Title: Treasury Management Activity Report for period 1 April 2023 to 30 September 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** | | Jonathan Chilvers |
| **Finance** | 07/12/23 | Andrew Rollins |
| **Legal Services** | | N/A |
| **Chief Executive** | 24/11/23 | Chris Elliott |
| **Director of Climate Change** | 06/12/23 | Dave Barber |
| **Head of Service(s)** | 07/12/23 | Andrew Rollins |
| **Section 151 Officer** | 07/12/23 | Andrew Rollins |
| **Monitoring Officer** | 28/11/23 | Graham Leach |
| **Leadership Co-ordination Group** | | N/A |
| **Final decision by this Committee or rec to another Cttee / Council?** | Yes final decision by this Committee. | |
| **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 April 2023 to 30 September 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 combined they outperformed against the benchmark.
- The overall performance was above the benchmark.

## Recommendation

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

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## 1 Reasons for the Recommendation

1.1 The Council's 2023/24 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 (see Appendices A and B) 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 2023/24 compared with the original and latest budgets is shown in the following table, which shows the income from Treasury activity as well as non-Treasury interest:

| | **Latest 2023/24 Budget £'000** | **Original 2023/24 Budget £'000** | **Actual 2022/23 Budget £'000** |
|---|---|---|---|
| Gross Investment Interest | 2,085 | 1,665 | 1,381.9 |
| *less* HRA allocation | 1,375 | 1,375 | 153.2 |
| **Treasury interest to General Fund** | **3,460** | **3,040** | **1,535.1** |
| Non-Treasury Management Interest | 3,054 | 3,054 | 2,991.0 |
| **Net interest to General Fund** | **6,514** | **6,094** | **4,526.1** |

This highlights the increased level of budgeted net Treasury interest expected to be earned (£3.460m) compared to the original budget £3.040m) due to interest rates that have risen higher and expected to remain higher for longer. As Treasury investment returns are influenced by the Base Rate, they are expected to be more than twice the level of 2022/23, but still below the level of inflation, and on gradually decreasing investment balances, which are being run down to delay borrowing for capital purposes as long as possible.

**5 Corporate Strategy (Strategic Aim 1)**

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.

**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**

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 (see Appendices C and D).

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 this financial year.

Appendix E contains Link's latest economic forecasts, which inform the Council's Treasury Management activity.

## 11 Consultation

11.1 No consultation is required for this report.

**Background papers:**

None

**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 29th September is below.

| Qtr. Ending | Sept 2023 | Dec 2023 | Mar 2024 | June 2024 | Sept 2024 | Dec 2024 | Mar 2025 | Jun 2025 | Sept 2025 | Dec 2025 | Mar 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current Forecast as at Sept 2023** | | | | | | | | | | | |
| Bank Rate % | 5.50 | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.75 | 2.75 |
| **Forecast as at January 2023** (when Original Budgets were set)**:** | | | | | | | | | | | |
| Bank Rate % | 4.50 | 4.25 | 4.00 | 3.75 | 3.25 | 3.00 | 2.75 | 2.75 | 2.50 | 2.50 | 2.50 |

The forecast as at January 2023 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 2023/24 was approved by Full Council on 15th March 2023. 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 2023/24 to date, the in-house function has invested core cash funds in fixed term deposits in the Money Markets. Table 1 in Appendix B illustrates the performance of the in-house function during this first 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 April to September thirteen core investments matured. Length of re-investment was kept short (mostly up to 3 months with one being 4 months and another 6 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 first 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 exceeded the benchmark.

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

During the first half of 2023/24 the Council earned £467,792 realised interest on its Money Market Fund investments at an average rate of 4.85% and the average balance in the funds during the period was £19,237,300.

2.3 **Call Accounts**

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

The Council earned £82,622 interest on its call accounts in the first half year at an average rate of 4.54% and the average balance in the funds during the period was £3,631,223.

2.4 **Summary**

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

| Vehicle | Return (Annualised) £'000 | Benchmark (Annualised) £'000 | Performance £'000 |
|---|---|---|---|
| Money Markets £ | 551 | 539 | 12 |
| Money Market Funds | 468 | 456 | 12 |
| Call A/c's £ | 83 | 86 | -3 |
| **Total £** | **1,102** | **1,081** | **21** |

It should be noted that the total investment return of £1,102,000 shown in the table above will not all be received in 2023/24 as it is an annualised figure and will include interest relating to 2022/23 and 2024/25.

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

(The balance at 31 March 2023 is shown for comparison)

| Type of Investment | Closing Balance @ 30 September 2023<br><br>£'000 | Closing Balance @ 31 March 2023<br><br>£'000 |
|---|---|---|
| Money Markets | 22,600 | 25,600 |
| Money Market Funds | 16,848 | 4,342 |
| Business Reserve Accounts incl. Call Accounts | 3,399 | 3,941 |
| **Total In House Investments** | **42,847** | **33,883** |

### Counterparty Credit Ratings

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

All investments made within the first 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 2023/24 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 first quarter show that the Council's Weighted Average Rate of Return (WARoR) on its investments at 4.44% was in line with Link's model portfolio. For the second quarter the WARoR was 5.39% which was above Link's model portfolio.

### Borrowing

During the half year, there was long term PWLB borrowing activity of £1 million for Milverton Homes along with:

(a) paying the first 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.

(c) interest of £110,400 on the £12 million PWLB borrowing taken out in September 2019 and

d) interest of £22,924 on the £1mill PWLB borrowing for Milverton Homes taken out on 27th April 2023 with (b), (c) and d) relating to the General Fund.

During the first half year, it was not necessary to undertake any Money Market borrowing to fund cash flow deficits, with any deficits, should they arise, being managed within 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 2023/24 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. To underpin this, the Council will be committing to a more formal ESG strategy in 2024/25 with the guidance of Link Group.

**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 2023 | NO INVESTMENTS MADE | | |
| **Over 7 days & Up to 3 months** | | | |
| April to September 2023 | 5.14% | 5.05% | 0.09% |
| Interest earned 1st half year £ | 403,094 | 395,779 | 7,315 |
| **Over 3 months & Up to 6 months** | | | |
| April to September 2023 | 5.82% | 5.63% | 0.19% |
| Interest earned 1st half year £ | 148,239 | 143,453 | 4,786 |
| **Over 6 months to 365 days** | | | |
| April to September 2023 | NO INVESTMENTS MADE | | |
| **1 year and over** | | | |
| April to September 2023 | NO INVESTMENTS MADE | | |
| **TOTAL INTEREST FIRST HALF YEAR £** | **551,333** | **539,232** | **12,101** |

## Table 2 - Cash Flow Derived Funds & Accounts

| Period | Investment Return (Annualised) | SONIA Benchmark (Annualised) | Out/(Under) Performance |
|---|---|---|---|
| **Goldman Sachs (CNAV)** | | | |
| April to September 2023 | 4.63% | 4.73% | -0.10% |
| Interest earned 1st half year £ | 1,222 | 1,249 | -26 |
| **Invesco (CNAV)** | | | |
| April to September 2023 | 5.19% | 4.73% | 0.46% |
| Interest earned 1st half year £ | 90,706 | 82,674 | 8,031 |
| **Aberdeen Standard (LVNAV)** | | | |
| April to September 2023 | 4.68% | 4.73% | -0.05% |
| Interest earned 1st half year £ | 133,941 | 135,491 | -1,551 |
| **Deutsche (LVNAV)** | | | |
| April to September 2023 | 4.38% | 4.73% | -0.35% |
| Interest earned 1st half year £ | 14,333 | 15,492 | -1,159 |
| **HSBC LIQUIDITY (ESG)-ACCOUNT** | | | |
| April to September 2023 | 4.25% | 4.73% | -0.48% |
| Interest earned 1st half year £ | 15,407 | 17,152 | -1,745 |
| **HSBC LIQUIDITY (NON-ESG)-ACCOUNT** | | | |
| October to March 2023 | 4.83% | 4.73% | 0.10% |
| Interest earned 1st half year £ | 92,524 | 90,672 | 1,852 |

| | | | |
|---|---|---|---|
| **Federated Constant Net Asset Value (CNAV)** | | | |
| April to September 2023 | 4.76% | 4.73% | 0.03% |
| Interest earned 1st half year £ | 34,823 | 34,612 | 211 |
| **Federated Cash Plus Account (VNAV)** | | | |
| April to September 2023 | 4.69% | 4.73% | -0.04% |
| Interest earned 1st half year £ | 3,077 | 3,103 | -26 |
| **Royal London Cash Plus Account (VNAV)** | | | |
| April to September 2023 | 5.10% | 4.73% | 0.36% |
| Interest earned 1st half year £ | 81,760 | 75,939 | 5,821 |
| **TOTAL INTEREST FIRST HALF YEAR £** | **467,792** | **456,385** | **11,407** |

## Table 3 – Call Accounts

| Period | Investment Return (Annualised) | SONIA Benchmark (Annualised) | Out/(Under) Performance |
|---|---|---|---|
| **HSBC Business Deposit Account** | | | |
| April to September 2023 | 4.54% | 4.73% | -0.19% |
| Interest earned 1st half year £ | 82,559 | 86,030 | -3,471 |
| **Svenska Handelsbanken Account** | | | |
| April to September 2023 | 2.65% | 4.73% | -2.08% |
| Interest earned 1st half year £ | 63 | 113 | -49 |
| **TOTAL INTEREST FIRST HALF YEAR £** | **82,622** | **86,142** | **-3,520** |

**Appendix C**

## Counterparty Rating at Time of Investment

| Counterparty | Investment Amount £ | Credit Rating Long Term | Credit Rating Short Term | Duration of Investment (days) |
|---|---|---|---|---|
| **WDC Minimum** | (Fitch) | **A** | **F1** | |
| **Banks** | | | | |
| DBS Bank Ltd | £3,000,000 | AA- | F1+ | 91 |
| Goldman Sachs International Bank | £3,000,000 | A+ | F1 | 92 |
| Standard Chartered | £3,000,000 | A+ | F1+ | 61 |
| Lloyds Bank | £3,000,000 | A+ | F1 | 92 |
| Goldman Sachs International Bank | £4,000,000 | A+ | F1 | 92 |
| National Bank of Canada | £3,600,000 | A+ | F1 | 91 |
| Standard Chartered | £3,600,000 | A+ | F1 | 91 |
| DBS Bank Ltd | £3,000,000 | AA- | F1+ | 94 |
| Standard Chartered | £3,000,000 | A+ | F1+ | 92 |
| Goldman Sachs International Bank | £3,000,000 | A+ | F1 | 91 |
| Lloyds Bank | £3,000,000 | A+ | F1 | 124 |
| DBS Bank Ltd | £3,000,000 | AA- | F1+ | 186 |
| **Money Market Funds** (Investment amount is average balance in fund during half year) | | | | |
| **WDC Minimum** | Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+ | | | |
| Goldman Sachs | £52,624 | Fund retained its rating throughout half year | | liquid |
| Deutsche | £653,049 | Fund retained its rating throughout half year | | liquid |
| Invesco | £3,485,017 | Fund retained its rating throughout half year | | liquid |
| Federated | £1,589,736 | Fund retained its rating throughout half year | | liquid |
| HSBC Liquidity Accounts | 4,545,051 | Fund retained its rating throughout half year | | liquid |

| Counterparty | Investment Amount £ | Credit Rating | | Duration of Investment (days) |
|---|---|---|---|---|
| | | **Long Term** | **Short Term** | |
| Aberdeen Standard | £5,711,261 | Fund retained its rating throughout half year | | liquid |
| Royal London Asset Management | £3,200,565 | Fund retained its rating throughout half year | | liquid |
| **<u>Call Accounts</u>** | | | | |
| **WDC Minimum** | (Fitch) | **A+** | | **F1** |
| HSBC Business Deposit Account | £3,626,333 | Counterparty retained its rating throughout period AA- long term, F1+ short term. | | liquid |
| Svenska Handelsbanken | £4,890 | Counterparty retained its rating throughout period of AA long term, F1+ short term, | | liquid |

**Appendix D**

# Warwick District Council Standard Lending List as at November 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 | AA- | £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 | AA- | £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 | AA- | £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 | AA- | £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**<br><br>**(*= 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*<br><br>Yorkshire Bank *(Trading name of Clydesdale)<br><br>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*<br><br>Scotia Bank (Ireland) Ltd*<br><br>Scotia Bank Capital Trust (United States)*<br><br>Scotia Bank Europe plc* | |
| Canadian Imperial Bank of Commerce | Canadian Imperial Holdings Inc New York*<br><br>CIBC World Markets Holdings Inc* | |
| National Bank of Canada | National Bank of Canada New York Branch* | |
| Royal Bank of Canada | Royal Trust Company*<br><br>Royal Bank of Canada Europe* | |

| BANK NAME | OTHER BANKS IN GROUP<br><br>(*= Not on list but included for information re potential problems etc.) | GROUP LIMIT APPLIES |
|---|---|---|
| | Royal Bank of Canada Suisse*<br><br>RBC Centura Banks Inc* | |
| Toronto Dominion Bank | TD Banknorth Inc* | |
| **DENMARK (AAA)** | | |
| Danske Bank | | |
| **FINLAND (AA+)** | | |
| Nordea Bank Abp | Nordea Bank Denmark*<br><br>Nordea Bank Norge*<br><br>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**<br><br>**(*= Not on list but included for information re potential problems etc.)** | **GROUP LIMIT APPLIES** |
|---|---|---|
| ING Bank NV | | |
| **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*<br><br>Svenska Handelsbanken Inc USA* | |
| Swedbank AB | | |
| **SWITZERLAND (AAA)** | | |
| Credit Suisse AG | | |
| UBS AG | | |
| **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*<br><br>HFC Bank Ltd*<br><br>Hong Kong & Shanghai Banking Corporation*<br><br>HSBC Finance Corp*<br><br>HSBC Finance*<br><br>HSBC USA<br><br>Hang Seng Bank* | Yes |
| HSBC UK Bank Plc (RFB) | | |

| **BANK NAME** | **OTHER BANKS IN GROUP**<br><br>**(*= Not on list but included for information re potential problems etc.)** | **GROUP LIMIT APPLIES** |
|---|---|---|
| Lloyds Banking Group :-<br><br>Lloyds TSB<br><br>Bank of Scotland | Halifax plc*<br><br>Bank of Western Australia Ltd*.<br><br>Cheltenham & Gloucester*<br><br>Scottish Widows Investment Partnership*<br><br>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 (AA+)** | | |
| Bank Of America | | |
| Bank of New York Mellon | Bank of New York (Delaware USA)*<br><br>Bank of New York (New York USA)*<br><br>Bank of New York Trust Company* | |
| Citibank | | |
| JP Morgan Chase Bank NA | Bank One Corp*<br><br>Bank One Financial LLC*<br><br>Bank One NA *<br><br>First USA Inc*<br><br>NDB Bank NA*<br><br>Chemical Bank *<br><br>Chemical Banking Corp*<br><br>JP Morgan & Co Inc*<br><br>Chase Bank USA* | |

| BANK NAME | OTHER BANKS IN GROUP<br><br>(*= Not on list but included for information re potential problems etc.) | GROUP LIMIT APPLIES |
|---|---|---|
| | Robert Fleming Ltd* | |
| Wells Fargo Bank NA | Wachovia Bank*<br><br>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<br><br>• Nationwide | F1 | A | Sovereign AA- | £4m | 365 days |
| Building Societies - category B<br><br>• Coventry<br>• Leeds<br>• Yorkshire<br>• Skipton | F1 | | Sovereign AA- | £2m | 365 days |
| Building societies – assets<br><br>> £500m (Category C)<br><br>• Principality<br>• West Bromwich<br>• Newcastle (Fitch removed ratings 7.9.16)<br>• Nottingham<br>• Cumberland<br>• National Counties<br>• Progressive<br>• Cambridge<br>• Newbury<br>• Leek United<br>• Monmouthshire<br>• Saffron<br>• Furness<br>• Hinckley & Rugby<br>• Ipswich<br>• Darlington<br>• Marsden | | | | £1m | 3 months |

### 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 |
| | | 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 |

| Investment/ Counterparty type: | S/term | L/term | Security/ Min credit rating | Max limit per counter-party | Max. Maturity period |
|---|---|---|---|---|---|
| Covered bonds - category 3 | | A | Sovereign AA- | £4m | 2 years |
| | | A+ | | £5m | |
| | | AA- & ABOVE | | £6m | |
| **Bonds** - Supranational / Multi Lateral Development Banks<br>European Community<br>European Investment Bank<br>African Development Bank<br>Asian Development Bank<br>Council of Europe Development Bank<br>European Bank for Reconstruction & Development<br>Inter-American Development Bank<br>International Bank of Reconstruction & Development<br>*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- & ABOVE | | £7m | |
| Floating Rate Notes - category 2 | | A | | £9m | 364 days |
| Floating Rate Notes - category 3 | | A | | £4m | 364 days |
| | | A+ | | £5m | |
| | | AA- & ABOVE | | £6m | |
| Eligible Bank Bills | n/a | | Determined by EFM | £5m | 364 days |
| Sterling Securities guaranteed by HM Government | n/a | | AA- | £9m | Not defined |
| Local Authorities | n/a | Viability/support= High | | £9m | 5 years |

| Investment/ Counterparty type: | S/term | L/term | Security/ Min credit rating | Max limit per counter-party | Max. Maturity period |
|---|---|---|---|---|---|
| | | £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties. | | | |
| **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.<br>£15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties. | | £5m | 10 years |

**Categories for Covered Bonds, Corporate Bonds (must be Senior Unsecured), Floating Rate Notes:**

Category 1: Issued by private sector Financial Institutions

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

Category 3: Issued by Corporates

**Appendix E**

## Link Asset Services Commentary on the Current Economic Background

### UK. Economy.

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen

below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has

exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.