

## Treasury Management Strategy 2021/22

### DRAFT

#### **Introduction**

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.

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.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy (**Appendix B**).

#### **External Context**

The medium-term global economic outlook has improved with the rollout of vaccination programmes, of which the UK is at the forefront. However, the current imposition of lockdowns and ongoing social distancing measures will increase the economic damage caused by the pandemic.

Signs of a slowing UK economic recovery were already evident towards the end of 2020 and there will be a further sharp fall in activity in Quarter 1 2021. Employment is falling despite an extension to support packages and may be lower than suggested by the official measure.

Whilst restrictive measures are likely to continue in the UK and Europe until most of the population is vaccinated by the second half of 2021, the end of lockdowns in Quarter 2 will prompt a sharp increase in GDP.

The combined effect of Brexit and the after-effects of the Pandemic will dampen subsequent economic growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.

The UK central bank stance will be mirrored across most developed economies, albeit some, like the Federal Reserve, are closer to monetary tightening than others.

Longer-term yields will also remain at low levels, anchored by low central bank policy rates and insipid longer-term inflation expectations. Some upward movement is likely as the global economy returns to a firmer footing, with gilt yields facing upside risks from possible significant US fiscal stimulus. However, there are risks to the downside too, particularly in relation to further virus outbreaks.

As the rollout of vaccinations continue, the Monetary Policy Committee (MPC) expects GDP to rapidly recover towards pre-Covid levels toward the end of 2021. This rebound in activity is supported by the substantial fiscal and monetary policies put in place by Government. As these policies are phased out, the pace of recovery in GDP is likely to slow but the MPC forecasts the spare capacity in the economy being eliminated as activity picks up throughout the year.

Although the Covid pandemic has caused weak inflation throughout 2020, the MPC expects the CPI rate to rise quite sharply towards the 2% target due to the reversal of the VAT cut for certain services and a rise in energy prices. The central projection sees inflation rise to near 2% over the second and third years of the forecast period provided interests rates stick to the market path.

The unemployment rate rose to 5% in the three months to November 2020. Other indicators suggest that the slack in the labour market could be even higher. Although the employee support schemes have helped to largely mitigate the rise in unemployment, the MPC forecasts further increases in unemployment over the rest of 2021.

## **Local Context**

At close of business on 28th February 2021, the Council held £250.206 million Borrowing and £11.039 million in Treasury Investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the Balance Sheet analysis in Table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

	<b>31/03/20 Actual £m</b>	<b>31/03/21 Estimate £m</b>	<b>31/03/22 Forecast £m</b>	<b>31/03/23 Forecast £m</b>	<b>31/03/24 Forecast £m</b>
General Fund CFR	95.8	162.3	169.6	223.1	255.7
HRA CFR	154.4	155.6	174.1	214.6	219.0
<b>Total CFR</b>	<b>250.2</b>	<b>317.9</b>	<b>343.7</b>	<b>437.7</b>	<b>474.7</b>
Less: Other debt liabilities*	0	0	0	0	0
<b>Less: External borrowing</b>	<b>224.5</b>	<b>247.7</b>	<b>193.1</b>	<b>192.9</b>	<b>192.6</b>
<b>Internal borrowing</b>	<b>25.8</b>	<b>70.3</b>	<b>150.6</b>	<b>224.8</b>	<b>282.1</b>
Less: Usable reserves	(47.5)	(47.5)	(47.5)	(47.5)	(47.5)
Less: Working capital surplus	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Investments/(New borrowing)</b>	<b>22.1</b>	<b>(22.4)</b>	<b>(102.7)</b>	<b>(196.9)</b>	<b>(234.2)</b>

\* leases and PFI liabilities that form part of the Council's total debt

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

The Council has an increasing CFR due to the Capital Programme (including Qualis Investments), and will therefore be required to borrow up to a further £234.2 million over the forecast period (2021/22 to 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. Table 1 shows that the Council expects to comply with this recommendation during 2021/22.

### Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £12.0 million at each year-end to maintain adequate liquidity but minimise credit risk.

**Table 2: Liability Benchmark**

	<b>31/03/20 Actual £m</b>	<b>31/03/21 Estimate £m</b>	<b>31/03/22 Forecast £m</b>	<b>31/03/23 Forecast £m</b>	<b>31/03/24 Forecast £m</b>
Total CFR	250.2	317.9	343.7	437.7	474.7
Less: Usable reserves	(47.5)	(47.5)	(47.5)	(47.5)	(47.5)
Less: Working capital	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Plus: Minimum investments	12.0	12.0	12.0	12.0	12.0
<b>Liability benchmark</b>	<b>214.3</b>	<b>282.0</b>	<b>307.8</b>	<b>401.8</b>	<b>438.8</b>

### **Borrowing Strategy**

The Council currently (@ 28th February 2021) holds £250.206 million of loans, an increase of £25.75 million compared to 31st March 2020, as part of its strategy for funding previous years' Capital Programmes. The Balance Sheet forecast in Table 1 shows that the Council expects to borrow up to £307.8 million in 2021/22 (if minimum Investment balance of £12.0 million illustrated in Table 2 is achieved). The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the Authorised Limit for Borrowing of £363.7 million is not exceeded.

### Objectives

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.

### Strategy

Given the significant cuts 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 either use internal resources, or to borrow short-term loans instead.

By doing so, the Council reduces its net borrowing costs (despite foregone investment income) and reduces overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, and 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; the Council intends to avoid this activity in order to retain its access to PWLB loans.

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

In addition, the Council may take out further short-term loans to cover unplanned cash flow shortages.

### Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

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

### Other sources of Debt Finance

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase; and
- Sale and leaseback.

### 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 would therefore be the subject of a separate report to full Council.

### 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 below.

### 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.

## **Treasury Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure, plus balances and reserves held. During 2020/21, the Council's Treasury Investment balance has ranged between £1.2 million and £70.5 million. However, the cash flows were highly exceptional and predominantly the result of the Government advancing the Council large sums of money (at very short notice) for distribution to local businesses as part of its Coronavirus support measures. Volatility is expected to greatly reduce in 2021/22, especially from July (Quarter 2) onwards, with balances expected to oscillate much closer to a target liquidity level of £12.0 million.

### Objectives

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.

### Negative Interest Rates

The COVID-19 pandemic has increased the risk that the Bank of England could set its Bank Rate at or below zero, which – if it happened – would be likely to feed through to negative interest rates on low risk, short-term investment options. Since investments cannot pay negative income, negative rates would 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

Given the risk and very low returns from short-term unsecured bank investments, the Council may consider diversifying into more secure and/or higher yielding asset classes during 2021/22.

### 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.

### Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the limits shown.

**Table 3: Treasury Investment Counterparties and Limits**

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	N/A
Local authorities & other government entities	25 years	£10 million	Unlimited
Banks (unsecured)*	13 months	£5.0 million	£20.0 million
Building Societies* (unsecured)	13 months	£2.0 million	£2.0 million
Registered Providers* (unsecured)	5 years	£3.0 million	£3.0 million
Money Market Funds*	N/A	£10.0 million	Maximum of 3 Funds (see below)

*Note - this table must be read in conjunction with the notes below.*

### \* 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 account of.

### 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.

### 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.

If operational need requires the use of more than three funds, the S151 officer can authorise this in consultation with the Portfolio Holder for Finance and Economic Development, provided this is reported to the Chair of the Audit and Governance Committee, and a report is submitted to the next available meeting of the Audit and Governance Committee.

### Operational Bank Accounts

The Council 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 £5.0 million 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 Council maintaining operational continuity.

### Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council'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 "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

### Other Information on the Security of Investments

The Council 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 Council'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 Council 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 Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.



### Investment Limits

The Council had £27.341 million in reserves on its (draft) Balance Sheet as at 31st March 2020 to cover unexpected credit losses in an emergency. A reasonable level of risk to carry in a single institution would be 15% (based on current market conditions). An Investment Limit for a single institution of £4.0 million will therefore be applied (rounded down for prudence).

### Liquidity Management

The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's Medium-Term Financial Plan and Cash Flow Forecast.

### **Treasury Management Indicators**

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

#### **Security**

The Council 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.

<b>Credit Risk Indicator</b>	<b>Target</b>
Portfolio average credit rating	A-

#### **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 within a rolling [three] month period, without additional borrowing.

<b>Liquidity Risk Indicator</b>	<b>Target</b>
Total cash available within 3 months	£3.0 million

### **Interest Rate Exposure**

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

<b>Interest Rate Risk Indicator</b>	<b>Limit</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£318,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£120,000

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:

<b>Refinancing Rate Risk Indicator</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	50%	0%
15 years and within 20 years	50%	0%
25 years and above	50%	0%

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.

### **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. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

<b>Price Risk Indicator</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Limit on principal invested beyond year end	£15.0 million	£10.0 million	£5.0 million

## **Related Matters**

### *Housing Revenue Account*

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

### *Markets in Financial Instruments Directive (MIFID)*

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

### *Financial Implications*

In 2021/22, the budgets for General Fund and HRA investment income are £25,000 and £36,000 respectively. If investment levels and borrowing, or interest rates, differ from expectations, performance against budget will be correspondingly different.

### *Other Options Considered*

The CIPFA Code does not prescribe any specific Treasury Management Strategy for local authorities to adopt. The Section 151 Officer, having consulted the Portfolio Holder for Finance and Economic Development, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on Income and Expenditure</b>	<b>Impact on Risk Management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## Arlingclose Interest Rate Forecast - February 2021

- Arlingclose expects the Bank Rate to remain at the current 0.10% level. The risks of a Bank Rate cut over the medium-term have recently reduced.
- Gilt yields will remain low in the medium-term. Shorter term gilt yields may rise marginally as it becomes apparent that the Bank is not likely to reduce Bank Rate further.
- Longer term yields may face upward pressure due to rising short term inflation, but Arlingclose expect yields to remain at low levels due to contained long-term inflation expectations.
- Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further mutations due to the uneven global rollout of vaccines.

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

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

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

## Existing Investment &amp; Debt Portfolio

	28/02/21 Actual Portfolio £m	28/02/21 Average Rate %
<b>External Borrowing</b>		
Public Works Loan Board	235.206	
Local authorities	15.0	
Other loans	0	
<b>Total External Borrowing</b>	<b>250.206</b>	<b>2.63%</b>
<b>Other Long-Term Liabilities:</b>		
Leases	0	
<b>Total Other Long-Term Liabilities</b>	<b>0</b>	
<b>Total gross external debt</b>	<b>250.206</b>	
<b>Treasury Investments</b>		
The UK Government	0	
Local authorities	0	
Banks (unsecured)	3.039	
Money market funds	8.0	
Other investments	0	
<b>Total Treasury Investments</b>	<b>11.039</b>	<b>0.015%</b>
<b>Net Debt</b>	<b>239.167</b>	