CORPORATE GOVERANCE, AUDIT AND STANDARDS COMMITTEE
27 SEPTEMBER 2021

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2121

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2020/21

SUMMARY:
This report sets out the main activities of the Treasury Management and non-Treasury Investment Operations during 2020/21. Prudential indicators for the 2020/21 financial year have been updated for all treasury management and non-treasury activity during 2020/21.

RECOMMENDATIONS:
Members are requested to:

(i) Note the contents of this report in relation to the treasury management and non-treasury investment operations carried out during 2020/21

1. INTRODUCTION

1.1 This report sets out the Treasury Management and Non-Treasury Investment operations for 2020/21. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.

1.2 Full Council originally approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for 2020/21 on 20 February 2020. The Council 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 Council's treasury management and non-treasury investment strategies.

2. PURPOSE

2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2017 ("the Code"), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members be informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

2.2 The CIPFA “Prudential Code” 2017 edition, “Treasury Management Code of Practice” 2017 edition and MHCLG revised guidance February 2018 focus on “non- treasury” investments. With attention on the purchase of investment property and other commercial activities that aim to generate income; but may require external borrowing (or the use of existing cash balances) to raise the cash to finance such activities. Non-treasury investments have been incorporated into the operations report for 2020/21.

2.3 The appendices (A to C) set out the Treasury Management operations, Non-Treasury Investment Operations and Prudential Indicators for 2020/21 and fulfil key legislative requirements as follows:

Appendix A

- The **Treasury Management operations** which sets out how the Council’s treasury service operated during 2020/21, in accordance with CIPFA’s Code of Practice on Treasury Management and Prudential Code;
- The **Treasury Management Borrowing operations** which sets out the Council’s borrowing during 2020/21 in accordance with CIPFA’s Code of Practice on Treasury Management, and;
- The **Treasury Management Investment operations** which sets out the Council’s Treasury Management investment operations during 2020/21, in accordance with CIPFA’s Code of Practice on Treasury Management.

Appendix B

- The **Non-Treasury Investment operations** sets out the Council’s Non-Treasury investment performance during 2020/21, in accordance with MHCLG Investment Guidance.

Appendix C

- the **Prudential indicators forecast** sets out the prudential indicators position at the end of 2020/21. Performance is compared to the indicators set out in the Annual Capital Strategy for the year 2020/21.

3 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TRESURY INVESTMENT OPERATIONS DURING 2020/21

3.1 The Council’s treasury team continued to concentrate on the security of investments taking due regard for the returns available.

3.2 The return on treasury management activity is in line with the revised budget for 2020/21. Pooled funds have proven to be robust and have performed well given the wider economic downturn as a result of COVID-19.

3.3 With increased levels of borrowing the treasury team continually reviews the borrowing strategy, weighing up interest rate levels and risk of refinancing. During the 2020/21 financial year short-term interest rates have remained low and are forecast to remain low. However, borrowing levels have increased, raising refinancing risk. Levels of borrowing will be continually reviewed to mitigate refinancing risk.

3.4 Total borrowing at 31 March was £102m, an increase of £12m from 2019/20 year-end position. The increased level of borrowing has been offset by reduced interest rate of borrowing. This has resulted in interest cost of borrowing decreasing by £83,000 compared with 2019/20 costs.

3.5 The Council's non-treasury investments risk exposure at 31 March 2021 of £155.1m of which £91.6m is funded via external loans.

3.6 Rate of return across all Council's investments have been variable. However, aggregate rate of return on all Council investments is in line with estimated return for 2020/21 due to the cost associated with commercial property being clarified during the financial year and the impact of COVID-19.

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APPENDIX A

TREASURY MANAGEMENT OPERATION FOR 2020/21

1 INTRODUCTION

1.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2 TREASURY MANAGEMENT ADVICE

2.1 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2020/21. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on debt and investment management and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.2 With the exception of pooled funds all investment activity is carried out by the Council's own treasury team with advice from Arlingclose, and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.3 Pooled funds are managed at the discretion of the external fund managers associated with each fund. It should however be noted that whilst the funds are externally managed, the decision as to whether to invest lies solely with the Council in accordance with its Treasury Management Strategy.

2.4 The needs of the Council's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2020/21, staff attended relevant workshops provided by Arlingclose and other service providers.

3 EXTERNAL CONTEXT

3.1 The Council's treasury management advisors have provided commentary on the economic background that prevailed during 2020/21. This commentary is provided at **Appendix D**.

4 LOCAL CONTEXT

4.1 On 31 March 2021, the Council had net borrowing of £75.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes for the 2020/21 financial year is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The projected CFR is summarised in **Appendix C**.

4.2 The treasury management position at 31 March 2021 and the change during the year is shown in Table 1 below.

Table 1: Treasury Management Summary

	31.3.20 Balance £m	**Movement £m**	**31.3.21 Balance £m**	**31.3.21 Rate %**
Long-term borrowing	30.0	-30.0	0.0	0.0
Short-term borrowing	60.0	42.0	102.0	0.9
Total borrowing	**90.0**	**12.0**	**102.0**	
Long-term investments	-21.9	0	-21.9	4.31
Short-term investments	0	0	0	0
Cash and cash equivalents	-5.3	0.5	-4.8	0.15
Total investments	**-27.2**	**0.5**	**-26.7**	
Net borrowing/(investments)	**62.9**	**12.5**	**75.3**	

4.3 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as CFR, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	2020/21 Budget £m	20120/21 Outturn £m
Outstanding borrowing	154.1	119.4
Investment min	-10.0	-10.0
Investments held that can be redeemed	-22.9	-26.7
Liability benchmark	**141.2**	**102.7**

5 BORROWING ACTIVITY IN 2020/21

5.1 At 31 March 2021 the Council held £102m of loans, an increase of £12.0m since 31 March 2020, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 March 2021 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.20 Balance £m	Net Movement £m	31.03.21 Balance £m	31.03.21 Rate %
Local authorities (long-term)	30.0	-30.0	0.0	0.00
Local authorities (short-term)	60.0	42.0	102.0	0.9
Total borrowing	**90.0**	**12.0**	**102.0**	

5.2 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.

5.3 With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use short-term loans.

6 INVESTMENT ACTIVITY IN 2020/21

6.1 The Council holds significant invested funds. During the year, the Council's investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.20 Balance £m	Movement £m	31.03.21 Balance £m	31.03.21 Average Rate %
Managed in-house:				
Money Market Funds	5.3	-0.5	4.8	0.15 *
Managed externally:				
Pooled Funds:				
CCLA LAMIT Property Fund	3.9	0	3.9	5.91 *
M&G Investments Strategic Corporate Bond Fund	4	0	4	2.07 *
UBS Multi Asset Fund	5	0	5	4.33 *
Kamas	2	0	2	4.42 *
Threadneedle Investments	2	0	2	2.78 *
Schroder Income Maximiser Fund	5	0	5	5.41 *
Total Investments	27.2	-0.5	26.7	

*Annualised return based on income received between April 2020 to March 2021

6.2 The following chart illustrates the spread of investment by type of investment (figure 1) along with maturity analysis (figure 2).

Figure 1: Type of Counterparty

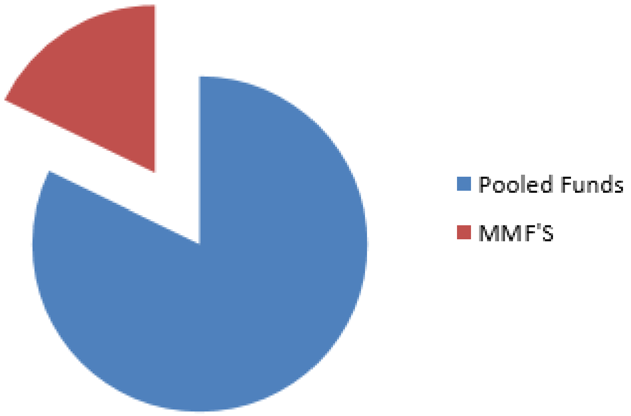


Figure 2: Maturity analysis

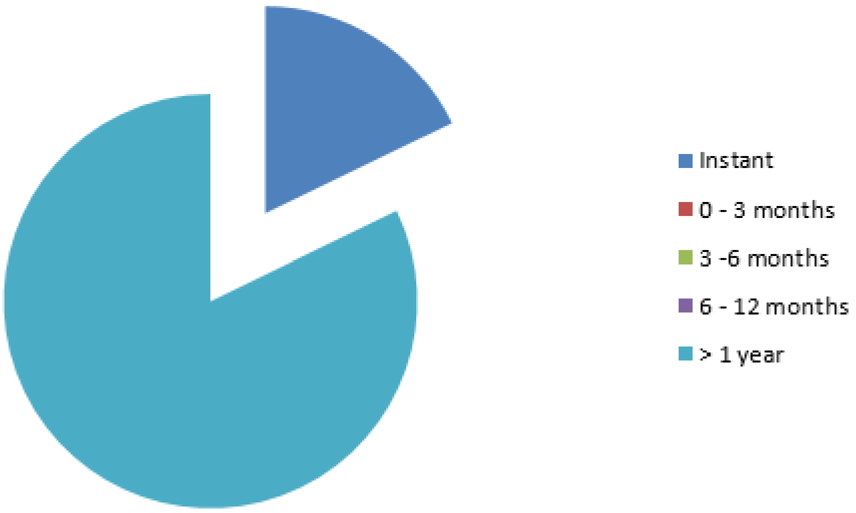


Table 5: Maturity analysis

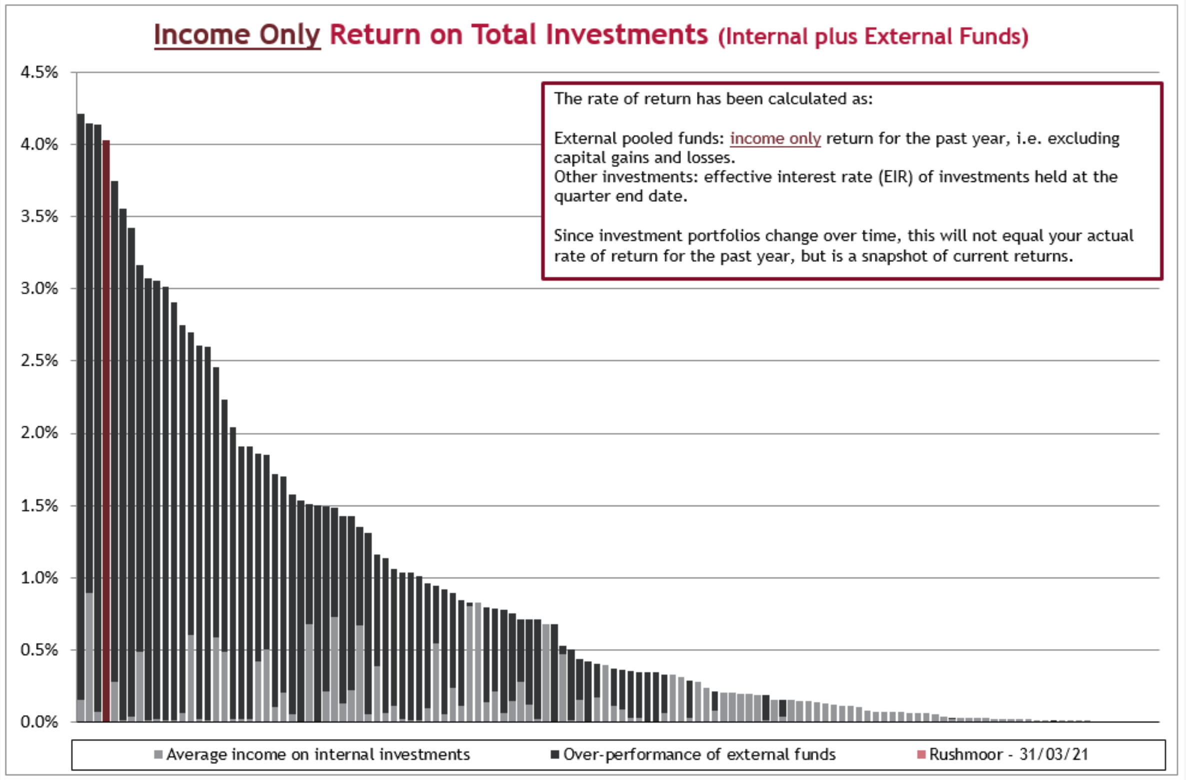
Maturity Analysis for ALL INVESTMENTS	**Type of Counter Party**	**Amount invested £m**	**% of total investments**
Instant	MMF	4.8	18%
0 - 3 months	Pooled Fund	0	0%
3 -6 months	Pooled Fund	0	0%
6 - 12 months	Pooled Fund	0	0%
> 1 year	Pooled Fund	21.9	82%
Total for all duration periods		**26.7**	**100**

6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.4 Treasury management total investment income return during 2020-21 was 3.61% as compared with 4.1% in 2019-20. The decrease in interest rate return needs to be considered against the backdrop of COVID-19, which only impacted the last month of 2019-20, but had a significantly impact on the economy during the whole of 2020-21. The diverse nature of the Council's pooled fund investment portfolio has reduced the potential impact of COVID-19, spreading risk of loss and aiding recovery during the 2020-21 financial year.

6.5 Investment Income Benchmarking: The graph below has been produced by Arlingclose and demonstrates that the Council income only returns on total investment portfolio for the last 12 months up to March 2021 was 4.03%.

Figure 3: Total income return on investment portfolio



6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 6 below.

Table 6: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure
31.03.2020 31.03.2021	3.85 5.32	AA- A+	100% 100%
Similar LAs **All LAs**	**4.53**	**A+**	**59%**

External Strategic Pooled Funds

6.7 £21.9m of the Council's investments are held in externally managed strategic pooled equity funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. During 2020/21 these funds generated an average total return of £3m (13.7%), comprising a £0.9m (4.31%) income return which is used to support services in year, and £2.1m (9.39%) of unrealised capital gain.

6.8 A summary of returns and diversification is set out below.

Figure 4: Pooled fund diversification

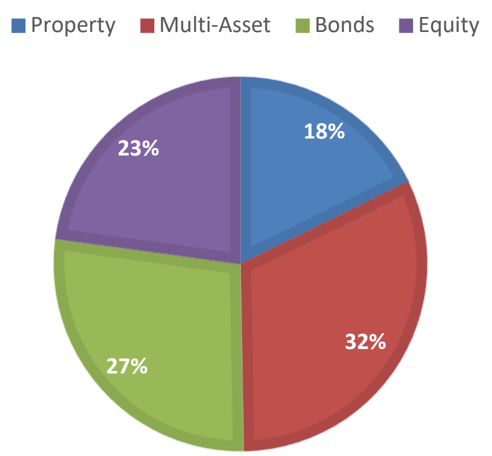


Table 7: Pooled fund diversification

Type of Pooled Fund	Amount invested £m	% of total investments
Property	3.9	18%
Multi-Asset	7.0	32%
Bonds	6.0	27%
Equity	5.0	23%
Total	**21.9**	**100%**

Figure 5: Total returns year-on-year comparison

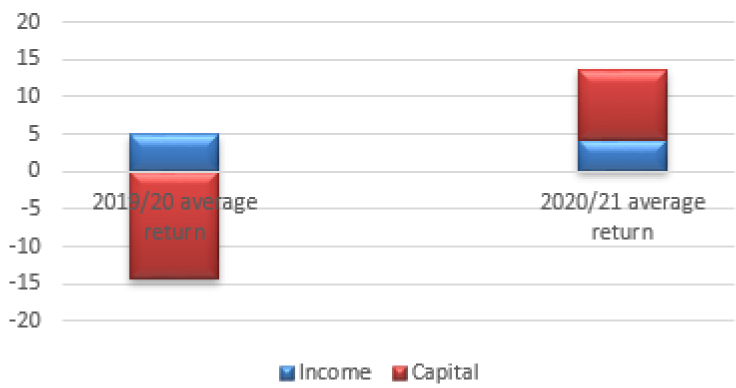


Table 8: Total return breakdown

Type of return	2019/20 average return %	2020/21 average return %
Income	4.97	4.31
Capital	-14.29	9.39
Total Returns	**-9.32**	**13.70**

6.9 The Council is using the alternative fair value through profit and loss (FVPL) accounting and must defer the funds' fair value losses to the Pooled Investment Fund Adjustment Account until 2023/24.

6.10 As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the

Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the medium-/long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

6.12 Details of the Council's investment activity together with returns generated during 20120/21 are outlined as follows:

6.13 **Capital returns** – the Council's pooled funds continued to experience some variations in performance during the year 2020/21 and COVID-19 had a significant impact on the UK economy during 2020/21. Against this background the Council's pooled funds have performed well, returning an overall net increase in fair value for the year 2020/21 of £2.1m (an aggregate increase of 9.39% of overall pooled funds invested). Significantly offsetting the capital losses in 2019/20.

6.14 There is variation in performance across the portfolio as shown in figure 6 and 7 below.

Figure 6: Movement in capital value of pooled funds during over the last 7 years

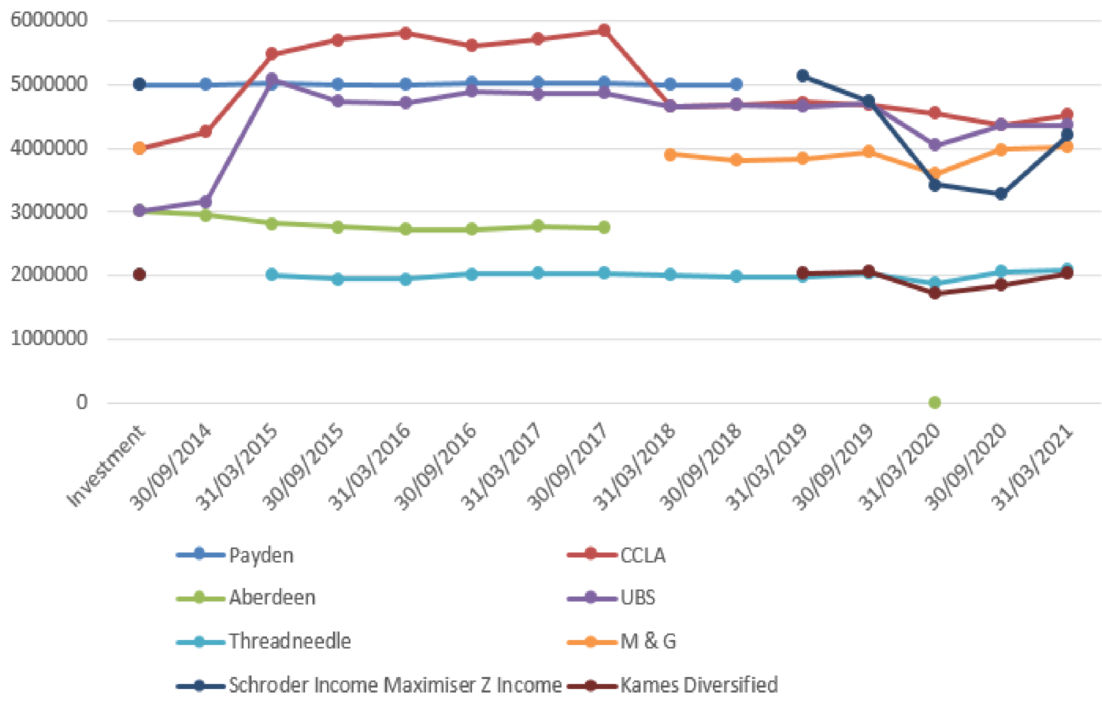
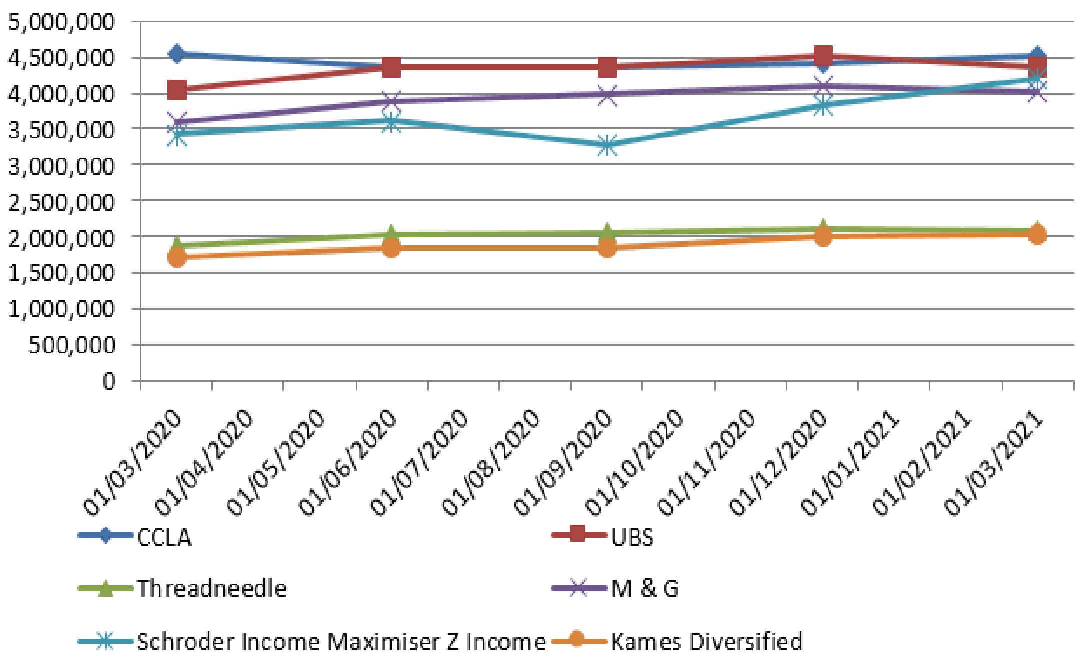


Figure 7: Movement in capital value of pooled funds during 2020/21



6.15 **Income Returns** – The income returned by fund for the period to 31 March 2021 is analysed below:

- CCLA's Local Authorities' Mutual Investment Trust - £3.9 million investment at commencement of the year. The Property Fund is designed to achieve long-term capital growth and income from investments in the commercial property sector. The fund has returned 5.91% annualised income during 2020/21.

- UBS Multi-Asset Income Fund - £5 million investment. This fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has returned 4.33% annualised income during 2020/21.

- Threadneedle Strategic Bond Fund - £2 million investment. The fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has returned 2.78% annualised income during 2020/21

- M & G Corporate Bond Fund - £4m investment. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. This fund has returned 2.07% annualised income during 2020/21.

- Schroder Income Maximiser Fund - £5m investment made in December 2018. The fund aims to provide both income and capital growth, delivering a target income of 5.41% per annum. The fund has returned 7.6% annualised during 2020/21.

- Kames Diversified Monthly Income Fund - £2m investment made in February 2019. The fund aims is to provide income with the potential for capital growth over the medium term. The fund has returned 4.42% annualised during 2020/21.

7 TREASURY MANGEMENT COMPLIANCE PERFORMANCE

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

7.2 **Compliance -** The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy with the exception of current account balance limits.

7.3 Compliance with specific investment limits is demonstrated in table 9 below.

Table 9: Investment Limits

	2020/21 Actual £m	**2020/21 Limit £m**	**Complied?**
Any group of pooled funds under the same management	21.9	25.0	Yes
Money Market Funds	4.8	25.0	Yes

8 TREASURY MANAGEMENT INDICATORS

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

8.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment

(AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2020/21 Actual	**2020/21 Target**	**Complied?**
Portfolio average credit rating	A+-	A-	YES

8.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

	2020/21 Actual £m	**201/21 Target £m**	**Complied?**
Total sum borrowed in past 3 months without prior notice	0	1.0	YES

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

	2020/21 Actual	**2020/21 Limit**	**Complied?**
Upper limit on one-year impact of a 1% **rise** in interest rates.	£332,000	£500,000	YES
Upper limit on one-year impact of a 1% **fall** in interest rates.	£356,000	£500,000	YES

8.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

8.6 **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 were:

	2020/21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	100%	100%	0%	YES
12 months and within 24 months	0%	100%	0%	YES
24 months and within 5 years	0%	100%	0%	YES
5 years and within 10 years	0%	100%	0%	YES
10 years and above	0%	100%	0%	YES

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

8.8 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£21.9m	£21.9m	£21.9m
Limit on principal invested beyond year end	£90.0m	£90.0m	£90.0m
Complied?	YES	YES	YES

8.9 **Total Investment Yield:** The Council's revised estimates regarding investment yields and costs compared to the actual outturn for 2020/21 is shown in the table below.

Budgeted income and outturn	2020/21 Actual £000	2020/21 Revised Forecast £000	Variance £000
Interest receivable	(1,071)	(1,6090)	19
Interest Payable	870	758	85
Net Amount	**(201)**	**(305)**	**104**

APPENDIX B

NON-TREASURY INVESTMENT OPERATIONS FOR 2020/21

1 INTRODUCTION

1.1 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 MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

1.2 The purpose of non-treasury investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.

1.3 The second main function of investment management is to generate potential returns and monitor performance of returns on a regular basis.

1.4 The Council also holds £131.65m of such investments at as 31 March 2021 in:

- directly owned property £123.7m
- loans to local businesses and landlords £7.6m
- shareholding in subsidiaries £0.35m

2 PROPORTIONALITY

2.1 The Council is becoming increasingly dependent on profit generating investment activity to achieve a balanced revenue budget. Table 1 below shows the forecast proportion of gross service expenditure funded by investment activity.

Table 1: Proportionality of Investments

	2020/21 Estimate	**2020/21 Outturn**
Proportion	14.3%	13.8%

3 SERVICE IMPROVEMENT LOANS

3.1 The Council lends money to its subsidiaries, local businesses, and its employees to support local public services and stimulate local economic growth. The Council is a funding partner of Farnborough International Limited. The loans have enables to development of the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough and is a reinvestment in local business.

3.2 The Council performance and upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 2: Loans for service purposes in £ millions

Category of borrower	**2020/21**	**2020/21**
	Approved Limit	**Actual**
Local businesses	6.7	6.7
Subsidiaries and Partnerships	3.5	0.8
Employees	0.1	0.1
TOTAL	**10.3**	**7.6**

Service loans have generated 1.3% rate of return for the Council during 2020/21 financial year. The rate of return on Service loans is lower than estimated due to follow two events:

- delays in issuing loans to Rushmoor Housing Company. Only one loan note was issued during March 2021
- funding consortium partnership agreeing to defer interest payments on loans to provide cashflow support to by Farnborough International Limited (FIL) following the cancellation of the 2020 Air show. Further detail is given in report FN2115

4 SERVICE INVESTMENTS: SHAREHOLDING IN SUBSIDIARIES

4.1 The Council invests in the shares of its subsidiary and holds a financial share in a development partnership and Rushmoor Homes Limited to support local public services and stimulate local economic growth.

4.2 The Council performance and upper limits on the sum invested in each category of shares have been set as follows:

Table 3: Shares held for service purposes in £ millions

Category of company	**2020/21**	**2020/21**
	Approved Limit	**Actual**
Subsidiaries and Partnerships	0.5	0.35
TOTAL	**0.5**	**0.35**

5 COMMERCIAL INVESTMENT: PROPERTY

5.1 The Council invests in local and regional commercial and residential property with the intention of making a profit that will be spent on local public services. The forecast transactions during 2020/21 will increase the overall portfolio to £123.7m as outline in table 4 below.

Table 4: Property held for investment purposes in £ millions

Property by type	**2019/20 Carry forward**	**2020/21 Actual transactions**	
		Purchase cost	**Yearend Value**
Mixed use	4.5	0.0	4.5
Industrial units	24.3	0.0	24.3
Retail	29.3	15.7	45.0
Offices	48.5	1.4	49.9
TOTAL	**106.6**	**17.1**	**123.7**

Return on Commercial investment

5.2 Commercial property investments generated £3.2m of net investment income for the Council after taking account of direct costs, cost of borrowing and Minimum Revenue Provision (MRP). This is lower than the estimated return of £3.6m. This represents a rate of return of 2.61%.

5.3 The rate of return on commercial property is higher that the reported level in the non-treasury investment strategy to Council on 20 February 2020. This is due to actual MRP and borrowing costs being lower than budgeted. Therefore, reducing the over cost associated with commercial property. These two factors have offset the reduction in actual income received during 2020/21 as a result of COVID-19.

6 NON-TREASURY INVESTMENT INDICATORS

6.1 The Council measures and manages its exposures to non-treasury investment risks using the following indicators.

6.2 **Total risk exposure:** This indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	2020/21 Estimate	2020/21 Actual
Treasury management investments	22.9	26.7
Service investments: Loans	10.3	7.6
Service investments: Shares	0.5	0.35
Commercial investments: Property	125.8	123.7
TOTAL INVESTMENTS	159.5	158.3
Commitments to lend	0	0
TOTAL EXPOSURE	159.5	158.3

6.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

	2020/21 Estimate	**2020/21Actual**
Treasury management investment	0.0	0.0
Service investments: Loans	4.4	3.0
Service investments: Shares	0.5	0.35
Commercial investments: Property	87.2	90.3
TOTAL FUNDED BY BORROWING	92.1	93.65

6.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

	2020/21 Estimate	2020/21 Actual
Treasury management investments	4.9%	3.6%
Service investments: Loans	3.87%	1.3%
Service investments: Shares	0%	0%
Commercial investments: Property	2.3%	2.6%
ALL INVESTMENTS	**2.7%**	**2.7%**

6.5 The above table shows variable performance across all types of investment. However, in aggregate the total rate of return is in line with the estimate for 2020/21.

6.6 The Council has considered the following additional indicators prudent to report given the investment activities.

Table 8: Other investment indicators

Indicator	2020/21 Estimate	2020/21 Actual
Debt to net service expenditure ratio	13.7	8.7
Commercial income to net service expenditure ratio	0.8	0.6

APPENDIX C

PRUDENTIAL INDICATORS

1.1 **Prudential Indicators:** The following indications are required by the CIPFA "Prudential Code" 2017 edition

1.2 **Estimates of Capital Expenditure:** The Council's planned capital expenditure and financing may be summarised as follows.

Table 1: Capital Expenditure and Financing in £ million

	2020/21 Budget	2020/21 Outturn
General Fund services	55.4	22.3
TOTAL	**55.4**	**22.3**
External sources	8.0	2.2
Own resources	1.0	0.2
Debt	46.4	19.9
TOTAL	**55.4**	**22.3**

1.3 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 2: Replacement of debt finance in £ million

	2020/21 Budget	2020/21 Actual
Own resources	2.2	1.8

1.4 **Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Table 3: Estimates of Capital Financing Requirement in £ millions

	2020/21 Budget	20120/21 Actual
General Fund services	154.0	121.6
MRP	-2.2	-1.8
IFRIC 4 Lease Adjustment	2.3	-0.4
TOTAL CFR	**154.1**	**1119.4**

1.5 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table 4: Gross Debt and the Capital Financing Requirement in £ millions

	2020/21 Budget	**2020/21 Forecast**
Debt (incl. leases)	154.1	119.4
Capital Financing Requirement	208.4	189.2
Difference	54.3	69.8

1.6 **Affordable borrowing limit:** The Council 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 limit.

Table 5: Affordable borrowing limit in £m

	2020/21 Limit	**2020/21 Actual**
Authorised limit – total external debt	169.1	134.4
Operational boundary – total external debt	164.1	129.4

1.7 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 6: Ratio of financing cost to net revenue stream

	2020/21 Budget	**2020/21 Forecast**
Financing costs (£m)	3.5	2.7
Proportion of net revenue stream	34.0%	26.1%

APPENDIX D

Market commentary regarding the year 2020/21 from the Council's treasury management advisors Arlingclose

External Context

Economic commentary

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 31^{st} March.

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

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

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

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

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

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

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

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

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

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

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

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

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

German bund yields continue to remain negative across most maturities.

Credit 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.