HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	17 December 2020
Title:	Treasury Management Mid-Year Monitoring Report 2020/21
Report From:	Deputy Chief Executive and Director of Corporate Resources

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Purpose of the report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

Recommendation

2. The Audit Committee are asked to note the recommendation being reported to Cabinet to approve the mid-year report on treasury management activity and note the action to be taken should we encounter negative interest rates.

Executive Summary

3. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2020/21.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2020. The County Council 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 risk are therefore central to the County Council's treasury management strategy.

5. Treasury management in the context of this report is defined as: “The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

6. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk and the effective identification and management of risk are integral to the County Council’s treasury management objectives.

7. All treasury activity has complied with the County Council’s Treasury Management Strategy and Investment Strategy for 2020/21, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council’s treasury advisers, Arlingclose.

8. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council’s Capital and Investment Strategy, complying with CIPFA’s requirement, was approved by full Council on 13 February 2020.

External Context

9. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2020/21.

Economic commentary

10. Coronavirus dominated the news during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus whilst also supporting their economies. A national lockdown in the UK was followed by the gradual easing of restrictions and the introduction of various support packages, including the job retention scheme and the Eat Out to Help Out (EOHO) offer.

11. The Bank of England’s (BoE) Monetary Policy Committee maintained Bank Rate at 0.1% throughout the period and increased its Quantitative Easing programme to £745 billion. It has also not ruled out the use of negative interest rates in future, which has had an impact on interest rates available in the money markets.

12. Gross Domestic Product (GDP) contracted by 19.8% in Quarter 2 according to the Office for National Statistics (ONS), pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering although output is still significantly below pre-coronavirus levels. A potential second wave of the virus and the impending end of the transition period for the UK's exit from the EU may have a further impact on GDP and the economy over the remainder of the year.

13. The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, significantly below the BoE's 2% target. Inflation was slightly higher at 0.5% year on year using the CPIH measure, which is preferred by the ONS and includes owner-occupied housing.

14. In the three months to July, the unemployment rate increased from 3.9% to 4.1% while wages fell in both real and nominal terms. The unemployment rate may pick up sharply in the coming months as the furlough scheme ends and the BoE has forecast unemployment could hit a peak of between 8% and 9%.

Financial markets

15. After selling off sharply in March 2020, world equity markets started recovering in April and have continued to regain value during Quarters 2 and 3. Not all sectors and geographies have rebounded to the same extent and the recovery has largely been driven by a small number of US technology stocks, while in the UK the FTSE 100 and 250 have only made up around half of their pre-crisis losses. Central bank and government stimulus packages continue to support asset prices, but volatility and uncertainty remain.

16. Ultra-low interest rates and the flight to quality continued during the period, with the yield on some shorted-dated UK government bonds turning negative and yields on longer-dated bonds remaining low.

Credit review

17. After rising sharply in late March, credit default swap (CDS) spreads slowly eased over Quarters 2 and 3 to slightly above their pre-crisis levels suggesting a relatively high level of confidence in UK banks. That being said, Fitch downgraded the UK sovereign credit rating to AA- in March, which was followed by revising the outlook for all UK banks approved for use by the County Council by Arlingclose either to negative or rating watch negative, although the long term rating for HSBC was increased. Fitch and S&P also downgraded the long-term rating for Transport for London.

18. The extent of the losses that banks and building societies will suffer as a result of the coronavirus pandemic remains uncertain but is expected to be substantial. Arlingclose have therefore conducted a stress testing exercise and consequently a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits in June 2020. Arlingclose also continue to recommend a maximum duration of 35 days for investments with the remaining counterparties. Although far better capitalised than during the Great Financial Crisis there remains significant uncertainty about the impact of the pandemic and with the added unknown of what the final Brexit trade deal may look like. Arlingclose are therefore recommending a prudent approach and the institutions on Arlingclose's counterparty list remain under constant review.

Local Context

19. On 31 March 2020, the County Council had net investments of £544m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1.

Table 1: Balance Sheet Summary	**31/03/20 Balance £m**
CFR	783.48
Less: Other debt liabilities*	(149.43)
Borrowing CFR	**634.05**
External Borrowing	(307.24)
Internal Borrowing	**326.81**
Less: Usable Reserves	(643.14)
Less: Working Capital	(227.28)
Net Investments	**(543.61)**

* PFI liabilities that form part of the County Council's total debt

20. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 30 September 2020 and the movement since 31 March 2020 are shown in Table 2.

Table 2: Treasury Management Summary	31/03/20 Balance £m	Movement £m	30/09/20 Balance £m	30/09/20 Rate %
Long-term borrowing	(261.2)	5.9	(255.3)	4.7
Short-term borrowing	(10.0)	(4.7)	(14.7)	3.7
Total borrowing	**(271.2)**	**1.2**	**(270.0)**	**4.6**
Long-term investments	274.3	(22.2)	252.1	3.5
Short-term investments	105.5	32.0	137.5	0.6
Cash and cash equivalents	201.7	(142.1)	59.6	0.1
Total investments	**581.5**	**(132.3)**	**449.2**	**2.2**
Net investments	**310.3**	**(131.1)**	**179.2**	

Note: the figures in the Table 2 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

21. The reduction in net investments of £131.1m shown in Table 2 reflects reductions in both total borrowing and total investments. The reduction in total borrowing of £1.2m reflects the repayment of debt in line with scheduled timescales. The reduction of £132.3m of investments reflects the early payment of employer's pension contributions of £235m in order to achieve significant savings in the cost of these contributions over a three-year period, offset by an increase in investment balances reflecting the higher balances typically seen at this time of year, due to the difference in timing between income and expenditure.

Borrowing Activity

22. As shown in Table 2, at 30 September 2020 the County Council held £270.0m of loans as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2020 are shown in Table 3.

Table 3: Borrowing Position	31/03/20 Balance £m	Net Movement £m	30/09/20 Balance £m	30/09/20 Weighted Average Rate %	30/09/20 Weighted Average Maturity (years)
Public Works Loan Board	(226.5)	1.0	(225.5)	4.7	10.7
Banks (LOBO)	(20.0)	0	(20.0)	4.8	12.8
Other (fixed term)	(24.7)	0.2	(24.5)	3.6	16.7
Total borrowing	**(271.2)**	**1.2**	**(270.0)**	**4.6**	**11.4**

Note: the figures in Table 3 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude borrowing taken out on behalf of others, and accrued interest.

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

24. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

25. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs may be higher.

26. During the period April to September 2020 the County Council repaid £1m of maturing PWLB debt and made £0.25m of scheduled repayments of loans entered into for energy efficiency projects. The County Council did not replace any of this borrowing. This strategy enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

27. The County Council continues to hold £20.0m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender during the period.

Treasury Investment Activity

28. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. The County Council's investment balance was £449.2m at 30 September 2020, which was £130.6m (22.5%) lower than the same time last year.

29. During the six-month period from 1 April to 30 September 2020, the County Council's investment balances ranged between £336m and £521m due to timing differences between income and expenditure.

30. Table 4 shows investment activity for the County Council as at 30 September 2020 in comparison to the reported activity as at 31 March 2020. The reduction in total investments since 31 March 2020 reflects the combination of the early payment of employer's pension contributions of £235m in order to achieve significant savings in the cost of these contributions over a three-year period, offset by an increase in investment balances reflecting the typical higher balances seen at this time of year, due to timing differences between income and expenditure.

Table 4: Treasury Investment Position	**31/03/20 Balance £m**	**Net Movement £m**	**30/09/20 Balance £m**	**30/09/20 Income Return %**	**30/09/20 Weighted Average Maturity* (years)**
Short term investments					
Banks and building societies					
- Unsecured	26.3	(2.8)	23.5	0.1	0.1
- Secured	15.0	(15.0)	-	N/A	N/A
Money market funds	175.3	(116.7)	58.6	0.1	0.0
Local authorities	80.5	24.5	105.0	0.7	0.6
Cash plus funds	10.0	-	10.0	1.2	0.0
	307.1	**(110.0)**	**197.1**	**0.5**	**0.3**
Long term investments					
Banks and building societies					
- Secured	33.2	(2.6)	30.6	0.5	2.0
Local authorities	40.0	(15.0)	25.0	1.5	1.6
	73.2	**(17.6)**	**55.6**	**0.9**	**1.8**
Long term investments – higher yielding strategy					
Fixed deposits	20.2	1.3	21.5	4.3	13.0
Fixed bonds	10.0	(10.0)	-	N/A	N/A
Pooled funds					
- Pooled property**	77.0	-	77.0	4.1	N/A
- Pooled equity**	52.0	-	52.0	4.5	N/A
- Pooled multi-asset**	42.0	4.0	46.0	4.0	N/A
	201.2	**(4.7)**	**196.5**	**3.5**	**13.0**
Total investments	**581.5**	**(132.3)**	**449.2**	**2.2**	**1.1**

* The weighted average maturity figures exclude pooled funds which have no fixed end date.
** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2020.

Note: the figures in Table 4 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

31. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.

32. Security of capital has remained the County Council's main investment objective and has been maintained by following the County Council's counterparty policy as set out in the Treasury Management Strategy Statement.

33. Counterparty credit quality has been assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in of financial institutions, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

34. The County Council also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

35. Over the six month period, the County Council has continued to feel the effects of the Coronavirus pandemic and has experienced uncertainty over income and expenditure in addition to falling money market rates, a lower number of suitable counterparties and a reduction in advised investment durations.

36. Liquid cash has been diversified over several counterparties, including Money Market Funds (MMFs) and bank call accounts to manage both credit and liquidity risks. The return on MMFs net of fees has fallen over the six-month period and for many funds net returns now range between 0% and 0.1%, with the fund management companies in several instances temporarily lowering or waiving fees to maintain a positive net return.

37. The County Council also has the option of using the Debt Management Account Deposit Facility (DMADF), which offers a high level of security as the counterparty is the UK government. On 25 September the overnight, 1- and 2-week deposit rates on DMADF deposits dropped below zero percent to -0.03%, which discourages local authorities from using this facility for short-term cash. The County Council has not needed to use the DMADF during this period and has maintained a positive net return on all of its investments, however it is important for the County Council to maintain the ability to access this facility as part of its suite of treasury management options.

38. The County Council's Treasury Management Strategy Statement for 2020/21 was written prior to the start of the coronavirus pandemic and the ensuing impact on financial markets, however it did identify that in the situation where negative interest rates arose, the security of the County Council's investments would be measured as receiving the contractually agreed amount at maturity, even when this was less than the amount originally invested. The County Councill will continue to manage its investment balances proactively to avoid accepting negative interest rates wherever possible, however suitable governance is also in place to ensure that the County Council is able to access appropriate areas of the market paying negative rates should the need arise, including being able to access the Treasury's DMADF accounts.

39. To reduce risk, 69% of the County Council's internally invested cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities and secured bank bonds. Of the remaining balance, the majority is invested in overnight money market funds which are subject to reduced bail in risk.

40. Against this backdrop, the County Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.80% on internally managed funds as at 30 September 2020 whilst also maintaining sufficient liquidity through the use of call accounts and money market funds. The County Council has benefited from holding investments where deals were made prior to interest rates falling in March, however as investments mature and are replaced, lower rates will be achieved and the average rate of return is therefore likely to fall over the course of the financial year assuming the low interest rate environment persists.

41. The progression of risk and return metrics for the County Council's investments that are managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5. This compares the data for the quarter ended 30 September 2020 with data for the quarter ended 31 March 2020.

Table 5: Investment Benchmarking (excluding pooled funds)	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2020 30.09.2020	AA AA-	50% 31%	551 608	0.97% 0.80%
Similar LAs All LAs	AA- AA-	49% 64%	991 18	0.57% 0.27%

42. During the six-month period from 31 March to 30 September 2020, the impact of the two Bank Rate cuts in March was felt across the money markets. This resulted in the investment return on the internally managed investments in the County Council's portfolio reducing, albeit the average return is currently greater than the average for other Arlingclose clients included in the investment benchmarking exercise.

43. The prepayment of employer's LGPS pension contributions in April has meant that the weighted average maturity of the County Council's investments has increased, however the County Council has balanced this by continuing to ensure that suitable levels of liquidity are held to meet its requirements. This has also contributed to a reduction in bail-in exposure and where the County Council is exposed to this risk it is largely through money market funds, which invest in instruments that are liable to bank bail-in but which are highly diversified therefore reducing this risk.

44. The average credit rating of the internally managed investments fell from AA to AA- however this is a strong credit rating. The County Council only invests with banks on Arlingclose's approved list of counterparties and currently only holds unsecured investments with these institutions for short durations to mitigate risk. The AA- rating is also in line with the average achieved by Arlingclose's other local authority clients.

45. In order to minimise the risk of receiving unsuitably low investment income, the County Council has continued to invest a proportion of steady core balances in externally managed pooled funds as part of its higher yield strategy.

46. These pooled fund investments are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term. By holding these investments for the longer term, the County Council is able to ride out periods of volatility that result in falls in value and therefore can manage the security of its original investment. Investing only steady core

balances also means the County Council should not ever need to be a forced seller for liquidity reasons.

47. The County Council's investments in pooled property, equity and multi-asset funds allow diversification into asset classes other than cash without the need to own and manage the underlying investments, with £175m now invested. The County Council also invests a further £10m into an externally managed cash plus pooled fund, which forms part of its short-term cash portfolio.

48. These investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

49. The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the County Council's investments in these pooled funds suffered a £22.4m fall in capital value (12.84%) over the year to 31 March 2020, however such losses are only realised if the assets are sold before they have the chance to regain value, which is not the County Council's intention.

50. Since March there has been improvement in market sentiment which is reflected in increases in capital values of the multi-asset income funds and one (of two) equity income funds in the County Council's portfolio. The change in capital values of the pooled fund investments is summarised in Table 6.

Table 6: Pooled fund capital values	**Principal invested £m**	**31/03/20 Capital value £m**	**Movement £m**	**30/09/20 Capital value £m**
Pooled property	77.0	78.3	(2.0)	76.3
Pooled equity	52.0	40.1	2.8	42.9
Pooled multi asset	46.0	37.0	6.8	43.8
Total	**175.0**	**155.4**	**7.6**	**163.0**

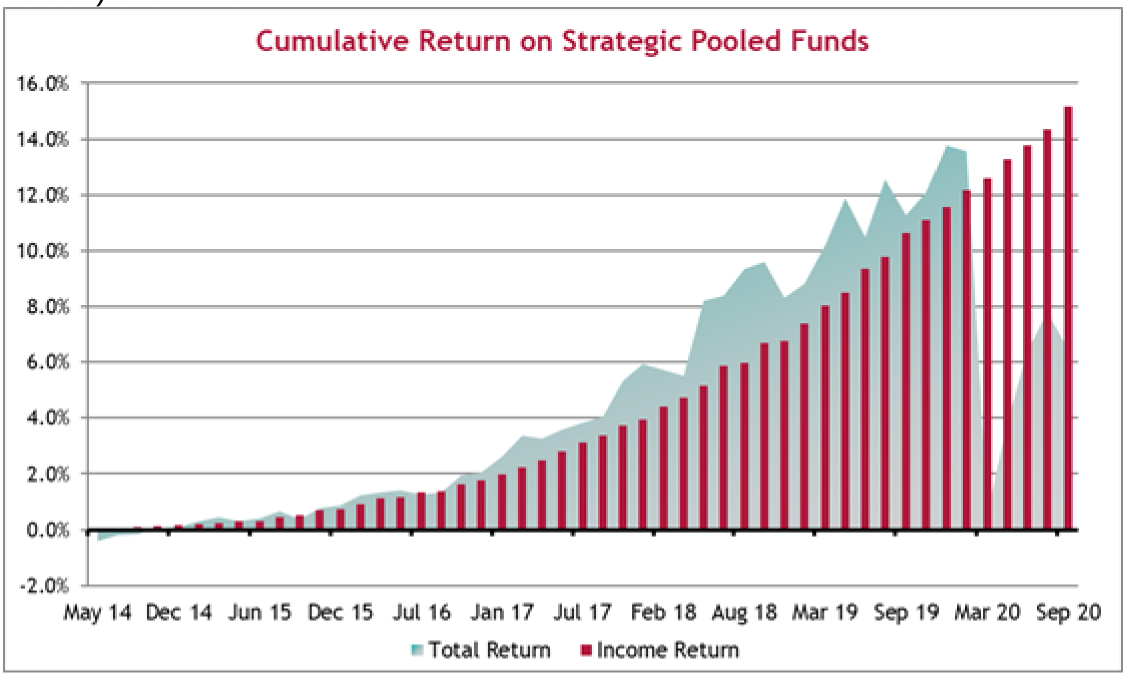
51. Dealing in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers, and holders of units in the property fund, the management company was obliged to suspend

transactions until the required level of certainty was re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for this property fund; from September 2020 investors are now required to give at least 90 calendar days' notice for redemptions. The Lime Property Fund and the Threadneedle Property Unit Trust, in which the County Council has smaller investments, also suspended dealing for the same reasons and the dealing suspensions were lifted in July and September 2020 respectively. Threadneedle now requires investors to provide four months' notice for withdrawals.

52. In 2020/21, the County Council expects to receive significantly lower income from both its internally managed cash and its higher yielding portfolio than it did in previous years, with an estimated impact of £3.5m included as part of the Medium Term Financial Strategy update during the summer. Dividends and income paid will depend on many factors including the ongoing impact of the pandemic and the individual strategies of each pooled fund, such as their sectoral allocations and investment decisions. Equity income funds will also be affected by enforced or voluntary dividend cuts and deferrals.

53. Given the impact on capital values and income described above the investments in pooled funds have been reviewed with Arlingclose, whose advice remains that these investments continue to be appropriate for the County Council. Capital values should recover over time and in the meantime these investments will continue to generate income returns significantly in excess of what could be achieved on traditional cash investments, to benefit the revenue budget.

54. The chart below shows the positive impact of regular income returns from these pooled funds and the positive cumulative total return (income + capital values) over time.



55. The County Council's investments as part of its higher yielding strategy are made with the intention of holding these investments for at least the medium term, however this does not mean that the County Council does not continue to monitor performance and nor does it mean it will hold these investments indefinitely.

56. As a result of this ongoing review, Arlingclose advised in June 2020 that the County Council should sell the long term bonds tranche of its higher yielding portfolio. The Deputy Chief Executive and Director of Corporate Resources approved this sale under her delegated authority and a gain on disposal was achieved on completion of the sale. The County Council is in the process of reinvesting the sale proceeds as part of its higher yielding strategy, with £4m added to two existing multi-asset pooled fund investments as at the end of September 2020. The remaining balance will be invested in pooled funds in tranches to mitigate risks associated with market timing.

Non-Treasury Investments

57. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

58. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

59. The County Council's existing non-treasury investments are listed in Table 7.

Table 7 – Non-Treasury Investments	30/09/20 Asset value £m	30/09/20 Rate %
Loans to Hampshire based business	9.5	4.00
Joint venture recruitment agency	0.2	5.00
Total	9.7	4.02

Compliance Report

60. The County Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

61. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 8.

Table 8 – Debt Limits	**2020/21 Maximum**	**30/09/20 Actual**	**2020/21 Operational Boundary**	**2020/21 Authorised Limit**	**Complied?**
Borrowing	271	270	730	780	✓
PFI and Finance Leases	149	149	150	180	✓
Total debt	**420**	**419**	**880**	**960**	✓

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

Treasury Management Indicators

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

Interest Rate Exposures

64. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

Table 9 – Interest Rate Risk Indicator	**30/09/20 Actual**	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates		
Investment	£218m	+/- £2.2m
Borrowing	£23m	+/- £0.2m

65. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

66. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 10 – Refinancing Rate Risk Indicator	30/09/20 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	5.4%	50%	0%	✓
12 months and within 24 months	3.7%	50%	0%	✓
24 months and within 5 years	9.0%	50%	0%	✓
5 years and within 10 years	20.0%	75%	0%	✓
10 years and within 20 years	53.0%	75%	0%	✓
20 years and within 30 years	8.9%	75%	0%	✓
30 years and above	0.0%	100%	0%	✓

67. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, these loans have an average maturity date of 13 years (minimum 7 years; maximum 25 years).

Principal Sums Invested for Periods Longer than a year

68. The purpose of this indicator is to control the County 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 were:

Table 11 – Price Risk Indicator	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£262m	£216m	£196m
Limit on principal invested beyond year end	£340m	£330m	£330m
Complied?	✓	✓	✓

69. The table includes investments in strategic pooled funds of £175m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Other

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

Arlingclose's outlook for the remainder of 2020/21

71. The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, the coronavirus has not been supressed

and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

72. The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Quarter 3.

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

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

75. Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

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

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

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

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because it relates to the effective management of the County Council's cash balances.

NB: If the 'Other significant links' section below is not applicable, please delete it.

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

   The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

   - Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
   - Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
   - Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

   Due regard in this context involves having due regard in particular to:

   - The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
   - Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
   - Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. Equalities Impact Assessment:

Equalities objectives are not expected to be adversely impacted by the proposals in this report.