Subject: **2020/21 TREASURY MANAGEMENT MID YEAR REPORT**

Report to: **Policy and Resources Committee 15 December 2020**

Report by: **Karen Sly, Finance Director**

RECOMMENDATIONS
It is recommended that Members approve the treasury management half yearly report for 2020/21.

1. INTRODUCTION AND BACKGROUND

1.1. The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. This report presents for the 2020/21 financial year the following:

- the mid-year position for treasury management;
- the borrowing requirement and debt for the current financial year;
- the mid-year borrowing position;

compared with the Treasury Management Strategy.

1.2. The Councils treasury management strategy for 2020/21 was approved at a meeting on 20th February 2020. The Council 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 risk remains central to the Councils treasury management strategy.

1.3. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils Capital Strategy, complying with CIPFA's requirement, was approved by Council on 30th July 2020.

2. LOCAL CONTEXT

2.1. On 31st March 2020, the Council had net borrowing of £98 million arising from its revenue and capital income and expenditure. 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. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary	**31.3.20 Actual £m**
General Fund CFR	£56.641
HRA CFR	£84.968
Total CFR	**£141.610**
Less: *Other debt liabilities	(£0.854)

Borrowing CFR	**£140.755**
Less: Long term investments	(£8.433)
Less: Usable reserves	(£26.470)
Less: Working capital	(£9.031)
Net borrowing	**£98.062**

** finance leases, transferred debt that form part of the Councils total debt*

2.2. Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk. The treasury management position on 30th September 2020 and the change over the period is shown in Table 2 below.

Table 2: Treasury Management Summary	**31.3.20 Balance £m**	**2020/21 Movement £m**	**30.9.20 Balance £m**	**30.9.20 Rate %**
Long-term borrowing	£86.262	(£3.637)	£82.625	1.40%-4.95%
Short-term borrowing	£32.500	£15.094	£47.594	0.05%-4.44%
Total borrowing	**£118.762**	**£11.457**	**£130.219**	
Long-term investments (CCLA Property Fund)	£1.000	£0	£1.000	N/A
Short-term non treasury investment	£8.433	(£1.150)	£7.283	6%
Cash and cash equivalents	£11.267	£6.779	£19.046	N/A
Total investments	**£20.700**	**£5.629**	**£27.329**	
Net borrowing	**£98.062**	**£5.828**	**£102.890**	

2.3. The increase in net borrowing in table 2 has translated into a fall in long term borrowing and a rise short term borrowing taking advantage of the low local authority rates and an increase in investment balance.

3. BORROWING UPDATE

3.1. On 9th October 2019 the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders. The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields (the value of this discount is 1% below the rate at which the Council usually borrows from the PWLB). £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% has been made available to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

3.2. The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using

PWLB loans to buy commercial assets primarily for yield. The consultation also broached the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances. The consultation closed on 31st July 2020 and recent announcements have been made following the consultation which outlines the new PWLB lending terms which include a reduction of 1% in all standard rate and certainty rate PWLB loans from 26 November, and confirmation that the PWLB will not lend to an authority that plans to buy investment assets primarily for yield within their capital plans.

3.3. Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. If the Council intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

4. BORROWING ACTIVITY – MID YEAR

4.1. At 30th September 2020 the Council held £130.219m of loans, an increase of £11.457m to 31st March 2020, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position	**31.3.20 Balance £m**	**Movement £000**	**30.9.20 Balance £000**	**30.9.20 Rate %**	**30.9.20 Maturity (years)**
Public Works Loan Board	£71.388	£0	£71.387	3.15%-4.40%	10-40
*Banks (LOBO)	£3.000	£0	£3.000	4.95%	1-2
Banks (fixed-term)	£7.000	£0	£7.000	3.35%-3.98%	<1-60
Local authorities (long-term)	£4.888	(£3.456)	£1.332	4.44%	>1
Local authorities (short-term)	£32.588	£14.912	£47.500	0.05%-4.44%	<1
Total borrowing	**£118.763**	**£11.457**	**£130.219**		

**the LOBO has a call option which the lender can exercise every 5 years the next call date is November 2024*

4.2. The Councils chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Councils long-term plans change being a secondary objective.

4.3. In furtherance of keeping with these objectives, £3.5m of long-term loans were replaced with short-term borrowing. The short-term borrowing undertaken and repaid during the period totalled £14.9m. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.4. With short-term interest rates remaining much lower than long-term rates the Council considered it to be more cost effective in the near term to use internal resources or borrowed short-term loans instead. The net movement in short-term loans is shown in table 3 above.

4.5. The Councils borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

4.6. PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB HRA borrowing rate. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

4.7. LOBO loans: The Council continues to hold £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during this period.

5. TREASURY INVESTMENT ACTIVITY

5.1. On 1st April 2020 the Council received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £35.808 million was received, temporarily invested in short-dated, liquid instruments such as the DMADF, call accounts and Money Market Funds as the grants were paid out to businesses. £33.251million was disbursed by the end of September with the balance to be passed back to Central Government once the reconciliation is complete.

5.2. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Councils investment balances ranged between £51 and £11 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position	31.3.20 Balance £m	Net Movement £	30.9.20 Balance £m	Average Rate %
Banks & building societies (unsecured)	£9.469	(£1.018)	£8.451	**0.01%-0.06%**
Government (incl. local authorities)	£0.250	£10.850	£11.100	**0.01%-0.40%**
Money Market Funds	£10.920	(£1.085)	£9.835	**0.01%-0.12%**
Other Pooled Funds - Property funds	£1.000	£0	£1.000	**N/A**
Total investments	£21.639	£8.747	£30.386	

5.3. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Councils 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.

5.4. Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

5.5. On 25th September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities.

5.6. The return on Money Market Funds net of fees also fell over the six months and for many funds net returns range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.

5.7. Given the continuing risk and low returns from short-term unsecured bank investments, the Council is looking into more secure and/or higher yielding asset classes and review opportunities to do this where cash flow allows. However, in the light of the pandemic crisis and the likelihood of unexpected calls on cash flow, the Council kept more cash available at very short notice than is normal. Liquid cash was diversified over several counterparties and/or Money Market Funds to manage both credit and liquidity risks.

5.8. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house	**Credit Score**	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity days)**	**Rate of Return %**
31.03.2020 30.09.2020	4.42 3.80	AA AA-	98% 50%	4.42 51	0.37% 0.10%
Similar LAs All LAs	4.20 4.14	AA- AA-	65% 64%	51 18	0.30% 0.27%
Treasury investments externally managed funds – Income Return					
30.09.2020	N/A	N/A	N/A	N/A	4.14%
Similar LAs **All LAs**	N/A N/A	N/A N/A	N/A N/A	N/A N/A	3.52% 3.45%

***Weighted average maturity will apply to the first five categories above and to cash plus and bond funds.*

5.9. Externally Managed Pooled Funds: £1m of the Councils investments are held in externally managed strategic pooled Property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a return of £18,028 which is used to support services in year.

5.10. 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 Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

5.11. In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

5.12. Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

5.13. Because the Councils externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Councils investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

5.14. In 2020/21 the Council expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

6. NON-TREASURY INVESTMENTS

6.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

6.2. The Council also held £52m of such investments in:

- directly owned investment property £52m
- shareholding in subsidiaries £2.2m
- loans to subsidiaries £5.050m
- other totalling £3m (including £2.5m of which are home improvement loans)

A full list of the Councils non-treasury investments is available in the Investment Strategy 2020-21 that was approved at Council on 30 July 2020.

Link to: Investment Strategy 20-21

6.3. These investments are expected to generate £2.7m of investment income for the Council after taking account of direct costs. This income is over a number of properties which provide varying rates of return.

7. ESTIMATES FOR INCOME 2020/21

7.1. The corporate world is still adjusting to the economic shock, with probably more to come, and it is still too early to tell which companies will withstand the economic damage in the short- to medium-term or which will choose to conserve cash in very difficult economic conditions simply to survive.

7.2. Investment income in the Councils 2020/21 was set against a very different economic backdrop. Bank Rate, which was 0.75% in January/February 2020, now stands at 0.1%. Interest earned from short-dated money market investments will be significantly lower. In relation to income from the Councils externally managed strategic funds, dividends and income distributions will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

8. FINANCIAL IMPLICATIONS – COMPLIANCE REPORT

8.1. The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Councils approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 8 below.

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits	**2020/21 Maximum £000**	**30.9.20 Actual £000**	**2020/21 Operational Boundary £000**	**2020/21 Authorised Limit £000**	**Complied?** Yes/No
Borrowing	£118,762	£130,219	£174,000	£179,000	Yes
Long term liabilities, PFI and Finance Leases	(£0.853)	(£0.613)	£2,000	£2,000	Yes
Total debt	**£117,909**	**£129,606**	**£176,000**	**£181,000**	Yes

'Maximum' is the highest actual outstanding borrowing at any point during the first six months of 2020/21

8.3. The authorised limit for external debt represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit is set by the Council as part of the annual treasury management strategy. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the long term. The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be similar to the CFR but may be lower or higher depending on the levels of actual debt.

8.4. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits	30.9.2020 Maximum £m	30.9.20 Actual £m	2020/21 Limit £m	Complied? Yes/No
Any single organisation, except the UK Government	£2.6	£1.150	£1.5 each	No
Any group of pooled funds under the same management	£4	£4	£6 per manager	Yes
UK Central Government	£35.550	£11.1	Unlimited	Yes
Money Market Funds	£12	£9.835	£12 in total	Yes
Loans to subsidiary trading company	£8.433		Not set	N/A

8.5. The Council exceeded limits in Barclays FIBCA account (table 8 above) during the period 2020/21 where the maximum limit of £1.5m was breached. The Council had invested at the highest £2.6m and at the lowest £0m during the first six months of 2020/21. This was due to the Council having higher retained cash balances than anticipated due to central government funding received on 1st April of £35.808m to support small and medium businesses during the coronavirus pandemic.

9. TREASURY MANAGEMENT INDICATORS

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

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

Security	30.9.20 Actual	2020/21 Target	Complied?
Portfolio average credit rating	AA-	A	Yes

9.3. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments it can borrow each quarter without giving prior notice.

Liquidity	30.9.20 Actual	2020/21 Target	Complied?
Liquid short-term deposits	£11m	£11m	Yes
Bank Overdraft	£0	£0.250	Yes

9.4. **Interest Rate Exposures:** This indicator is set to control the Councils exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.9.20 Actual	2020/21 Limit	Complied?

Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.060	£0.050	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.000	£0.094	Yes

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. The impact of a 1% rise in interest rates limit was breached, this is because the limit was set for based on lower investment balances and higher loan balances which reflected the Councils portfolio as at 31/12/2019. The Councils investment balances have increased by 25% and loan balances have decreased by 33% due to Government funding received to assist with pressures relating to the pandemic.

9.5. **Maturity Structure of Borrowing:** This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity Structure of Borrowing	**30.9.20 Actual**	**Upper Limit**	**Lower Limit**	**Complied?**
Under 12 months	37%	50%	0%	Yes
12 months and within 24 months	0%	50%	0%	Yes
24 months and within 5 years	3%	60%	0%	Yes
5 years and within 10 years	3%	80%	0%	Yes
10 years and above	58%	100%	0%	Yes

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.

9.6. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Councils 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 were:

Principal Sums Invested for Periods Longer than a year	**2020/21**	**2021/22**	**2022/23**
Actual principal invested beyond year end	£1m	£1m	£1m
Limit on principal invested beyond year end	£12m	£12m	£12m
Complied?	Yes	Yes	Yes

10. OTHER

10.1. IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

11. NATIONAL CONTEXT AND ECONOMIC COMMENTRY

11.1. Economic background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again.

11.2. The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

11.3. Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

11.4. GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

11.5. The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

11.6. In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

11.7. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

11.8. **Financial markets:** Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remain.

11.9. Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period. At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

11.10. **Credit review:** Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

11.11. After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

11.12. There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

11.13. **Arlingclose's Outlook for the remainder of 2020/21**

Official Bank Rate	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

11.14. The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been supressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

11.15. The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

11.16. However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

11.17. This situation will result in central banks maintaining low interest rates for the medium term. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

11.18. Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid 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 if the UK leaves the EU without a deal.

11.19. The Council's Treasury advisor Arlingclose, expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

11.20. Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

11.21. Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

12. FINANCIAL IMPLICATIONS AND RISK

12.1. The financial implications and risks are outlined in the report and are largely related to the impact of interest rate changes. An element of the financial risk implications can be mitigated by the fact that the Council maintains a general reserve balance which includes an allowance for changes in interest rate that can be used in the short term.

13. BACKGROUND PAPERS

Treasury Management Strategy 2020/21
Treasury Management Outturn report 2019/20
Arlingclose updates and reports