Treasury Management Strategy and Investment Strategy 2021/22 to 2023/24

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 2021/22, (and the remainder of 2020/21) 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 Treasury Management Strategy Statement(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 impact of the coronavirus pandemic and the UK's exit from the European Union will continue to be a major influence on the Fire & Rescue Authority's treasury management strategy for 2021/22.

3.3. The Bank of England's (BoE) Monetary Policy Committee (MPC) met in December 2020 and voted unanimously to hold Bank Rate at 0.10% and to maintain its Quantitative Easing asset purchase programme at £895m. The MPC identified that the successful trialling of some Covid-19 vaccines was likely to reduce the downside risks to the economic outlook, but that economic activity had been affected by the increase in Covid-19 cases and reimposition of restrictions resulting in an unusually uncertain outlook for the economy, an outlook that will have been further affected by the subsequent national lockdown in January 2021.

3.4. Gross Domestic Product (GDP) grew by 16.0% in Quarter 3 after suffering a fall of 18.8% in the previous quarter, reflecting the easing of restrictions throughout the summer of 2020, although this had already slowed to 1.1% in September and 0.4% in October, leaving it 8% below its level in Quarter 4 of 2019.

3.5. UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month and well below the BoE's target of 2%.

3.6. The most recent labour market data for the three months to October 2020 showed the unemployment rate was 4.9%, up 0.7% on the previous quarter. The government's employment support schemes may limit near term rises in unemployment, but the BoE predicts a substantial further increase is still likely. The employment rate fell to 72.5% in October and the 3-month average annual growth rate for wages was 2.1% for regular pay in real terms.

Credit outlook

3.7. After spiking in late March 2020 due to the onset of the global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Bank profitability in 2020 is likely to be significantly lower than in previous years as a result of significant provisions for potential losses resulting from the pandemic.

3.8. The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

3.9. Looking forward, there remains the potential risk for bank losses to be greater than expected when government and central bank support starts to be removed and Arlingclose therefore advises a cautious approach to bank deposits in 2021/22.

Interest rate forecast

3.10. The Fire & Rescue Authority's treasury management adviser, Arlingclose, is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. Downside risks remain, however, and may be heightened in the short term as the UK reacts to the escalation in coronavirus infection rates and the end of the Brexit transition period, therefore further cuts to 0% or even into negative territory cannot be completely ruled out.

3.11. 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 31 December 2020, the Fire & Rescue Authority held £8.1m of borrowing and £29.8m of investments. This is set out in further detail at Annex B.

4.2. Forecast annual changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/20 Actual £m	31/03/21 Estimate £m	31/03/22 Forecast £m	31/03/23 Forecast £m	31/03/24 Forecast £m
Capital Funding Requirement	10.8	10.6	16.6	30.5	45.5
Less: External borrowing					
- Public Works Loan Board *	(8.3)	(7.1)	(6.7)	(5.9)	(5.6)
- New borrowing	-	(0.3)	(6.4)	(14.4)	(15.8)
Total external borrowing	(8.3)	(7.4)	(13.1)	(20.3)	(21.4)
Internal (over) borrowing	**2.5**	**3.2**	**3.5**	**10.2**	**24.1**
Less: Working capital	4.4	7.1	5.8	4.5	4.5
Less: Usable reserves	(31.3)	(25.2)	(18.1)	(11.6)	(9.7)
New borrowing or (investments)	**(24.4)**	**(14.9)**	**(8.8)**	**3.1**	**18.9**

* shows only loans to which the Fire & Rescue Authority is committed and excludes optional refinancing.

4.3. 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 its investments below underlying levels to fund the capital programme.

4.4. The Fire & Rescue Authority has an increasing CFR due to increased spending on the capital programme, but expects to be unable to fund this fully from its investment balances and therefore will be required to externally borrow over the forecast period. The capital funding requirement is predominantly for major building works associated with the Station Investment Programme, as well as an on-going requirement for vehicles and other equipment that will need to be replaced over the coming years. Reserves as well as increased external borrowing will be used to fund the Capital Programme.

4.5. 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 2021/22.

5. Borrowing Strategy

5.1. The Fire & Rescue Authority currently holds £8.1m of loans, which is £0.2m lower than the previous year, as part of its strategy for funding previous years' capital programmes. The reduction in borrowing balances of £200,000 reflects the repayment of maturing PWLB debt, which has not been replaced. The balance sheet forecast in Table 1 shows that the Fire & Rescue Authority may decide to borrow in 2021/22 to fund capital programme requirements. The Fire & Rescue Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £24.0m.

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, 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, it is likely to be more cost effective in the short term to use internal resources where possible or to borrow short term loans to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.4. 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 and this will be used to help determine whether the Fire & Rescue Authority 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.

5.5. The Fire & Rescue Authority has previously raised all of its long-term borrowing from the Public Works Loan Board (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. New PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Fire & Rescue Authority intends to avoid this activity, and so will retain its access to PWLB loans.

5.6. The Fire & Rescue Authority may also arrange forward starting loans during 2021/22, 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.

5.7. 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

5.8. 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 the 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

5.9. 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

Short-term and variable rate loans

5.10. 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 at Section 7 of this appendix.

Debt Rescheduling

5.11. 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. Treasury 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 treasury investment balance has ranged between £19.5m and £38.5m, however it is planned that balances will fall between now and 31 March 2022 as shown in Table 1.

6.2. The reduction in investment balances predicted are as a result of the planned funding of the transformation programme, as well as due to the normal pattern of expected income and expenditure whereby the largest balances are expected in August following the receipt of the annual pension grant in July. The reduction in balances will be lower than it otherwise would have been, as employer's LGPS pension contributions were paid in advance for the period to March 2023 by the Fire and Rescue Authority in April 2020.

Objectives

6.3. The CIPFA Code requires the Fire & Rescue Authority 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 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. The Covid-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options, and in some instances negative interest rates are already being seen. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

6.5. Given the increasing risk and very low returns from short-term unsecured bank investments, the Fire and Rescue Authority aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

6.6. Approximately 69% of the Fire & Rescue Authority's cash as at 31 December 2020 was invested so that it was not subject to bail-in risk, as it was invested in local authorities, pooled property, equity and multi-asset funds, and secured bank bonds. Whilst the remaining 31% of cash subject to bail-in risk at 31 December 2020, 60% was held in overnight money market funds which are subject to a reduced risk of bail-in, 18% was held in overnight bank call accounts for liquidity purposes, and 21% was held in short term bank notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 35-day maximum recommended by Arlingclose. Further detail is provided at Annex B. This diversification represents a continuation of the strategy adopted in 2015/16.

Business models

6.7. 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.

Investments targeting higher returns

6.8. The Fire & Rescue Authority also invests in pooled property, equity and multi-asset funds, which allow diversification into asset classes other than cash without the need to own and manage the underlying investments. The funds operate on a variable net asset value (VNAV) basis and offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer the potential for enhanced returns over the longer term but are likely to be 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.

6.9. Table 2 shows the market value of the Fire and Rescue Authority's investments in pooled funds at 31 December 2020, with valuations continuing to be impacted by the ongoing volatility in markets as a result of the coronavirus pandemic.

Table 2: Higher yielding investments capital value

	Principal invested £m	**Market value 31/12/2020 £m**	**Capital yield in 2020 %**
Pooled Property Funds	3.25	3.08	(6.07)
Pooled Equity Funds	2.00	2.07	(8.90)
Multi-Asset Funds	1.75	1.71	(6.15)
Total	**7.00**	**6.86**	**(6.95)**

6.10. Money can usually be redeemed from pooled funds at short notice however these investments must be viewed as long-term investments from core balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the Fire and Rescue Authority will not be a forced seller and will not crystalise capital losses.

6.11. Changes to International Financial Reporting Standards mean that even if investments are not sold, unrealised capital gains and losses on these investments need to be reflected in the revenue account on an annual basis. There is, however, currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next 3 years meaning that any changes in value continue to be accounted for through an unusable reserve.

6.12. The Fire and Rescue Authority's long-term investments in pooled funds are expected to bring benefits to the revenue budget through higher yields than can be achieved on cash investments. As shown in Table 3, without the allocation to pooled funds the weighted average return of the Fire & Rescue Authority's cash investments would have been 0.21%. By investing in pooled funds, the weighted average return at 31 December 2020 was 1.13%, meaning the allocation to higher yielding investments has added 0.92% to the average interest rate earned by the remainder of the portfolio.

6.13. This benefit to the revenue budget is demonstrated indicatively in Table 3, using cash balances and average returns at 31 December 2020. It should be noted however that this is a snapshot at a particular point in time and balances and returns do not remain constant over the course of a year. The actual returns will form part of the outturn report at the conclusion of the financial year and will likely be lower than those shown in the table. This is because the annualised pooled fund returns for the 12 months to 31 December 2020 include the period prior to the start of the coronavirus pandemic. The Fire and Rescue Authority has taken a prudent approach in forecasting its income from pooled funds for 2020/21 and has been advised by Arlingclose on this.

Table 3: Estimated annual income returns

	Cash balance at 31/12/2020	Weighted average return	Estimated annual income return
	£m	**%**	**£m**
Short-term and long-term cash investments	22.81	0.21	0.05
Investments targeting higher yields	7.00	4.12	0.29
Total	**29.81**	**1.13**	**0.34**

6.14. The performance of these investments and their suitability in meeting the Fire & Rescue Authority's investment objectives are monitored regularly and discussed with Arlingclose.

Investment limits

6.15. The maximum that will be lent to any one organisation (other than the UK Government) will be £4m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 4.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£10m per manager

Approved counterparties

6.16. The Fire & Rescue Authority may invest its surplus funds with any of the counterparty types in Table 5, subject to the limits shown.

Table 5: Sector and counterparty limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£4m	Unlimited
Secured investments *	25 years	£4m	Unlimited
Banks (unsecured) *	13 months	£2m	Unlimited
Building societies (unsecured) *	13 months	£2m	£4m
Registered providers (unsecured) *	5 years	£2m	£4m
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£4m	£20m
Real estate investment trusts	n/a	£2m	£4m
Other investments *	5 years	£2m	£4m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

6.17. 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 known factors including external advice will be taken into account.

6.18. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

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 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 30 years.

Secured investments

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

Banks and building societies (unsecured)

6.21. 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)

6.22. 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 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

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

Strategic pooled funds

6.24. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the Fire & Rescue Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic 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)

6.25. 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.

Other investments

6.26. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Fire & Rescue Authority's investment at risk.

Operational bank accounts

6.27. The Fire & Rescue Authority may incur operational exposures, for example though 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

6.28. 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.

6.29. 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

6.30. 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.

6.31. 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 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 likely lead to investment returns falling but will protect the principal sum invested.

Liquidity management

6.32. 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, capital payments, 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.

6.33. The Fire & Rescue Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Fire & Rescue Authority will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

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. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 6: Interest rate risk indicator

	31 December 2020 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	29.8	+/-0.3
Borrowing	(0.0)	+/-0.0

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

	Upper	Lower
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

	2021/22	2022/23	2023/24
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

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 Advisors

8.2. 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

8.3. 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.

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2020

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen 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.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term 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 the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	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
Official Bank Rate													
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	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
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	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
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	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	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	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
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	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
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	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

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

Annex B - Existing Investment & Debt Portfolio Position at 31 December 2020

Investment Position (Treasury Investments)

Investments	30/09/2020 Balance £m	Movement £m	31/12/2020 Balance £m	31/12/2020 Rate %	31/12/2020 WAM* years
Short term investments					
- Banks and Building Societies					
- Unsecured	3.20	0.48	3.68	0.06	0.06
- Money Market Funds	14.80	(9.17)	5.63	0.01	0.01
- Local Authorities	9.50	3.00	12.50	0.33	0.32
	27.50	(5.69)	21.81	0.20	0.19
Long term investments					
- Banks and Building Societies					
- Secured	1.00	-	1.00	0.47	2.29
	1.00	-	1.00	0.47	2.29
High yield investments					
- Pooled Property Funds**	3.25	-	3.25	4.08	N/A
- Pooled Equity Funds**	2.00	-	2.00	4.49	N/A
- Multi-Asset Funds**	1.75	-	1.75	3.77	N/A
	7.00	-	7.00	4.12	N/A
TOTAL INVESTMENTS	**35.50**	**(5.69)**	**29.81**	**1.13**	**0.28**

* 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

	31/12/2020 Balance £m	31/12/2020 Rate %
External Borrowing		
- PWLB	(8.10)	(4.71)
Investments		
- Total Investments	29.81	1.13
NET INVESTMENTS	**21.71**	