Performance and Resources Scrutiny Programme 2020/21

Report to: the Office of the Police, Fire and Crime Commissioner for Essex

Title of Report:	**Treasury Management Outturn 2020/21**
Classification:	**Official**
Agenda Number:	**3iii)**
Chief Officer	**DCC Mills** **Julia Berry, Head of Finance, PFCC Office**
Report from:	**Corporate Finance**
Date of Meeting:	**26th May 2021**
Author on behalf of Chief Officer:	**Matt Tokley, Corporate Accounting Manager**
Date of Approval:	**19th May 2021**

1.0 Purpose of Report

1.1 To present the annual treasury review/outturn report for 2020/21. The Chartered Institute of Public Finance and Accountancy (CIPFA) definition of treasury management is:

'The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

2.0 Recommendations

2.1 The PFCC is recommended to:-

Formally approve the treasury management outturn position for 2020/21.

3.0 Executive Summary

3.1 This report provides an overview for how the PFCC's cash balances have been managed during 2020/21, whether there have been any deviations to the 2020/21 Treasury Management Strategy, and what investments and borrowings (where applicable) were undertaken during the year.

4.0 Introduction/Background

4.1 During 2020/21 the OPFCC has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) which requires the PFCC to approve a treasury management strategy before the start of each financial year as well as produce a half-year and annual treasury management outturn report. This report fulfils the PFCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.2 The PFCC's Treasury Management Strategy for 2020/21 was presented to the Strategic Board on the 17th March 2020 and formally approved on the 5th October 2020. The CIPFA Prudential Code also includes a requirement for the PFCC to provide a Capital Strategy, a document covering capital expenditure and financing, treasury management and non-treasury investments. The PFCC's Capital Strategy, complying with CIPFA's requirement, was presented and approved as part of the Treasury Management Strategy suite of papers.

4.3 The PFCC has 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 PFCC's treasury management strategy. The approach to dealing with this risk is covered within the main body of the report.

5.0 External Context / Economic Background

5.1 The coronavirus pandemic dominated 2020/21, with the majority of countries across the globe enduring 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 the base rate to 0.10% and the UK government provided a range of fiscal stimulus measures, at a rate not seen since wartime.

5.2 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 subsequently started in earnest, and over 31 million people had received their first dose by 31st March 2021.

5.3 The other main issue impacting the economic picture during 2020/21 was the UK's protracted departure from the European Union. Following a prolonged period of uncertainty, a Brexit trade deal was finally agreed with only days to spare before the 11pm 31st December 2020 deadline, having been agreed with the European Union on Christmas Eve 2020.

5.4 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, 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.

5.5 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 PFCC's counterparty list (as recommended by treasury management advisors Arlingclose) remains under constant review, but at the end of the 2020/21 period no changes had been made to the names on the list or the recommended maximum duration of 35 days for fixed-term investments (excluding UK government or local authority).

6.0 Current Work and Performance

6.1 On 31st March 2021, the PFCC had net investments of £11.81m (£13.79m, 31st March 2020) relating to income and expenditure from its revenue and capital activities. This is presented in table 1 below.

Table 1: Balance Sheet Summary

	31st March 2020 Actual £m	31st March 2021 Actual £m	Movement
Capital financing requirement	6.07	9.10	3.03
Less: usable reserves	(19.84)	(24.32)	(4.48)
Less: working capital	(0.01)	3.41	3.42
Net (borrowing)/investments	**13.79**	**11.81**	**1.98**

6.2 Table 1 also makes reference to the Capital Financing Requirement (CFR) which represents the underlying need to borrow for capital purposes. Usable reserves and working capital are the underlying resources available for investment.

6.3 The treasury management cashbook position as at the 31st March 2021 and the change over the twelve month period is shown in table 2 below.

Table 2: Treasury Management Summary

	31st March 2020 Actual £m	31st March 2021 Actual £m	Movement
Long/short-term external borrowing	0.00	0.00	0.00
Total external borrowing	**0.00**	**0.00**	**0.00**
Long-term investments	0.00	0.00	0.00
Short-term investments	5.50	6.50	1.00
Cash and cash equivalents	8.29	5.31	(2.98)
Total investments	**13.79**	**11.81**	**(1.98)**
Total net investments	**13.79**	**11.81**	**(1.98)**

Investments

6.4 The PFCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the PFCC's total cash and investment balance ranged between £1.7m and £51.8m due to differing profiles of income and expenditure.

6.5 Both the CIPFA Code and government guidance require the PFCC 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 PFCC'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.

6.6 The table below summarises the actual investments held at the 31st March 2021 and the comparable figures for 31st March 2020 (excluding accrued interest and other adjustments). Please refer to Appendix A for full details of these investments.

Table 3: Investments

	31st March 2020 Actual £m	31st March 2021 Actual £m	Movement
Call accounts	1.26	3.26	2.00
Money market funds	9.00	6.50	(2.50)
Fixed term deposits (including notice accounts)	6.00	8.00	2.00
Lloyds current account	0.44	0.82	0.38
Total	**16.70**	**18.58**	**1.88**

6.7 The table below provides a reconciliation for the actual investments held at the 31st March 2021 (as per Table 3) compared to those in the Treasury Management Summary (as per Table 2 e.g. the PFCC Group Balance Sheet position as at the 31st March 2021).

Table 4: Reconciliation of Investments to year-end Balance Sheet position

	31st March 2020 Actual £m	31st March 2021 Actual £m	Movement
Total actual investments held	16.70	18.58	1.88
Less: monies held on behalf of third parties (seizures under POCA, PACE and the Misuse of Drugs Act)	(2.16)	(4.19)	(2.03)
Add: petty cash advances/imprest	0.05	0.10	0.05
Less: unpresented amounts for operational bank accounts	(0.80)	(2.67)	(1.87)
Total net investments per balance sheet	**13.79**	**11.81**	**(1.98)**

6.8 Overall, as shown in the opening row of Table 4, the cashflow position increased by just under £2m during 2020/21, however this was actually closer to a cost neutral movement when the amount of third party cash held is taken into account, which also increased by £2m. The main reason for the overall reduction in the closing balance sheet value (£11.81m at 31/3/21 compared to £13.79m at 31/3/20) was due to a weekly payment run, the value for which was included within the balance sheet value at year-end but did not clear the bank until April 2021.

6.9 Generally levels of both payments and receipts increased over the twelve-month period when compared to the preceding year, 2019/20. In respect of payments, the main increase related to payroll costs for officers, staff and pensioners which increased by £11.0m (£211.6m in 2020/21, compared to £200.6m in 2019/20). This increase included the impact of additional Police Officers being recruited into the force and the related establishment growing, as well as pay inflation. Indirect employee costs relating to the HMRC and the Essex Pension Fund increased by £7.5m (£90.4m in 2020/21 compared to £82.9m). Conversely, supplier commitments decreased by £4.6m to £124.6m in 2020/21 (£129.2m in 2019/20).

6.10 For receipts, the council tax rise in 2020/21 contributed revenue income of £128.8m (£124.0m in 2019/20), an increase of £4.8m. Other central sources of government funding as well as several new grants (including Police Uplift Programme, COVID 19 grants and Op Melrose funding) meant a significant increase in cashflow of £28.2m (£204.0m in 2020/21 compared to £175.8m in 2019/20). However, these increases were offset significantly by decreased customer receipts, with the COVID pandemic the main reasons for these decreases. This included shortfalls in income for Stansted Airport, Counter Terrorism reimbursement and other reimbursements/customer receipts. In total there was a reduction of £18.5m for these income streams (£46.8m in 2020/21 compared to £65.3m in 2019/20). There was also a reduction in the Home Office Pensions Top Up Grant with £33.4m received in 2020/21(£34.6m in 2019/20). Property sales during the period were £3.8m, in accordance with the Estates disposal programme and with COVID-related factors only impacting minimally. Some further disposals subsequently slipped into the early part of 2021/22, mainly due to contractual reasons.

6.11 The average level of investments (excluding the element relating to third party monies) over the twelve-month period was £26.023m (£26.134m in 2019/20). Interest earnings for the period were £0.017m (£0.191m 2018/19), representing an average return of 0.07% (0.73% 2019/20). This compared to a budget of £0.150m. The significant decrease in both interest yield and the average rate of return reflected the impact of the COVID pandemic, and a sharp decrease in the investment opportunities available as well as the rates on offer from the remaining counterparties available to the PFCC. Furthermore, the budget was set at a time when the base rate was 0.75% rather than the current 0.10%. The average rate actually achieved was mainly due to returns in the first half of the year before rates subsided further, as well as money market funds and local authority deposits which generally provided higher returns than the Debt Management Account Deposit Facility (DMADF) where a significant amount of money was placed during the year. Some negative returns were also received during the final quarter but the DMADF had reverted back to positive rates by the end of the year, but still hovering around zero.

6.12 2020/21 saw an increased number of money market funds (MMF's) used by the PFCC. The existing three accounts with Aberdeen, Insight and Blackrock, were complimented by new accounts set up with Federated and Aviva, providing further liquidity options for the PFCC. However, to ensure diversity the PFCC continued to maximise investments in these funds to a maximum of 50% of total investments at any one time during the year, with a 'per fund' threshold also in place for 10% of the overall total held.

6.13 Due to the economic uncertainty during 2020/21, the PFCC's investment strategy was focused on liquidity and security, with MMF's and call accounts continuing to be the main instruments used in this regard. As uncertainty remains in respect of the timing of future capital receipts, the PFCC will continue to place a high importance on having ready access to monies when available, and will look to investigate options for callable accounts, particularly in the current low-interest rate environment. Nevertheless, the return on MMF's are now at or very close to zero, with fund management companies often temporarily lowering or waiving fees to avoid negative net returns.

Borrowing

6.14 The PFCC's chief objective when undertaking external borrowing is to either cover short-term cashflow deficits or, where applicable, fund longer-term investment. The main factors considered are to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

6.15 As at 31st March 2021, the PFCC held £0.0m of external borrowing, a position consistent with the previous financial period. Whilst there had been an anticipation that external borrowing would potentially be required in 2020/21, additional government grant funding (as outlined in paragraph 6.10) was the main reason why this was not required, with no short-term borrowing required, even for the month of June when the PFCC's cash balance is historically low, prior to the receipt of the annual Home Office Police Officer Pension grant. For the majority of 2020/21 the PFCC considered it to be more cost effective to use internal resources to cover the daily cashflow position where a deficit occurred (such as the bank overdraft). Based on current capital investment plans submitted as part of the approved 2021/22 budget, external borrowing is forecast for the coming financial year as well as the subsequent medium-term financial period, with the attributable values calculated by the 'liability benchmark' for the PFCC. Further detail of this is set out within the 2021/22 Treasury Management Strategy.

6.16 Whilst there was no external cash requirement during 2020/21 there was an increase in internal borrowing, due to a diminished amount of capital resources available to fund an annual capital programme which exceeded £12m in value in 2020/21. Internal borrowing relates to the accounting mechanism whereby the PFCC can choose to defer financing it's capital expenditure in the year and use its cash resources instead. This produces an increase in the CFR which is then reduced by Minimum Revenue Provision (MRP) being applied in subsequent years. For 2020/21 the closing CFR was £9.097m compared to £6.065m at the end of 2019/20. The net increase of £3.032m related to unfinanced 2020/21 capital expenditure of £3.532m, offset by £0.500m MRP being charged, relating to pre-2008 historic debt. The closing CFR value will be reduced on an annual basis going forward, in accordance with the policy set out in the PFCC's Capital Strategy.

6.17 The financing charges incurred in the year reflected a net £0.150m saving, based on the initial £0.650m budget set for 2021/22. The actual charge of £0.500m solely related to MRP with no interest payable in the year.

6.18 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November 2020 the margin on PWLB loans above gilt yields was reduced from 1.80% to 0.80% providing that the PFCC can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Any organisation which is purchasing (or intending to buy) 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 PFCC 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 all organisations from borrowing in unusual or large amounts.

6.19 Acceptable use of PWLB borrowing includes service delivery, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that the PFCC unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties. The PFCC is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate. In any case, the approved 2021/22 Treasury Management Strategy provides flexibility to use competitive market alternatives, with or without access to the PWLB, and this is not deemed to be an issue of concern going forward.

7.0 Recommendations from Half-Year Outturn Report & Future Issues

7.1 The half year report, as previously approved by the PFCC, set out concerns in respect of negative rates received from deposits with the Debt Management Deposit Facility (DMADF) as well as issues in respect of liquidity risk. The resulting recommendation, to progress with the two additional MMF's as previously approved by the PFCC, has now been actioned and the detail of this is set out in paragraphs 6.12 and 6.13 above.

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

8.0 Compliance

8.1 All treasury management activities undertaken during 2020/21 have complied with the CIPFA Code of Practice and the CIPFA Prudential Code, however there have been some variations to the PFCC's approved Treasury Management Strategy (TMS). These are issues consistent with those reported in the Half-Year Outturn Report, and are set out in the paragraphs in the 'Investment Counterparties' sub-section below.

Gross Debt

8.2 The PFCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance a lower 'operational boundary' is also set as a warning level should debt approach the affordable borrowing limit. Compliance with the authorised limit and operational boundary key prudential indicators in 2020/21 are demonstrated in table 5 below.

Table 5: Gross Debt Limits

	2020/21 - TMS	2020/21 - Actual	Complied (Yes/No)
Authorised limit - total external debt	£25m	£0m	Yes
Operational Boundary - total external debt	£20m	£0m	Yes

8.3 It should be noted that since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However, for 2020/21 there were no instances when total debt was in excess of the operational boundary value.

Investment Counterparties

8.4 Compliance with the approved investment counterparties list is demonstrated in Table 6 below. As can be seen there have been several instances where the 2020/21 TMS strategy limits have not been complied with, particularly in relation to money market funds. Whilst some of this reasoning relates to the challenging economic circumstances in which the PFCC operated within during 2020/21, there were some governance issues relating to an element of these.

8.5 The 5% limit referred to in Table 6 is based upon the total exposure to the counterparty concerned, as a proportion of the total investments held on that day. Any limits for counterparties with fixed term deposits are calculated only at the point that monies are invested.

8.6 Performance in respect of UK entities with a credit rating of A- or below, all non-UK entities, corporates and registered providers have been omitted from the below table as these were not used during 2020/21.

Table 6: Investment Counterparties

	2020/21 - maximum	31/3/21 actual	2020/21 guideline limit	Complied (Yes/No)
UK central government (including DMADF & Treasury Bills)	£39.3m	£6.5m	£ unlimited (50 years)	Yes
Uk local government - per authority	£5.0m	£0.0m	£5.0m per authority (5 years)	Yes
Uk local government - total	£9.0m	£0.0m	£ unlimited in total (5 years)	Yes
Lloyds bank account plc (operational bank account)	£5.7m	£0.8m / 4%	Higher of 5% or £1.0m (1 year), or up to £5.0m (overnight only)	No
UK financial institutions (between A and AAA, liquid investments) - Barclays Bank	£2.5m	£2.5m / 12%	Higher of 5% or £1.0m (unlimited)	No
UK financial institutions (between A and AAA, liquid investments) - Santander	£2.3m / 13% (highest % when > £1m)	£2.3m / 12%	Higher of 5% or £1.0m (unlimited)	No
Money market funds (AAA rated) - Aberdeen	£5.5m / 60% (highest % during the year)	£1.5m / 8%	10% of total investments	No
Money market funds (AAA rated) - Aviva	£2.5m / 13% (highest % during the year)	£1.5m / 8%	10% of total investments	No
Money market funds (AAA rated) - Black Rock	£4.5m / 15% (highest % during the year)	£1m / 5%	10% of total investments	No
Money market funds (AAA rated) - Federated	£2.5m / 13% (highest % during the year)	£1.5m / 8%	10% of total investments	No
Money market funds (AAA rated) - Insight	£5m / 46% (highest % during the year)	£1m / 5%	10% of total investments	No
Money market funds (AAA rated) - Total	91%	31%	50% of total investments	No

8.7 There were two instances where the Lloyds balance exceeded the guideline £5m threshold. However, because each instance was for one working day only, and the subsequent day's balance dropped below £1m this was not deemed material.

8.8 Limits with call accounts (e.g. Barclays and Santander) are calculated at the point that monies are invested or withdrawn. Whilst there were some instances when the related balances for both of these counterparties subsequently exceeded the recommended counterparty limit of 5% (e.g. not within the guidelines of the 20/21 TMS) it was deemed low-risk as the monies were either accessible on a same-day basis or, in respect of the

Notice account only, within a short timescale. Nevertheless, additional flexibility has been included within the parameters of the 21/22 TMS to ensure that operational liquidity can be maintained where the limits are not materially breached.

8.9 Limits with MMF's have been exceeded during 2020/21, mainly due to the need to maintain liquidity and sufficient cash resources to meet short-term commitments. This was especially the case in the first half of the year when only three MMF's were operational, and available cash resources were less. There was a subsequent misunderstanding in respect of a proposal to remove the 50% threshold for MMF's as a whole, a decision which ultimately was not approved but upon which investment activity had already been based on for several months of the year. Based on the increased risk that such a move would bring it was decided to retain the 50% threshold and the PFCC will look at further opportunities for maintaining sufficient liquidity going forward. Future breaches of MMF thresholds are not anticipated.

9.0 Treasury Management Indicators

9.1 The PFCC measured and managed its exposure to treasury management risks during 2020/21 using the following indicators.

9.2 **Interest rate exposure:** This indicator is set to control the PFCC's exposure to interest rate risk. The figures reflect the potential impact of a rise or decrease in the base rate by 1% with potentially more costs arising in both instances. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Table 7: Interest rate exposure

<table>
<tr><th></th><th>2020/21 - TMS interest rate position</th><th>31/3/21 interest rate position</th><th>2020/21 forecast impact - max tolerance (if 1% movement)</th><th>Complied (Yes/No)</th></tr>
<tr><td>Upper limit on one year revenue impact of a 1% rise in interest rates</td><td rowspan="2">0.75%</td><td rowspan="2">0.10%</td><td>£300,000</td><td>Yes (rise less than 1%)</td></tr>
<tr><td>Upper limit on one year revenue impact of a 1% fall in interest rates</td><td>(80,000)</td><td>Yes (rise less than 1%)</td></tr>
</table>

9.3 The indicator for interest rate rises is based upon the potential exposure to additional interest payable. The indicator for interest rate reductions is based upon the potential exposure to reduced levels of investment income.

9.4 **Security:** The PFCC has adopted a voluntary measure of its exposure to credit risk by using minimum credit rating criteria for the counterparties it invests money with. These credit ratings are provided by the three main credit agencies in the UK (Standard & Poors, Fitch and Moody's) and are used in addition to counterparty information received from the PFCC's treasury management advisors Arlingclose. This approach supersedes the previous measure included within the 2020/21 TMS, as set out in the PFCC's 2020/21 TM Outturn Report.

Table 8: Minimum credit ratings for counterparties

	31/3/21 actual	2020/21 target	Complied (Yes/No)
Minimum credit rating	A	A	Yes

9.5 **Liquidity:** The PFCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments on a daily basis, without the need for additional external borrowing. The amount available as well as the maximum amount utilised during 2020/21 is set out in Table 9 below.

Table 9: PFCC bank overdraft facility

	2020/21 maximum usage	2020/21 maximum available	2020/21 target availability	Complied (Yes/No)
PFCC bank accounts	£1.6m	£1.0m	£1.0m	Yes

9.6 The PFCC used the arranged overdraft position ten times during 2020/21, nine of which equated to a deficit of less than £0.5m. On one further occasion the account was overdrawn by £1.6m with additional charges incurred for the extra amount over the £1m arranged limit. However, as this position was overdrawn for one day only the charges incurred were negligible, and comparable to a short-term external loan should this have been the agreed course of action instead. This instance is not deemed as a compliance breach as the indicator relates to the overdraft availability, not the maximum overdraft position during 2020/21.

9.7 **Principal sums invested beyond 365 days:** The purpose of this indicator is to control the PFCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities longer than one year are shown in table 10 below:

Table 10: Investments longer than one year

	31/3/21 actual	2020/21 target	Complied (Yes/No)
Principal invested beyond one year in duration	£0.0m	£5.0m	Yes

9.8. All investments were kept short-term during 2020/21 with a maximum investment duration of three months, relating to local authority deposits. This was mainly due to revised investment advice received from the PFCC's treasury advisors, which has subsequently led to the removal of fixed term deposits for periods greater than 365 days in the 2021/22 TMS.

10.0 Consultation/Engagement

10.1 The economic context of this paper has been prepared in consultation with Arlingclose, the PFCC's treasury management advisors.

11.0 Future Work/Development

11.1 Work to expand the current range of 'highly liquid' financial instruments is referred to within the main body of the report. Other areas of proposed improvements are set out within the Treasury Management Strategy 2021/22.

Appendix A

Investment position at 31st March 2020 and 31st March 2021

	31/3/20 £000	**Start date**	**Maturity date**	**Approx. rate %**
Call/notice accounts				
Santander UK PLC	260			0.20%
Barclays Bank PLC	1,500			0.25%
	1,760			
Money market funds				
Aberdeen	5,000			0.48%
Insight	4,000			0.31%
	9,000			
Fixed term deposits				
Bank of England - DMO	5,500	31/03/20	01/04/20	0.05%
Total	**5,500**			
Other				
Lloyds current account	435			0.40%
Total	**435**			
Total treasury investments	**16,695**			

	31/3/21 £000	**Start date**	**Maturity date**	**Approx. rate %**
Call/notice accounts				
Santander UK PLC - call	2,260			0.05%
Barclays Bank PLC – call	1,000			0.05%
Barclays Bank PLC - notice	1,500			0.10%
	4,760			
Money market funds				
Aberdeen	1,500			0.01%
Aviva	1,500			0.01%
Black Rock	1,000			0.00%
Federated	1,500			0.01%
Insight	1,000			0.00%
	6,500			
Fixed term deposits				
Bank of England - DMO	6,500	29/03/21	01/04/21	0.01%
	6,500			
Other				
Lloyds current account	818			0.02%
	818			
Total treasury investments	**18,578**			

Appendix B

Economic & financial markets overview

The Bank of England (BoE) held the bank rate at 0.10% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

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

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

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

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

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

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

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

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

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

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

German bund yields continue to remain negative across most maturities.

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

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