

Swanage Town Council



Treasury Management and Investment Strategy Statement 2022/23

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1. General Overview

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

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

This guidance applies to parish councils.....providing their total investments exceeds, or are expected to exceed, £100,000 at any time during the financial year.

Where a parish council....expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

2. Capital Expenditure and Financing

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

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

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2022/23, the Authority is planning capital expenditure of £697,000 as summarised below:

Table 1: Estimates of Capital Expenditure in £

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund	23,377	0	0	0	0
Capital Receipts	15,265	477,600	343,000	20,000	20,000
Earmarked Reserves	197,698	70,000	325,000	1,050,000	585,000
Community Infrastructure Levy	100,000	126,300	11,000	0	0
Grants/Contributions	10,255	50,000	18,000	0	0
TOTAL	346,595	723,900	697,000	1,070,000	605,000

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

3. Treasury Management and Investment Strategy 2022/23

The Authority may invest its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

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

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

As such it has been deemed appropriate to separate this strategy into two sections; the treasury management strategy recommended by CIPFA and the non-treasury investment strategy required by the Department for Levelling Up, Housing and Communities (DLUHC) formerly MHCLG.

a) **Treasury Management Investments**

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

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management. The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Treasury risk management at the Authority is conducted with due regard to the Chartered Institute of Public Finance and Accountancy's *Guidance for Smaller Public Organisations on the Application of the CIPFA Code of Practice for Treasury Management in the Public Services: Code of Practice (2014 Edition) and Cross-Sectoral Guidance Notes 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's obligation to have regard to the CIPFA Code and any other appropriate guidance.

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

i) **External Context**

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii) Local Context

On 31st December 2021, the Authority held investments with a book value of £6.06m (current value of £6.9m). This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in Table 2 below.

Table 2: Balance Sheet Summary and Forecast

Gross to Net Borrowing Requirement (Projections)					
	Actual 31-Mar-21 £m	Estimated 31-Mar-22 £m	Estimated 31-Mar-23 £m	Estimated 31-Mar-24 £m	Estimated 31-Mar-25 £m
External Borrowing & Other Long Term Liabilities (at Nominal Value)	0	0	0	0	0
Balances & Reserves (Book value)	5.50	5.04	4.33	3.25	2.61
(Net Borrowing Requirement)/ Investment Capacity	5.50	5.04	4.33	3.25	2.61

Usable reserves and working capital are the underlying resources available for investment. Investment capacity is set to fall to £2.61m (book value) as capital receipts and earmarked reserves are used to finance capital expenditure (see Table 1).

iii) **Borrowing Strategy**

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

As indicated in Table 2, the Authority is currently debt free and its capital expenditure plans do not imply any external borrowing requirement over the forecast period. However, external borrowing may be considered where it has been identified that the cost of the loan will have a nil effect on the precept requirement i.e the annual revenue cost of a loan repayment can be met from additional income generated by the asset financed by the loan. The Council's requirement to borrow will be reviewed annually as part of the Council's TMS and assessed in conjunction with the Council's capital programme.

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

- leasing
- hire purchase

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

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

iv) **Investment Strategy**

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £5.7m and £6.4m (book value) and £6.2m and £7.1m (current value).

The funds that the Council holds for investment purposes are expected to decrease in the forthcoming year due to the financing of the Council’s capital programme.

Objectives & Risk Management: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative Interest Rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: A proportion of the Authority’s surplus cash is currently invested in short-term unsecured bank deposits and money market funds. However, given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2022/23.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the cash limits (per counterparty) and the time limits shown. Consideration will also be given to environmental, social and governance (ESG) factors.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£1m	Unlimited
Secured investments *	25 years	£1m	Unlimited
Banks (unsecured) *	13 months	£1m	£2m
Building societies (unsecured) *	13 months	£0.5m	£1m
Registered providers (unsecured) *	5 years	£0.5m	£1m
Money market funds *	n/a	£0.5m	£1m
Strategic pooled funds	n/a	£4m	£6m
Real estate investment trusts	n/a	£1m	£1m

Minimum Credit Rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where

available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

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

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as

the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits: In order to minimise the amount of reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Foreign Countries	£1m per country

Liquidity management: The Authority will invest prudently in the short term to ensure the liquidity of funds, to minimise the risk of the Authority not being able to meet its financial commitments.

The Authority will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

v) Treasury Management Indicators

The Authority will measure and manage its exposures to treasury management risks using the following indicators.

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

Credit risk indicator	Target
Portfolio average credit rating	A

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£0.75m

vi) Financial Implications

The budget for investment income in 2022/23 is £140,000, based on an average investment portfolio of £4.7million at an interest rate of 3%. If actual levels of investments, or actual interest rates differ from those forecast, performance against budget will be correspondingly different.

b) Non-treasury Investments

The Guidance focuses on non-treasury investments including:

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

i) Service Investments: Loans

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

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

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

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

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

ii) Service Investments: Shares

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

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

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

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

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

iii) **Commercial Investments: Property**

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

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

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

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

4. Related Matters

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

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

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

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

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

5. Capacity, Skills and Culture

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

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

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

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

Appendix A - Arlingclose Economic & Interest Rate Forecast - December 2021

Underlying assumptions:

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

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

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

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment Portfolio Position

Investment Portfolio	31/12/21 Actual Portfolio (Book Value) £s	31/12/21 Actual Portfolio (Current Value) £s
Banks and building societies (unsecured)	855,731	855,731
Money Market Funds	750,000	750,000
Government	456,046	456,046
*Investments in Pooled Funds:		
Property Fund	2,500,000	3,423,960
Diversified Income Fund	1,000,000	944,350
Corporate Bond Fund	500,000	498,601
TOTAL INVESTMENTS	6,061,777	6,928,688

**provisional valuations*