ITEM No …8……….

REPORT TO: **POLICY & RESOURCES COMMITTEE – 25 OCTOBER 2021**

REPORT ON: **ANNUAL TREASURY MANAGEMENT ACTIVITY 2020/2021**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **266-2021**

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2020 to 31 March 2021.

2 RECOMMENDATION

The Committee is asked to note the information contained herein and agree the limits in Appendix 1.

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2020/2021 were that a saving of £2.0m was made from a combination of interest and principal repayment savings against 2020/2021 budget provision for capital financing costs in HRA and General Services. This was due to the proactive use of short-term borrowing in line with the Treasury Management Strategy and prudential indicators, and delays in capital expenditure caused by the pandemic.

4 BACKGROUND

At its meeting on 7 December 2020 the Policy and Resources Committee approved the Council's Treasury Policy Statement setting out the policies which govern all borrowing and lending transactions carried out by the Council (Article XV of the minute of meeting of the Policy and Resources Committee of 7 December 2020, Report 279-2020 refers), and the Treasury Management Strategy 2020/21 (Article XVI of the minute of meeting of the Policy and Resources Committee of 7 December 2020, Report 280-2020 refers).

The Treasury Policy Statement requires that the Policy and Resources Committee will receive and consider the Treasury Management strategy in advance of each new financial year and subsequently an annual monitoring report on the activities in that year.

This monitoring report covers the Treasury Management activity over the financial year 2020/2021.

5 DEBT POSITION

The Council's long-term debt position at the beginning and end of the financial year was as follows -

		1 April 2020		31 March 2021	
		Principal £m	Average Rate %	Principal £m	Average Rate %
Fixed Rate Funding	PWLB	468.5	4.1	460.4	4.1
	Market	25.0	4.4	30.0	4.2
Variable Rate Funding	PWLB	0.0		0.0	
	Market	15.0	4.3	10.0	4.9
		508.5	4.1	500.4	4.1

6 THE TREASURY MANAGEMENT STRATEGY FOR 2020/2021

The Expectation for Interest Rates - The interest rate views incorporated within the Fund's treasury strategy statement were based upon officers' views along with advice from our treasury advisers supported by a selection of City forecasts. The view on base rates at time of strategy publication (in March 2019) was that rates would rise from 0.75% to 1.00% in September 2019 and then remain unchanged for the remainder of the financial year. It is important to note that due to the onset of the global coronavirus pandemic The Bank of England base rate decreased to 0.25% on 11 March 2020 quickly followed by a further reduction to 0.10% on 19 March 2020.

At its meeting on 7 December 2020, the Policy and Resources Committee approved the Council's Treasury Management Strategy 2020/21 (Article XVI of the minute of meeting of the Policy and Resources Committee of 7 December 2020, Report 280-2020 refers), which indicated that the Council's borrowing requirement for capital expenditure would be approximately £41m.

7 ACTUAL BORROWING AND LENDING FOR 2020/2021

7.1 Interest Rates

Bank of England base rate started the financial year at 0.10% and remained unchanged for the remainder of the financial year.

HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities, and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates. The standard and certainty margins were reduced by 1%, but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its capital programme. The new margins over gilt yields are as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Only small increases in gilt yields and PWLB rates are not anticipated to rise sharply over the next two years, although there are clear indications that the Bank Rate of 0.10% will increase.

Long-term PWLB rates (50 year) started at 2.54% but moved between 1.52% and 2.91% throughout the year, finishing the year on 2.19%. These rates do not include the reduction of 0.20% certainty rate funding that Dundee City Council is eligible for.

7.2 Borrowing

The Council maintained a net 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 a temporary measure. This strategy was prudent as investment returns were low and counterparty risk was still an issue that needed to be considered.

7.2.1 Long-Term Borrowing

Long-term borrowing of £5.0m was undertaken during the year with repayment of existing loans totalling £13.0m. The new borrowing was drawn down in the financial year as follows:

Date	Amount (£)	Rate %	Term (Years)	Maturity Date
14/12/2020	5,000,000	1.37	49.90	15/11/2070
	5,000,000			

This loan has an interest rate of 1.37% and an average term of 49.9 years.

7.2.2 Short-Term Borrowing

In order to indicate the level of short-term borrowing, shown below are the lowest and highest daily amounts outstanding each month, together with the short-term borrowing position at the end of every month and the range of interest rates at which borrowings were made -

Month	Lowest Amount Outstanding £m	Highest Amount Outstanding £m	End of month Amount Outstanding £m	Interest Rate Range %	
				Min	Max
April 2020	72.8	72.8	72.8	0.72	1.25
May 2020	72.8	82.8	82.8	0.38	1.25
June 2020	77.8	82.8	77.8	0.38	1.25
July 2020	77.8	77.8	77.8	0.38	1.25
August 2020	67.8	77.8	67.8	0.38	1.25
September 2020	57.8	67.8	57.8	0.38	1.03
October 2020	47.8	57.8	57.8	0.06	1.03
November 2020	47.8	57.8	47.8	0.06	1.03
December 2020	42.9	47.9	42.9	0.02	1.03
January 2021	42.9	47.9	47.9	0.02	0.95
February 2021	42.9	47.9	42.9	0.02	0.95
March 2021	35.4	42.9	35.4	0.04	0.95

The Interest on Revenue Balances (IORB) rate which is paid on non-General Fund cash balances is based on actual new short term borrowing which averaged 0.69% throughout the year. It can be seen from the above that short-term borrowing was undertaken throughout the year in line with Treasury Strategy Statement on short term borrowing.

8 LENDING

Balances on reserves and variations in cash flow requirements mean that there will be surplus funds which will be invested for short periods (maximum of 364 days).
Short term investments will be restricted to only those institutions identified in the Council's Approved Counter-parties list provided they have maintained their credit rating. An analysis of the lending position to 31 March 2021 shows:

Month	**Lowest Amount Lent £m**	**Highest Amount Lent £m**	**End of month Amount Lent £m**	**Interest Rate Range %**	
				Min	Max
April 2020	5.5	48.0	5.5	0.30	0.45
May 2020	2.5	15.5	2.5	0.31	0.41
June 2020	2.5	27.5	11.0	0.23	0.32
July 2020	16.0	31.0	18.5	0.12	0.24
August 2020	18.5	46.5	22.0	0.04	0.18
September 2020	18.5	30.3	18.5	0.04	0.10
October 2020	14.0	24.0	16.0	0.01	0.08
November 2020	5.5	25.0	5.5	0.01	0.06
December 2020	3.8	23.8	3.8	0.01	0.03
January 2021	3.8	21.8	6.3	0.01	0.01
February 2021	0.3	19.3	6.2	0.01	0.01
March 2021	0.0	14.0	9.1	0.01	0.01

The lending activity shown above related solely to short-term positions. All of the above loans were in compliance with the Treasury Strategy Statement provisions on such lending with regards to amounts and institutions involved.

9 **SPECIFIED INVESTMENTS**

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Executive Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance and Perpetuity of Lairs. These investments may have a higher risk threshold and can be subject to market fluctuation.

Investment activity throughout 2020/21 financial year is summarised as follows:

Value of funds invested at 1 April 2020	6,948,782
Withdrawals made within period	(250,000)
Value of funds invested at end of period	6,698,782
Value of funds at 31 March 2021	7,402,312
Capital Growth of Investments	703,530
Income from Investments	295,125
Total Return on Investments in period	998,655

10 **CONSOLIDATED LOANS FUND INTEREST RATE**

When setting the 2020/2021 Revenue Budget, the Council set its Loans Fund interest rate at 3.60%. The actual interest rate payable was 3.52%.

11 **OUTLOOK FOR THE FIRST HALF OF 2021/22**

The meeting of the Monetary Policy Committee (MPC) on 6 May 2021 saw the Bank Rate remaining unchanged at 0.10%. The MPC revised up their annual GDP growth forecast for 2021 from 5.0% in February to 7.25% (the fastest pace of growth since the 1940s), however they revised their growth forecasts for 2022 down by a slightly smaller amount (7.25% to 5.75%). The Bank stated at that time that they expected GDP to return to its pre-crisis peak in Q4 2021 rather than in Q1 2022. This forecast fed through into the anticipation that the unemployment rate would peak at 5.4% in Q3 2021, rather than 7.8% in Q3 2021 as previously forecast.

The MPC also raised the inflation forecast in the near term, but lowered it further out so that it is around 2% from the second half of 2022 and for all of 2023. That is a bit earlier than before. The MPC stated an expectation of less excess supply in 2021 and for there to be more excess demand in 2023.

These new economic forecasts implied that the date at which the conditions for tighter monetary policy might be in place, e.g. a 4.5% unemployment rate and 2.0% inflation rate, have come forward by at least a year, from the end of 2023 to the end of 2022, with their forecast for CPI inflation staying above 2.0% for the next two years. This suggested at least one rate hike will be needed to keep inflation at the 2.0% target.

It is important to note that at the later MPC meeting of 5 August 2021, whilst all remained very much unchanged from previous decisions over the last year, there was a major shift, flagging up that interest rate increases were now on the horizon, placing the focus on raising the Bank Rate as "the active instrument in most circumstances".

The Council's appointed treasury advisors, Link Asset Services assist the Council to formulate a view on interest rates. In light of the August MPC meeting, they have revised their earlier forecasts and are predicting a change the Bank Rate through the forecast period ending June 2023.

The following table gives Link Asset Services central view on interest rates as at 11 August 2021:

Period	Bank Rate	PWLB Borrowing Rates % (including certainty rate adjustment)			
Quarter ending	%	5 year	10 year	25 year	50 year
Sep-21	0.10	1.20	1.60	1.90	1.70

Dec-21	0.10	1.20	1.60	2.00	1.80
Mar-22	0.10	1.20	1.70	2.10	1.90
Jun-22	0.10	1.30	1.70	2.20	2.00
Sep-22	0.10	1.30	1.80	2.30	2.10
Dec-22	0.10	1.30	1.80	2.30	2.10
Mar-23	0.10	1.40	1.90	2.30	2.10
Jun-23	0.25	1.40	1.90	2.40	2.20
Sep-23	0.25	1.40	1.90	2.40	2.20
Dec-23	0.25	1.50	2.00	2.40	2.20
Mar-24	0.50	1.50	2.00	2.50	2.30

See Appendix 2 for full economic review of 2020/21 financial year.

12 PRUDENTIAL CODE INDICATORS

The Treasury Management activity at the year end was maintained within the prudential code limits. All borrowing was maintained within the authorised borrowing limit throughout the year. All lending complied with the Treasury Policy Statement provisions, in relation to amounts and institutions involved. Updated indicators are shown in Appendix 1.

13 RISK

The Treasury Risks have been reviewed and the following change has been made to the Treasury Risk Register attached in Appendix 3:

- Risk 2 (Decline / Rise in Interest Rates) – The risk that the Council may not achieve its target level of interest for budgetary purposes, having impact on revenue budgets, resulting in mandatory efficiencies. This risk has been increased as a result of the recent revised interest rate forecast. The likelihood of interest rate rises sooner than anticipated previously has increased.
- Risk 8 (Lack of expertise of Committee or amongst officers) & Risk 9 (Over reliance on key officers). Due to the specialist nature of work, there are relatively few experts in this field, therefore the likelihood has increased of detrimental decisions being made in relation to financial investment management as a result of personnel changes and risk of remaining officers falling ill, leaving knowledge gaps that may be difficult to fill. Procedures and guidance are available, and training will be provided to help reduce this risk. Specialist advice and peer support is also available if required.

14 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

15 CONSULTATION

The Council Management Team have been consulted in the preparation of this report.

16 BACKGROUND PAPERS

None

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **14 OCTOBER 2021**

APPENDIX 1

PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS

Adoption of Revised CIPFA Treasury Management Code of Practice	Yes

Upper limit for variable and fixed rate exposure

	Net principal re variable rate borrowing / investments	Net principal re fixed rate borrowing / investments
2020/21	30%	100%
2021/22	30%	100%
2022/23	30%	100%
2023/24	30%	100%
2024/25	30%	100%
2025/26	30%	100%

Actual External Debt

	31/03/2020	**31/03/2021**
	£'000	£'000
Actual borrowing	586,266	535,842
Actual other long-term liabilities	160,585	156,055
Actual external debt	**746,851**	**691,897**

Maturity structure of fixed rate borrowing 2020/21

Period	Lower %	Upper %
Under 12 months	0	10
12 months & within 24 months	0	15
24 months & within 5 years	0	25
5 years & within 10 years	0	25
10 years +	50	95
Upper limit for total principal sums invested for over 364 days	n/a	No sums will be invested longer than 364 days

External debt, excluding investments, with limit for borrowing and other long-term liabilities separately identified

	Authorised Limit			**Operational Boundary**		
	Borrowing £000	Other £000	Total £000	Borrowing £000	Other £000	Total £000
2020/21	566,000	177,000	743,000	536,000	177,000	713,000
2021/22	646,000	173,000	819,000	616,000	173,000	789,000
2022/23	682,000	169,000	851,000	652,000	169,000	821,000
2023/24	711,000	164,000	875,000	681,000	164,000	845,000
2024/25	747,000	160,000	907,000	717,000	160,000	877,000
2025/26	745,000	155,000	900,000	715,000	155,000	870,000

PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

	Capital Expenditure		
	Non-HRA £000	HRA £000	Total £000
2020/21	39,537	7,316	46,853
2021/22	75,616	29,962	105,578
2022/23	60,083	21,960	82,043
2023/24	51,207	23,615	74,822
2024/25	56,619	22,958	79,577
2025/26	23,000	14,626	37,626

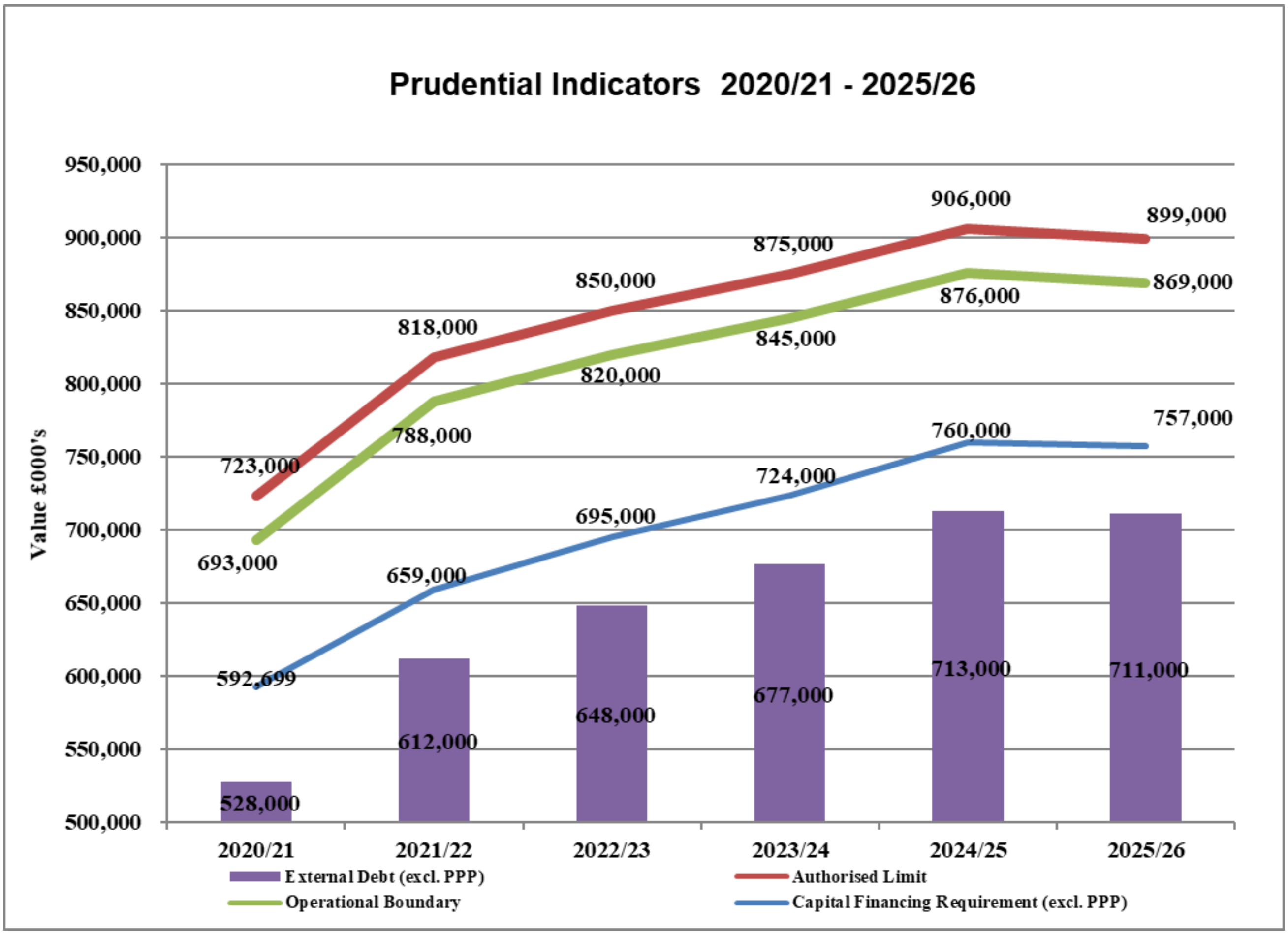
	Ratio of financing costs to net revenue stream	
	Non-HRA %	HRA %
2020/21	4.9	35.1
2021/22	5.4	34.7
2022/23	5.4	37.1
2023/24	6.0	37.1
2024/25	6.4	37.1
2025/26	7.4	37.1

	Net Borrowing Requirement (NBR)		
	1 April £000	31 March £000	Movement £000
2020/21	564,079	527,271	(36,808)
2021/22	527,000	612,000	85,000
2022/23	612,000	648,000	36,000
2023/24	648,000	677,000	29,000
2024/25	677,000	713,000	36,000
2025/26	713,000	710,000	(3,000)

	Capital Financing Requirement (CFR)			
	Non-HRA £000	HRA £000	Total £000	Movement £000
2020/21	409,730	182,969	592,699	3,155
2021/22	459,000	200,000	659,000	66,301
2022/23	487,000	208,000	695,000	36,000
2023/24	510,000	214,000	724,000	29,000
2024/25	538,000	222,000	760,000	36,000
2025/26	532,000	225,000	757,000	(3,000)

	NBR v CFR Difference
	Total £000
2020/21	65,428
2021/22	47,000
2022/23	47,000
2023/24	47,000
2024/25	47,000
2025/26	47,000

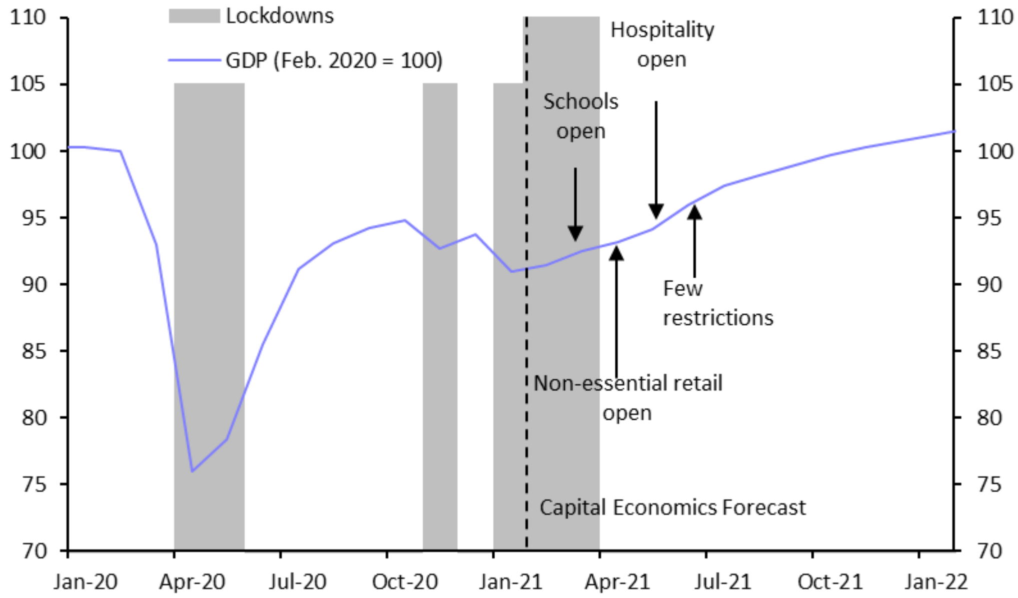
The following provides a graphical representation of the 5 year projection:


Prudential Indicators 2020/21 - 2025/26
Value £000's
950,000
900,000
850,000
800,000
750,000
700,000
650,000
600,000
550,000
500,000
2020/21
2021/22
2022/23
2023/24
2024/25
2025/26
723,000
818,000
850,000
875,000
906,000
899,000
693,000
788,000
820,000
845,000
876,000
869,000
592,699
659,000
695,000
724,000
760,000
757,000
528,000
612,000
648,000
677,000
713,000
711,000
External Debt (excl. PPP)
Authorised Limit
Operational Boundary
Capital Financing Requirement (excl. PPP)

APPENDIX 2

The Economy and Interest Rates

UK. Coronavirus. The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

Average inflation targeting. This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and ***achieving the 2% target sustainably***". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

Government support. The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

USA. The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a $1.9trn (8.8% of GDP) stimulus package in March on top of the $900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a $2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell spoke on the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

EU. Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. **The ECB** did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, **unlikely to be a euro crisis** while the ECB is able to maintain this level of support.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

Japan. Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

World growth. World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

APPENDIX 3

Six Monthly Risk Report

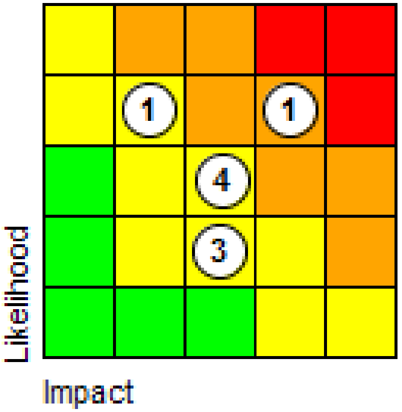
Treasury Risk Register Report

Report Author: Executive Director of Corporate Services

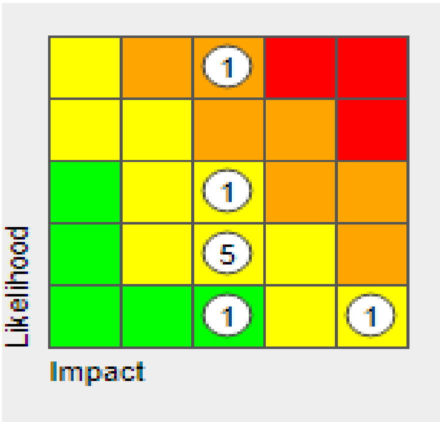
Generated on: 13th September 2021

Total Risk Summary

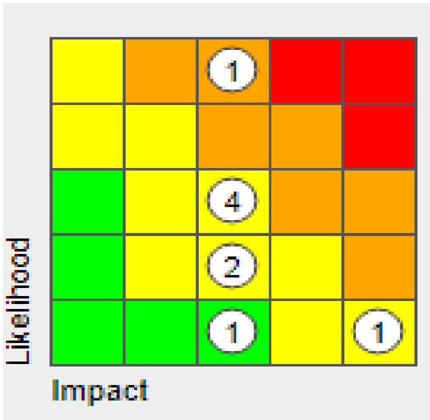
Inherent Risk



Risk at last report Dec 2020

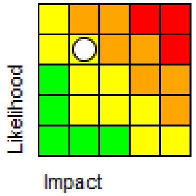
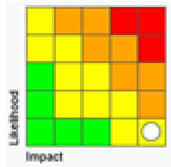
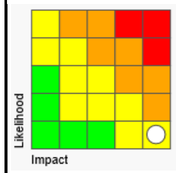
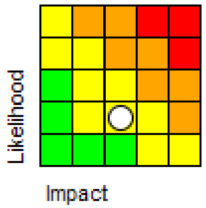
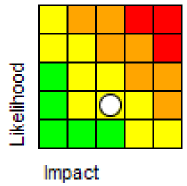
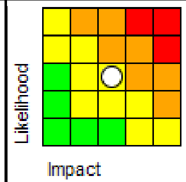


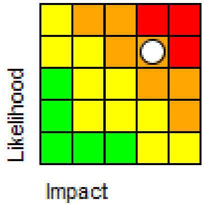
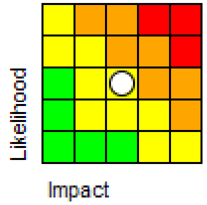
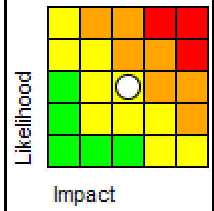
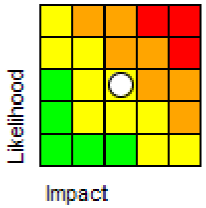
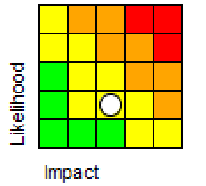
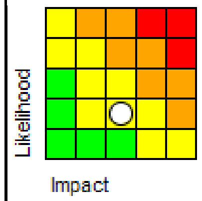
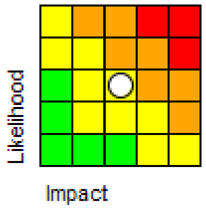
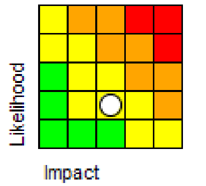
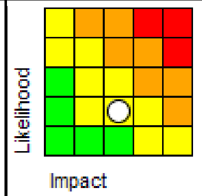
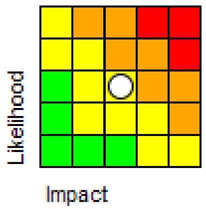
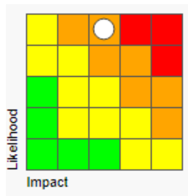
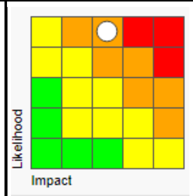
Residual Risk Sep 2021

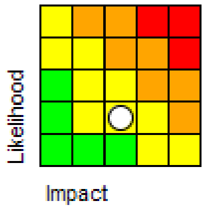
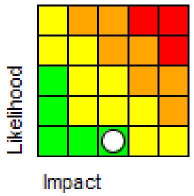
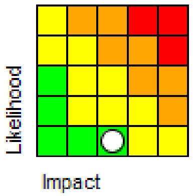


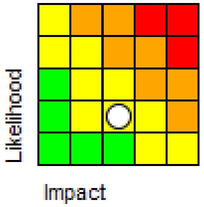
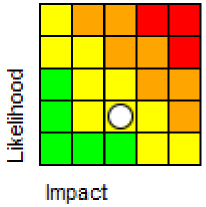
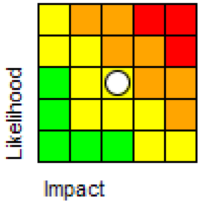
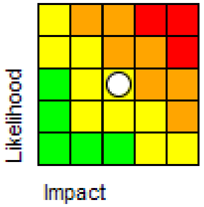
Six Monthly Risk Report

Treasury Risk Register Report
Report Author: Executive Director of Corporate Services
Generated on: 13th September 2021

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Risk Dec 2020	Residual Risk
1. Loss of capital due to counterparty collapse	The Council loses its principal investment or investment becomes impaired	Counterparty collapses or faces a financial crisis rendering it unable to repay investments	. The Council may suffer financial loss . The repayment of funds from the counterparty could be significantly delayed or impaired Either of these outcomes could have an adverse impact on operational funding levels		Per the Treasury Management Strategy: . Maximum investment value on approved counterparties in order to spread and reduce risk. . Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. . Counterparties are also monitored and reviewed on a weekly basis at least or more regularly if considered necessary to do so. Limiting the threshold rating for approval of counterparties.		
2. Decline / rise in interest rates	. The Council may not achieve its target level of interest for budgetary purposes. . Impact on revenue budget resulting in mandatory efficiencies affecting service	Interest rates continue to remain at an all-time low with very little movement.	. No change to base rate and associated market investment rates. . Lower risk counterparties not offering competitive rates.		. Arranging longer term investments where investment objectives and criteria allows in order to capitalise on higher rate of returns without risk of opportunity cost. . Offsetting the loss of interest income by undertaking refinancing loans at lower rates than previously undertaken as opportunities arise. The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Risk Dec 2020	Residual Risk
	delivery				the challenging economic climate.		
3. Fraudulent activity (now incorporating cybercrime)	. Financial loss to the Council as a direct consequence of fraudulent activity . Loss of money for the Council Disciplinary action for the staff involved . Reputational damage	Potential fraud by staff	Fraudulent activity		. Segregation of staff duties. . Review and monitor of internal controls to ensure the correct protocol across all relevant areas is being followed. . Ensure all insurance policies and relevant guarantees (Fidelity £2m per individual circumstance) are fully up to date.		
4. Money laundering	. Fine and/or imprisonment . Reputational damage	Money laundering by external parties	External parties pay a transaction by cash and subsequently request a refund		. Ensure the money laundering policy is reviewed and up to date. . Reconcile refunds back to source of income. . Raise awareness of this issue amongst staff . Review requirements of financial regulations.		
5. Network Failure / banking system being inaccessible	Daily Treasury functions will not be carried out	The Council is unable to carry out its daily treasury functions due to a network failure	RBS Bankline is unavailable or the Council's network has failed		Invoke the business continuity plan to minimise the effects of a network issue.		
6. Revenue Budgets	The Council may not be able to execute some desired projects	Revenue budgets are unable to meet borrowing costs of capital schemes	Revenue budgets come under pressure from restricted government funding or non-delivery of programmed savings		. Revenue budgets monitored on monthly basis and future year forecasts undertaken. . Reserve some capital receipts to cover borrowing costs in the short term. . Ensure monthly financial reports		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Risk Dec 2020	Residual Risk
					and Forecasts are produced and analysed . All borrowing decisions are made based on prudential indicators and are planned based on long term projections. . Capital Plans and borrowing is reviewed annually before the revenue budget is set to ensure that the costs are affordable.		
7. Lack of suitable counterparties	Use of counterparties not paying best value rates.	The Council does not have enough "space" with approved counterparties to place investments/deposit surplus cash balances.	Rising cash balances and a restricted counterparty list		The Council continually monitors its approved counterparty listing in conjunction with cash balances. Any potential new investment opportunities are discussed at Treasury Management performance meetings. The Council uses call accounts and money market funds to deposit surplus cash balances in the event of no space with other counterparties and also to ensure there is always cash instantly available in order to meet payment obligations when they fall due. However, there are also limits on the amounts deposited to such funds. The Council has a facility to deposit cash with the Debt Management Office should all other investment options be exhausted.		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Risk Dec 2020	Residual Risk
8. Lack of expertise of Committee or amongst officers	Financial consequence	Lack of training and continuous professional development.	Detrimental decisions made in relation to financial investment management.		. Provision of training . External investment advice . Consultation with peer groups.		
9. Over reliance on key officers	Detrimental decisions made in relation to financial investment management.	Specialist nature of work means there are relatively few experts in this field	If an officer leaves or falls ill knowledge gap may be difficult to fill.		. Key officers transfer specialist knowledge to colleagues. . Procedures & guidance available. . In the short-term advice can be sought from external investment adviser and/or peer support.