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PUBLIC REPORT

CABINET

18 August 2020

ANNUAL REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2019/20

Report of the Strategic Director for Resources

Strategic Aim:	Customer-focussed services	
Key Decision: No	Forward Plan Reference: FP/170720	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr G Brown, Deputy Leader and Portfolio Holder for Planning, Environment, Property and Finance.	
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Ward Councillors	None	

DECISION RECOMMENDATIONS
That Cabinet: 1. Notes the actual 2019/20 prudential indicators within the report. 2. Notes that the treasury management stewardship for 2019/20 was in compliance with the treasury management strategy.

1 PURPOSE OF THE REPORT

1.1 Report 05/2019 set the Treasury Management Strategy for 2019/20 linked to the Council's Budget, Medium Term Financial Plan and Capital Plans. It is inextricably linked to delivering the Council's aims and objectives.

1.2 This report sets out how the Council has performed against the Strategy.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Council's annual treasury report in Appendix A includes information on the performance of the treasury management service. The key points to note in year are:

- The Council has invested with institutions as determined by the revised creditworthiness criteria approved by the Section 151 Officer; with the exception of Skipton Building Society (SBS) due to an error on the Council's credit counterparty list provided by Link Asset Services. This was previously reported in the mid-year Treasury report- 168/2019 (Appendix A, paragraph 2.2.4 refers). At that time the assessed risk was low. The funds are due for return in August and September and we will able to confirm the first repayment at the Cabinet meeting itself;

- The Councils made a return on investment of 0.95% compared to the LIBOR rate of 0.73% (Appendix A, paragraph 2.3.1 refers) ;

- The Council did not undertake any external borrowing in year and therefore did not breach the operational boundary for borrowing (£28m) (Appendix A, paragraph 3.4.3 refers); and

- No external debt was repaid early as there was not a financial business case to do so (Appendix A, paragraph 3.4.3 refers).

3 CONSULTATION

3.1 No formal consultation is required.

4 ALTERNATIVE OPTIONS

4.1 This report is for noting there are no alternative options.

5 FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising from this report.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6.2 The Council's treasury management activities for 2019/20 were regulated by a variety of professional codes, statutes and guidance (which have been updated for 2019/20):

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act MHCLG has issued Investment Guidance to structure and regulate the Council's investment activities; and

- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

6.3 The Council's Treasury Management Strategy explains how it will comply with the legal framework and this annual report confirms compliance.

7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessments (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons.

8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because there are no service, policy or organisational changes being proposed.

9 COMMUNITY SAFETY IMPLICATIONS

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

11.1 The report summarises treasury management performance in the year and meets the requirements set out in section 6.

12 BACKGROUND PAPERS

12.1 Statement of Accounts 2019/20

13 APPENDICES

13.1 Appendix A - Treasury Management Annual Report

13.2 Appendix B - Link Commentary on 2019/20

13.3 Appendix C - Glossary

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

Appendix A.

TREASURY MANAGEMENT ANNUAL REPORT 2019/20

1 OVERVIEW OF STRATEGY

1.1 What is Treasury Management?

1.1.1 Treasury management is the term used to describe the way a Council manages the cash it needs to meet both its day-to-day running costs and borrowing for capital expenditure. The treasury management function for a Council will make the arrangements to borrow and invest money either over the short or the longer term in order to ensure that it has money available when it needs it.

1.1.2 CIPFA defines treasury management as"…the management of the organisation's 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".

1.2 What framework or rules do we need to follow?

1.2.1 In making arrangements for treasury management, a Council is required to follow CIPFA's Treasury Management Code. The Code aims to help ensure that Councils manage the significant risks associated with the function while also ensuring the Council receives value for money.

1.2.2 The Council approved a Strategy in February 2019 (report 05/2019) which covered;

- borrowing strategy, including capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time); and
- the treasury management strategy (strategy guidelines for choosing and placing investments, the principles to be used to determine the maximum periods for which funds can be committed, what specified and non specified investments will be considered how the investments and borrowings are to be organised) including treasury indicators.

1.2.3 Councils need to prove that they are complying with the Prudential Code and this is done through a series of prudential indicators that are set locally and approved at the same time as the Council sets its budget for the following year.

2 TREASURY PERFORMANCE

2.1 How much did we have to invest during 2019/20?

2.1.1 The Council receives lots of income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

2.1.2 At any point of time in the year, the Council had between £34m - £47m available to invest. The table below shows the level of investments held during the year, the average level of investments during the year was £40.310m.

2018/19 Actual £000	2019/20 Quarter 1 as at 30-Jun-19 £000	2019/20 Quarter 2 as at 30-Sep-19 £000	2019/20 Quarter 3 as at 31-Dec-19 £000	2019/20 Quarter 4 as at 31-Mar-20 £000
34,505	37,467	40,041	42,370	41,281

2.2 Did we achieve our investment objectives? Did we invest in line within approved rules?

2.2.1 Like us as individuals, the Council will invest surplus money in various ways to get a return on balances thus generating extra income. As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

2.2.2 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;

- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;

- Maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

2.2.3 The majority of Council's investments during the financial year were made with approved institutions within the agreed limits contained within the Treasury Management Strategy 2019/20 (05/2019), with the exception of £3m invested with Skipton Building Society, paragraph 2.2.4 refers. These limits are:

- £5m for a maximum of 3 years for institutions within the upper limit of the credit ratings;
- £5m for a maximum of 364 days for institutions within the middle limit of credit ratings; other local authorities and Money Market Funds;
- £1m for a maximum of 6 months those institutions without a credit rating, normally certain Building Societies whose operation does not require a credit rating.

2.2.4 During the first six months of 2019/20 £3m was invested with Skipton Building Society (SBS) due to an error on the Council's credit counterparty list provided by Link Asset Services. The counterparty credit list provided by our treasury advisors showed SBS to be meeting the minimum credit criteria for investments up to £5million and 364 days when it should have showed £1million and 6 months. As reported in the mid-year report there is deemed to be a low risk of default; SBS are still trading and in the markets for new funds. There are no concerns regarding SBS in the media. The investments are due for repayment on 6th August 2020 (£1m) and 4th September 2020 (£2m).

2.2.5 Following the principles set out in paragraph 2.2.2, the Council made investment returns as shown below.

	Original Estimate 2019/20	**Revised Estimate 2019/20 Q2**	**Actuals 2019/20**
	£000	**£000**	**£000**
Investment Income	188	348	383
Other Interest Received *	12	12	14
Total	**200**	**360**	**397**

***** The Council also receives interest from sources other than investments. A Housing Association has been recharged £12k for the principal and interest of loans that the Council has made to it, the final payment will be in 2051/52.

2.3 How did the Council investments perform?

2.3.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. An example of a performance indicator often used for the investment treasury function is internal returns above the 6 month LIBOR rate (the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another).

The Council monitored performance against the LIBOR rate during 2019/20 and the results are shown below.

	2018/19	2019/20 (Q2)	2019/20 (Q4)
RCC Returns (%)	0.83	0.97	0.95
LIBOR (%)	0.91	0.83	0.73

2.3.2 The average rate achieved is an improvement on the performance from 2018/19; as the full year impact of the increase in the base rate in August 2018 from 0.5% to 0.75% materialised and the Council was able to take advantage of holding longer dated investments (up to 364 days) to achieve higher returns. The base rate was reduced during March 2020 from 0.75% to 0.10%, the impact of this on interest received will be seen during 2020-21. In terms of the budgetary performance for 2019/20 the Council outperformed the budget by £197k.

3 PRUDENTIAL (BORROWING AND DEBT) INDICATORS

3.1 Why do we borrow?

3.1.1 Council's borrow to fund capital expenditure or refinance/reschedule existing borrowings e.g. replace one loan with one at a lower rate.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options.

3.2 What was our Capital Expenditure and how did we fund it?

3.2.1 The Council's capital expenditure during 2019/20 was £4.076m. The outturn report (84/2020) contains detailed analysis of the capital programme and financing.

3.2.2 The £4.076m was financed as per the table below. The financing need represents an increase in borrowing requirements.

	2018/19 Actual*	2019/20 Revised Estimate**	2019/20 Actual***
	£000	£000	£000
Capital Expenditure	**4,480**	**6,715**	**4,076**
Financed by:			
Capital Receipts/Developers Contributions	158	283	140
Capital Grants & Contributions	4,167	5,467	3,521
Revenue Contributions	155	278	415
Net financing need for the year	**0**	**687**	**0**

*Audited Statement of Accounts 2018/19
** Revised Estimate per Mid-Year Treasury Report (168/2019)
*** Note 20 - Statement of Accounts 2019/20 (unaudited) and outturn report (84/2020).

3.3 What was the Council's borrowing need (the Capital Financing Requirement)?

3.3.1 Any unsupported borrowing in a given year is added to the Council's Capital Financing Requirement. There is no unsupported borrowing for 2019/20.

3.3.2 The Council's Capital Financing Requirement (CFR) is simply the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The CFR is reduced every year as the Council incurs a 'borrowing charge' in the Revenue Account which reduces it (this is called Minimum Revenue Provision).

3.3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator.

	2018/19 Actual* £000	2019/20 Revised Estimate** £000	2019/20 Actual*** £000
CFR – 1 April	**21,859**	**21,245**	**21,245**
Movement in Year - CFR	(613)	23	(614)
CFR – 31 March	**21,246**	**21,268**	**20,631**
Movement in CFR Represented by			
Net financing need for the year (from table at para 3.2.2)	0	687	0
MRP	(613)	(664)	(614)
Voluntary Revenue Provision (VRP)	-	-	-
Movement in CFR	**(613)**	**23**	**(614)**

* Audited Statement of Accounts 2018/19
** Revised Estimate per Mid-Year Treasury Report (168/2019)
*** Note 20 - Statement of Accounts 2019/20 (unaudited) and outturn report (84/2020).

3.4 What is the current level of debt and how might it change?

3.4.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). The remainder comprises a Salix Loan of £420k repayable in 2020 and a Local Enterprise Partnership loan (LEP) of £630k, which matures in 2023. The Salix and LEP loans are shown in the accounts at concessionary rates which increases year on year until the final year where the full value is recognised. Details of the outstanding loans can be found in the table in paragraph 3.4.3.

3.4.2 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being repaid on the maturity date.

3.4.3 The overall debt position is monitored continuously and advice provided by Link Asset Services to identify opportunities for the repayment or restructuring of debt. No such opportunities were identified as cost effective in the year. Repayment of debt is subject to either a premium or dividend equating to the difference in interest payable for the remainder of the term of the loan and that which could be earned by the lender on a new loan for the same period. The debt position at the 31 March 2020 compared to the previous year is shown in the following table:

	31 March 2019		31 March 2020	
	Principal	**Average rate**	**Principal**	**Average rate**
Long Term Debt Public Works Loan Board (all fixed rate debt)	£21.386m	4.83%	£21.386m	4.83%
Local Enterprise Partnership (LEP)	£0.583m*	0.00%	£0.595m*	0.00%
Salix Loan	£0.281m*	0.00%	£0.201m*	0.00%
Total long term debt (all fixed rate debt)	£22.250m		£22.182m	
Operational Boundary	£28.000m		£28.000m	
Capital Financing Requirement	£21.246m		£20.631m	
Over/(under) borrowing	(£1.004m)		(£1.551m)	
Total investments	(£34.505m)	0.83%	(£41.281m)	0.95%
Net borrowing position	**(£12.255m)**		**(£19.099m)**	
***** The Council has not increased its LEP loan but the actual loan (£630k over 10 years) is shown in the accounts at a concessionary rate which increases year on year until the final year where the full value is recognised. The Salix (£420k over 5 Years) is also shown in the accounts at a concessionary rate until the final year where the full value is recognised, this loan is repaid in instalments and not on maturity.				

3.5 What borrowing limits did we set and how did we comply?

3.5.1 The Council cannot simply borrow indefinitely. There are a number of prudential indicators to ensure the Council operates its activities within well-defined limits. The indicators focus on two key aspects:

- Setting limits to control borrowing; and
- Assessing the affordability of the capital investment plans.

3.5.2 In addition, we also set limits on interest rate exposure.

3.5.3 <u>Controlling borrowing prudential indicators</u>

3.5.4 The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This indicator is important as it effectively measures whether your actual external debt exceeds your need to borrow. If it does, then it could suggest that Councils have been borrowing when they do not need to do so or for inappropriate purposes. It could also mean that the Council has made a reduction to its CFR by undertaking VRP. This is the case for the Council,

with additional VRP's being made in 2013/14 for £1.414m and 2015/16 £0.597m.

3.5.5 The table below shows that the Council has complied with this indicator for 2019/20.

	2019/20 Actual £000	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**
Gross Debt	22,436	27,436	27,436	27,436
Capital Financing Requirement (CFR)	20,631	32,503	31,583	30,664
Under / (Over) borrowing	**(1,805)**	**5,067**	**4,147**	**3,228**

3.5.6 In 2019/20, the Council was in an "overborrowed" position, which can be explained as follows:

- The position did not materialise from borrowing for revenue purposes, which this indicator is a key test of. Since 2008 when the Council borrowed £4m PWLB for the by-pass, the Council has taken only two loans i) an interest free loan from the Local Enterprise Partnership to contribute to the purchase and renovation of Oakham Enterprise Park (£630k); and ii) a Salix loan at 0% for Street Lighting upgrades (£420k). This borrowing is for capital purposes and not to fund revenue.

- The Council has also made voluntary contributions to reduce its CFR as a means of reducing the capital financing charge on the revenue account. In 2013/14 the application of unused Capital Receipts was used to reduce the CFR by £1.4m and in 2015/16 to repay the advance borrowing in relation to Adult Soccer a reduction of £597k. If the Council had not done this, the CFR would be £2m higher and the revenue account would receive a higher capital financing charge.

3.5.7 Ideally, to reduce interest costs, the Council would have preferred to use capital receipts etc to repay external debt. However, there has not been a viable business case to do so. The Council would have to pay a premium to repay early, which would cost the Council in the long term more than repaying in line with the current loan on maturity.

3.5.8 A further key prudential indicator represents a control on the maximum level of borrowing. The Council approved the Authorised Limit of £33m. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term

3.5.9 The table in paragraph 3.4.3 shows that Council did not breach this limit for 2019/20.

3.5.10 An additional indicator is the Operational Boundary – this is the maximum amount of money a Council expects to borrow during the year. This is lower than the Authorised Limit and acts as a useful warning sign if it is breached during the year, which could mean that underlying spending may be higher or income lower than budgeted. The Council approved an Operational Boundary of £28m within the 2019/20 Treasury Strategy. The table in paragraph 3.4.3 shows that Council did not breach this limit for 2019/20.

3.5.11 <u>Affordability Prudential Indicators</u>

3.5.12 The previous section covered the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.5.13 One of the key affordability indicators is the ratio of financing costs to net revenue stream. This indicator helps a Council identify if borrowing costs become too high as a proportion of its budget. This is important as borrowing costs always have to be paid and are very hard to cut if resources fall.

	Budgeted £000	**Actual £000**	
Capital Financing Costs	1,697	1,768	
Interest Receivable	(0,240)	(0,397)	
	1,457	1,371	A
Revenue Stream			
Government Grants	3,772	5,977	
Retained Business Rates	5,214	5,374	
Council Tax	26,597	26,597	
	35,583	37,948	B
Ratio (A divided by B as a percentage)	4.09%	3.61%	

3.5.14 The table above shows that the Council complied with this indicator. The net financing costs (A) were lower than budgeted, due to the additional interest earned on investments and the Revenue Stream (B) being higher due to additional income from government grants.

Appendix B. Link Asset Services Commentary on The Economy and Interest Rates

1 UK.

1.1 **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 Teresa 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.

1.2 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.

1.3 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. 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.

1.4 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.

1.5 Employment had been growing healthily through the last year but it has taken a big hit from March 2020 onwards. 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.

2 USA.

2.1 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. 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.

3 EUROZONE

3.1 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 targeted longer-term

refinancing operations (TLTRO); 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.

4 CHINA

4.1 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.

5 JAPAN

5.1 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.

6 WORLD GROWTH

6.1 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.

Appendix C. Treasury Management Glossary of Terms

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate: The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point: A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital Receipts: Money obtained on the sale of a capital asset.
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the

DMADF. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).
LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity: The date when an investment or borrowing is repaid.
Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Voluntary Revenue Provision (VRP): An additional contribution over and above the MRP that the Council can choose to make to reduce the CFR which in turn will reduce the MRP for future years.
Non Specified Investment: Investments which fall outside the CLG Guidance for Specified investments (below).
Operational Boundary: This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
Prudential Code: Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear,

affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators: Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A Council may also choose to use additional voluntary indicators.
Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.