CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY | JAMES PALMER CAMBRIDGESHIRE & PETERBOROUGH MAYOR

AUDIT AND GOVERNANCE COMMITTEE	AGENDA ITEM No: 9
16 DECEMBER 2019	PUBLIC REPORT

TREASURY MANAGEMENT MID YEAR UPDATE

1.0 PURPOSE

1.1. The purpose of the report is for the Audit and Governance Committee to review the mid-year performance for the year against the prudential indicators included within the Treasury Management Strategy.

DECISION REQUIRED	
Lead Officer:	**Jon Alsop – Head of Finance (S73)**
The Audit and Governance Committee is recommended to: • Review the mid-year performance for the year to 31 March 2020, against the adopted prudential and treasury indicators. • Review the format and content of the proposed 'Treasury Management Strategy' and 'Capital Strategy' reports for 2020/21	

2.0 BACKGROUND

2.1. According to its Terms of Reference, the Audit and Governance Committee shall "ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice".

2.2. The Treasury Management in the Public Services: Code of Practice 2011 recommends that Members receive regular reports on the authority's treasury management policies, practices and activities, including a mid-year review progress report to update members of the capital position and prudential indicators.

Treasury Management Strategy Prudential Indicators

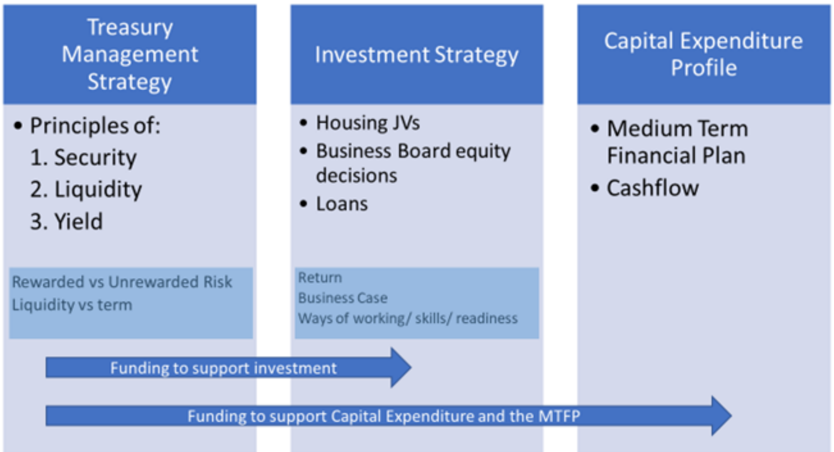
2.3. The Prudential Code underpins the system of capital finance. Prudential indicators are developed to ensure that:

(a) Capital investment plans are affordable;
(b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and
(c) Treasury management decisions are taken in accordance with professional good advice.

2.4. The Annual performance against the adopted Prudential Indicators is shown at appendix 1. The estimates provided are taken from the refreshed budget for 2019/20 and Medium-Term Financial Plan that was approved by the Board in September 2019.

Investment Activity

2.5. categories of investment as set out in the table below



2.6. Surplus cash balances are held in accordance with the principles set out in the Treasury Management Strategy in order to support strategic investment decisions and the Capital Programme and the Medium-Term Financial Plan (MTFP).

2.7. As at 30 November 2019, the following investments were held with Approved Investments in accordance with the Treasury Management Strategy:

Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
30/04/19	31/01/20	Bracknell Forest Borough Council	Maturity	0.9800%	-5,000,000.00
01/05/19	02/01/20	Thurrock Council	Maturity	0.8800%	-5,000,000.00
02/05/19	02/03/20	Lancashire County Council	Maturity	0.8500%	-5,000,000.00
29/04/19	28/02/20	Salford City Council	Maturity	0.8500%	-5,000,000.00
29/04/19	28/02/20	Derbyshire County Council	Maturity	0.8500%	-5,000,000.00
29/04/19	31/01/20	Derbyshire County Council	Maturity	0.8200%	-5,000,000.00
28/05/19	30/04/20	Stockport Metropolitan Borough Council	Maturity	0.9000%	-10,000,000.00
28/05/19	30/04/20	Stockport Metropolitan Borough Council	Maturity	0.9000%	-5,000,000.00
21/06/19	21/04/20	London Borough of Southwark	Maturity	0.8200%	-10,000,000.00
20/06/19	20/05/20	Thurrock Council	Maturity	0.9000%	-5,000,000.00
20/06/19	18/06/20	Warrington Borough Council	Maturity	0.9500%	-20,000,000.00
20/06/19	20/05/20	Guildford Borough Council	Maturity	0.8000%	-8,000,000.00
20/06/19	20/05/20	Doncaster Metropolitan Borough Council	Maturity	0.8400%	-5,000,000.00
20/06/19	20/12/19	Liverpool City Council	Maturity	0.7600%	-10,000,000.00
15/07/19	16/03/20	Plymouth City Council	Maturity	0.7800%	-10,000,000.00
30/08/19	28/08/20	London Borough of Croydon	Maturity	0.8500%	-10,000,000.00
19/08/19	19/05/20	Aberdeenshire Council	Maturity	0.7800%	-6,000,000.00
23/09/19	21/09/20	Medway Council	Maturity	0.7700%	-5,000,000.00
18/11/19	20/07/20	Lancashire County Council	Maturity	0.8100%	-10,000,000.00
18/11/19	16/11/20	Thurrock Council	Maturity	0.8100%	-10,000,000.00
14/10/19	14/07/20	Plymouth City Council	Maturity	0.8300%	-5,000,000.00
21/10/19	19/10/20	Plymouth City Council	Maturity	0.8500%	-5,000,000.00
21/10/19	19/10/20	London Borough of Croydon	Maturity	0.8000%	-5,000,000.00
01/11/19	02/12/19	DMO	Maturity	0.5200%	-5,000,000.00
				0.8367%	**-174,000,000.00**
20/03/17		Barclays Bank plc	Maturity	0.5500%	-4,600,000.00
				0.5500%	**-4,600,000.00**
20/03/17		CCLA The Public Sector Deposit 4	Maturity	0.7261%	-10,000,000.00
				0.7261%	**-10,000,000.00**
				0.8238%	**-188,600,000.00**

2020/21 Strategies

2.8. The Combined Authority currently receives Treasury Management support through a Finance Service Level Agreement with Peterborough City Council. The Combined Authority recognises the responsibility for treasury management decisions remains with the Combined Authority and also recognises the value of employing external providers in order to access specialist skills and advice.

2.9. The Combined Authority appointed Arlingclose as its Treasury Advisors with effect from 1 August 2019 to support the Combined Authority in developing strategies that are tailored to the specific requirements, constraints and ambitions of the Combined Authority.

2.10. The following strategies are being developed with Arlingclose for 2020/21 to provide a framework for the Combined Authority's management of its financial affairs.

(a) **Capital Strategy:** To provide a high-level overview for elected members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
(b) **Treasury Management Strategy:** Being the management of the Authority's cash flows, borrowing and investments and the associated risks.
(c) **Investment Strategy:** To meet the requirements of statutory guidance in which the Authority would support local public services by lending to or buying shares in other organisations, or to earn investment income.
(d) **Minimum Revenue Provision Statement:** An MHCLG requirement to approve an MRP Statement each year to ensure that capital expenditure is financed over a reasonable period.

2.11. The Committee is asked to review the format and content of the new style Treasury Management and Capital Strategies as shown at appendix 2. The full suite of draft strategies for 2020/21 will be brought back to the Committee for final review in advance of being taken to the Board for approval.

3.0 FINANCIAL IMPLICATIONS

3.1. None other than those highlighted in the main body of the report.

4.0 LEGAL IMPLICATIONS

4.1. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

5.0 SIGNIFICANT IMPLICATIONS

5.1. None.

6.0 APPENDICES

- Appendix 1 – Prudential Indicators
- Appendix 2 – Cambridgeshire and Peterborough Combined Authority (CPCA) Draft Strategies 2020/21.

Source Documents	Location
None	

Appendix 1: Treasury Management Report 2019/20

Prudential Indicators

1. The Code requires the Combined Authority to set a range of Prudential Indicators. The information provided below sets out the outturn performance against the Indicators adopted by the Combined Authority as set out in the Treasury Management Strategy.

2. **Indicator 1 - Capital Expenditure.** A summary of the Combined Authority's capital expenditure for 2018/19 and the following two financial years including how it will be funded. Estimates for future years are taken from the Medium Term Financial Plan, which was revised and approved by the Board in September 2019.

Capital Expenditure	**16/17 Actual £m**	**17/18 Actual £m**	**18/19 Actual £m**	**19/20 Est £m**	**20/21 Est £m**
Transport & Infrastructure	0.00	0.95	44.76	51.80	75.27
New Homes & Communities	0.00	2.98	13.89	61.79	44.61
Business & Skills	0.00	0.00	1.92	26.75	53.65
Corporate	0.00	0.00	0.25	0.00	0.00
Total	**0.00**	**3.93**	**60.82**	**140.34**	**173.53**
Financed by:					
Gainshare Capital Fund	0.00	0.95	0.53	2.86	17.83
Housing Capital Funds	0.00	2.98	13.89	61.79	44.61
Transforming Cities Fund	0.00	0.00	4.62	16.79	37.56
Local Growth Fund	0.00	0.00	15.67	29.17	50.45
Other	0.00	0.00	26.11	29.73	23.08
Total	**0.00**	**3.93**	**60.82**	**140.34**	**173.53**

3. **Indicator 2 – Capital Financing Requirement (CFR)** – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Combined Authority's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR. The Combined Authority currently has no borrowing requirement, hence CFR is zero.

Capital Financing Requirement	16/17 Actual £m	17/18 Actual £m	18/19 Est £m	19/20 Est £m	20/21 Est £m
CFR brought forward	0	0	0	0	0
Borrowing	0	0	0	0	0
Repayment	0	0	0	0	0
CFR carried forward	0	0	0	0	0
Movement in CFR	**0**	**0**	**0**	**0**	**0**
Net financing requirement	0	0	0	0	0
Less MRP & other financing	0	0	0	0	0
Movement in CFR	**0**	**0**	**0**	**0**	**0**

4. **Indicator 3 – Actual and estimates of the ratio of financing costs to net revenue budget.** This indicator identifies the proportion of the revenue budget which is taken up in Financing capital expenditure i.e. the net interest cost and the provision to repay debt.

Ratio of gross financing costs to net revenue budget	16/17 Actual £m	17/18 Actual £m	18/19 Est £m	19/20 Est £m	20/21 Est £m
Total ratio	**n/a**	**n/a**	**n/a**	**0**	**0**

5. **Indicator 4 - The Combined Authority's treasury position,** with estimates for future years will be entered in the table below as future borrowing requirements become clear. The table below shows the actual external borrowing (Gross Debt) against the CFR.

Gross debt & capital financing requirement	16/17 Actual £m	17/18 Actual £m	18/19 Actual £m	19/20 Est £m	20/21 Est £m
External Borrowing					
Market Borrowing	0	0	0	0	0
Repayment of borrowing	0	0	0	0	0
Expected change in borrowing	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0
Gross Debt at 31 March	**0**	**0**	**0**	**0**	**0**
CFR	0	0	0	0	0
% of Gross Debt to CFR	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

6. **Indicator 5 - The Operational Boundary** - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit and Governance Committee with a full report taken to the next committee meeting. The Operational Boundary is set out below:

Operational Boundary	16/17 Actual £m	17/18 Actual £m	18/19 Actual £m	19/20 Est £m	20/21 Est £m
Borrowing	0	0	0	74.61	74.61
Other long term liabilities	0	0	0	0	0
Total	**0**	**0**	**0**	**74.61**	**74.61**

7. **Indicator 6 - The Authorised Limit for external borrowing** - this represents a limit beyond which external borrowing is prohibited.

Authorised Limit	16/17 Actual £m	17/18 Actual £m	18/19 Actual £m	19/20 Est £m	20/21 Est £m
Borrowing	0	0	0	84.61	84.61
Other long term liabilities	0	0	0	0	0
Total	**0**	**0**	**0**	**84.61**	**84.61**

8. **Indicator 7 – Upper limit on fixed interest rate exposure.** This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

9. **Indicator 8 - Upper limit on variable rate exposure.** This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	16/17 Actual £m	17/18 Actual £m	18/19 Actual £m	19/20 Est £m	20/21 Est £m
(7) Limits on fixed interest rate net debt	0	0	0	74.61	74.61
% of fixed interest rate exposure	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	0	0	0	18.65	18.65
% of variable interest rate exposure	25%	25%	25%	25%	25%

10. **Indicator 9 - Maturity structure of borrowing.** These gross limits are set to reduce the Combined Authority's immediate exposure to large fixed rate sums falling due for refinancing.

Maturity Structure of borrowing	Upper Limit	16/17 Actual £m	17/18 Actual £m	18/19 Actual £m	19/20 Est £m	20/21 Est £m
Under 12 months	40%	0	0	0	0	0
12 months to 2 years	40%	0	0	0	0	0
2 years to 5 years	80%	0	0	0	0	0
5 years to 10 years	80%	0	0	0	0	0
10 years and above	100%	0	0	0	0	0

11. **Indicator 10 - Upper limit for total principal sums invested for over 365 days excluding loans.** This limit is set with regard to the Combined Authority's liquidity requirements and to reduce the need for an early sale of an investment.

Overall limit for sums invested over 365 days	16/17 Actual £m	17/18 Actual £m	18/19 Actual £m	19/20 Est £m	20/21 Est £m
Principal sums invested over 365 days	**0**	**0**	**0**	**10**	**10**

Appendix 2a:

Cambridgeshire and Peterborough Combined Authority

Draft Capital Strategy Report 2020/21

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where an Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2020/21, the Authority is planning capital expenditure of £173.53m as summarised below.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget
Capital investments	60.82	140.34	173.53	81.12
TOTAL	60.82	140.34	173.53	81.12

Governance:

The Combined Authority's Assurance Framework sets out:

(a) How the seven principles of public life shape the culture within the Combined Authority in undertaking its roles and responsibilities in relation to the use and administration of the Cambridgeshire and Peterborough Investment, incorporating the Single Pot funding. This culture is developed and underpinned by processes, practices and procedures.

(b) The respective roles and responsibilities of the Combined Authority, the Local Enterprise Partnership and the Section 73 Officer, in decision-making and ways of working is set out in the terms of reference of the Business Board and forms part of the Combined Authority and the Local Enterprise Partnership constitutions.

(c) The key processes for ensuring accountability, including public engagement, probity, transparency, legal compliance and value for money.
(d) How potential investments to be funded through the Cambridgeshire and Peterborough Medium Term Financial Plan, incorporating the Single Pot, will be appraised, prioritised, approved, signed off and delivered.

(e) The processes for oversight of projects, programmes and portfolios and how the progress and impacts of these investments will be monitored and evaluated.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget
Gainshare Capital	0.53	2.86	17.83	2.37
Housing Capital	13.89	61.79	44.61	23.47
Transforming Cities Fund	4.62	16.79	37.56	30.55
Local Growth Fund	15.67	29.17	50.45	1.65
Other	26.11	29.73	23.08	23.08
Debt	0	0	0	0
TOTAL	**60.82**	**140.34**	**173.53**	**81.12**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget
Own resources	0	0	0	0

The Combined Authority currently does not have any debt and has no immediate plans to obtain debt. There is however provision in the draft budget and MTFP to service debt up to the current agreed debt cap.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The Authority currently has no debt and therefore no CFR.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent.

Due to decisions taken in the past, the Authority currently has no borrowing and £188.6m treasury investments at an average rate of 0.82%

Borrowing strategy: The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 4: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget
Debt (incl. PFI & leases)	0	0	0	0
Capital Financing Requirement	0	0	0	0

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This benchmark is based on the existing debt cap.

Table 5: Borrowing and the Liability Benchmark in £ millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget
Outstanding borrowing	0	0	0	0
Liability benchmark	0	0	84.81	84.61

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – total external debt	84.61	84.61	84.61
Operational boundary – total external debt	74.61	74.61	74.61

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by the Board. Regular reports on treasury management activity are presented to the Audit and Governance Committee who are responsible for ensuring effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice.

Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority's subsidiaries that provide services. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Note: Our Treasury Advisors, Arlingclose are currently drafting advice on the development of an appropriate strategy for the Combined Authority on 'Investments for Service Purposes'

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Head of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

The Combined Authority currently does not invest in commercial property for financial gain

Liabilities

There are currently no commitments to make future payments in relation to debt, future payments to cover pension fund deficits or *other major liabilities*. There is currently no requirement to cover risks of other *provisions, financial guarantees or major contingent liabilities*.

Governance: Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Head of Finance. The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported to the Audit and Governance committee. New liabilities/loans are reported to the Board for approval/notification as appropriate.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from general government grants.

Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget
Financing costs (£m)	0	0	£2.56m	£2.56m
Proportion of net revenue stream	0%	0%	15.1%	17.6%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Head of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because as demonstrated in the Medium-Term Financial Plan.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance is a qualified accountant with 25 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for all qualified staff to keep up to date with relevant 'continuing professional development'.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers and Peterborough City Council to provide a Capital and Treasury support service via a service level agreement. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Appendix 2b:

Cambridgeshire and Peterborough Combined Authority

Draft Treasury Management Strategy Statement 2020/21

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial 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 Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of the existing treasury investments, and that new long-term loans will be borrowed at the applicable PWLB rate.

<u>Local Context</u>

On 30th November 2019 the Authority held £nil borrowing and £188.6m of treasury investments.

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 Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall as capital funding is used to finance capital expenditure as set out in the Capital programme and the Medium-Term Financial Plan.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

Borrowing Strategy

The Authority currently does not hold any loans. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2020/21. However, the Authority may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £84.61 million.

Objectives: The Authority'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 Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of any future debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

The benefits of internal / 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 Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including banks, pensions 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.

Alternatively, the Authority 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.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

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

- Public Works Loan Board (PWLB) and any successor body
- 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 the Combined Authority's Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: 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

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Board.

LOBOs: The Authority does not currently hold any LOBO (Lender's Option Borrower's Option) loans. These loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: 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. Other lenders may also be prepared to negotiate premature redemption terms. The Authority 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.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £160m and £260million, and levels are expected to be subject to the drawdown of funds to support the delivery of the Combined Authority's priorities and objectives as set out in the Business Plan and the Medium-Term Financial Plan.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could 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. This situation already exists in many other European countries. 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: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2020/21. A proportion of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will represent a change in strategy over the coming year.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£25m 20 years	£25m 50 years	£15m 20 years	£15m 20 years
AA+	£15m 5 years	£25m 10 years	£25m 25 years	£15m 10 years	£15m 10 years
AA	£15m 4 years	£25m 5 years	£25m 15 years	£15m 5 years	£15m 10 years
AA-	£15m 3 years	£25m 4 years	£25m 10 years	£15m 4 years	£15m 10 years
A+	£15m 2 years	£25m 3 years	£25m 5 years	£15m 3 years	£15m 5 years
A	£15m 13 months	£25m 2 years	£25m 5 years	£15m 2 years	£15m 5 years
A-	£15m 6 months	£25m 13 months	£25m 5 years	£15m 13 months	£15m 5 years
None	£1m 6 months	n/a	£25m 25 years	£1m 5 years	£15m 5 years
Pooled funds and real estate investment trusts		£25m per fund or trust			

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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 factors including external advice will be taken into account.

Banks unsecured: 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.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: 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 Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £1m per company as part of a diversified pool in order to spread the risk widely.

Registered providers: 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 tightly 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.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: 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 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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, 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 below £25m per bank. 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 Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority'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.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") 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: The Authority 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, reports in the quality financial press and analysis and advice from the Authority'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 otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority 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 Authority'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 cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: In order to minimise the risk of a single default against available reserves, the maximum that will be lent to any one organisation (other than the UK Government) will be £50m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£50m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£50m per group
Any group of pooled funds under the same management	£50m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£25m per country
Registered providers and registered social landlords	£50m in total
Unsecured investments with building societies	£25m in total

Loans to unrated corporates	£25m in total
Money market funds	£100m in total
Real estate investment trusts	£50m in total

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

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

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	6 (A)

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£50m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Time periods start on 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 (excluding loans): The purpose of this indicator is to control the Authority'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:

Price risk indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£50m	£50m	£50m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: 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).

The Authority 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 Authority 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.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, 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 Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2020/21 is £1.02 million, based on the expected investment portfolio. The budget for debt interest paid in 2020/21 is £2.56 million, based on the maximum debt cap available to the authority calculated at the current PWLB 25 year borrowing rate. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Portfolio Holder for Investment and Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.

- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

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

Appendix B – Existing Investment & Debt Portfolio Position

	30 Nov 2019 **Actual Portfolio £m**	**Average Rate %**
External borrowing:		
Public Works Loan Board	**0**	
Local authorities	**0**	
LOBO loans from banks	**0**	
Other loans	**0**	
Total external borrowing	**0**	
Total gross external debt	0	
Treasury investments:		
Banks & building societies (unsecured)	4.6	0.55
Government (incl. local authorities)	174.0	0.84
Money Market Funds	10.0	0.73
Total treasury investments	188.6	0.82
Net debt	(188.6)	