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# Financial Year 2020/21 Annual Treasury Outturn

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<b>Committee considering report:</b>	Executive
<b>Date of Committee:</b>	15 July 2021
<b>Portfolio Member:</b>	Councillor Ross Mackinnon
<b>Date Portfolio Member sent/agreed report:</b>	15.6.2021
<b>Report Author:</b>	Shannon Coleman-Slaughter
<b>Forward Plan Ref:</b>	EX4099

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## 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 2020/21 as at 31<sup>st</sup> March 2021.

## 2 Recommendation

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

## 3 Implications and Impact Assessment

Implication	Commentary
<b>Financial:</b>	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget. The Council has seen a reduction on returns on investments during the financial year but this has been offset from reduced borrowing costs, resulting in no negative impact on the revenue budget as at the end of March 2021.
<b>Human Resource:</b>	Not applicable

<b>Legal:</b>	The Council's Investment & Borrowing Strategy for 2020/21 was approved at a meeting on 5th March 2020. 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 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.			
<b>Risk Management:</b>	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.			
<b>Property:</b>	Not applicable			
<b>Policy:</b>	Not applicable			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		

<b>Environmental Impact:</b>		X		
<b>Health Impact:</b>		X		
<b>ICT Impact:</b>		X		
<b>Digital Services Impact:</b>		X		
<b>Council Strategy Priorities:</b>		X		Business as usual
<b>Core Business:</b>		X		
<b>Data Impact:</b>		X		
<b>Consultation and Engagement:</b>	Joseph Holmes – Executive Director for Resources, s151 Officer  Treasury Management Group			

## 4 Executive Summary

- 4.1 The Council's Investment and Borrowing Strategy for 2020/21 was approved at a meeting on 5th March 2020. 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 2020, the Council had a Capital Financing Requirement (CFR) of £260 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 31<sup>st</sup> March 2021 the Council held £197.5 million of loans, (a decrease of £8.9 million compared to 31st March 2020, as part of its strategy for funding previous and current years' capital programmes. The Council's borrowing position is summarised in the table below.

	Balance at 31.3.2020	Movement in Year	Balance at 31.3.2021	Weighted Average Rate	Weighted Average Maturity
	£m	£m	£m	%	(years)
Public Works Loan Board	202.4	-5.9	196.5	3.34	31.3
Local authorities (short-term)	4.0	-4.0	0.0	-	
Community Municipal Investment	-	1.0	1.0	1.2	4.5
<b>Total Borrowing</b>	<b>206.4</b>	<b>-8.9</b>	<b>197.5</b>	<b>3.33</b>	

- 4.3 As PWLB funding margins have fluctuated in year and new constraints around borrowing for yield, there remains a strong argument for diversifying funding sources. During the financial year West Berkshire became the first Council to successfully launch a community bond designed to fund green initiatives in support of the Council Strategy. £1 million of funding was generated through issue of the bond. Moving forward the Council will evaluate and pursue these lower cost solutions and opportunities with its external treasury advisor Arlingclose.
- 4.4 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 £32.5 million as at 31st March 2020 to £35.1 million as at the end of March 2021 due to timing differences between income and expenditure. Cash flows into the Council during the financial year were higher than anticipated due to additional central government funding to support the pandemic response. The investment position is shown in the table below.

Investments Held	Balance as at 31.3.2020	Movement in Year	Balances as at 31.3.2021	Income Return at 31.3.2021	Weighted Average at 31.3.2021
	£m	£m	£m	%	Days
Bank & Building Society Deposits (unsecured)	26.6	-13.7	12.9	0.04	1
Government (incl. local authorities)	1.0	13.0	14.0	0.43	34.5
Money Market Funds	5.0	3.2	8.2	0.02	1
<b>Total Investments</b>	<b>32.5</b>	<b>2.5</b>	<b>35.1</b>	<b>0.19</b>	<b>14.4</b>

- 4.5 In respect of the economic outlook moving forward the corporate world is still adjusting to the economic shock of the coronavirus pandemic, as a result investment income is set against a very different economic backdrop. Interest earned from short-dated money market investments is expected to be significantly lower by the end of March 2021. During 2020/21 shortfalls in investment income were offset through cheaper than budgeted borrowing costs. Reduced borrowing costs were achieved through a strategy of undertaking short term borrowing in place of long term financing. Investment income budgets for financial year 2021/22 have been adjusted as part of the budget build process to mitigate the impacts of reduced investment returns.

## 5 Supporting Information

### Introduction

- 5.2 The Council's Investment & Borrowing Strategy for 2020/21 was approved at a meeting on 5<sup>th</sup> March 2020. 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 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.

- 5.3 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 2020/21 Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 5<sup>th</sup> March 2020. The capital Strategy is one of the main drivers of the Council's treasury management strategy.
- 5.4 The Council has borrowed and invested substantial sums of money during the financial year 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 Investment & Borrowing Strategy.

## Background

- 5.5 **Economic background:** The coronavirus pandemic dominated 2020/21. 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.
- 5.6 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. A full appraisal of the economic position from the Council's external treasury advisors Arlingclose is contained in appendix A.
- 5.7 **Local Context: Investments** - On 31st March 2020, the Council had net investments of £32.2m 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. The CFR is finalised as part of the production of the draft financial statements due for release by the end of July 2021; further information on investment and borrowing levels are included throughout this report and the in the table below in paragraph 5.8.
- 5.8 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. During 2020/21 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. The treasury management position at 31st March 2021 and the change during the year is shown in the table below.

Treasury Management Activity Summary	Balance at 31.3.2020	Movement in Year	Balance at 31.3.2021	Rate at 31.3.2021
	£m	£m	£m	%
Long-term borrowing	196.5	-4.6	191.8	3.34
Short-term borrowing	9.9	-4.3	5.6	2.95
<b>Total borrowing</b>	<b>206.4</b>	<b>-8.9</b>	<b>197.5</b>	<b>3.33</b>
Long-term investments	-	-	-	-
Short-term investments	10.0	-8.0	2.0	0.18
Cash and cash equivalents	22.2	10.9	33.1	0.19
<b>Total investments</b>	<b>32.2</b>	<b>2.9</b>	<b>35.1</b>	<b>0.19</b>
<b>Net borrowing</b>	<b>174.2</b>	<b>-11.8</b>	<b>162.4</b>	

5.9 **Local Context: Treasury Activity** – During 2020/21 the Council received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £29.3 million was received, temporarily held in short-dated, liquid instruments such as call accounts and Money Market Funds whilst awaiting distribution. £28.8 million was disbursed by the end of March 2021 and £502k repaid to Central Government.

5.10 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 £28.8 million and £71.9 million due to timing differences between income and expenditure. The investment position is shown in the table below.

Investments Held	Balance as at 31.3.2020	Movement in Year	Balances as at 31.3.2021	Income Return at 31.3.2021	Weighted Average at 31.3.2021
	£m	£m	£m	%	Days
Bank & Building Society Deposits (unsecured)	26.6	-13.7	12.9	0.04	1
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Money Market Funds	5.0	3.2	8.2	0.02	1
<b>Total Investments</b>	<b>32.5</b>	<b>2.5</b>	<b>35.1</b>	<b>0.19</b>	<b>14.4</b>

5.11 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.

5.12 During 2020/21 deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero. The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March, are now at or very close to zero. The Council achieved an average rate of return of 0.19% during the year. As the Council maintains a strategy of investing for periods of less than 12 months, a high proportion of investments have matured and are/will be reinvested at substantially lower yield levels in 2021/22, the treasury budgets have been adjusted accordingly in 2021/22 to reflect the anticipated downward pressure on returns from treasury management activity.

**5.13 Local Context: Non Treasury Investments** - 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 Ministry of Housing, Communities and Local Government's (MHCLG), in which the definition of investments is further broadened to also include all such assets held partially for financial return. As at 31.3.2021, the Council held £65.7m of such investments in as follows:

- (a) Directly owned property (commercial property) £62.5 million, details in appendix B.
- (b) Directly owned property (investment property) £3.2 million, details included in appendix B.

5.14 The above investments generated £555k of investment income for the Council after taking account of direct costs and minimum revenue provision requirements, representing a rate of return of 0.85%

**5.15 Local Context: Borrowing** - in November 2020 the Public Works Loan Board (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 Council can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. It should be noted that 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. As part of the borrowing process the Council 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 Councils from borrowing in unusual or large amounts. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, and refinancing / treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that a Council unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties. The current capital programme for 2021/22 – 2023/24 does not propose borrowing from the PWLB for the purposes of generating yield and is therefore able to take advantage of the reduced rates.

5.16 At 31st March 2021 the Council held £197.5m of loans, a decrease of £8.9m from 31st March 2020, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in the table below.

	Balance at 31.3.2020	Movement in Year	Balance at 31.3.2021	Weighted Average Rate	Weighted Average Maturity
	£m	£m	£m	%	(years)
Public Works Loan Board	202.4	-5.9	196.5	3.34	31.3
Local authorities (short-term)	4.0	-4.0	0.0	-	
Community Municipal Investment	-	1.0	1.0	1.2	4.5
<b>Total Borrowing</b>	<b>206.4</b>	<b>-8.9</b>	<b>197.5</b>	<b>3.33</b>	

5.17 The Council's 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 being a secondary objective. In keeping with these objectives, new borrowing was kept to a minimum of £1m. With short-term interest rates remaining much lower than long-term rates, it was considered more cost effective in the near term to use internal resources or borrowed short-term loans as opposed to long term financing. Furthermore, the expenditure incurred against the approved capital programme was lower than forecast. £17.2 million of proposed expenditure has been re-profiled from 2020/21 into financial year 2021/22 resulting in a temporary lower funding requirement.

## 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 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.
- 7.2 Compliance with the authorised limit and operational boundary for external debt. The table below demonstrates that at the yearend borrowing remained within the levels set within the Council's approved Investment & Borrowing Strategy during 2020/21. During the course of the year only £1 million of long term borrowing was undertaken. On this basis the Section 151 Officer can provide assurance that during the course of the financial year borrowing remained within both the approved operational and authorised boundaries.

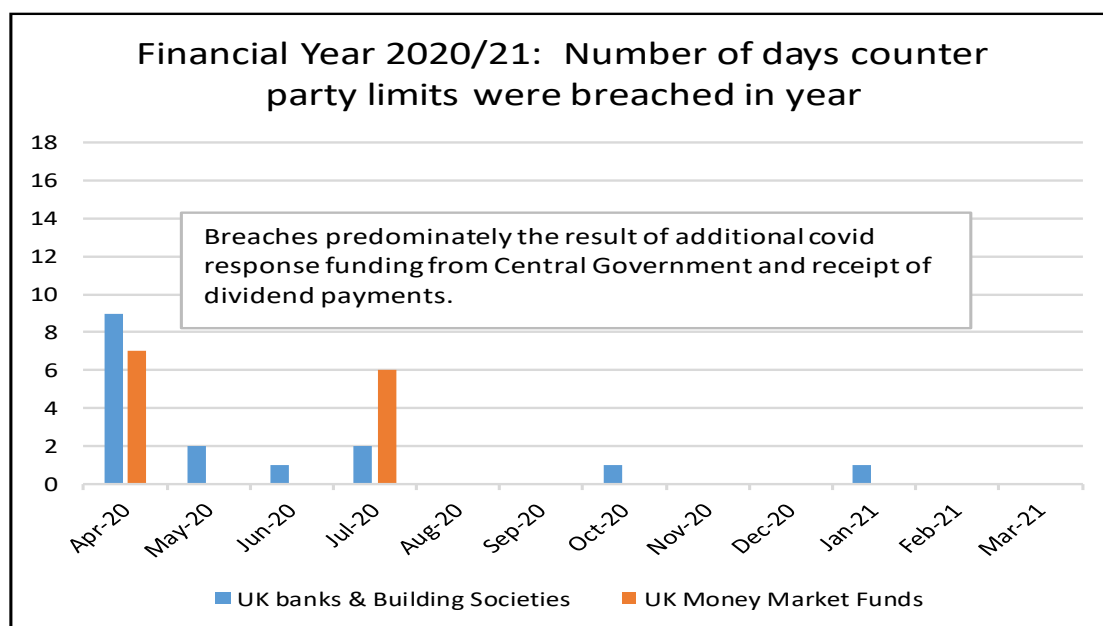
Debt Details	Actuals Levels as at 31.3.2021	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied
	£m	£m	£m	Yes/No
Borrowing	197.5	280.0	290.0	Yes
PFI and Finance Leases	12.2	13.0	13.0	Yes
Total Council Debt	209.7	293.0	303.0	

- 7.3 The table and the graph below detail the individual institutional counterparty limits and the Council's compliance during 2020/21. The individual counter party limits (as adopted in the Council's approved Investment & Borrowing Strategy) were breached for a total of 29 (16 days in respect of UK deposit accounts and 13 days in respect of money market funds) days during 2020/21. The breaches incurred in year were primarily the result of unanticipated covid response funding received during the year.



## Financial Year 2020/21 Annual Treasury Outturn

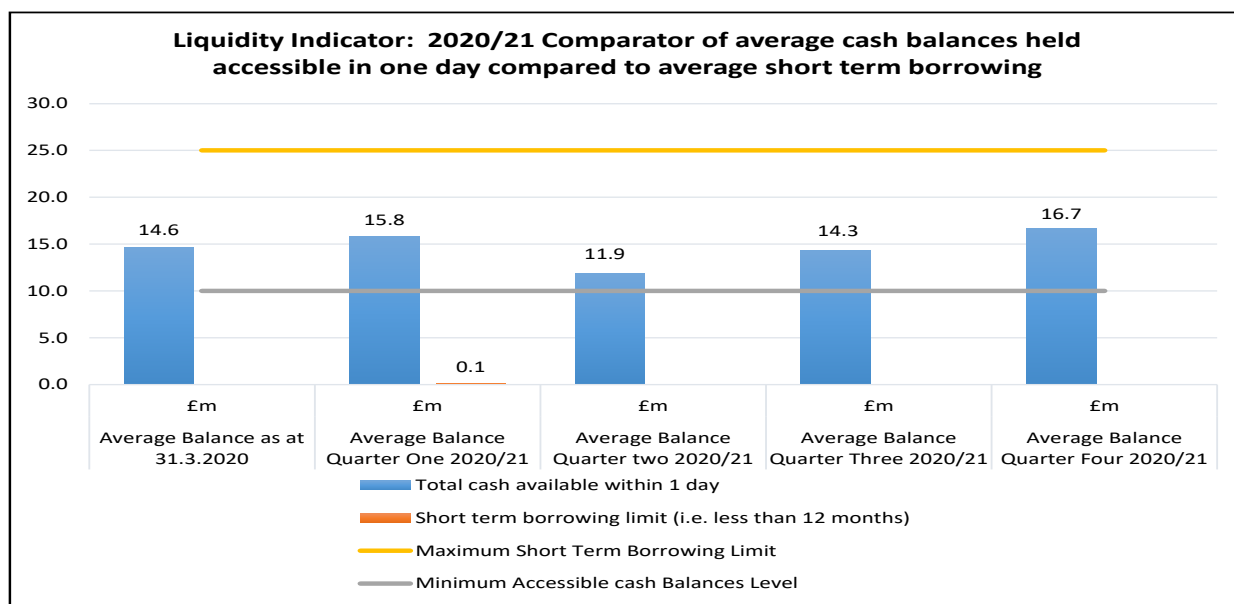
Counter Party Detail	2020/21 Limit	No of Days on which Limit Exceeded
Debt Management Office (UK Govt)	Unlimited	None
UK Local Authorities (including Police and Fire Authorities and similar bodies)	£5m	None
UK Building Societies ranked 1 - 11	£5m	None
UK Building Societies ranked 12 - 21	£4m	None
UK Building Societies ranked 22 - 25	£3m	None
UK Banks and other financial institutions rated Prime 1 by Moody's or equivalent	£5m	16
UK Banks and other financial institutions rated Prime 2 by Moody's or equivalent	£4m	None
UK Banks and other financial institutions rated Prime 3 by Moody's or equivalent	£3m	None
UK based money market funds rated AAA by Moody's or equivalent (per individuals fund)	£5m	13
Registered Charities, public sector bodies and Council owned companies / joint	£5m	None



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

- (a) **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 (i.e. short term borrowing to support cash flow as opposed to financing delivery of the capital program). During 2020/21 the Council set a minimum cash balances level of £10

million for balances that were accessible within one day. On average throughout the financial year balances were in excess of the £10 million minimum threshold as a result of substantial Covid payments received from Central Government. The Council also set a £15 million maximum short term borrowing level as part of its operational boundary and authorised limit. Average short term borrowing was significantly lower than the maximum threshold set throughout the financial year. The graph below details performance against thresholds set per quarter throughout 2020/21.



**7.5 Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. During 2020/21 through the economic impacts of the Covid pandemic, interest rates reduced, reducing returns on investments creating a £17k pressure against the investment income budget. For 2021/22 the investment income budgets have been reduced significantly from £274k to £120k.

Return on Investments	Actual £'000	Budget £'000	Over/ (under)	Actual % Return
Deposit Accounts and Money Market Funds	-16	-66	50	0.11
Fixed Term Deposits	-241	-208	-33	0.69
<b>Total Treasury Investments</b>	<b>-257</b>	<b>-274</b>	<b>17</b>	<b>0.51</b>

**7.6 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 as set in the Council's approved Investment & Borrowing Strategy for financial year 2020/21. 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.

## Financial Year 2020/21 Annual Treasury Outturn

Maturity Structure in accordance with the Investment & Borrowing Strategy	31.3.21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	2.85%	0%	50%	Yes
12 months and within 24 months	2.51%	0%	50%	Yes
24 months and within 5 years	7.17%	0%	50%	Yes
5 years and within 10 years	10.89%	0%	50%	Yes
10 years and above	76.58%	0%	50%	See sub table

### Analysis of 10 years and above:

10 years and within 15 years	19.35%			
15 years and within 20 years	6.46%			
20 years and within 25 years	6.96%			
25 years and within 30 years	5.64%			
30 years and within 35 years	4.12%			
35 years and within 40 years	1.34%			
40 years and within 45 years	1.11%			
<b>Total 10 years and above excluding Commercial Property</b>	<b>44.98%</b>	<b>0%</b>	<b>50%</b>	<b>Yes</b>
Commercial Property financing - 45 years and within 50 years	31.99%			
<b>Total 10 years and above including Commercial Property</b>	<b>76.97%</b>	<b>0%</b>	<b>50%</b>	<b>No</b>

- 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 31.3.2021 £14 million of funds were invested beyond the yearend, all of the invested funds will mature before the end of financial year 2021/22.
- 7.8** In respect of changes anticipated in financial year 2021/22, 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.
- 7.9** 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.

7.10 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 professional clients and a new Treasury Management Procedure 13 on Environmental, Social and Governance Risk Management.

7.11 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have been compliant with the regulatory guidance during financial year 2020/21. The Council has operated in accordance with its approved performance management criteria with the exception of key exceptional events related to the coronavirus pandemic.

## 8 Appendices

8.1 Appendix A – Full economic outlook from Arlingclose (Council's external Treasury Advisors).

8.2 Appendix B – Details of Commercial and Investment Properties held

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### Subject to Call-In:

Yes: ☐ No: ☒

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 ☒

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**Document Control**

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Author:			
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**Change History**

Version	Date	Description	Change ID
1			
2			

## Appendix A

### Economic Outlook Position – Arlingclose

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 helped 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 ring-fenced and non-ring-fenced entities remained, albeit Santander UK is still an outlier compared to the other ring-fenced/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

## Listing of Commercial and Investment Property held by the Council as at 31.3.2021

### Commercial Property Held at 31 March 2021

Name and Address of Property	Property Type	Value at 31.3.2021
		£000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,700
79 Bath Road, Chippenham	Retail Warehouse	9,200
Lloyds Bank 104 Terminus Road, Eastbourne	Retail	1,800
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	5,725
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	500
303 High Street and 2 Waterside South, Lincoln	Retail	2,850
3&4 The Sector, Newbury Business Park	Office	17,260
London Road Industrial Estate, Newbury	Industrial	7,800
Sainsbury's, High Street, North Allerton	Retail	7,050
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,600
<b>Total Value of Investments Held</b>		<b>62,485</b>

### Investment Property Held at 31 March 2021

Name and Address of Property	Property Type	Value at 31.3.2021
		£000
The Stone Building, The Wharf, Newbury, RG14 5AS	Café	25
Pelican Lane Crèche, Pelican Lane,	Children's Nursery	0
Rainbow Nursery, Priory Road, Hungerford, RG17 0AR	Children's Nursery	35
Clappers Farm/Beech Hill Farm, Grazeley, RG7 1JS	Tenanted Smallholding	1,700
Bloomfield Hatch Farm, Grazeley, RG7 3AD	Tenanted Smallholding	1,000
Shaw Social Club, Almond Avenue, Shaw, RG14 1LU	Community Centre	70
Swings n Smiles, Lower Way, Thatcham, RG19 3RR	Children's Day Centre	375
<b>Total Value of Investments Held</b>		<b>3,205</b>