Somerset West and Taunton Council

Audit and Governance Committee – 14th June 2021

Treasury Management Outturn Report 2020/21

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Steve Plenty, Finance Specialist

1 Executive Summary / Purpose of the Report

1.1 To provide members with an update on the Treasury Management activity of Somerset West and Taunton Council and performance against the Prudential Indicators for 2020/21.

1.2 Treasury management performance during the year has reflected the agreed strategy for the Council.

2 Recommendations

2.1 To note the Treasury Management activity for the 2020/21 financial year and compliance with the Prudential Indicators.

3 Risk Assessment

3.1 The Council has an agreed Treasury Management Strategy (TMS) and effective management practices to ensure compliance and risks are monitored and managed.

4 Background and Full details of the Report

4.1 The Council's treasury management strategy for 2020/21 was approved at Full Council on 19 February 2020. The Council invests 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.

4.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.3 These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

4.4 The 2017 Prudential Code includes a requirement for local Councils 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 latest Capital Strategy, complying with CIPFA's requirement, was approved by Somerset West and Taunton Full Council on 30th March 2021.

4.5 Treasury management is defined as:

> "The management of the local Council's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".

4.6 Overall responsibility for treasury management remains with the Council with operational responsibility delegated to the S151 Officer. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

5 External Context – Analysis by Arlingclose

5.1 Commentary relating to the external context and economic analysis by Arlingclose, the Council's treasury management advisors, can be found in Appendix A to this report.

6 Local Context

6.1 On 31st March 2021, the Council had net cash investments of £29.723m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Indicative Actual £m
General Fund CFR	95.422
HRA CFR	106.225
Total CFR	**201.647**
External borrowing	-162.500
Internal borrowing	**39.147**
Less: Usable reserves	-44.570
Less: Working capital	-24.300
Net Investments	**-29.723**

6.2 The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

6.3 The treasury management position as at 31st March 2021 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £m	**Movement £m**	**31.3.21 Balance £m**
Long-term borrowing	(75.500)	(40.000)	(115.500)
Short-term borrowing	(25.500)	(21.500)	(47.000)
Total borrowing	**(101.000)**	**(61.500)**	**(162.500)**
Long-term investments	0.003	0.000	0.003
Short-term investments	5.026	(1.772)	3.254
Cash and cash equivalents	28.691	12.816	41.507
Total investments	**33.720**	**11.044**	**44.764**
Net Borrowing	**(67.280)**	**(50.456)**	**(117.736)**

Borrowing Update

6.4 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities 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. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

6.5 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

6.6 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

6.7 The Council is planning to purchase investment assets primarily for yield within the next year and so will not be able to access the PWLB except for refinancing purposes or to externalise internal borrowing for the next three years. Therefore, the Council will look to borrow primarily from other Local Authorities or similar organisations.

6.8 **Municipal Bonds Agency (MBA):** The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.

6.9 If the Authority intends 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.

6.10 **UK Infrastructure Bank**: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.

Borrowing strategy

6.11 As at 31st March 2021 the Council held £162.5m of loans, an increase of £61.5m compared to 31st March 2020, as part of its strategy for funding previous and current years’ capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.20 Balance £m	**Net Movement £m**	**31.3.21 Balance £m**
Public Works Loan Board (Long-term)	72.500	20.000	92.500
Public Works Loan Board (Short-term)	3.500	6.500	10.000
Banks (Fixed term)	3.000	0.000	3.000
Local Councils (Short-term)	22.000	25.000	47.000
Local Councils (Long-term)	0.000	10.000	10.000
Total borrowing	**101.000**	**61.500**	**162.500**

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

6.13 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a mixture of short-term and long-term borrowing. The Council currently has £105.5m of longer-term borrowings in respect of the Housing Revenue Account and General Fund, details of which are below. These loans provide some longer-term certainty and stability to the debt portfolio.

Long-dated Loans borrowed	**Amount £m**	**Rate %**	**Maturity Date**
Public Works Loan Board	5.000	2.56	28 Mar 2023
Public Works Loan Board	7.000	2.70	28 Mar 2024
Public Works Loan Board	6.000	2.82	28 Mar 2025
Public Works Loan Board	7.000	2.92	28 Mar 2026
Public Works Loan Board	16.000	3.01	28 Mar 2027
Public Works Loan Board	7.000	3.08	28 Mar 2028
Public Works Loan Board	5.000	3.15	28 Mar 2029
Public Works Loan Board	5.500	3.21	28 Mar 2030
Public Works Loan Board	1.000	8.38	03 Aug 2056
Public Works Loan Board	1.000	7.38	06 May 2057
Public Works Loan Board	2.000	6.63	05 Sep 2057
Barclays	3.000	4.25	14 Jun 2077
Public Works Loan Board	10.000	1.64	12 Nov 2070
Buckinghamshire Council	10.000	0.44	22 Aug 2023
Public Works Loan Board	20.000	1.89	26 Mar 2071
Total borrowing	**105.500**		

6.14 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

6.15 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e., the PWLB HRA borrowing rate. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Treasury Investment Activity

6.16 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £26.5m and £97.3m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.20 Balance £m	Net Movement	31.03.21 Balance £m
Banks and Building Societies (unsecured)	2.387	(1.520)	0.867
Covered Bonds (secured)	2.092	(2.092)	0.000
Government (including local authorities)	4.840	9.202	14.042
Money Market Funds	7.769	5.381	13.150
Cash Plus Funds	2.023	(1.013)	1.010
Strategic Bond Funds	1.856	0.224	2.080
Equity Income Funds	2.010	0.001	2.011
Property Funds	4.933	(0.035)	4.898
Multi Asset Income Fund	5.810	0.896	6.706
Total Investments	**33.720**	**11.044**	**44.764**

6.17 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.

6.18 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.

6.19 Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

6.20 The net return on Money Market Funds net of fees, which had fallen after Bank of England Base Rate was cut to 0.1% in March 2020, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

6.21 The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2020	3.12	AA	46%	39	-1.14%
31.03.2021	**4.37**	**AA-**	**49%**	**7**	**4.36%**
Similar Local Authorities	4.63	A+	65%	40	3.93%
All Local Authorities	4.63	A+	63%	14	2.26%

6.22 Arlingclose provided the Council with a report as at 31st March 2021 which shows that

£13.576m of the Council's investments are held in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated dividends of £573k in 2020/21, an income return of 4.59% which is used to support services in year, and an unrealised capital gain of £1.100m (8.81%).

6.23 The Council is invested in bond, equity, multi-asset and property funds. During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12- month period. Since March 2020 there here has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Council's portfolio. The recovery in UK equities has lagged those of US and European markets.

6.24 Similar to many other property funds, dealing (i.e., buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions. The capital value of the property fund is shown in Table 4, above.

6.25 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates. Investments within these funds have been maintained during 2020/21.

Non-Treasury Investments

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

6.27 The Council also holds £6.462m of such investments held as loans to local businesses, charities, partnerships and sports clubs as at 31 March 2021. These investments generated £126k of investment income for the Council representing an average rate of return of 1.94%.

Treasury Performance

6.28 The Council measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown Table 6 below.

Table 6: Performance

	Budget	Actual	Variance

	2020/21 £m	2020/21 £m	2020/21 £m
Interest Paid	2.885	2.561	-0.324
Interest Received	-0.824	-0.861	-0.037

6.29 The above excludes interest paid relating to commercial properties. Using a notional average interest rate of 1.5% for the year, £222k of interest costs was applied to the Council commercial property investment fund (compared to budget estimate of £225k).

Compliance

6.30 The Section 151 Officer reports that all treasury management activities undertaken during the year fully complied with the CIPFA Code of Practice, and all except one of the Council's approved Treasury Management Strategy parameters – see Table 7 and 6.31 below.

Table 7: Investment Limits

	2020/21 Maximum	31.3.21 Actual	2020/21 Limit	Complied
Any single organisation, except the UK Government	£9.000m	£5.000m	£7m	Partial
UK Government	£53.711m	£14.042m	Unlimited	Yes
Any group of organisations under the same ownership	£9.000m	£9.000m	£9m per Group	Yes
Any group of pooled funds under the same management	£5.000m	£5.000m	£21m per Manager	Yes
Negotiable instruments held in a broker's nominee account	£0.000m	£0.000m	£21m per Broker	Yes
Foreign Countries	£0.000m	£0.000m	£9m per Country	Yes
Registered providers and registered social landlords	£0.000m	£0.000m	£21m in Total	Yes
Unsecured investments with building societies	£0.000m	£0.000m	£9m in Total	Yes
Loans to unrated corporates	£0.000m	£0.000m	£9m in Total	Yes
Money Market Funds	£18.000m	£13.150m	£42m in Total	Yes
Real Estate Investment Trusts	£0.000m	£0.000m	£21m in Total	Yes

6.31 The non-compliance occurred when the updated limits were applied for 2020/21 and this limit for investment in individual organisations was reduced from £9m to £7m. Unfortunately, this change was not implemented as soon as it should have been. No monies were lost, but there was non-compliance until the oversight was spotted.

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

Table 8: Debt Limits

	2020/21 Maximum	31.3.21 Actual	2020/21 Operational Boundary	2020/201 Authorised Limit	Complied
Borrowing	£156.0m	£152.5m	£212.0m	£280.0m	Yes
Total debt	**£156.0m**	**£152.5m**	**£212.0m**	**£280.0m**	Yes

Treasury Management Indicators

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

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

	31.3.21 Actual	2020/21 Target	Complied
Portfolio average credit rating	AA-	A-	Yes

6.35 **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.

	31.3.21 Actual	2020/21 Target	Complied
Total cash available within 3 months	£44.8m	£20.00m	Yes

6.36 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk in the General Fund. The upper limits on the one-year revenue impact of a 1% rise or fall in interest was:

Interest rate risk indicator	31.3.21 Actual	2020/21 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£66,590	£75,000	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£66,590	£75,000	Yes

6.37 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates, and that the business cases for commercial properties (costs and income) are stand alone.

6.38 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:

	31.3.21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	35.1%	100%	0%	Yes
12 months and within 24 months	3.1%	100%	0%	Yes
24 months and within 5 years	18.5%	100%	0%	Yes
5 years and within 10 years	20.6%	100%	0%	Yes
10 years and above	22.7%	100%	0%	Yes

6.39 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.40 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:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£nil	£nil	£nil
Limit on principal invested beyond year end	£30m	£25m	£25m
Complied	Yes	Yes	Yes

Other Matters

6.41 CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

6.42 In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e., recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

6.43 Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

6.44 IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

7 Links to Corporate Aims / Priorities

7.1 The Capital, Investment and Treasury Management Strategies support the delivery of the Corporate Aims.

8 Finance / Resource Implications

8.1 The Treasury Management function has been well-managed during the year in compliance with the Treasury Management Strategy. As interest rates remain low the opportunities to generate significant income through short term investments has been limited.

8.2 This report provides full details of the Treasury Management activity during the year. A summary of the key points follows:

- As at 31 March 2021, Somerset West and Taunton Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was indicatively £201.647m, while usable reserves and working capital which were the underlying resources available for investment were £44.57m and £24.3m respectively.

- As at 31 March 2021, Somerset West and Taunton Council had external borrowing of £162.5m, with £105.5m attributable to the Housing Revenue Account and £57m mainly attributable to the General Fund.

- Somerset West and Taunton Council also had £44.764m of investments as at 31 March 2021.

- The Council's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

9 Legal Implications

9.1 The S151 Officer has a statutory responsibility to ensure appropriate arrangements are in place to adequately control the Council's resources. The Council is required to have regard to the Prudential Code, Treasury Management Code and relevant statutory guidance.

10 Climate and Sustainability, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection and Consultation Implications

10.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Full Council – Yes**

Reporting Frequency: **Annually**

List of Appendices

Appendix A	External Context – Analysis by Arlingclose
Appendix B	List of Investments as at 31 March 2021

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Appendix A

External Context – Analysis by Arlingclose

External Context

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Appendix B

Investments as at 31 March 2021

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
National Westminster Bank	867,164	0.05	N/A	On Demand
Debt Management Office	8,500,000	-0.02	31/03/2021	01/04/2021
Debt Management Office	1,407,979	-0.01	08/02/2021	12/04/2021
Debt Management Office	3,254,000	0.00	08/03/2021	10/05/2021
Debt Management Office	880,000	0.00	09/03/2021	12/04/2021
Federated Money Market Fund	7,000,041	Variable	N/A	On Demand
CCLA Public Sector Deposit Fund	6,150,240	Variable	N/A	On Demand
CCLA Local Authority Property Fund	4,897,603	Variable	N/A	On Demand
Ninety-One (Formerly Investec)	2,941,803	Variable	N/A	On Demand
Columbia Threadneedle	2,079,753	Variable	N/A	On Demand
Royal London Enhanced Cash Fund	1,010,285	Variable	N/A	On Demand
Paydon Sterling Reserve Fund	2,011,362	Variable	N/A	On Demand
AEGON Diversified Income Fund (Formerly Kames)	1,890,997	Variable	N/A	On Demand
Schroder Income Maximiser Fund	1,873,317	Variable	N/A	On Demand
TOTAL	**44,764,544**			