Financial Year 2021/22 Annual Treasury Outturn Report

Committee considering report:	Executive
Date of Committee:	22 September 2022
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	12 July 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	EX4237

1 Purpose of the Report

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires the Council to approve treasury management semi-annual and annual reports. This report provides an overview of the treasury management activity for financial year 2021/22 as at 31st March 2022.

2 Recommendation

There are no recommendations included within this report, it is for members to note only.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, it was considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans. At 31st March 2022 the Council held £191.8 million of loans, (a decrease of £5.6 million compared to 31st March 2021, as part of its strategy for funding previous and current years' capital programmes.

Human Resource:	Not applicable			
Legal:	The Council's Investment & Borrowing Strategy for 2021/22 was approved at a meeting on 2 March 2021. 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 (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 semi-annual 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.			
Risk Management:	All investments are undertaken with a view to minimising the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets parameters to ensure this. Furthermore in August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB), lending facility and CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. The principles of the Prudential Code took immediate effect and compliance will be monitored through the Treasury Management Group and capital Strategy Group.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				

A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		Business as usual
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – Executive Director for Resources, s151 Officer			

4 Executive Summary

4.1 The Council's Investment and Borrowing Strategy for 2021/22 was approved at a meeting on 2 March 2021. The Council has borrowed and invested 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.

4.2 On 31st March 2021, the Council had a Capital Financing Requirement (CFR) of £273.2 million (i.e. the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment). 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. In keeping with this objective, with short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, it was considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans. At 31st March 2022 the Council held £191.8 million of loans, (a decrease of £5.6 million compared to 31st March 2021, as part of its strategy for funding previous and current years' capital programmes. The Council's borrowing position is summarised in the table below.

Borrowing	Balance at 31.3.2021 £m	Movement In Year £m	Balance at 31.3.2022 £m	Weighted Average %	Weighted Average Maturity Years
Public Works Loan Board	-196.5	5.4	-191.0	3.35	30.78
Local Authorities (short term)	0.0	0.0	0.0	-	-
Community Investment Bond	-1.0	0.2	-0.8	1.2	3.55
Total Borrowing	-197.5	5.6	-191.8	3.34	

4.3 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £35.1 million as at 31st March 2021 to £36.7 million as at the end of March 2022 due to timing differences between income and expenditure. The investment position is shown in the table below.

Investments Held	Balance as at 31.3.2021 £m	Movement In Year £m	Balances as at 31.3.2022 £m	Income Return at 31.3.2022 %	Weighted Average at 31.3.2022 Days
Bank & Building Society Deposits (unsecured)	12.9	-9.0	3.9	0.02	1.0
Government (incl Local Authorities)	14.0	4.0	18.0	0.04	86.0
Money Market Funds	8.2	6.6	14.8	0.10	1.0
Total Investments	35.1	1.6	36.7	0.05	43.0

4.4 In respect of changes impacting on 2022/23, in August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB), lending facility. 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. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised/enhanced reporting requirements until financial year 2023/24.

4.5 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, Councils with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

4.6 Essentially acceptable use of PWLB borrowing includes cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure.

4.7 Changes to the guidance for PWLB and the Prudential Code should be reviewed in conjunction with additional powers awarded to the Secretary of State for levelling Up as part of the Queen's Speech, which focus on Council's having appropriate levels of debt. Treasury Management Group in conjunction with the s151 Officer will review and report on the treasury management activities of the Council during financial year 2022/23. In respect of financial year 2021/22 the S151 Officer is satisfied that treasury management practices in year have been complaint with the regulatory guidance and the approved performance management criteria.

5 Supporting Information

Introduction

5.1 The Council's Investment & Borrowing Strategy for 2021/22 was approved at a meeting on 2 March 2021. The Council has borrowed and invested 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 Investment & Borrowing Strategy.

5.2 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 (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 semi-annual and annual treasury outturn report.

5.3 The 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 2021/22 Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 21 January 2021.

Background

5.4 **Economic background:** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period. Bank Rate was 0.1% at the beginning of the reporting period. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National

Statistic series. Core inflation, rose to 5.2%. The Bank of England increased Bank Rate from 0.10% to 0.25% in December, with a further increases to 0.50% in February and 0.75% in March.

5.5 **Local Context:** On 31st March 2021, the Council had net investments of £35.1 million 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 the table below.

Net investments	31.3.21 Actual £m
General Fund CFR	273.2
Less: Other debt liabilities - Waste PFI	-12.2
Borrowing CFR	260.9
External borrowing	-197.5
Internal (over) borrowing	63.4
Less: Usable reserves	-99.6
Less: Working capital	1.1
Net investments	-35.1

5.6 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council has 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. The treasury management position at 31st March 2022 and the change during the year is shown in the table below.

Net Borrowing	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Long-term borrowing	-197.5	5.6	-191.8	3.34
Short-term borrowing	-	-	-	-
Total borrowing	-197.5	5.6	-191.8	3.34
Long-term investments	-	-	-	-
Short-term investments	14	4	18	0.04%
Cash and cash equivalents	21.1	-2.4	18.7	0.06%
Total investments	35.1	1.6	36.7	0.05%
Net Borrowing	**-162.4**	**7.2**	**-155.2**	

5.7 As at March 2022 the Council held £191.8 million of loans (a decrease of £5.6 million on 31st March 2021). Outstanding loans as at 31st March 2022 as detailed in the table below.

Borrowing	31.3.21 Balance £m	Net Movement £m	31.3.22 Balance £m	31.3.22 Weighted Average Rate %	31.3.22 Weighted Average Maturity (years)
Public Works Loan Board	-196.5	5.4	-191	3.35	30.78
Community Bond	-1	0.2	-0.8	1.2	3.55
Total borrowing	-197.5	5.6	-191.8	3.34	30.73

5.8 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. In keeping with this strategy no new borrowing was undertaken in financial year 2021/22. £5.6 million of loans were allowed to mature without replacement enabling the Council to reduce net borrowing costs.

5.9 Although not classified as borrowing the Council has additional capital financing in respect of the Private Finance Initiative for the Waste contract. After £766k repayment of prior years' liabilities, total debt PFI financing stood at £11.5 million on 31st March 2022.

5.10 In respect of the Council's total debt, inclusive of PFI financing, borrowing at 31st March 2022 was £203.3 million.

5.11 In respect of treasury activity, CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During financial year 2021/22, the Council's investment balances ranged between £35.1 million and £36.7 million due to timing differences between income and expenditure. The investment position is shown in the table below.

Investments Held	Balance as at 31.3.2021 £m	Movement In Year £m	Balances as at 31.3.2022 £m	Income Return at 31.3.2022 %	Weighted Average at 31.3.2022 Days
Bank & Building Society Deposits (unsecured)	12.9	-9.0	3.9	0.02	1.0
Government (incl Local Authorities)	14.0	4.0	18.0	0.04	86.0
Money Market Funds	8.2	6.6	14.8	0.10	1.0
Total Investments	35.1	1.6	36.7	0.05	43.0

5.12 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.

5.13 Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March.

5.14 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1%, but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity.

5.15 The total amount of interest earnt on Money Market Funds in 2021/22 was £10.7k.

5.16 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return). Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

5.17 In respect of non-treasury investments the Council holds directly owned property of £13.6 million. These investments generated £535K of investment income for the Council after taking account of direct costs, representing a rate of return of 3.94%. A breakdown of property owned is included in Appendix B

5.18 In respect of non-treasury investments held for commercial purposes, the Council holds £59.0 million of directly owned property. These investments generated £501K of investment income for the Council after taking account of direct costs, representing a rate of return of 0.85%. A breakdown of property owned is included in Appendix B.

Proposals

No proposal are contained within this report. Report is to note only.

6 Other options considered

No other options considered, report is to note only.

7 Conclusion

7.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to interest rates as shown in the table below.

Borrowing	Actual Interest Cost 2021/22 £000s	Forecast Interest Cost 2021/22 £000s	Budgeted Interest Cost 2021/22 £000s	Under / (Over) £000s	Actual Interest Rate at 31.3.2022 %
Short-term borrowing	0	0	-9	9	-
Public Works Loan Board	-6527	-6527	-6648	121	3.35
Community Bond	-11	-11	0	-11	1.2
Total borrowing	-6538	-6538	-6657	119	3.34
PFI Debt	-748	-748	-748	0	6.1
Total Debt	-7286	-7286	-7405	119	3.49

Investing	Actual Interest Received 2021/22 £000s	Forecast Interest Received 2021/22 £000s	Budgeted Interest Received 2021/22 £000s	(Under)/ Over £000s	Actual Interest Rate YTD %
Short Term Investments	18	18	113	-95	0.04
Cash and Cash Equivalents	13	13	5	8	0.06
Total Treasury Investments	31	31	118	-87	0.05
Pre-paid Pension Contributions (PPC)	123	123	0	123	5.10
Total Treasury Investments (inc PPC)	154	154	118	36	0.05

7.2 The Executive Director for Resources, Section 151 Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Investment & Borrowing Strategy. Compliance with specific investment limits is demonstrated below.

Compliance with Approved Boundaries	Maximum During 2021/22 £m	Actual at 31.3.2022 £m	Operational Boundary 2021/22 £m	Authorised Limit 2021/22 £m	Complied Yes/No
Borrowing	197.5	191.8	282.0	292.0	Yes
PFI and Finance Leases	12.2	11.5	12.0	12.0	No
Total Debt	209.7	203.3	294.0	304.0	N/A

7.3 One instance of non-compliance with both the Operational Boundary and Authorised Limit was identified during the financial year. The boundary was breached due to timing issue relating to the in year payment of the PFI liability. As at 31.3.2022 the Council was compliant with both the Operational Boundary and Authorised Limit.

7.4 The table below details the individual institutional counterparty limits and the Council's compliance during 2021/22. The individual counter party limits (as adopted in the Council's approved Investment & Borrowing Strategy) were compiled with throughout the financial year.

Counterparty/Investment Limits	Maximum Invested £m	31.03.2022 Actual Invested £m	2021/22 Individual Counterparty Limit £m	Complied Yes / No
Debt Management Office (DMO)	44.0	10.5	Unlimited	Yes
UK Local Authorities (inc Police, Fire and similar)	25.0	7.0	5.0	Yes - individual counterparty have not been exceeded.
UK Building Societies (ranked 1 - 11 by asset size)	0.0	0.0	5.0	Yes
UK Building Societies (ranked 12 - 21 by asset size)	0.0	0.0	4.0	Yes
UK Building Societies (ranked 22 - 25 by asset size)	0.0	0.0	3.0	Yes
UK Banks and other financial institutions with Moody's short term rating or P1 or equivalent	5.0	3.9	5.0	Yes - individual counterparty have not been exceeded.
UK Banks and other financial institutions with Moody's short term rating or P2 or equivalent	0.0	0.0	4.0	Yes
UK Banks and other financial institutions with Moody's short term rating or P3 or equivalent	0.0	0.0	3.0	Yes
UK based money market funds rated AAAmf	5.0	14.8	5.0	Yes - individual counterparty have not been exceeded.
Registered Charities, Public Sector Bodies and Council owned companies, joint ventures.	0.0	0.0	5.0	Yes

7.5 The Council measures and manages its exposures to treasury management risks using the following indicators:

7.6 **The Maturity Structure of Borrowing indicator**: This indicator is set to control the Council's exposure to refinancing risk. The table below details performance against the indicator. When excluding long term maturity loans utilised to fund Commercial Property purchases the Council is within the set maturity structure. However when taking into consideration the financing of commercial property the Council exceeds the 50% upper limited on debt in excess of ten years. It should be noted that the loan periods of debt financing commercial property are 45 – 50 years at low financing rates, the financing risk of these properties due to the life span of the financing and the expectation of selling assets to support refinancing, means the debt is still at comparatively low risk.

Maturity Structure	31.3.2022 Actual	Upper Limit	Lower Limit	Complied Yes/No
Under 12 Months	2.60%	0%	50%	Yes
12 Months and within 24 Months	2.58%	0%	50%	Yes
24 Months and within 5 Years	9.21%	0%	50%	Yes
5 Years and within 10 Years	14.20%	0%	50%	Yes
10 Years and Above - see analysis below	71.42%	0%	50%	No
Analysis of 10 Years and Above				
10 Years and within 15 Years	15.06%			
15 Years and within 20 Years	6.70%			
20 Years and within 25 Years	7.10%			
25 Years and within 30 Years	4.31%			
30 Years and within 35 Years	3.63%			
35 Years and within 40 Years	1.07%			
40 Years and within 45 Years	20.84%			
45 Years and within 50 Years	12.71%			
Total 10 Years and Above Inc Commercial Property	71.42%	0%	50%	

Note: Commercial Property Financing 40 Years and within 50 Years

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

7.7 **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 Council recognises the increasing risk and low returns from short-term unsecured bank investments, however, the period for which funds are invested is determined by the cash flow needs of the Council. Funds are invested for as long as possible, in order to maximise the rate of return, while still ensuring that sufficient funds are available to meet the Council's outgoings. The normal maximum period for which funds may prudently be committed is 12 months. If sufficient funds become available, and market conditions are favourable enough to permit secure longer term investment, funds may, from time to time be invested for longer periods which will offer a better rate of return. However, in order to minimise risk and ensure liquidity, no more than 40% of the Council's funds will be held at any one time in investments longer than 12 months. At 31.3.2022 £18 million of funds were invested beyond the yearend, all of the invested funds will mature before the end of financial year 2022/23.

7.8 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have been complaint with the regulatory guidance during financial year 2021/22. The Council has operated in accordance with its approved performance management criteria.

8 Appendices

8.1 Appendix A – Economic Outlook Position – Arlingclose

8.2 Appendix B – Details of Commercial and Investment Properties held

Subject to Call-In:

Yes: ☐ No: X

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	X

Officer details:

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Appendix A

Economic Outlook Position – Arlingclose

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

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

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Appendix B

Listing of Commercial and Investment Property held by the Council as at 31.3.2022

Commercial property held at 31 March 2022

Name and address of property	Property type	Value at 31 Mar 2022 £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,765
79 Bath Road, Chippenham	Retail Warehouse	11,775
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,800
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6,300
303 High Street and 2 Waterside South, Lincoln	Retail	2,950
3&4 The Sector, Newbury Business Park	Office	18,010
Sainsbury's, High Street, North Allerton	Retail	7,185
Ruddington Fields Business Park, Mere Way, Nottingham	Office	7,200
Total value		**58,985**

Investment property held at 31 March 2022

Name and address of property	Property type	Value at 31 Mar 2022 £'000
The Stone Building, The Wharf, Newbury	Café	31
Pelican Lane Creche, Pelican Lane	Children's Nursery	0
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	40
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1,800
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1,100
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	400
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	565
London Road Industrial Estate, Newbury	Industrial	9,565
Total value		**13,571**