REPORT TO:	**AUDIT COMMITTEE**		
DATE:	22 November 2021		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2019/2020**		
TYPE OF REPORT:	Recommendation		
PORTFOLIO(S):	Cllr A Dickinson E-mail: cllr.angie.dickinson@West-Norfolk.gov.uk		
REPORT AUTHOR:	Michelle Drewery E-mail: michelle.drewery@west-norfolk.gov.uk Direct Dial: 01553 616432		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting: 22 November 2021

ANNUAL TREASURY OUTTURN REPORT 2019/2020

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2019/2020 and covers:

1. The 2019/2020 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 - Investments as at 31 March 2020
Appendix 2 - Borrowing as at 31 March 2020
Appendix 3 - Prudential Indicators

The Council's Treasury Policy Statement 2019/2020 and annual Treasury Strategy Statement 2019/2020 were approved by Council on the 11 April 2019.

Recommendations
The Audit Committee is asked to note the annual treasury outturn position for 2019/2020.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2019/2020

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 11 April 2019)
- a mid-year, (minimum), treasury update report (Audit Committee 12 November 2019)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in January 2020. This training was provided by Link, the council's external treasury management advisors, in order to support members' scrutiny role.

2. Executive Summary

2.1 During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	**2018/19 Actual £'000**	**2019/20 Budget £'000**	**2019/20 Actual £'000**
Capital expenditure	27,228	30,432	29,880
Capital Financing Requirement	44,251	43,716	38,885
Gross borrowing	13,100	9,374	16,000
External debt *	13,199	9,374	16,127
Investments * • Longer than 1 year • Under 1 year • Total	 10,000 2,705 12,705	6,052	 - 18,952 18,952
Net borrowing/(investments)	494	3,322	(2,825)

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2.3 The year saw a continuation of the low investment returns experienced in previous years.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2018/19 Actual £'000	2019/20 Budget £'000	2019/20 Actual £'000
Capital expenditure	27,228	30,432	29,880
Financed in year	22,031	30,432	29,880
Unfinanced capital expenditure	5,197	-	-

5. The Council's Overall borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5 The Council's 2019/20 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2019/20 on 11 April 2019.

5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes that are on the balance sheet, as these increase the Council's borrowing need.

CFR (£m): General Fund	**31 March 2019 Actual £'000**	**31 March 2020 Budget £'000**	**31 March 2020 Actual £'000**
Opening balance	39,335	44,251	44,251
Add unfinanced capital expenditure (as above)	6,143	-	-
Voluntary application of capital receipts			(4,146)
Less MRP/VRP*	(1,227)	(534)	(1,220)
Closing balance	**44,251**	**43,716**	**38,885**

Note the MRP / VRP will include finance lease annual principal payments

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2019 Actual £'000	31 March 2020 Budget £'000	31 March 2020 Actual £'000
Gross borrowing position	£13,100	£9,374	£16,000
CFR	£44,251	£43,716	£38,885
(Under) / over funding of CFR	(£31,151)	(£34,343)	£22,885

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – 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.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2019/20 £'000
Authorised limit	£44,000
Maximum gross borrowing position during the year	£16,100
Operational boundary	£39,000
Average gross borrowing position	£14.956m
Financing costs as a proportion of net revenue stream	2.52%

6. Treasury Position as at 31 March 2020

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury

Management Practices. At the end of 2019/20 the Council's treasury, (excluding borrowing by finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2019 Principal £'000	Rate/ Return £'000	31 March 2020 Principal £'000	Rate/ Return
Fixed rate funding:				
- PWLB (E.I.P Loan)	£0,100	2.92%	-	-
- Market (Maturity Loan)	£10,000	3.81%	£10,000	3.81%
- Local Authorities (Maturity Loans)	£3,000	0.52%	£6,000	0.91%
Total debt	**£13,100**	**2.85%**	**£16,000**	**2.86%**
CFR	**£44,251**		**£38,885**	
Over / (under) borrowing	**(£31,151)**		**(£22,885)**	
Total investments	**£12,555**	**0.70%**	**£18,755**	**0.48%**
Net debt	**£0,545**		**(£2,755)**	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £'000	2019/20 original projection £'000	31 March 2020 Actual £'000
Under 12 months	£3,100	£2,500	£6,000
12 months and within 24 months	-	£400	-
2 years and within 50 years	-	-	-
Over 50 years	£10,000	£10,000	£10,000

6.3 As at the 31 March 2020 the council had two temporary loans of £3m each from local authorities which one was repaid in April 2020 and one was repaid in October 2020. There are 2 market loans with Barclays of £5m each and these mature in 2077.

6.4 The investments at the year-end comprised £3,905,000 in Instant Access Accounts, £6,850,000 in Money Market Funds and £8,000,000 in Local Authorities.

6.5 Full details for both the borrowing and the investments can be found in Appendices 1 and 2.

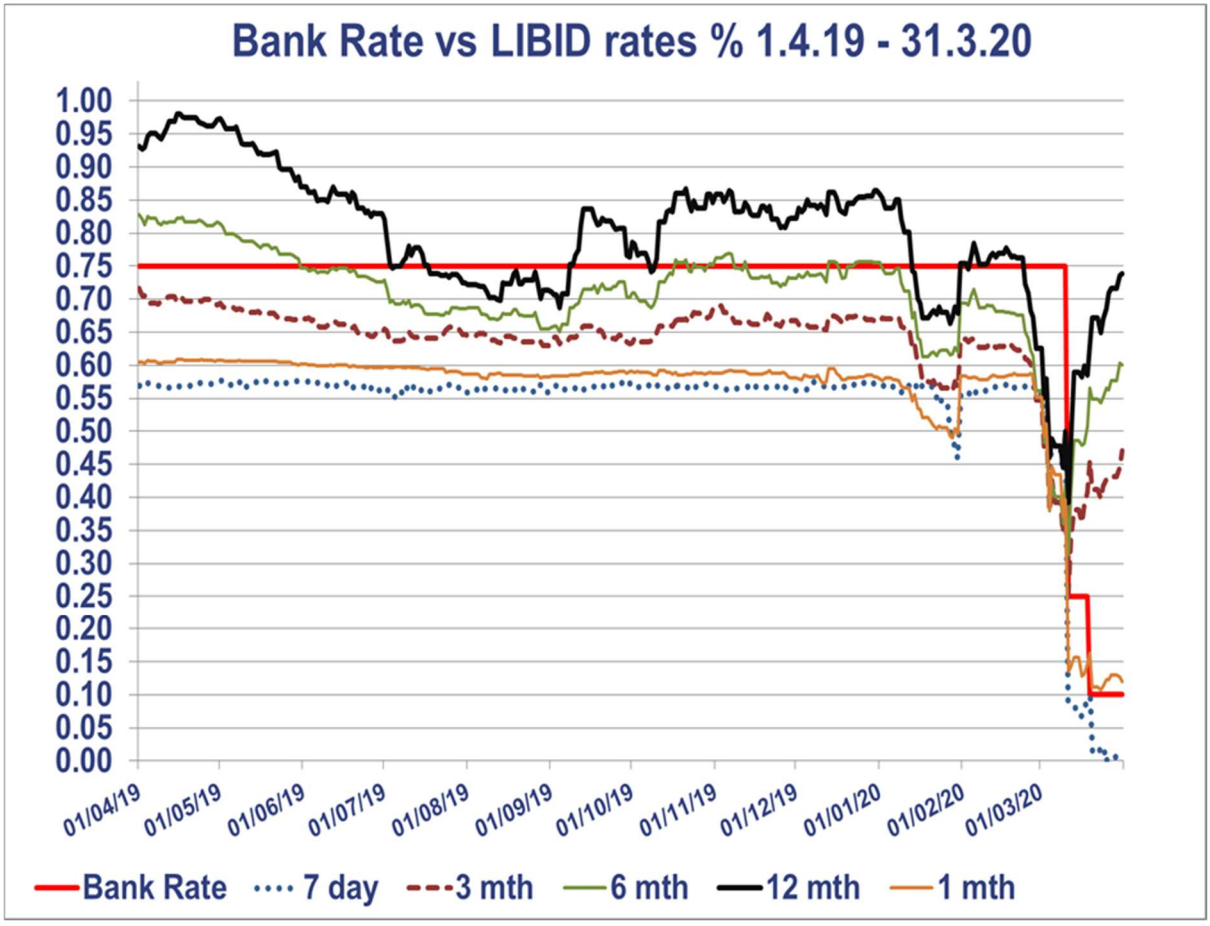
INVESTMENT PORTFOLIO	Actual 31.3.19 £000	Actual 31.3.19 %	Actual 31.3.20 £000	Actual 31.3.20 %
Treasury investments				
Call Accounts / Instant Access Accounts	0	0	3,905	21%
Money Market Funds	2,555	20.4%	6,850	36%
Local authorities	10,000	79.6%	8,000	43%
Other	0	0	0	0
TOTAL TREASURY INVESTMENTS	**12,555**	**100%**	**18,755**	**100%**

6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2019 Actual £000	31 March 2020 Actual £000
Treasury Investments:		
Longer than 1 year	10,000	0
Up to 1 year	2,555	18,755
Total	**12,555**	**18,755**

7. The Strategy for 2019/20

7.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59

Link Asset Services Interest Rate View 31.3.20								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

7.2 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that the Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

7.3 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

7.4 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

7.5 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

7.6 Borrowing strategy and control of interest rate risk

7.7 During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

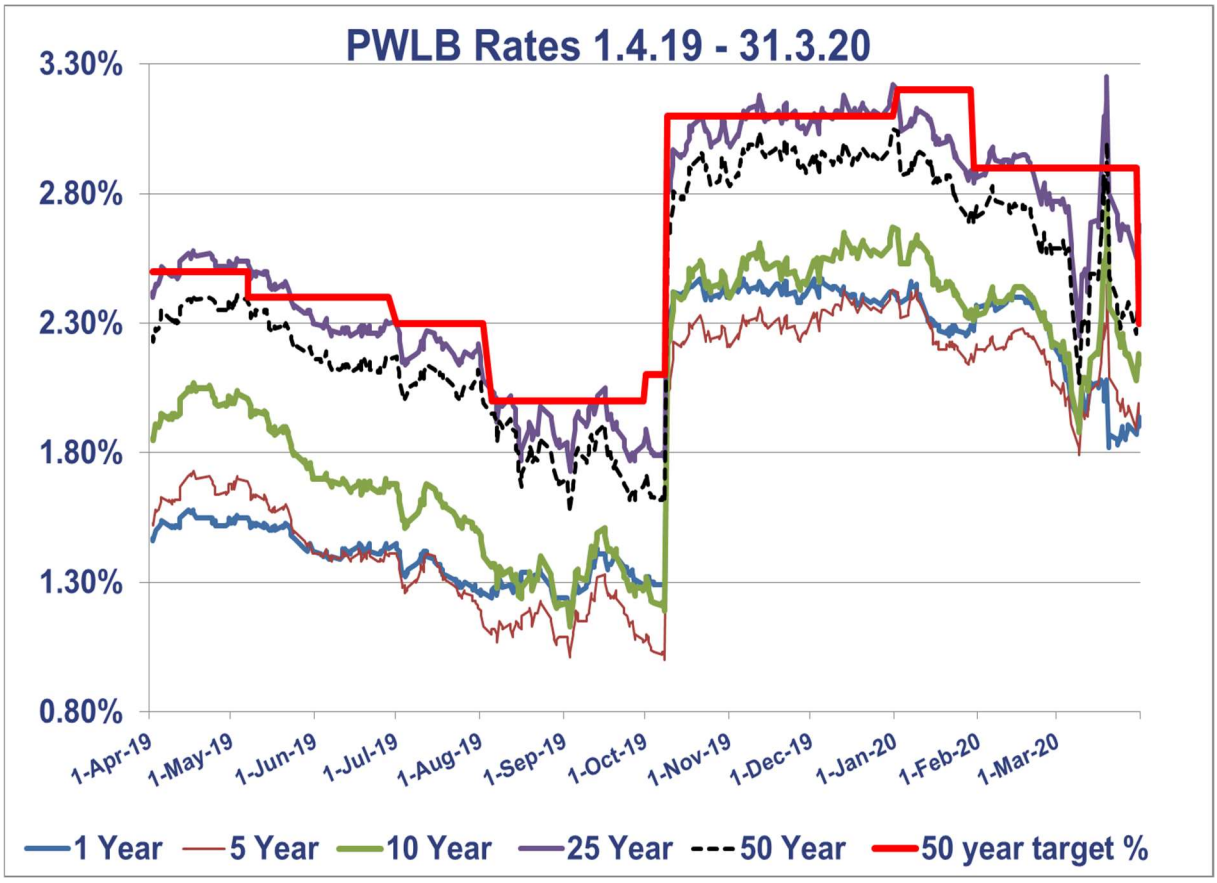
7.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

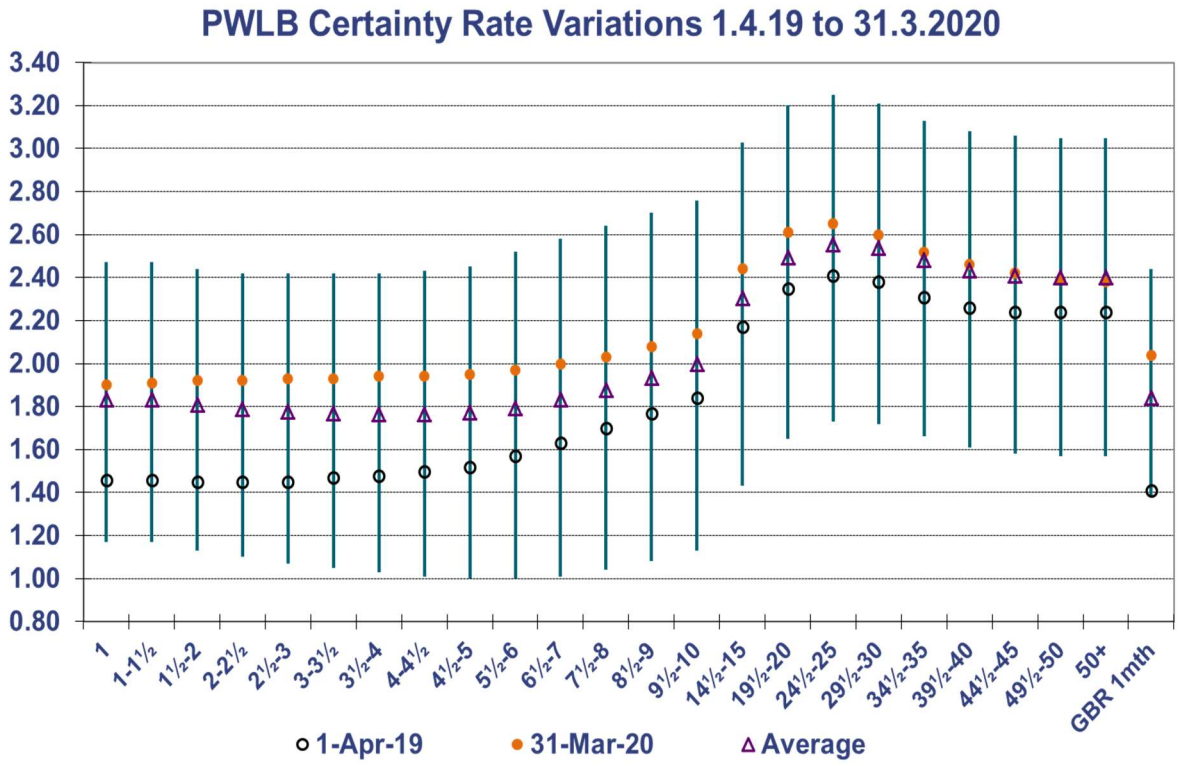
7.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

7.11 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 31.3.20								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50





	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

7.12 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below

shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

7.13 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

7.14 However, HM Treasury has imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

7.15 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)

7.16 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

8. Borrowing Outturn

8.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

8.2 Borrowing in advance of need

8.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.4 Rescheduling

8.5 There was no rescheduling during the year.

9. Investment Outturn

9.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 11 April 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2019 £'000	31 March 2020 £'000
Balances	7,672	10,072
Earmarked reserves	25,473	22,127
Provisions	2,132	1,360
Usable capital receipts	6,100	6,160
Total	**41,377**	**39,719**

9.4 Investments held by the Council

- The average balance of investments for the year was £21.792m (2018/19 £14.446m).
- The average rate of return for the year on investments was 0.48% (2018/19 0.70%).
- This compares with a budget assumption of £6m investment balances earning an average rate of 0.75%.
- Total investment income was £200,290 (2018/19 £247,106) compared to a budget of £351,560 (2018/19 £337,880). It should be noted that the shortfall in investment income is due to the decision taken to internally borrow to fund capital expenditure. This reduced the level of cash available for investing which impacted on the returns achieved.

10. The Economy and Interest Rates

10.1 **UK. Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January

2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

10.2 **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

10.3 After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

10.4 **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

10.5 **Employment** had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

10.6 **USA.** Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to $6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of $1,200 to individuals.

The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost $367bn and 100% of the cost of lost wages for four months will also be covered. In addition there will be $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines.

However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March of initial jobless claims have already hit a total of 10 million and look headed for a total of 15 million by the end of March.

10.7 **EUROZONE.** The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of TLTROs; this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory,

from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

10.8 **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

10.9 **JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus is at an early stage there.

10.10 **WORLD GROWTH**. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

11. Background Information

- Budget monitoring reports
- Treasury Policy Statement 2019/2020 and Annual Treasury Strategy (Council 11 April 2019)

APPENDIX 1 - Investments as at 31 March 2020:

Treasury Investments	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	£1,000,000	N/A	N/A	0.71	AAA
HSBC Sterling – Money Market Fund	£1,900,000	N/A	N/A	0.69	AAA
LGIM Sterling – Money Market Fund	£3,950,000	N/A	N/A	0.70	AAA
Barclays FIBCA	£3,905,000	N/A	N/A	0.47	AAA
Total Call Accounts	**£10,755,000**				
Barnsley Metro Borough Council	£2,000,000	21/09/2017	21/09/2020	0.92	
Dudley Metro Borough Council	£3,000,000	04/04/2018	06/04/2020	1.08	
Northamptonshire County Council	£3,000,000	23/04/2018	23/10/2020	1.25	
Total Fixed Term Investments	**£8,000,000**				
Total Treasury Investments	**£18,755,000**				

APPENDIX 2 - Borrowing as at 31 March 2020:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
29.04.19	27.04.20	3817	£3,000,000	Gloucestershire CC	0.97	364 day temporary loan
15.01.20	15.10.20	3819	£3,000,000	Chesterfield BC	1.0	274 day temporary loan
Total Short Term			**£6,000,000**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
Total Long Term			**£10,000,000**			
Total Borrowing			**£16,000,000**			

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2018/2019 Actual £000's	2019/2020 Actual £000's
Capital Expenditure	27,288	29,880
Ratio of financing costs to net revenue stream	2.67%	2.52%
Net borrowing		
brought forward 1 April	13,800	13,100
carried forward 31 March	13,100	16,000
Change in year - increase/(decrease)	(700)	2,900
Net Investment		
brought forward 1 April	(12,500)	(12,555)
carried forward 31 March	(12,555)	(18,755)
Change in year - increase/(decrease)	(55)	(6,200)

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2019/2020 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

CFR (£m): General Fund	31 March 2019 Actual £'000	31 March 2020 Actual £'000
Opening balance	39,335	44,251
Add unfinanced capital expenditure (as above)	6,143	-
Voluntary application of capital receipts		(4,146)
Less Minimum Revenue Provision (MRP)	(281)	(345)
Less voluntary / additional MRP	(935)	(864)
Less finance lease repayments (where the Council is lessor)	(11)	(11)
Closing balance	**44,251**	**38,885**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/2020. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's

net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	31 March 2019 Actual £'000	31 March 2020 Actual £'000
Borrowing	13,100	16,000
Investments	(12,555)	(18,755)
Net Position	**(545)**	**2,755**
Closing CFR	**44,251**	**38,885**

Actual financing costs as a proportion of net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (Council Tax and Government Grant).

	2019/2020
Authorised limit	£44,000
Maximum gross borrowing position	£16,000
Operational boundary	£39,000
Average gross borrowing position	£14.956m
Financing costs as a proportion of net revenue stream	2.52%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/2019 £'000	2019/2020 £'000
Authorised limit for external debt -		
Borrowing	54,000	50,000
Operational boundary for external debt -		
Borrowing	49,000	45,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	52,000	50,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	21,600	20,000

Maturity structure of fixed rate borrowing during 2019/2020	upper limit	lower limit	Actual
under 12 months	100%	0%	37.5%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	62.5%