

REPORT TITLE: TREASURY MANAGEMENT STRATEGY 2021/22

11 FEBRUARY 2021

REPORT OF CABINET MEMBER: Cllr Neil Cutler – Deputy Leader and Cabinet Member for Finance and Risk

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WARD(S): ALL WARDS

#### PURPOSE

This report sets out the proposed Treasury Management Strategy Statement, including the Annual Investment Strategy for the Council for 2021/22.

Following the Council's declaration of a Climate Emergency in June 2019 the Investment Strategy (Section 16) includes a commitment not to make equity investments either directly or indirectly (via pooled funds) in companies directly involved in the fossil fuel industry.

In addition, following recently announced changes to the Public Works Loans Board (PWLB) lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, the Borrowing Strategy (section 15) confirms the Council has no such plans.

#### RECOMMENDATIONS: to Cabinet and Council

1. That the Treasury Management Strategy Statement which includes the Annual Treasury Investment Strategy for 2021/22 (and the remainder of 2020/21) is approved;
2. That authority is delegated to the Section 151 Officer to manage the Council's high yielding investments portfolio and long term borrowing according to the Treasury Management Strategy Statement as appropriate; and
3. That authority is delegated to the Section 151 Officer, who in turn discharges

this function to Hampshire County Council's Director of Corporate Resources, as agreed in the Service Level Agreement, to manage all Council investments (other than the high yield portfolio) and short term borrowing according to the Treasury Management Strategy Statement as appropriate.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 Treasury management is an integral part of helping to deliver the Council Plan and all of its outcomes.

### 2 FINANCIAL IMPLICATIONS

- 2.1 Effective treasury management ensures both the financial security and liquidity of the Council. The overall target return is a 1% yield which, with an average balance of £20m, would yield £0.2m per annum.

### 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 Hampshire County Council'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 Hampshire County Council's Investments & Borrowing team.
- 6.2 In December 2020 several members attended the annual treasury management briefing session provided by the council's treasury advisors Arlingclose.
- 6.3 The Scrutiny Committee discussed the report at its meeting held on 2 February 2021. At the conclusion of questions and debate, the Committee

agreed that it would be useful to highlight year on year changes. Further information highlighting key changes is now provided at paragraph 11.3.

## 7 ENVIRONMENTAL CONSIDERATIONS

7.1 Following the Council's declaration of a Climate Emergency in June 2019, and in line with its ethical stances in its investment policy (see Section 16 below), 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

| <b>Risk</b>   | <b>Mitigation</b>   | <b>Opportunities</b>   |
|---|---|--|
| <i>Returns from investments are too low</i>   | 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  |
| <i>A counterparty fails</i>   | A diversified strategy that has relatively low levels of counter-party risk   |  |
| <i>Cash is not available</i>  | 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 |
| <i>Access to Money Market Funds (MMFs) may be restricted when the UK exits the EU</i> | Invest in suitable alternatives   |  |

## SUPPORTING INFORMATION:

### 11 Summary

11.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the

CIPFA Code) requires authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.

- 11.2 As per the requirements of the Prudential Code, the Council adopts the CIPFA Treasury Management Code. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 11.3 The key changes in the strategy this year are:
- text included to reflect the changes to PWLB lending criteria meaning that PWLB loans are no longer available to authorities planning to buy investment assets primarily for yield (paragraph 15.5);
  - investment limits amended to reflect the lower investment balances expected to be held due to the capital programme expenditure (Tables 5 and 6);
  - the requirement to cap investments in Money Market Funds at 50% of the total investment balance has been removed following advice from the council's treasury advisors, Arlingclose, reflecting the relative risks of different types of investments (Table 6 and paragraph 16.25); and
  - addition of a requirement that there must always be a minimum of 4 counterparties for liquid balances (including MMFs) to ensure access to cash is maintained with the only exception being that the Council may invest solely with the UK Government's Debt Management Office in times of market stress due to the additional security of this counterparty (paragraph 16.36).

## 12 Introduction

- 12.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. 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 financial risk are therefore central to the Council's prudent financial management.
- 12.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 12.3 Investments held for service purposes or for commercial profit are considered in a different report, the Capital Investment Strategy.
- 12.4 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 the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

### 13 External Context

- 13.1 The following paragraphs explain the economic and financial background against which the TMSS is being set.

#### Economic background

- 13.2 The impact of the coronavirus pandemic and the UK's exit from the European Union will continue to be a major influence on the Council's treasury management strategy for 2021/22.
- 13.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) met in December 2020 and voted unanimously to hold Bank Rate at 0.10% and to maintain its Quantitative Easing asset purchase programme at £895m. The MPC identified that the successful trialling of some Covid-19 vaccines was likely to reduce the downside risks to the economic outlook, but that economic activity had been affected by the increase in Covid-19 cases and reimposition of restrictions resulting in an unusually uncertain outlook for the economy, an outlook that will have been further affected by the subsequent national lockdown in January 2021.
- 13.4 Gross Domestic Product (GDP) grew by 16.0% in Quarter 3 after suffering a fall of 18.8% in the previous quarter, reflecting the easing of restrictions throughout the summer of 2020, although this had already slowed to 1.1% in September and 0.4% in October, leaving it 8% below its level in Quarter 4 of 2019.
- 13.5 UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month and well below the BoE's target of 2%.
- 13.6 The most recent labour market data for the three months to October 2020 showed the unemployment rate was 4.9%, up 0.7% on the previous quarter. The government's employment support schemes may limit near term rises in unemployment, but the BoE predicts a substantial further increase is still likely. The employment rate fell to 72.5% in October and the 3-month average annual growth rate for wages was 2.1% for regular pay in real terms.

#### Credit outlook

- 13.7 After spiking in late March 2020 due to the onset of the global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Bank profitability in 2020 is likely to be significantly lower than in previous years as a result of significant provisions for potential losses resulting from the pandemic.

- 13.8 The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.
- 13.9 Looking forward, there remains the potential risk for bank losses to be greater than expected when government and central bank support starts to be removed and Arlingclose therefore advises a cautious approach to bank deposits in 2021/22.

#### Interest rate forecast

- 13.10 The Council's treasury management adviser, Arlingclose, is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. Downside risks remain, however, and may be heightened in the short term as the UK reacts to the escalation in coronavirus infection rates and the end of the Brexit transition period, therefore further cuts to 0% or even into negative territory cannot be completely ruled out.
- 13.11 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

#### 14 Balance Sheet Summary and Forecast

- 14.1 On 31 December 2020, the Council held £156.7m of borrowing and £34.3m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums, subject to delivery of the capital programme, are shown in the balance sheet analysis in Table 1.
- 14.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 14.3 The Council has a forecast increasing CFR due to the planned capital programme over the coming years, and the Council's reserves will gradually reduce over the same period. This will reduce the council's capacity to internally borrow and there will be a need to take out additional external borrowing.
- 14.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2021/22.

**Table 1: Balance sheet summary and forecast**

|                                       | <b>31/03/20<br/>Actual<br/>£m</b> | <b>31/03/21<br/>Estimate<br/>£m</b> | <b>31/03/22<br/>Forecast<br/>£m</b> | <b>31/03/23<br/>Forecast<br/>£m</b> | <b>31/03/24<br/>Forecast<br/>£m</b> |
|---------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| General Fund CFR                      | 41.2                              | 69.9                                | 94.9                                | 94.1                                | 93.1                                |
| HRA CFR                               | 162.8                             | 166.4                               | 192.1                               | 236.5                               | 256.8                               |
| <b>Total CFR</b>                      | <b>204.0</b>                      | <b>236.3</b>                        | <b>287.0</b>                        | <b>330.6</b>                        | <b>349.9</b>                        |
| Less: External borrowing *            | (156.7)                           | (156.7)                             | (156.7)                             | (156.7)                             | (156.7)                             |
| <b>Internal (over) borrowing</b>      | <b>47.3</b>                       | <b>79.6</b>                         | <b>130.3</b>                        | <b>173.9</b>                        | <b>193.2</b>                        |
|                                       |                                   |                                     |                                     |                                     |                                     |
| Less: GF Usable reserves              | (36.3)                            | (34.9)                              | (26.0)                              | (25.9)                              | (25.6)                              |
| Less: HRA Usable reserves             | (22.0)                            | (24.0)                              | (29.2)                              | (29.5)                              | (30.3)                              |
| Less: Working capital                 | (19.1)                            | (14.0)                              | (14.0)                              | (14.0)                              | (14.0)                              |
| <b>Resources for investments</b>      | <b>(77.4)</b>                     | <b>(72.9)</b>                       | <b>(69.2)</b>                       | <b>(69.4)</b>                       | <b>(69.9)</b>                       |
|                                       |                                   |                                     |                                     |                                     |                                     |
| <b>New borrowing or (investments)</b> | <b>(29.9)</b>                     | <b>6.7</b>                          | <b>61.1</b>                         | <b>104.5</b>                        | <b>123.3</b>                        |

\* shows existing external borrowing and assumes this will be refinanced on maturity

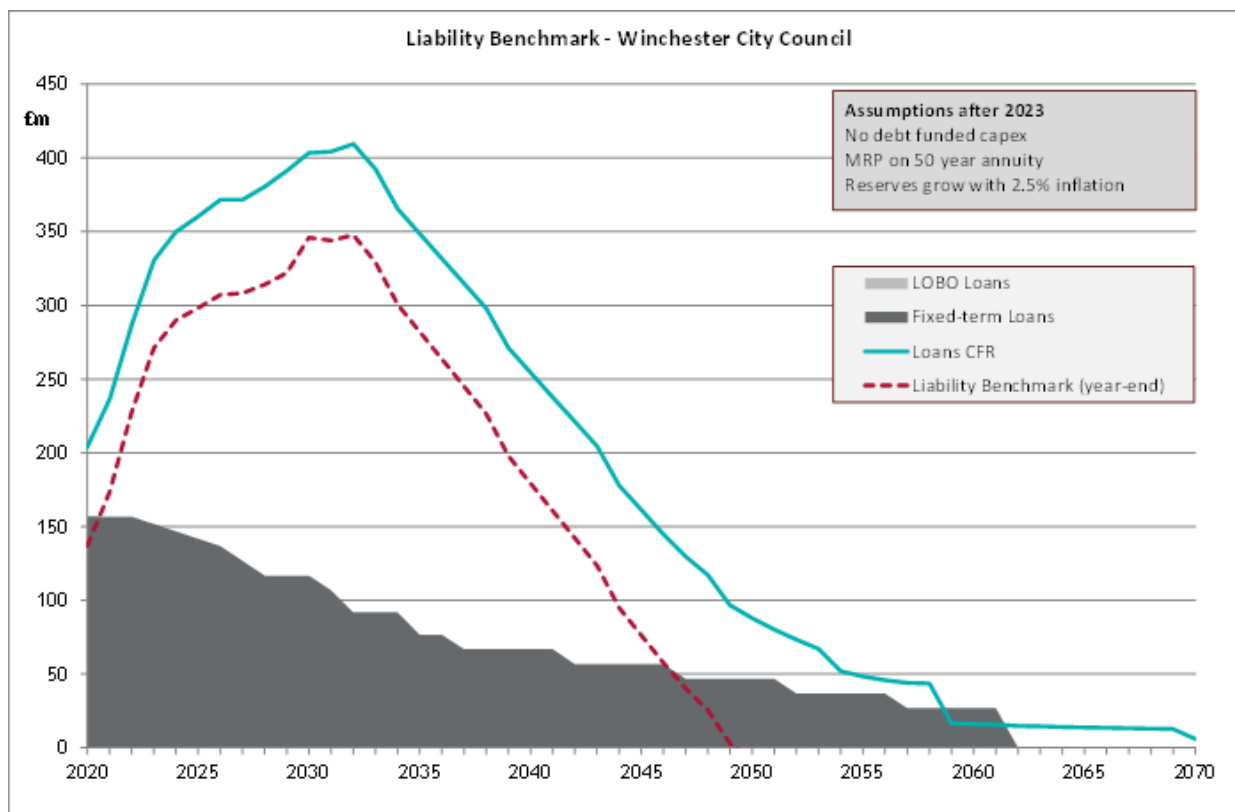
#### Liability benchmark

- 14.5 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

**Table 2: Liability benchmark**

|                             | <b>31/03/20<br/>Actual<br/>£m</b> | <b>31/03/21<br/>Estimate<br/>£m</b> | <b>31/03/22<br/>Forecast<br/>£m</b> | <b>31/03/23<br/>Forecast<br/>£m</b> | <b>31/03/24<br/>Forecast<br/>£m</b> |
|-----------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Total CFR                   | 204.0                             | 236.3                               | 287.0                               | 330.6                               | 349.9                               |
| Less: Total usable reserves | (58.2)                            | (58.9)                              | (55.2)                              | (55.4)                              | (55.9)                              |
| Less: Working capital       | (19.1)                            | (14.0)                              | (14.0)                              | (14.0)                              | (14.0)                              |
| Plus: Minimum investments   | 10.0                              | 10.0                                | 10.0                                | 10.0                                | 10.0                                |
| <b>Liability benchmark</b>  | <b>136.7</b>                      | <b>173.4</b>                        | <b>227.8</b>                        | <b>271.2</b>                        | <b>290.0</b>                        |





- 14.6 At the start of the period, 31st March 2020, the Council had a Loans CFR of £204m, fixed term loans of £157m and a liability benchmark of £137m. The difference of £47m between the CFR and fixed term loans is internal borrowing and is where the Council has used its own cash and investment balances to fund its borrowing need.
- 14.7 The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves and cash flow surpluses.
- 14.8 The forward projection using the Council capital programme forecasts indicate that capital expenditure funded by borrowing of around £145.9m will occur from the position at the 31 March 2020 to 31 March 2024 as evidenced by the rising CFR and where the liability benchmark increases above the debt portfolio is where the Council will need to take on additional external borrowing to fund this expenditure. It is anticipated that to keep debt at a minimum level, a maximum of £133.3m of additional debt would need to be taken out. Any debt should be taken on an amortising basis to match the shape of the liability benchmark.
- 15 Borrowing Strategy
- 15.1 The Council currently holds £156.7m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Council may need to borrow up to £71.1m in 2021/22 in order to maintain a minimum balance of £10m. The Council may also borrow additional sums to pre-fund future years' requirements, providing total

external borrowing does not exceed the authorised limit for borrowing of £320.8m.

### Objectives

- 15.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

### Strategy

- 15.3 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, when the Council does borrow, it is likely to be more cost effective in the short term to use internal resources where possible or to borrow short term loans to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. It may be beneficial to secure long term loans for Housing Revenue Account (HRA) purposes where these provide certainty and are viable in the context of the 30 year HRA business plan.
- 15.4 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis and this will be used to help determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 15.5 The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. New PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield (including where individual purchases are not funded by borrowing) the Council has no plans to undertake this activity and will therefore retain its access to PWLB loans. If the Council were to elect to purchase assets primarily for yield it would have no access to the PWLB for loans for any purpose. This would expose the Council to significant liquidity risk as it would need to obtain loans elsewhere in the market to finance its borrowing need.
- 15.6 Alternatively, the Council may arrange forward-starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This

would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

- 15.7 In addition, the Council may borrow further short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

#### Sources of borrowing

- 15.8 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Hampshire Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

#### Other sources of debt finance

- 15.9 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

#### Short-term and variable rate loans

- 15.10 These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to the interest rate exposure limits in the treasury management indicators at Section 17 of this TMSS.

#### Debt rescheduling

- 15.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current

interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

## 16 Treasury Investment Strategy

- 16.1 The Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £29.9m and £65.1m.

### Objectives

- 16.2 The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is 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.

### Ethical investments

- 16.3 The Council declared a Climate Emergency in June 2019 and as a consequence will not make equity investments either directly or indirectly (via pooled funds) in companies directly involved in the fossil fuel industry. It will continuously review its ethical stance as part of the annual Treasury Management Strategy setting process taking into account its other objectives stated above with regard to security, liquidity, and yield.

### Negative interest rates

- 16.4 The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options, and in some instances negative interest rates are already being seen. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

### Strategy

- 16.5 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated £10m that is available for longer-term investment.
- 16.6 At 31 December 2020 approximately 54% of the Council's cash was invested so that it is not subject to bail-in risk as it was invested in local authorities,

pooled property funds, corporate bonds and secured bank bonds, or invested with the Debt Management Office.

- 16.7 Of the 46% of cash that was subject to bail-in risk, 53% was held in cash plus funds and overnight money market funds which are subject to a reduced risk of bail in, 28% was held in very short term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 35 day maximum recommended by Arlingclose. The remaining 19% of cash subject to bail-in risk was held in overnight bank call accounts for liquidity purposes.
- 16.8 Further detail is provided at Appendix B and this diversification represents a continuation of the strategy adopted in 2015/16.
- 16.9 Under the new IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 16.10 The Council's investment in a pooled property fund allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The fund, which is operated on a variable net asset value (VNAV) basis, offers diversification of investment risk, coupled with the services of a professional fund manager and also offers the potential for enhanced returns over the longer term but is likely to be more volatile in the short-term. The Council's pooled fund investment is in the fund's distributing share class which pays out the income generated.
- 16.11 Table 3 shows the market value of the Council's investment in the pooled property fund at 31 December 2020, with the valuation continuing to be impacted by the ongoing volatility in markets as a result of the coronavirus pandemic.

**Table 3: High yield investments capital value**

|                      | <b>Principal<br/>invested<br/>£m</b> | <b>31/12/2020<br/>Market value<br/>£m</b> | <b>Capital yield in<br/>2020<br/>%</b> |
|----------------------|--------------------------------------|---|--|
| Pooled Property Fund | 5.0                                  | 5.2                                       | (6.07)                                 |
| <b>Total</b>         | <b>5.0</b>                           | <b>5.2</b>                                | <b>(6.07)</b>                          |

- 16.12 Money can usually be redeemed from this pooled fund after a short notice period of 90 days, however this investment must be viewed as a long-term investment from core balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the Council's will not be a forced seller and will not crystallise capital losses.

- 16.13 Changes to International Financial Reporting Standards mean that even if investments are not sold, unrealised capital gains and losses on these investments need to be reflected in the revenue account on an annual basis. There is, however, currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next 3 years meaning that any changes in value continue to be accounted for through an unusable reserve.
- 16.14 The Council's long-term investment in this pooled property funds is expected to bring benefits to the revenue budget through higher yields than can be achieved on cash investments. As shown in Table 4, without the allocation to the fund the weighted average return of the Council's cash investments would have been 0.32%. By investing in the pooled fund, the weighted average return at 31 December 2020 was 0.87%, meaning the allocation to higher yielding investments has added 0.55% to the average interest rate earned by the remainder of the portfolio.
- 16.15 This benefit to the revenue budget is demonstrated in Table 4, using cash balances and average returns at 31 December 2020. It should be noted that this is a snapshot at a particular point in time and balances and returns do not remain constant over the course of a year. The actual returns will form part of the outturn report at the conclusion of the financial year.

**Table 4: Estimated annual income returns**

|   | <b>Cash balance<br/>at 31/12/2020</b> | <b>Weighted<br/>average return</b> | <b>Estimated annual<br/>income return</b> |
|---|---------------------------------------|------------------------------------|---|
|   | <b>£m</b>                             | <b>%</b>                           | <b>£m</b>                                 |
| Short-term and long-term cash investments | 29.3                                  | 0.32                               | 0.09                                      |
| Investments targeting higher yields       | 5.0                                   | 4.08                               | 0.20                                      |
| <b>Total</b>                              | <b>34.3</b>                           | <b>0.87</b>                        | <b>0.29</b>                               |

- 16.16 The performance of this investment and its suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose.

Investment limits

- 16.17 The maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are placed on fund managers as shown in Table 5.

**Table 5: Investment limits**

|   | <b>Cash limit</b>  |
|---|--------------------|
| Any single organisation, except the UK Central Government | £5.0m each         |
| UK Central Government                                     | Unlimited          |
| Any group of pooled funds under the same management       | £12.5m per manager |

Approved counterparties

16.18 The Council may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown.

**Table 6: Sector and counterparty limits**

| <b>Sector</b>                                 | <b>Time limit</b> | <b>Counterparty limit</b> | <b>Sector limit</b> |
|---|-------------------|---------------------------|---------------------|
| The UK Government                             | 30 years          | Unlimited                 | n/a                 |
| Local authorities & other government entities | 25 years          | £5.0m                     | Unlimited           |
| Secured investments *                         | 25 years          | £5.0m                     | Unlimited           |
| Banks (unsecured) *                           | 13 months         | £2.5m                     | Unlimited           |
| Building societies (unsecured) *              | 13 months         | £2.5m                     | £5.0m               |
| Registered providers (unsecured) *            | 5 years           | £2.5m                     | £12.5m              |
| Money market funds *                          | n/a               | £5.0m                     | Unlimited           |
| Strategic pooled funds                        | n/a               | £5.0m                     | £25.0m              |
| Real estate investment trusts                 | n/a               | £5.0m                     | £12.5m              |
| Other investments *                           | 5 years           | £2.5m                     | £5.0m               |

This table must be read in conjunction with the notes below.

\* Minimum credit rating

16.19 Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

16.20 For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

### Government

- 16.21 Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

### Secured investments

- 16.22 Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

### Banks and building societies (unsecured)

- 16.23 Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

### Registered providers (unsecured)

- 16.24 Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

### Money market funds

- 16.25 Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.



### Strategic pooled funds

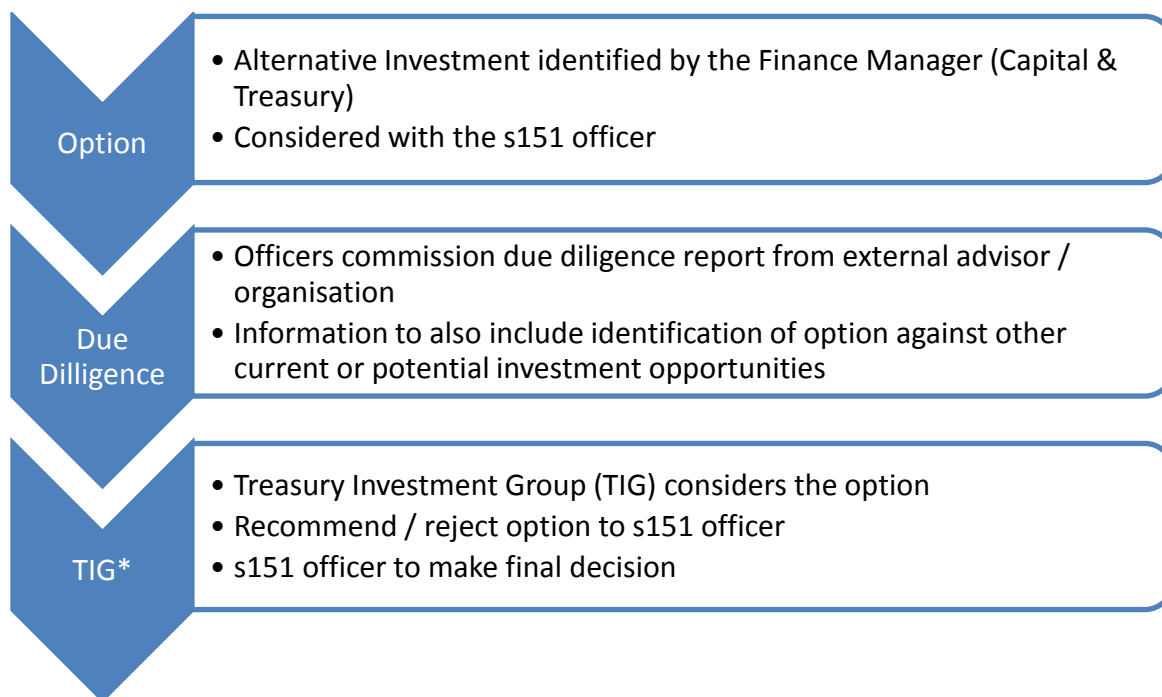
- 16.26 Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer the potential for enhanced returns over the longer term but are more volatile in the short term and allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

### Real estate investment trusts (REITs)

- 16.27 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer the potential for enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

### Other investments

- 16.28 This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
- 16.29 Where a counterparty does not have a credit rating and to ensure there is a clear process for external scrutiny specifically around these alternative investments, the governance structure detailed below was approved in the Treasury Management Mid-Year Review 2017/18 in order for the Council to consider such investment opportunities in a timely manner and ensure that there has been effective scrutiny over the proposed decisions. The S151 officer will consult with this group on these types of investment prior to making the final decision.



\* The Treasury Investment Group (TIG) includes the following officer and member roles:

- Finance Manager (Capital & Treasury)
- Cabinet Member for Finance and Risk
- One other Cabinet member
- Chair of the Audit & Governance Committee
- Shadow Cabinet Member for Finance
- S151 officer

#### Operational bank accounts

16.30 The Council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

#### Risk assessment and credit ratings

16.31 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit

rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

16.32 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

#### Other information on the security of investments

16.33 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

16.34 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

#### Liquidity management

16.35 The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council’s medium term financial position (summarised in Table 1) and forecast short-term balances.

16.36 The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

## 17 Treasury Management Indicators

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

### Interest rate exposures

17.2 The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

**Table 7: Interest rate risk indicator**

|  | <b>31 December<br/>2020</b> | <b>Impact of +/-1%<br/>interest rate change</b> |
|--|-----------------------------|---|
|  | <b>£m</b>                   | <b>£m</b>                                       |
| Sums subject to variable interest rates: |                             |   |
| - Investment                             | 34.3                        | +/-0.3  |
| - Borrowing                              | 0.0                         | +/-0.0  |

### Maturity structure of borrowing

17.3 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

**Table 8: Refinancing rate risk indicator**

|                                | <b>Upper</b> | <b>Lower</b> |
|--------------------------------|--------------|--------------|
| Under 12 months                | 25%          | 0%           |
| 12 months and within 24 months | 25%          | 0%           |
| 24 months and within 5 years   | 25%          | 0%           |
| 5 years and within 10 years    | 30%          | 0%           |
| 10 years and within 20 years   | 50%          | 0%           |
| 20 years and within 30 years   | 50%          | 0%           |
| 30 years and within 40 years   | 75%          | 0%           |
| 40 years and within 50 years   | 100%         | 0%           |

- 17.4 Time periods start of the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

- 17.5 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 long-term principal sum invested to final maturities beyond the period end will be:

**Table 9: Price risk indicator**

|   | 2021/22 | 2022/23 | 2023/24 |
|---|---------|---------|---------|
| Limit on principal invested beyond year end | £10m    | £10m    | £10m    |

18 Prudential Indicators – Borrowing

Gross Debt and the Capital Financing Requirement

- 18.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

**Table 10: Debt**

|                   | 31/03/21<br>Revised<br>£m | 31/03/22<br>Estimate<br>£m | 31/03/23<br>Estimate<br>£m | 31/03/24<br>Estimate<br>£m |
|-------------------|---------------------------|----------------------------|----------------------------|----------------------------|
| Borrowing         | (156.7)                   | <b>(156.7)</b>             | (156.7)                    | (156.7)                    |
| New borrowing     | (16.7)                    | <b>(71.1)</b>              | (114.5)                    | (133.3)                    |
| Finance leases    | -                         | -                          | -                          | -                          |
| <b>Total Debt</b> | <b>(173.4)</b>            | <b>(227.8)</b>             | <b>(271.2)</b>             | <b>(290.0)</b>             |

- 18.2 Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

- 18.3 The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

**Table 11: Operational Boundary**

|                             | <b>2020/21<br/>Revised<br/>£m</b> | <b>2021/22<br/>Estimate<br/>£m</b> | <b>2022/23<br/>Estimate<br/>£m</b> | <b>2023/24<br/>Estimate<br/>£m</b> |
|-----------------------------|-----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Borrowing                   | 253.2                             | <b>303.9</b>                       | 347.5                              | 366.8                              |
| Other long-term liabilities | -                                 | -                                  | -                                  | -                                  |
| <b>Total Debt</b>           | <b>253.2</b>                      | <b>303.9</b>                       | <b>347.5</b>                       | <b>366.8</b>                       |

Authorised Limit for External Debt

- 18.4 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

**Table 12: Authorised Limit**

|                             | <b>2020/21<br/>Limit<br/>£m</b> | <b>2021/22<br/>Limit<br/>£m</b> | <b>2022/23<br/>Limit<br/>£m</b> | <b>2023/24<br/>Limit<br/>£m</b> |
|-----------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Borrowing                   | 270.1                           | <b>320.8</b>                    | 364.4                           | 383.7                           |
| Other long-term liabilities | -                               | -                               | -                               | -                               |
| <b>Total Debt</b>           | <b>270.1</b>                    | <b>320.8</b>                    | <b>364.4</b>                    | <b>383.7</b>                    |

19 Related Matters

- 19.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial derivatives

- 19.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 19.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

- 19.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
- 19.5 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

#### Housing Revenue Account

- 19.6 The Council has adopted the “two pool approach” whereby each of its long-term loans are split into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA’s underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA applying the following rates:
- The PWLB 3 month variable loan rate is applied to a deficit balance
  - The risk free Debt Management Office rate is applied to a surplus balance.

#### Investment training

- 19.7 The needs of the Council’s treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 19.8 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 19.9 CIPFA’s Code of Practice requires that the Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were

invited to a workshop presented by Arlingclose on 8 December 2020, which gave an update of treasury matters. A further Arlingclose workshop has been planned for 2021.

#### Investment advisers

- 19.10 Hampshire County Council has appointed Arlingclose Limited as treasury management advisers for all Councils under the arrangement, and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with Arlingclose.

#### Investment of money borrowed in advance of need

- 19.11 The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £335.8m.

#### Markets in Financial Instruments Directive

- 19.12 The Council has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the s151 Officer believes this to be the most appropriate status.

#### 20 OTHER OPTIONS CONSIDERED AND REJECTED

- 20.1 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.
- 20.2 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](#)

[CAB3218: Treasury Management Strategy 2020-21, 12 February 2020](#)



[AG0029: Treasury Management Outturn 2019/20, 28 July 2020](#)

[AG034: Treasury Management Mid-Year Monitoring Report 2020/21, 12 November 2020](#)

Other Background Documents:-

None

APPENDICES:

Appendix A – Arlingclose Economic & Interest Rate Forecasts December 2020

Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2020

## Appendix A – Arlingclose Economic & Interest Rate Forecast December 2020

### Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term 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 the deployment of vaccines.

### Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

|                                | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Official Bank Rate</b>      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.00   | 0.00   | 0.15   | 0.15   | 0.15   | 0.15   | 0.30   | 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                  | 0.30   | 0.40   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| <b>3-month money market r.</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.05   | 0.05   | 0.10   | 0.10   | 0.15   | 0.20   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   |
| Arlingclose Central Case       | 0.10   | 0.10   | 0.15   | 0.15   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   |
| Downside risk                  | 0.30   | 0.40   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   |
| <b>1yr money market rate</b>   |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.05   | 0.05   | 0.10   | 0.10   | 0.15   | 0.20   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   |
| Arlingclose Central Case       | 0.15   | 0.15   | 0.25   | 0.25   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   | 0.30   |
| Downside risk                  | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   | 0.15   |
| <b>5yr gilt yield</b>          |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.40   | 0.40   | 0.45   | 0.45   | 0.50   | 0.50   | 0.55   | 0.60   | 0.60   | 0.65   | 0.65   | 0.70   | 0.70   |
| Arlingclose Central Case       | 0.00   | 0.00   | 0.05   | 0.10   | 0.15   | 0.20   | 0.20   | 0.20   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   |
| Downside risk                  | 0.40   | 0.45   | 0.50   | 0.55   | 0.60   | 0.60   | 0.60   | 0.60   | 0.60   | 0.60   | 0.60   | 0.60   | 0.60   |
| <b>10yr gilt yield</b>         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.30   | 0.35   | 0.40   | 0.45   | 0.50   | 0.50   | 0.55   | 0.60   | 0.60   | 0.65   | 0.65   | 0.70   | 0.70   |
| Arlingclose Central Case       | 0.25   | 0.30   | 0.35   | 0.35   | 0.40   | 0.40   | 0.45   | 0.45   | 0.50   | 0.55   | 0.55   | 0.55   | 0.60   |
| Downside risk                  | 0.50   | 0.50   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   | 0.55   |
| <b>20yr gilt yield</b>         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.40   | 0.40   | 0.45   | 0.45   | 0.50   | 0.50   | 0.55   | 0.60   | 0.60   | 0.65   | 0.65   | 0.70   | 0.70   |
| Arlingclose Central Case       | 0.70   | 0.70   | 0.75   | 0.75   | 0.75   | 0.80   | 0.80   | 0.85   | 0.85   | 0.85   | 0.85   | 0.90   | 0.90   |
| Downside risk                  | 0.30   | 0.30   | 0.35   | 0.35   | 0.35   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   |
| <b>50yr gilt yield</b>         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk                    | 0.40   | 0.40   | 0.45   | 0.45   | 0.50   | 0.50   | 0.55   | 0.60   | 0.60   | 0.65   | 0.65   | 0.70   | 0.70   |
| Arlingclose Central Case       | 0.60   | 0.60   | 0.65   | 0.65   | 0.65   | 0.70   | 0.70   | 0.75   | 0.75   | 0.75   | 0.75   | 0.80   | 0.80   |
| Downside risk                  | 0.30   | 0.30   | 0.35   | 0.35   | 0.35   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   | 0.40   |

**PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%**

**PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%**

## Appendix B - Existing Investment & Debt Portfolio Position at 31 December 2020

### Investment Position (Treasury Investments)

|                               | 30/09/2020<br>Balance<br>£m | Movement<br>£m | 31/12/2020<br>Balance<br>£m | 31/12/2020<br>Rate<br>% | 31/12/2020<br>WAM*<br>years |
|-------------------------------|-----------------------------|----------------|-----------------------------|-------------------------|-----------------------------|
| <b>Short term investments</b> |                             |                |                             |                         |                             |
| Banks and Building Societies: |                             |                |                             |                         |                             |
| - Unsecured                   | 4.0                         | 3.5            | 7.5                         | 0.05                    | 0.0                         |
| - Secured                     | 3.5                         | -              | 3.5                         | 1.24                    | 0.3                         |
| Money Market Funds            | 14.4                        | (7.1)          | 7.3                         | 0.01                    | 0.0                         |
| Local Authorities             | 1.5                         | 2.0            | 3.5                         | 0.66                    | 0.2                         |
| Debt Management Office        | -                           | 4.5            | 4.5                         | 0.01                    | 0.1                         |
| Cash Plus Funds               | 1.0                         | -              | 1.0                         | 1.23                    | 0.0                         |
|                               | <b>24.4</b>                 | <b>2.9</b>     | <b>27.3</b>                 | <b>0.31</b>             | <b>0.1</b>                  |
| <b>Long term investments</b>  |                             |                |                             |                         |                             |
| Banks and Building Societies: |                             |                |                             |                         |                             |
| - Secured                     | 2.0                         | -              | 2.0                         | 0.47                    | 2.0                         |
|                               | <b>2.0</b>                  | <b>-</b>       | <b>2.0</b>                  | <b>0.47</b>             | <b>2.0</b>                  |
| <b>High yield investments</b> |                             |                |                             |                         |                             |
| Pooled Property Funds**       | 5.0                         | -              | 5.0                         | 4.08                    | n/a                         |
|                               | <b>5.0</b>                  | <b>-</b>       | <b>5.0</b>                  | <b>4.08</b>             | <b>n/a</b>                  |
| <b>TOTAL INVESTMENTS</b>      | <b>31.4</b>                 | <b>2.9</b>     | <b>34.3</b>                 | <b>0.87</b>             | <b>0.2</b>                  |

\* Weighted average maturity

\*\* The rate provided for pooled property fund investments is reflective of the average dividend return over the last 12 months

### Treasury Management position

|                                  | 31/12/2020<br>Balance<br>£m | 31/12/2020<br>Rate<br>% |
|----------------------------------|-----------------------------|-------------------------|
| <b>External borrowing:</b>       |                             |                         |
| PWLB Fixed Rate                  | (156.7)                     | (3.30)                  |
| <b>Total Gross External Debt</b> | <b>(156.7)</b>              | <b>(3.30)</b>           |
|                                  |                             |                         |
| <b>Investments</b>               | <b>34.3</b>                 | <b>0.87</b>             |
|                                  |                             |                         |
| <b>Net (Debt) / Investments</b>  | <b>(122.4)</b>              |                         |