London Borough of Haringey

Treasury Management Strategy Statement 2021/22

1. Introduction

1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and 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.

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

1.3. Investments held for service purposes or for commercial profit are considered are considered in section 6 of this report, in line with the 2018 MHCLG Guidance.

2. External Context – provided by the Council's appointed treasury advisor, Arlingclose

2.1. **Economic background:** The impact on the UK from coronavirus, lockdown measures, the roll out of vaccines, as well as the trading arrangement with the European Union (EU), will remain a major influence on the Authority's treasury management strategy for 2021/22.

2.2. The Bank of England (BoE) maintained 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.

2.3. 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%.

2.4. 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.

2.5. 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.

2.6. 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.

2.7. 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 Organization

2.8. **Credit outlook:** After spiking in late March as coronavirus became a global pandemic, 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 is likely to be significantly lower than in previous years.

2.9. 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.

2.10. 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, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

2.11. **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.

2.12. 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.

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

2.14. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 3.0%.

3. Local Context

3.1. On 30th November 2020, the Authority held £509.9m of borrowing and £46.4m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1a: Balance sheet summary – cumulative forecast Capital Financing Requirement (CFR) and borrowing balances

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
General Fund CFR	449.2	614.9	748.0	853.3	924.0	963.2	949.9
HRA CFR	274.3	424.9	552.9	737.2	912.9	1036.2	1058.6
Total CFR	**723.4**	**1039.8**	**1,300.9**	**1,590.5**	**1,836.9**	**1,999.4**	**2,008.5**
Less: Other debt liabilities *	-31.2	-27.3	-23.5	-19.5	-15.3	-10.9	-08.4
Loans CFR	**692.3**	**1012.5**	**1,277.4**	**1,571.0**	**1,821.6**	**1,988.5**	**2,000.1**
Less: Internal borrowing	-160.6	-200.6	-200.5	-200.3	-200.1	-201.9	-196.0
CFR Funded by External Borrowing	**531.7**	**811.9**	**1077.0**	**1,370.7**	**1,621.5**	**1,786.5**	**1,804.1**
Breakdown of external borrowing:							
Existing Borrowing**	531.7	495.4	480.9	473.5	452.3	445.6	441.1
New Borrowing to be raised	0.0	316.5	596.0	897.3	1169.2	1,340.9	1,363.0

* leases and PFI liabilities that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3. The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £1,363m over the forecast period.

3.4. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1a shows that the Authority expects to comply with this recommendation during the course of the MTFS.

3.5. The capital plans which underpin the borrowing requirement above are dealt with in the council's main budget report (in particular the Capital Strategy section). All of the Council's capital programme is robustly scrutinised and tested to ensure that the capital plans are affordable and prudent. The above shows the five year effects of the Council's capital programme, however all capital plans are assessed in their entirety (i.e. some schemes are for a greater than 5 year time frame).

3.6. The breakdown of the borrowing position at each financial year end for both the General Fund and the HRA is shown below:

Table 1b: Year end borrowing position summary

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
General Fund (GF)	242.0	386.6	523.7	633.1	708.3	750.0	745.1
Housing Revenue Account (HRA)	289.7	425.3	553.2	737.6	913.2	1036.5	1058.9
Total	**531.7**	**811.9**	**1,077.0**	**1,370.7**	**1,621.5**	**1,786.5**	**1,804.1**

4. Borrowing Strategy

4.1. The Authority currently holds £495m million of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1a shows that the Authority expects to increase its borrowing by up to £596m by the end of 2021/22. The Authority may also borrow additional sums to reduce its existing internal borrowing to satisfy future years' borrowing requirements, providing this does not exceed the authorised limit for borrowing as set out in table 2 of this report.

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

4.3. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. However, given the size of the Council's capital programme, and the need to diversify the Council's debt portfolio to further minimise refinancing risk. Long term borrowing will also be required during 2021/22, so the strategy will be to fulfil the Council's borrowing requirement during the financial year with a mixture of long and short term borrowing.

4.4. By doing so, the Authority is able to reduce net borrowing costs. The benefits of short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. The Authority has in recent years raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, and may investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority has not done this in the past and has no plans to engage in such activity, and will thus retain its access to PWLB loans.

4.6. Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

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

4.8. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

4.10. **LOBOs:** The Authority holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £75m of these LOBOs have options during 2021/22, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so, however, it recognises that lenders are highly unlikely to offer this while the interest rates on existing loans remain above prevailing rates.

4.11. Some LOBO lenders are now open to negotiating premature exit terms from LOBO loans via payment of a premium to the lender. Haringey Council's policy will be to exit LOBO agreements if the costs of replacing the loans, including all premium, transaction and funding costs, generate a material net revenue saving for the Council over the life of the loan in net present value terms, and all costs are consistent with Haringey's approved medium term financial strategy. Whether to repay a LOBO loan will be determined by the S151 Officer, in line with Haringey's constitution.

4.12. When loans are prematurely repaid, there is usually a premium payable to the lender, to compensate them for interest forgone at the contractual rate, where prevailing interest rates are lower. Haringey would need to refinance LOBOs by raising borrowing for both the original sum borrowed, and the premium payable to the lender. However, this type of arrangement can prove beneficial where interest savings exceed premium costs.

Replacing LOBOs, that contain an option for lenders to increase the rate, with fixed rate debt will reduce refinancing and interest rate risk.

4.13. As the Council's borrowing portfolio grows in line with its capital spending plans, the LOBOs will continue to shrink as a proportion of the Council's total borrowing.

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

4.15. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

4.16. **Borrowing Limits:** The council's total borrowing limits are set out in table 2 below.

4.17. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Indicator separately identifies borrowing from other long term liabilities such as finance leases. 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.

4.18. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow 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. The Operational Boundary and Authorised Limit apply at the total level.

4.19. The Chief Finance Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Corporate Committee.

Table 2: Borrowing Limits

	2020/21 limit £m	**2021/22 limit £m**	**2022/23 limit £m**	**2023/24 limit £m**	**2024/25 limit £m**	**2025/26 limit £m**
Authorised limit – borrowing	979.6	1,207.4	1,501.0	1,751.6	1,918.5	1,930.1
Authorised limit – PFI & leases	30.9	31.0	25.7	20.2	14.4	11.1
Authorised limit – total external debt	**1010.5**	**1,238.4**	**1,526.7**	**1,771.8**	**1,932.9**	**1,941.2**
Operational boundary - borrowing	929.6	1,157.4	1,451.0	1,701.6	1,868.5	1,880.1
Operational boundary – PFI & leases	28.1	28.2	23.4	18.4	13.1	10.1
Operational boundary – total external debt	**957.7**	**1,185.6**	**1,474.4**	**1,720.0**	**1,881.6**	**1,890.2**

5. Treasury Investment Strategy

5.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £31.9 and £166.6 million, and similar levels are expected to be maintained in the forthcoming year. It is a requirement of the Markets in Financial Instruments Directive II (MiFID) that the Council maintains an average investment balance of at least £10m, in order to maintain professional client status (see also paragraph 11.7)

5.2. **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The 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.

5.3. **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.

5.4. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to maintain its policy of utilising highly creditworthy and highly liquid investments such as loans to other local authorities, AAA rated money market funds and the Debt Management Office (part of HM treasury). If the Authority were to consider diversifying into more secure and/or higher yielding asset classes during 2021/22, in particular for the estimated £10m that is available for longer-term investment due to being required for the MiFID professional client status, this would be the subject of further reports as it would represent a change in.

5.5. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the 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	£5m	Unlimited
Banks (secured)*	2 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building Societies (unsecured) *	13 months	£5m	£20m
Reigstered providers (unsecured) *	5 years	£5m	£20m
Money market funds	N/A	£5m	Unlimited
Strategic pooled funds	N/A	£5m	Unlimited
Real Estate Investment Trusts	N/A	£5m	Unlimited

5.7. **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.

5.8. **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.

5.9. **Bank 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.

5.10. **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.

5.11. **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.

5.12. **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 banks of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.13. **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.

5.14. **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.

5.15. **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m 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.

5.16. **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.

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

5.18. **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.

5.19. 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, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.20. **Investment limits**: The Authority's revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2021. In order that no more than 100% of available reserves 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 £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.21. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries 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: Additional investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5 m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£5m in total
Money market funds*	£25m in total
Real estate investment trusts	£5m in total

* These limits apply for both Haringey Council and Haringey pension Fund, so the limit for Money Market Funds is £5m per MMF and £25m aggregate limit for the Council, and £25m for the Pension Fund.

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

6. Investment Strategy

6.1. Non Treasury Management Investments

6.1.1. The Authority invests 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).

6.1.2. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

6.2. <u>Treasury Management Investments</u>

6.2.1. The Authority typically receives its income in cash (e.g. from taxes and grants) 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 balance of treasury management investments is expected to fluctuate between £10 million and £50 million during the 2021/22 financial year.

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

6.2.3. **Further details:** Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in the previous section, section 5 of this report.

6.3. <u>Service Investments</u>

6.3.1. **Contribution:** The Council lends money to third parties such as its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

6.3.2. **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. In order to limit this risk, it will be ensured that any new loans made will remain proportionate to the size of the Authority. Balances as at 31.03.2020 were as follows:

Table 5: Loans for service purposes in £ millions

Category of borrower	31.3.2020 actual		
	Balance owing	Loss allowance	Net figure in accounts
Subsidiaries	16.9	-0.3	16.6
Local businesses	4.7	-0.7	4.0
Local charities	47.9	-43.5	4.3
Local residents	0.1	0.0	0.1
Employees	0.1	0.0	0.1
TOTAL	**69.7**	**-44.6**	**25.2**

6.3.3. The largest balance above relates to Alexandra Palace debts (shown under local charities). There are historic debt balances owed by the Trust that have not been legally discharged, totalling £47.9m. Much of this loan, £43.1m, is legally outstanding but does not currently have repayments being made, this debt dates back to previous decades when the Council expended funds on behalf of the Trust. Although the £43.1m debt has not been legally discharged, the Council has agreed that it will only seek to recover this when the Trust is in a position to repay amounts due. The remainder of the outstanding amount are more recent loans relating to works carried out on the Ice Rink and West Storage Yard – these are being repaid in line with the original loan agreements. The loans to local business include the opportunity investment fund, and a loan to a business who operates some of Haringey's leisure facilities.

6.3.4. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2019/20 onwards are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

6.3.5. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by weighing up the service outcomes any such loan could provide against the creditworthiness of the recipient. This is done on a case by case basis, given the low number of such arrangements. This forms part of the Council's capital programme, further details of which are in the Council's annual medium term financial strategy.

6.4. Commercial Investments: Property

6.4.1. Contribution: The Council holds properties which are classified as 'investment properties' in the Council's statement of accounts. These properties are all within the local area, therefore contributing to the Council's local placemaking duties, and include approximately 200 shops, offices and other commercial premises. The revenue stream associated with these (net of the costs of maintaining the properties) forms part of the Council's annual budget, therefore contributing to the resources available to the Council to spend on local public services. Any future acquisitions that the Council makes in this area will be made with reference to the CIPFA Prudential Property Investment guidance issued in 2019.

6.4.2. The value of investment properties disclosed in the 2019/20 statement of accounts was £88.6m.

7. Capacity, Skills, Culture and Advice

7.1. CIPFA's Treasury Management Code of Practice requires the Chief Financial 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.

7.2. Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Training sessions are arranged for members to keep their knowledge up to date.

7.3. The needs of the Council'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. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

7.4. The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed by the Council's treasury management staff.

7.5. Appropriately skilled and experienced finance and legal staff members work with service departments to ensure that the risks associated with any projects they undertake, and compliance with regulation and statutory guidance are properly understood, and form a key consideration in any decision making process.

7.6. The Council's constitution has clearly defined roles and responsibilities for treasury management responsibilities, both for members, committees, and officers.

8. Investment Indicators

8.1. The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure because of its investment decisions.

8.2. **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses.

Table 6: Total investment exposure

Total investment exposure	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	92.3	15.0	15.0
Service investments: Loans	25.2	24.8	24.4
Commercial investments: Property	88.6	88.6	88.6
TOTAL INVESTMENTS	206.1	128.4	128.0

8.3. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 7: Investments funded by external borrowing

Investments funded by borrowing	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0.0	0.0	0.0
Service investments:	19.3	19.8	20.5
Commercial investments: Property	68.1	71.1	74.7
TOTAL FUNDED BY BORROWING	87.4	90.9	95.2

8.4. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 8: Investment rate of return

Investments net rate of return	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Treasury management investments	0.70%	0.75%	0.75%
Service investments:	1.19%	1.19%	1.19%
Commercial investments: Property	6.16%	4.00%	4.00%
ALL INVESTMENTS	3.11%	3.08%	3.08%

9. Treasury Management Indicators

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

9.2. **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.

Credit risk indicator	**Target**
Portfolio average credit rating	*Above A-, score of 7 or lower*

9.3. **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 3 month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

9.4. **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£2m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£2m

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

9.6. **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	50%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

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

9.8. **Total short term borrowing:** the Council has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to the lower interest rates, and corresponding revenue savings. Short term borrowing could also be raised from other counterparties such as banks. Short term borrowing exposes the Council to refinancing risk: the risk that interest rates rise quickly over a short period of time, and are at significantly higher rates when loans mature and new borrowing has to be raised. With this in mind, the Authority will set a limit on the total amount of short term borrowing that has no associated protection against interest rate rises, as a proportion of all borrowing.

Short term borrowing	Limit
Upper limit on short term borrowing that exposes the Council to interest rate rises as a percentage of total borrowing	30%

9.9. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£10m	£10m	£10m

10. Minimum Revenue Provision Policy Statement

10.1. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

10.2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

10.3. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

10.4. The Council's MRP policy was reviewed and revised to better reflect the rules set out in the prudential code and government guidance around prudent provision for repayment of borrowed capital. The revised policy, which took effect from 1 April 2016, ensured that provision for capital repayment is made over a period that is commensurate with the period in which the asset purchased provides benefits.

General Fund MRP policy: borrowing before 2007/08

10.5. The Council calculates MRP on historic debt based on the Capital Financing Requirement (CFR) as at 1 April 2007.

10.6. The Council calculates the MRP charge based on 2% of that CFR, fixed at the same cash value so that the whole debt is repaid after 50 years in total.

10.7. The historic MRP policy for borrowing incurred before 2007/08 led to MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016. This resulted in a cumulative charge at 31 March 2016 that was in excess of what is considered prudent and appropriate under the current policy. To reflect the historic over-provision the Council undertakes an annual review to determine whether to make a realignment of MRP charged to the General Fund, using the policy set out above, to recognise the excess sum charged to that point.

10.8. The following conditions will apply to the annual review:

- Total MRP after applying realignment will not be less than zero in any financial year.
- The cumulative total of the MRP realignment will never exceed the amount of historical over-provision calculated to 31 March 2016.

10.9. The table below summarises the historic overprovision position on pre 2008 General Fund expenditure:

Table 9: Summary of historic overprovision of MRP on pre 2008 GF expenditure

	£m
MRP provided between 2008-2016 under previous policy to 31.3.2016	78.0
MRP required to be provided between 2008-2016 under current policy	45.2
Overprovision as at 31.3.2016	32.9

10.10. The remaining overprovision of MRP as at 31.3.2020 was £12.7m. The estimated MRP charges relating to pre 2008 general fund expenditure are summarised in the table below, due to the historic overprovision, MRP charges are estimated to be nil until part way through 2022/23 at which point the historic overprovision will be cleared.

Table 10: Estimated MRP charges on GF pre 2008 expenditure

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m	£m
MRP charge on pre 2008 GF expenditure	5.0	5.0	5.0	5.0	5.0	5.0
Less: historic overprovision	-5.0	-5.0	-2.7	0.0	0.0	0.0
Net MRP charge for pre 2008 expenditure	0.0	0.0	2.3	5.0	5.0	5.0

General Fund MRP policy: prudential borrowing from 2007/08

10.11. For borrowing incurred on schemes described by the Government as Prudential Borrowing or Unsupported Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the Annuity repayment method in accordance with Option 3 of the guidance.

10.12. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset, at an appropriate interest rate. Estimated life periods will be determined by the Section 151 Officer under delegated powers.

10.13. In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the charge relates, becomes fully operational.

10.14. Financial agreements such as loans, investments or where assets are to be acquired for future development (including where capital receipts are part of the business case), will not, at the discretion of the CFO, attract MRP. This discretion will be applied where it is reasonable to assume that the initial capital investment will be returned to the Council in full at maturity or over a defined period.

HRA MRP policy

10.15. There is no statutory requirement to make an annual MRP charge for HRA assets, and the Authority does not currently plan to do this given the current low level of debt per property that the Council holds, and the fact that sums charged as depreciation in the HRA are spent on major repairs to the Authority's housing stock to ensure they remain in suitable condition. This policy will be kept under annual review.

Concession Agreements

10.16. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases are calculated on an asset life method using an annuity repayment profile, consistent with the method for all prudential borrowing since 2007/08. Estimated life periods will be determined under delegated powers.

Finance Leases

10.17. For assets acquired by finance leases, including leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Statutory capitalisations

10.18. For expenditure which does not create a fixed asset, but is statutorily capitalised and subject to estimated life periods that are referred to in the guidance, these estimated periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

10.19. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, at the discretion of the Section 151 Officer.

10.20. The Section 151 Officer may approve that such debt repayment provision may be made from capital receipts or from revenue provision.

11. Related Matters

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

11.2. **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

11.3. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

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

11.6. **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

11.7. **Markets in Financial Instruments Directive**: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this most appropriate status.

12. Revenue Budget Implications

12.1. The budget for investment income in 2021/22 is £0.2 million, based on an average investment portfolio of £25 million at an interest rate of 0.75%. This is assumed to remain constant throughout the MTFS.

12.2. The budget for debt interest paid in 2021/22 is detailed in the table below for both the General Fund and HRA. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

12.3. The table below demonstrates the revenue budgets in both the General Fund and HRA for both interest costs on borrowing, and Minimum Revenue Provision charges. The Council's capital programme is moving to a financing strategy that seeks to ensure that investment via the capital programme is self-financing. The self-financing schemes will normally only proceed if they produce a reduction in expenditure that includes reductions enough to cover the cost of financing the investment. The level of these savings is demonstrated in the table below.

Table 11: Revenue budget for interest costs and MRP:

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
	£m	£m	£m	£m	£m	£m
MRP - pre 2008 expenditure	0.0	0.0	2.3	5.0	5.0	5.0
MRP - post 2008 expenditure	5.5	8.7	14.2	17.4	20.8	24.0
Total MRP	**5.5**	**8.7**	**16.4**	**22.5**	**25.8**	**29.0**
Interest Costs (General Fund)	4.5	8.6	9.0	10.9	12.2	12.4
Total Gross Capital Financing Costs (General Fund)	**10.0**	**17.4**	**25.4**	**33.4**	**38.0**	**41.5**
Offsetting Savings for self financing schemes	-0.7	-5.2	-8.9	-12.3	-14.7	-15.2
Total Net Capital Financing Costs (General Fund)	**9.3**	**12.2**	**16.5**	**21.0**	**23.3**	**26.3**
Interest Costs (HRA)	**16.4**	**16.2**	**22.9**	**30.0**	**35.7**	**38.8**

13. Other Options Considered

13.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (S151 Officer) having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Appendix A – Arlingclose Economic & Interest Rate Forecast - 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
Official Bank Rate													
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
3-month money market r													
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
1yr money market rate													
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
5yr gilt yield													
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
10yr gilt yield													
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
20yr gilt yield													
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
50yr gilt yield													
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%