BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is not a Key Decision within the Council's definition and has not been included in the relevant Forward Plan

Report of the Executive Director of Core Services

TREASURY MANAGEMENT ACTIVITIES & INVESTMENT PERFORMANCE - QUARTER ENDED 31st DECEMBER 2017

1. Purpose of the Report

1.1 The CIPFA Treasury Management Code recommends that members are updated regularly on the Council's treasury management activities (including as a minimum, a Treasury Management Strategy Statement (TMSS), a mid-year update and an annual report). This report, therefore, ensures that the Council is implementing best practice in accordance with the Code.

2. Recommendations

2.1 It is recommended that Members note:-

- **The Treasury Management activities undertaken during the quarter and compliance with the Prudential and Treasury Indicators;**
- **The Authority's latest borrowing position (Section 5);**
- **The Authority's latest investment portfolio and performance for the quarter (Section 6); and**
- **The Authority's latest outturn position against the approved Treasury Management budget (Section 8).**

3. Economic Summary

3.1 Highlights and key messages:

- The economy maintained a steady pace;
- Employment fell, but there were some signs of a pick-up in wage growth;
- Headline inflation reached its highest since March 2012;
- The Bank Rate was increased for the first time in 10 years;
- The European Commission gave the green light to progress to the second phase of Brexit negotiations.

3.2 A more detailed commentary from our advisors is provided in Appendix 3.

4. Interest Rate Forecast

4.1 The table below outlines the latest base rate projections from our advisors - these projections are important as the base rate influences what borrowing rates are available to the Authority:

Base Rate	Current	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020
Link Asset Services (Q2)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Link Asset Services (Q3)	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics (Q2)	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-
Capital Economics (Q3)	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%

4.2 The UK base rate was increased in November 2017 (from 0.25% to 0.50%) in line with market expectations. This was the first rate rise for 10 years and a potential sign that the current stable interest rate environment is subject to greater volatility over the short to medium term.

4.3 The projections from our advisors suggest that a further rate increase is unlikely to happen until Q3 of 2018/19 after the Brexit negotiations have been concluded.

4.4 On the other hand, Capital Economics (an independent advisory group), suggest that rate rises will be more accelerated - with the next rise being forecast in Q1 of 2018/19, followed by a series of further increases over the following financial year.

4.5 This difference in opinion demonstrates the uncertainty that exists in the financial markets. It is vital therefore, that the Council maintains a prudent stance towards interest rate risk.

4.6 A more detailed commentary from our advisors on the interest rate forecast is provided in Appendix 3.

5. The Authority's Borrowing Position

Borrowing Need (Capital Financing Requirement)

5.1 The Capital Financing Requirement (CFR) is essentially a measure of the Council's underlying borrowing need, based on historic and future capital investment. Capital investment which isn't financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR.

5.2 The CFR cannot increase indefinitely, as there is a statutory obligation for the Authority to set aside an annual revenue charge, the minimum revenue provision (MRP), which effectively restricts the proportion of the Council's budget that can be used to finance debt. This broadly reduces the borrowing need in line with each asset's life. In addition, the Authority is able to make voluntary contributions towards reducing its CFR as it sees fit.

5.3 Included in the CFR are other long term liabilities such as PFI schemes and finance leases. Whilst these increase the Council's overall CFR, the borrowing facility included means that we're not required to borrow separately. The borrowing CFR therefore excludes such amounts.

5.4 The table below outlines the Authority's projected borrowing need over the next 5 years, compared to the closing position from 2016/17. This covers the planned expenditure per the approved capital programme, plus anticipated capital investment yet to be approved:

	2016/17 Actual	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Opening Capital Financing Requirement	**937,290**	**940,585**	**945,549**	**967,276**	**1,003,812**
Capital Investment	68,629	93,758	78,789	62,383	46,253
Resources Utilised	(53,822)	(77,587)	(46,597)	(14,989)	(10,690)
Increase in CFR from In Year Capital Investment	**14,807**	**16,171**	**32,192**	**47,394**	**35,563**
Amount Set Aside to Repay Debt*	(11,512)	(11,207)	(10,465)	(10,858)	(12,264)
Closing Capital Financing Requirement	**940,585**	**945,549**	**967,276**	**1,003,812**	**1,027,111**
Net Change	**3,295**	**4,964**	**21,727**	**36,536**	**23,299**
Borrowing CFR	701,300	707,711	730,928	768,627	793,549
PFI / Leasing CFR	239,285	237,838	236,348	235,185	233,562

* Includes a voluntary set aside for the HRA

5.5 The Authority's borrowing strategy makes reference to the temporary use of internal resources to finance its Capital Expenditure (referred to as internal borrowing). This approach allows the Authority to take advantage of the current low interest environment, however with it comes greater exposure to interest rate and refinancing risk.

5.6 The table below outlines the anticipated borrowing need for the Authority over the next 5 years, assuming no further borrowing is undertaken (for illustrative purposes only):

	2017/18 Opening	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
CFR	940,585	945,549	967,276	1,003,812	1,027,111
Total Debt	779,380	802,113	797,714	729,381*	704,909
Under / (Over) Borrowed Position	**161,205**	**142,174**	**169,562**	**274,431**	**322,202**

** Includes deferred loans of £20m to be drawn down in March 2020 (paragraph 5.11 refers)*

5.7 The following tables highlight the anticipated use of reserves that are currently supporting the Council's under-borrowed position. All but £15M of GF reserves are expected to be utilised over the reporting period (which relates to a minimum working balance and other statutory functions), which demonstrates a need to replace these with external debt. As a prudent measure, it assumes no replenishment of the GF reserves. In contrast, not all of the HRA reserves are expected to be used by 2020/21. The minimum working balance for the HRA is £3.5M.

GENERAL FUND

	2017/18 Estimate	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Under / (Over) Borrowing	130,069	160,581	222,269	275,281
Useable Reserves	79,562	39,774	16,140	15,000
External Borrowing Need	**50,507**	**120,807**	**206,129**	**260,281**
% of CFR	7%	17%	28%	34%

HRA

	2017/18 Estimate	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Under / (Over) Borrowing	13,367	8,981	52,162	46,921
Useable Reserves	38,080	24,271	14,241	6,299
External Borrowing Need	**-**	**-**	**37,921**	**40,622**
% of CFR	0%	0%	15%	16%

5.8 The table below outlines the movement on the Authority's borrowing position during the quarter:

	Balance on 01/10/2017 £m	New Borrowing £m	Debt Repaid £m	Balance on 01/01/2018 £m	Net Increase/ (Decrease) £m
Temporary Borrowing	101.903	22.000	(27.200)	96.703	(5.200)
PWLB Borrowing	392.799	20.000	(0.925)	411.874	19.075
Other Long Term Loans	63.000	-	-	63.000*	-
Long Term Local Authority	3.897	-	-	3.897	-
TOTAL BORROWING	**561.599**	**42.000**	**(28.125)**	**575.474**	**13.875**
Other Long Term Liabilities	227.901	-	-	227.901	.
TOTAL DEBT	**789.500**	**42.000**	**(28.125)**	**803.375**	**13.875**

** Excludes deferred loans of £20m yet to be drawn down (paragraph 5.11 refers)*

New Borrowing

5.9 In line with the strategy, new PWLB borrowing of £20M was undertaken during the quarter at a rate of 2.49%, which sought to protect the Council from any sudden interest rate rises as a result of the expected base rate increase, whilst at the same time reducing the Council's under-borrowed position. Officers will continue to monitor PWLB rates in order to identify any further borrowing opportunities. The latest PWLB certainty rate forecasts are shown within Appendix 3.

5.10 The Council also secured a deferred loan of £20M to be drawn down on the 3rd March 2020 (as approved by Cabinet on the 29th November 2017). This is explained further in section 9.

5.11 A Debt Options analysis has been carried out to assess the Council's portfolio and its requirements over the next 5 years - in light of the changing interest rate expectations – which takes into account the impact of taking various decisions on the Capital Financing Budget. Several options were outlined in the 2017/18 TMSS to address the Authority's borrowing position, as set out in section 8.

Borrowing in Advance of Need

5.12 The Council has not borrowed in advance of need during the quarter ended 31st December 2017.

Debt Rescheduling

5.13 No debt rescheduling has been undertaken during the year to date due to the significant premiums involved. However officers will continue to assess these in light of the current treasury position, to identify any potential opportunities as they arise.

6. The Authority's Investment Portfolio

6.1 The table below outlines the movement on the Authority's investment portfolio during the quarter (a more detailed breakdown is shown in Appendix 2):

	Balance on 01/10/2017 £m	Investments Made £m	Investments Repaid £m	Balance on 31/12/2017 £m	Net Increase/ (Decrease) £m
Long-Term Investments *	7.000	-	-	7.000	-
Short-Term Investments	25.000	36.000	(20.000)	41.000	16.000
Money Market Funds / Instant Access	24.300	78.000	(74.800)	27.500	3.200
TOTAL INVESTMENTS	**56.300**	**114.000**	**(94.800)**	**75.500**	**19.200**

* The 'long-term investments' referred to above are long-term in that they're invested for an indefinite period, however they can be recalled within 3 days.

6.2 The Authority's overall investment portfolio increased by £19.2M during the quarter predominantly arising from timing differences between the receipt of cash income and liabilities falling due in the period.

6.3 In line with the 2017/18 TMSS, our investments are undertaken with regard to the following priorities:

1. Security of capital (protecting the sums invested);
2. Liquidity (ensuring cash is available when needed); and
3. Yield (pursuing optimum performance after considering the above).

6.4 Two deposits placed during the quarter were in excess of the currently approved counterparty limit for local authorities (£5M); however these deposits are considered very secure as reflected by the revised limit set for 2018/19 (extended to £10M).

Counterparty	Rating	Principal (£m)	Status
Plymouth City Council	AA	5.00	Fixed deposit to 29.01.18
Plymouth City Council	AA	5.00	Fixed deposit to 08.02.18
Denbighshire County Council	AA	6.00	Fixed deposit to 19.02.18

6.5 Officers are continuing to assess daily cash flows and liquidity requirements to ensure that the Authority's investments are the most suitable within the current environment.

6.6 The 7 day London Interbank Bid Rate (LIBID) is used as a performance indicator for measuring the return on investments. The average rate of return on the Authority's investments at the end of the quarter was 0.44%, exceeding the 7 day LIBID benchmark of 0.36%. Since the base rate increase in November 2017, yields are expected to rise gradually throughout 2017/18 and 2018/19.

7. Compliance with Treasury and Prudential Limits

7.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Prudential and Treasury Indicators (affordability limits) are included in the approved TMSS.

7.2 During the quarter the Council operated within the treasury and prudential indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 1.

8. Budget

8.1 The Council has a specific Capital Financing Budget to cover the cost of borrowing and other long term liabilities. These costs are offset to some extent by the income generated from the Council's investments.

8.2 It is currently forecast that Capital Financing resources will underspend in 2017/18. This underspend partly relates to the full year effect of the savings (£2.0M) as a result of the change in the Council's MRP policy. The ongoing saving has been built into the ongoing MTFS from 18/19 and therefore is one off in 2017/18.

8.3 In addition, there is likely to be a significant underspend (£1.9M) from the Capital Financing budget in 2017/18 as a result of short term borrowing and taking advantage of the current low interest rate environment. However as rates start to rise the Authority will be looking to fix out its borrowing leading to a corresponding increase in capital financing costs so any possible saving will be one off in nature.

9. The Future Outlook for Treasury Management Activities

9.1 The Finance Business Unit continues to closely monitor the Council's borrowing position together with projected interest rate forecasts for the next two years.

9.2 Affordability and the 'cost of carry' (the difference between long-term borrowing rates and short-term investment rates) remain important influences on the borrowing strategy and the Authority determines it cost effective in the short-term to use internal resources. However, the Council will not be able to sustain a temporary / internally borrowed position indefinitely and will eventually need to fix out more borrowing in the near future to fund the Glass Works scheme and other previously approved commitments. In addition to this, the Council has a number of loans that will mature over the next 2-3 years at relatively high rates. The Finance Business Unit will again seek to replace these loans at lower rates as part of the process to optimise the Council's longer term borrowing position.

9.3 Several borrowing recommendations were outlined in the 2017/18 TMSS including:

1) Borrowing from the newly formed Municipal Bond Agency (MBA). The Agency has been established to provide an alternative source of funding for Local Authorities from the PWLB. The Agency is a new initiative and is looking to make its first bond issue shortly. Barnsley is one of 4 authorities looking to borrow from the MBA at £10M over a 10 year period. The final rate will be determined at loan draw down, however the MBA have committed to set a rate that is less than PWLB for the equivalent period.

2) Fixing out a proportion of the debt portfolio, to move towards fixing out temporary variable loans as a policy objective. Repaying the variable rate debt will reduce interest rate risk (without incurring a penalty), but clearly will introduce additional costs to refinance. As part of this approach, £20M was fixed at a rate of 2.49% during the last quarter (paragraph 5.8 refers).

3) Reviewing the feasibility of taking out deferred loans to cover off a large variable loan due to mature in 2019/20 - options are available to fix the rate now for a period of up to 4 years in advance. The Council has entered an agreement to draw down £20M on the 3rd March 2020, at a rate marginally above the equivalent PWLB rate (following Cabinet approval on the 29th November 2017). This is considered a good result in that it provides greater certainty at a reasonably low cost (whilst also avoiding any cost of carry). The rate is also likely to be lower than the prevailing PWLB rate at draw down.

4) Refinancing the Council's Building Schools for the Future PFI programme. This has now been completed for phases 1 and 2 in conjunction with the Local Education Partnership; and it is proposed to move to completing phase 3 over the next few months. When all 3 phases are complete, this is likely to generate additional estimated savings to the Council of around £0.5M per annum.

9.4 The Authority is aware of three recent / upcoming reforms that may impact on its investment activities in the near future:

1) **Markets in Financial Institutions Directive (MiFiD II)**. MiFiD II is a wide-ranging Directive which aims to strengthen the investment services market. Effective from January 2018, it introduces a number of key changes to client categorisation, meaning Local Authorities will have to opt- up to professional client status in order to access certain products. The opt-up process involved the Council being assessed against a number of qualitative and quantitative tests. Officers have received confirmation of professional client status from all the relevant counterparties, therefore it is expected that business will continue as usual for the foreseeable future. However officers will continue to monitor the situation and report on any risks to the criteria being met.

2) **Money Market Fund (MMF) Reform**. The Money Market Fund Reform introduces a new structural fund - the Low Volatility Net Asset Value (LVNAV) Fund – and some changes to the existing Money Market Funds. These regulations will apply to new funds from July 2018 and existing funds from January 2019. Whilst the principal amount invested in LVNAV funds may fluctuate from time to time, the advice the Council has received suggests that the probability of this happening is very low. However it is felt that the additional yield generated by these funds are not worth the added risk; therefore the recommendation for 2018/19 is that LVNAV and other variable funds are excluded from the Authority's list of approved instruments. Officers will continue to monitor the situation and provide a further update in the annual report.

3) **IFRS9 Financial Instruments**. This is a new requirement for 2018/19 which changes the way that investments are accounted for. IFRS9 could potentially affect the Council's general fund balances in two ways:
   - The change of account treatment of certain instruments, which can introduce an element of market volatility to investment valuations;
   - The introduction of an expected credit losses model, in which the Authority must recognise potential losses (as opposed to the current requirement to recognise actual losses)

   Given the current size and nature of the Council's investment portfolio, the impact of is expected to be fairly low, however this is subject to the outcome of a recent CIPFA consultation. A further update will be provided in due course.

Prudential and Treasury Indicators as at 31st December 2017

Prudential Indicators	Limit for 2017/18 (£'000)	Quarter Actual (£,000)	Compliance with Indicator?
Maximum Debt Compared to Authorised Limit	990,591	822,884	Yes
Average Debt Compared to Operational Boundary	960,591	810,171	Yes

Maturity structure of fixed rate borrowing	Upper Limit (%)	Lower Limit (%)	Quarter 3 Actual (£'000)	Quarter 3 Actual (%)	Compliance with Indicator?
Under 12 months	0	50	136,398	28	Yes
12 months to 2 years	0	25	7,433	1	Yes
2 years to 5 years	0	25	57,992	12	Yes
5 years to 10 years	0	25	38,455	8	Yes
10 years to 20 years	0	75	21,426	4	Yes
20 years to 30 years	0	75	55,539	11	Yes
30 years to 40 years	0	75	67,400	14	Yes
40 years to 50 years	0	75	106,030	22	Yes

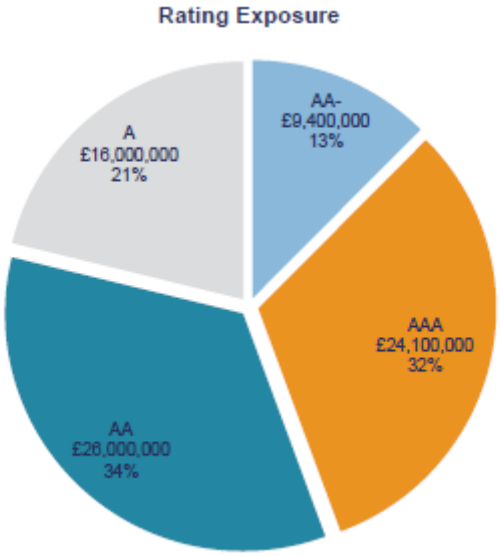
Treasury Indicators	Limit for 2017/18 (%)	Quarter 3 Actual (%)	Compliance with Indicator?
Upper limit of fixed interest rates based on net debt	90	85	Yes
Upper limit of variable interest rates based on net debt	25	15	Yes

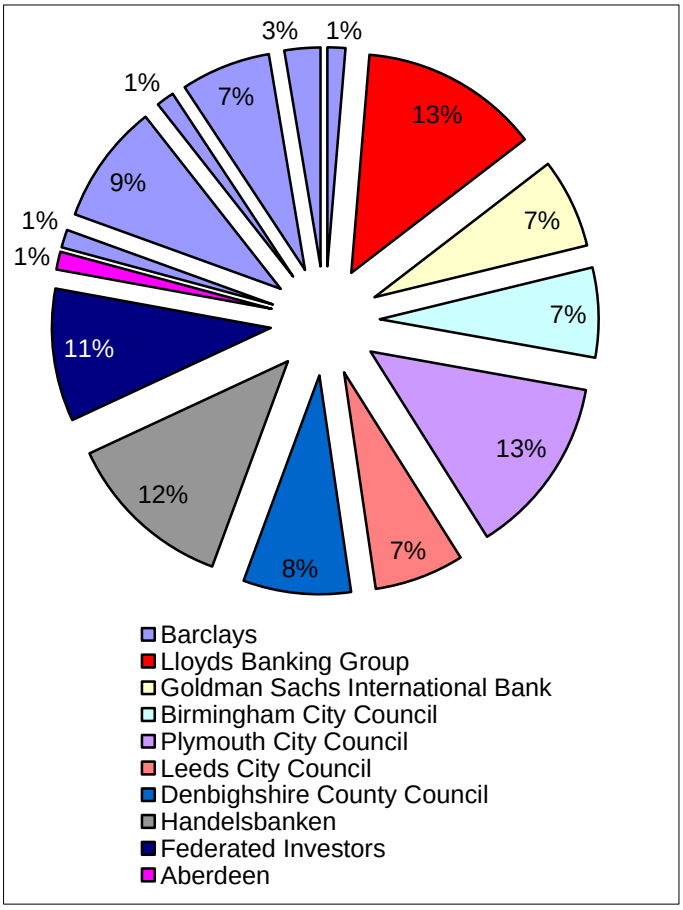
Treasury Indicators	Limit for 2017/18 £'000	Quarter 3 Actual (£'000)	Compliance with Indicator?
Upper limit for principal sums invested over 364 days*	20.000	-	Yes

** The 'long-term investments' referred to in section 6.1 are long-term in the sense that they're invested for an indefinite period, however they can be recalled within 3 days we have excluded them from the indicator above.*

Analysis of Investment Portfolio as at 31st December 2017

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Federated Investors (UK)	7,400,000	0.39%		MMF	AAA	0.000%
MMF Aberdeen	1,000,000	0.28%		MMF	AAA	0.000%
MMF Goldman Sachs	1,000,000	0.23%		MMF	AAA	0.000%
MMF Standard Life	6,700,000	0.35%		MMF	AAA	0.000%
MMF Deutsche	1,000,000	0.24%		MMF	AAA	0.000%
Barclays Bank Plc	1,000,000	0.30%		Call	A	0.000%
Svenska Handelsbanken AB	9,400,000	0.30%		Call	AA-	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.63%		USDBF	AAA	0.000%
USDBF Payden Sterling Reserve Fund	2,000,000	0.89%		USDBF	AAA	0.000%
Birmingham City Council	5,000,000	0.40%	30/11/2017	05/01/2018	AA	0.000%
Plymouth City Council	5,000,000	0.35%	27/10/2017	29/01/2018	AA	0.002%
Leeds City Council	5,000,000	0.32%	27/09/2017	05/02/2018	AA	0.002%
Bank of Scotland Plc	5,000,000	0.50%	03/11/2017	05/02/2018	A	0.006%
Plymouth City Council	5,000,000	0.36%	08/11/2017	08/02/2018	AA	0.002%
Denbighshire County Council	6,000,000	0.45%	18/12/2017	19/02/2018	AA	0.003%
Lloyds Bank Plc	5,000,000	0.65%	25/10/2017	25/04/2018	A	0.018%
Goldman Sachs International Bank	5,000,000	0.70%	04/12/2017	04/06/2018	A	0.024%
Total Investments	**£75,500,000**	**0.44%**				**0.004%**





Economic Summary (Link Asset Services)

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

However, growth picked up in quarter 3 to 0.4% and in quarter 4 there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole. Growth in quarter 4 is expected to be around 0.4% again which would see annual growth in 2017 coming in at around 1.7 – 1.8%, almost as strong as the recently upwardly revised figure for 2016 of 1.8%, (which meant that the UK was equal to Germany as having the strongest GDP growth figure for the G7 countries in 2016).

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in its words warning that Bank Rate will need to rise. Recent Bank of England Inflation Reports have flagged up that they expected CPI inflation to peak at just over 3% in late 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 3.1% in November. The reason why the MPC became so aggressive with its wording in September and November around increasing Bank Rate was due to an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It was therefore no surprise that the MPC increased Bank Rate by 0.25% to 0.5% in November. However, their forward guidance of two more increases of 0.25% by 2020 was viewed as being more dovish than markets had expected. However, some forecasters are flagging up that they expect growth to improve significantly in 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weaker services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on more than one increase in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and 0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was only 1.2%. It is therefore unlikely to start on an upswing in rates until possibly towards the end of 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 followed that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%, the first time since 2014 that two successive quarters have been over 3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1% in November, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on an upswing in rates with four increases since December 2016 to lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. In October, the Fed became the first major western central bank to make a start on unwinding quantitative easing by phasing in a start to a gradual reduction of reinvesting maturing debt.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation anywhere near to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest Rate Forecast

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Link Asset Services undertook its last review of interest rate forecasts on 7 November after the quarterly Bank of England Inflation Report and MPC meeting. As expected, the MPC policy raised Bank Rate by 0.25% to 0.50%. The MPC also gave forward guidance that they expected to raise Bank Rate by 0.25% only twice more in the next two years to reach 1.0% by 2020. This was very much in line with previous guidance that Bank Rate would only go up very gradually and to a limited extent.

The overall balance of risks to economic recovery in the UK is probably currently to the downside due to the uncertainties around Brexit; however, given those uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.