Item: 6

Investments Sub-committee: 18 September 2024

Treasury Management – Monitoring

Report by Head of Finance

1. Overview

1.1. An analysis of the Treasury Management Performance for financial year 2024/25, as at 30 June 2024, attached as Appendix 1 to this report, covers the following elements:

- Borrowing activity.
- Temporary loans.
- Strategic Reserve Fund

1.2. The conclusion of the analysis of performance is that existing treasury management practices have operated effectively over the first quarter of the current financial year.

2. Recommendations

2.1. It is recommended that members of the Sub-committee:

i. Scrutinise the quarterly report, attached as Appendix 1 to this report, prepared by Link Treasury Services, the Council's Treasury Adviser, which covers the following elements of treasury management, in order to obtain assurance that the Treasury Management Practices are operating effectively:
   - An economic update for the quarter ended 30 June 2024.
   - Interest rate forecasts.
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
   - A review of prudential and treasury indicators for 2024/25, as at 30 June 2024.

ii. Scrutinise the status of the temporary loans portfolio as at 30 June 2024, as detailed in section 4 of this report, in order to obtain assurance that the Treasury Management Practices are operating effectively and the portfolio is producing an acceptable rate of return.

3. Background

3.1. Regulation 21 of the Council’s Financial Regulations confirms that the Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy’s Code of Practice for Treasury Management in the Public Services (the Code).

3.2. The Code defines treasury management to include investment activities.

3.3. The Council’s investment priorities can be summarised as maintaining:

- The security of capital.
- The liquidity of its investments.

3.4. The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund’s long term obligations in terms of the decommissioning of the Flotta Oil Terminal in the future.

3.5. The Financial Regulations refer to maintenance of the Treasury Management Policy Statement and Treasury Management Practices as the cornerstone for effective treasury management and the requirement to report annually on the Treasury Management function.

3.6. The CIPFA Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report ensures that the Council is implementing best practice in accordance with the Code of Practice

4. Treasury Management Performance

4.1. As at 30 June 2024, the Council’s debt portfolio stood at £55,014,263, with loan maturities ranging from 4 months to 46 years. Overall, this represents an average cost of borrowing of 3.67% per annum, with an average weighted duration of 27.7 years.

4.2. The cost of this debt is managed as part of the loan charges associated with the capital programme and has been offset in the short term with surplus funds placed on deposit for periods of up to one year.

4.3. The temporary loan portfolio as at 30 June 2024 totalled £14,840,707.22. Further details are provided in the Monthly Investment Analysis Review prepared by Link Asset Services, attached as Appendix 2 to this report.

4.4. For the period 1 April to 30 June 2024, the temporary loans returned an average interest rate of 5.22%, which equates to a return of £168,086.19.

4.5. By comparison, the equivalent 30-day backward looking Sterling Overnight Index Average rate of 5.21% is considered to be the target.

4.6. With inflation quoted at 2.0% for June 2024 based on Consumer Price Index (2.9% Retail Price Index), the return on temporary loans equates to a relative gain in value of 3.22% in real terms.

5. Benchmark Liability

5.1. CIPFA introduced the liability benchmark as a new Prudential Indicator to provide a measure of how well the existing loans portfolio matches planned borrowing needs:

- It is a projection of the amount of loan debt outstanding, that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowings and other cash flows.
- The liability benchmark advocates a net book approach to treasury management, where borrowings and investments are netted down while maintaining appropriate investments for liquidity purposes, thereby reducing the treasury risks associated with running debt and investment portfolios at the same time.

5.2. The Liability Benchmark, attached as Appendix 3 to this report shows that the Council's liabilities are sitting well below the benchmark.

For Further Information please contact:
Shonagh Merriman, Service Manager (Corporate Finance), extension 2105, Email shonagh.merriman@orkney.gov.uk

Implications of Report

1. **Financial:** The financial implications are contained within the body of the report.
2. **Legal:**
   - Treasury Management arrangements help the Council meet its statutory obligation to secure best value.
   - Section 40 of the Local Government in Scotland Act 2003 provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.
   - Section 95 of the Local Government (Scotland) Act 1973 states that every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer has responsibility for the administration of those affairs.
3. **Corporate Governance:** At its meeting held on 20 February 2024, the Policy and Resources Committee noted that, from 2024/25 onwards, the Investments Sub-committee would be responsible for ongoing monitoring and scrutiny of the approved Treasury Management Strategy Statement, including a mid-year review and annual review.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** Equality Impact Assessment is not required for financial monitoring.
6. **Island Communities Impact:** Island Communities Impact Assessment is not required for financial monitoring.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:

   ☐Growing our economy.

   ☐Strengthening our Communities.

   ☐Developing our Infrastructure.

   ☐Transforming our Council.
8. **Links to Local Outcomes Improvement Plan**: The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

   ☐Cost of Living.

   ☐Sustainable Development.

   ☐Local Equality.
9. **Environmental and Climate Risk:** Environmental, Social and Governance factors are recognised as having the potential to impact the Fund.
10. **Risk:** Reviewing the performance quarterly ensures that the treasury management processes are being adhered to and provides assurance that associated risks are being managed effectively.

11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Policy and Resources 20 February 2024 - Treasury Management Strategy Statement 2024/25.

Appendices

Appendix 1 – Treasury Management Update – Quarterly Report 2023/24.
Appendix 2 – Link Asset Services Monthly Investment Analysis Review for June 2024.
Appendix 3 – Liability Benchmark Chart.

Treasury Management Update

Quarterly report

30th June 2024

Contents

Treasury Management Update
Quarter Ended 30th June 2024

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economics update

- The first quarter of 2024/25 saw:
  - GDP growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% q/q.
  - A stalling in the downward trend in wage growth, with the headline 3myy rate staying at 5.9% in April.
  - CPI inflation falling from 2.3% in April to 2.0% in May.
  - Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
  - The Bank of England holding rates at 5.25% in May and June.
  - 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.
- The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April and May so far shows a slight stalling in the recovery, with GDP data for April coming out at 0.0% m/m, as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May to 51.7 in June confirms tepid growth.
- On a more positive note, the 2.9% m/m increase in retail sales volumes in May more than reversed the 1.8% m/m drop in April as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects. With inflation falling back to target, Bank Rate likely to be reduced soon and with consumer confidence improving, retail sales may well continue to strengthen.
- Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However, investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest. But improving business sentiment should raise investment by services' firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of GDP growth, along with government consumption. Our colleagues at Capital Economics forecast that following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).
- Nonetheless, the on-going stickiness of wage growth in April will be a lingering concern for the Bank of England. The 3myy rate of average earnings growth stayed at 5.9% in April (consensus 5.7%), whilst the more timely 3m annualised rate rebounded from 5.9% to 9.3%. This stickiness partly reflected April's 9.8% increase in the minimum wage. This leaves the Bank of England's forecast for a fall back in regular private sector pay growth from 5.8% in April to 5.1% in June looking a challenge.
- Despite the stickiness of wage growth in April, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the three months to April was accompanied by a rise in the unemployment

rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April as the UK's disappointing labour market participation performance since the pandemic continued. The vacancies data also paint a picture of a slowly cooling labour market. The number of job vacancies fell from an upwardly revised 908,000 to 904,000, leaving vacancies 31% below the peak in May 2022, but 11% above the pre-pandemic level.

- The fall in CPI inflation in May back to the Bank's 2% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the US and 2.6% in the Euro-zone in May, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April to 1.6% in May played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May, food price inflation will probably soon fall to zero.
- The core rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases last May. While services inflation fell from 5.9% to 5.7%, this decline was smaller than the Bank of England expected (forecast 5.3%). And the timelier three-month annualised rate of services prices has rebounded from 8.5% to 9.2%. This suggests that the persistence in domestic inflation that the Bank is worried about is fading more slowly than it thought. Even so, there is scope for inflation to fall further.
- There was little chance that the Bank would cut rates at its June meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting closer (August?). First, two members of the MPC, Ramsden and Dhingra voted again to reduce rates immediately to 5.00%. Second, despite the recent run of stronger inflation and activity, the minutes noted "indicators of inflation persistence had continued to moderate" and that a range of indicators suggest pay growth had continued to ease. And there was new wording that members of the MPC will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding "as part of the August forecast round".
- Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2nd April to finish at 4.15% on 28th June but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.
- Meanwhile, the FTSE 100 broke through the 8,000 mark in April for the first time since its brief three-day flutter in February last year and reached a record closing high of 8,446 on 15th May. However, by the end of the quarter, despite AI-fuelled rises in the US S&P500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

MPC meetings 9th May and 20th June 2024

- On 9th May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- Nonetheless, with UK CPI inflation now back at 2% and set to fall further over the coming months, Ramsden and Dhingra – who voted again to reduce rates immediately to 5.00% in June – may shortly be joined by some members in the no-change camp, for whom the June decision was "finely balanced" as the upside news on services price inflation was more likely to be a reflection of one-off effects and volatile components rather than factors that would push up "medium-term inflation".

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

The latest forecast, updated on 28th May, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market.

Moreover, whatever the shape of domestic data, recent gilt market movements have been heavily influenced by the sentiment pertaining to US monetary policy. Again, inflation and labour data has proven sticky and the market's expectation for rate cuts has gradually reduced throughout the course of the year, so that possibly rates may not be cut more than once, or possibly twice, before the end of 2024. In any event, even if the Bank of England starts to cut rates first, it may mean that the medium and longer parts of the curve take longer to fully reflect any such action until the US yield curve shifts lower too. Given the potential inflationary upside risk to US treasuries if Trump wins the presidential election in November (increased tariffs on imports from China for example), therein lies a further risk to yields remaining elevated for longer.

Closer to home, the General Election is not expected to have a significant impact on UK monetary policy. There is minimal leeway for further tax cuts or added spending without negatively impacting market sentiment. It may even be the case that the Bank of England will steer clear of an August rate cut – should that be supported by the inflation data – in favour of weighing up fiscal policy implications and market sentiment in the aftermath of the election.

Accordingly, Link's central case is still for a rate cut before the end of September, but we are not committed to whether it will be in August or September. Thereafter, the path and speed of rate cuts is similar to that which we previously forecast, with Bank Rate eventually falling to a low of 3% by H2 2026.

However, given the increased uncertainty surrounding Link's central gilt market forecasts, and the significant issuance that will be on-going from several of the major central banks, it has marginally increased its PWLB forecasts by c20 to 30 basis points across the whole curve since the previous quarter.

In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link's Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market's appetite for significant gilt issuance (£200bn+ for each of the next few years). As noted at the Link March Strategic Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 20 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seeking out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the charts below and the interest rate forecasts in section 2, investment rates have remained elevated during the first quarter of 2024/25 but are expected to fall back through the second half of 2024 as inflation reduces and the MPC starts to loosen monetary policy.

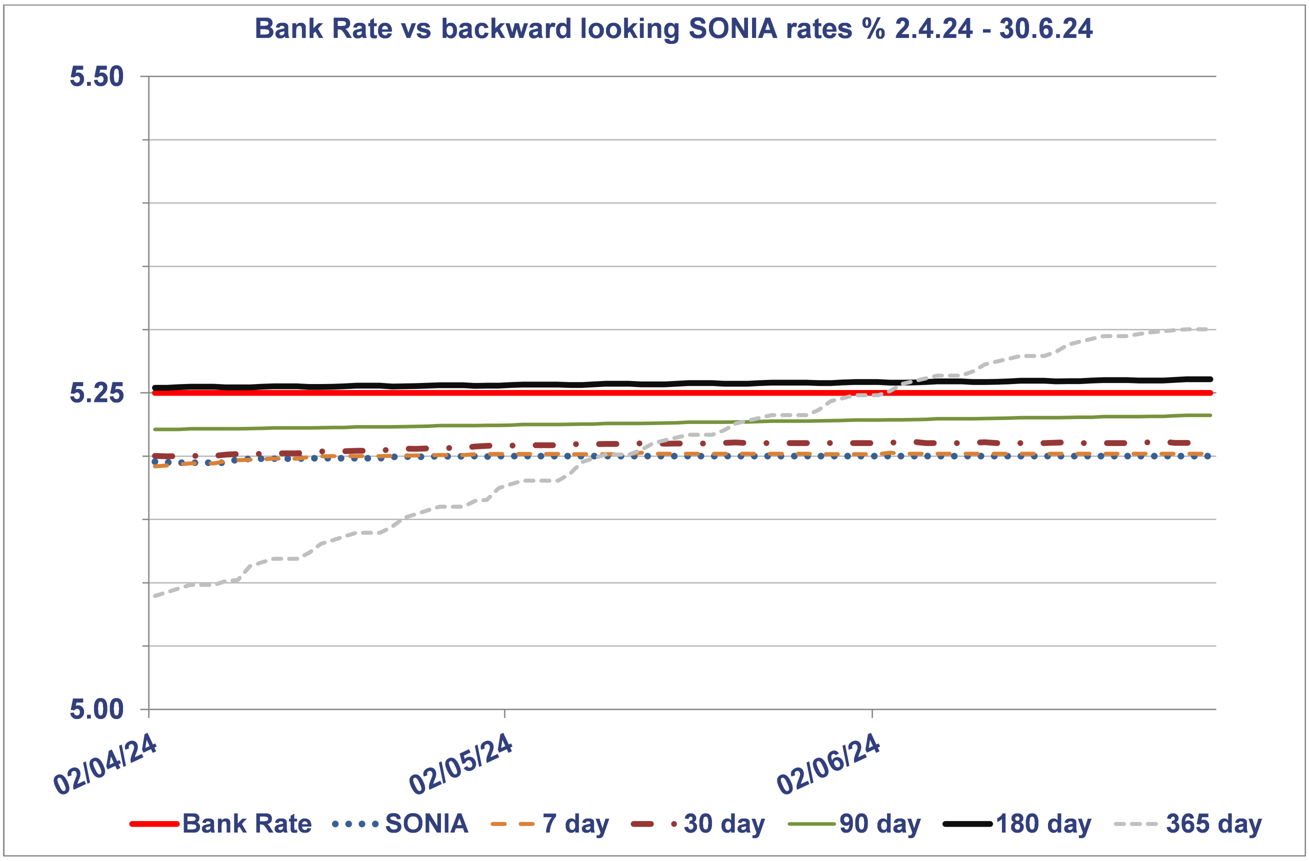
Creditworthiness.
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
For UK banks, these have remained low, and prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances
The average level of funds available for investment purposes during the quarter was **£12.138m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment performance year to date as of end-June 2024



FINANCIAL YEAR TO QUARTER ENDED 30/06/2024							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.20	5.20	5.21	5.23	5.26	5.30
High Date	02/04/2024	03/05/2024	13/05/2024	26/06/2024	28/06/2024	28/06/2024	28/06/2024
Low	5.25	5.19	5.19	5.20	5.22	5.25	5.09
Low Date	02/04/2024	04/04/2024	02/04/2024	03/04/2024	02/04/2024	02/04/2024	02/04/2024
Average	5.25	5.20	5.20	5.21	5.23	5.26	5.21
Spread	0.00	0.01	0.01	0.01	0.01	0.01	0.21

The Council's internally managed investments outperformed the benchmark (30-day backward looking SONIA) shown above by 1 bps.

Fund investments – as at 30 June 2024

Treasury Investments – Managed In House	Principle (£m)	Interest Rate	Maturity Date
Debt Management Account Deposit Facility (DMADF)	*1.100*	*5.19%*	*01/07/2024*
Bank of Scotland	*1.000*	*5.28%*	*10/07/2024*
Debt Management Account Deposit Facility (DMADF)	*1.700*	*5.19%*	*15/07/2024*
Bank of Scotland	*0.700*	*5.28%*	*15/07/2024*
Bank of Scotland	*1.000*	*5.29%*	*17/07/2024*
Bank of Scotland	*0.800*	*5.29%*	*22/07/2024*
Aberdeen Standard Investments Money Market Fund	*3.700*	*5.23%*	*Call*
Blackrock ICS Heritage Shared Money Market Fund	*1.000*	*5.18%*	*Call*
Insight Liquidity Funds PLC	*3.700*	*5.23%*	*Call*
Royal Bank of Scotland	*0.141*	*3.25%*	*Call*
Total Investment – In House	***14.841***		

The Strategic Reserve Fund has underperformed the benchmark over the quarter to 30 June 2024, returning a gain 0.7% over the period, against a target of 1.9%.

Treasury Strategic Reserve Fund – Managed Externally	Actual (£m)	Performance Quarter Ending 30/06/24	Benchmark
Equity Portfolio	49.000	0.10%	3.20%
Global Equity Portfolio	54.200	0.30%	4.00%
Diversified Growth Fund	30.300	2.10%	2.10%
High Yield Credit Strategies Fund	23.800	2.00%	2.50%
Private Loan Fund	8.100	2.30%	1.5%
UK Property Fund	23.000	1.50%	1.20%
Secured Income Fund	30.100	n/a	n/a
Corporate Bonds Fund	41.700	0.20%	-0.10%
Total Investment – External	**260.400**	**0.70%**	**1.90%**

*No performance figures are provided where full drawdown of the Council's commitment has not been concluded.

Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2024.

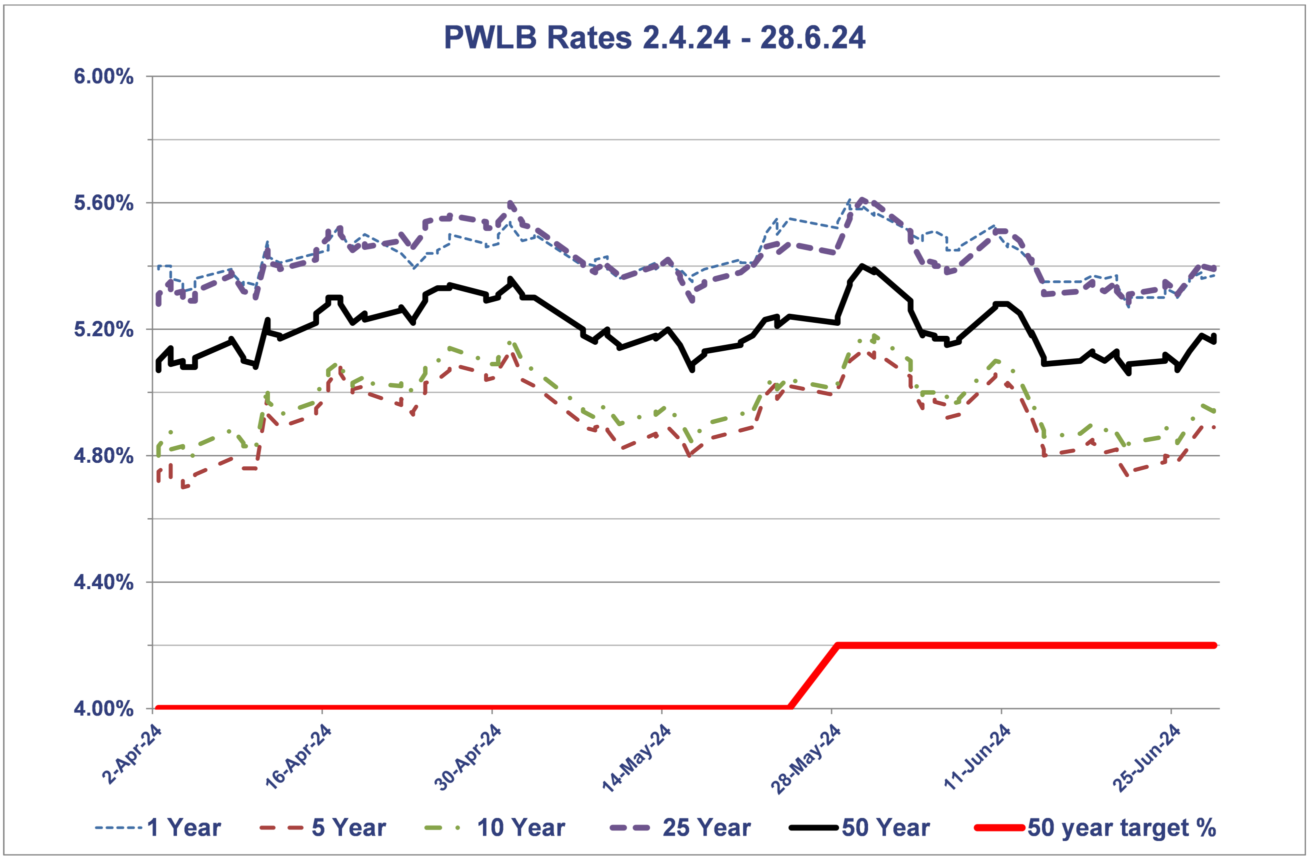
4. Borrowing

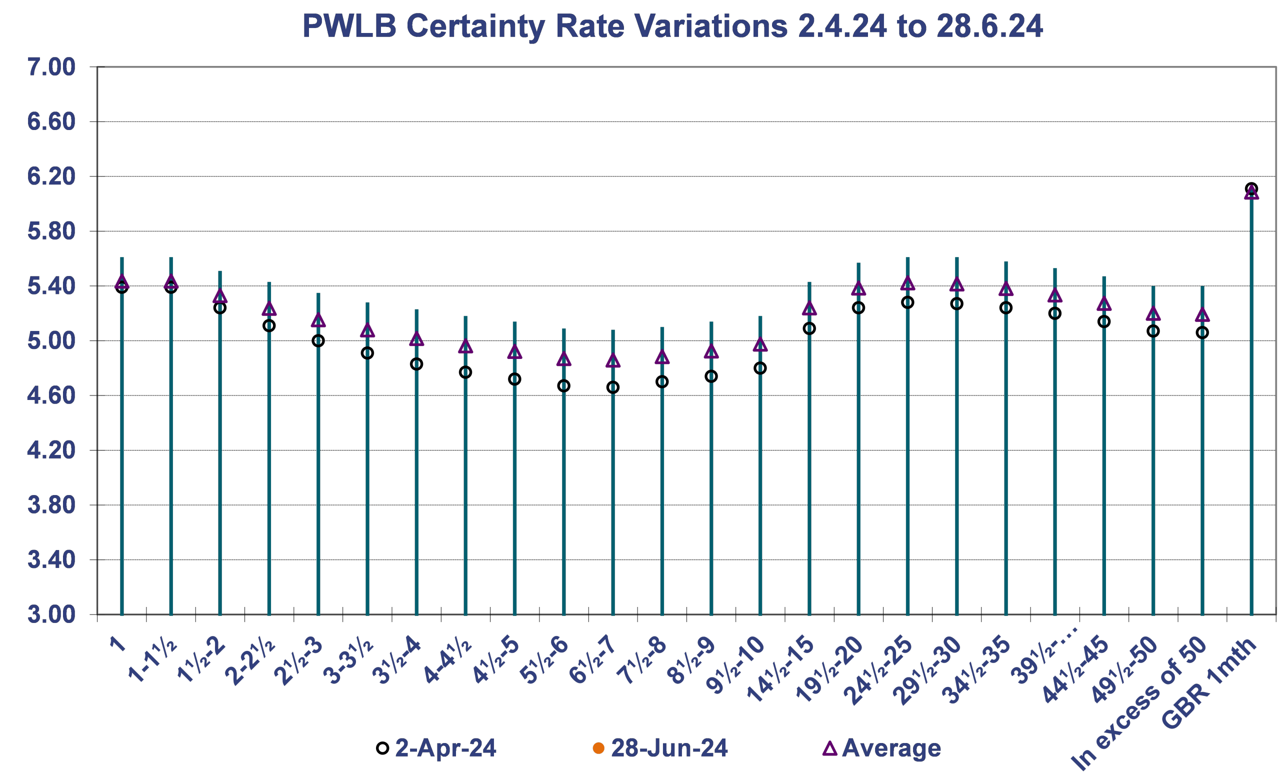
Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing of £10m was undertaken in May 2024 from the PWLB at a rate of 5.48%.

PWLB maturity Certainty Rates 1st April to 30th June 2024
Gilt yields and PWLB rates remained relatively stable between 1st April and 30th June. Having said that, the spread between the low and high points during the quarter was between 0.3% and 0.45% across the curve.

The 50-year PWLB Certainty Rate target for new long-term borrowing (the low point of our forecast on a two-year timeline) started 2024/25 at 4.00% and increased to 4.20% on 28th May. As can be seen, with rates remaining elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

PWLB RATES 02.04.24 - 28.06.24 (note: the 1st of April & 29th and 30th June were bank holidays/weekends)





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 28.06.24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	5.27%	4.70%	4.80%	5.28%	5.06%
Date	21/06/2024	04/04/2024	02/04/2024	02/04/2024	21/06/2024
High	**5.61%**	**5.14%**	**5.18%**	**5.61%**	**5.40%**
Date	29/05/2024	01/05/2024	01/05/2024	30/05/2024	30/05/2024
Average	5.43%	4.92%	4.98%	5.42%	5.20%
Spread	0.34%	0.44%	0.38%	0.33%	0.34%

5. Debt rescheduling

Debt rescheduling opportunities have remained a possibility in the current quarter for those authorities with significant surplus cash and a flat or falling Capital Financing Requirement in future years. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

6. Compliance with Treasury and Prudential Limits

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable capital expenditure limits. During the *quarter ended* 30th June 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Head of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

7. Other

1. Changes in risk appetite

The 2021 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members’ attention in treasury management update reports.

APPENDIX 1: Prudential and Treasury Indicators for 2024-25 as of 30th June 2024

Treasury Indicators	2024/25 Budget £'000	30.06.24 Actual £'000
Authorised limit for external debt	85,000	85,000
Operational boundary for external debt	75,000	75,000
Gross external debt	60,000	55,014

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	25% / 25%	9.0%
12 months to 2 years	0% / 10%	36.4%
2 years to 5 years	0% / 15%	0%
5 years to 10 years	0% / 0%	0%
10 years to 20 years *1	0% / 0%	0%
20 years to 30 years *1	0% / 0%	0%
30 years to 40 years *1	0% / 0%	18.2%
40 years to 50 years *1	50% / 75%	36.4%

APPENDIX 2: Investment Portfolio

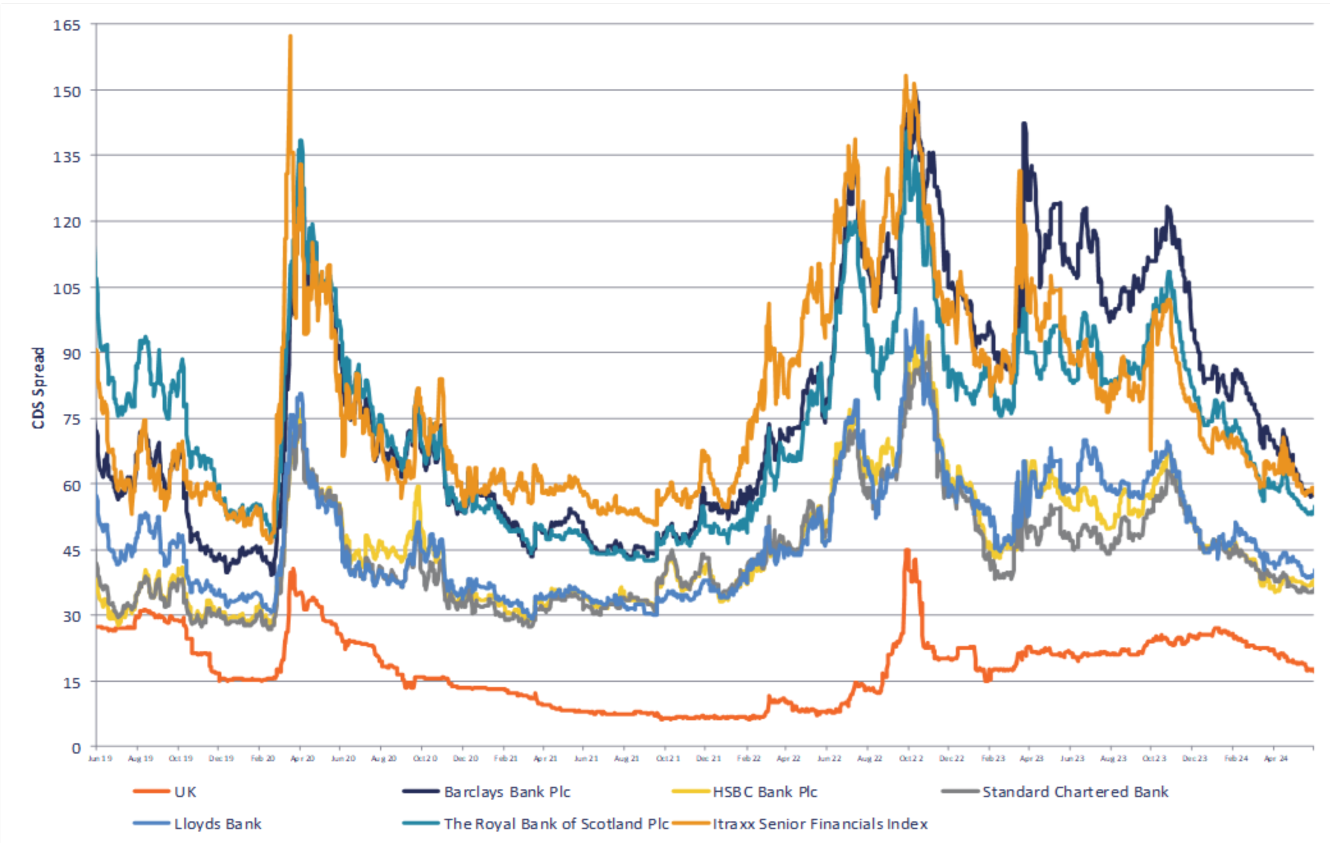
Investments held as of 30th June 2024 compared to our counterparty list:

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
The Royal Bank of Scotland Plc (RFB)	140,707	3.25%		Call	A+	0.000%	0
MMF Aberdeen Standard Investments	3,700,000	5.22%		MMF	AAAm		
MMF BlackRock	1,000,000	5.17%		MMF	AAAm		
MMF Insight	3,700,000	5.24%		MMF	AAAm		
DMO	1,100,000	5.19%	24/06/2024	01/07/2024	AA-	0.000%	0
Bank of Scotland Plc (RFB)	1,000,000	5.28%	10/06/2024	10/07/2024	A+	0.001%	13
Bank of Scotland Plc (RFB)	700,000	5.28%	13/06/2024	15/07/2024	A+	0.002%	13
DMO	1,700,000	5.19%	10/06/2024	15/07/2024	AA-	0.001%	0
Bank of Scotland Plc (RFB)	1,000,000	5.29%	17/06/2024	17/07/2024	A+	0.002%	21
Bank of Scotland Plc (RFB)	800,000	5.29%	20/06/2024	22/07/2024	A+	0.003%	22
Total Investments	**£14,840,707**	**5.21%**				**0.001%**	**£70**

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.
The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2023 for Fitch, 1983-2023 for Moody's and 1981 to 2023 for S&P.

UK Banks 5 Year Senior Debt CDS Spreads as of 30th June 2024

The chart below shows the cost in basis points of ensuring against the prospect of default on 5 year "paper" issued by major UK banks v the ITRAXX Senior Financials Index.



APPENDIX 3: Approved countries for investments as of 30th June 2024

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar (upgraded from AA- 20/3/24)

AA-

- Belgium
- France
- **U.K.**