South Cambridgeshire District Council

REPORT TO:	Audit & Governance	29 September 2020
LEAD CABINET MEMBER:	Councillor John Williams, Lead Cabinet Member for Finance	
LEAD OFFICER:	Peter Maddock, Head of Finance	

Treasury Management – Annual Report 2019/2020

Executive Summary

1. This report outlines the Treasury Management activities in the financial year 2019/2020 and invites the Audit and Governance Committee to note the Treasury Management performance and approve the report.

Key Decision

2. This is not a key decision as there are no resource implications directly arising from the report at this stage.

Recommendations

3. **That Audit and Governance Committee is requested to consider the report, to seek any clarification and, if satisfied, approve the Treasury Management Annual Report.**

Reasons for Recommendations

4. To consider a report on Treasury Management activities during the financial year 2019/2020.

Details

<u>Treasury Portfolio 2019/2020: Summary Position</u>

5. The summary position as at 31 March 2020 (with comparable data for 31 March 2019) is shown below:

	31 March 2019		31 March 2020	
Borrowing	**£000**	**Rate %**	**£000**	**Rate %**
PWLB	205,123	3.51	205,123	3.51
LOBO - Market	Nil		Nil	
Local Authority	3,000	0.80	10,000	0.82
Other Long Term Liabilities	Nil		Nil	
Total Debt	**208,123**		**215,123**	
Investments	**(97,658)**		**(111,719)**	
Net Borrowing/(Investment)	**110,465**		**111,719**	

Investments

6. Investments are categorised into long and short term (i.e. less than 365 days). The sum of £29.36 million had less than one year to maturity as at 31 March 2020 and is, therefore, classified as short term. The remaining balance held of £74.04 million is classified as a long term investment. The increase in Long Term Investments reflects the increased allocation to South Cambs Limited and loan to Cambridge Leisure and Ice Centre during the year. A summary of the investments held is shown below:

	Balance 01/04/2019	New Investments	Maturities/ Sales	Interest Accrued	Balance 31/03/2020
	£000	£000	£000	£000	£000
Investment Counterparty					
Short Term:					
Clearing Banks	14,000	18,000	(27,000)	(46)	5,000
Other Banks	4,000		(4,000)		Nil
Building Societies	3,000	13,000	(16,000)		Nil
Housing Associations	5,000	5,000	(5,000)	(55)	5,000
Local Authorities	4,500	51,700	(46,700)	(4)	9,500
Money Market Funds	7,175	221,170	(218,485)	(2)	9,860
Call Account	75	73,630	(73,705)	(1)	Nil
Long Term:					
CLIC (Ice Rink Loan)	1,255	1,145		(96)	2,400
South Cambs Ltd	58,653	12,991		(536)	71,644
Total Investments	**97,658**				**103,404**
Increase/(Decrease) in Investments					**5,756**

7. Investment returns remained low during 2019/2020. The UK Bank Rate remained at its August 2018 level of 0.75% for most of 2019/2020 and this provided a degree of stability for the Council's liquid holdings and in the short term Local Authority Market. Short term money market rates are still, however, at very low levels with average 3 month London Interbank Bid Rate (LIBID) in 2019/2020 being 0.63%, 6 month LIBID 0.70% and 1 year LIBID 0.80%. These rates correlate to the anticipated return to be achieved on investments over the durations quoted. The Council's actual return of 2.91% shows the effect of the portfolio's long term duration set out above.

8. A recurring theme throughout 2019/2020 in the UK was the uncertainty regarding the withdrawal process from the European Union, acting as a dampener on growth and inflation expectations. The initial departure deadline of 29 March 2019 was initially extended to 12 April 2019, then to 31 October 2019 and finally 31 January 2020. The General Election in December 2019 provided a working majority to the Government and, in January 2020, withdrawal agreement legislation was passed, taking the UK into a transition period that is due to run until 31 December 2020.

9. Any prospect that the move to the transition period, prior to withdrawal from the European Unit, might lead to an increase in growth potential in the UK were, however, dashed as the full effects of the Coronavirus pandemic began to emerge. Following the initial outbreak and subsequent lockdown in China, the virus has spread globally with hotspots in Europe and the United States of America. In the UK a lockdown was implemented in late March 2020 with the closure, at that time, of schools and all non-essential retail outlets.

10. In response to the emerging crisis interest rates were cut globally with banks seeking to provide liquidity through the purchase of financial assets. In the UK itself, the Bank of England cut the Base Rate initially on 11 March 2020 to 0.25% (from 0.75%) and subsequently it was reduced further on 19 March 2020 to a record low level of 0.1%.

11. The Government also introduced a number of measures that sought to help businesses survive the crisis caused by the Coronavirus pandemic, including loan guarantees for bank lending, payment of business grants and the expansion of retail relief reducing the business rates liability for many businesses. Given the uncertainty throughout 2019/2020 a cautious approach has been evident whereby investments continued to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to prevailing borrowing rates.

12. Public Works Loan Board (PWLB) rates and gilt yields have continued to experience levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Following a decline in gilt yields over the summer months, on 9 October 2019 HM Treasury suddenly announced that with immediate affect the PWLB margin above UK gilts would be increased from 80 bps to 180 bps. This announcement increased the borrowing costs on newly arranged loans from PWLB by 1%. At the same time the Treasury increased the lending limit of the PWLB from £85 billion to £95 billion.

13. The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.

14. The Council's primary objective in relation to its investments is to ensure that long term capital is not put at risk but that, within acceptable risk parameters, the portfolio is managed to ensure that interest is maximised. Liquidity is managed through the use of money market funds with additional access to the liquid PWLB and Local Authority borrowing market. This objective has been reinforced in the Treasury Management Strategy approved by Council on 20 February 2020. The Council has also appointed a Treasury Management Advisor, Link Asset Services, to enable independent specialist advice to be obtained on all aspects of the treasury management function, including advice on investments.

15. Due to higher balances than forecast further loans were made to South Cambs Ltd without taking on significant borrowing. This enabled a further £5.7 million to be invested across asset classes during 2019/2020 with £7 million borrowed during January and £3 million in February to meet cash flow requirements. This short term borrowing for cash flow purposes was repaid in full in April 2020

16. The table below lists the £19.5 million held in fixed term investments as at 31 March 2020. These investments include deposits with other local authorities and registered providers:

	Amount £000	Interest £000	Total £000	Term Days	Rate %	Maturity Date
Counterparty						
Lloyds	1,000	12.500	1,013	365	1.25	30/04/2020
Lloyds	2,000	24.110	2,024	364	1.25	20/05/2020
Lloyds	1,000	10.970	1,011	364	1.10	31/07/2020
Lloyds	1,000	10.327	1,010	364	1.05	28/08/2020
Places for People	1,000	13.962	1,014	364	1.40	27/05/2020
Places for People	2,500	36.151	2,536	364	1.45	30/06/2020
Places for People	1,500	21.690	1,522	364	1.45	06/07/2020
Conwy CBC	2,000	1.808	2,002	33	1.00	15/04/2020
Uttlesford DC	2,500	2.858	2,503	39	1.07	27/04/2020
Peterborough CC	5,000	5.055	5,005	41	0.90	23/04/2020
Total	19,500					

17. The remaining £9.86 million of short term investment balances were held in money market funds and the Council's Call account for liquidity purposes.

18. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy, as set out in its Treasury Management Strategy Statement for 2019/2020, which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

19. All new investments are undertaken in accordance with advice from the Council's Treasury Management Adviser. A list of investment counterparties used during 2019/2020 is listed in **Appendix A**.

Borrowing

20. At 31 March 2020 the Council had external borrowing of £215.123 million.

	Balance 01/04/2019 £000	Maturing Debt £000	Reclassified Debt £000	New Debt £000	Balance 31/03/2020 £000
Borrowing					
Short Term Borrowing	3,000	(14,000)		21,000	10,000
Long Term Borrowing	205,123				205,123
Total Borrowing	**208,123**				**215,123**
Other Long Term Liabilities					
Total External Debt	**208,123**				**215,123**

21. £205,123 million of the total relates to borrowing from the PWLB. The PWLB loans were obtained for Housing Revenue Account (HRA) purposes as part of the HRA Self-Financing in 2012. These loans are fixed interest maturity loans having an average term to maturity of approximately 26 years and bearing interest at an average rate of 3.51%.

22. The Council also held £10 million of borrowing (£7 million Local Authorities and £3 million Building Society) which was taken for cash flow purposes during Quarter 4. The Council was expecting significant s106 monies during the final quarter of the financial year but there was significant uncertainty about exactly when this would be received. Some short-term borrowing was, therefore, taken out to finance the purchase of the commercial premises at 270 Cambridge Science Park pending the receipt of this money which arrived in late March 2020.

Cash Management

23. In keeping with the MHCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity averaging £7.75 million through the use of Money Market Funds and call accounts.

24. Internal Treasury Management includes the management of the Council's bank account balances. The aim is for all cleared funds to be deposited in interest bearing accounts or time deposits.

Outturn Budget Monitoring

25. Council, at its meeting on 21 February 2019, approved a net budget for interest payable and investment income in 2019/2020 of £2.004 million. Higher than forecast investment balances in the year contributed to an increase in interest receivable and lower than forecast capital expenditure in 2019/2020 resulted in lower Minimum Revenue Provision (MRP) cost. MRP is not applied to lending to South Cambs Ltd.

26. The budget is compared to the final outturn position in the table below:

	Budget 2019/2020	**Outturn 2019/2020**	**Variance**
	£000	**£000**	**£000**
Expenditure Description			
Interest Payable - PWLB & Short Term Loans	7,188	7,273	85
Contribution to/(from) Reserves/Provision	(390)	682	1,072
Minimum Revenue Provision	176	581	405
Interest Receivable	(2,004)	(2,870)	(866)
Net Expenditure	**4,970**	**5,666**	**696**

27. The significant variance against budget was the Contribution to/from Reserves with the Reserves increasing by £682,000 rather than reducing in 2019/2020. The additional contribution to the Northstowe Reserve, agreed at Cabinet at its meeting on 4 March 2020, was the main item in the change to Reserves.

Benchmarking

28. Benchmarking data is also provided by the Council's Treasury Management Adviser. Investment return rates for the year to 31 March 2020 (excluding lending to South Cambs Ltd) are reported on a quarterly basis and were better than the client average and can be compared as follows:

	Investment Returns	
Quarter Ending	**SCDC**	**Client Average**
30 June 2019	1.04%	0.92%
30 September 2019	0.98%	0.89%
31 December 2019	0.94%	0.87%
31 March 2020	0.91%	0.75%

29. Benchmarking data on average weighted credit scores of the Council's counterparties (based in information held by the Council's Treasury Management Adviser) is set out in the table below and illustrates the Council's credit risk position in relation to other Councils:

	Weighted Average Credit Risk	
Quarter Ending	**SCDC**	**Comparators**
31 March 2019	3.82	3.23
30 June 2019	3.71	3.37
30 September 2019	4.11	3.35
31 December 2019	3.21	3.13
31 March 2020	2.53	2.88

30. The benchmarking shows that the Council's portfolio began the year with a slightly higher average credit risk than its Comparators group and finished the year with slightly lower exposure than the group. This has been achieved whilst maintaining investment returns above the client average.

Treasury Management Strategy for 2019/2020

(a) Interest Rates and Investments

31. The Treasury Management Strategy for 2019/2020 was prepared in the context of an expected low interest rate policy with Bank of England Base Rate predicted to move from 0.50% to 0.75% during the year. The Base Rate was subsequently raised to 0.75% in August 2018 and remained at this level until March 2020. Volatility in the financial markets has continued to affect the Council's holdings.

32. The Council continued its policy of minimising risk by investing in Fixed Deposits only with highly rated Banks and Building Societies, Local Authority Counterparties and Registered Providers and using Money Market Funds and Bank Call Accounts to manage liquidity. This policy coupled with using pooled fund investments (suitably diversified) to maximise interest return on an element of the Council's portfolio has enabled the Council to reduce the cost of Capital Financing.

(b) Borrowing

33. The 2019/2020 borrowing strategy was based upon obtaining new PWLB loans of £32.5 million to fund the capital programme. Careful management of cash flows and short term borrowing enabled the Council to fund the capital programme without entering into long term borrowing. Council did borrow £21 million of short term Local Authority loans for operational liquidity during the year, and £10 million of this was outstanding as at 31 March 2020.

34. During 2019/2020 there was a requirement for short term external borrowing of £10 million. Unfinanced capital expenditure was met from internal cash borrowing. This is inclusive of additional loans to the value of £12.991 million made to South Cambs Limited and £1.1 million made to Cambridge Leisure & Ice Centre from cash balances. These loans are recognised as capital expenditure in the year increasing the Council's underlying need to borrow (the Capital Financing Requirement).

	Actual 2018/2019 £'000	**Original Budget 2019/2020 £'000**	**Actual 2019/2020 £'000**
Capital Financing Requirement (CFR) as at 1st April			
- General Fund	42,422	65,646	65,646
- HRA	204,429	204,429	204,429
Total	**246,851**	**270,075**	**270,075**
Change in the CFR	23,311	32,507	39,536
Minimum Revenue Provision	-87	-176	-581
Capital Financing Requirement (CFR) as at 31 March	**270,075**	**302,406**	**309,030**

Economy

35. The Council's Treasury Management Advisers have provided a summary of the economy during 2019/2020, and related performance, and this is included at **Appendix B**.

Compliance with Performance Indicators

36. During the financial year the Council operated within the treasury limits and prudential indicators approved by Full Council on 21 February 2019.

37. Performance against prudential indicators in 2019/2020 was as follows:

(1) Acceptance of the CIPFA Treasury Management Code of Practice (National Indicator)

This indicator demonstrates that the Council adopted the principles of best practice. The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in January 2012. The Council adopted the CIPFA Treasury Management Code & Guidance Notes as part of its Treasury Management Policy and Strategy which was considered and approved at its meeting on 21 February 2019.

(2) Fixed Interest Rate Exposure and Variable Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable interest rate exposures is expressed as the proportion of net principal borrowed.

Maturity structure of borrowing	**Under 12 months**	**More than 12 months**	**Under 12 months - Actual**	**More than 12 months - Actual**
Upper limit for fixed interest rate exposure	100%	100%	4.65%	95.35%
Upper limit for variable rate exposure	100%	0%	0%	0%

(3) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Fixed Rate Borrowing		
Lender	Repayable within	Amount £,000
Local Authorities	<12 Months	10,000
PWLB	15 – 20 years	35,000
PWLB	20 – 25 years	50,000
PWLB	25 – 30 years	50,000
PWLB	30 – 35 years	50,000
PWLB	35 – 40 years	20,123

The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment.

(4) Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

The only loans exceeding 364 days are loans made to South Cambs Ltd, a wholly owned subsidiary of the Council, and Cambridge Ice and Leisure Centre (CLIC). Lending to CLIC formed 2% of the investment portfolio at 31 March 2020.

The limit relates to the maximum amount that can be invested in year. With regard to liquidity, no more than 50% of the total average portfolio held will be invested in instruments over 364 days, excluding South Cambs Ltd.

(5) Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk but they are not a sole feature in the assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength and information on corporate developments and market sentiment towards counterparties. The following key tools are used, either by ourselves or the appointed Treasury Advisers to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals (such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum.

The only indicators with prescriptive values are credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

(6) Liquidity Risk

The Council 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.

Implications

38. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Legal

39. The Council is required to have regard to the CIPFA Code of Practice for Treasury Management in the Public Services. The Code recommends that an annual post year report on Treasury Management activities is prepared for consideration after each year end.

Policy

40. Full Council, at its meeting on 21 February 2019, approved the Council's Treasury Management Policy and Strategy Statements for 2019/2020 and the Strategy was reaffirmed by Audit and Governance Committee, at its meeting on 19 December 2019, following a mid-year review.

Finance

41. In 2019/2020 the Council managed a turnover in investments of £387 million (£356 million in 2018/2019) in-house within the Finance Team in the Finance Directorate. As at 31 March 2020, the Council had funds to the market value of £103.4 million (£98.8 million at 31 March 2019), all managed in-house. These funds include capital balances, reserves and provisions, collection fund monies and monies held on behalf of third parties. The increase was due primarily to higher Grant income and retained business rates.

42. At 31 March 2020 the Council had external borrowing of £215.1 million plus £Nil million of leasing liabilities (£208.123 million with no refuse vehicle leasing liabilities at 31 March 2019)

Risks

43. There are clearly inherent risks in placing investments both in terms of the security of the capital invested and the level of return from the investment. The approved Treasury Management Strategy 2019/2020 identified the Councils investment priorities as:

    (i) The security of the capital;
    (ii) The liquidity of its investments.

44. The Treasury Management Strategy states that 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 low investment income.

45. The Council engages an external Treasury Management Adviser to provide appropriate and timely advice on the Council's treasury portfolio (and, in particular, to provide advice on counter-party creditworthiness and investment limits). This appointment is regarded as critical given the investment risks.

Environmental

46. There are no direct environmental implications arising from the report.

Equality and Diversity

47. In preparing this report, due consideration has been given to the District Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010. A relevance test for equality has determined that the activity has no relevance to South Cambridgeshire District Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality impact assessment is not needed.

Effect on Council Priority Areas

48. Timely and robust consideration of the Council's treasury management activities is vital to ensure that financial performance is in line with expectations.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

(a) at all reasonable hours at the offices of South Cambridgeshire District Council;
(b) on the Council's website; and
(c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Budget Setting Report – Report to Council: 21 February 2019
- Capital Strategy 2019 - 2023 – Report to Council: 22 February 2018
- Treasury Management Strategy – Report to Council: 21 February 2019

Appendices

A Investment Counterparties 2019/2020

B Treasury Management Adviser – Economic Review 2019/2020

Report Authors:

Peter Maddock – Head of Finance
e-mail: peter.maddock@scambs.gov.uk

Dan Hasler – Accounts Assistant
e-mail: daniel.hasler@scambs.gov.uk

Appendix A

Investment Counterparties 2019/2020

The Council’s investment counterparties used during 2019/2020 are listed below:

Category	Counterparty
Building Society	Yorkshire BS
Building Society	Coventry BS
Clearing Bank	Barclays Bank
Clearing Bank	Lloyds Bank
Clearing Bank	Santander UK
Other Bank	Close Brothers
Housing Association	Places for People
Local Authority	Lancashire CC
Local Authority	Bury MBC
Local Authority	Peterborough City Council
Local Authority	Uttlesford DC
Local Authority	Conwy CBC
Local Authority	North Herts DC
Local Authority	Devon & Cornwall Police
Local Authority	Cornwall Council
Local Authority	LB of Barking and Dagenham
Local Authority	Wakefield Council
Local Authority	PCC for Northumbria
Local Authority	Suffolk County Council
Local Authority	Moray Council
Local Authority	Barnsley MBC
Local Authority	Buckinghamshire CC
Local Authority	North Tyneside Council
Local Authority	Calderdale MBC
Money Market Fund	Aberdeen Standard Life
Money Market Fund	Deutsche Bank
Call account	Barclays Bank plc
South Cambs Ltd	Ermine Street Housing
Other investments	Cambridge Leisure and Ice Centre

Appendix B

Treasury Management Adviser – Economic Review 2019/2020

UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of 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.

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.

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

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.

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

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

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

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

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

However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

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

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.

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