

## Swanage Town Council



## Treasury Management and Investment Strategy Statement 2021/22

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## 1. General Overview

This strategy has been prepared in accordance with the Statutory Guidance on Local Government Investments 3<sup>rd</sup> Edition hereafter known as ‘the Guidance’, which has been issued under section 15(1)(a) of the Local Government Act 2003. Under that section of the act local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

The Guidance, which is applicable to all local authorities in England, states:

This guidance applies to parish councils.....providing their total investments exceeds, or are expected to exceed, £100,000 at any time during the financial year. Where a parish council....expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

## 2. Capital Expenditure and Financing

Capital expenditure underpins the Authority’s treasury management and investment strategy.

Decisions made to approve capital expenditure will have major consequences for the Council’s investment capacity and implications for future financial sustainability. Capital expenditure, capital financing and treasury management activity contributes to the Council’s provision of services.

Capital expenditure is where the 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. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2021/22, the Authority is planning capital expenditure of £917,000 as summarised below:

Table 1: Estimates of Capital Expenditure in £

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund	78,471	0	0	0	0
Capital Receipts	98,024	36,555	491,000	503,000	0
Earmarked Reserves	96,618	295,000	408,000	970,000	150,000
Grants/Contributions	125,387	10,255	18,000	0	0
<b>TOTAL</b>	<b>398,500</b>	<b>341,810</b>	<b>917,000</b>	<b>1,473,000</b>	<b>150,000</b>

All capital expenditure in the medium term is expected to be financed from the Authority’s own resources.

## 3. Treasury Management and Investment Strategy 2021/22

The Authority may invest its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),

- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other, non-treasury, investments.

As such it has been deemed appropriate to separate this strategy into two sections; the treasury management strategy recommended by CIPFA and the non-treasury investment strategy required by MHCLG.

#### a) **Treasury Management Investments**

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority typically receives its income in cash (e.g. from taxes and services) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

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. The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Treasury risk management at the Authority is conducted with due regard to the Chartered Institute of Public Finance and Accountancy's *Guidance for Smaller Public Organisations on the Application of the CIPFA Code of Practice for Treasury Management in the Public Services: Code of Practice (2014 Edition) and Cross-Sectoral Guidance Notes 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 obligation to have regard to the CIPFA Code and any other appropriate guidance.

In accordance with MHCLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

#### i) **External Context**

**Economic background:** The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained the Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organisation.

**Credit outlook:** After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainty around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

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.

Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

**Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

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

## ii) Local Context

On 31<sup>st</sup> December 2020, the Authority held investments with a book value of £5.9m (current value of £6.4m). This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in Table 2 below.

**Table 2: Balance Sheet Summary and Forecast**

Gross to Net Borrowing Requirement (Projections)					
	Actual 31-Mar-20 £m	Estimated 31-Mar-21 £m	Estimated 31-Mar-22 £m	Estimated 31-Mar-23 £m	Estimated 31-Mar-24 £m
External Borrowing & Other Long Term Liabilities (at Nominal Value)	0	0	0	0	0
Balances & Reserves (Book value)	5.88	5.36	4.29	2.83	2.65
<b>(Net Borrowing Requirement)/ Investment Capacity</b>	5.88	5.36	4.29	2.83	2.65

Usable reserves and working capital are the underlying resources available for investment. Investment capacity is set to fall to £2.65m as capital receipts and earmarked reserves are used to finance capital expenditure (see Table 1).

### **iii) Borrowing Strategy**

Local Council borrowing is governed by Schedule 1 to the Local Government Act 2003. Parish & town councils in England have to apply and receive approval from the Secretary of State before taking up any borrowing. Certain temporary borrowings do not require borrowing approval. The amount that an individual town council will be authorised to borrow will normally be limited to a maximum of £500,000 in any single financial year. Borrowing may only be entered into for a purpose that would be capital expenditure as defined in section 16 of the Local Government Act 2003 and the decision to borrow must be made by full council.

As indicated in Table 2, the Authority is currently debt free and its capital expenditure plans do not imply any external borrowing requirement over the forecast period. The Council's requirement to borrow will be reviewed annually as part of the Council's TMS and assessed in conjunction with the Council's capital programme.

Consideration may also be given to other sources of debt finance, which although they are not classed as borrowing, but may be classed as other debt liabilities. These are:

- leasing
- hire purchase

Any potential future capital financing options will be assessed so as to minimise the costs to revenue.

The Responsible Financial Officer may from time to time authorise the use of a temporary bank overdraft facility to facilitate cash flow throughout the financial year.

### **iv) 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 £6.4m and £6.8m (current value). The funds that the Council holds for investment purposes are expected to decrease in the forthcoming year due to the financing of the Council's capital programme.

**Objectives & Risk Management:** 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:** 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. 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:** A proportion of the Authority’s surplus cash is currently invested in short-term unsecured bank deposits and money market funds. However, given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2021/22.

**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: Treasury investment counterparties and limits**

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£1m	Unlimited
Secured investments *	25 years	£1m	Unlimited
Banks (unsecured) *	13 months	£1m	£2m
Building societies (unsecured) *	13 months	£0.5m	£1m
Registered providers (unsecured) *	5 years	£0.5m	£1m
Money market funds *	n/a	£0.5m	£1m
Strategic pooled funds	n/a	£3.5m	£5m
Real estate investment trusts	n/a	£1m	£1m

**Minimum Credit Rating:** 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 factors including external advice will be taken into account.

**Government:** Loans to, and 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 50 years.

**Secured investments:** 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):** 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):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or 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:** 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. The Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic pooled funds:** Bond, equity and property funds that 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.

**Operational bank accounts:** The Authority may incur operational exposures, for example through 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 £2m 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 2020, 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 investment returns to fall but will protect the principal sum invested.

**Investment Limits:** In order to minimise the amount of reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4million. 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**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£3.5m per group
Any group of pooled funds under the same management	£3.5m per manager
Negotiable instruments held in a broker's nominee account	£1.5m per broker
Foreign countries	£1m per country
Registered Providers	£1m in total
Unsecured investments with Building Societies	£1m in total
Loans to unrated corporates	£0.5m per counterparty
Money Market Funds	£1m in total

**Liquidity management:** The Council will retain a minimum of £0.5m in short term investments to ensure the liquidity of funds.

**v) Treasury Management Indicators**

The Authority will measure and manage 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 rating 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.

<b>Credit risk indicator</b>	<b>Target</b>
Portfolio average credit rating	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.

<b>Liquidity risk indicator</b>	<b>Target</b>
Total cash available within 3 months	£1m

**vi) Financial Implications**

The budget for investment income in 2021/22 is £160,000, based on an average investment portfolio of £5million at an interest rate of 3.2%. If actual levels of investments, or actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## **b) Non-treasury Investments**

The Guidance focuses on non-treasury investments including:

- loans made for service purposes
- shares in companies bought for service purposes
- loans to and shares in subsidiaries, irrespective of the purpose of the company
- non-financial assets (e.g. property) held primarily or partially to generate a profit

### **i) Service Investments: Loans**

**Contribution:** Supplemental to Section 12 of the Local Government Act 2003 or Section 24 of the Local Government Act 1988, under the General Power of Competence, Section 1 of the Localism Act 2011, the authority may choose to make loans to local enterprises, local charities or community organisations, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though these loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

The Council does not currently lend money directly to any local businesses, local charities or community organisations, or housing associations. However, this has not been precluded from any potential future transactions.

**Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

**Risk assessment:** Should the Council be approached to make a loan to support local public services and as part of a wider strategy to stimulate local economic growth it may consider applications. The Authority will assess the risk of loss before entering into any service loan, while having regard to the Guidance and must be able to demonstrate that:

- Total financial exposure to these type of loans are proportionate;
- They must use an allowed “expected credit loss” model for loans as set out in the “International Financial Reporting Standard (IFRS) 9 Financial Instruments” as adopted by proper practices to measure the credit risk of the loan portfolio;
- There are appropriate credit control arrangements to recover overdue repayments in place and;
- The Authority must formally agree the total level of loans by type that it is willing to make and that the total loan book is within self-assessed limits.

### **ii) Service Investments: Shares**

**Contribution:** The Council does not currently invest in the shares of any local businesses.

**Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

**Risk assessment:** Any application received to invest in shares from another party will be assessed on its own merits and must be able to demonstrate a benefit to local public services and stimulate local economic growth. Although the investment in shares has not been precluded, it is unlikely that the

Council would approve this type of investment due to the high level of risk that this category of investment carries.

**Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

### iii) **Commercial Investments: Property**

**Contribution:** The Council does not currently invest directly in commercial property with the intention of making a profit that will be spent on local public services.

**Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

**Risk assessment:** The Authority will assess the risk of loss before entering into and whilst holding property investments, should this type of investment be considered at a future date.

**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. As such the Council will only enter into the purchase of property through pooled funds, a treasury management investment, unless the Council is able to demonstrate that the purchase of commercial property would be a benefit to local public services and/or stimulate local economic growth.

## **4. Related Matters**

**Environmental, Social and Governance (ESG) and Ethical Investments:** The Council will endeavour to place new treasury investments with counterparties adopting practices compliant with the Council's criteria as stipulated in the Treasury Management Policy Statement.

**Policy on Use of Financial Derivatives:** In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

**Borrowing in Advance of Need:** The Council recognises that the borrowing of money purely to invest is ultra vires and the Council will not engage in this activity.

**Markets in Financial Instruments Directive:** The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Presently, given the size and range of the Authority's treasury management activities, this is the only status that the Authority can adopt.

**Retail Client Suitability Report:** As a retail client, the council is obliged by its treasury advisors, Arlingclose, to complete a Retail Client Suitability Report, which will be reviewed at least annually to ensure it is still fit for purpose. The report summarises the Council's financial position, its investment objectives and constraints, acknowledges risk and gives a recommendation as to the suitability of the Council's investment portfolio in achieving its objective. The report is published as a separate document and should be read in conjunction with this strategy.

## **5. Capacity, Skills and Culture**

**Elected members and statutory officers:** The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers.

Staff attend training courses, seminars and conferences provided by Arlingclose. Elected members are also encouraged to engage in investment decisions and are invited to attend strategy meetings held with Arlingclose.

**Corporate governance:** The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Policy, Finance & Performance Management Committee and for the execution and administration of treasury management decisions to the Responsible Finance Officer who acts in accordance with the organisation's policy statement and TMPs.

The Policy, Finance & Performance Management Committee is responsible for ensuring effective scrutiny of the treasury management strategy, policies and investment decisions.

## 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 Portfolio Position

Investment Portfolio	31/12/20 Actual Portfolio (Book Value) £s	31/12/20 Actual Portfolio (Current Value) £s
Banks and building societies (unsecured)	734,335	734,335
Money Market Funds	750,000	750,000
Government	450,000	450,000
*Investments in Pooled Funds:		
Property Fund	2,500,000	2,982,005
Diversified Income Fund	1,000,000	966,355
Corporate Bond Fund	500,000	513,375
<b>TOTAL INVESTMENTS</b>	<b>5,934,335</b>	<b>6,396,070</b>

*\*provisional valuations*