London Borough of Enfield

Council

Meeting Date: 11 November 2021

Subject:	**Treasury Management Mid Year Report for 2021/22**
Cabinet Member:	**Cllr Maguire**
Executive Director:	**Fay Hammond**
Key Decision:	**N/A**

Purpose of Report

1. This report reviews the activities of the Council's Treasury Management function over the half year period ended 30 September 2021.

2. Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement.

3. The key points of the report are highlighted below:

		See section:
Borrowing Outstanding and Net Borrowing at 30th September 2021	A reduction of £11.8m since 31st March 2021 and at 30th September 2021 is £918.3m. Net Borrowing for this period is £874.7m with revised year end forecast of £1,170.8m, some £158m less than the original budget.	**13** **30 - 35**
Capital Financing Requirement (CFR) Forecast for 31st March 2022	The closing borrowing CFR for 31st March 2021 was £1,206.7m. The forecast for 31st March 2022 has been revised down to £1,406m from £1,451.4m due to the current capital expenditure slippage.	**36 - 38**
Average interest on total borrowing outstanding	The average interest rate forecast for year end is 2.59% (was previously 2.62%). The estimated cost of borrowing for the year 2021/22 is £29.3m.	**27 - 35**
Investments & Net Borrowing, PFI & Finance Leases (Debt)	Interest earned on investments for the reporting period is £15k. The Investments portfolio at 30th September 2021 is £43.6m. Net debt has decreased slightly by £19.8m from £895m as at 31st March 2021 to £875m with the revised forecast for 2021/22 year end of £1,171m.	**36 – 45 & 49**
Loans	None undertaken.	**50**

Rescheduling		
Minimum Revenue Provision (MRP)	MRP chargeable to the General Fund (GF) for 2021/22 is £17.4m.	**52**
Compliance with Treasury Management & Prudential Indicators	No breaches. Officers introduced the new proposed CIPFA prudential and treasury indicators to test the Council's borrowing position and the strength of its affordability.	**63 - 76**
Borrowing Timing and Interest Rate Analysis	the Council plan to borrow a further £150m short term by year end. This will be converted to long term debt when the rates are advantageous.	**77 - 86**

Proposals

4. Members are asked to:

5. Note and comment on the contents of the report; and

6. Consider and recommend for approval the 2021/22 Mid Year Treasury Management position.

Reason for Proposals

7. To inform Council the Treasury Management performance for the half year period ended 30 September 2021.

8. The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management half yearly and annual reports.

9. The Council's Treasury Management Strategy for 2021/22 was approved at the Council's meeting on the 2nd March 2021. The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

Relevance to the Council's Corporate Plan

10. Good homes in well-connected neighbourhoods.

11. Build our Economy to create a thriving place.

12. Sustain Strong and healthy Communities.

Background

13. Enfield Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury

management semi annual and annual reports. This midyear report provides an update.

14. The Council's Treasury Management strategy for 2021/22 was approved at the Council meeting on 2nd March 2021. The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

15. 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 Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 2nd March 2021.

16. On 30th September 2021, the Council had net borrowing of £874.7m arising from its revenue and capital income and expenditure. The treasury management position as at 30th September 2021, the change over the six months, the original forecast position for 31st March 2021 and the revised budget position are shown in Table 1 below.

Table 1: Treasury Management Summary

	Actual Balance 31.03.21 £m	Movement £m	Actual Balance 30.09.21 £m	Original Estimate 31.03.22 £m	Revised Forecast 31.03.22 £m
Long-term borrowing	930.1	(11.8)	918.3	1,108.5	1,020.8
Short-term borrowing	0.0	(0.0)	0.0	220.0	150.0
Total borrowing	**930.1**	**(11.8)**	**918.3**	**1,328.5**	**1,170.8**
Total investments	**(35.6)**	**(8.0)**	**(43.6)**	**(35.0)**	**(35.0)**
Net borrowing	**894.5**	**(19.8)**	**874.7**	**1,293.5**	**1,135.8**

17. 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 2 below.

Table 2: Balance Sheet Summary

	31 March 2021 Actual £m
General Fund CFR	933.5
HRA CFR	240.2

Borrowing CFR	**1,173.7**
External borrowing	930.1
Internal borrowing	**241.6**
Less: Usable reserves	(251.8)
Less: Working capital	45.8
Net investments	**(35.6)**

*finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

ECONOMIC BACKGROUND

18. The Bank of England (BoE) has held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting.

19. The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

20. While Q2 UK GDP expanded more quickly than initially thought, the 'pandemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

21. Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven increased interest rate expectations substantially higher.

22. The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.

23. Government bond yields increased sharply following the September Federal Open Market Committee (FOMC) and Monetary Policy Committee (MPC) minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down on these signals despite softer economic data. Bond investors expect higher near term interest rates but are also clearly uncertain about central bank policy.

24. The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency

levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

25. Arlingclose, the council's Treasury Advisers, expects Bank Rate to rise in Q2 2022. They believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure. Given the current outlook, Arlingclose believes this could be a policy mistake.

26. Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

27. Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, Arlingclose believes that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall in line with their forecast.

28. The risk around Arlingclose forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later.

BORROWING STRATEGY DURING 2021/22

29. The 2021/22 Treasury Management Strategy sets out an operational borrowing limit of £1,368m and maximum borrowing requirements of £1,668m for the year. As at 30th September there is still a potential for the Council to borrow up to a further £450 million, this level of borrowing has been revised due the current level of capital programme slippage. This matter is being closely monitored through the Council's 10 year capital programme model and the cash flow model.

30. The 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 flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

31. In keeping with these objectives, no new borrowing was undertaken while £11.8m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

32. At 30th September 2021 the Council held £918.3m of loans, (a decrease of £11.8m since 1st April 2020), as part of its strategy for funding the Council's previous and current year's capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

Type of Loan	31.3.21 Actual £m	Movement £m	30.9.21 Actual £m	31.3.22 *Original Forecast £m	31.3.22 ^Revised Forecast £m
PWLB	875.9	(10.8)	**865.1**	1,328.0	**1,170.8**
European Investment Bank	8.3	(0.2)	**8.1**	-	**-**
GLA	2.1	(0.5)	**1.6**	-	**-**
HNIP	21.6	0.0	**21.6**	-	**-**
LEEF	2.7	(0.3)	**2.4**	-	**-**
MEEF	15.0	0.0	**15.0**	-	**-**
SALIX	4.5	0.0	**4.5**	-	**-**
Total	**930.1**	**(11.8)**	**918.3**	**1,328.0**	**1,170.8**

*Original Forecast as stated in TMSS 2021/22, approved by Council 02 March 2021
^Revised Forecast based on current level of activities

33. The Council has 94 loans spread over 50 years with the average maturity being 29 years. The maturity profile allows the Council to spread the risk of high interest rates when debt matures in any one year. The average interest for the period is 2.59%.

The Capital Financing Requirement (CFR)

34. The Council has an increasing CFR due to the capital programme and an increasing borrowing requirement which takes into account usable reserves and working capital which are the underlying resources available for investment as shown in Table 4.

Table 4: Capital Financing Requirement (CFR)

Capital Financing Requirement (CFR)	Actual 31 March 2021 £m	Original Budget 31 March 2022 £m	Revised Budget 31 March 2022 £m
General Fund	933.5	1,155.7	1,122.1
Housing Revenue Account	240.2	295.7	283.6
Borrowing CFR	**1,173.7**	**1,451.4**	**1,405.7**
External Borrowing	930.1	1,328.8	1,170.8
Internal Borrowing	243.6	122.6	234.9
Authorised Limit	**1,400.0**	**1,600.0**	**1,494.0**

*Total CFR includes finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

Other Debt Activity

35. The forecast for 31st March 2022 for Private Finance Initiative (PFI) or finance leases liabilities which represent the total debt other than borrowing for the Council is £30m after the repayment of circa £4m scheduled for the year.

Cost of Borrowing

36. The average interest rate forecast on total external debt for 2021/22 is 2.59% (2.64% in 2020/21). Table 6 shows the Council's total cost of maintaining its debt portfolio, as well as how the debt cost has been recharged to the HRA and to LBE Companies. The overall cost chargeable to the General Fund is £5.3 million.

Table 5: Cost of Borrowing

37.

Type of Loan	**Actual for 31.03.21**	**Actual as at 30.09.20**	**Forecast for 31.03.21**
	£m	**£m**	**£m**
Public Works Loan Board	24.4	12.2	28.5
Local Authority	0.4	-	-
EIB	0.2	0.2	0.2
GLA	-	-	-
LEEF	0.1	-	-
MEEF	-	0.1	0.1
Salix	-	-	-
Total Interest on Long Term Debt	25.1	12.5	28.8
Short term Loans	1.1	-	0.6
Commission on loans	(0.1)	-	(0.1)
Total Interest Paid	**23.9**	**12.5**	**29.3**
Interest Income Receipts from:			
Housing Revenue Account	8.9	-	10.3
Capitalised Interest on Meridian Water	7.7	-	10.0
HGL	2.8	-	2.9
Energetik	0.5	-	0.8
General Fund	3.2	-	5.3
Total Cost of Debt	23.9	12.5	29.3

interest rate to meet the State Aid regulations set by the European Union.

Loans Maturity

38. The Council has 89 loans spread over 50 years with the average maturity being 26 years. The maturity profile allows the Council to spread the risk of high interest rates when debt matures in any one year.

39. The highest interest rate at 15.13%, a £1m PWLB loan matured on 1st November 2021, leaving a total of nine loans of total value of some £40m at 7.63% as the next highest interest rate loans in the Council's loan book. Table 6 shows the maturity structure of the Council's Loans portfolio as at 31 March 2021 and forecast for 31 March 2022:

Table 6: Profile of Maturing Loans

	Loans Outstanding Actual as at 31 March 21	**Loans Outstanding Forecast for 31 March 22**
	£m	**£m**
Under 1 year	25.0	74.6
1-2	23.8	93.5
2-5	46.5	113.2
5-10	134.6	131.4
10-15	130.4	124.1
15-20	155.4	146.9
20-25	33.4	31.1
25-30	70.2	68.3
30-35	87.7	87.7
35-40	44.3	44.3
40-45	88.8	88.8
45+	90.0	166.9
	930.1	**1,170.8**

Treasury Investment Activity

40. Total cash balances over the year varied considerably, predominantly because of the significant peaks and troughs arising from payment profiles of business rate collections, capital expenditure, DWP payments and housing benefit payments.

41. During this reporting period the Council's investment balance ranged between £5 million and £98 million due to timing differences between income and expenditure. The investment position at 30th September 2021 is shown in table 7 below.

Table 7: Treasury Investments

Counterparties	31.3.21 Actual £m	Movement £m	30.9.21 Actual £m
Money Market Funds			
Aberdeen (Ignis)	-	10.0	10.0
Aviva	-	-	-
CCLA	14.0	11.0	25.0
Deutsche	-	-	-
Federated	-	-	-
Goldman Sachs	-	-	-
HSBC Liquidity	-	-	-
Invesco	-	-	-
Call Accounts			
Santander	**-**	-	-
HSBC	21.5	(12.9)	8.6
Handelsbanken	-	-	-
	35.5	**8.1**	**43.6**

42. The Council generated investment income of £0.069m on cash balances held in call accounts and money market funds for this reporting period. On average the Council's cash investment portfolio had a risk weighting equivalent to AA+ credit rating.

43. Because the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.

44. In 2021/22 the Council expects to receive significantly lower income from its cash and short-dated money market investments than it did in 2020/21 and earlier years.

Investment Benchmarking

45. Both the CIPFA Code and Government guidance require the 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 Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Table 8 – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2021 30.06.2021	4.76 4.84	A+ A+	100% 100%	1 1	0.02% 0.01%
30.09.2021	**5.15**	**A+**	**100%**	**1**	**0.02%**
Similar LAs ***All Las***	***4.82*** ***4.53***	***A+*** ***A+***	***79%*** ***69%***	***26*** ***10***	***0.49%*** ***0.78%***

46. The progression of risk and return metrics are being measured and monitored. An extract of the metrics being used from Arlingclose's quarterly investment benchmarking is shown in Table 8 above for the reporting period.

47. Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

48. The return on Money Market Funds net of fees remain ultra low, one year to end of September 2021 at the range of 0% and 0.01%. The Council earned 0.02% on investments to date.

Non-Treasury Investment

49. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.

50. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) now named Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

51. The Council held £143m of such investments. Which currently consist solely loans but in future it will includes provision of working capital and injection of equities into the companies. A list of the Council's non-treasury investments is shown in below table 9:

Table 9: Non-Treasury Investments

Loans made to LBE Companies	31.3.21 Balance £m	Movement £m	30.9.21 Balance £m
HGL	122.0	5.7	127.7

Energetik	12.9	2.4	15.3
EIL	0.2	(0.2)	-
Total	135.1	7.9	143.0

Net Debt (Borrowing, PFI & Leases)

52. The Council's net debt has reduced from £930.1m closing position of 2020/21 to £918.3m as demonstrated in Table 10. The estimated budget position for 2021/22 recognises that future capital expenditure will need to be financed from external borrowing and will create pressure on the revenue budget, however this impact has been recognised in the Council's Medium Term financial plan.

Table 10: Net Debt

	31.03.20 Actual £m	**31.03.21 Actual £m**	**2021/22 Original Budget £m**	**2021/22 Revised Budget £m**	**2021/22 Interest Forecast £m**
Companies	133.0	139.6	203.7	210.9	3.7
Meridian Water	303.7	336.9	399.9	399.9	10.0
Other GF*	445.6	457.0	552.1	511.3	5.3
HRA	226.7	240.2	295.7	283.6	10.3
Total Loans CFR	**1,109.0**	**1,172.8**	**1,451.4**	**1,405.7**	**29.3**
Add: PFI & Finance leases	*37.3*	*33.9*	*40.0*	*30.3*	*4.0*
Less Internal Borrowing	*(157.3)*	*(276.6)*	*(163.4)*	*(265.2)*	*-*
Total External Borrowing	**989.0**	**930.1**	**1,328.0**	**1,170.8**	**33.3**
Total treasury investments	**(95.4)**	**(35.5)**	**(25.0)**	**(35.0)**	**(0.1)**
Net Debt	**893.6**	**894.6**	**1,303.0**	**1,135.8**	**33.2**

Loans Restructuring

53. Loans restructuring normally involves prematurely replacing existing loans (at a premium or discount) with new loans to secure net savings in interest payable or a smoother maturity profile. Restructuring can involve the conversion of fixed rate interest loans to variable rate loans and vice versa.

54. No rescheduling was done during the year as the new PWLB borrowing rates and premature repayment rates made rescheduling uneconomic. The Council will continue to actively seek opportunities to restructure debt, if viable.

Minimum Revenue Provision

55. In accordance with the Local Government Act 2003, the Council is required to pay off an element of the accumulated General Fund capital expenditure, which was funded from borrowing, through an annual revenue charge known as the Minimum Revenue Provision (MRP).

56. In the 2021/22 TMSS that was approved by Council at its meeting in March 2021 had MRP budget for 2021/22 as £10m and interest chargeable to the General Fund (GF) of £8.9m. These figures have been revised and MRP chargeable to the GF now stands at £17.4m and interest chargeable is £5.3m.

Borrowing Update

57. Councils can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Councils that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

58. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

59. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual council and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

60. Enfield is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB. The Council will continue to review its capital programme in light of PWLB lending arrangement changes and may consider the cancellation of planned purchases of assets primarily for yield so as to retain access to the PWLB.

Revised PWLB Guidance

61. HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

    i) Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.

    ii) Capital plans should be submitted by local authorities via a DELTA return. This open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.

iii) An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.

iv) Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.

v) Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

62. **Changes to PWLB Terms and Conditions from 8th September 2021** - The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

63. **Municipal Bonds Agency (MBA)**: The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

64. If the Council plans future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

65. **UK Infrastructure Bank:** £4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB

Compliance with Treasury Management Indicators

66. Within the prudential indicators there are several key indicators to ensure that the Council operates its activities within well defined limits. For example, the operational borrowing limit set by the Council, determines the external debt levels which are not normally expected to be exceeded, whereas the authorised borrowing limit represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs full council to approve any increase.

67. Since the beginning of this financial year 2021/22 the total loan debt was kept within the limits approved by the Council against an authorised limit of £1,494 million. The authorised limit (as defined by the Prudential Code) was set as a precaution against the failure, to receive a source of income or a major unexpected expenditure. In the unlikely event of this happening, the Council

would need to borrow on a temporary basis to cover the shortfall in cash receipts. Any significant breach must be reported to the Council.

68. Officers reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy or explain the areas of non-compliance. Compliance with specific investment limits is demonstrated in tables below.

69. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 11 below.

Table 11: Prudential Indicators

Debt Limits	30.9.21 Actual £m	2021/22 Maximum £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied? Yes/No
Borrowing	918.3	1,171.0	1,171.0	1,464.0	Yes
PFI and Finance Leases	30.3	30.0	30.0	30.0	Yes
Total debt	**948.6**	**1,201.0**	**1,201.0**	**1,494.0**	Yes

70. 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 is not counted as a compliance failure. Although total debt was not above the operational boundary during this reporting financial year.

Treasury Management Indicators

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

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

Table 12: Credit Risk

	30.9.21 Actual	2021/22 Target	Complied?
Portfolio average credit rating	A+	A-	Yes
Portfolio average credit score	5.15	4.75	Yes

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

Table 13: Liquidity Risk Indicator

	30.9.21 Actual	2021/22 Target	Complied?
Total cash available within 3 months	£46.3	£25m	Yes

74. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The Council held no variable interest rate debt during 2020/21. However, the Council's Treasury Management Strategy does permit variable interest rate loans.

Table 14: Interest Rate Risk Indicator

	30.9.21 Actual	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	Nil	+£4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	Nil	+£4m	Yes

75. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

76. **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 15: Maturity Structure

	30.9.21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	5.0%	30%	0%	Yes
12 months & within 24 months	2.5%	35%	0%	Yes
24 months and within 5 years	4.9%	40%	0%	Yes
5 years and within 10 years	14.2%	45%	0%	Yes
10 years and above	73.5%	100%	0%	Yes

77. Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 16: Sum Invested Over One Year

	2021/22	2022/23	2022/24
Actual principal invested beyond year end	Nil	Nil	Nil
Limit on principal invested beyond year end	£15m	£15m	£15m
Complied?	Yes	Yes	Yes

Proposed CIPFA's Prudential and Treasury Indicators

78. Officers tested Enfield position with the new proposed Prudential and Treasury Indicators. Which are:

i) **Liability benchmark** – CIPFA recommends that liability benchmark is produced for at least 10 years and should ideally cover the debt profile of a local authority. a new indicator to measure borrowing levels and the profile of its debt overtime.

a. This indicator is based on the Council's future cash flows and its minimum revenue payment (MRP) forecast for repayment of debt in the future.

b. If debt exceeds the liability benchmark the authority has a cash surplus and is holding on deposit.

c. It is a measure of an authority's existing (and committed) loans portfolio that is compared with its forecast loan needs.

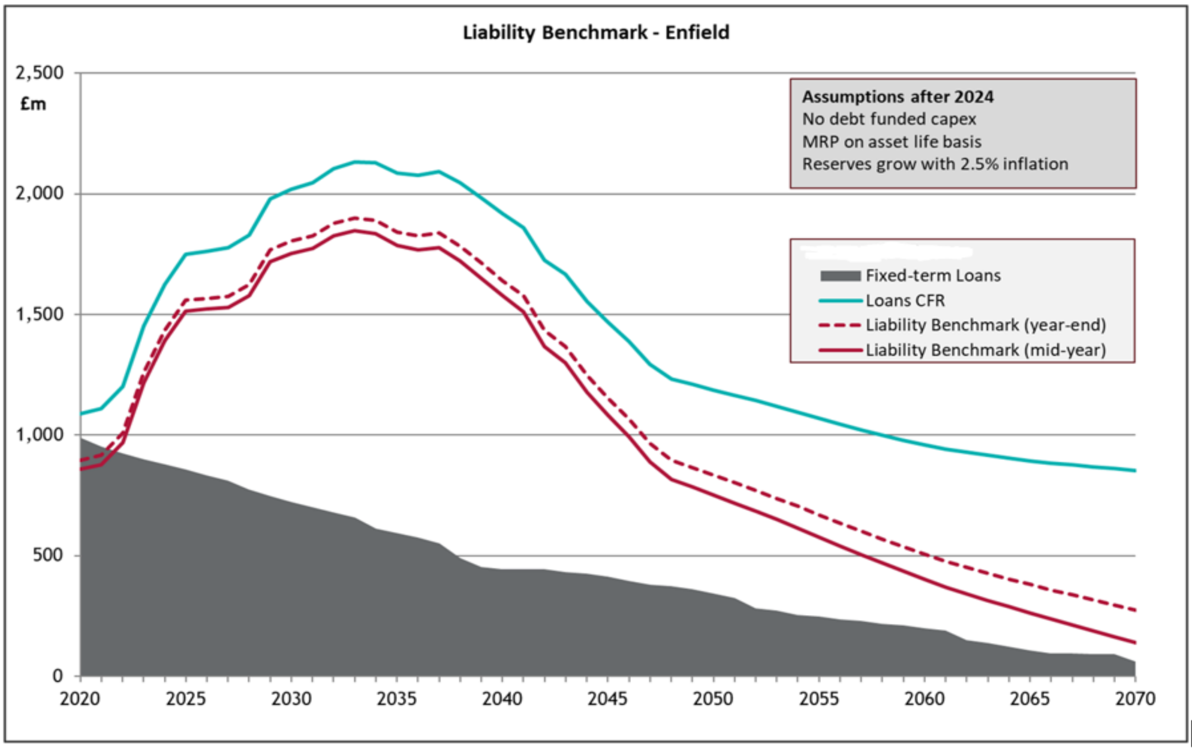
d. This benchmark should enable the authority to understand and manage its exposure to treasury risks.

e. Using the benchmark maturity profile or net loans benchmark enables the authority to minimise its treasury risks by matching its maturity profile to the liability benchmark.

f. The liability benchmark is not a single measure but requires graphical presentation of the net loans requirement and compares this with the Capital Financing Requirement and actual debt.

g. This is to promote good practice and understanding of local authority's debt management in relation to capital investment.

h. The below graph illustrates the Council's treasury position as per the approved 2021/22 Treasury Management Strategy Statement. It can be seen that the Enfield Council's debt do not exceed the liability benchmarks.



ii) **External Debt to Net Revenue Stream ratio** as a new prudential indicator to assess proportionality. To ensure that the amount of debt incurred is proportionate to a local authority's total service expenditure on a taxation basis and helps a local authority to understand the relationship of debt to an authority's resources used to support services and demonstrate a local authority's financial sustainability. The below table indicates Enfield Council's positions as per the approved 2021/22 Treasury Management Strategy Statement.

iii) **Net income from Commercial and Service Investments to Net Revenue Stream** – This ratio considers the Council's exposure to risk from commercial and service investment income. To allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions in commercial and service investments compared to the net resources it expends to support services on a taxation basis. The below table indicates the Council's positions as per the approved 2021/22 Treasury Management Strategy Statement.

New prudential indicator	**Actual 2020/21**	**Estimated 2021/22**
External debt to net revenue stream ratio	4.4:1	5.3:1
Income from commercial and service investments to net revenue stream	27.3%	33.9%

79. From the above table, it is evident that the level of the Council's capital activity is growing, and the income being generated from such activities has been

estimated to increase by 6.6% over the year to 31 March 2022; that is from 27.3% to 33.9%.

Borrowing Timing and Interest Rate Analysis

80. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. With short term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short term loans instead.

81. However, given the size of the Council's Capital Programme, and the need to diversify the Council's debt portfolio, long term borrowing will also be required during 2021/22, the strategy is to fulfil the Council's borrowing requirement with a mixture of long and short term borrowing.

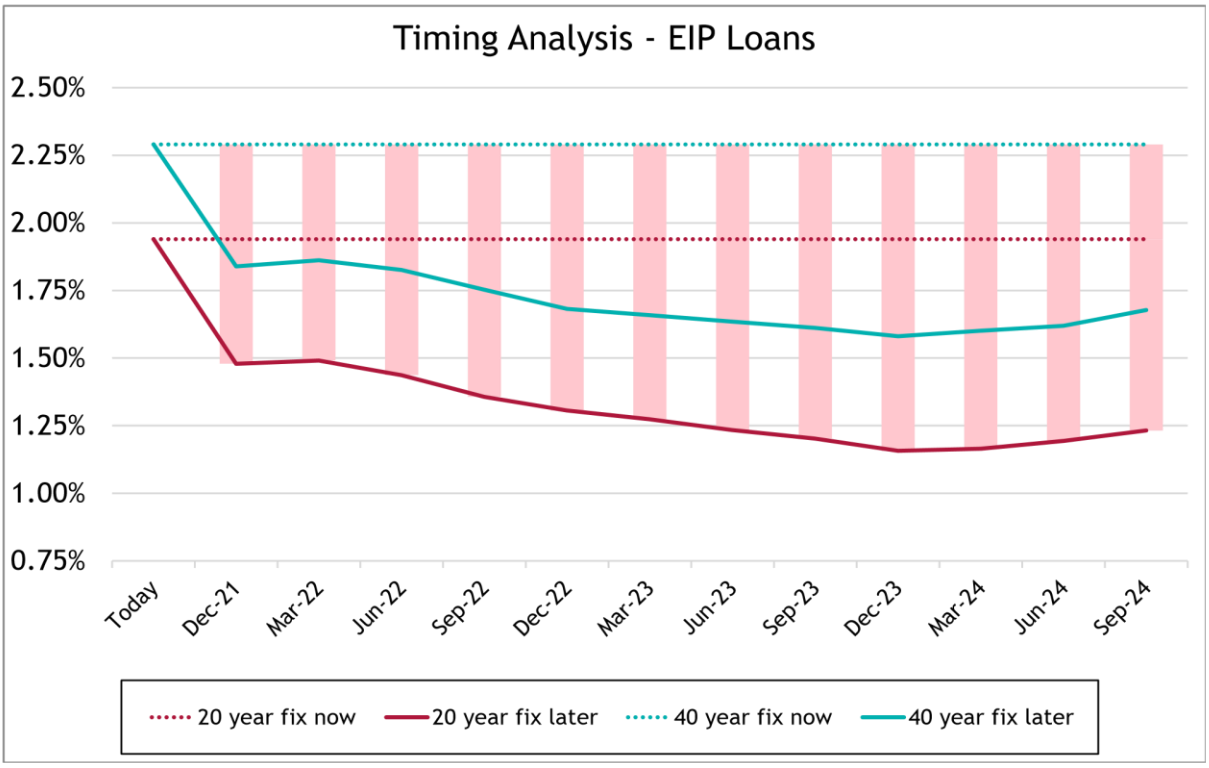
82. By taking short term borrowing, the Council is able to reduce net borrowing costs. The benefits of short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring longer term borrowing into future years when long term borrowing rates are forecast to rise modestly.

83. The Council's Treasury Advisers Arlingclose assist the Council with this "cost of carry" and breakeven analysis. Its output may determine to what extent the Council borrows additional sums at long term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short term. The strategy is to have no more than 30% of temporary/short-term loans in the borrowing portfolio.

Long-term Borrowing Timing Analysis

84. The Council has deferred over £150m of its capital expenditure plans which would result in a temporary funding requirement for 2021/22. Slippage is of course a delay only and schemes will be ultimately be delivered and need to be financed. However, the delay does mean the financing is required later and in the meanwhile the Council is paying down its existing commitments. Enfield is not alone in the slippage in its planned work and there is a similar picture in other local authorities.

85. The below graph illustrates that it is very expensive to borrow fixed rate today as 20 year rate is currently 1.95 and 40yr rate is currently 2.25% but by December 2021; 20 year rate will decline to 1.5% and 40yr rate will decline to 1.85%



"Fix now" shows the current PWLB EIP Rate. "Fix later" shows a blended rate from Arlingclose forecasts for 3 months money market rates and forward PWLB rates, adjusted for shorter term and reducing balance.

86. Interest rate risk is not across the whole debt portfolio of the Council. It is limited to maturing and new debt with existing fixed rate debt locked in over the long term. Inflation pressure on construction cost was also investigated as there was a large wage increase within the construction industry back in April 2021 and peaked 13.4% in May 2021, this has been declining from steadily since then to 5.9% at the end of August 2021. Please see Average Weekly Earnings Growth Excluding Bonuses table included in Appendix 1 of this report.

87. The Council has adopted a prudent approach to its forecasts of interest rate costs and for business case purposes has assumed interest rates at 3.5%. Over the past ten years of austerity with the continued environment of low interest rates the Council's historical average rate of interest on its debt has declined. As at 31 March 2019 it was 3.05%, as at 31 March 2020 it was 2.69%, as at 31 March 2021 it was 2.64% and is forecast to reduce still further at the end of the current financial year.

88. This position will continue into 2021/22 and beyond with historical relatively more expensive debt maturing and being refinanced. Currently, the PWLB rate (29 October 2021) for a 20 year Equal Instalment of Principal loan is 2.04%. Whilst PWLB has been the traditional source of debt for local authorities, private sector debt is also attractive with the base rate at 0.1% and private placements and bond issuances are options which were not as competitive in the past.

89. The 3.5% rate for planning is therefore clearly prudent and gives headroom for future rate rises. A key element of the Strategy to manage interest rate risk is to ensure that historical debt is not all maturing at the same time and

potentially forcing the Council to reborrow when rates are more expensive. This is a relatively low risk for the Council as a large proportion of its existing debt is EIP (Equal Instalment of Principal) or Annuity borrowing in which case there would only be a need to partially refinance at most. When taking on new debt the duration of the borrowing will be influenced by the profile of the existing debt portfolio.

90. The Council's Liability Benchmark with realistic inputs shows a long-term need for cash, of similar term and profile to the proposed loan. Cash investments are about to fall below acceptable minimum value of £10m. Short-term borrowing could otherwise rise to give an unpalatable exposure to interest rate risk.

91. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections. The Council plan to borrow a total of £150m medium/longer-term fixed rate loans, to take advantage of the fall in external borrowing rates in the next 5 months and we would be borrowing a combination of short-term and medium-term repayment loans (annuity/EIP) / maturity loans. As short term loans from local to local is currently under 1%. These loans will provide some longer-term certainty and stability to the debt portfolio.

Cost of Carry

92. This happens when the Council borrows in advance of need. Currently, the Council could borrow at 2.04%, this would result in the Council having surplus cash in the bank that then needed to be invested for a short term at a very low investment rate of 0.05 to 015%. The cost of carry would be the difference between the borrowing rate, currently at 2.05% vs the current investment rate at most 0.15%. The current cost of carry is 1.9% (i.e. 2.05% - 0.15%), for each £10m we borrow in advance of need this would cost £190k per annum.

93. Professional judgement is required to monitor the timing of our cashflow and borrowing requirements to minimise the impact of cost of carry. This is balanced against taking long term loan rates at optimum time (i.e. when rates are at their lowest).

Safeguarding Implications

94. None arising from this report

Public Health Implications

95. The Council's Treasury Management indirectly contributes to the delivery of Public Health priorities in the Borough.

Equalities Impact of the Proposal

96. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet

the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

97. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

98. Lack of robust governance inevitably involves a degree of risk. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

99. Not approving the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Council's treasury activities.

Financial Implications

100. This is a noting report which fulfils the requirement to report annually the performance of the Council's treasury management activities. Financial implications are set out in the body of the report.

Legal Implications

101. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

102. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003.

103. This noting report of the Executive Director of Resources advises Council of the Council's borrowing and investment activities for the half-year ending 30th September 2021 and is consistent with the key principles expressed in the Treasury Management Code. The Executive Director of Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

Workforce Implications

104. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance and having a significant reduction in cost of borrowing will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

105. This report helps in addressing value for money through benchmarking the Council's performance against other Local Authority and London Boroughs.

Property Implications

106. None

Other Implications

107. None

Options Considered

108. The CIPFA TM code require that the Council establishes arrangements for monitoring its investments and borrowing activities hence the performance and activities of the Council's treasury operations is being reported to this Committee on a regular basis. This report is required to comply with the Council's Treasury Management Policy statement, agreed by Council.

Conclusions

109. The Council held outstanding investments of £43.6m as at 30th September 2021. This portfolio earned interest of £0.06m for the reporting period.

110. Gross Debt (Council's total borrowing, PFI and Finance Leases) stood at £948.3m, this is a reduction from the opening balance of £960.3m. The original gross debt forecast for 2021/22 was £1,368.8m and now revised down to £1,201m due to capital programme slippage and the ongoing Covid 19 pandemic effects.

111. The revised borrowing CFR forecast for 2020/21 is in excess of last year closing position of £1,172.8m by some £232.9m to £1,405.7m. See section 49 for more details. The MRP charge for 2021/22 is £17.4m, see section 53 for more details.

112. The Total Borrowing for the reporting period stood at £918.3m, a reduction of £11.8m over 2020/21 closing balance of £930.1m. The original total borrowing forecast for 2021/22 was £1,328m, now revised down to £1,170.8m, this equates to some £157.2m reduction in borrowing need for this financial year. For more details, see section 49.

113. The net borrowing is the difference between total investments outstanding and the total borrowing outstanding. For this reporting period, it stood at £874.7m and the net debt (borrowing including PFI and finance leases) position is £905m. For more details, see section 14.

114. The gross interest forecast for financing external borrowing for the year are £29.3m and the proportion of interest chargeable to the General Fund for the 2021/22 is £5.3m. For more details, see section 34.

115. The Council loans to its companies stood at £143m for this reporting period. Future provisions to the companies will include provision of working capital and injection of equities into the companies. For more details, see section 48.

116. Over the reporting year all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement. For more details, see section 63 – 76.

117. For this financial year, the Council plan to borrow a total of £150m medium/longer-term fixed rate loans, to take advantage of the fall in external borrowing rates in the next 5 months and we would be borrowing a combination of short-term and medium-term repayment loans (annuity/EIP) / maturity loans. As short term loans from local to local is currently under 1%. These loans will provide some longer-term certainty and stability to the debt portfolio.

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Date of report 20th October 2021

Appendices
Appendix 1 – Economic Commentary

Background Papers
The following documents have been relied on in the preparation of this report:

i) Treasury Management Strategy Statement 2021/22 (Approved by Council, 02 March 2021)
ii) Arlingclose – Treasury Mid Year Template for 2021/22
iii) Arlingclose – Enfield Benchmarking-credit-scores for September 2021

Appendix 1 – Economic Commentary

Economic Update

1) BoE expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

2) Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

3) The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

4) Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

5) The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

6) The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

7) The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

FINANCIAL MARKETS

8) Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end.

9) The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

10) Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

11) The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

12) The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

CREDIT REVIEW

13) Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels.

14) In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks.

15) At the end of the period Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

16) Over the period Fitch and Moody’s upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

17) Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

18) The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

19) The institutions on Council's counterparty list and recommended duration remain under constant review, but at the end of this reporting period no changes had been made to the names on the list or the recommended maximum duration.

Latest – Extract from UK Budget

20) Chancellor Rishi Sunak outlined his budget on Wednesday 27th October, outlining the government's tax and spending plans for the year ahead. The Government were trying to push ahead with a post-Covid focus. The Chancellor outlined the current situation in the economy and the state of public finances. It wasn't as grim listening as some forecasters had expected, however there were some still rather punchy numbers issued by the Office for Budget.

		Forecast					
	2020	2021	2022	2023	2024	2025	2026
GDP Growth	-9.8	6.5	6	2.1	1.3	1.6	1.7
GDP Growth per capita	-10.2	6.3	5.6	1.7	1	1.3	1.4
CPI Inflation	0.9	2.3	4	2.6	2.1	2	2
Employment (millions)	32.5	32.2	32.6	33	33.2	33.3	33.4
Unemployment (% rate)	4.6	4.9	4.8	4.3	4.2	4.2	4.2
Productivity per hour	0.6	0.5	0.9	1.3	1.3	1.3	1.4

21) The remainder of the budget speech focused on adjustments to universal credit taper rate, a confirmation of business rates and the associated reform, and significantly an increase to the national living wage of 6.6% to £9.50/hour.

22) Government spending is set to increase totalling £150 billion over the course of this Parliament. The Levelling Up fund will mean £1.7bn invested in local areas across the UK. Various tax adjustments including tax relief for museums, alcohol duty changes and domestic air travel.

23) In what some will consider a boost for the housing market, £24bn has been earmarked for housing, including £11.5bn for up to 180,000 affordable homes, with brownfield sites targeted for development. Also included was a 4% levy on high rise property developer with profits over £25 million to help fund the removal of unsafe cladding.

Average Weekly Earnings Growth Excluding Bonuses

Average Weekly Earnings Growth Excluding Bonuses

In Percentage Points (%)	Whole Economy	Private Sector	Public Sector	Services	Finance and Business Services	Public Sector excluding Financial Services	Manufacturing	Construction	Wholesaling, Retailing, Hotels & Restaurants
	Single month growth	Single month growth	Single month growth	Single month growth	Single month growth	Single month growth	Single month growth	Single month growth	Single month growth
2021 Jan	4.3	3.9	5.4	4.9	7.2	5.4	1.7	1.4	1.2
2021 Feb	5.1	4.9	5.6	6.0	6.9	5.7	1.7	0.6	2.7
2021 Mar	4.9	4.6	5.8	5.5	7.0	5.9	2.7	2.1	3.1
2021 Apr	7.6	8.5	3.7	7.5	10.1	3.9	6.7	12.3	8.7
2021 May	7.4	8.6	2.3	7.3	9.9	2.3	6.6	13.4	9.8
2021 Jun	7.1	8.2	2.4	7.1	10.3	2.4	5.6	11.7	7.7
2021 Jul	6.0	6.8	2.6	6.2	9.9	2.8	3.9	7.7	5.9
2021 Aug	5.1	5.5	3.0	5.4	7.8	3.1	3.0	5.9	4.3

Interest Rate Forecast

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	**0.10**	**0.10**	**0.25**	**0.25**	**0.25**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market ra													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	**0.10**	**0.15**	**0.35**	**0.40**	**0.45**	**0.60**	**0.65**	**0.65**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	**0.65**	**0.65**	**0.65**	**0.65**	**0.65**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	**1.05**	**1.05**	**1.05**	**1.05**	**1.05**	**1.05**	**1.00**	**0.95**	**0.95**	**0.95**	**0.90**	**0.90**	**0.90**
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**1.40**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**1.30**	**1.30**	**1.30**	**1.30**	**1.25**	**1.25**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50