AG034
AUDIT & GOVERNANCE COMMITTEE

REPORT TITLE: TREASURY MANAGEMENT MID YEAR MONITORING REPORT FOR 2020/21

12 NOVEMBER 2020

REPORT OF CABINET MEMBER: Finance – Cllr. Neil Cutler

Contact Officer: Neil Aitken Tel No: 01962 848099
Email naitken@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

This report provides detail of the performance of the treasury management function. This includes the effects of the decisions taken in the past six months, and confirmation that there were no instances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices for 2020/21 to date other than the one instance already reported to the Committee as part of the Treasury Management Outturn Report 2019/20.

RECOMMENDATIONS:

That the Audit and Governance Committee:

1. Note the Treasury Management Mid-Year Monitoring Report 2020/21.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 Treasury management is an integral part of helping to deliver the Council Strategy and all of its outcomes. The Council set a target of achieving a 1% return on its investments in 2020/21 and as at 30 September 2020 has achieved an average rate of return of 1%. Returns on investment balances continue to be affected by the economic impact of the coronavirus pandemic and are therefore less certain than in previous years.

2 FINANCIAL IMPLICATIONS

2.1 Effective treasury management ensures both the financial security and liquidity of the Council.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.

3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

4 WORKFORCE IMPLICATIONS

4.1 HCC's Investments and Borrowing Team carry out the day to day management of the Council's cash balances and investments. The Council's in-house finance team undertake the accounting and retain responsibility for long-term borrowing decisions.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None

6 CONSULTATION AND COMMUNICATION

6.1 This report has been produced in consultation with HCC's Investments & Borrowing team.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 Following the Council's declaration of a Climate Emergency in June 2019 and in line with the ethical stances in its investment policy, the Council has no direct or indirect equity investments in companies directly involved in the fossil fuel industry.

8 EQUALITY IMPACT ASSESSEMENT

8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Returns from investments are too low	A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the Council's risk appetite.	Returns above budgeted levels
A counterparty fails	A diversified strategy that has relatively low levels of counter-party risk	
Cash is not available	A balanced portfolio of liquid and long term funds are held to ensure cash is available to utilise. The Council also mitigates this risk through cashflow forecasting	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity

11 SUPPORTING INFORMATION:

12 Introduction

12.1 The Council adopts the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA code requires the Council to approve a treasury management strategy before the start of the year and semi-annual and annual treasury management reports.

12.2 This report fulfils the Council's legal obligation to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2020/21.

13 Summary

13.1 Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

13.2 The Council's Treasury Management Strategy (TMS) for 2020/21 was approved at a meeting of the Council in February 2020. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS.

13.3 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since September 2014 but overall responsibility for treasury management remains with Winchester City Council. No treasury management activity is without risk and the effective identification and management of risk are integral to the Council's treasury management objectives.

13.4 All treasury activity has complied with the Council's TMS and Investment Strategy for 2020/21, and all relevant statute, guidance and accounting standards except for one instance already reported to the Committee as part of the Outturn Report for 2019/20. In addition, the Council's treasury advisers, Arlingclose, provide support in undertaking treasury management activities.

14 External context

14.1 The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2020/21.

Economic commentary

14.2 Coronavirus dominated the news during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus whilst also supporting their economies. A national lockdown in the UK was followed by the gradual easing of restrictions and the introduction of various support packages, including the job retention scheme and the Eat Out to Help Out (EOHO) offer.

14.3 The Bank of England's (BoE) Monetary Policy Committee maintained Bank Rate at 0.1% throughout the period and increased its Quantitative Easing programme to £745 billion. It has also not ruled out the use of negative interest rates in future, which has had an impact on interest rates available in the money markets.

14.4 Gross Domestic Product (GDP) contracted by 19.8% in Quarter 2 according to the Office for National Statistics (ONS), pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering although output is still significantly below pre-coronavirus levels. A potential second wave of the virus and the impending end of the transition period for the UK's exit from the EU may have a further impact on GDP and the economy over the remainder of the year.

14.5 The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, significantly below the BoE's 2% target. Inflation was slightly higher at 0.5% year on year using the CPIH measure, which is preferred by the ONS and includes owner-occupied housing.

14.6 In the three months to July, the unemployment rate increased from 3.9% to 4.1% while wages fell in both real and nominal terms. The unemployment rate may pick up sharply in the coming months as the furlough scheme ends and the BoE has forecast unemployment could hit a peak of between 8% and 9%.

Financial markets

14.7 After selling off sharply in March 2020, world equity markets started recovering in April and have continued to regain value during Quarters 2 and 3. Not all sectors and geographies have rebounded to the same extent and the recovery has largely been driven by a small number of US technology stocks, while in the UK the FTSE 100 and 250 have only made up around half of their pre-crisis losses. Central bank and government stimulus packages continue to support asset prices, but volatility and uncertainty remain.

14.8 Ultra-low interest rates and the flight to quality continued during the period, with the yield on some shorted-dated UK government bonds turning negative and yields on longer-dated bonds remaining low.

Credit review

14.9 After rising sharply in late March, credit default swap (CDS) spreads slowly eased over Quarters 2 and 3 to slightly above their pre-crisis levels suggesting the pandemic has not had a significant lasting impact on confidence in UK banks across the market. That being said, Fitch downgraded the UK sovereign credit rating to AA- in March, which was followed by revising the outlook for all UK banks approved for use by the Council by Arlingclose either to negative or rating watch negative, although the long term rating for HSBC was increased. Fitch and S&P also downgraded the long-term rating for Transport for London.

14.10 The extent of the losses that banks and building societies will suffer as a result of the coronavirus pandemic remains uncertain but is expected to be substantial. Arlingclose have therefore conducted a stress testing exercise and in June 2020 suspended a number of UK banks and building societies from the counterparty list for unsecured deposits as a result. Arlingclose also continue to recommend a maximum duration of 35 days for investments with the remaining counterparties. Although far better capitalised than during the Great Financial Crisis there remains significant uncertainty about the impact of the pandemic and with the added unknown of what the final Brexit trade deal may look like. Arlingclose are therefore recommending a prudent approach and the institutions on Arlingclose's counterparty list remain under constant review.

15 Local context

15.1 At 31 March 2020 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £204.0m. The Council held £29.9m of investments (principal invested plus gains on investments with a variable net asset value, as well as operational cash balances) and £156.7m of external borrowing. These factors are summarised in Table 1.

Table 1: Balance Sheet Summary

	31/03/2020 Balance £m
General Fund CFR	(41.1)
Housing Revenue Account CFR	(162.9)
Total CFR	(204.0)
Total investments	29.9
External borrowing	(156.7)
Internal borrowing	(47.3)
Total funding of the CFR	(204.0)

15.2 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2020 and the movement since 31 March 2020 is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %
Long-term borrowing	(156.7)	-	(156.7)	3.3%
Short-term borrowing	-	-	-	-
Total borrowing	(156.7)	-	(156.7)	3.3%
Long-term investments	12.0	(5.0)	7.0	3.1%
Short-term investments	4.0	5.0	9.0	0.9%
Cash and cash equivalents	15.4	-	15.4	0.1%
Total investments	31.4	-	31.4	1.0%
Net borrowing	(125.3)	-	(125.3)	

Note: the figures in the table above at 31 March 2020 are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

15.3 The investment balance varies throughout the year and typically the balance reported at mid-year will be greater than it was at the close of the previous financial year due to the timing of income and expenditure during the year. The investment balance at 30 September 2020 is however the same as the total investment balance reported at 31 March 2020 as a result of spend on the capital programme as well as reduced income due to the effects of the coronavirus pandemic.

16 Borrowing activity

16.1 As shown in Table 2, as at 30 September 2020 the Council held £156.7m of loans with the vast majority of loans being in relation to the resettlement of the HRA in 2012. The mid-year treasury management borrowing position and movement since 31 March 2020 is shown in Table 3.

Table 3: Borrowing Position

	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %	30/09/2020 WAM* years
Public Works Loan Board	(156.7)	-	(156.7)	3.3	20.2
Total borrowing	(156.7)	-	(156.7)	3.3	20.2

*Weighted average maturity

Note: the figures in the table above at 31 March 2020 are from the balance sheet in the Council's statement of accounts but adjusted to exclude accrued interest.

16.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

16.3 Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

16.4 With the assistance of Arlingclose, the benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs may be higher.

17 Investment activity

17.1 The Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. The Council's investment holding was £31.4m at 30 September 2020, which was £14.1m (31.0%) lower than the same time last year, largely as a result of planned capital expenditure and the impact of the coronavirus pandemic on the Council's budget.

17.2 During the six month period from 1 April to 30 September 2020, the Council's investment balance ranged between £65.1m and £31.4m due to timing differences between income and expenditure.

17.3 Table 4 shows investment activity for the Council as at 30 September 2020 in comparison to the reported activity as at 31 March 2020. The total balance is the same although the composition of investments has changed, with more money held in short term funds pending expenditure on the capital programme and in response to the coronavirus pandemic.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %	30/09/2020 WAM* years
Short term investments					
Banks and Building Societies:					
Unsecured	1.8	2.2	4.0	0.0%	0.0
Secured	3.0	0.5	3.5	1.2%	0.5
Money Market Funds	12.6	1.8	14.4	0.1%	0.0
Local Authorities	-	1.5	1.5	1.3%	0.7
Cash Plus Funds	1.0	-	1.0	1.2%	0.0
UK Treasury Bills	1.0	(1.0)	-	N/A	N/A
	19.4	5.0	24.4	0.4%	0.1
Long term investments					
Banks and Building Societies:					
Secured	5.5	(3.5)	2.0	0.7%	2.3
Local Authorities	1.5	(1.5)	-	N/A	N/A
	7.0	(5.0)	2.0	0.7%	2.3
Higher yield investments					
Pooled Property Funds**	5.0	-	5.0	4.0%	N/A
	5.0	-	5.0	4.0%	N/A
TOTAL INVESTMENTS	31.4	-	31.4	1.0%	0.3

*Weighted average maturity, excluding the pooled property fund
** The rates provided for pooled property investments are reflective of annualised income returns over the year to 30 September 2020.

Note: the figures in the table above at 31 March 2020 are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash, market value adjustments and accrued interest.

17.4 The CIPFA Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

17.5 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21.

17.6 Counterparty credit quality has been assessed and monitored with reference to credit ratings, analysis of funding structures and susceptibility to bail-in of financial institutions, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

17.7 The Council also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

17.8 Over the six month period, the Council has continued to feel the effects of the coronavirus pandemic on its investment balances, and has experienced reducing money market rates, a reduced number of counterparty names available and a reduction in advised investment durations.

17.9 In light of the impact on income and expenditure of the pandemic and the additional planned expenditure on the capital programme, the Council kept a greater proportion of cash available at very short notice. Liquid cash was diversified over several counterparties, including the Debt Management Office, bank call accounts, and Money Market Funds (MMFs) to manage both credit and liquidity risks.

17.10 To further reduce risk, the Council also invests in local authorities, registered providers, the Debt Management Account Deposit Facility (DMADF) and secured bank bonds, as these counterparties are not subject to bail-in risk. 29% of the internally managed balance at 30 September 2020 was not subject to bail-in risk.

17.11 The Council has used the DMADF during this period. This facility provides strong levels of security as the Council is lending to the UK government. However, on 25 September the overnight, 1- and 2-week deposit rates on DMADF deposits dropped below zero percent to -0.03%, which discourages local authorities from using this facility for short-term cash. The Council has not to date used the DMADF at negative rates and has therefore maintained a positive net return.

17.12 The return on MMFs net of fees fell over the six months and for many funds net returns range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.

17.13 Against this backdrop, the Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.34% on internally managed funds as at 30 September 2020 whilst also maintaining sufficient liquidity through the use of call accounts, the DMADF and money market funds.

17.14 The progression of credit risk and return metrics for the Council's investments managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5. This compares the data for the quarter ended 30 September 2020 with data for the quarter ended 31 March 2020.

Table 5: Investment Benchmarking (excluding pooled funds)

	Credit Rating	Bail-In Exposure	WAM* (days)	Rate of Return
31.03.2020	AA	56%	174	0.68%
30.09.2020	AA-	71%	113	0.34%
Similar LAs	AA-	65%	51	0.30%
All LAs	AA-	64%	18	0.27%

* Weighted Average Maturity

17.15 During the period to 30 September 2020 the impact of the two Bank Rate cuts in March was felt across the money markets, which resulted in the investment return on internally managed investments in the portfolio reducing. However, this average return was slightly above other Arlingclose local authority clients.

17.16 The Council also held increased liquidity in anticipation of planned spend on the capital programme (including the ongoing leisure centre project) and in response to the coronavirus pandemic, which has had an impact on the Council's revenue budget. The increased liquidity meant higher bail-in risk exposure as a greater proportion of the Council's funds were invested in money market funds, which invest in instruments that are liable to bail-in although this is mitigated by the high level of diversification of holdings within each MMF and by the Council spreading its investments across multiple funds. The Council also achieved further diversification through the use of bank call accounts and the DMADF.

17.17 In aggregate the average credit rating of the investment portfolio reduced from AA to AA-, however, this is still a strong credit rating. Where the Council invests with banks it does so only where these institutions are on the approved list of counterparties provided by Arlingclose and any unsecured investments will only be made for short durations to mitigate risk. The AA- rating is in line with other local authorities advised by Arlingclose.

17.18 In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest in the externally managed CCLA Property pooled fund as part of its higher yielding strategy.

17.19 Pooled fund investments are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term. By holding investments for the longer term, the Council is able to ride out periods of volatility that result in falls in value and manage the security of the Council's original investment. Investing only steady core balances also means the Council should not ever need to be a forced seller for liquidity reasons.

17.20 This investment allows the Council to diversify into an asset class other than cash without the need to own and manage the underlying investments, with £5m currently invested. A further £1m is held in a cash plus pooled fund, which forms part of the Council's short-term cash portfolio.

17.21 These investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.

17.22 The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Council's investments in the property pooled fund suffered a £0.2m fall in capital value (-3.58%) over the year to 31 March 2020 and a further £0.2m fall in the period to the end of September 2020. The change in capital value of the pooled fund is summarised in Table 6 and demonstrates that the value remains greater than the amount initially invested by the Council.

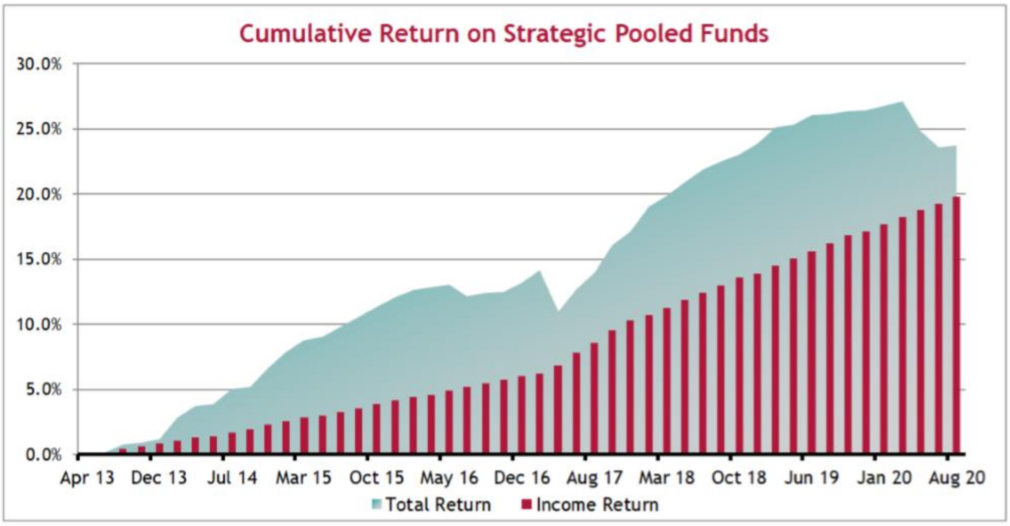
Table 6: Pooled fund capital value

	Principal £m	31/03/2020 Capital value £m	Movement £m	30/09/2020 Capital value £m
CCLA LA Property Fund	5.0	5.4	(0.2)	5.2

17.23 Dealing in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers, and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty was re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for this property fund; from September 2020 investors are now required to give at least 90 calendar days' notice for redemptions.

17.24 In 2020/21 the Council expects to receive significantly lower income from both its internally invested cash and its higher yielding portfolio than it did in previous years. It should be noted that the average return in Table 4 is likely to fall further over the course of the financial year. Dividends and income paid will ultimately depend on many factors including the ongoing impact of the pandemic and the individual strategy and investment decisions of the pooled property fund, which is the most significant contributor to the Council's investment income.

17.25 The chart below shows the positive impact of regular income returns from pooled funds over time and the ongoing suitability of the Council's approach to pooled fund investments will continue to be reviewed regularly with Arlingclose.



18 Other non-treasury holdings and activity

18.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

18.2 This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

18.3 Further information on the Council's non-Treasury investments is included in CAB3246 Quarter 4 Financial and Performance Monitoring presented to Cabinet on 9 July 2020.

19 Compliance report

19.1 The Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy with the exception of the one instance already reported to the Committee as part of the Outturn Report for 2019/20 when the 50% limit on exposure to Money Market Funds was temporarily passively breached.

19.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 7.

Table 7: Debt limits

	2020/21 Maximum £m	30/09/2020 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied
Borrowing	(156.7)	(156.7)	(292.2)	(309.0)	✓
Other long term liabilities	0.0	0.0	0.0	0.0	✓
Total debt	(156.7)	(156.7)	(292.2)	(309.0)	✓

19.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

20 Treasury management indicators

20.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

20.2 The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates:

Table 8 – Investment rate risk indicator

	30/09/2020 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates:		
Investments	£26.5m	+/- £0.3m
Borrowing	£0.0m	N/A

20.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

20.4 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 9: Refinancing rate risk indicator

	30/09/2020 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	25%	0%	✓
12 months and within 24 months	0%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	16%	30%	0%	✓
10 years and within 20 years	32%	50%	0%	✓
20 years and within 30 years	13%	50%	0%	✓
30 years and within 40 years	13%	75%	0%	✓
40 years and within 50 years	17%	100%	0%	✓

Principal sums invested for periods longer than a year

20.5 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 10: Price risk indicator

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£7m	£7m	£5m
Limit on principal invested beyond year end	£15m	£15m	£10m
Complied	✓	✓	✓

20.6 The table includes investments in strategic pooled funds of £5m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

21 Other

21.1 IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

22 Arlingclose's outlook for the remainder of 2020/21

22.1 The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, the coronavirus has not been supressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

22.2 The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Quarter 3.

22.3 However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

22.4 This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have already priced in a chance of a negative Bank Rate.

22.5 Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

22.6 Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

22.7 Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

22.8 Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

23 OTHER OPTIONS CONSIDERED AND REJECTED

23.1 The Council could elect to bring all treasury management activity back in-house. This option has been rejected as the arrangement with Hampshire

County Council's Investments and Borrowing team provides significant resilience and economies of scale.

23.2 The Council could make more risky investments than those proposed in the Strategy to increase its yield. This has been rejected as priority is given to ensuring security and liquidity in line with the key principles of the CIPFA Treasury Management Code.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

AG0029: Treasury Management Outturn 2019/20, 28 July 2020

AG017: Treasury Management Mid-Year Monitoring Report 2019/20, 9 January 2020

CAB3218: Treasury Management Strategy 2020/21, 12 February 2020

Other Background Documents:-

None

APPENDICES:

None