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

TREASURY MANAGEMENT ACTIVITIES AND LEASING REVIEW - QUARTER ENDED JUNE 2018

1. Purpose of Report

1.1 This document reviews the Council's treasury management and leasing activities during the first quarter of 2018/19, in accordance with the CIPFA Treasury Management Code and CIPFA Prudential Code.

1.2 In broad terms it covers the following:

- The agreed Treasury Management Strategy for 2018/19;
- Economic summary;
- The Council's borrowing and leasing activity;
- The Council's investment activity, and
- Prudential and Treasury Indicators for 2018/19.

2. Recommendations

2.1 It is recommended that Members note:

- **The treasury management and leasing activities carried out during the first quarter, and**
- **The Prudential and Treasury Indicators set out in Appendix 1.**

3. The Agreed Strategy for 2018/19

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 borrowing strategy for 2018/19 can be summarised as follows:

- ***De-risk the Council's debt portfolio****, by actively reducing interest rate exposure throughout the reporting period (2018/19 – 2020/21);*
- ***Address any additional borrowing requirement*** *resulting from anticipated future capital investment, and*
- *Within this context,* ***maintain the Council's under-borrowed position as far as possible****, to keep financing costs to a minimum.*

3.3 The strategy contained a number of borrowing options, the majority of which are covered in section 5.

3.4 The agreed investment strategy can be summarised as follows:

- ***Keep investment balances to a minimum and invest only in secure counterparties****, to mitigate security risk;*
- ***Maintain a minimum balance of liquid funds*** *to address liquidity risk, and*
- *Within this context,* ***seek optimum performance in terms of yield****;*

4. Economic Summary

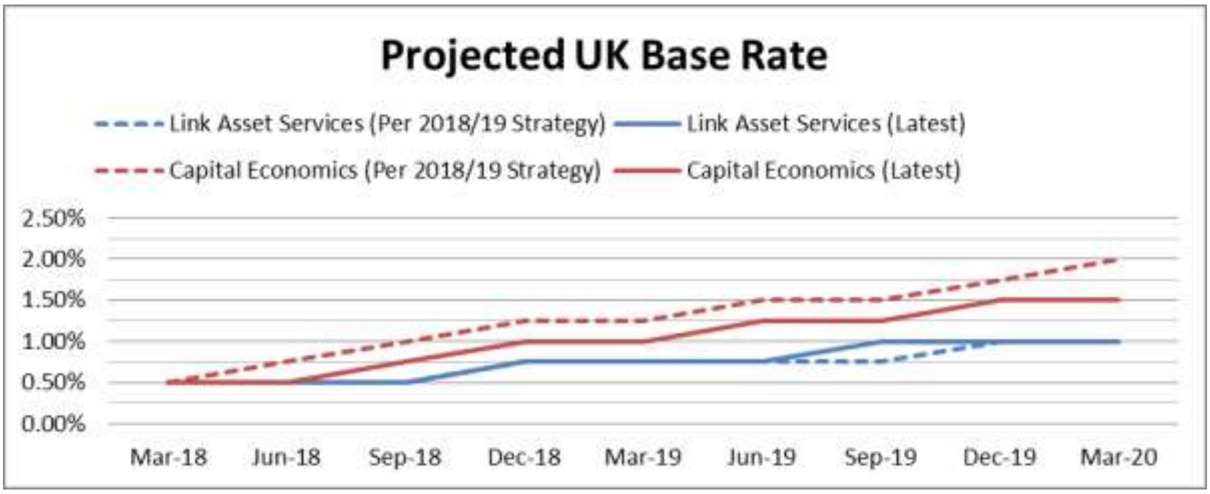
Highlights (see Appendix 3 for more details):

- *During Q1, the UK base rate remained unchanged at 0.50%;*
- *The market expectation is that the next rate rise will be announced in August;*
- *The Bank of England suggests that only one rate rise per year is needed, and that decision making will be far more dependent on data:*
- *However Capital Economics (an independent advisory group), are projecting up to four rate rises by March 2020.*

4.1 The UK base rate (or bank rate) is set by the Bank of England's Monetary Policy Committee (MPC). In their last two meetings, the MPC voted to keep the bank bate unchanged at 0.50%. The market expectation is that a rate rise will be announced at their next meeting on 2nd August.

4.2 Forecasting interest rates remains very difficult, particularly due to the uncertainties around Brexit. The Bank of England suggest that only one rate rise per year is needed, and that decision making will be far more dependent on data.

4.3 The following chart shows the projections from our two main sources and how they've changed since producing the 2018/19 strategy. 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:



4.4 The forecast from our advisors (Link Asset Services) has remained fairly stable, with just one change from the 2018/19 strategy. They now expect a second rate rise in September (as opposed to December) 2019.

4.5 Capital Economics have revised their forecast down, suggesting a slower rate of increase, and that the bank rate will stabilise at 1.50% in March 2020. Their previous expectations suggested this could reach 2.00%.

4.6 Borrowing and investment rates fluctuated throughout the quarter, but saw a general downward trend in May, before picking up again in the following month. Investment rates reduced slightly overall, whilst longer term borrowing rates finished marginally higher, however these still remain relatively cheap (see Appendix 3 for more details).

5. Borrowing and Leasing Activity

Highlights:

- *As at 31st March 2019, the Council's Capital Financing Requirement (CFR) is expected to reach £964M (a net increase in year of £15M);*
- *The Council is currently under-borrowed by £143M (down £18M from the estimated position);*
- *Several new loans were secured during the quarter including £20M from the Public Works Loans Board (PWLB);*
- *In addition, the Council secured a second deferred loan of £20M to address the variable rate debt maturing in 2019/20;*
- *The Council may be required to borrow up to £301M 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 expected during 2018/19 and how this compares to the agreed strategy:

	2018/19 Estimate (£M)	2018/19 Latest (£M)	2018/19 Variance (£M)
Opening Capital Financing Requirement	**945.549**	**949.904**	**4.355**
Increase in CFR from In Year Capital Investment	32.192	25.294	(6.898)
Amount Set Aside to Repay Debt	(10.465)	(10.721)	(0.256)
Closing Capital Financing Requirement	**967.276**	**964.477**	**(2.799)**

5.4 Based on current projections, the Council's closing CFR is estimated at £964M (down £3M from the original estimate). This variance primarily relates to changes to the approved capital programme.

5.5 The table below shows the extent to which the Council is under-borrowed (based on the expected borrowing CFR as at 31st March 2019) and how this compares to the strategy:

	2018/19 Estimate (£M)	2018/19 Latest (£M)	2018/19 Variance (£M)
Borrowing CFR*	730.928	723.581	(7.347)
Gross Borrowing	(569.813)	(580.280)	(10.467)
Under / (Over) Borrowed Position	**161.115**	**143.301**	**(17.814)**

** Excludes PFI schemes / finance leases (~ £240M) due to the borrowing facility already included*

5.6 As a result of the borrowing activities since January 2018, the Council's under-borrowed position is now estimated at £143M, which represents a reduction of £18M from the original estimate. However included within the gross borrowing figure of £580M, is £20M due to mature in December, which the Council will need to replace.

Movement on Gross Debt

Source	Balance on 01/04/2018 (£M)	New Debt (£M)	Debt Repaid (£M)	Balance on 30/06/2018 (£M)	Net Increase / (Decrease) (£M)
PWLB Borrowing	430.612	20.000	(0.933)	449.679	19.067
Other Long Term Loans*	63.000	-	-	63.000	-
Temporary Borrowing	38.003	14.000	(16.000)	36.003	(2.000)
Long Term LA Loans	31.598	-	-	31.598	-
Total Borrowing	**563.213**	**34.000**	**(16.933)**	**580.280**	**17.067**
Other Long Term Liabilities	222.587	-	-	222.587	-
Total Debt	**785.800**	**34.000**	**(16.933)**	**802.867**	**17.067**

** Excludes deferred loans of £40M yet to be drawn down (paragraph 5.8 refers)*

5.7 PWLB borrowing increased by £19M during the quarter, including new borrowing of £20M (details below), which took advantage of the fall in long term borrowing rates, whilst reducing the Council's under-borrowed position .

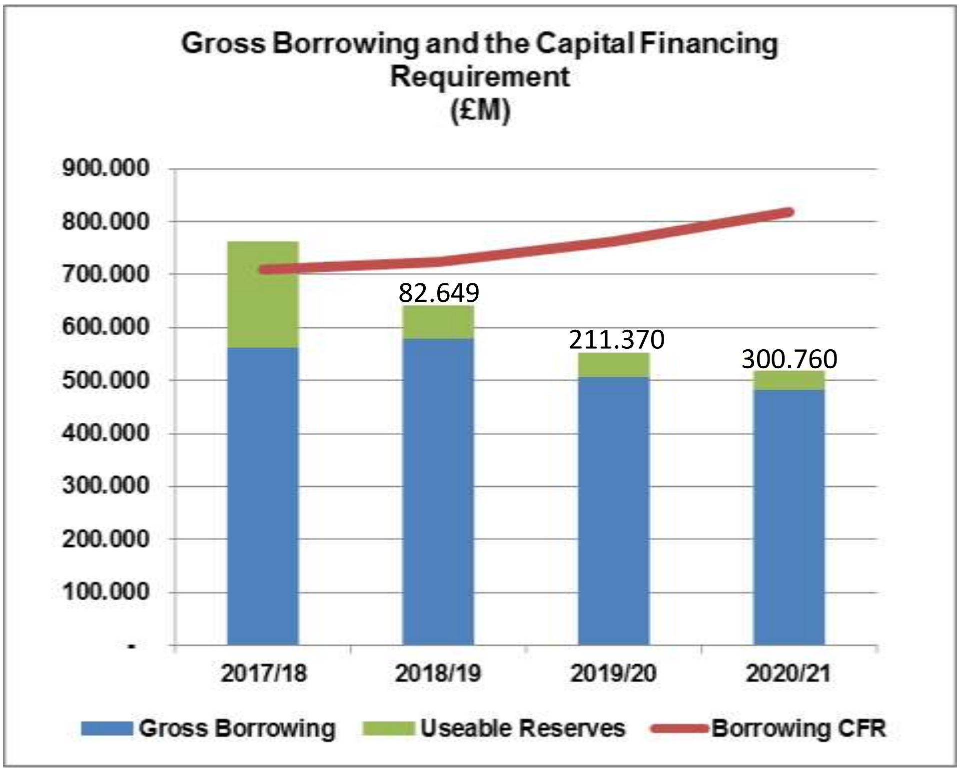
Date	Amount	Term	Interest Rate
31/05/2018	£10M	50y	2.25%
19/06/2018	£10M	49y	2.32%

5.8 The Council secured a second deferred loan of £20M in June 2018 to address the variable rate debt maturing in 2019/20, in addition to the £20M secured in December 2017. At a rate marginally above PWLB certainty, this protects the Council from any sudden interest rate rises whilst avoiding any cost of carry until late 2019/20 (when the new loans are drawn down).

5.9 Officers continued to take advantage of the low cost loans available from other LAs, however temporary borrowing as a whole fell by £2M reflecting the General Fund (GF) policy objective of fixing out short term / variable loans.

Future Outlook

5.10 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):

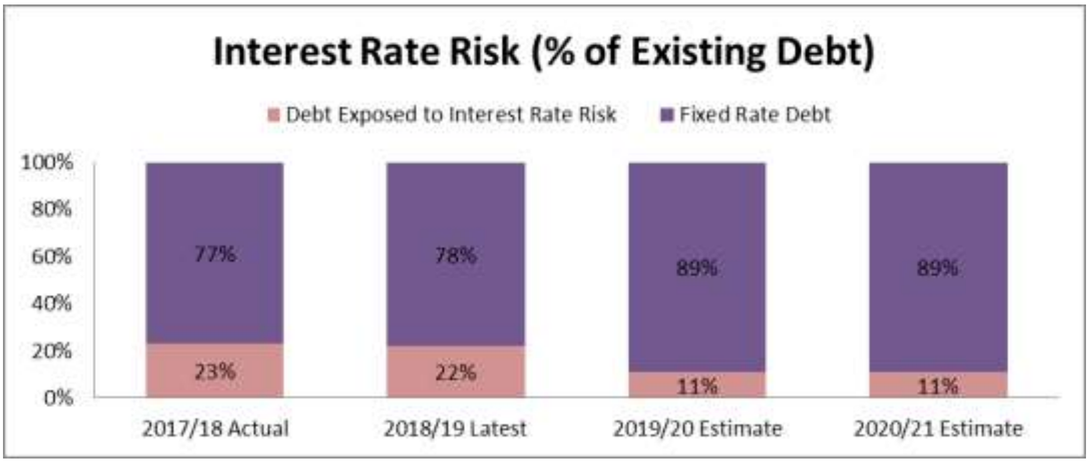


5.11 Whilst there are sufficient reserves to support this position in the short term, these reserves will ultimately need replacing with external borrowing as they are utilised. Based on current projections, the Council may be required to borrow up to £301M over the next 3 years (see table overleaf). This reflects an increase in borrowing CFR of £109M and a net reduction in gross borrowing of £79M (£139M of maturing debt less £60M of new borrowing):

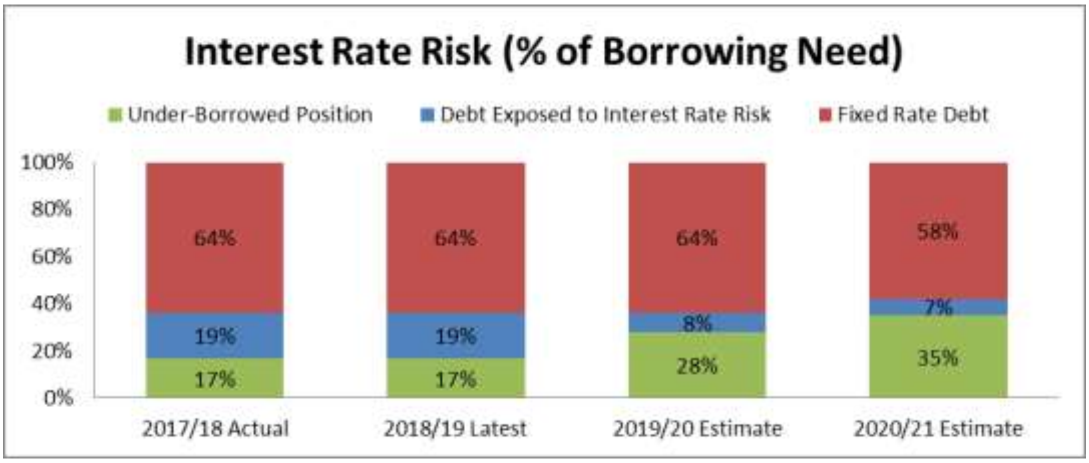
	2017/18 Actual	2018/19 Latest	2019/20 Estimate	2020/21 Estimate
Borrowing CFR*	710.250	723.581	763.223	819.058
Gross Borrowing	(563.213)	(580.280)	(508.481)	(484.009)
Under / (Over) Borrowed Position	**147.037**	**143.301**	**254.742**	**335.049**
Useable Reserves	(197.956)	(60.652)	(43.372)	(34.289)
External Borrowing Requirement	**-**	**82.649**	**211.370**	**300.760**

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

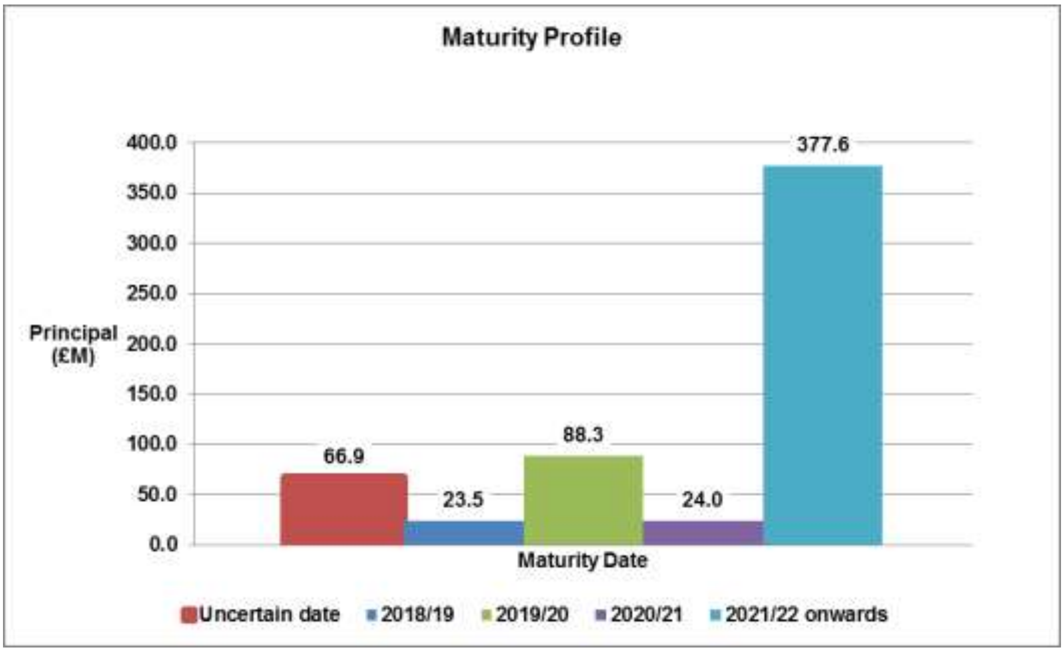
5.12 The chart below expresses the Council's interest rate risk exposure as a % of its existing debt (including PFI / lease liabilities), covering variable rate debt from the PWLB, temporary loans from other local authorities and LOBOs, which are all (to some degree) sensitive to movements in interest rates. The Council is already within the target set of 25%; this position is set to improve in 2019/20 as the two variable rate PWLB loans mature:



5.13 The chart below expresses the Council's interest rate risk exposure as a % of its overall borrowing need (including PFI / lease liabilities). In addition to existing debt, this covers any unfinanced expenditure which the Council will need to borrow for in future (i.e. its under-borrowed position). Whilst the Council is currently within the 35% target set in the 2018/19 strategy, this position is set to deteriorate as the borrowing CFR increases and gross borrowing declines:



5.14 The chart below illustrates the amount of debt that may need replacing within the next 3 financial years, including those with an uncertain maturity date (for instance the Council's LOBOs). If interest rates were to increase suddenly, replacing this debt would come at an additional cost:



5.15 Several options are being considered to address the above, including:

- **Fixed-rate borrowing from the PWLB** - whilst rates are still relatively low this continues to be a suitable option for the Council to consider.
- **Borrowing from the Municipal Bonds Agency (MBA)** - whilst a bond has yet to be issued this remains a potential option for the future. This could allow the Council to access cheaper funding than the PWLB. The Council is looking to borrow £10m should this materialise.
- **Further deferred loans** - the Council is in discussions with another potential lender who could offer up to £40m. This protects the Council from any sudden interest rate rises whilst avoiding any cost of carry until drawdown in 1-3 years' time.
- **Loans from other local authorities** - the Council could look to replace maturing debt with longer-term loans from other local authorities. This helps the Council to spread its refinancing risk.

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 by £29M during the quarter (compared to £9M throughout 2017/18);*
- *The Council continued to take advantage of some competitive rates offered by other LAs.*

Movement on Investments

Source	Balance on 01/04/2018 (£M)	New Investments (£M)	Redeemed Investments (£M)	Balance on 30/06/2018 (£M)	Net Increase / (Decrease) (£M)
Short Term Investments	35.000	72.000	(39.000)	68.000	33.000
MMFs / Instant Access Accounts	36.000	97.100	(101.150)	31.950	(4.050)
Total Investments	**71.000**	**169.100**	**(140.150)**	**99.950**	**28.950**

6.1 Short term investments increased by £33M during the quarter, as the Council took on additional borrowing.

6.2 The closing balance on the Council's MMFs / instant access accounts reduced slightly by £4m, although there were a large volume of transactions during the year as a result of managing the daily cash position.

Future Outlook

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

1. **Money Market Fund (MMF) Reforms -** introducing a new structural fund from July 2018 - the Low Volatility Net Asset Value (LVNAV) Fund - and other changes to the existing Money Market Funds. These regulations will apply to 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** - changing 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)

6.4 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. The MHCLG have released a consultation regarding a potential statutory override (closes 28th September), which officers will respond to and update members accordingly.

7. Performance Measurement / Compliance with Prudential and Treasury Limits

7.1 The Council's Capital Financing budget is expected to underspend by around £0.5M 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 During the quarter, the Council has operated within the prudential and treasury indicators set out in the agreed strategy and in compliance with its Management Practices (see Appendix 1 & 2 for more details).

APPENDIX 1 - PRUDENTIAL AND TREASURY INDICATORS AS AT 30th JUNE 2018

Prudential Indicators	Limit for 2018/19 (£M)	Quarter 1 Actual (£M)	Compliance with Indicator?
Average Debt Compared to Operational Boundary	967.276	790.679	Yes
Maximum Debt Compared to Authorised Limit	997.276	807.866	Yes
HRA Borrowing Need Compared to HRA Debt Cap	301.000	265.706	Yes

Maturity structure of GF borrowing	Lower Limit (%)	Upper Limit (%)	Quarter 1 Actual (£M)	Quarter 1 Actual (%)	Compliance with Indicator?
Under 12 months	0	50	69.668	22	Yes
12 months to 2 years	0	25	38.741	12	Yes
2 years to 5 years	0	25	50.073	16	Yes
5 years to 10 years	0	25	13.716	4	Yes
10 years to 20 years	0	75	9.348	3	Yes
20 years to 30 years	0	75	23.818	7	Yes
30 years to 40 years	0	75	54.606	17	Yes
40 years to 50 years	0	75	61.715	19	Yes

Maturity structure of HRA borrowing	Lower Limit (%)	Upper Limit (%)	Quarter 1 Actual (£M)	Quarter 1 Actual (%)	Compliance with Indicator?
Under 12 months	0	25	37.649	15	Yes
12 months to 2 years	0	25	49.611	19	Yes
2 years to 5 years	0	25	12.383	5	Yes
5 years to 10 years	0	25	18.062	7	Yes
10 years to 20 years	0	75	12.070	5	Yes
20 years to 30 years	0	75	31.712	12	Yes
30 years to 40 years	0	75	72.794	28	Yes
40 years to 50 years	0	75	24.315	9	Yes

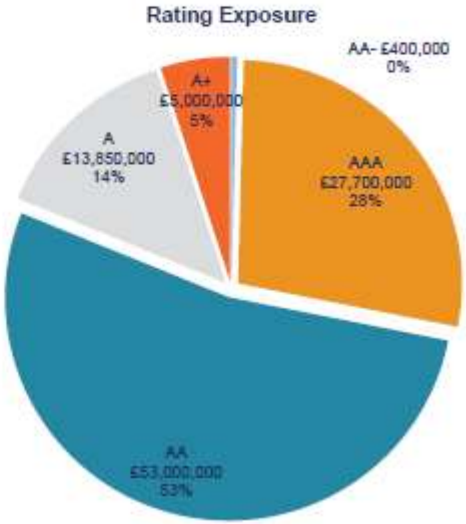
Treasury Indicators	Limit for 2018/19 (%)	Quarter 1 Actual (%)	Compliance with Indicator?
GF			
Upper limit of fixed interest rates based on gross debt	90	88	Yes
Upper limit of variable interest rates based on gross debt	25	12	Yes
HRA			
Upper limit of fixed interest rates based on gross debt	100	82	Yes
Upper limit of variable interest rates based on gross debt	25	18	Yes

	Limit for 2018/19 (£M)	Quarter 1 Actual (£M)	Compliance with Indicator?
Upper limit for principal sums invested over 365 days	20.000	-	Yes

APPENDIX 2 - INVESTMENT PORTFOLIO AS AT 30/06/2018

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Federated Investors (UK)	10,000,000	0.53%		MMF	AAA	0.000%
MMF Aberdeen	300,000	0.43%		MMF	AAA	0.000%
MMF Goldman Sachs	2,400,000	0.46%		MMF	AAA	0.000%
MMF Standard Life	10,000,000	0.53%		MMF	AAA	0.000%
MMF Deutsche	5,000,000	0.45%		MMF	AAA	0.000%
Barclays Bank Plc (NRFB)	3,850,000	0.30%		Call	A	0.000%
Svenska Handelsbanken AB	400,000	0.30%		Call	AA-	0.000%
London Borough of Newham	5,000,000	0.50%	01/06/2018	02/07/2018	AA	0.000%
Mayor's Office for Policing and Crime (MOPAC)	10,000,000	0.45%	22/06/2018	05/07/2018	AA	0.000%
Birmingham City Council	5,000,000	0.70%	25/04/2018	25/07/2018	AA	0.002%
Wirral Metropolitan Borough Council	5,000,000	0.45%	25/06/2018	03/08/2018	AA	0.002%
Bank of Scotland Plc (RFB)	5,000,000	0.60%	05/02/2018	06/08/2018	A+	0.005%
City and County of Swansea	5,000,000	0.58%	25/05/2008	28/08/2018	AA	0.004%
North Lanarkshire Council	5,000,000	0.65%	09/04/2018	31/08/2018	AA	0.004%
Blaenau Gwent County Borough Council	3,000,000	0.58%	31/05/2018	05/09/2018	AA	0.005%
Telford & Wrekin Council	5,000,000	0.55%	18/06/2018	18/09/2018	AA	0.005%
London Borough of Barking & Dagenham	5,000,000	0.57%	25/06/2018	25/09/2018	AA	0.006%
West Dunbartonshire Council	5,000,000	0.50%	29/06/2018	28/09/2018	AA	0.006%
Goldman Sachs International Bank	5,000,000	0.76%	24/05/2018	26/11/2018	A	0.022%
Goldman Sachs International Bank	5,000,000	0.78%	04/06/2018	04/12/2018	A	0.023%
Total Investments	**£99,950,000**	**0.55%**				**0.004%**



	% 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	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	80.74%	£80,700,000	34.32%	£27,700,000	27.71%	0.53%	30	273	46	416
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	5.40%	£5,400,000	7.41%	£400,000	0.40%	0.58%	34	169	37	182
Red	13.86%	£13,850,000	27.80%	£3,850,000	3.85%	0.64%	110	133	153	185
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
	100.00%	£99,950,000	31.97%	£31,950,000	31.97%	0.55%	42	248	61	365

Portfolio's weighted average risk number = 1.72

WARoR = Weighted Average Rate of Return

WAM = Weighted Average Time to Maturity

APPENDIX 3 - ECONOMIC COMMENTARY FROM LINK ASSET SERVICES

Our treasury management advisers, Link Asset Services provided us on 11 May with the following update to their interest rate forecasts:

Quarterly Inflation Report and Monetary Policy Committee (MPC) meeting 10.5.18

- ***We have pushed back our first Bank Rate increase from May 2018 to November 2018.***
- ***While photographers implore a sitter to watch the birdie, Mark Carney has often repeated the phrase of 'watch the data'!***

As late as mid-February, financial markets were viewing a May Bank Rate increase as a near dead certainty. We would refer clients back to our previous newsflash on 13.2.18 where we explained the forward guidance issued by the MPC after its previous meeting which reinforced the view that Bank Rate was likely to go up faster than markets were expecting. This guidance placed much emphasis on a tight labour market with the following characteristics: -

- remarkably low unemployment which was continuing on a trend of falling
- healthy growth of rising employment and levels of employment out of the population of available workers
- increasing levels of vacancies
- MPC concerns on rising wage inflation in this tight labour market
- low productivity limiting GDP non-inflationary growth to only 1.5% p.a.
- inflation still being slightly above the target of 2% during the new 18-24 month time horizon

Very little has changed since then apart from inflation now being projected to hit the 2% target in two years' time.

BUT......... what has changed the whole outlook and the latest MPC decision to leave Bank Rate unchanged, is the sharp downturn of economic data since mid-February which has resulted in a first estimate, (on 40% of the data), of a mere 0.1% GDP growth in quarter 1. Not only this, but over this quarter, the PMI indicators and actual production figures have come in weaker than expected. Admittedly, some of this was due to adverse weather in the quarter but the ONS commented that its 0.1% statistic was little affected by the weather. Admittedly, the optimists will point to the fact that we had a sharp dip in quarter 1 of 2017, so maybe we should not get too down about what might be just another blip this year. They could also raise concerns around US economic sanctions on Iran and developments in Venezuela leading to a sharp increase in the price of oil which could feed inflationary pressures into the economy; this, in turn, could then put upward pressure on Bank Rate. However, we can only summarise by saying that it is good sense for the MPC to hold fire on their promise on increasing Bank Rate until they see that economic growth recovers during the year and that the quarter 1 downturn proves only to be a temporary dip.

We therefore have to say that while our previous forecast included bringing forward the next increase in Bank Rate from November to May 2018, we have now had to reverse this back again in the light of how the economic data has transpired during quarter 1. The MPC may well now want to see two quarters of a return to reasonably strong growth before tightening monetary policy so we feel that an increase in Bank Rate as soon as August 2018 is unlikely. We would also point out that the MPC is probably unlikely to change Bank Rate at its February 2019 quarterly review meeting as this would be just ahead of the March deadline for withdrawal from the EU. So the MPC will be trying to juggle the tension between this and needing to take some action to deliver on its promise on increasing Bank Rate, which, therefore, puts the spotlight on the November 2018 meeting. A further factor will be that all central banks now have one eye on the need to normalise monetary policy so they can have tools to use if there was another recession. It is also notable that the MPC announced it will do a review on reversing quantitative easing.

As not much fundamentally has changed apart from recent weak data, we would refer clients back to our previous newsflash for the further comments we made then.

1. LINK ASSET SERVICES' FORECASTS

We are therefore forecasting a first Bank Rate increase in November 2018, to be followed by further increases in September 2019, June 2020 and November 2020.

We can only forecast given the current situation and have to flag up that there is a wide spread of potential outcomes during this three year forecast period and a likelihood of heightened volatility as events actually unfold. Our own forecasts are based on a central assumption that the UK will make progress with concluding a satisfactory outcome over the Brexit negotiations with the EU by March 2019, although the UK finance sector is likely to be an area of particular concern and difficulty.

Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK. While there is normally a high degree of correlation between the bond yields of both countries, we would expect to see an eventual growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. Over the period since the start of 2017, there has been a strong correlation between increases in treasury, gilt and bund yields for periods longer than 5 years, although the rate of increase in the UK and Germany has been somewhat lower than in the US. We will need to monitor this area and any resulting effect on PWLB rates.

The balance of risks to economic growth and Bank Rate increases

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Our forecasts are predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Asset Services Interest Rate View	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 View	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.60%	0.70%	0.90%	0.90%	0.90%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.70%	0.80%	1.00%	1.00%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	0.80%	0.90%	1.10%	1.10%	1.20%	1.30%	1.40%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	1.90%	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
10yr PWLB Rate	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%

BANK RATE	now	previously
Q1 2019	0.75%	1.00%
Q1 2020	1.00%	1.25%
Q1 2021	1.50%	1.50%

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out overleaf:

PWLB debt	Current borrowing rate as at 11.5.18	Target borrowing rate now (Q2 2018)	Target borrowing rate previous (Q2 2018)
5 year	1.88%	1.90%	2.00%
10 year	2.32%	2.40%	2.50%
25 year	2.71%	2.70%	2.90%
50 year	2.43%	2.40%	2.70%

Borrowing advice: although rates have risen from their low points, particularly in periods up to 10 years, longer term rates are still historically low and borrowing should be considered if appropriate to your strategy. We still see value in the 40 years to 50 years range, but note the curve has flattened considerably from 10 years out. Value, however, in the 40-50 years part of the curve may be negated if Bank Rate does not climb to at least 2.5% over the medium term. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.
Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that Bank Rate may rise to only 1.50% by December 2020.

Our suggested budgeted investment earnings rates for investments up to about three months' duration in each financial year for the next seven years are as follows: -

Average earnings in each year	Now	Previously
2018/19	0.75%	0.80%
2019/20	1.00%	1.25%
2020/21	1.25%	1.50%
2021/22	1.50%	1.65%
2022/23	1.75%	1.75%
2023/24	2.00%	2.00%
Later years	2.75%	2.75%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.