Annual Report on the Treasury Management Service and Actual Prudential Indicators for 2020/21

Summary

Report to advise members of the Treasury Management Service Performance and to illustrate the compliance with the Prudential Indicators for 2020/21

Portfolio - Finance
Date signed off: 27 October 2021

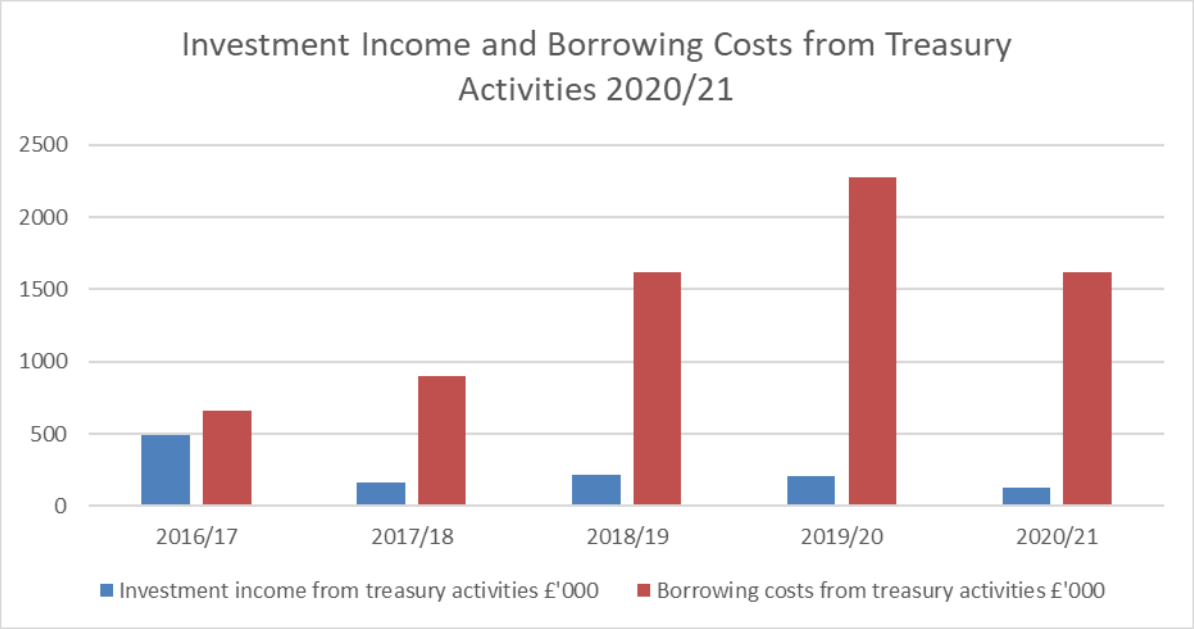
Wards Affected - All

Recommendation

The Executive is asked to RESOLVE to note the report on Treasury Management including compliance with the 2020/21 Prudential Indicators

1. Resource Implications

1.1 None directly as a result of this paper, but like other local authorities, part of the budget relies on funding from investment income. The graph below shows investment income from treasury activities from 2016/17 to 2020/21.



1.2 Treasury income returns decreased in 2020/21 compared to the previous year partly due to the Bank of England's decision to maintain the Bank Rate at 0.10% throughout all of 2020/21. Treasury income in 2020/21 was £125k

which was a reduction of £81k compared to 2019/20. The 2020/21 income was below the budgeted income of £140k. In comparison with other Surrey councils, Surrey Heath achieved a rate of return on its investments of 1.18% which was in the upper quartile of returns on investment income. The lowest of which was 0.14% up to the highest of 1.53%.

1.3 Appendix B shows the compliance with the Treasury Management Prudential Indicators for 2020/21. These can be summarised in the table below:

Treasury Management Prudential Indicator	**Complied With**
Interest Rate Exposure	Yes
Security	Yes
Liquidity	Yes
Maturity Structure of Borrowing	Yes
Principal Sums Invested for Periods Longer than 365 Days	Yes

2. Key Issues

2.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.2 Treasury Management is defined as: "The management of the organisation's borrowing, investments and 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." Each of these areas are detailed below in the report and illustrate that the authority complied with its Investment and Borrowing Strategies for 2020/21 in line with the C.I.P.F.A. Treasury Management Code of Practice.

2.3 The Authority's treasury management strategy for 2020/21 was approved at a meeting on 18th February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

2.4 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-

treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 18th February 2020.

2.5 This report is the annual report for the 2020/21 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2020/21 Prudential Indicators.

3. Options

3.1 The Executive can endorse, amend, note or reject the recommendations made.

4. Proposals

4.1 It is PROPOSED that the Executive:

NOTE the report on Treasury Management including compliance with the 2020/21 Prudential Indicators.

5. Supporting Information

Treasury Management Strategy 2020/21

5.1 The Authority approved the 2020/21 Treasury Management Strategy, which includes the investment strategy, at its meeting on the 18th February 2020. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Investment Strategy 2020/21

5.2 The approved investment strategy for 2020/21 adopted a view to investment that sought to balance risk against return. It maintained a policy, on the advice of our treasury advisors Arlingclose, of diversifying investments including longer term investment funds which give a good return but can be more volatile. The Authority maintained its longer term investment in the CCLA Property Fund.

5.3 The Authority continued to use local authorities and money markets with investments being placed generally for short periods only.

Borrowing Strategy 2020/21

5.4 The Authority'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 Authority's long-term plans change being a secondary objective.

5.5 The Authority uses a combination of short term borrowing from local authorities coupled with long term loans mainly from the PWLB to achieve this objective.

5.6 **Treasury Advisors**

The Authority uses Arlingclose Limited as its treasury management advisors to provide advice on all aspects of treasury management including interest rate forecasts, counterparty lists and management advice. They have provided an Economic Review, counterparty update and market data by way of background information and this is included in Annex C.

Borrowing and Investment Activity in 2020/21

Borrowing Activity 2020/21

5.7 At 31/03/2021 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £214.44m.

5.8 The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR arises directly from the capital activity of the Authority and the resources applied to fund the capital spend, and represents the unfinanced element of capital expenditure.

5.9 At 31/03/2021, the Authority had £180.6m (£160.7m at 31 March 2020) of actual borrowing and £22.0m (£13.8m at 31 March 2020) of treasury investments. The net of borrowing and investments was £158.6m (£146.9m at 31 March 2020). This is less than the CFR of £214.4m above and working capital as the Authority is able to use "Internal borrowing" to fill this gap subject to holding a minimum short-term investment balance of £5m.

5.10 Working capital is money available to the Authority for its day-to-day operations and is calculates as the current assets less the current liabilities. Internal borrowing is a treasury management practice whereby an authority delays the need to borrow externally by temporarily using cash it holds for other purposes

5.11 A large proportion of the Authority's borrowing consisted of short term loans. This enabled the Authority to reduce borrowing costs by taking advantage of low interest rates. In 2020/21 the average interest rate on 6 month borrowing was 0.53% (2019/20 - 0.87%).

5.12 However, in order to manage interest rate risk, the Authority arranged in 2017/18, £50million of forward starting loans. Loan 1 which is for £25m commenced in 2020/21 at a rate of 2.853% and Loan 2 also for £25m will commence in 2021/22 at a rate of 2.908%. Both loans will be repayable over 40 years.

5.13 The Authority's borrowing activity is shown in the table below:

	31.03.20 Balance £m	**2020/21 Movement £m**	**31.03.21 Balance £m**	**31.03.21 Rate %**
Public Works Loan Board	(57)	(22)	(78)	2.56%
Local authorities (long term)	(1)	1	-	0.00%
Local authorities (short term)	(103)	2	(102)	0.53%
Total Borrowing	(161)	(19)	(180)	0.74%

5.14 The outturn for debt interest paid in 2020/21 was £1.7m (2019/20 - £2.3m) on an average debt portfolio of £180m (2019/20 - £161.0m).

Investment Activity 2020/21

5.15 The Authority held investments which represent income received in advance of expenditure plus balances and reserves held. During the year, the Authority's average investment balance was £22 million. The CIPFA code and government guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

5.16 The table below shows a summary of the investment activity for 2020/21:

Investment Counterparty	Balance on 01/04/20	Investments Made	Maturities/ Investments Sold	Balance on 31/03/21	Average Rate at 31st March
	£000s	£000s	£000s	£000s	%
UK Central Government					
- Short Term	2,000	451,375	(440,573)	12,802	0.013%
- Long Term	0	0	0	0	-
UK Local Authorities					
- Short Term	0	0	0	0	-
- Long Term	0	0	0	0	-
Banks, Building Societies & Other Organisations					
- Short Term	463	106,464	(104,126)	2,800	0.15%
- Long Term	0	0	0	0	-
AAA-rated Money Market Funds					
- Short Term Cash Equivalents	9,000	32,777	(37,077)	4,700	0.34%
Property Investments					
- Long Term **	2,130	0	(39)	2,091	4.23%
Total Investments	**13,593**	**590,615**	**(581,815)**	**22,394**	**1.18%**

***Property Investments - Long Term. The 39k partly represents the bid price adjustment at the financial year end.*

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

5.18 Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy for 2020/21.

5.19 Investments held during the year included:

- Deposits with the Debt Management Office
- Deposits with Other Local Authorities
- Investments in AAA-rated constant and variable net asset value Money Market Funds
- Longer Term Property Fund

Credit Risk

5.20 Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2017	4.99	A+	3.06	AA
31/03/2018	4.42	AA-	3.65	AA-
31/03/2019	3.85	AA-	3.24	AA
31/03/2020	4.07	AA-	3.57	AA-
31/03/2021	4.04	AA-	4.04	AA-

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A+ or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Budgeted Income and Outturn

5.21 £2m of the Authority's investments are held in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £90k, comprising a £105k income return which is used to support services in year, and £15k of unrealised capital loss.

5.22 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.

5.23 The Authority is invested in property funds. The falls in the capital values of the underlying assets were reflected in the 31st March fund valuations with most funds registering negative capital returns over 12 months to March. Several March-end dividend details are awaited, but early calculations suggest that, despite decent income returns in 2020-21, these funds will post negative total return over the one-year period due to the capital component of total returns.

5.24 These unrealised capital losses will not have an impact on the General Fund as the Authority has elected to present changes in the funds' fair values in other comprehensive income (FVOCI).

5.25 Because this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Authority'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 the fund's performance over the long-term and the Authority's latest cash flow forecasts, investment in this funds has been maintained.

5.26 In 2020/21 the Authority's budgeted investment income was £0.14m and the outturn was £0.125m. The outturn figure of £0.125m includes CCLA Property fund income of £0.10m. The balance of income was from investments in money market funds, banks and the Debt Management Office.

Externally Managed Funds

5.27 The Authority maintained its investment in the CCLA Property fund. The property fund which is operated on a variable net asset value (VNAV) basis offers diversification of investment risk, coupled with the services of a professional fund manager; it also offers enhanced returns over the longer term but is more volatile in the short-term. The Authority's CCLA property fund is in the distributing share class which pays out the income generated.

Non-Treasury Investments

5.28 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), in which the definition of investments is further broadened to also include all such assets held partially for financial return. The performance of the Authority's non-treasury investments is reported separately to members twice a year.

Compliance

5.29 The Authority confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is shown in the table below:

Investment Limits

	2020/21 Maximum	31.3.21 Actual £m	2020/21 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£3m each	-	£3m each	Yes
UK Central Government	Unlimited	12.8	Unlimited	Yes
Any group of organisations under the same ownership	£3m per group	2.8	£3m per group	Yes
Any group of pooled funds under the same management	£5m per manager	2.8	£5m per manager	Yes
Money Market Funds	£10m in total	4.7	£10m in total	Yes

5.30 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

Debt Limits

	2020/21 Maximum £m	31.3.21 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied? Yes/No
Borrowing	185.0	180.6	185.0	190.0	Yes
Finance Leases		0.1			Yes
Total debt	185.0	180.7	185.0	190.0	

6 Corporate Objectives and Key Priorities

6.1 This report demonstrates how treasury management supports Key priority 2.

7 Policy Framework

7.1 The 2020/21 Annual Investment Strategy together with the Treasury Management Strategy was approved by Full Council on 18th February 2020. These set out the parameters under which Treasury Management operates including the Prudential Indicators.

7.2 The Authority fully complies with the requirements of the CIPFA Code of Practice on Treasury Management. The relevant criteria and constraints incorporated into the Treasury Management Policy Statement are:

- New borrowing is contained within the limits approved by the Authority, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities, and the Authority's Prudential Indicators.

- Investments are made in accordance with the MHCLG guidance on Local Authority Investments, on the basis of the three main credit ratings agencies and as detailed in the Treasury Management Policy statement and approved schedules and practices.

- Sufficient funds are available to meet the Authority's estimated outgoings for any day.

- Investment objectives are to maximise the return to the Authority, subject to the overriding need to protect the capital sum.

8. Legal Issues

8.1 The Authority is required to comply with the Prudential Code as laid down by the Government.

9. Risk Management

9.1 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The key treasury risks being managed are:

- credit risk,
- liquidity risk,
- interest rate risk,
- refinancing risk, and
- operational risk

The techniques employed to manage these risks are covered in detail in the Authority's Treasury Management Practices, and include:

- robust counterparty monitoring and selection criteria,
- prudent cash flow forecasting,
- a range of exposure limits and indicators, and
- procedures designed to prevent fraud and error.

9.2 The Authority's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.

9.3 The limits applied in respect of counterparties and investments are the overall limits approved by Authority in the annual Treasury Management Strategy. However from time to time these may be tightened temporarily by the Executive Head of Finance in consultation with the Portfolio Holder for Finance to reflect increased uncertainty and increase in perceived risk in financial institutions and the economy. This will usually be at the cost of lower returns.

9.4 It should be noted that investment ratings provided by credit rating agencies are only a guide and do not give 100% security. There remains a risk that an institution may be unable to repay its loans whatever the credit rating.

9.5 The Authority measures its exposures to treasury management risks using a range of indicators as recommended by the CIPFA Code of Practice on Treasury Management.

9.6 The Authority is exposed to interest rate risk on its borrowings. Although steps have been taken to mitigate this risk, through the use of forward starting loans, for example, the risk still remains. However, based on advice from our Treasury Advisors, the risk is considered to be low for the current year.

Annexes	Annex A – Investments as at 31st March 2021 Annex B – Compliance with Prudential Indicators Annex C – Economic and other background information from Arlingclose Limited.
Background Papers	CIPFA Code of Practice: Treasury Management in the Public Services – 2018 Edition Ministry of Housing, Communities and Local Government (MHCLG) - Statutory Guidance of Local Government Investments
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Annex A

Treasury Related Investment Balances as at 31st March 2021

Investments	Notes	Maturity Date	Average Interest Rate %	Principal
				£
Cash and Cash Equivalents				
UK Central Government				
Debt Management Office		01/04/2021	0.01%	12,802,000
Banks				
NatWest Business Reserve Account	On call		0.20%	2,373,575
NatWest Central Account			0.10%	426,754
Money Market Funds				
BlackRock			variable	0
CCLA Public Sector Deposit Fund			variable	700,000
Federated Investors			variable	1,000,000
Legal and General			variable	0
Aberdeen Standard			variable	3,000,000
Total Cash and Cash Equivalents				**20,302,329**
Long Term Investments				
Available for Sale				
CCLA Property Fund	Long term		4.23%	2,091,447
Total Long Term Investments				**2,091,447**
Total Investments				**22,393,777**

Annex B

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2020/21 which were set in February 2020.

Treasury Management Indicators

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

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed:

	31.3.21 Actual	2020/21 Limit	Complied?
Upper limit on fixed interest rate exposure	£1.4m	£3.6m	Yes
Upper limit on variable interest rate exposure	£0.7m		Yes
Total	£2.1m	£3.6m	

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

Security: The Authority 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.

	Target	Actual	Complied?
Portfolio average credit rating	A+	AA-	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. The Authority also has the option to borrow on a daily basis on the open market.

	31.3.21 Actual	2020/21 Target
Total cash available within 3 months	£9m	£5m

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.03.21 Actual	Upper Limit	Lower Limit
Under 12 months	67%	100%	10%
12 months and within 24 months	1%	100%	10%
24 months and within 5 years	2%	100%	10%
5 years and within 10 years	3%	100%	10%
10 years and above	27%	100%	10%

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.

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority'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:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£2m	£2m	£2m
Actual	£2m	£2m	£2m
Complied	Yes	Yes	Yes

Annex C

External Context provided by the Authority's Treasury Advisors, Arlingclose Limited

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

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

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

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

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.