

## Treasury Management Strategy and Investment Strategy 2020/21 to 2022/23

### 1. Summary

- 1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) require authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.
- 1.2. As per the requirements of the Prudential Code, Hampshire Fire and Rescue Authority adopted the CIPFA Treasury Management Code at its meeting in February 2012. This report fulfils the Fire & Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3. **This Report recommends:**
- 1.4. **That the Treasury Management Strategy, including the Annual Investment Strategy for 2020/21, (and the remainder of 2019/20) is approved; and**
- 1.5. **That authority is delegated to the Chief Finance Officer to manage the Fire & Rescue Authority's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.**

### 2. Introduction

- 2.1. Treasury management is the management of the Fire & Rescue Authority's cash flows, borrowing and investments, and the associated risks. The Fire & Rescue Authority has borrowed and invested 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 Fire & Rescue Authority's prudent financial management.
- 2.2. Treasury risk management at the Fire & Rescue Authority is conducted within the framework of the CIPFA Code which requires the Fire & Rescue Authority to approve a TMSS before the start of each financial year. This report fulfils the Fire & Rescue Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.3. Investments held for service purposes or for commercial profit are considered in a different report, the Capital and Investment Strategy.

### 3. External context

- 3.1. The following paragraphs explain the economic and financial background against which the TMSS is being set.

#### **Economic background**

- 3.2. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Fire & Rescue Authority's treasury management strategy for 2020/21.
- 3.3. GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% Looking ahead, the Bank of England forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to

business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

- 3.4. The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, although lower than highs of 2.1% in July and April 2019 and below the BOE target of 2%.
- 3.5. Labour market data continues to be positive with unemployment at 3.8%, the lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

### **Credit outlook**

- 3.6. The recent Bank of England stress tests assessed all seven UK banking groups, with all seven passing the test. Major banks have steadily increased their capital for many years now, however the tests do not cover all banks and the Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.
- 3.7. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.
- 3.8. Looking forward, the potential for a “no-deal” Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits continues to be recommended by the Fire & Rescue Authority’s treasury advisors.

### **Interest rate forecast**

- 3.9. The Fire & Rescue Authority’s treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on Brexit and continuing global economic slowdown.
- 3.10. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.
- 3.11. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose’s interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.
- 3.12. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

#### 4. Balance sheet summary and forecast

- 4.1. On 30 November 2019, the Fire & Rescue Authority held £8.3m of borrowing and £29.2m of investments. This is set out in further detail at Annex 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>31/03/19</b>	<b>31/03/20</b>	<b>31/03/21</b>	<b>31/03/22</b>	<b>31/03/23</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Funding Requirement	11.2	10.8	10.3	9.9	9.5
Less: External borrowing					
- Public Works Loan Board	(8.4)	(8.3)	(7.1)	(6.7)	(5.9)
<b>Internal (over) borrowing</b>	<b>2.8</b>	<b>2.5</b>	<b>3.2</b>	<b>3.2</b>	<b>3.6</b>
Less: Working capital	3.3	3.3	3.3	3.3	3.3
Less: Usable reserves	(30.4)	(21.7)	(16.6)	(20.5)	(19.2)
<b>New borrowing or (investments)</b>	<b>(24.3)</b>	<b>(15.9)</b>	<b>(10.1)</b>	<b>(14.0)</b>	<b>(12.3)</b>

- 4.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Fire & Rescue Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 4.3. The capital funding requirement is predominantly for major building works, including Strategic Headquarters. There is an on-going requirement for vehicles and other equipment that will need to be replaced over the coming years. Reserves will mainly be used to fund the Transformation programme.
- 4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Fire & Rescue Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Fire & Rescue Authority expects to comply with this recommendation during 2019/20.

#### 5. Borrowing strategy

- 5.1. The Fire & Rescue Authority currently holds £8.3m of loans, which represents no change since the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Fire & Rescue Authority does not expect to need to borrow in 2020/21. The Fire & Rescue Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of 17.6m.

## **Objectives**

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

## **Strategy**

- 5.3. Given the significant cuts to public expenditure and in particular to local government funding, the Fire & Rescue Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the Fire & Rescue Authority does need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 5.4. By internally borrowing, the Fire & Rescue Authority would be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. If borrowing is required, 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 Fire & Rescue Authority with this 'cost of carry' and breakeven analysis.
- 5.5. The Fire & Rescue Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB) but the government increased the margin on PWLB rates by 100 basis points (1%) in October 2019 making it a relatively expensive way to meet borrowing needs.
- 5.6. Alternative options should the Fire & Rescue Authority need to borrow any long-term amounts include banks, pension funds and local authorities as well as the potential to issue 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.
- 5.7. The Fire & Rescue Authority may also arrange forward starting loans during 2020/21, 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.
- 5.8. In addition, the Fire & Rescue Authority may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

## **Sources of borrowing**

- 5.9. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
  - 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 Hampshire Pension Fund)

- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

#### **Other sources of debt finance**

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

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

5.11. The Fire & Rescue Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

#### **Short-term and variable rate loans**

5.12. These loans leave the Fire & Rescue Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

#### **Debt rescheduling**

5.13. 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. The Fire & Rescue Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

### **6. Investment strategy**

6.1. The Fire & Rescue Authority holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Fire & Rescue Authority's investment balance has ranged between £19.9m and £36.8m, however it is planned that balances will fall significantly between now and 31 March 2021 as shown in Table 1.

6.2. The reduction in investment balances predicted is, in addition to funding the transformation programme, partly the result of the intention to pay employer's pension contributions in advance in April 2020. This will be for the three years covering 2020/21 to 2022/23 for staff in the Local Government Pension Scheme and will enable the Fire & Rescue Authority to make savings on pension contributions that outweigh the lost investment income. This can be done without impacting liquidity with the benefit of also reducing counterparty risk.

## **Objectives**

- 6.3. The CIPFA Code requires the Fire & Rescue 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 Fire & Rescue 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.

## **Negative interest rates**

- 6.4. If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could 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. This situation already exists in many other European countries. 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**

- 6.5. Approximately 72% of the Fire & Rescue Authority's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, pooled property, equity and multi-asset funds, secured bank bonds and treasury bills. Whilst the remaining cash is subject to bail-in risk, 33% is held in overnight money market funds which are subject to a reduced risk of bail-in, 30% is held in certificates of deposit which can be sold on the secondary market and 37% is held in overnight bank call accounts for liquidity purposes. Further detail is provided at Annex B. This diversification will represent a continuation of the new strategy adopted in 2015/16.
- 6.6. Under the new IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The Fire & Rescue Authority aims to achieve value from its internally managed treasury investments through 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.
- 6.7. The Fire & Rescue Authority's investments in pooled property and equity funds allow the Fire & Rescue Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds, which are operated on a variable net asset value (VNAV) basis, offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Fire & Rescue Authority's pooled fund investments are in the funds' distributing share classes which pay out the income generated.
- 6.8. Although money can usually be redeemed from the pooled funds at short notice, the Fire & Rescue Authority's intention is to hold them for at least the medium term. Their performance and suitability in meeting the Fire & Rescue Authority's investment objectives are monitored regularly and discussed with Arlingclose.
- 6.9. As shown in Annex B, without this allocation the weighted average return of the Fire & Rescue Authority's cash investments would have been 0.86%; the

allocation to high yielding investments has added 0.92% (£0.33m based on the cash balance at 30 November 2019) to the average interest rate earned by the remainder of the portfolio.

**Table 2: High yield investments capital value**

	<b>Principal invested £m</b>	<b>Market value 30/11/2019 £m</b>	<b>Capital yield (per annum) %</b>
Pooled Property Funds	3.25	3.30	0.25
Pooled Equity Funds	2.00	2.20	1.92
Multi-Asset Funds	1.75	1.80	2.85
<b>Total</b>	<b>7.00</b>	<b>7.30</b>	<b>1.05</b>

- 6.10. The benefit to the revenue budget of these investments targeting higher yields is demonstrated in Table 3 below, using cash balances and average returns at 30 November 2019. It should be noted however that balances and returns do not remain constant and the actual returns will form part of the outturn report at the conclusion of the financial year.

**Table 3: Estimated annual income returns**

	<b>Cash balance at 30/11/19</b>	<b>Weighted average return</b>	<b>Estimated annual income return</b>
Short-term and long-term cash investments	£22.16m	0.86%	£0.19m
Investments targeting higher yields	£7.00m	4.70%	£0.33m
<b>Total</b>	<b>£29.16m</b>	<b>1.78%</b>	<b>£0.52m</b>

- 6.11. Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in other assets than cash, such as pooled property, equities and bonds. Non-cash pooled investments must be viewed as long-term investments in order that monies are not withdrawn in the event of a fall in capital values to avoid crystallising a capital loss.
- 6.12. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the Fire & Rescue Authority would avoid selling investments that realised a capital loss.
- 6.13. Going forward however, changes to International Financial Reporting Standards means that capital gains and losses on investments need to be reflected in the revenue account on an annual basis. There is currently a

statutory override in place for local authorities that exempts them from complying with this requirement for the next 4 years.

### **Investment limits**

- 6.14. The maximum that will be lent to any one organisation (other than the UK Government) will be £4m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers and investments in pooled funds.

**Table 4: Investment limits**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£4m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Registered providers and registered social landlords	£6m in total
Money Market Funds	50% in total
Real estate investment trusts	£6m in total

## Approved counterparties

6.15. The Fire & Rescue Authority may invest its surplus funds with any of the counterparty types in Table 5 below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 5: Approved investment counterparties and limits**

Credit Rating	Banks		Government	Corporates	Registered Providers	
	Unsecured	Secured			Unsecured	Secured
UK Govt	n/a	n/a	£ Unlimited 30 years	n/a	n/a	n/a
AAA	£2m 5 years	£4m 20 years	£4m 30 years	£2m 20 years	£2m 20 years	£2m 20 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years	£2m 10 years	£2m 10 years	£2m 10 years
AA	£2m 4 years	£4m 5 years	£4m 15 years	£2m 5 years	£2m 10 years	£2m 10 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years	£2m 4 years	£2m 10 years	£2m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years	£2m 3 years	£2m 5 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years	£2m 2 years	£2m 5 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years	£2m 25 years
None	£1m 6 months	n/a	£4m 25 years	n/a	£2m 5 years	£2m 5 years
<b>Pooled funds and real estate investment trusts</b>	£4m per fund					

This table must be read in conjunction with the notes below

### Credit rating

6.16. Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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.

### Banks unsecured

6.17. 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.

### **Banks secured**

- 6.18. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they 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 to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

### **Government**

- 6.19. Loans, 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 Central Government may be made in unlimited amounts for up to 30 years.

### **Corporates**

- 6.20. Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

### **Registered providers (Secured and Unsecured)**

- 6.21. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly 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.

### **Pooled funds**

- 6.22. Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 6.23. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Fire & Rescue Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classed as capital expenditure. Because pooled

funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Fire & Rescue Authority's investment objectives will be monitored regularly.

#### **Real estate investment trusts (REITs)**

- 6.24. 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**

- 6.25. The Fire & Rescue Authority may incur operational exposures, for example through current accounts, 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 low. The Fire & Rescue Authority's operational bank account is with National Westminster, and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. 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 Fire & Rescue Authority maintaining operational continuity.

#### **Risk assessment and credit ratings**

- 6.26. Credit ratings are obtained and monitored by the Fire & Rescue 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.
- 6.27. 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**

- 6.28. The Fire & Rescue 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 and reports in the quality financial press and analysis and advice from the Fire & Rescue 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.

- 6.29. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Fire & Rescue 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 Fire & Rescue 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 a reduction in the level of investment income earned but will protect the principal sum invested.

### **Liquidity management**

- 6.30. The Fire & Rescue Authority has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Fire & Rescue Authority's medium term financial position (summarised in Table 1) and forecast short-term balances.

## **7. Treasury management indicators**

- 7.1. The Fire & Rescue Authority measures and manages its exposures to treasury management risks using the following indicators.

### **Interest rate exposures**

- 7.2. The following indicator shows the sensitivity of the Fire & Rescue Authority's current investments and borrowing to a change in interest rates.

**Table 6: Interest rate risk indicator**

	<b>30 November 2019</b>	<b>Impact of +/-1% interest rate change</b>
Sums subject to variable interest rates		
Investment	£18.9m	+/-£0.2m
Borrowing	(£0.0m)	+/-£0.0m

### **Maturity structure of borrowing**

- 7.3. This indicator is set to control the Fire & Rescue Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

**Table 7: Refinancing rate risk indicator**

	<b>Upper</b>	<b>Lower</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	75%	0%
10 years and within 20 years	75%	0%
20 years and above	100%	0%

- 7.4. Time periods start of 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**

- 7.5. The purpose of this indicator is to control the Fire & Rescue Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

**Table 8: Price risk indicator**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Limit on principal invested beyond a year	£10m	£10m	£10m

## **8. Related matters**

- 8.1. The CIPFA Code require the Fire & Rescue Authority to include the following in its treasury management strategy.

### **Financial derivatives**

- 8.2. In the absence of any explicit legal power to do so, the Fire & Rescue 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.

### **Investment training**

- 8.3. The needs of the Fire & Rescue Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

- 8.4. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.
- 8.5. CIPFA's Code of Practice requires that the Fire & Rescue Authority ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 22 November 2019, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2020.

#### **Investment advisors**

- 8.6. Arlingclose Limited is appointed as treasury management advisers and provides specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Deputy Chief Executive and Director of Corporate Resources' staff and Arlingclose.

#### **Markets in financial instruments directive**

- 8.7. The Fire & Rescue Authority has opted up to professional client status with its providers of financial services, including advisers, 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 Fire & Rescue Authority's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

## Annex A – Arlingclose Economic & Interest Rate Forecast January 2020

### Underlying assumptions:

- The global economy has entered a period of weaker growth in response to political issues. The UK economy continues to experience slower growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations are low.
- Some improvement in global economic data and a more positive outlook for US/China trade negotiations has prompted worst case economic scenarios to be pared back.
- The new Conservative UK government will progress with achieving Brexit on 31st January 2020. The more stable political environment will prompt a partial return in business and household confidence in the short term, but the subsequent limited Brexit transitional period, which the government is seeking to enforce, will create additional economic uncertainty.
- UK economic growth stalled in Q4 2019. Inflation is running below target at 1.5%. The inflationary consequences of the relatively tight labour market have yet to manifest, while slower global growth should reduce the prospect of externally driven pressure, although escalating geopolitical turmoil could continue to push up oil prices.
- The first few months of 2020 will indicate whether the economy benefits from restored confidence. The government will undertake substantial fiscal easing in 2020/21, which should help support growth in the event of a downturn in private sector activity.
- The weak outlook for the UK economy and current low inflation have placed pressure on the MPC to loosen monetary policy. Two MPC members voted for an immediate cut in the last two MPC meetings of 2019. The evolution of the economic data and political moves over the next few months will inform policy, but upside risks to Bank Rate are very limited.
- Central bank actions and escalating geopolitical risks will produce volatility in financial markets, including bond markets.

### Forecast:

- We have maintained our Bank Rate forecast at 0.75% for the foreseeable future. Substantial risks to this forecast remain, arising primarily from the government's policy around Brexit and the transitional period.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.75</b>												
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<b>3-month money market rate</b>													
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30
<b>Arlingclose Central Case</b>	<b>0.75</b>												
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<b>1yr money market rate</b>													
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
<b>Arlingclose Central Case</b>	<b>0.85</b>												
Downside risk	0.30	0.50	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
<b>5yr gilt yield</b>													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.55</b>	<b>0.55</b>	<b>0.55</b>	<b>0.60</b>	<b>0.60</b>	<b>0.65</b>	<b>0.65</b>	<b>0.70</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>
Downside risk	0.35	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
<b>10yr gilt yield</b>													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.80</b>	<b>0.80</b>	<b>0.85</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.95</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.10</b>
Downside risk	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50
<b>20yr gilt yield</b>													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
<b>Arlingclose Central Case</b>	<b>1.20</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50
<b>50yr gilt yield</b>													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
<b>Arlingclose Central Case</b>	<b>1.20</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

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

## Annex B - Existing Investment &amp; Debt Portfolio Position at 30 November 2019

## Investment position (treasury investments)

Investments	30/09/2019 Balance £m	Movement £m	30/11/2019 Balance £m	30/11/2019 Rate %	30/11/2019 WAM* years
Short term investments					
- Banks and Building Societies					
- Unsecured	6.50	(1.02)	5.48	0.83	0.15
- Secured	6.00	1.00	7.00	0.84	0.30
- UK Treasury Bills	3.00	(2.00)	1.00	0.71	0.18
- Money Market Funds	5.88	(3.20)	2.68	0.73	0.00
- Local Authorities	3.00	1.00	4.00	0.90	0.41
- Corporate Bonds	-	-	-	-	-
	24.38	(4.22)	20.16	0.83	0.23
Long term investments					
- Banks and Building Societies					
- Secured	1.00	-	1.00	1.01	3.37
- Local Authorities	1.00	-	1.00	1.30	1.57
	2.00	-	2.00	1.16	2.47
High yield investments					
- Pooled Property Funds**	3.25	-	3.25	4.14	n/a
- Pooled Equity Funds**	2.00	-	2.00	5.87	
- Multi-Asset Funds**	1.75	-	1.75	4.41	n/a
	7.00	-	7.00	4.70	n/a
<b>TOTAL INVESTMENTS</b>	<b>33.38</b>	<b>(4.22)</b>	<b>29.16</b>	<b>1.78</b>	<b>0.44</b>

\* Weighted average maturity

\*\* The rates provided for pooled fund investments are reflective of the average dividend return over the last 12 months.

## Treasury management position

	30/11/2019 Balance £m	30/11/2019 Rate %
External Borrowing		
- PWLB	(8.25)	(4.70)
Investments		
- Total Investments	29.16	1.78
<b>NET INVESTMENTS</b>	<b>20.91</b>	