatility Net Asset Value Money Market Funds for day to day liquidity. The low volatility refers to the fact that each unit of the fund costs £1 to buy and is redeemed at £1. To facilitate this, the investments within the funds are short term and liquid and so returns are close to Bank of England bank rate. As the Council has cash it can invest over the medium term it has £9.4m in money market funds which can invest in longer term instruments like short term bonds and consequently produce higher yields (approx. 0.9%) but where the value of a unit invested can change. On 31 March 2020 the current value of the sum invested was £155,000 less than the purchase price. By the end of June 2020 the values had recovered by £130,000.

6.11 **Social Housing REIT -** During the year the Council invested £2m in a REIT specialising in supported social housing. As this was a new REIT dividends were not declared in time to be accrued in year but are expected to start to flow in 2020/21. There was a small capital loss of £40,000 at the year end.

6.12 Although the volatility caused by the pandemic is a concern, the Council is in the position to avoid crystallising any capital losses as it has projected it has funds available for three to five year period. In the accounts these unrealised capital losses will not have an impact on the General Fund as the Council can defer losses to the Pooled Investment Fund Adjustment Account until 2023/24.

Non-Treasury investments

6.13 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 Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

6.14 At year end the Council held £54.7m of directly owned property and £0.2m loans to local bodies for service purposes. These investments generated £3.7m of investment income for the Council after taking account of direct costs, representing a rate of return of 6.8%. This exceeded the estimated income of £3.5m in the strategy. These returns are, on the face of it, higher than the return earned on treasury investments but significant indirect costs such as the property management costs and a share of the Minimum Revenue Provision are not netted off income. There are also additional risks of holding and managing commercial property as well as the fact they are highly illiquid.

6.15 The income from these non-treasury investments provides an important contribution to financing of the Council's overall service delivery. To ensure stable income flows the Council has a core of longer term leases. The Council's properties have very high occupancy in the high 90% and so can place reasonable reliance on a stable flow of rents. That said there is a significant retail element (£21m) which may well not be immune from the well-recognised risks to the high street.

6.16 Below is a breakdown of performance grouping assets by type.

Property by type £millions		**31.3.2020 actual**		**2019/20**	
	Purchase cost / 31st March 2007 value	**Gains or losses**	**Value in accounts**	**Capital Gain or loss in year**	**Income Return In year**
Retail – legacy	2.6	1.5	4.1	-1.5	5.7%
Retail – Swan Walk	8.4	-6.2	2.2	0.3	6.7%
Light industrial - legacy	9.3	1.9	11.2	2.8	6.4%
Healthcare – legacy	6.5	1.0	7.5	0.3	5.8%
Office - legacy	1.0	0.3	1.3	0.4	6.5%
Retail - recent	14.1	-0.3	13.8	-1.3	7.4%
Light industrial – recent	4.1	-0.8	3.3	0.4	7.1%
Healthcare – recent	0.6	0.2	0.8	0.1	6.3%
Education -recent	1.8	-0.3	1.5	-0.1	10.3%
Leisure - recent	1.5	-0.6	0.9	0.0	4.5%
Total	**49.9**	**-3.3**	**46.6**	**1.4**	**6.8%**

6.17 The purchase cost figures above need to be viewed with discretion as no reliable purchase cost is available for the legacy categories and Swan Walk so the base valuation is the value in 2007. Overall capital values held up, with the exception of Swan Walk, which has performed poorly compared to the relatively healthy value in 2007. It should be noted that the values are from the unaudited accounts. In establishing the valuations, the Council's Valuer have formally notified us that there is uncertainty in the valuation due to the pandemic's effect on the property market. This is an avenue open to them following their RICS guidance but does not mean that we cannot rely on the values. A valuation is of course only an estimated snapshot in time.

6.18 The 2019/20 strategy also set a series of performance indicators which are shown below.

Indicator	**2019/20 Actual**	**2019/20 Forecast**
Debt to net service expenditure ratio	0%	0%
Commercial income to net service expenditure ratio	35%	34%
Investment cover ratio – net income excl revaluation over interest expense	7,400	175
Benchmarking of returns – ratio of property income yield to IPD property yield index averaged over 5 year period	1.3	1.3
Net income return target	6.8%	7.0%
Operating overheads of property section attributable to commercial property as a proportion of net property income	7.7%	6.7%
Average Vacancy levels	1%	2%
Tenant over 5%	5	5
Weighted Average Unexpired Lease Term (WAULT)	9yr 5m	11yr
Bad debts written off	£0	£10,000

6.19 Most indicators are close to estimate. Investment cover is better than estimated as interest expense was so low. Weighted Average Unexpired Lease Term (WAULT) is slightly down on estimate but still reasonably healthy. Overheads as a percentage of income slightly increased as overall spend on property management was over budget.

6.20 The timing of the pandemic left 2019/20 relatively unaffected but 2020/21 is likely to be profoundly affected, although it is too early to say how far.

6.21 The valuation figures are based on the unaudited accounts. If there are significant changes for the final audited accounts, the changes in treasury management activity and prudential indicators will be reported to the committee.

7 Resource consequences

7.1 This report provides information only; no staffing or financial resources are required as a result of it.

8 Other considerations

8.1 There are no consequences in respect of legal, Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

Appendix

Economic Background in 2019/20 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 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% and then swiftly 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 2020 sterling touched 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 background: 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-.