Agenda Item No 5
Audit & Standards Committee
7 January 2025

Title: Treasury Management Activity Report for period 1 April 2024 to 30 September 2024
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	12/12/2024	Jonathan Chilvers
Finance		Andrew Rollins
Legal Services		N/A
Chief Executive	09/12/2024	Chris Elliott
Director of Climate Change		Dave Barber
Head of Service(s)		Andrew Rollins
Section 151 Officer		Andrew Rollins
Monitoring Officer		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 2024 to 30 September 2024.

- Core re-investments were initially kept short to take advantage of the changes in interest rates then midterm the period was extend. Overall they 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 2024/25 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 2024/25 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 2024/25 Budget £'000	**Original 2024/25 Budget £'000**	**2023/24 Actual £'000**
Gross Investment Interest	1,626	1,626	2,072.8
less HRA allocation	1,500	2,755	1,774.5
Treasury interest to General Fund	3,125	4,380	3,847.3
Non-Treasury Management Interest	2,966	2,966	3,069.1
Net interest to General Fund	**6,091**	**7,347**	**6,916.4**

***Please note that the figures in the table above are work-in-progress and subject to change.

This highlights the slightly reduced level of budgeted net Treasury interest expected to be earned compared with 2023/24 outturn. Interest earned by the

General Fund from the Housing Revenue Account (HRA) will reduce further as it continues to borrow from the PWLB.

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

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 (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, provided treasury management training for Members at the end of the previous financial year.

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 30th September is below.

Qtr. Ending	Sept 2024	Dec 2024	Mar 2025	June 2025	Sept 2025	Dec 2025	Mar 2026	Jun 2026	Sept 2026	Dec 2026	Mar 2027
Current Forecast as at Sept 2024											
Bank Rate %	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
Forecast as at January 2024 (when Original Budgets were set)**:**											
Bank Rate %	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00

The forecast as at January 2024 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 2024/25 was approved by Full Council on 20th March 2024. 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 2024/25 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 five core investments matured. Length of re-investment was between 6 and 12 months to lock in higher interest rates still on offer. The Council outperformed against the Benchmark in all periods.

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 2024/25 the Council earned £707,509 realised interest on its Money Market Fund investments at an average rate of 5.15% and the average balance in the funds during the period was £27,379,800.

2.3 **Call Accounts**

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

The Council earned £11,607 interest on its call accounts in the first half year at an average rate of 4.97% and the average balance in the funds during the period was £465,557.

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 £	616	582	34
Money Market Funds	708	702	6
Call A/c's £	12	12	0
Total £	**1,336**	**1,296**	**40**

It should be noted that the total investment return of £1,336,000 shown in the table above will not all be received in 2024/25 as it is an annualised figure and will include interest relating to 2023/24 and 2025/26

- An analysis of the overall in-house investments held by the Council at the end of September 2024 is shown in the following table:

(The balance at 31 March 2024 is shown for comparison)

Type of Investment	Closing Balance @ 30 September 2024 £'000	Closing Balance @ 31 March 2024 £'000
Money Markets	14,000	14,000
Money Market Funds	22,798	13,484
Business Reserve Accounts incl. Call Accounts	0	0
Total In House Investments	**36,798**	**27,484**

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 2024/25 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 5.22% was in line with Link's model portfolio and the benchmarking group.

							Difference		Model	
	WARoR	WAM	WATT	WARisk	Gilt	SONIA-Swap	Gilt	SONIA-Swap	Bands	Performance
Warwick District Council	5.22%	65	80	2.13	5.28%	5.17%	-0.06%	0.06%	5.06% - 5.30%	Inline
Benchmarking Group 3	5.20%	90	180	2.03	5.23%	5.13%	-0.03%	0.07%	5.10% - 5.34%	Inline
Non-Met Districts	5.22%	71	148	2.45	5.27%	5.16%	-0.05%	0.06%	5.09% - 5.33%	Inline

For the second quarter the WARoR was 5.10% which was above Link's model portfolio and inline with the benchmarking group.

							Difference		Model	
	WARoR	WAM	WATT	WARisk	Gilt	SONIA-Swap	Gilt	SONIA-Swap	Bands	Performance
Warwick District Council	5.10%	64	109	2.35	4.99%	4.88%	0.11%	0.22%	4.91% - 5.08%	Above
Benchmarking Group 3	4.99%	104	206	1.93	4.90%	4.79%	0.10%	0.20%	4.89% - 5.07%	Inline
Non-Met Districts	5.00%	72	140	2.29	4.97%	4.86%	0.03%	0.14%	4.90% - 5.08%	Inline

Borrowing

During the half year, there was long term PWLB borrowing activity totalling £10 million for HRA 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) paying the first half year interest instalment totalling £641,719 of HRA loans taken February to March 2024.

(c) a total of £316,500 interest on the £60 million joint venture loans.

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

(e) interest of £23,050 on the £1mill PWLB borrowing for Milverton Homes taken out on 27th April 2023 with (c), (d) and (e) 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 2024/25 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 2024/25 on preparing the 2025/26 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 considering a more formal ESG strategy in 2025/26 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 2024	NO INVESTMENTS MADE		
Over 7 days & Up to 3 months			
April to September 2024	5.29%	5.18%	0.11%
Interest earned 1st half year £	39,566	38,717	850
Over 3 months & Up to 6 months			
April to September 2024	5.28%	5.07%	0.21%
Interest earned 1st half year £	105,889	101,668	4,222
Over 6 months to 365 days			
April to September 2024	5.24%	4.92%	0.33%
Interest earned 1st half year £	470,955	441,741	29,214
1 year and over			
April to September 2024	NO INVESTMENTS MADE		
TOTAL INTEREST FIRST HALF YEAR £	**616,411**	**582,126**	**34,285**

Table 2 - Cash Flow Derived Funds & Accounts

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
Goldman Sachs (CNAV)			
April to September 2024	5.03%	5.12%	-0.08%
Interest earned 1st half year £	1,397	1,420	-23
Invesco (CNAV)			
April to September 2024	5.14%	5.12%	0.02%
Interest earned 1st half year £	214,241	213,301	940
Aberdeen Standard (LVNAV)			
April to September 2024	5.15%	5.12%	0.04%
Interest earned 1st half year £	246,478	244,694	1,784
Deutsche (LVNAV)			
April to September 2024	4.94%	5.12%	-0.17%
Interest earned 1st half year £	6,657	6,889	-232
HSBC LIQUIDITY (ESG)			
April to September 2024	5.07%	5.12%	-0.05%
Interest earned 1st half year £	97,314	98,250	-936

HSBC LIQUIDITY (NON-ESG)			
April to September 2024	5.08%	5.12%	-0.04%
Interest earned 1st half year £	60,256	60,689	-433
Federated Constant Net Asset Value (CNAV)			
April to September 2024	5.22%	5.12%	0.10%
Interest earned 1st half year £	40,236	39,442	794
Federated Cash Plus Account (VNAV)			
April to September 2024	5.22%	5.12%	0.11%
Interest earned 1st half year £	3,609	3,536	73
Royal London Cash Plus Account (VNAV)			
April to September 2024	5.61%	5.12%	0.50%
Interest earned 1st half year £	37,320	34,017	3,303
TOTAL INTEREST FIRST HALF YEAR £	**707,509**	**702,239**	**5,270**

Table 3 – Call Accounts

Period	Investment Return (Annualised)	SONIA Benchmark (Annualised)	Out/(Under) Performance
HSBC Business Deposit Account			
April to September 2024	5.07%	5.12%	-0.04%
Interest earned 1st half year £	9,103	9,183	-80
Santander Call Account (95 Day Notice)			
April to September 2024	4.76%	5.12%	-0.36%
Interest earned 1st half year £	2,444	2,628	-184
Svenska Handelsbanken Account (35 Day Notice)			
April to September 2024	2.35%	5.12%	-2.77%
Interest earned 1st half year £	60	131	-71
TOTAL INTEREST FIRST HALF YEAR £	**11,607**	**11,942**	**-335**

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				
Goldman Sachs International Bank	£3,000,000	A+	F1	91
Landesbank Hessen-Thueringen Girozentral (Helaba)	£3,000,000	A+	F1+	334
Lloyds Bank	£3,000,000	A+	F1	274
Goldman Sachs International Bank	£4,000,000	A+	F1	183
Landesbank Hessen-Thueringen Girozentral (Helaba)	£4,000,000	A+	F1+	364
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	£55,376	Fund retained its rating throughout half year		liquid
Deutsche	£268,649	Fund retained its rating throughout half year		liquid
Invesco	£8,316,506	Fund retained its rating throughout half year		liquid
Federated	£1,675,691	Fund retained its rating throughout half year		liquid
HSBC Liquidity Accounts	6,196,960	Fund retained its rating throughout half year		liquid
Aberdeen Standard	£9,540,516	Fund retained its rating throughout half year		liquid
Royal London Asset Management	£1,326,136	Fund retained its rating throughout half year		liquid

<table>
<tr><th rowspan="2">Counterparty</th><th rowspan="2">Investment Amount

£</th><th colspan="2">Credit Rating</th><th rowspan="2">Duration of Investment

(days)</th></tr>
<tr><th>Long Term</th><th>Short Term</th></tr>
<tr><td colspan="4"><u>Call Accounts</u></td><td></td></tr>
<tr><td>WDC Minimum</td><td>(Fitch)</td><td>A+</td><td>F1</td><td></td></tr>
<tr><td>HSBC Business Deposit Account</td><td>£358,052</td><td colspan="2">Counterparty retained its rating throughout period AA- long term, F1+ short term.</td><td>liquid</td></tr>
<tr><td>Svenska Handelsbanken</td><td>£5,059</td><td colspan="2">Counterparty retained its rating throughout period of AA long term, F1+ short term.</td><td>liquid</td></tr>
<tr><td>Santander Call Account</td><td>£102,447</td><td colspan="2">Counterparty retained its rating throughout period of A+ long term, F1 short term.</td><td>liquid</td></tr>
</table>

Appendix D

Warwick District Council Standard Lending List as at November 2024

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** **(*= 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
OP Corporate Bank plc		
FRANCE (AA-)		
BNP Paribas		
Credit Agricole Corporate & Investment Bank		
Credit Industriel et Commercial		
Credit Agricole SA		
GERMANY (AAA)		
DZ Bank AG (Deutsche Zentral-genossenscaftsbank)		
Landesbank Berlin AG		
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		

BANK NAME	**OTHER BANKS IN GROUP** **(*= Not on list but included for information re potential problems etc.)**	**GROUP LIMIT APPLIES**
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)		
ING Bank NV		
Nederlandse Waterschapsbank		
NORWAY		
DNB Bank ASA		
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)		
UBS AG		
UNITED KINGDOM (AA-)		
Abbey National Treasury Services 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 Bank Corporate Markets plc (NRFB) Lloyds Bank plc (RFB) Bank of Scotland (RFB)	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
National Westminster Bank PLC (RFB)		
NatWest Markets Plc (NRFB)		
Royal Bank Of Scotland plc (RFB)		
Santander UK plc		
Standard Chartered Bank		
UNITED STATES OF AMERICA (AA+)		
Bank Of America		
Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
Citibank		
JP Morgan Chase Bank NA	Bank One Corp* Bank One Financial LLC* Bank One NA * First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp*	

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.)	GROUP LIMIT APPLIES
	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 • Skipton • Yorkshire	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 • Saffron • Furness • Hinckley & Rugby • Ipswich • Darlington • 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.

<u>Other Counterparties</u>

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		£6m	

Investment/ Counterparty type:	**S/term**	**L/term**	**Security/ Min credit rating**	**Max limit per counter-party**	**Max. Maturity period**
		- & ABOVE			
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 - & 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

Investment/ Counterparty type:	S/term	L/term	Security/ Min credit rating	Max limit per counter-party	Max. Maturity period
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

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 third quarter of 2024 (July to September) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
  - 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the

three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.