

BARNSELY 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, Core Services
and Service Director, Finance (S151 Officer)**

ANNUAL REPORT ON TREASURY MANAGEMENT AND LEASING ACTIVITIES 2017/18

1. Purpose of Report

- 1.1 This document has been prepared in accordance with the CIPFA Treasury Management Code and CIPFA Prudential Code and reviews the treasury management and leasing activities carried out by the Council during 2017/18.
- 1.2 In broad terms it covers the following:
- The agreed Treasury Management Strategy for 2017/18;
 - Economic summary;
 - The Council's borrowing and leasing activity;
 - The Council's investment activity, and
 - Prudential and Treasury Indicators for 2017/18.

2. Recommendations

- 2.1 It is recommended that Members note:
- **The treasury management and leasing activities carried out during 2017/18, and**
 - **The Prudential and Treasury Indicators set out in Appendix 1.**

3. The Agreed Strategy for 2017/18

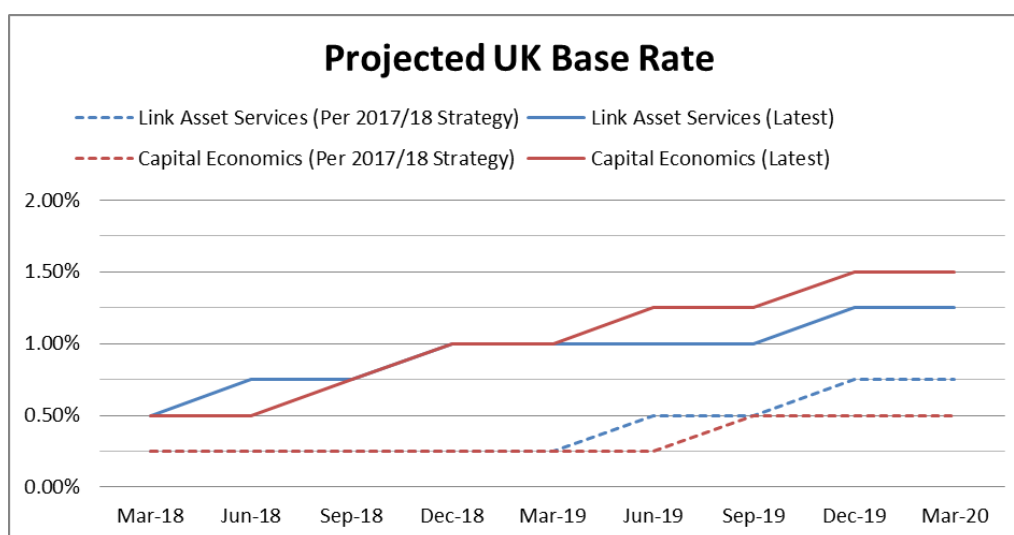
- 3.1 The Treasury Management Strategy identifies the key risks associated with borrowing, investment and leasing activities and sets out how the Council intends to address those risks.
- 3.2 The agreed strategy for 2017/18 included the following recommendations:
- *Borrowing £10M from the UK Municipal Bonds Agency (MBA) to cover fixed rate debt maturing in May 2017;*
 - *Moving towards fixing out temporary loans as a general policy objective;*
 - *Exploring deferred loans as a method of refinancing the variable rate debt maturing in 2019/20;*
 - *Postponing borrowing to keep investment balances low and minimise credit & counterparty risk;*
 - *Investing surplus funds prudently, having regard to Security and Liquidity before seeking a higher Yield or rate of return.*

4. Economic Summary

Highlights (see Appendix 4 for more details):

- *Inflation rose sharply following the Brexit vote, as the pound fell in value.*
- *Brexit negotiations caused further uncertainty, restricting UK growth;*
- *Growth picked up in the second half of 2017, putting pressure on a rate rise;*
- *The UK base rate was increased to 0.50% in November 2017 (the first increase in 10 years);*
- *Warnings of a second rate rise (as early as May 2018) were issued during the final quarter;*
- *Up to four rate rises can be expected before March 2020.*

4.1 2017/18 saw a significant shift in expectations regarding the UK base rate, as illustrated in the chart below:



4.2 At the time of producing the 2017/18 strategy, the base rate was expected to remain at 0.25% until mid-2019, rising just twice before March 2020. Following the increase announced in November 2017 (to 0.50%), up to four rate rises are now expected in the same period.

4.3 The impact on borrowing and investment rates was somewhat mixed. Short to medium term rates increased noticeably from September 2017, after indication that the base rate was likely to be raised very soon (accelerating further in Q4 after warnings of a second rate rise). On the other hand long term rates fluctuated throughout the year with no real trend.

4.4 This demonstrates both the uncertainty that exists in the financial markets and the importance of addressing the Council's under-borrowed position and variable interest rate exposure.

5. Borrowing and Leasing Activity

Highlights:

- As of 31st March 2018, the Council's Capital Financing Requirement (CFR) stood at £950M (a net increase in year of £9M);
- At this time, the Council was under-borrowed by £149M (down £38M from the estimated position);
- Several new loans were taken in year to address this position in light of the anticipated rate rises, including £40M from the Public Works Loans Board (PWLB);
- In addition, the Council secured a £20M deferred loan in December 2017 (the first English LA to do so) to address the variable rate debt maturing in 2019/20.
- As of 31st March 2018 the MBA had yet to secure an investor, however the Council held sufficient liquid investments to cover the fixed rate debt this intended to replace;
- The Council continued to take advantage of the low cost temporary loans offered by other local authorities (LAs), but replaced some with longer term debt in line with the agreed strategy;
- The Council may be required to borrow up to £294M over the next 3 years.

Gross Debt and the Capital Financing Requirement (CFR)

- 5.1 The CFR reflects the Council's underlying borrowing need to finance capital investment and is a measure of the Council's total outstanding indebtedness.
- 5.2 Each year the Council makes a statutory revenue charge known as the minimum revenue provision (MRP), which reduces the CFR. Where appropriate the Council may set aside further amounts to repay debt, such as revenue contributions or capital receipts.
- 5.3 The table below outlines the movement in CFR during 2017/18 and compares this to the original estimates:

| | 2017/18 Estimate (£M) | 2017/18 Actual (£M) | 2017/18 Variance (£M) |
|---|-----------------------------|---------------------------|-----------------------------|
| Opening Capital Financing Requirement | 960.591 | 940.585 | (20.006) |
| Increase in CFR from In Year Capital Investment | - | 20.229 | 20.229 |
| Amount Set Aside to Repay Debt | (6.401) | (10.910) | (4.509) |
| Closing Capital Financing Requirement | 954.190 | 949.904 | (4.286) |

- 5.4 Despite a lower opening position, the closing CFR was broadly in line with the strategy, as fewer resources were applied to in year capital investment than expected. The additional amounts set aside to repay debt took this to £4M below the original estimate.

5.5 The table below shows the extent to which the Council is under-borrowed and compares this to the original estimates:

| | 2017/18 Estimate (£M) | 2017/18 Actual (£M) | 2017/18 Variance (£M) |
|---|-----------------------------|---------------------------|-----------------------------|
| Borrowing CFR* | 716.352 | 712.280 | (4.072) |
| Gross Borrowing | (529.656) | (563.213) | (33.557) |
| Under / (Over) Borrowed Position | 186.696 | 149.067 | (37.629) |

* Excludes PFI schemes / finance leases (£238M) due to the borrowing facility already included

5.6 Despite several new loans been taken in year (paragraphs 5.7 - 5.10 refer), the Council was under-borrowed by £149M as of 31st March 2018.

Movement on Gross Debt

| Source | Balance on 01/04/2017 (£M) | New Debt (£M) | Debt Repaid (£M) | Balance on 31/03/2018 (£M) | Net Increase / (Decrease) (£M) |
|-----------------------------|----------------------------------|------------------|---------------------|----------------------------------|--------------------------------------|
| PWLB Borrowing | 414.979 | 40.000 | (24.367) | 430.612 | 15.633 |
| Other Long Term Loans | 63.000 | - | - | 63.000* | - |
| Temporary Borrowing | 49.603 | 97.280 | (108.880) | 38.003 | (11.600) |
| Long Term LA Loans | 23.898 | 27.700 | (20.000) | 31.598 | 7.700 |
| Total Borrowing | 551.480 | 164.980 | (153.247) | 563.213 | 11.733 |
| Other Long Term Liabilities | 227.901 | 2.031 | (7.345) | 222.587 | (5.314) |
| Total Debt | 779.381 | 167.011 | (160.592) | 785.800 | 6.419 |

* Excludes deferred loans of £20M yet to be drawn down (paragraph 5.9 refers)

5.7 PWLB borrowing increased by £16M during the year - including new borrowing of £40M, which sought to protect the Council from any sudden interest rate rises (in light of the shift in interest rate expectations) whilst reducing the Council's under-borrowed position (see Appendix 2 for more details).

5.8 The Council secured a deferred loan of £20M in December 2017 to address the variable rate debt maturing in 2019/20. At a rate marginally above the PWLB, this protects the Council from any sudden interest rate rises whilst avoiding any cost of carry until March 2020.

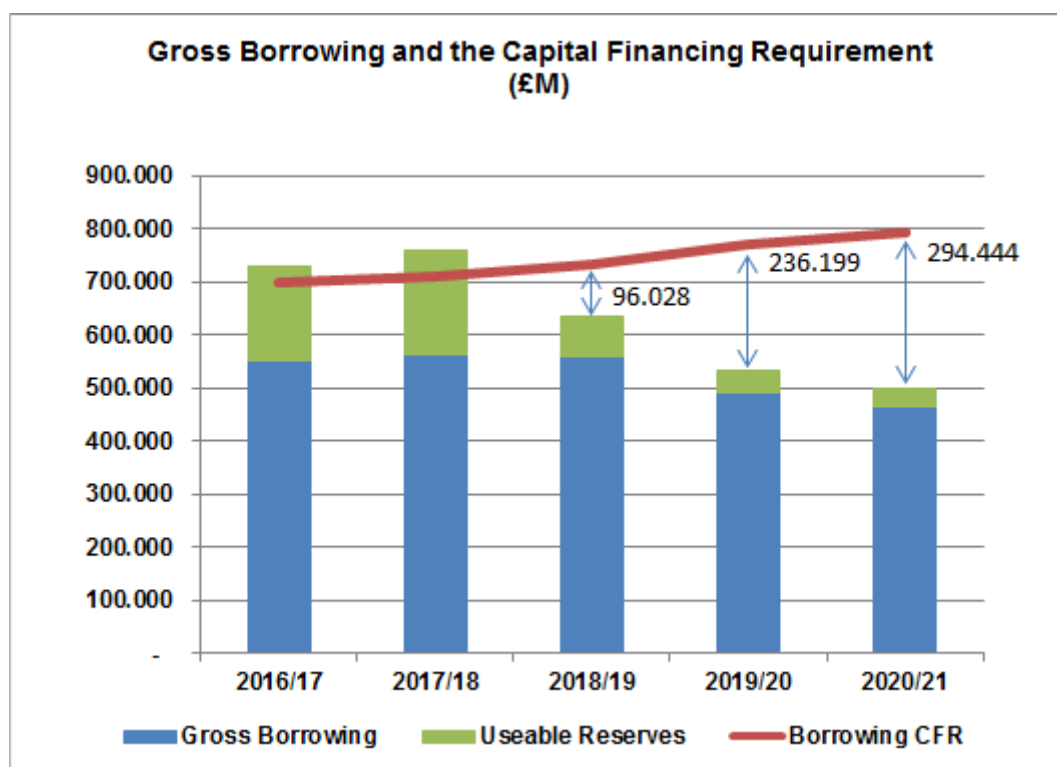
5.9 Officers continued to take advantage of the low cost loans available from other LAs, however temporary borrowing as a whole fell by £12M reflecting the General Fund (GF) policy objective of fixing out short term / variable loans.

5.10 Long term LA loans increased by £8M over the period - including new borrowing of £28M, which aimed to spread the risk of refinancing the Council's variable rate debt (see Appendix 2 for more details).

5.11 Other long term liabilities reduced by £5M in year, of which £7M related to the repayment of principal. Several new vehicles were acquired during the year via finance lease (with a capital value of £2M). Following completion of a tender exercise it was ascertained that leasing was the best value method of financing (versus borrowing).

Future Outlook

5.12 As shown in the chart below, the Council is currently maintaining an under-borrowed position, which is expected to increase further by 2020/21 as its borrowing need increases and its borrowing / reserve levels fall (assuming no replacement of long term loans as they mature):



5.13 Whilst there are sufficient reserves to support this position in the short term, these reserves will ultimately need replacing with external borrowing as they are utilised. Based on current projections, the Council may be required to borrow up to £294M over the next 3 years:

| | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|---|---------------------|---------------------|---------------------|
| Borrowing CFR* | 731.878 | 770.052 | 794.742 |
| Gross Borrowing | (558.814) | (490.481) | (466.009) |
| Under / (Over) Borrowed Position | 173.064 | 279.571 | 328.733 |
| Useable Reserves | (77.036) | (43.372) | (34.289) |
| External Borrowing Requirement | 96.028 | 236.199 | 294.444 |

* Includes capital expenditure plans which have yet to be formally approved but could impact on the Council's future financing need

6. Investment Activity

Highlights:

- *The Council continued to invest in secure counterparties with the majority invested in Money Market Funds (MMFs) and instant access accounts;*
- *Investment balances increased slightly by £9M during the year (compared to £36M in 2016/17;*
- *The Council took advantage of some competitive rates offered by other LAs particularly towards the end of the year;*
- *The long term investments held at the start of the year were redeemed in March 2018 in line with the agreed strategy for 2018/19.*

Movement on Investments

| Source | Balance on 01/04/2017 (£M) | New Investments (£M) | Redeemed Investments (£M) | Balance on 31/03/2018 (£M) | Net Increase / (Decrease) (£M) |
|-----------------------------------|----------------------------------|----------------------------|---------------------------------|----------------------------------|---|
| Short Term Investments | 17.000 | 104.000 | (86.000) | 35.000 | 18.000 |
| Long Term Investments* | 7.000 | - | (7.000) | - | (7.000) |
| MMFs / Instant Access Accounts | 38.250 | 346.300 | (348.550) | 36.000 | (2.250) |
| Total Investments | 62.250 | 450.300 | (441.550) | 71.000 | 8.750 |

* Invested for an indefinite period (hence considered long term) although redeemable within 3 days

- 6.1 Short term investments increased by £18M during the year, particularly towards the year end as the Council took advantage of some competitive rates offered by other LAs.
- 6.2 The long term investments held at the start of the year were redeemed in March 2018 in line with the agreed strategy for 2018/19. Because the principal invested was subject to variation, this could have an impact on the Council's general fund balances from next year (see paragraph 6.4); therefore a decision was taken not to invest in these funds. On redemption the Council received 100% of the principal invested.
- 6.3 The closing balance on the Council's MMFs / instant access accounts remained similar to the opening position, although there were a large volume of transactions during the year as a result of managing the daily cash position.

Future Outlook

6.4 The Council is aware of two upcoming reforms that may impact on its future investment activities:

1. **Money Market Fund (MMF) Reforms** - introduce a new structural fund - the Low Volatility Net Asset Value (LVNAV) Fund - and other 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 in line with the Council's investment priorities, the recommendation is not to invest in LVNAV funds or any other funds where the principal invested is subject to variation.
2. **IFRS9 Financial Instruments** - changes the way that investments are accounted for. This is a new requirement for 2018/19 which could potentially impact the Council's general fund balances in two ways:
 - The change of accounting 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)

6.5 Given the current size and nature of the Council's investment portfolio, the impact of these reforms is expected to be low; however officers will continue to monitor the situation until confirmed.

7. Performance Measurement / Compliance with Prudential and Treasury Limits

7.1 The Capital Financing budget underspent by £3.4M in year through postponing borrowing and taking advantage of low cost temporary loans. However the Authority is beginning to fix out its borrowing in light of the anticipated interest rate rises, therefore these savings are one-off in nature.

7.2 This was offset slightly by reduced investment income; however this is likely to pick up further in 2018-19 as interest rates are expected to rise.

7.3 The Council operated within the prudential and treasury indicators set out in the agreed strategy and in compliance with the Council's Treasury Management Practices (see Appendix 1 & 3 for more details).

8. Consultations

8.1 This report has been prepared using information supplied by the Council's Treasury Management advisors (Link Asset Services) and approved by the Treasury Management Panel.

9. Financial Implications

- 9.1 The financial implications arising from the treasury management activities for the year have been reported to Cabinet as part of the Council's revenue outturn report for 2017/18.

10. Employee Implications

- 10.1 None arising from this report.

11. Regulatory Framework & Risk Assessment

- 11.1 The Council has complied with all of the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.
- 11.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of its Treasury Management advisers, has proactively managed the debt and investments over the year.
- 11.3 Treasury Management risks are identified and monitored on the MKI Insight software as part of the Council's overall approach to managing risk.
- 11.4 Treasury Management is a core system and as such is subject to Internal Audit inspection on an annual basis. The current assessment of Treasury Management systems is 'substantial', with no outstanding recommendations.

12. Background Papers

- 12.1 Various Financial Services working papers.

APPENDIX 1 - ACTUAL PRUDENTIAL AND TREASURY INDICATORS FOR 2017/18

1. Capital Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

| | 2016/17 Actual (£M) | 2017/18 Estimate (£M) | 2017/18 Actual (£M) |
|----------------------------------|------------------------|--------------------------|------------------------|
| General Fund | 41 | 51 | 46 |
| HRA | 27 | 30 | 23 |
| Total Capital Expenditure | 68 | 81 | 69 |

2. Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

| | 2016/17 Actual (%) | 2017/18 Estimate (%) | 2017/18 Actual (%) |
|--------------|-----------------------|-------------------------|-----------------------|
| General Fund | 22 | 24 | 24 |
| HRA | 45 | 44 | 46 |

3. Capital Financing Requirement (CFR)

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

| | 2016/17 Actual (£M) | 2017/18 Estimate (£M) | 2017/18 Actual (£M) |
|------------------|------------------------|--------------------------|------------------------|
| General Fund | 664 | 676 | 678 |
| HRA | 277 | 278 | 272 |
| Total CFR | 941 | 954 | 950 |

4. External Debt

This indicator is obtained directly from the Council's balance sheet and is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (External Borrowing + Other Long Term Liabilities).

| | 2016/17 Actual (£M) | 2017/18 Estimate (£M) | 2017/18 Actual (£M) |
|-----------------------------|------------------------|--------------------------|------------------------|
| General Fund Borrowing | 280 | 271 | 304 |
| HRA Borrowing | 272 | 258 | 259 |
| Other Long Term Liabilities | 227 | 238 | 223 |
| Total Debt | 779 | 767 | 786 |

5. Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council.

The Authorised Limit is the statutory limit under the Local Government Act 2003 and must not be exceeded during the year.

| | 2017/18 Limit (£M) | 2017/18 Actual (£M) | Compliant? |
|---|-----------------------|------------------------|------------|
| Maximum Debt compared to Authorised Limit | 984 | 823 | YES |

6. Operational Boundary for External Debt

This indicator refers to the means by which the authority manages its external debt to ensure it remains within the statutory authorised limit. It differs from the authorised limit in as far as it is based on the most likely scenario, in terms of capital spend and financing during the year.

Unlike the authorised limit breaches of the operational boundary (due to cash flow movements) are allowed during the year as long as they are not sustained over a period of time.

| | 2017/18 Limit (£M) | 2017/18 Actual (£M) | Compliant? |
|---|-----------------------|------------------------|------------|
| Average Debt Compared to Operational Boundary | 954 | 802 | YES |

7. Adoption of CIPFA Code of Practice in TM

| |
|---|
| The Council adopted the CIPFA Code of Practice on Treasury Management on 13 th February 2002 |
|---|

8. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. Separate limits have been set for the GF and HRA debt pools.

The limits adopted by Council provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

| | 2017/18 Limit (%) | Actual 31/03/2018 (%) | Compliant? |
|--|-------------------|-----------------------|------------|
| General Fund: | | | |
| Upper Limit on Fixed Interest Rate Exposure | 90 | 87 | YES |
| Upper Limit on Variable Interest Rate Exposure | 25 | 25* | YES |
| HRA: | | | |
| Upper Limit on Fixed Interest Rate Exposure | 100 | 82 | YES |
| Upper Limit on Variable Interest Rate Exposure | 25 | 18 | YES |

** Includes temporary loans which (whilst the rate is fixed until maturity) are sensitive to movement in interest rates*

9. Maturity Structure of Fixed Rate Borrowing

These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

Separate limits have been set for the GF and HRA debt pools. The higher percentage of maturities within 12 months in the GF pool is representative of the strategy of short term borrowing to minimise debt interest costs. The Council's LOBOs are now shown within the 'Less than 12 months' category.

| | 2017/18 Limit (%) | Actual 31/03/2018 (%) | Compliant? |
|----------------------|-------------------|-----------------------|------------|
| General Fund: | | | |
| Less than 12 months | 0-50 | 25 | YES |
| 12 months to 2 years | 0-25 | 2 | |
| 2 years to 5 years | 0-25 | 18 | |
| 5 years to 10 years | 0-25 | 6 | |
| 10 years to 20 years | 0-75 | 4 | |
| 20 years to 30 years | 0-75 | 9 | |
| 30 years to 40 years | 0-75 | 14 | |
| 40 years to 50 years | 0-75 | 22 | |
| 50 years and above | 0-75 | 0 | |

| | 2017/18 Limit (%) | Actual 31/03/2018 (%) | Compliant? |
|----------------------|--------------------------|------------------------------|-------------------|
| HRA: | | | |
| Less than 12 months | 0-25 | 18 | YES |
| 12 months to 2 years | 0-25 | 2 | |
| 2 years to 5 years | 0-25 | 4 | |
| 5 years to 10 years | 0-25 | 10 | |
| 10 years to 20 years | 0-75 | 6 | |
| 20 years to 30 years | 0-75 | 15 | |
| 30 years to 40 years | 0-75 | 23 | |
| 40 years to 50 years | 0-75 | 22 | |
| 50 years and above | 0-75 | 0 | |

10. Maximum Principal Sums Invested

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 364 days. This limit is set to contain exposure to credit and liquidity risk.

| | 2017/18 Limit (£M) | 2017/18 Actual (£M) | Compliant? |
|--------------------------|---------------------------|----------------------------|-------------------|
| Sums Invested > 364 days | 20 | 0 | YES |
| Sums Invested > 2 years | 20 | 0 | |
| Sums Invested > 3 years | 20 | 0 | |

11. HRA Limit on Indebtedness

This indicator compares the HRA CFR with the Debt Cap prescribed by the CLG.

| | 2017/18 Limit (£M) | 2017/18 Actual (£M) | Compliant? |
|----------------------------------|---------------------------|----------------------------|-------------------|
| HRA Debt Cap compared to HRA CFR | 301 | 272 | YES |

APPENDIX 2 – NEW LONG TERM BORROWING DURING 2017/18

New PWLB Borrowing:

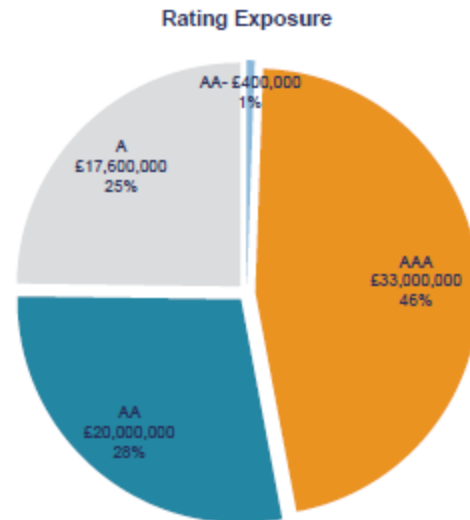
| Date | Amount | Term | Interest Rate |
|------------|--------|------|---------------|
| 01/11/2017 | £20M | 48y | 2.49% |
| 16/02/2018 | £10M | 50y | 2.54% |
| 19/03/2018 | £10M | 45y | 2.38% |

New Long Term Local Authority Loans:

| Date | Amount | Term | Interest Rate |
|------------|--------|------|---------------|
| 11/09/2017 | £5M | 3y | 0.80% |
| 15/09/2017 | £2.7M | 4y | 0.98% |
| 21/09/2017 | £2M | 3y | 0.92% |
| 21/09/2017 | £3M | 3y | 0.94% |
| 23/10/2017 | £5M | 5y | 1.40% |
| 04/12/2017 | £5M | 3y | 1.05% |
| 15/12/2017 | £5M | 3y | 1.10% |

APPENDIX 3 - INVESTMENT PORTFOLIO AS AT 31/03/2018

| Borrower | Principal (£) | Interest Rate | Start Date | Maturity Date | Lowest Long Term Rating | Historic Risk of Default |
|-------------------------------------|--------------------|---------------|------------|---------------|-------------------------|--------------------------|
| MMF Federated Investors (UK) | 10,000,000 | 0.44% | | MMF | AAA | 0.000% |
| MMF Aberdeen | 4,500,000 | 0.35% | | MMF | AAA | 0.000% |
| MMF Goldman Sachs | 5,200,000 | 0.35% | | MMF | AAA | 0.000% |
| MMF Standard Life | 9,800,000 | 0.43% | | MMF | AAA | 0.000% |
| MMF Deutsche | 3,500,000 | 0.35% | | MMF | AAA | 0.000% |
| Barclays Bank Plc | 2,600,000 | 0.30% | | Call | A | 0.000% |
| Svenska Handelsbanken AB | 400,000 | 0.30% | | Call | AA- | 0.000% |
| Lloyds Bank Plc | 5,000,000 | 0.65% | 25/10/2017 | 25/04/2018 | A | 0.004% |
| Plymouth City Council | 5,000,000 | 0.50% | 29/01/2018 | 30/04/2018 | AA | 0.002% |
| Wirral Metropolitan Borough Council | 5,000,000 | 0.85% | 29/03/2018 | 04/05/2018 | AA | 0.002% |
| Denbighshire County Council | 5,000,000 | 0.55% | 19/02/2018 | 21/05/2018 | AA | 0.003% |
| Telford & Wrekin Council | 5,000,000 | 0.66% | 01/03/2018 | 01/06/2018 | AA | 0.004% |
| Goldman Sachs International Bank | 5,000,000 | 0.70% | 04/12/2017 | 04/06/2018 | A | 0.010% |
| Bank of Scotland Plc | 5,000,000 | 0.60% | 05/02/2018 | 06/08/2018 | A | 0.020% |
| Total Investments | £71,000,000 | 0.52% | | | | 0.003% |



| | % of Portfolio | Amount | % of Colour in Calls | Amount of Colour in Calls | % of Call in Portfolio | WARoR | WAM | WAM at Execution | Excluding Calls/MMFs/USDBFs | |
|--------------|----------------|--------------------|----------------------|---------------------------|------------------------|--------------|-----------|------------------|-----------------------------|------------------|
| | | | | | | | | | WAM | WAM at Execution |
| Yellow | 74.65% | £53,000,000 | 62.26% | £33,000,000 | 46.48% | 0.49% | 17 | 29 | 44 | 78 |
| Pink1 | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| Pink2 | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| Purple | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| Blue | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| Orange | 14.65% | £10,400,000 | 3.85% | £400,000 | 0.56% | 0.61% | 74 | 175 | 77 | 182 |
| Red | 10.70% | £7,600,000 | 34.21% | £2,600,000 | 3.66% | 0.56% | 43 | 120 | 65 | 182 |
| Green | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| No Colour | 0.00% | £0 | 0.00% | £0 | 0.00% | 0.00% | 0 | 0 | 0 | 0 |
| Total | 100.00% | £71,000,000 | 50.70% | £36,000,000 | 50.70% | 0.52% | 28 | 60 | 56 | 122 |

Portfolios weighted average risk number = 1.87

WARoR = Weighted Average Rate of Return

WAM = Weighted Average Time to Maturity

APPENDIX 4 - ECONOMIC COMMENTARY FROM LINK ASSET SERVICES

The Economy and Interest Rates

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.