Report No: DoR18/22

Eden District Council

Council

24 February 2022

Annual Review of the Treasury Management and Capital Strategy

Portfolio:	Resources
Report from:	Interim Director of Resources
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

1.1 To set out and seek approval for the Treasury Management and Capital Strategy for 2022-2023 the Prudential Indicators for years 2022-2025 and the Minimum Revenue Provision Statement for 2022-2023.

2 Recommendation

It is recommended that:

2.1 The 2022-2023 Treasury Management and Capital Strategy Statement, as detailed in section 3, including the Minimum Revenue Provision Policy, be approved; and

2.2 The Prudential and Treasury Indicators for 2022-2025, set out in Appendix A, including external borrowing limits, be approved.

3 Report Details

2022-2023 Treasury Management and Capital Strategy Statement
Regulatory background

3.1 The Code of Practice for Treasury Management in Public Services and the Prudential Code (CIPFA) require local authorities to determine the Treasury Management Strategy Statement and Prudential Indicators on an annual basis and that Council approve an overall Capital Strategy. The Department for Levelling Up, Housing and Communities (DLUHC) also issued statutory guidance that the Council should approve an Investment Strategy and a Minimum Revenue Provision statement before the start of the financial year. This document meets all those requirements.

3.2 The main aim of both the CIPFA and DLUHC guidance is to ensure that treasury management governance arrangements include both the traditional cash management activities as well as investments which would previously have been outside scope, for example, direct investment in commercial property. The aim being to ensure that decisions around 'non-financial' investments are appropriately controlled, integrated into the cash flow requirements and capital plans of the authority and investment activity is proportionate to the size of the authority.

3.3 The remainder of this report is structured in the following order:

- Clauses to be adopted - this is standard wording recommended by CIPFA for the Council to adopt, setting out the definition of Treasury Management and the main principles.
- Economic update - to provide an update on the economy and interest rates.
- Capital Strategy - an overarching strategy to set out the Council's approach to capital investment, treasury and governance.
- Borrowing Strategy - to set out the Council's approach to capital investment financed through borrowing.
- Minimum Revenue Provision (MRP) Statement - to set out how the Council will make prudent revenue provision to repay any capital investment financed through borrowing.
- Investment Strategy - to set out the Council's approach to investing cash balances, service loans, share purchase and other non-financial investments.
- Other Governance matters - to set out the Council's approach to other issues including training and use of external advisors.

Clauses to be adopted

3.4 Treasury management is about the management of risk. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. All treasury activity undertaken will comply with relevant statutes, guidance and accounting standards.

3.5 The Council has adopted CIPFA's definition of treasury management, as follows:

"The management of the organisation's investment and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks." (CIPFA 2017)

3.6 The successful identification, monitoring and control of risk should be the prime criteria by which the effectiveness of the Council's treasury management activities should be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks.

3.7 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council should adhere to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

3.8 CIPFA's recommended clauses around the operation and responsibilities for treasury management have been adopted into the Council's Constitution (Part 4, Section G, Accounting and Audit Rules, clause 23).

Economic Update (data supplied by Arlingclose Limited, Financial Advisors, as at 17/12/21).

Economic Background:

3.9 The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

3.10 Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

3.11 UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

3.12 In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

3.13 Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

3.14 GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

3.15 The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.

Credit Outlook:

3.16 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

3.17 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

3.18 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority’s counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority’s lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast:

3.19 The Authority’s treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

3.20 Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose’s central case are to the upside while over the medium-term the risks become more balanced.

3.21 Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

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

3.23 For the purpose of setting the budget, it has been assumed that treasury investments will maintain the current levels of return.

Capital strategy

3.24 Under the revised Prudential Code, the Council is now required to annually to approve a strategy that sets out plans for capital investment to deliver its corporate priorities, demonstrates the linkages to treasury management and demonstrates that the plans are proportionate to the size and risk appetite of the Council. The Council acknowledges that non-financial investments need appropriate governance around decision making and that the principals of security, liquidity and yield still apply and need to be considered as part of the due diligence process.

3.25 There are a number of controls around non-financial investments. A key trigger is that these will generally count as capital expenditure. This means that the capital expenditure and financing plans are subject to Council approval as part of the annual budget setting process. Within limits, cost neutral changes to the capital programme can be made in year but any additional resource requires approval by the Cabinet, up to £50,000, or Full Council for any sum higher than £50,000. The full details are set out within the Council's Audit and Accounting rules within the constitution.

3.26 As part of the budget to be approved for 2022-2023, a Capital Programme has been prepared. The borrowing impact of this is reflected in the Prudential and Treasury Indicators within this report. It contains no plans to borrow to fund acquisition of investment properties for purely commercial gain. Due to the controls around the capital programme any material amendment to this would require further approval by Council. This would also ensure that as part of the due diligence, cash flow and other risks, including whether the magnitude of investment is proportional to Council's size, would be considered and documented. The details of the Council's capital programme, including the funding assumptions, can be found on the agenda for Cabinet, 22 February 2022.

3.27 The impact of capital investment on cash balances and liquidity is reflected in the investment and borrowing strategies below. The projections of how much cash will be available include the impact of the capital and revenue budgets as set out in the budget report presented elsewhere on this agenda. Given the planned capital expenditure and revenue projections in the medium term financial plan, the cash balances are anticipated to reduce significantly over the next year and then stabilise. Investment and borrowing decisions need to be made in the context of potential reductions to usable reserve balances (see also 3.33 below).

3.28 Where a local authority holds a non-financial investment relating to a physical asset, the authority should consider whether the asset retains sufficient value to provide security of investment using the fair value model in line with CIPFA's Code of Accounting Practice for Local Authorities in the UK. Where there is evidence that this is no longer sufficient to provide security against loss, this will be reported. Values will be reviewed annually as part of the statement of accounts and any issues around the value of the underlying assets will be reported as part of the treasury and capital outturn.

3.29 In addition to traditional financial investments, the Council also has a significant level of investment property which makes an important contribution to the Council's income. As at 31 March 2021, the Council's investment property was valued at £19.9m (31 March 2021: £17.7m). Net income from investment property for 2020-2021 was £947,000 (2019-2020: £952,000), providing a yield of 4.8% (2019-2020: 5.4%). None of the portfolio was funded through prudential borrowing. The single largest element of this relates to Penrith New Squares, which was valued at £17m (2019-2020 £14.9m).

This single asset makes a significant contribution to the Council's revenue; risks to the Council are mitigated through the terms of the lease. Investment properties are proactively managed by the Council through the Asset Management Working Group. This involves officers from Legal, Finance, Property Services and the Council's external valuers. It considers acquisitions, disposals and rental issues across the portfolio.

3.30 The Council has not borrowed disproportionately to fund acquisition of investment property. As at 31 March 2021, the Council's Capital Financing Requirement was £1,375,000 (31 March 2020 £363,000) with no external loans. The increase being due to the purchase of Voreda House. New borrowing has been included in the proposed 2021-2025 capital programme primarily to fund the redevelopment of both Voreda House and the Town Hall.

Funding Strategy

3.31 Where possible the council will seek external third party funding to support its objectives through grants or developer contributions. Cash, capital receipts or marked reserves will be used to fund projects if levels allow. Borrowing and the associated revenue implications will be used as the final source of funding. It should be noted that if a project has revenue income to cover any associated debt costs that borrowing is used on a spend to save or spend to earn initiative based on an asset life approach. Each project to be supported by a robust life time cost financial appraisal.

Borrowing Strategy

3.32 A key element of integrating the Capital investment and the treasury planning, particularly borrowing, is through the Capital Financing Requirement. This is the underlying need to borrow for capital purposes and so is the starting point for assessing the need for any external borrowing.

3.33 The forecast and movement in the Capital Financing Requirement in coming years is one of the Prudential Indicators (see also Appendix A). The movement in actual external debt and usable reserves combine to identify the Council's borrowing requirement in the underlying potential to invest in current and future years.

Investment capacity projection

	2020-2021 Provisional £'000	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
Capital Financing Requirement	1,375	1,957	3,949	3,884	3,738
External Borrowings	0	0	0	0	0
Internal Borrowing	**-1,375**	**-1,957**	**-3,949**	**-3,884**	**-3,738**
Usable Reserves	19,470	12,540	8,341	6,440	6,006
Investment Capacity	**18,095**	**10,583**	**4,392**	**2,556**	**2,268**

*This is the liability benchmark based on the assumed level of internal borrowing

3.34 The above table shows that the expenditure plans of the Council will be funded with a proposed use of internal borrowing. By utilising its own surplus cash resources, the Council minimises borrowing costs and security risk by reducing the level of its external investment balances. If the Council were to use external borrowing that could balance short term liquidity requirements and may therefore be considered for future years.

3.35 The Council is permitted by law to borrow further, or undertake debt rescheduling. Any new borrowing will be subject to the prudential and treasury indictors set out below. The Public Loans Work Board is a common source of loans to local authorities; other offerings in the market will be assessed to ensure value for money.

3.36 The Council's balance sheet also includes a significant net Pension fund liability relating to the Council's share of the Local Government Pension Scheme. As at 31 March 2021, this was £15.6m (31 March 2020 £13.5m). This is excluded from the Prudential Indicators and has no direct impact on the Council's powers to borrow. There are also a small number of other long-term liabilities relating to contract bonds, similarly, these are outside the scope of the Prudential Code.

2022-2023 Minimum Revenue Provision Statement

3.37 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on local authorities to make a prudent provision for debt redemption. Guidance on minimum revenue provision has been issued by the Secretary of State and local authorities are required to have regard to such guidance under Section 21(1A) of the Local Government Act 2003. The MRP guidance was reviewed by DLUHC in 2018.

3.38 The four minimum revenue provision options are:

- Regulatory method;
- Capital financing requirement method;
- Asset life method; and
- Depreciation method.

3.39 The Council will generally apply the asset life method to determine its minimum revenue provision. DHULC guidance suggests maximum asset lives of 40 or 50 years for property and land respectively. Any MRP will be calculated with this in mind, but the Council retains the option to use a shorter or longer period where there is evidence to support that this is reasonable and prudent.

3.40 Minimum revenue provision which arises as a result of capitalising leases or lease type arrangements will match the annual principal repayment for the associated liability.

3.41 When a loan is granted that results in capital expenditure, the Council will retain the option to treat repayments of principal as satisfying the requirement for making prudent provision, subject to assessment on a case-by-case basis.

3.42 Any MRP relating to expenditure capitalised under statute will be in line with the charge periods recommended by DHULC.

Investment Strategy

3.43 The potential long-term cash balances available for investment are set out at 3.33 above. These represent a year-end position with cash balances significantly higher during the year. They do however show a projection for reduced 'average' cash balances going forward. This is largely linked to the reduction in revenue reserves, in line with the MTFP, as well as anticipated utilisation of existing reserve resources to support the capital programme.

3.44 In order to diversify the investment portfolio, currently largely invested in cash, investments are placed with a range of approved investment counterparties in order to achieve a wide portfolio of prudent counterparty investment periods and rates of return. Maximum investment levels with each counterparty are set to ensure risk is mitigated. Greater returns can be achieved by considering lengthening the term of investments. Where cash requirements allow, and where suitable counterparties are available, this will be considered.

3.45 Money market funds are used, but good treasury management practice prevails and, whilst money market funds provide useful vehicles, the Council will also seek to diversify any exposure by using more than one money market fund. The Council has also invested £4m in a strategic property asset pooled fund and has granted long-term loans to local enterprises.

3.46 From 1 April 2018, International Financial Reporting Standard 9 (IFRS 9) came into force. This standard brought in several changes in relation to accounting for investments, which have a direct impact on how income or expenses are calculated.

The Council's business model for its investments is generally to hold until maturity or for long-term investment rather than for active trading. This means that any gains or losses on investments held at fair value will not directly impact on the general fund until the point at which they are disposed. The main investment which this impacts on to date is the property fund, which has risen in value by circa £685,000 on an investment of £4m (as at December 2021). Any gain (or loss) will only be recognised in the general fund on sale of the investment.

3.47 In addition, IFRS 9 requires that for assets not held at fair value, a charge for predicted credit losses should be made, to reflect the risk of loss of capital. The Council's investment policy is to deposit with high quality counterparties and, generally, to obtain security on capital loans. As such, the anticipated credit loss model is not likely to result in significant charges to the General Fund. When an investment matures, any charge for anticipated losses is reversed.

3.48 The Council has opted up to professional status with counterparties under Markets in Financial Instruments Directive II (MIFID II). This recognises the Council's level of knowledge and governance around investment activity. It allows access to a broad number of counterparties and ensures the portfolio can be diversified.

Investment Policy - Treasury Investments

3.49 In accordance with investment guidance issued by the DHULC, and best practice, the Council's primary objective in relation to the investment of public funds is the security of capital. The liquidity or accessibility of the Council's investments is the next most important factor followed by the yields earned on investments (Security, Liquidity, Yield, in that order). Markets remain volatile and it is against this backdrop that the Council's Investment Strategy is determined.

3.50 The limits in this section do not apply to non-financial investments that result in capital expenditure. Financial investments are categorised as 'specified or 'non-specified' within the investment guidance issued by the DHULC. Specified investments are sterling-denominated investments, with a maximum maturity of one year. They also meet the high credit quality as determined by the Council and are not deemed capital expenditure investments under statute. Non-specified investments are, effectively, any other kind of investment. A full definition is provided in Appendix B. These limits apply to service loans that are revenue in nature.

3.51 The types of investment that will be used by the Council whether they are specified, or non-specified, are as follows:

Credit Rating	Banks** Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	Not Applicable	Not Applicable	£ Unlimited 50 years	Not Applicable	Not Applicable
AAA	£2m 5 years	£2m 20 years	£3m 50 years	£1m 20 years	£1m 20 years
AA+	£2m 5 years	£2m 10 years	£3m 25 years	£1m 10 years	£1m 10 years
AA	£2m 4 years	£2m 5 years	*	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£2m 4 years	*	£1m 4 years	£1m 10 years
A+	£1m 2 years	£2m 3 years	*	£1m 3 years	£1m 5 years
A	£1m 13 months	£2m 2 years	*	£1m 2 years	£1m 5 years
A-	£1m 6 months	£2m 13 months	*	£1m 13 months	£1m 5 years
None (also including all Local Authorities)	£1m 6 months	Not Applicable	£3m 25 years	£50,000 5 years	£1m 5 years

AAA rated Money Market Funds (instant access)	£5m per fund
Other pooled funds (including Property Fund)	£4m per fund based on initial purchase price at the time of investment

*Sector limits prevent investment in non-UK Governments with a rating lower than AA+.

**Banks includes other financial institutions, for example, Building Societies.

3.52 Registered Providers have been included within specified and non-specified investments since 2014-2015. Investments with Registered Providers will be analysed on an individual basis and discussed with Arlingclose Limited prior to investing.

3.53 Investments with other organisations have been included as a non-specified investment category. This would include investment opportunities with small and medium sized enterprises (SMEs) and other businesses in the UK. Because of the higher perceived credit risk of SMEs, such investments may provide considerably higher rates of return. An external credit assessment will be undertaken and advice sought from the Council’s treasury management adviser (where available) before any investment decision is made.

3.54 The Council, on the advice of Arlingclose Limited, selects countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long-term rating of A- or equivalent for counterparties. AA+ or equivalent for non-UK sovereigns);
- Credit default swaps (where quoted);
- Sovereign support mechanisms;
- Share prices;
- Corporate developments, news, articles, market sentiment and momentum; and
- Economic information.

3.55 Any institution can be suspended, or removed, should any of the factors identified above give rise to concern.

3.56 The Council’s policy for specified investments is to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets the selection criteria may be suspended, but institutions not meeting criteria will not be added.

3.57 The Council banks with Barclays Bank PLC. At the current time, it meets the minimum credit criteria of A- (or equivalent) long-term. If the credit rating falls below the Council’s minimum criteria, Barclays Bank PLC will continue to be used for short-term liquidity requirements and business continuity arrangements, should this be required.

3.58 Appendix B also contains a number of sector and other limits to ensure that the portfolio remains diverse and balanced with sufficient capacity to manage the anticipated cash balances.

Investment Policy Non-Financial Investments (Capital Expenditure)

3.59 In addition, the Council may make investments with third parties that are not purely for management of cash resources but with a longer-term capital investment element either in the form of loans of acquisition of share capital. These would be classed as capital expenditure and so require budget approval as part of the capital programme. The detailed arrangements, including the required due diligence and risk assessment for each investment would be considered as part of that approval process.

Other Governance Matters

3.60 The Chief Finance Officer will report to Members on treasury management activity/performance and Performance Indicators as follows:

- Council will receive twice-yearly reports on the Strategy approved for the year;
- The Cabinet and Finance Scrutiny Committee will consider an outturn report on its treasury activity no later than 30 September, after the financial year end; and
- The Finance Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

3.61 CIPFA’s Code of Practice requires the Chief Finance Officer to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Regular reporting of treasury activity provides Members with opportunities to scrutinise activity and seek clarification on any technical issues.

3.62 Council officers regularly attend regional CIPFA technical seminars and workshops provided by Arlingclose Limited. Day to day technical support is also provided by Arlingclose Limited.

3.63 As noted, any non-financial assets will form part of the capital programme. Monitoring of these will come through capital budget monitoring (acquisition) and then through revenue budget monitoring (subsequent income) and final accounts (valuation movements). As noted, schemes require approval either as part of the approved capital programme or through separate Council decision. The relevant due diligence, including any relevant external professional support will be obtained to inform the decision by Council.

3.64 The Council has appointed Arlingclose Limited as its treasury management advisers and receive advice on:

- Balance sheet analysis and review;
- Credit worthiness, including recommended investment counterparties and maximum recommended investment periods;
- Advice on the Council’s compliance with the Treasury Management Code, the Prudential Code for Capital Accounting and calculation of the required Indicators;
- Market and economic news; and
- General treasury management matters.

3.65 The Treasury Management Practices Document has additional operational detail covering day-to-day practices for officers. This will be reviewed and updated in line with any changes to the strategies above.

4 Policy Framework

4.1 The Council has four corporate priorities which are:

- Sustainable;
- Healthy, safe and secure;
- Connected; and
- Creative

4.2 This report meets the Sustainable corporate priority.

5 Consultation

5.1 Prior year's strategies (on which this is based) have been discussed with the Council's treasury management advisors, ArlingClose Limited. ArlingClose have also provided guidance for this year's strategies and statements which have been incorporated. The strategy has been discussed with The Portfolio Holder.

6 Implications

6.1 Financial and Resources

6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2019-2023 as agreed at Council on 7 November 2019.

6.1.2 The governance arrangements set out in this document enable Officers to manage cash and borrowings within the risk appetite of the Council and in compliance with relevant legislation.

6.2 Legal

6.2.1 Treasury management activities are covered in the Accounting and Audit Rules and prescribe the practices, which are identified as being appropriate by the officer responsible for the proper administration of the Council's financial affairs (Section 151 of the Local Government Act 1972).

6.3 Human Resources

6.3.1 There are no Human Resources implications.

6.4 Environmental

6.4.1 There are no environmental implications.

6.5 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no direct implications
Health, Social Environmental and Economic Impact	The report deals with the financial stability of the council and therefore will affect indirectly the economic vitality of the district.
Crime and Disorder	There are no direct implications
Children and Safeguarding	There are no direct implications

6.6 Risk Management

Risk	Consequence	Controls Required
• Loss of investments; • The poor rate of returns • Requirement for more borrowing than expected • Liquidity • Markets or investments • Credit and counterparty • Legal and regulatory	Poor practices implemented, diminished returns, loss of capital invested, poor liquidity (funds available when required)	Annually update Treasury Management and Capital Strategies with comprehensive governance arrangements set out in the report. Seek advice from external advisors on strategies.

7 Other Options Considered

7.1 No other options have been considered

8 Reasons for the Decision/Recommendation

8.1 To ensure the governance arrangements around treasury management are clearly set out and comply with the relevant guidance from CIPFA and DHULC

8.2 To ensure the capital investment plans are integrated with the treasury management strategy and reflected in the relevant prudential and treasury indicators.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	16/02/2022
Monitoring Officer (or Deputy)	15/02/2022
Relevant Assistant Director	10/2/22

Background Papers: The current Treasury Management Policy and Practices document

CIPFA's Treasury Management and Prudential Codes

DHULC Capital Finance: guidance on local government Investments Guidance (2018) available via: https://www.gov.uk/government/publications

DHULC Capital Finance: Guidance on Minimum Revenue Provision (2018) available via: https://www.gov.uk/government/publications

Appendices: Appendix A - Prudential and Treasury Indicators 2021-22 to 2024-25

Appendix B - Detailed Policy on Investment Instruments

Appendix C - Arlingclose Economic & Interest Rate Forecast – December 2021

Contact Officer: Paul Sutton, Interim Director of Resources

Appendix A

Prudential and Treasury Indicators 2021-2022 to 2024-2025

1. Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement

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

2.2 As set out in the Borrowing Strategy above, the Council has no difficulty meeting this requirement, nor are there any difficulties envisaged for future years with an element of under borrowing anticipated. This view takes into account current commitments, existing plans and the proposals in the budget.

3. Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits:

	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
Capital Expenditure	4,307	4,524	1,240	830

3.2 Capital Expenditure will be financed or funded as follows:

Capital Financing	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
Capital Receipts	736	1,130	0	0
Capital Grants and contributions	1,596	721	800	390
Reserves / Revenue Contributions	1,381	640	440	440
Total Financing	**3,713**	**2,491**	**1,240**	**830**
Prudential Borrowing	**594**	**2,033**	**0**	**0**
Total Finance and Prudential Borrowing	**4,307**	**4,524**	**1,240**	**830**

4. Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. A negative figure indicates that investment income is higher than borrowing and debt repayment costs.

4.2 The ratio is based on costs net of investment income:

	2021-2022 Estimate %	2022-2023 Estimate %	2023-2024 Estimate %	2024-2025 Estimate %
Ratio of Financing Costs to Net Revenue Stream	-3.5%	-2.1%	-1.8%	-1.0%

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the capital financing requirement is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing:

	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
CFR opening	**1,375**	**1,957**	**3,949**	**3,884**
Prudential borrowing	**594**	**2,033**	**0**	**0**
Less MRP	**12**	**41**	**65**	**146**
Capital Financing Requirement	1,957	3,949	3,884	3,738

6. Authorised Limit and Operational Boundary for External Debt

6.1 The Council has an integrated Treasury Management Strategy and manages its treasury position in accordance with its approved Strategy and Practice. Overall borrowing will, therefore, arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the capital financial requirement.

6.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (long and short-term borrowing, overdrawn bank balances and long-term liabilities). It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management Policy Statement and Practices.

6.3 The Authorised Limit has been set on the estimate of the most likely prudent, but not worst-case scenario, with sufficient headroom over and above this to allow for unusual cash movements.

6.4 The Operational Boundary links directly to the Council's estimates on the cash flow requirements. This indicator is based on the same estimates as the Authorised Limit, reflecting the most likely prudent, but not worst-case scenario, but without the additional headroom included within the Authorised Limit. It also reflects the Authority's liability benchmark, which takes into account an assumption about the level of internal borrowing. The Council may go over this limit on a temporary basis to support cash flow needs but should not exceed this on a long-term basis.

Operational Boundary for External Debt	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
Borrowing	0	0	0	0

6.5 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit):

Authorised Limit for External Debt	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
Borrowing	0	0	0	0
Internal Borrowing	1,957	3,949	3,884	3,738
Headroom	5,000	5,000	5,000	5,000
Total	**6,957**	**8,949**	**8,884**	**8,738**

7. Interest Rate Exposure

7.1 The Council's policy has been to mainly borrow at fixed rates to obtain certainty over funding costs. Investments are generally more subject to interest rate risk being either variable instruments or short-term fixed instruments. This reflects the products available in the market that fit within the Council's investment strategy. The risks around interest costs and returns are mitigated through regular budget monitoring and assessment of medium term market data from the Council's Treasury advisors, Arlingclose Limited.

8. Maturity Structure of Fixed Rate Borrowing

8.1 This indicator is designed to protect against excessive exposures to interest rate changes in any one period, in particular, in the course of the next ten years.

8.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The Council reserves the option to utilise the best value route to deliver its capital programme and cash requirements which could involve use of short or long-term borrowing.

Maturity Structure of Fixed Rate Borrowing	Lower Limit for 2021-2022 %	Upper Limit for 2021-2022 %
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

9. Credit Risk

9.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

9.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

9.3 The Council also considers alternative assessments of credit strength and information on corporate developments of, and market sentiment towards, counterparts. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns where available);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum; and
- Subjective overlay.

9.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative, rather than absolute, terms.

10. Upper Limit for Total Principal Sums Invested over 364 Days

10.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested within the limits of point 8 of Appendix B.

	2021-2022 Estimate £'000	2022-2023 Estimate £'000	2023-2024 Estimate £'000	2024-2025 Estimate £'000
Upper Limit for total principal sums invested over 365 days	4,000	4,000	4,000	4,000

11. Local indicators for non-treasury investments

11.1 As noted in the Capital strategy, the Council has a number of investment properties, loans and an equity holding in the Council Company, the Heart of Cumbria limited. The income performance of these instruments is monitored through the revenue budget. The loans and equity are also included within the treasury reports to Finance Scrutiny Committee. The terms of any new investment will form part of the due diligence process.

Appendix B

Summary of Policy on Investment Instruments

1. Investment types

1.1 The Council receives creditworthiness advice from its treasury advisers, Arlingclose Limited, with whose advice the limits and criteria for counterparties are determined as set out in the main report above.

1.2 There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2014 and the European Union Bank Recovery and Resolution Directive are implemented.

1.3 In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority’s treasury management adviser.

1.4 Current Account Bank: has a current credit rating of A which meets the minimum credit criteria of A- (or equivalent) long term in the table at 3.51 of the report. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with Barclays Bank plc providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

1.5 Registered Providers: Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

1.6 Building Societies: The Authority takes additional comfort from the building societies’ regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Authority’s deposits would be paid out in preference to retail depositors. The Authority will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

1.7 Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority. Funds that offer same-day liquidity and aim for low volatility on net asset value will be used as an alternative to instant access bank accounts, while funds whose values may be more volatile and/or have a notice period will be used for longer investment periods. The Council also restricts its exposure to money market funds with lower levels of funds under management and will not exceed 0.5% of the net asset value of any money market fund used. In the case of Government liquidity funds, the Council will restrict exposure to 2% of the net asset value of such money market funds.

1.8 Other Pooled Funds: The Investment Capacity Projection Table in section 3.33 of the Report indicates that the Authority will have reducing cash balances available for investment over the medium term. To match this, it will consider reduction of pooled bond, equity and property funds that offer enhanced returns over the longer-term, but are potentially more volatile in the shorter 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.

1.9 Other Organisations: The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

1.10 Additionally, the Council may invest in 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 available, the credit rating relevant to the specific investment or class of investment is used to determine cash and time limits in the table above. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

2. Risk Assessment and Credit Ratings

2.1 The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. 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.

2.2 Where a credit rating agency announces that an A- 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.

3. Other Information on the Security of Investments

3.1 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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

3.2 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 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.

4. Specified Investments

4.1 The Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - ▷ the UK Government,
  - ▷ a UK local authority, parish council or community Council, or
  - ▷ a body or investment scheme of "high credit quality".

4.2 The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5. Loans

5.1 A local authority may choose to make loans to local enterprises as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Local authorities can make such loans whilst continuing to have regard to this guidance if they can demonstrate in their Strategy that:

- Total financial exposure to these type of loans is proportionate;
- They have used an expected loss model to assess the impact on their balanced budget requirements if the capital loaned is at risk;
- They have appropriate credit control arrangements to recover overdue repayments in place; and
- The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

5.2 For the purposes of this strategy, investments meeting the criteria above will be included within the limits set for non-specified investments below. For 2020-2021, the provisions of IFRS 9 will mean that the expected loss model is applied to the relevant financial instruments. As part of the due diligence on any new loans, the expected loss allowance will be assessed. There will be an ongoing assessment at least annually to assess whether the risks for loans and deposits have changed since initial recognition. This will be based on payment history on the instruments held by the Council, market information about the financial standing of the counterparty, other relevant information such as the likelihood of third party support.

5.3 Practice to date has been to limit service loans to those that count as capital investment. This puts a limit on the amounts in line with the authority granted through the capital programme. Similarly, any investment property acquisition would need an approved capital budget. Any capital scheme greater than £50,000 requires Council approval.

5.4 Should any revenue service loans be granted, these would form part of the treasury limits for non-specified investments (see below), alongside the capital loans.

5.5 Reporting to Finance Scrutiny Committee will continue to include a comprehensive list of all cash, treasury investments, loans and shares.

6. Non-Specified Investments

6.1 Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. They will also include any investments deemed to be capital expenditure. Limits on non-specified investments are shown in the table below.

Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£10m
Total investments without credit ratings or rated below A-	£10m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£20m

7. Non-financial investment

7.1 Non-financial investments are not included in the limits above. The Council holds £19.9m as investment properties (as at 31/3/2021). There is no borrowing against any of the Investment Properties. Should the value of the properties decrease, the Council is protected from a direct charge to revenue for capital losses through statute.

8. Investment Limits

8.1 In order that no more than 10% of available cash resources will 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 £3m (based on maximum portfolio size of £30m). A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (for example, King & Shaxson), foreign countries and industry sectors as below:

Investment Limits

	Cash Limit
Any single organisation (excluding the UK Central Government, pooled funds and wholly owned Council subsidiaries).	£3m each
Local Authority	£10m in total
UK Central Government	Unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£8m per broker
Foreign countries	£3m per country
Registered Providers	£5m in total
Building Societies	£5m in total
Loans to small businesses	£2m in total
Money Market (instant access)	Unlimited
Other pooled funds	£10m in total

9. Approved Instruments

9.1 The Authority may lend or invest money using any of the following instruments:

- Interest-bearing bank accounts,
- Fixed term deposits and loans,
- Callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- Callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £2m in total,
- Certificates of deposit,
- Bonds, notes, bills, commercial paper and other marketable instruments, and

- Shares in money market funds and other pooled funds.

9.2 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as the London Interbank Officer Rate, subject to the limits on interest rate exposures below.

10. Liquidity Management

10.1 The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated 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.

10.2 The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength (for example, statements of potential Government support). The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

10.3 It should be noted that the length of deposit is based on advice from Arlingclose Limited and is often considerably shorter than the maximum recommended period.

10.4 No instrument, other than those listed above may be used. The Council will review the investment instruments and counterparty limits on an annual basis in order that they are proportionate and practical to the Council's investment balances. The Chief Finance Officer may, however, propose to Council any interim changes due to changes in legislation/guidance or in the level of the Council's investment balances and activity.

Appendix C

ArlingClose Economic & Interest Rate Forecast – December 2021

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%