Investment and Borrowing Strategy 2021/22

Committee considering report:	Executive on 11 February 2021 Council on 2 March 2021
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	15 January 2021
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	C3980

1 Purpose of the Report

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and sets out the Council's proposed Investment and Borrowing Strategy for 2021/22.

2 Recommendations

2.1 That Council is requested to adopt the following recommendations:

(a) To agree and adopt the proposed Investment and Borrowing Strategy for 2021/22.

(b) To agree and adopt the revised 2021 Property Investment Strategy

3 Implications and Impact Assessment

Implication	Commentary
Financial:	CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast Capital Financing Requirement over the next three years, section 7.2 of this report demonstrates compliance with this requirement. Investment Income and Debt Charges resulting from this strategy form part of the Council's Medium Term Financial Strategy (MTFS).

Human Resource:	Not applicable			
Legal:	Treasury risk management at the Council 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 Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.			
Risk Management:	The policy is intended to ensure that all borrowing and investment is undertaken with a view to minimising risk and exposure to financial loss.			
Property:	Not applicable			
Policy:	The Investment and Borrowing Strategy is closely related to the Capital Strategy, as it governs the criteria for borrowing to fund capital spending. This strategy is also closely linked to the Council's Property Investment Strategy. The Property Investment Strategy which operates different criteria for investment from those proposed in this report, which relate only to cash investments.			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:		X		
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		Not applicable

B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		Not applicable
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director of Resources, s151 Officer			

4 Executive Summary

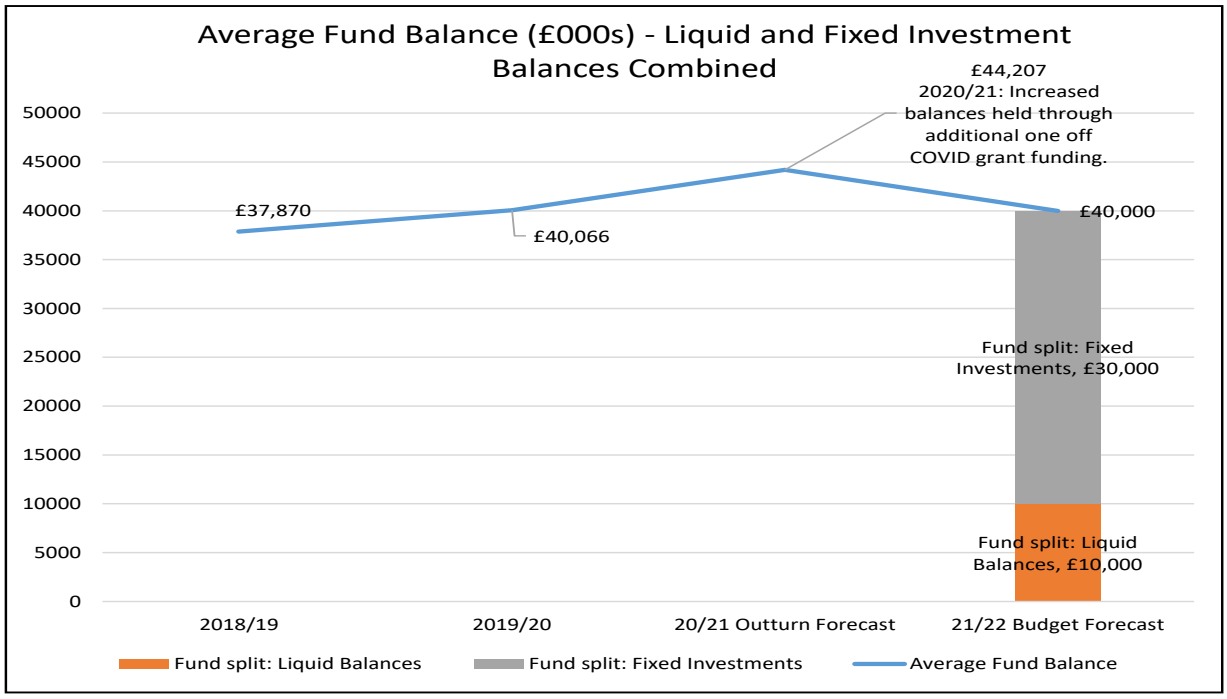
4.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

4.2 In support of the Capital Strategy and financing the Waste Private Finance Initiate (PFI), the Council expects to borrow up to £29.7 million in 2021/22. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing. The Council has set the authorised limit for borrowing over the duration of the Capital Strategy (2021 – 2024) as follows:

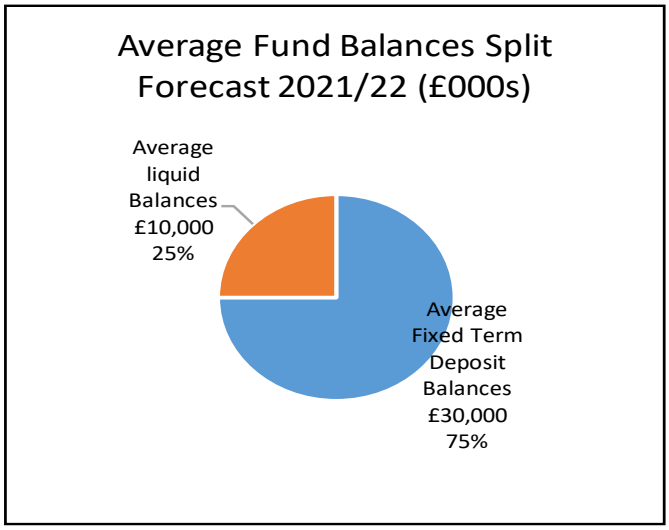
Authorised Limit & Operational Boundary (Borrowing Limits)	2020/21	2021/22	2022/23	2023/24
	Limit	Limit	Limit	Limit
	£000s	£000s	£000s	£000s
Authorised Limit - Operational Borrowing	£275,000	£277,000	£298,000	£331,000
Authorised Limit - PFI and Leases	£13,000	£12,000	£11,000	£10,000
Authorised Limit - Short Term Borrowing	£15,000	£15,000	£15,000	£15,000
Authorised Limit - Total External Debt	**£303,000**	**£304,000**	**£324,000**	**£356,000**
Operational Boundary - Operational Borrowing	£265,000	£267,000	£288,000	£321,000
Operational Boundary - PFI and Leases	£13,000	£12,000	£11,000	£10,000
Operational Boundary - Short Term Borrowing	£15,000	£15,000	£15,000	£15,000
Operational Boundary - Total External Debt	**£293,000**	**£294,000**	**£314,000**	**£346,000**

4.3 The Council'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 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 borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. 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.

4.4 The Council's average treasury investment balances are approximately £40 million split between highly liquid cash balances and short term fixed investments of less than 12 months. During 2020/21 the Council has held exceptionally high balances as a result of additional COVID related one off funding from government which is generally aimed to provide a range of reliefs and hence has to be maintained in easily accessible liquid accounts. For 2021/22 the Council has assumed an average fund balance of £40 million for budgeting purposes. The Table below details average balances held since 2018/19.



4.5 The Council recognises the increasing risk and low returns from short-term unsecured bank investments, however, the period for which funds are invested is determined by the cash flow needs of the Council. Funds are invested for as long as possible, in order to maximise the rate of return, while still ensuring that sufficient funds are available to meet the Council's outgoings. The normal maximum period for which funds may prudently be committed is 12 months. If sufficient funds become available, and market conditions are favourable enough to permit secure longer term investment, funds may, from time to time be invested for longer periods which will offer a better rate of return. However, in order to minimise risk and ensure liquidity, as a minimum the Council always maintains £5 million as highly liquid funds. No more than 40% of the Council's funds will be held at any one time in investments longer than 12 months. The table below details the average forecast split between highly liquid and fixed term deposit balances for 2021/22.



Liquid Balances include deposit accounts and money market funds

Fixed Term Deposits include short term investments, on average of approximately 3 months to 364 days in duration

4.6 In addition to the investment portfolio, the Council has historically invested £62 million in commercial property with a view to generating additional yields to support delivery of Council services. Based on the current investment of £62m, a budgeted contribution of £700k is made annually to the Council's revenue budget.

4.7 In respect net returns from investments in the support of financing delivery of core services, the table below shows the proportionality of net yields from investments generated against the net revenue budget over the duration of the Medium Term Financial Strategy.

Proportionality of Investments	2020/21	2021/22	2022/23	2023/24
	Forecast	Forecast	Forecast	Forecast
	£000s	£000s	£000s	£000s
Net Revenue Budget	£130,216	£132,286	£134,662	£138,605
Net Investment Income from Commercial Property	£1,500	£700	£700	£700
Net Investment Income on cash balances	£256	£120	£120	£120
Investment Income Proportion	**1.3%**	**0.6%**	**0.6%**	**0.6%**

4.8 Anticipated yields from investment balances has been reduced for 2021/22 in line with a low Bank of England base rate, the Council is currently forecasting that interest rates

will remain low in the forthcoming financial year, the economic and interest rate outlook provide by the Council's external treasury advisors is included in appendix C.

4.9 In conclusion the Executive Director for Resources and S151 Officer is confident that the Investment and Borrowing Strategy provide an effective, robust and prudent platform from which to support the Council's strategic objectives as set out in the Capital Strategy 2021-2024 and approved Council Strategy.

5 Supporting Information

Introduction

5.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. 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 financial risk are therefore central to the Council's prudent financial management.

Background

5.2 Economic background: The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Council's treasury management strategy for 2021/22.

5.3 The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest 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.

5.4 UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. 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 Quarter 2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

5.5 GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains

well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report 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.

5.6 Interest rate forecast: The Council's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. 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 Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. 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.

5.7 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 0.5% and 0.75% 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.

5.8 A more detailed economic and interest rate forecast provided by Arlingclose as at November 2020 is attached at Appendix A. Updates issued by Arlingclose will be incorporated into this strategy as and when issued.

Proposals

5.9 **Borrowing**: The Council expects to borrow up to £29.8 million in 2021/22. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £304 million.

5.10 The Council'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 Council's long-term plans change is a secondary objective.

5.11 Given the significant cuts to public expenditure and in particular to local government funding, the Council'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 borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. 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.

5.12 The Council has previously raised the majority of its long-term borrowing from the PWLB, but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local

authorities planning to buy investment assets primarily for yield. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

5.13 The Council's sources of long-term and short-term borrowing are:

(a) HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)

(b) Any institution approved for investments (see below)

(c) Any other bank or building society authorised to operate in the UK

(d) Any other UK public sector body

(e) UK public and private sector pension funds (except The Royal Berkshire Pension Fund)

(f) Capital market bond investors

(g) UK Municipal Bonds Agency plc and other organisations that enable local authority bond issues.

5.14 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:

(a) Leasing

(b) Hire purchase

(c) Private Finance Initiative

(d) Sale and leaseback

5.15 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 to full Council.

5.16 LOBOs: The Council does not hold any 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 Council has the option to either accept the new rate or to repay the loan at no additional cost).

5.17 Short-term and variable rate loans: These loans leave the Council 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.

5.18 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 Council 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.

5.19 **Investments**: The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has been consistently around £40 million, and similar levels are expected to be maintained in the forthcoming year.

5.20 The CIPFA Code requires the Council 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 Council'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 Council 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.

5.21 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.

5.22 The Council recognises the increasing risk and low returns from short-term unsecured bank investments, however, the period for which funds are invested is determined by the cash flow needs of the Council. Funds are invested for as long as possible, in order to maximise the rate of return, while still ensuring that sufficient funds are available to meet the Council's outgoings. The normal maximum period for which funds may prudently be committed is 12 months. If sufficient funds become available, and market conditions are favourable enough to permit secure longer term investment, funds may, from time to time be invested for longer periods which will offer a better rate of return. However, in order to minimise risk and ensure liquidity, no more than 40% of the Council's funds will be held at any one time in investments longer than 12 months.

5.23 Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council 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.

5.24 The Council may invest its surplus funds with any of the counterparty types subject to the limits shown in the table below:

Organisations	Credit Rating	Individual Counter Party Limit
		£000s
Debt Management Office		Unlimited
UK Local Authorities (including Police, Fire Authorities and similar bodies)		£5,000
UK Building Societies	1 - 11	£5,000
UK Building Societies	12 -21	£4,000
UK Building Societies	22 - 25	£3,000
UK Banks and other financial institutions	Prime 1 or equivalent	£5,000
UK Banks and other financial institutions	Prime 2 or equivalent	£4,000
UK Banks and other financial institutions	Prime 3 or equivalent	£3,000
UK Based Money Market Funds	AAA or equivalent	£5,000
Registered Charities, Public Sector Bodies and Council owned companies, joint ventures		£5,000

Note: For credit ratings informing counter party limits, the Council will utilise Moody's or equivalent.

5.25 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.

5.26 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.

5.27 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.

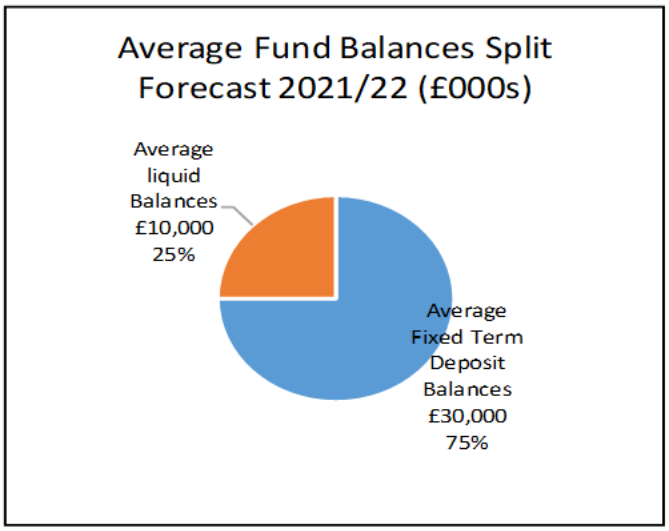
5.28 Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.29 Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council 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 Council's investment objectives will be monitored regularly.

5.30 The Council under section 15(1) of the Local Government Act 2003 can choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth.

5.31 Exposure to Risk: The proposed investment limits represent the maximum values to be invested with individual organisations. The Treasury Management Group may temporarily reduce these amounts and or shorten the time period of investments in order to spread the exposure to loss from institutions failing. The Council manages its exposure to risk via a series of treasury management indicators. Appendix D provides greater detail on the indicators used to monitor and review the performance of the

5.32 To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council ensures it has readily available cash balances in accordance with only placing short term investments, and manages capital expenditure on a prudent basis in line with the prudential code indicators. The graph below details the split between the Council's forecast highly liquid cash balances and short term investments.



Liquid Balances include deposit accounts and money market funds

Fixed Term Deposits include short term investments, on average of approximately 3 months to 364 days in duration

6 Other options considered

Not applicable

7 Conclusion

7.1 The Council is forecasting to have gross debt levels of £222 million as at 31.3.2021, with an anticipated borrowing requirement of £29.8 million in 2021/22 (long term funding of the capital programme and Waste PFI obligations). 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.

Capital Financing Requirement (CFR)	2020/21 Forecast £000s	2021/22 Budget £000s	2022/23 Budget £000s	2023/24 Budget £000s
Opening CFR	£272,947	£278,274	£289,449	£302,248
Expenditure on operational assets	£10,565	£17,277	£17,440	£19,242
Expenditure on Invest to Save Schemes	£2,614	£1,050	£1,900	£7,500
Minimum Revenue Provision (exc PFI & Commercial Property)	(£6,680)	(£5,927)	(£5,259)	(£5,218)
Waste PFI Minimum Revenue Provision	(£722)	(£766)	(£813)	(£863)
Commercial Property MRP	(£450)	(£459)	(£468)	(£468)
Total General Fund Items	**£278,274**	**£289,449**	**£302,248**	**£322,440**

Note: MRP is currently under review with the Council's external treasury advisors is figures above are provisional

7.2 The Council has an increasing CFR and anticipates an additional borrowing requirement of £64.4 million to fund the proposed Capital Strategy (2021/22 – 2023/24). CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table below demonstrates that the Council expects to comply with this recommendation during 2021/22.

Gross Debt and CFR	2020/21 31.3.2021 £000s	2021/22 Budget £000s	2022/23 Budget £000s	2023/24 Budget £000s
Operational Debt -existing loans	£196,470	£216,472	£235,248	£257,796
Additional debt from capital programme	£13,180	£18,327	£19,340	£26,742
Waste PFI	£12,249	£11,483	£10,670	£9,807
Total Debt including leases and PFI	**£221,899**	**£246,281**	**£265,257**	**£294,345**
Capital Financing Requirement	£278,274	£289,449	£302,248	£322,440

7.3 In respect of investments, the Council's revenue budget includes net returns from investments in the support of financing delivery of core services. The table below shows the proportionality of net yields from investments generated against the net revenue budget over the duration of the Medium Term Financial Strategy.

Proportionality of Investments	**2020/21 Forecast £000s**	**2021/22 Forecast £000s**	**2022/23 Forecast £000s**	**2023/24 Forecast £000s**
Net Revenue Budget	£130,216	£132,286	£134,662	£138,605
Net Investment Income from Commercial Property	£1,500	£700	£700	£700
Net Investment Income on cash balances	£256	£120	£120	£120
Investment Income Proportion	**1.3%**	**0.6%**	**0.6%**	**0.6%**

7.4 In conclusion the Executive Director for Resources and S151 Officer is confident that the Investment and Borrowing Strategy provide an effective, robust and prudent platform from which to support the Council's strategic objectives as set out in the Capital Strategy 2021-2024 and approved Council Strategy.

8 Appendices

8.1 Appendix A – Equalities Impact Assessment

8.2 Appendix B – Data Protection Impact Assessment

8.3 Appendix C – Arlingclose Economic & Interest Rate Forecast – November 2020

8.4 Appendix D – Treasury Management Indicators

8.5 Appendix E – 2021 Property Investment Strategy

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	X
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	☐

Officer details:

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Document Control

Document Ref:		**Date Created:**	
Version:		**Date Modified:**	
Author:			
Owning Service			

Change History

Version	Date	Description	Change ID
1			
2			

Appendix A

Equality Impact Assessment (EqIA) - Stage One

What is the proposed decision that you are asking the Executive to make:	Approval of the Council's Investment & Borrowing Strategy
Summary of relevant legislation:	Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code)
Does the proposed decision conflict with any of the Council's priorities for improvement? • Ensure our vulnerable children and adults achieve better outcomes • Support everyone to reach their full potential • Support businesses to start develop and thrive in West Berkshire • Develop local infrastructure including housing to support and grow the local economy Maintain a green district • Ensure sustainable services through innovation and partnerships	**Yes ☐ No X** **If yes, please indicate which priority and provide an explanation**
Name of Budget Holder:	**Joseph Holmes**
Name of Service/Directorate:	**Joseph Holmes**
Name of assessor:	Shannon Coleman-Slaughter
Date of assessment:	7.1.2021
Version and release date (if applicable):	

Is this a …. ?		**Is this policy, strategy, function or service … ?**	
Policy	**Yes ☐ No X**	**New or proposed**	**Yes ☐ No X**
Strategy	**Yes X No ☐**	**Already exists and is being reviewed**	**Yes X No ☐**
Function	**Yes ☐ No X**	**Is changing**	**Yes X No ☐**
Service	**Yes ☐ No X**		

(1) What are the main aims, objectives and intended outcomes of the proposed decision and who is likely to benefit from it?	
Aims:	Robust treasury management
Objectives:	Robust treasury management
Outcomes:	Treasury management that is risk appropriate and aids the Council in delivering sustainable services to end users.
Benefits:	Financial sustainability and resilience

(2) Which groups might be affected and how? Is it positively or negatively and what sources of information have been used to determine this?

(Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation)

Group Affected	What might be the effect?	Information to support this
Age	Not applicable	
Disability		
Gender Reassignment		
Marriage and Civil Partnership		
Pregnancy and Maternity		
Race		
Religion or Belief		
Sex		
Sexual Orientation		

Further Comments:

(3) Result	
Are there any aspects of the proposed decision, including how it is delivered or accessed, that could contribute to inequality?	**Yes** ☐ **No X**
Please provide an explanation for your answer:	

Will the proposed decision have an adverse impact upon the lives of people, including employees and service users?	Yes ☐ No X
Please provide an explanation for your answer:	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, or you are unsure about the impact, then you should carry out a EqIA 2.

If an EqIA 2 is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the EqIA guidance and template – http://intranet/index.aspx?articleid=32255.

(4) Identify next steps as appropriate:	
EqIA Stage 2 required	Yes ☐ No X
Owner of EqIA Stage Two:	
Timescale for EqIA Stage Two:	

Name: **Shannon Coleman-Slaughter** **Date: 7.1.2021**

Please now forward this completed form to Pamela Voss, Equality and Diversity Officer (pamela.voss@westberks.gov.uk), for publication on the WBC website.

Appendix B

Data Protection Impact Assessment – Stage One

The General Data Protection Regulations require a Data Protection Impact Assessment (DPIA) for certain projects that have a significant impact on the rights of data subjects.

Should you require additional guidance in completing this assessment, please refer to the Information Management Officer via dp@westberks.gov.uk

Directorate:	Resources
Service:	Finance & Property
Team:	Accountancy
Lead Officer:	Shannon Coleman-Slaughter
Title of Project/System:	Treasury Management
Date of Assessment:	7.1.2021

Do you need to do a Data Protection Impact Assessment (DPIA)?

	Yes	No
Will you be processing SENSITIVE or "special category" personal data? Note – sensitive personal data is described as "*data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person's sex life or sexual orientation*"	☐	X
Will you be processing data on a large scale? Note – Large scale might apply to the number of individuals affected OR the volume of data you are processing OR both	☐	X
Will your project or system have a "social media" dimension? Note – will it have an interactive element which allows users to communicate directly with one another?	☐	X
Will any decisions be automated? Note – does your system or process involve circumstances where an individual's input is "scored" or assessed without intervention/review/checking by a human being? Will there be any "profiling" of data subjects?	☐	X

	Yes	No
Will your project/system involve CCTV or monitoring of an area accessible to the public?	☐	X
Will you be using the data you collect to match or cross-reference against another existing set of data?	☐	X
Will you be using any novel, or technologically advanced systems or processes? Note – this could include biometrics, "internet of things" connectivity or anything that is currently not widely utilised	☐	X

If you answer "Yes" to any of the above, you will probably need to complete Data Protection Impact Assessment - Stage Two. If you are unsure, please consult with the Information Management Officer before proceeding.

Appendix C

Arlingclose Economic & Interest Rate Forecast – November 2020

Underlying assumptions:

- The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. 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.

- 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.

- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.

- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.

- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. 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 continue to price in a chance of negative Bank Rate.

- 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, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.

- Additional monetary loosening through increased financial asset purchases was delivered as we expected. 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.

- 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 in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	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
Official Bank Rate													
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	-0.10	-0.20	-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 rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-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	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80% PWLB HRA Rate = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix D

Treasury Management Indicators

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

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk in respect of funding debt financing.

Interest Rate Risk Indicator	Limit
Upper limit on one year impact of 1% increase in interest rates	£194,909
Upper limit on one year impact of 1% decrease in interest rates	(£194,532)

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

Maturity structure of borrowing: This indicator is set to control the Council'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 12months	0%	50%
12 months and within 24 months	0%	50%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	50%
10 years and above	0%	50%

The maturity structure remains unchanged from 2020/21.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. As the Council does not place investments in excess of 364 days in accordance with the Investment & Borrowing Strategy, this indicator is not adopted or monitored.