Agenda Item No 6
Audit & Standards Committee
25th September 2023

Title: Treasury Management Activity Report for period 1 Oct 2022 to 31 March 2023
Lead Officer: Karen Allison, Assistant Accountant (Capital and Treasury), (karen.allison@warwickdc.gov.uk or 01926-456334)
Portfolio Holder: Councillor Jonathan Chilvers
Wards of the District directly affected: All

Approvals required	**Date**	**Name**
Portfolio Holder	No reply	Jonathan Chilvers
Finance	13.09.2023	Andrew Rollins
Legal Services		N/A
Chief Executive	31.08.2023	Chris Elliott
Director of Climate Change	No reply	Dave Barber
Head of Service(s)	13.09.2023	Andrew Rollins
Section 151 Officer	13.09.2023	Andrew Rollins
Monitoring Officer	30.08.2023	Graham Leach
Leadership Co-ordination Group		N/A
Final decision by this Committee or rec to another Cttee / Council?	Final decision.	
Contrary to Policy / Budget framework?	No	
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	No	
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	No	
Accessibility Checked?	Yes	

Summary

This report details the Council's Treasury Management performance for the period 1 October 2022 to 31 March 2023.

- Core re-investments were kept short to take advantage of the changes in interest rates and these outperformed the benchmark.
- Money Market Funds and Call Accounts were used for every day cashflow purposes and slightly underperformed against the benchmark.
- The overall performance was above the benchmark.

Recommendation

(1) That Audit & Standards Committee notes the contents of this report.

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1 Reasons for the Recommendation

1.1 The Council's 2022/23 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.

2 Alternative Options

2.1 This report retrospectively looks at what has happened during the last six months and is, therefore, a statement of fact.

3 Legal Implications

3.1 None directly arising from the Council's Treasury Management activity.

4 Financial Services

4.1 Treasury Management can have a significant impact on Warwick District Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital.

4.2 Warwick District Council is reliant on interest received to help fund the services it provides. The actual investment interest in 2022/23 compared with the original and latest budgets is shown in the following table:

	Original 2022/23 Budget £'000	Latest 2022/23 Budget £'000	Actual 2022/23 £'000
Gross Investment Interest	2,465.8	4,504.2	4,526.1
less HRA allocation	116.4	-418.2	-153.2
Net interest to General Fund	2,582.2	4,086.0	4,372.9

This highlights the increased level of actual net interest earned £4.373m) compared to the original budget (£2.582m) due to higher than expected interest rate rises. The outturn was much closer to the revised budget, other than the HRA charge being lower due to slippage in the capital programme resulting in lower than expected borrowing.

5 Business Strategy

5.1 The treasury management activity in this report applies to Warwick District Council, in accordance with the statutory framework and local Treasury Management Strategy and Treasury Management Practices.

5.2 The Treasury Management function enables the Council to meet its vision, primarily through having suitably qualified and experienced staff deliver the service in accordance with the Council’s Treasury Management Practices and the national framework that local government operates.

6 Environmental/Climate Change Implications

6.1 The recommendation to divest from direct ownership of fossil fuels companies or commingled funds that include fossil fuel public equities by no later than 2025, in pursuance of the Council’s Climate Emergency Declaration was realised ahead of target. Both Royal London and Columbia Threadneedle Equity funds were divested in September 2021.

7 Analysis of the effects on Equality

7.1 There are no Equality Impact Assessment implications of this report.

8 Data Protection

8.1 Treasury Management activity is compliant with Data Protection Act.

9 Health and Wellbeing-not applicable

9.1 There are no health and wellbeing implications of the proposal in this report.

10 Risk Assessment

10.1 Continued uncertainty in the aftermath of the 2008 financial crisis, brought into even sharper focus by the COVID-19 pandemic, has promoted a cautious approach, whereby investments are now dominated by low counterparty risk considerations, with low returns compared to borrowing rates.

Investing the Council’s funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the **SLY principle:** Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y).

It is accepted that longer duration investments increase the security risk within the portfolio, however this is inevitable to achieve the best possible return and still comply with the SLY principle which is a cornerstone of treasury management within local authorities.

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

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

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

Corporate Equity Funds can help to ensure capital security in real (as opposed to nominal) terms, but they consequently introduce the risk of capital loss due to market price fluctuations, as illustrated in paragraph 4.2.3. This is mitigated by ensuring the investments are held for a sufficiently long period. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. 'Stop loss' limits (whereby if the value in the fund goes below a defined limit, the holdings in that fund will be sold) reduce risk by limiting losses. Finally, a volatility reserve had been created, which could have been released to revenue either to cover or at least mitigate the impact of any deficits.

Our treasury management consultants, Link Group, are due to provide treasury management training for Members later in the financial year 2023/24.

11 Consultation

11.1 No consultation is required for this report.

Background papers:

Appendix A - Interest Rate Environment, Investment Performance, Counterparty Credit Ratings, Benchmarking, Borrowing, Prudential Indicators and 2022/23 Treasury Management Strategy.

Appendix B – Investment Performance Analysis

Appendix C – Counterparty Rating at Time of Investment

Appendix D – Standard lending List at March 2023

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

Supporting documents:

None.

Appendix A

1. Interest Rate Environment

The major influence on the Council’s investments is the Bank Rate. The Council uses Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The forecast on 7th February is below.

Qtr Ending	Mar 2023	June 2023	Sept 2023	Dec 2023	Mar 2024	Jun 2024	Sept 2024	Dec 2024	Mar 2025	Jun 2025	Sept 2025
Current Forecast as at Feb 2023											
Bank Rate %	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50
Forecast as at January 2022 (when Original Budgets were set)**:**											
Bank Rate %	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	N/A	N/A

The forecast as at January 2022 is shown for comparison purposes as this forecast was used in calculating the original budgets.

The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2022/23 was approved by Full Council on 23rd March 2022. 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 because of frequent changes to Banking Institutions’ credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the current lending list is shown as Appendix D.

2. Investment Performance

2.1 Core Investments

During 2022/23, the in-house function has invested core cash funds in fixed term deposits and notice accounts in the Money Markets. Table 1 in Appendix B illustrates the performance of the in-house function during this second half year for each category normally invested in.

SONIA (backward-looking) rates on the day of investment in the table and referred to below are now exclusively used for benchmarking, following the ending of LIBID.

During October to March ten core investments matured. Length of re-investment was kept short (up to 3 months) to take advantage of any interest rate increase. In all the periods, the Council out-performed against the Benchmark.

Given that counterparty security is of the utmost importance over return of yield, the level of performance achieved in this second half year continues to be satisfactory.

2.2 **Cash Flow Derived Funds & Accounts**

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

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

As with the Money Market investments, the SONIA (backward-looking) rates are used for the benchmark which in this case is the overnight rate. It can be seen from table 2 in Appendix B that the total interest just about matched the benchmark.

The Council continued to concentrate its investments in the highest performing funds: Federated (variable and low volatility net asset value funds), Aberdeen Standard, Invesco, HSBC Liquidity Funds, and Federated.

During the second half of 2022/23 the Council earned £424,683 realised interest on its Money Market Fund investments at an average rate of 3.35% and the average balance in the funds during the period was £28,345,500.

2.3 **Call Accounts**

As with the Money Market investments the overnight SONIA (backward-looking) benchmark was used.

The Council earned £93,040 interest on its call accounts in the second half year at an average rate of 3.10% and the average balance in the funds during the period was £6,020,788.

2.4 **Summary**

The following table brings together the investments made in the various investment vehicles during the second half year to give an overall picture of the investment return:

Vehicle	Return (Annualised) £'000	Benchmark (Annualised) £'000	Performance £'000
Money Markets £	427	412	15
Money Market Funds	425	427	-2
Call A/c's £	93	97	-5
Total £	**945**	**936**	**8**

It should be noted that the total investment return of £945,000 shown in the table above will not all be received in 2022/23 as it is an annualised figure and will include interest relating to 2021/22 and 2023/24.

- An analysis of the overall in-house investments held by the Council at the end of March 2023 is shown in the following table:

(The previous half year is shown for comparison)

Type of Investment	Closing Balance @ 30 September 2022 £'000	Closing Balance @ 31 March 2023 £'000
Money Markets incl. CD's & Bonds	28,547	25,600
Money Market Funds	20,551	4,342
Business Reserve Accounts incl. Call Accounts	7,359	3,941
Total In House Investments	**56,457**	**33,883**

Counterparty Credit Ratings

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

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

Also attached for the Committee's information as Appendix D is the Council's most recent 2022/23 Counterparty lending list.

Benchmarking

Regarding 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 third quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 3.02% was in line with Link's model portfolio. For the final quarter the WARoR was 3.99% which was above Link's model portfolio.

Borrowing

During the half year, there was no long term PWLB borrowing activity apart from (a) paying the second half year interest instalment on the £136.157 million PWLB borrowing for the HRA Self Financing settlement which amounted to £2.383 million, (b) a total of £367,000 interest on the £60 million joint venture loans and (c) interest of £110,400 on the £12 million PWLB borrowing taken out in September 2019, with (b) and (c) relating to the General Fund.

During the second half year, in February 2023 the Council used £3 million of Money Market borrowing to fund cash flow deficits, to avoid use of the Council's £50,000 overdraft facility. The interest rate on this facility is 2.80% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e., overdrawn. In the half year there was no overdraft interest.

Prudential Indicators

The 2022/23 Treasury Management Strategy included several 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.

2024/25 Treasury Management Strategy

Work will commence in the final quarter of 2023/24 on preparing the 2024/25 Treasury Management and Investment Strategies.

Whilst security of the funds will be paramount, it is intended that the Council will continue to achieve the best returns possible but within Environment, Social and Governance (“ESG” – aka “ethical”) criteria, where possible.

Appendix B

Investment Performance Analysis

Table 1 – Summary Performance

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
Up to 7 days			
April to September 2022	NO INVESTMENTS MADE		
Over 7 days & Up to 3 months			
April to September 2022	1.95%	2.04%	-0.09%
Interest earned 1st half year £	76,184	79,775	-3,591
October to March 2023	4.21%	4.03%	0.18%
Interest earned 2nd half year £	98,486	94,304	4,182
Rate for year	2.79%	2.78%	0.01%
Value of Interest earned in Year	174,669	174,079	591
Over 3 months & Up to 6 months			
April to September 2022	2.68%	2.50%	0.18%
Interest earned 1st half year £	152,867	142,823	10,044
October to March 2023	3.93%	3.88%	0.05%
Interest earned 2nd half year £	117,200	115,750	1,450
Rate for year	3.11%	2.98%	0.13%
Value of Interest earned in Year	270,066	258,573	11,493
Over 6 months to 365 days			
April to September 2022	1.75%	1.62%	0.13%
Interest earned 1st half year £	39,699	36,828	2,871
October to March 2023	4.26%	4.07%	0.18%
Interest earned 2nd half year £	211,447	202,295	9,152
Rate for year	3.47%	3.30%	0.17%
Value of Interest earned in Year	251,146	239,123	12,023
1 year and over			
April to March 2023	NO INVESTMENTS MADE		
TOTAL INTEREST FIRST HALF YEAR £	**268,749**	**259,426**	**9,323**
TOTAL INTEREST SECOND HALF YEAR £	**427,133**	**412,349**	**14,784**
TOTAL INTEREST FOR YEAR £	**695,882**	**671,775**	**24,107**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
Goldman Sachs (CNAV)			
April to September 2022	1.06%	1.22%	-0.16%
Interest earned 1st half year £	32,962	37,860	-4,898
October to March 2023	2.95%	3.26%	-0.31%
Interest earned 2nd half year £	15,464	17,081	-1,616
Rate for year	1.34%	2.24%	-0.90%
Value of Interest earned in Year	48,426	54,940	-6,514
Invesco (CNAV)			
April to September 2022	1.37%	1.22%	0.14%
Interest earned 1st half year £	46,977	42,027	4,950
October to March 2023	2.69%	3.26%	-0.56%
Interest earned 2nd half year £	37,535	45,392	-7,857
Rate for year	1.75%	2.24%	-0.49%
Value of Interest earned in Year	84,512	87,419	-2,907
Aberdeen Standard (LVNAV)			
April to September 2022	1.12%	1.22%	-0.10%
Interest earned 1st half year £	34,575	37,716	-3,141
October to March 2023	3.13%	3.26%	-0.13%
Interest earned 2nd half year £	123,697	128,831	-5,134
Rate for year	2.25%	2.24%	0.01%
Value of Interest earned in Year	158,272	166,547	-8,275
Deutsche (LVNAV)			
April to September 2022	1.08%	1.22%	-0.14%
Interest earned 1st half year £	4	4	-1
October to March 2023	3.28%	3.26%	0.02%
Interest earned 2nd half year £	38,570	38,285	285
Rate for year	3.28%	2.24%	1.04%
Value of Interest earned in Year	38,574	38,290	285
HSBC LIQUIDITY (ESG)-ACCOUNT USED FROM 20/10/2022			
October to March 2023	2.99%	3.26%	-0.26%
Interest earned 2nd half year £	42,635	46,394	-3,758
Rate for year	2.99%	3.26%	-0.26%
Value of Interest earned in Year	42,635	46,394	-3,758
HSBC LIQUIDITY (NON-ESG)-ACCOUNT USED FROM 01/02/2023			
October to March 2023	3.93%	3.26%	0.68%
Interest earned 2nd half year £	32,520	26,931	5,589
Rate for year	3.93%	3.26%	0.68%
Value of Interest earned in Year	32,520	26,931	5,589
Federated Constant Net Asset Value (CNAV)			
April to September 2022	1.23%	1.22%	0.01%
Interest earned 1st half year £	8,731	8,671	60
October to March 2023	3.21%	3.26%	0.13%

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
Interest earned 2nd half year £	22,917	23,230	1,995
Rate for year	2.23%	2.24%	-0.05%
Value of Interest earned in Year	31,648	31,902	-253
Federated Cash Plus Account (VNAV)			
April to September 2022	0.99%	1.22%	-0.24%
Interest earned 1st half year £	15,176	18,820	-3,644
October to March 2023	3.39%	3.26%	0.13%
Interest earned 2nd half year £	51,862	49,867	1,995
Rate for year	2.18%	2.24%	-0.05%
Value of Interest earned in Year	67,038	68,687	-1,650
Royal London Cash Plus Account (VNAV)			
April to September 2022	0.41%	1.22%	-0.81%
Interest earned 1st half year £	6,440	19,014	-12,574
October to March 2023	3.81%	3.26%	0.55%
Interest earned 2nd half year £	59,482	50,883	8,599
Rate for year	2.12%	2.24%	-0.12%
Value of Interest earned in Year	65,922	69,897	-3,975
TOTAL INTEREST FIRST HALF YEAR £	**144,865**	**164,113**	**-17,418**
TOTAL INTEREST SECOND HALF YEAR £	**424,683**	**426,894**	**97**
TOTAL INTEREST FOR YEAR £	**569,548**	**591,008**	**-21,460**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2022	1.11%	1.22%	-0.11%
Interest earned 1st half year £	37,190	40,792	-3,602
October to March 2023	3.34%	3.26%	0.08%
Interest earned 2nd half year £	85,565	83,440	2,125
Rate for year	2.08%	2.24%	-0.16%
Value of Interest earned in Year	122,755	124,233	-1,477
Svenska Handelsbanken Account			
April to September 2022	0.65%	1.22%	-0.57%
Interest earned 1st half year £	6,604	12,413	-5,808
October to March 2023	1.69%	3.26%	-1.56%
Interest earned 2nd half year £	7,475	14,379	-6,903
Rate for year	0.97%	2.24%	-1.27%
Value of Interest earned in Year	14,080	26,791	-12,712
TOTAL INTEREST FIRST HALF YEAR £	**43,795**	**53,205**	**-9,411**
TOTAL INTEREST SECOND HALF YEAR £	**93,040**	**97,819**	**-4,778**
TOTAL INTEREST FOR YEAR £	**136,835**	**151,024**	**-14,189**

Appendix C

Counterparty Rating at Time of Investment

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)	**A**	**F1**	
Banks				
DBS Bank Ltd	£3,000,000	AA-	F1+	88
Goldman Sachs International Bank	£4,000,000	A+	F1	181
Landesbanken Hessen-Thueringen Girozentral (Helaba)	£3,000,000	A+	F1+	123
Lloyds Bank	£3,000,000	A+	F1	120
National Bank of Canada	£3,000,000	A+	F1	120
National Bank of Canada	£3,000,000	A+	F1	182
Standard Chartered	£3,600,000	A+	F1	87
Santander	£3,000,000	A+	F1	181
Local Authority		**n/a**	**n/a**	
Liverpool City Council	£3,000,000	n/a	n/a	92
Money Market Funds (Investment amount is average principal in fund during half year)				
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+			
Goldman Sachs	£1,051,266	Fund retained its rating throughout half year		liquid
Deutsche	£2,356,232	Fund retained its rating throughout half year		liquid
Invesco	£2,793,633	Fund retained its rating throughout half year		liquid
Federated	£2,844,004	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£7,929,544	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£3,069,049	Fund retained its rating throughout half year		liquid
<u>Call Accounts</u>				

Counterparty	Investment Amount £	Credit Rating		Duration of Investment (days)
		Long Term	Short Term	
WDC Minimum	(Fitch)	**A+**		**F1**
HSBC Business Deposit Account	£5,135,772	Counterparty retained its rating throughout period AA- long term, F1+ short term.		liquid
Svenska Handelsbanken	£885,015	Counterparty retained its rating throughout period of AA long term, F1+ short term,		liquid

APPENDIX D

Warwick District Council Standard Lending List as at March 2023

Banks

Investments up to 365 days (3 months for explicitly guaranteed subsidiaries)

Investment / Counterparty type:	S/term	L/term minimum	Security / Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £7m if L/term rating minimum A+,£5m if L/Term rating A.	365 days	In-House +Advice & EFM*
Bank - part nationalised UK	F1	A	UK Sovereign	£9m	365 days	In-House +Advice & EFM*
Bank subsidiaries of UK Banks	Unrated	Unrated	Explicit Parent Guarantee	£5m	3 months	In-House +Advice & EFM*

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

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

Investments over 365 days

Investment/ Counterparty type:	S/term	L/term Min	Security/ Min credit rating	Max limit per counterparty	Max. Maturity period	Use
Bank deposits	F1	A	UK Sovereign	£8m AA- & above, £7m if L/term rating minimum A+,£5m if L/Term rating A.	2 years	In-House +Advice & EFM*
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 other counterparties.

£20m over 365 day limit only applies to those investments where at 1 April the remaining term is greater than 365 days. Any over 365 day investment with 365 days or less to maturity at 1 April is deemed to be short term.

BANK NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
AUSTRALIA (AAA)		
Australia & New Zealand Banking Group Ltd		
Commonwealth Bank of Australia		
Macquarie Bank Ltd		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale) Clydesdale Bank*	Yes
Westpac Banking Corporation		
BELGIUM (AA-)		
BNP Paribas Fortis		
KBC Bank NV		
CANADA (AA+)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada	Royal Trust Company* Royal Bank of Canada Europe*	

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
DENMARK (AAA)		
Danske Bank		
FINLAND (AA+)		
Nordea Bank Abp	Nordea Bank Denmark* Nordea Bank Norge* Nordea Bank North America*	Yes
FRANCE (AA)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		
Landesbanken Hessen-Thueringen Girozentrale (Helaba)		
Landwirtschaftliche Rentenbank		
NRW Bank		
HONG KONG (AA+) –		
The Hong Kong & Shanghai Banking Corporation Ltd		
NETHERLANDS (AAA)		
ABN AMRO Bank N.V		
Bank Nederlandse Gemeenten		
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		

BANK NAME	OTHER BANKS IN GROUP **(*= Not on list but included for information re potential problems etc.)**	GROUP LIMIT APPLIES
ING Bank NV		
QATAR (AA-)		
Qatar National Bank		
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese Banking Corporation Ltd		
United Overseas Bank Ltd		
SWEDEN (AAA)		
Skandinaviska Enskilde Banken AB	SEB Bolan*	
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
Swedbank AB		
SWITZERLAND (AAA)		
Credit Suisse AG		
UBS AG		
UNITED ARAB EMIRATES (AA)		
First Abu Dhabi Bank PJSC		
UNITED KINGDOM (AA-)		
Abbey National Treasury Services plc		
Al Rayan Bank Plc		
Barclays Bank UK plc(RFB)		
Barclays Bank plc(NRFB)		
Goldman Sachs International Bank		
Handelsbanken Plc		
HSBC Bank plc (NRFB)	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp*	Yes

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	HSBC Finance* HSBC USA Hang Seng Bank*	
HSBC UK Bank Plc (RFB)		
Lloyds Banking Group :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
Lloyds Bank plc (RFB)		
National Bank of Kuwait (International) plc		
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland (RFB)		
Santander UK plc		
Standard Chartered Bank		
Sumitomo Mitsui Banking Corporation Europe Ltd		
UNITED STATES OF AMERICA (AAA)		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank 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 *	

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc* Chase Bank USA* Robert Fleming Ltd*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

Building Societies

Investments up to 365 days

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
Building Societies - category A • Nationwide	F1	A	Sovereign AA-	£4m	365 days
Building Societies - category B • Coventry • Leeds • Yorkshire • Skipton	F1		Sovereign AA-	£2m	365 days
Building societies – assets > £500m (Category C) • Principality • West Bromwich • Newcastle (Fitch removed ratings 7.9.16) • Nottingham • Cumberland • National Counties • Progressive • Cambridge • Newbury • Leek United • Monmouthshire				£1m	3 months

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
• Saffron • Furness • Hinckley & Rugby • Ipswich • Darlington • Marsden					

Investments over 365 days

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

NB. Group limit of £8m.

Other Counterparties

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
DMADF / DMO	n/a	n/a	Sovereign AA-	Unlimited	365 days
Milverton Homes **WDC 100% subsidiary	n/a	n/a	n/a	£0.5m	Not defined
UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations /Nationalised Industries.	n/a	n/a	High viability/support	£9m	365 days
Money Market Fund(CNAV)	AAAm / Aaa-mf/AAAmmf			£10m	liquid
Money Market Fund (VNAV)	AAAf S1 / Aaa-bf/ AAA/V1			£6m	liquid
Corporate bonds - category 1		A	Sovereign AA-	£4m	2 years
		A+		£5m	
		AA- & ABOVE		£6m	
Corporate bonds - category 2		A		£9m	2 years
Corporate bonds - category 3		A	Sovereign AA-	£4m	2 years

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 1		A	Sovereign AA-	£4m	2 years
		A+		£5m	
		AA - & ABOVE		£6m	
Covered bonds - category 2		A		£9m	2 years
Covered bonds - category 3		A	Sovereign AA-	£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	365 days
Floating Rate Notes - category 1		A		£4m	364 days
		A+		£6m	
		AA		£7m	

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
		- & ABOVE			
Floating Rate Notes - category 2		A		£9m	364 days
Floating Rate Notes - category 3		A A+ AA - & ABOVE		£4m £5m £6m	364 days
Eligible Bank Bills	n/a		Determined by EFM	£5m	364 days
Sterling Securities guaranteed by HM Government	n/a		AA-	£9m	Not defined
Local Authorities	n/a	Viability/support= High £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£9m	5 years
Corporate Equity Funds - low risk (UK Equity Income Funds)	n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£4m	10 years
Corporate Equity Funds - medium risk (UK Capital Growth Funds)	n/a	Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment.		£2m	10 years
Corporate Bond Funds	BBB	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£5m	10 years
Pooled property fund eg: REITS	£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.			£5m	10 years
CCLA property funds	n/a	Security of Trustee of fund (LAMIT) controlled by LGA, COSLA who appoint the members and officers of LAMIT. £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties.		£5m	10 years

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

Category 1: Issued by private sector Financial Institutions

Category 2: Issued by Financial institutions wholly owned, or part owned, by the UK Government

Category 3: Issued by Corporates

Appendix E

Link Asset Services Commentary on the Current Economic Background

UK. Economy.

- Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.
- Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

- Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.
- Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.
- The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.
- Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.
- In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi

Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

- As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.
- Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.
- The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.
- As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA.

- The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.
- In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.
- As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU.

- Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.