Report to Audit Committee

7 July 2021
By the Director of Corporate Resources
INFORMATION REPORT

Not exempt

Treasury Management Activity and Prudential Indicators 2020/21

Executive Summary

This report covers treasury activity and prudential indicators for 2020/21. At 31 March 2021, the Council had no external debt and investments totalled £59.0m (£39.0m 2020) including call accounts and Money Market Funds.

During 2020/21, the Council's cash balances were invested in accordance with the Council's treasury management strategy apart from two instances. There was a breach of an investment limit with another Local Authority which was reported in the mid-year report, and one indicator where the actual indicator for interest risk is higher than the estimate. This was a consequence of large amounts of Covid-19 grants being held by the Council at year-end.

Interest of £0.858m (£0.879m in 2019/20) was earned on investments, an average return of 1.5% (2.1% in 2019/20). This was £0.075m under the budget of £0.933m. After taking into account a provision for losses, investment property income was £3.6m (£3.8m 2019/20), which was £0.2m below the £3.8m budget.

The pandemic has had a significant effect on investment income in the year and this will continue in 2021/22 dependent on the strength of the economic recovery.

Recommendations

The Committee is recommended to:

i) Note the Treasury Management stewardship report for 2020/21.
ii) Note the actual prudential indicators for 2020/21.

Reasons for Recommendations

i) The annual treasury report is a requirement of the Council's reporting procedures.
ii) This report also covers the actual Prudential Indicators for 2020/21 in accordance with the requirements of the relevant CIPFA Codes of Practice.

Background Papers

"Capital Strategy 2020/21 incorporating Investment and Treasury Management Strategy" - Audit Committee 18 December 2019
"Budget for 2020/21" - Cabinet 23 January 2020; Council 10 February 2020

Consultation: Arlingclose Ltd – the Council's Treasury Management advisers
Wards affected: All
Contact: Julian Olszowka, Group Accountant (Technical), 01403 215310

Background Information

1 Introduction

1.1 This report covers treasury management activity and prudential indicators for 2020/21. It meets the requirements of the 2017 editions of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

1.2 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council adopts prudential indicators for each financial year and reports on performance relative to those indicators. This requirement is designed to demonstrate that capital spending is prudent, affordable and sustainable and that treasury management decisions are taken in accordance with good professional practices. This report compares the approved indicators with the outturn position for 2020/21. Actual figures have been taken from or prepared on a basis consistent with the Council's Statement of Accounts. It should be noted that those statements are not yet signed off by the auditor.

1.3 The original prudential indicators for 2020/21, together with a Capital Strategy and Treasury Management Strategy 2020/21, were agreed by Council on 14 October 2020 having been approved by this Committee on 18 December 2019.

1.4 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.

2 The Council's Capital Expenditure and Financing 2020/21

2.1 This is one of the required prudential indicators and shows total capital expenditure for the year and how this was financed. The estimates include revisions to the original indicators approved by the Council on 10 February 2021 as a part of the budget report. That revision of the original figures in the 2020/21 budget report reflected the effect of the pandemic which significantly reduced the programme and the effect of an accounting change which did the same. The overall strategy remained the same but with the financing requirements proportionately scaled back.

2020/21 £m	**Actual £000**	**Estimate £000**	**Variance £000**
Total capital expenditure*	5.5	5.9	(0.4)
Resourced by:			
External resources	2.6	2.5	0.1
Internal Resources	1.3	2.2	(0.9)
Debt (unfinanced capital spend)	**1.6**	**1.2**	0.4
Total financing	**5.5**	**5.9**	(0.4)

*Capital expenditure here differs from capital outturn report by capitalised salaries

2.2 The capital spend in 2020/21 was under the budget as revised in the 2021/22 budget report. The underspend resulted in a reduced need for financing from internal resources such as revenue reserves and capital receipts. The overall unfinanced capital spend was above estimate as less of the reserves were used than originally planned.

3 The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is termed the Capital Financing Requirement (CFR). It represents the accumulated net capital expenditure which has not been financed by revenue or other resources. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources.

3.2 The Council is required to make an annual revenue charge, the Minimum Revenue Provision (MRP), to reduce the CFR – effectively a repayment of the borrowing need. The Council's 2020/21 MRP Policy, as required by Ministry of Housing, Communities & Local Government (MHCLG) Guidance, was approved on 10 February 2020 as a part of the 2020/21 Budget report.

3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator because it is a measure of the Council's underlying indebtedness. The movement in the CFR is marginally up on the estimate.

Capital Financing Requirement	Actual £m	Estimate £m	Variance £m
Opening balance 1 April 2020	33.9	33.9	0.0
Debt/unfinanced capital expenditure	1.6	1.2	0.4
less Minimum Revenue Provision	(0.9)	(0.9)	0.0
Closing balance 31 March 2021	**34.6**	**34.2**	**0.4**

4 Treasury Position at 31 March 2021

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Corporate Resources can manage the Council's actual borrowing position by either borrowing to the level of the CFR or choosing to utilise other available funds instead, sometimes termed under-borrowing. The Council is under-borrowed as it has no external debt.

4.2 Although the Council is under-borrowed relative to its CFR, it also holds investments and the summary treasury position on the 31 March 2021 compared with the previous year is shown below. This is a snapshot of investments on the date and will not necessarily be equal to the whole year average figures.

Treasury position	31 March 2021		31 March 2020	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Rate Debt	-	-	-	-
Investments	59.0	1.7%	39.0	2.4%

4.3 Returns for shorter term cash which were already at historically low levels were further depressed in 2020/21 as interest rates closed in on zero as central banks and governments reacted to the pandemic with large cash injections into the economy. The Council itself was supported by various grants and was a conduit for a plethora of Covid-19 grants for businesses, voluntary bodies and individuals. This meant that the cash levels were well in excess of any pre-Covid-19 estimates. The cash in the overall finance system also meant there was a limited pool of good quality counterparties offering positive rates.

4.4 At various points, the Council had to investment with central government at zero or slightly negative rates. The various waves of the pandemic also meant that there were surges of different grants and rapidly changing cash projections. At the end of the year, cash was swollen by an additional £10m of Covid-19 grants which were meant to be available in short term. The Government also allowed councils some leeway in the usual flows of funds between councils and Government in order to aid the liquidity in the local authority sector. Consequently the end-of-year position was in excess of the projected position and remains at a high level at the time of writing.

4.5 The Council's pooled funds including a diversified selection of equity, bonds and property provided the overwhelming proportion of the income in the year as cash rates plummeted but even they were negatively affected by the pandemic. Dividends from equities and property were depressed as the global economy went into recession. Bond yields slid as central banks injected cash into their economies. At the end of the year, there were signs of brighter prospects for equities and non-retail property.

5 Prudential Indicators

5.1 **Gross Debt and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external debt must only be for a capital purpose. Gross debt should not, therefore, except in the short term, exceed the CFR for 2020/21 plus the expected CFR movement over 2021/22 and 2022/23. As there is no external debt planned and the CFR is over £34m and in the budget plans of the Council it is not projected to decrease over the relevant future period, the Council has complied with this prudential indicator.

5.2 The **Authorised Limit** is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council set the Authorised Limit at £16m for 2020/21. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its Authorised Limit.

5.3 The **Operational Boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. This indicator was set at £0m. There was no gross borrowing in the year.

5.4 **Actual financing costs as a proportion of net revenue stream** - This indicator shows the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. This is a gauge of the affordability of capital spend. As financing costs are close to zero, the actual indicator is zero just below the estimate.

	2020/21
Authorised Limit	£16m
Operational Boundary	£0m
Maximum gross borrowing position in the year	£0m
Minimum gross borrowing position in the year	£0m
Financing costs as a proportion of net revenue stream	Actual 0% Estimate 1%

5.5 **Interest rate exposure** – This indicator is set to control the exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates are shown in the table below. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

	actual	**Limit**
Limit one-year revenue impact of a 1% rise in interest rates	£0.23m	£0.2m
Limit one-year revenue impact of a 1% fall in interest rates	-£0.23m	-£0.2m

5.6 With the Council's balances including Covid-19 grants that were not in the Council's projections and which had to be kept liquid this measure was exceeded. Effectively the Council was being used by central government as an agent to disburse funds and none of this operation was envisaged at the time of setting the annual indicators. It should also be noted that the risk we are considering is that we will be disadvantaged by a 1% decrease in interest rates. As interest rates are close to zero the risk the Council is exposed to is that interest rates sink to minus 1%, which is highly unlikely.

5.7 **Maturity structures of fixed borrowing -** These gross limits are set to reduce the Council's exposure to large fixed rate loans falling due for refinancing. Although the Council has no borrowing this indicator is required by the CIPFA code.

Maximum percentage of borrowing in each age category	**upper**	**lower**	**actual**
Under 12 months	100%	0%	0%
12 months to 2 years	100%	0%	0%
2 years to 5 years	100%	0%	0%
5 years to 10 years	100%	0%	0%
10 years and above	100%	0%	0%

5.8 **Total Principal Funds Invested over a year** – This limit contains the Council's exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of investments. The limits and actuals on the long-term principal sums invested to final maturities beyond the period end are below and actuals were within limits.

£m	**2020/21**	**2021/22**	**2022/23**
Actual principal invested beyond year-end	0	0	0
Limit on principal invested beyond year-end	12	10	8

Economic and treasury management context for 2020/21

5.9 The Council's treasury management activities are critically affected by what is happening in the general economy which is subject to continuing uncertainty. The Council has engaged Arlingclose Ltd to advise on various aspects of Treasury Management and a part of that advice, a commentary on the economic background and the finance sector during 2020/21, is included as the appendix to this report.

Debt management activity during 2020/21

5.10 No new borrowing was undertaken. As the CFR shown above is £34m the Council is using its internal resources in lieu of borrowing. This lowers overall treasury risk by reducing both external debt and temporary investments and was judged to be the best way of funding capital expenditure. Current borrowing costs are at historic lows (e.g. PWLB 50 year loan around 2%) and the Council's advisers predict that they will not be increasing significantly in the next three years.

6 **Investment activity in 2020/21**

6.1 The Council's objectives are to give priority to the security and liquidity of its funds before seeking the best rate of return. Its surplus cash is therefore held with local authorities, highly credit-rated banks, approved building societies and diversified pooled funds. The Council's treasury management activity fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Treasury Management Code of Practice and the MHCLG Investment guidance. These require the Council to approve an investment strategy before the start of each financial year.

6.2 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 investments before seeking the highest 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.

6.3 The Council's longer term cash balances comprise revenue and capital reserves and its core cash resources are shown in the table below. The Council is borrowing internally to cover its CFR which reduced the funds to be invested. It was judged prudent to continue internal borrowing in the year as any external borrowing would have had to have been invested at a lower rate than the borrowing rate producing a borrowing cost. 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. As the resources available exceed the CFR the Council holds net investments as shown below.

Balance Sheet Resources	**31 March 2021 £m**
General fund CFR	-35
Less Usable reserves	80
Less working capital	14
Total	**59**

6.4 The breakdown of investments held at period end

	31.3.20 Balance £m	**Movement £m**	**31.3.21 Balance £m**	**31.3.21 Rate %**
Call accounts	0.5	2.2	2.7	0.1
Money Market Funds – call	5.5	12.5	18.0	0.0
Money Market Funds – cash plus or short bonds	9.3	0.1	9.4	0.7
Short-term deposits	4.0	0	4.0	1.7
Pooled Funds - Property	4.8	-0.1	4.7	4.4
Pooled Funds – Multi-Asset	4.5	2.5	7.0	4.1
Pooled Funds – Equity	2.9	2.2	5.1	4.3
Pooled Funds – Bonds	5.5	0.5	6	2.6
REIT	2.0	0.1	2.1	1.1
Total Investments	**39.0**	**20.0**	**59.0**	**1.7**

6.5 **Yield** - The investment income budget for the year 2020/21 was £0.933m (£0.892m in 2019/20). The actual interest received was £0.858m (£0.879m in 2019/20). Cash balances were well above budget buoyed by Covid-19 grants but cash rates were effectively zero. Pooled funds income largely held up. An overall return of 1.5% (2.1% in 2019/20) was achieved.

6.6 **Security** – A benchmark is used as a way of expressing the credit risk of the whole portfolio of counterparties that the Council invests with. The Council has adopted a benchmark of an equivalent credit rating of A against which the portfolio was assessed at the end of each month. The portfolio average credit rating was a minimum of A+ in the year which is one notch above the benchmark.

6.7 **Liquidity benchmark** – The Council needs to ensure it has a sufficient level of liquidity so it has funds available when necessary. To ensure liquidity the Council set a benchmark of the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. For 2020/21 the benchmark amount was £3m. The actual funds available were in excess of the benchmark for the whole year; the lowest amount available overnight was £9m.

6.8 **Compliance with strategy** – The strategy was compiled with throughout 2020/21 with two exceptions.

6.9 A breach did occur in on the first day of 2020/21 when an investment of £5m was made with a local authority while the relevant limit was £4m. It was due to a misreading of limits during the early days of remote working when the Council was having to deal with abnormal amounts of cash being routed through the Council for emergency grants. The investment was returned without any issue in May 2020. The breach was been reported in the half year report for 2020/21 and to the Council.

6.10 The interest sensitivity indicator was exceeded as explained in paragraph 5.6 above. The root cause was that the exceptional nature of the Covid-19 cash flows were not envisaged in the original indicator estimates which were based on the Council's normal operations.

6.11 **Pooled funds** – The Council holds £22.8m in unrated pooled funds comprising equity, bonds and property. These funds yield 3.7% which is significantly more than the other investments available. An increased return generally brings an increase in risk and in this case the risk is to the capital value of the investments. The market reaction to the pandemic led to large falls in equity, bonds and property values in March 2020 which pushed down the capital value of the funds at the end of last year but a significant recovery meant the value of the investments at the year-end was £0.5m above the initial investment. However, it should be remembered that these investments are longer term so the capital losses or gains should not be overemphasised as the Council will hold the funds through periods of volatility.

6.12 **Variable Net Asset Value Money Market Funds** – The Council uses Low Volatility Net Asset Value Money Market Funds for day to day liquidity. The low volatility refers to the fact that each unit of the fund costs £1 to buy and is redeemed at £1. To facilitate this, the investments within the funds are short term and liquid and so returns are close to Bank of England bank rate. As the Council has cash it can invest over the medium term it has £9.4m in money market funds which can invest in longer term instruments like short term bonds and consequently produce higher yields (approx. 0.7%) but where the value of a unit invested can change. On 31 March 2021 the current value of the sum invested was £13,000 more than the purchase price.

6.13 **Social Housing REIT –** In 2019/20 the Council invested £2m in a REIT specialising in supported social housing. The pandemic has significantly delayed the initial purchase and development of sites so dividends have been low. The expectation is that the REIT will ramp up its operations in 2021/22. There was a small capital gain of £60,000 at the year-end base on the valuation of the Council's investment.

6.14 Although the volatility caused by the pandemic is a concern, the Council is in the position to avoid crystallising any capital losses should valuations be reduced again as it has projected it has funds available for three to five year period. In the accounts these unrealised capital gains or losses will not have an impact on the General Fund as the Council can defer them to the Pooled Investment Fund Adjustment Account until 2023/24.

Non-Treasury investments

6.15 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

6.16 At year end the Council held £58.3m of directly owned property and £0.2m loans to local bodies for service purposes. These investments generated £3.6m of investment income for the Council after taking account of direct costs and making provision for possible losses, representing a rate of return of 6.1%. Income was only slightly down on the estimated income of £3.8m in the strategy. It should be noted that although the Council has made a provision for losses there are ongoing discussions with the tenants who have claimed that their trading has been adversely affected by the pandemic. The rate of return was less than the budgeted rate of 7.3%. This was partly due to income fall but the total value of investment properties also increased by £1.4m of new building and £2.3m of upwards revaluation of the existing stock.

6.17 The income from these non-treasury investments provides an important contribution to financing of the Council's overall service delivery. To ensure stable income flows the Council has a core of longer term leases. The Council's properties have very high occupancy in the high 90% and so can place reasonable reliance on a stable flow of rents. That said there is a significant retail element which will not be immune from the well-recognised risks to the sector.

6.18 Below is a breakdown of performance grouping assets by type.

Property by type £millions		**31.3.2021 actual**		**2020/21**	
	Purchase cost / 31st March 2007 value	**Gains or losses**	**Value in accounts**	**Capital Gain or loss in year**	**Income Return In year**
Retail – legacy	2.7	2.2	4.9	0.0	7.5%
Retail – Swan Walk	9.5	-7.3	2.2	-0.3	-3.0%
Light industrial - legacy	9.3	8.8	18.1	2.5	6.7%
Healthcare – legacy	6.5	1.8	8.3	0.5	6.2%
Office - legacy	1.3	0.6	1.9	-0.3	6.3%
Retail - recent	14.6	-4.9	9.7	-3.4	7.2%
Light industrial – recent	6.3	3.3	9.6	3.3	4.3%
Healthcare – recent	0.6	0.3	0.9	0.0	6.0%
Education -recent	1.8	0.0	1.8	0.1	10.2%
Leisure - recent	1.5	-0.6	0.9	0.0	4.8%
Total	**54.1**	**4.2**	**58.3**	**2.4**	**6.1%**

6.19 The purchase cost figures above need to be viewed with care as no reliable purchase cost is available for the legacy categories and Swan Walk so the base valuation is the earliest full valuation we have, which is from 2007 when it was probably at its peak value. Overall capital values are above notional “purchase cost” with the light industrials compensating for retail weakness. In the financial year based on the valuations at 31 March 2021 the picture was similar reflecting the relative health of the sectors. In terms of percentage return, care should be taken as the denominator is the valuation at 31 March 2021 and this is subject to revaluation. That said Swan Walk was badly affected by the pandemic while other parts of the portfolio held up well in the circumstances. The return for recent light industrial is reduced by the fact that the full value of the recently completed phase four of Oakhurst is included while very little income was attributable to it.

6.20 The 2020/21 strategy also set a series of performance indicators shown below.

Indicator	**2020/21 Actual**	**2020/21 Forecast**
Commercial investments: Property Overall value	**£58.3m**	**£53.5m**
Debt to net service expenditure ratio	0%	0%
Commercial income to net service expenditure ratio	23%	36%
Investment cover ratio – net income excl revaluation over interest expense	No debt	No debt
Benchmarking of returns – ratio of property income yield to IPD property yield index averaged over 5 year period	1.3	1.4
Net income return target	6.1%	7.3%
Operating overheads of property section attributable to commercial property as a proportion of net property income	6.2%	5.5%
Average Vacancy levels	1.6%	1%
Tenant over 5% of overall income	4	5
Weighted Average Unexpired Lease Term (WAULT)	15yr	9yr
Bad debts written off	£0	£10,000

6.21 The overall value of investment property has exceeded the estimate made in December 2019 mostly due to revaluations gains of £3.9m in the revaluations of 31 March 2020 and 2021 rather than through capital spending on investment property. The ratio of income to net service expenditure is lower than estimate but that is caused by the increase in the net service expenditure used as the denominator being inflated by the effect of pandemic

6.22 The Weighted Average Unexpired Lease Term (WAULT) is well over the estimate. A number of leases have been renewed but the major change was the new inclusion of the Swan Walk lease at 122 years. Had Swan Walk been included in the calculation of the estimate to make it comparable to the end of year actual figure the WAULT would have been increased from 9 to 15 years so in reality there is no significant difference. Overheads as a percentage of income was slightly over estimate. Swan Walk income in the year has dropped below 5% to leave only four tenants at that level.

6.23 Bad debts written off in the year 2020/21 are negligible but there are a number of discussions with tenants affected by the pandemic. A provision of £0.17m has been made in the 2020/21 accounts but the final write off amounts will only be known when discussions are concluded.

6.24 The valuation figures are based on the unaudited accounts. If there are significant changes for the final audited accounts, the changes in treasury management activity and prudential indicators will be reported to the committee.

7 Resource consequences

7.1 This report provides information only; no staffing or financial resources are required as a result of it.

8 Other considerations

8.1 There are no consequences in respect of legal, Crime & Disorder; Human Rights; Equality & Diversity and Sustainability.

Appendix Arlingclose Commentary on 2020/21

Economic Background in 2020/21 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% quarter on quarter, 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 background: 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.