

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 ACTIVITIES 2018/19

1. Purpose of Report

- 1.1 This document reviews the treasury management activities carried out by the Council during 2018/19, in accordance with statutory guidance.
- 1.2 In broad terms it covers the following:
- The agreed Treasury Management Strategy for 2018/19;
 - An economic summary;
 - The Council's borrowing activity;
 - The Council's investment activity, and
 - The Prudential and Treasury Indicators.

2. Recommendations

- 2.1 It is recommended that Members note:
- **The borrowing and investment activities carried out during 2018/19, and**
 - **The Prudential and Treasury Indicators set out in Appendix 1.**

3. The Agreed Strategy for 2018/19

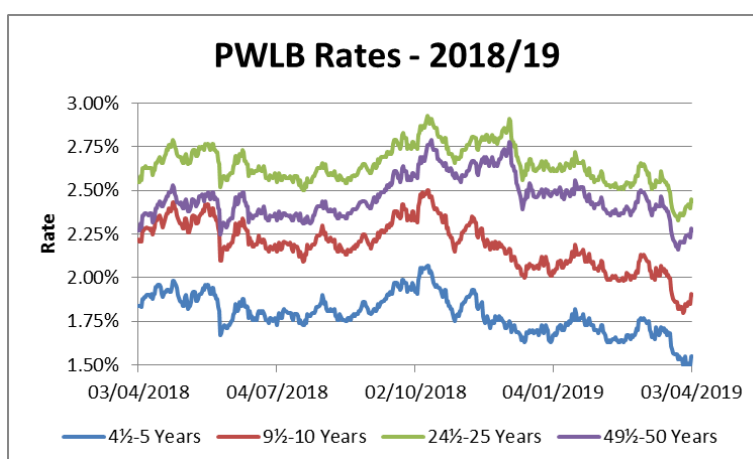
- 3.1 The Treasury Management Strategy identifies the key risks associated with the Council's borrowing and investment activities and sets out how those risks will be managed.
- 3.2 The focus of the Council's borrowing strategy is on reducing its exposure to interest rate and refinancing risk, whilst being mindful of the impact on the capital financing budget.
- 3.3 The purpose of the Council's investment strategy is to ensure that its cash balances are invested prudently and are available when needed to meet its spending commitments. As such, its primary aims in relation to investments are security and liquidity with the pursuit of higher returns a secondary objective.

4. Economic Summary

Highlights:

- *The UK base rate increased just once during the year (from 0.5% to 0.75%);*
- *PWLB rates have shown significant volatility during the year;*
- *Rates are expected to increase gradually over the short to medium term;*
- *This is subject to a number of factors, most notably the outcome of Brexit.*

- 4.1 The UK base rate increased from 0.5% to 0.75% in August 2018 but has since remained unchanged, largely owing to the continued uncertainty around Brexit.
- 4.2 PWLB rates have shown significant volatility during the year, with long term rate rising above 2.75% in October and December, before settling down below 2.5% towards the end of the year. This volatility can be attributed to a range of factors, with the main factor arguably being the ongoing uncertainty around Brexit.



Future Outlook

- 4.3 There is still an expectation that rates will increase over the short to medium term, on the belief that some form of agreement will be reached on Brexit, however there are a number of other factors that could influence this position going forwards (see appendix 4 for more details).
- 4.4 The latest projections from the Council's advisors (Link Asset Services) are provided in the table below:

	Interest Rate Projections				
	Mar-2019	Jun-2019	Sep-2019	Dec-2019	Mar-2020
Base rate	0.75%	0.75%	1.00%	1.00%	1.00%
5 year rate	1.55%	1.90%	2.00%	2.10%	2.20%
10 year rate	1.85%	2.30%	2.40%	2.50%	2.60%
25 year rate	2.40%	2.80%	2.90%	3.00%	3.10%
50 year rate	2.23%	2.60%	2.70%	2.80%	2.90%

5. Borrowing and Leasing Activity

Highlights:

- *The Council's Capital Financing Requirement (CFR) increased by £2M during the year, closing at £952M (down £16M from the original estimate);*
- *The Council fixed out a significant proportion of its CFR during the year, reducing its under-borrowed position to £54M (down £107M);*
- *The Council may need to borrow up to £201M over the next 2 years to finance its capital expenditure and maturing loans;*
- *Officers will continue to monitor this position closely and explore any further opportunities for deferred loan funding.*

Movement on the Capital Financing Requirement (CFR)

- 5.1 The CFR is essentially a measure of the Council's need to borrow to finance its capital expenditure. The Council monitors its CFR in relation to gross debt to determine the extent to which it is under (or over) borrowed.

NB: The term 'under-borrowed' is used throughout this document and refers to the temporary use of cash resources (e.g. reserves earmarked for future capital expenditure or grants received in advance of expenditure) to avoid immediate borrowing. This approach seeks to reduce investment counterparty risk and create a short-term budget saving. The Council will replace these cash resources with external debt as the spending commitments occur.

- 5.2 The table below outlines the movement in CFR during 2018/19 and how this compares to the original estimate. The £16M variance is primarily a result of slippage / re-phasing within the approved capital programme, partially offset by a reduction in resources set aside to repay debt. This variance is mainly attributable to the General Fund:

	2018/19 Estimate (£M)	2018/19 Actual (£M)	Variance (£M)
Opening CFR	945.549	949.904	4.355
Increase from in-year capital investment	32.192	8.508	(23.684)
Amounts set aside to repay debt	(10.465)	(6.869)	3.596
Net movement in CFR	21.727	1.639	(20.088)
Closing CFR	967.276	951.543	(15.733)
General Fund	701.237	679.809	(21.428)
HRA	266.039	271.734	5.695

- 5.3 The following table shows the Council's under-borrowed position at the end of the year and how this compares to the original estimate. The Council initially anticipated a closing position of £161M however a concerted effort to fix out more of its borrowing requirement (in order to increase budget certainty) resulted in a closing under-borrowed position of £54M - a difference of £107M. The majority of this difference relates to the General Fund:

	2018/19 Estimate (£M)	2018/19 Actual (£M)	Variance (£M)
Closing CFR (from table above)	967.276	951.543	(15.733)
Less PFI schemes / finance leases*	(236.348)	(237.332)	(0.984)
Borrowing requirement	730.928	714.211	(16.717)
External borrowing	(569.813)	(660.175)	(90.362)
Under-borrowed position	161.115	54.036	(107.079)
General Fund	152.134	48.003	(104.131)
HRA	8.981	6.033	(2.948)

** PFI schemes and finance leases are excluded on the basis that each arrangement contains its own borrowing facility therefore the Council is not required to borrow separately.*

Movement on External Borrowing

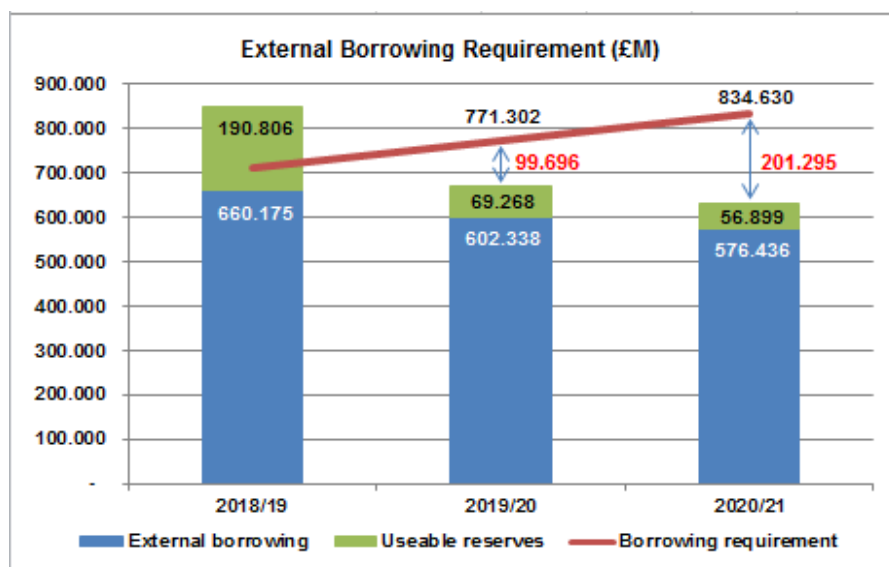
- 5.4 The following table shows the movement on gross debt during the year, broken down by source / type. As the table highlights, the Council fixed out a significant proportion of its borrowing requirement, with £161M of new loans drawn down in year (£8M in the final quarter). This is partially offset by debt repayments totalling £65M (£16M in the final quarter):

	Balance on 01/04/2018 (£M)	New Borrowing (£M)	Principal Repaid (£M)	Balance on 31/03/2019 (£M)	Net Movement (£M)
PWLB borrowing	430.612	147.500	(4.399)	573.713	143.101
Other long term loans	63.000	-	(8,000)	55.000	(8,000)
Temporary loans	38.004	14.000	(50.000)	2.004	(36.000)
Long term local authority loans	31.598	-	(2.140)	29.458	(2.140)
Total external borrowing	563.214	161.500	(64.539)	660.175	96.961

- 5.5 New borrowing comprised of £148M from the PWLB and £14M of temporary borrowing for other local authorities (see appendix 2 for further details). The Council also secured a second deferred loan of £20M, which is due to be drawn down in 2019/20 (hence this isn't included in the figures above).
- 5.6 Debt repayments included an £8M Lender Option, Borrower Option (LOBO) loan, following an opportunity to repay this early (whilst generating a saving on the Council's capital financing budget). The Council also repaid £50M of temporary borrowing reflecting the shift in strategy towards longer dated, fixed rate debt, and converted a £2M loan from the Sheffield City Region to grant funding following agreement earlier in the year.

Future Outlook

- 5.7 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 requirement increases and reserves are utilised:



- 5.8 Whilst there are sufficient reserves to support this position in the short term, these will ultimately need replacing with external borrowing as they are utilised. Based on current projections the Council may need to borrow up to £201M over the next 2 years:

	2018/19 Actual (£M)	2019/20 Estimate (£M)	2020/21 Estimate (£M)
Borrowing requirement	714.211	771.302	834.630
External borrowing	(660.175)	(602.338)	(576.436)
Under-borrowed position	54.036	168.964	258.194
Support from useable reserves	(54.036)*	(69.268)	(56.899)
External borrowing requirement	-	99.696	201.295

* As of 31st March 2019 the Council's useable reserves stood at £191M - of which £54M were required to support the Council's under-borrowed position.

- 5.9 A breakdown of the £201M is provided below. This table excludes loans with an uncertain maturity date (for instance the Council's LOBOs) which amount to £57M. If interest rates were to increase suddenly, replacing this debt would come at an additional cost, although the likelihood of these loans being recalled is considered to be fairly low:

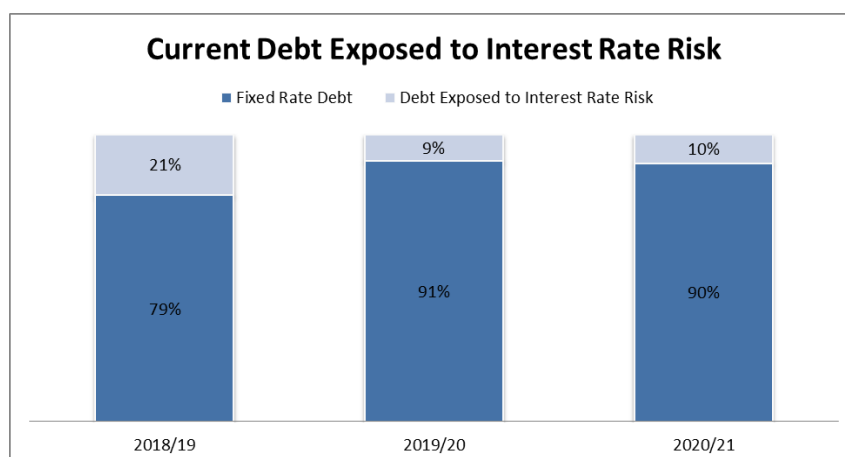
	£M
Planned capital investment	127.863
Amounts set aside to repay debt	(7.444)
Maturing loans	123.739
Loans secured but not yet drawn down	(40.000)
Support from useable reserves	(2.863)
External borrowing requirement	201.295

5.10 The Council's borrowing strategy is to reduce its exposure to interest rate risk, and is based on the following targets for 2018/19*:-

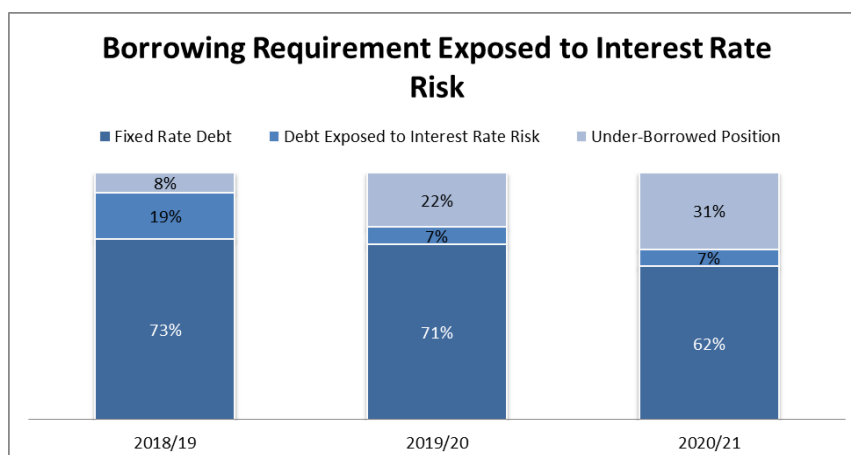
- Current debt exposed to interest rate risk <25%
- Borrowing requirement exposed to interest rate risk <35%

**These targets have been lowered to 15% and 30% respectively from 2019/20.*

5.11 The following charts show the Council's expected position against these targets based on the borrowing undertaken to date:



5.12 The first target is assessed against the Council's variable rate PWLB loans, temporary borrowing and LOBOs. At 21% the Council is currently within target, and is expected to remain within target until the end of 2020/21. By comparison 32% of the Council's debt was exposed to interest rate risk at the end of 2017/18, which shows the significance of the borrowing undertaken in year to improve our position.



5.13 The second target factors in the Council's internal borrowing, reflecting the fact that the Council will ultimately need to replace this with external financing. The Council is currently within target for 2018/19 (27%) and 2019/20 (29%). However to remain within target at the end of 2020/21, it is anticipated that the Council will need to fix out around £63M. By comparison 46% of the Council's borrowing requirement was exposed to interest rate risk at the end of 2017/18, again showing the significance of the borrowing undertaken in year to improve our position.

Future Borrowing Strategy

5.14 As described earlier in this section, the Council has fixed out a large proportion of its borrowing requirement during the year, and as a result has reduced its exposure to interest rate risk by almost 20%. However as illustrated in tables at paragraphs 5.8 - 5.9, the Council still has a significant borrowing requirement over the next 2 years.

5.15 The Council has a number of options to address this future requirement as outlined below:

- **Fixed-rate borrowing from the PWLB** - the Council borrowed £148M from the PWLB during 2018/19 at an average rate of 2.57%; whilst rates are still relatively low this continues to be a suitable option for the Council to consider. However as outlined in section 6, the Council is holding a significant amount of cash therefore deferred loans are the preferred option at this time (see below).
- **Further deferred loans** - these allow the Council to borrow at a fixed rate - typically 0.15-0.20% above PWLB - and draw down the cash up to 4 years in advance, thus protecting the Council from any sudden interest rate rises whilst reducing cost of carry and counterparty risk. The Council has secured £40M to date and will continue to work with its advisors in order to identify any other potential lenders.
- **Loans from other local authorities** - the Council could look to replace some maturing debt with longer-term loans from other local authorities, which would help to spread refinancing risk whilst reducing the cost of carry (the interest rates on these loans are typically much lower than the longer term PWLB loans).

5.16 Other options being considered in support of the borrowing strategy include:

- **LOBO refinancing** - Officers have recently taken an opportunity to refinance one of its LOBOs which has reduced the Council's exposure to interest rate risk whilst resulting in a small annual saving on its capital financing costs. Officers will continue to explore any opportunities to repay / re-negotiate its remaining LOBOs.
- **BSF refinancing** - the Council continues to refinance the Building Schools for the Future PFI programme in conjunction with the Local Education Partnership. This process will create additional savings for the Council as well as key partners which have already been factored into the Council's MTFS. Refinancing has already been completed for phases 1 and 2 and it was originally envisaged that phase 3 would be complete by the end of this financial year. This process has been slightly delayed whilst the LEP assessed the significance of Brexit but it is anticipated that Phase 3 refinancing will be completed in the near future.

6. Investment Activity

Highlights:

- *The Council's investments increased by £124M during the year as a result of new borrowing (as outlined in section 5);*
- *Security and liquidity remained the key priorities, with the majority of new investments placed in secure Money Market Funds and instant access accounts;*
- *Officers continued to take advantage of the competitive rates offered on short term local authority deposits.*

Movement on Investments

- 6.1 The following table shows the movement on investments during the year, broken down by source / type. As the table highlights, the Council's investments increased by £124M during the year (£15M during the final quarter) as a result of the new borrowing outlined in section 5:

	Balance on 01/04/2018 (£M)	New Investments (£M)	Redeemed Investments (£M)	Balance on 31/03/2019 (£M)	Net Movement (£M)
Short term deposits	35.000	372.000	(250.500)	156.500	121.500
Money Market Funds / instant access accounts	36.000	441,300	(439.220)	38.080	2.080
Total investments	71.000	813.300	(689.720)	194.580	123.580

- 6.2 Security and liquidity remained the key investment priorities, with the majority of new investments placed in secure Money Market Funds and instant access accounts.
- 6.3 However the majority of the in-year increase relates to short term deposits, as officers continued to take advantage of the competitive rates offered by local authorities, whilst the cash was needed to meet its spending commitments. This helps to boost the Council's investment returns whilst preserving the capital invested.

Future Investment Strategy

- 6.4 The Council's investment strategy is to ensure its cash balances are invested prudently and are available when needed to meet its spending commitments. The Council approved several changes to its counterparty limits back in November to ensure that it could safely accommodate its increased cash balances going forwards.

6.5 The key investment issues for the Council to manage in future are as follows:

1. **Money Market Fund (MMF) Reforms** - the Council's Money Market Funds converted to a new structure in early 2019, known as LVNAV funds. In order to maintain their status as LVNAV funds, there are a number of requirements that must be satisfied. Whilst there are no foreseen issues in meeting these requirements, officers will monitor the funds closely over the coming months to identify any potential risks going forwards.
2. **IFRS9 Financial Instruments** - this is a new accounting standard for 2018/19 which changes the way that certain investments are categorised and valued. It also requires the Council to recognise any potential losses on investment through its General Fund. Officers will monitor this on a regular basis to identify any potential risks to the General Fund budget.
3. **Local Authority Creditworthiness** - a number of local authorities have been in the spotlight which has raised the question whether they are a safe investment. Whilst there are regulations in place to avoid local authorities going bankrupt, officer recognise the reputational risk associated with such investments, therefore reputational risk will have more bearing on investment decisions in future.

7. Performance Measurement / Compliance with Prudential and Treasury Limits

- 7.1 The Capital financing budget underspent by a total of £2M in year. This underspend has reduced since 2017/18 as a result of the Council's strategy to fix out more of its borrowing requirement in 2018/19, and is likely to reduce further in 2019/20 as a result of this revised approach.
- 7.2 Interest income was also higher than anticipated, reflecting the increase in cash balances from the borrowing undertaken in Q3 and the increase in interest rates compared to 2017/18.
- 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 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 (section 7 refers) are reported to Cabinet separately as part of the Council's revenue outturn report for 2018/19.

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 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 2018/19

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.

	2017/18 Actual (£M)	2018/19 Estimate (£M)	2018/19 Actual (£M)
General Fund	46.358	34.895	67.751
HRA	22.997	24.580	25.656
Total Capital Expenditure	69.355	59.475	93.407

2. 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.

	2017/18 Actual (£M)	2018/19 Estimate (£M)	2018/19 Actual (£M)
General Fund	438.515	464.889	442.477
HRA	271.734	266.039	271.734
Other Long Term Liabilities	239.655	236,348	237.332
Total CFR	949.904	967.276	951.543

3. 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).

	2017/18 Actual (£M)	2018/19 Estimate (£M)	2018/19 Actual (£M)
General Fund Borrowing	304.513	312.755	394.474
HRA Borrowing	258.700	257.058	265.701
Total External Borrowing	563.213	569.813	660.175
Other Long Term Liabilities	222.587	227.901	215.395
Total Debt	785.800	797.714	875.570

4. 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.

	2018/19 Limit (£M)	2018/19 Actual (£M)	Compliant?
Average Debt compared to Operational Boundary	967.276	837.987	YES

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.

	2018/19 Limit (£M)	2018/19 Actual (£M)	Compliant?
Maximum Debt compared to Authorised Limit	997.276	908.663	YES

6. 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.

	2018/19 Limit (%)	Actual 31/03/2019 (%)	Compliant?
General Fund:			
Upper Limit on Fixed Interest Rate Exposure	90	90	YES
Upper Limit on Variable Interest Rate Exposure	25	10*	YES

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

	2018/19 Limit (%)	Actual 31/03/2019 (%)	Compliant?
HRA:			
Upper Limit on Fixed Interest Rate Exposure	100	83	YES
Upper Limit on Variable Interest Rate Exposure	25	17	YES

7. 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.

	2018/19 Limit (%)	Actual 31/03/2019 (%)	Compliant?
General Fund:			
Less than 12 months	0-50	13	YES
12 months to 2 years	0-25	6	
2 years to 5 years	0-25	8	
5 years to 10 years	0-25	3	
10 years to 20 years	0-75	2	
20 years to 30 years	0-75	6	
30 years to 40 years	0-75	20	
40 years to 50 years	0-75	42	
50 years and above	0-75	0	

	2018/19 Limit (%)	Actual 31/03/2019 (%)	Compliant?
HRA:			
Less than 12 months	0-25	19	YES
12 months to 2 years	0-25	1	
2 years to 5 years	0-25	5	
5 years to 10 years	0-25	7	
10 years to 20 years	0-75	3	
20 years to 30 years	0-75	12	
30 years to 40 years	0-75	41	
40 years to 50 years	0-75	12	
50 years and above	0-75	0	

8. 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.

	2017/18 Actual (%)	2018/19 Estimate (%)	2018/19 Actual (%)
General Fund	22*	22*	23
HRA	43*	45	35

** Restated in order to meet the requirements of the prudential code.*

9. Maximum Principal Sums Invested

This indicator sets an upper limit for the level of investment that may be fixed for a period greater than 365 days. This limit is set to contain exposure to credit and liquidity risk.

	2018/19 Limit (£M)	2018/19 Actual (£M)	Compliant?
Sums Invested > 365 days	20	0	YES

APPENDIX 2 - LOAN PORTFOLIO AS AT 31/03/2019

Summary as at 31/03/2019:

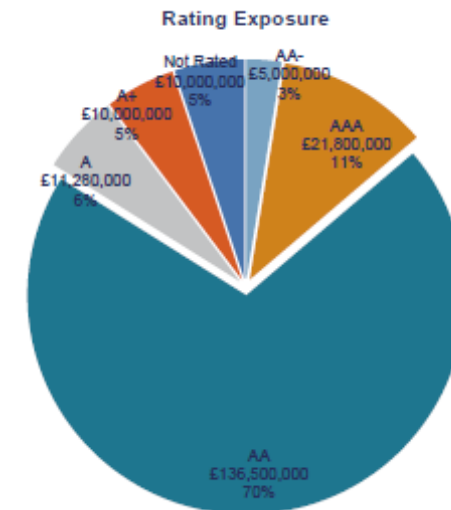
	Balance (£M)	Average Rate (%)
PWLB fixed	573.713	3.84
PWLB variable	80.900	0.96
Other long term loans	55.000	4.75
Temporary loans	2.004	0.75
Long term local authority loans	29.458	0.99
Total external borrowing	660.175	3.42

New PWLB borrowing in year:

Date	Balance (£M)	Term (Y)	Rate (%)
31/05/2018	10.000	50.0	2.25
19/06/2018	10.000	49.0	2.32
01/10/2018	20.000	50.0	2.56
16/10/2018	20.000	48.0	2.79
16/10/2018	10.000	48.0	2.75
19/10/2018	10.000	47.0	2.68
25/10/2018	10.000	45.0	2.62
30/10/2018	10.000	46.0	2.58
02/11/2018	10.000	46.0	2.56
14/11/2018	10.000	46.0	2.6
26/11/2018	10.000	44.0	2.64
14/12/2018	8.000	31.0	2.56
18/12/2018	2.000	36.0	2.56
26/03/2019	2.500	41.0	2.21
27/03/2019	5.000	42.0	2.19
Total	147.500	46.1	2.57

APPENDIX 3 - INVESTMENT PORTFOLIO AS AT 31/03/2019

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Federated Investors (UK)	9,800,000	0.78%		MMF	AAA	0.000%
MMF Aberdeen Standard Investments	8,900,000	0.78%		MMF	AAA	0.000%
Goldman Sachs International Bank	9,250,000	0.72%		MMF	A	0.000%
MMF Deutsche	3,100,000	0.73%		MMF	AAA	0.000%
Barclays Bank Plc (NRFB)	2,030,000	0.50%		Call	A	0.000%
Handelsbanken Plc	5,000,000	0.70%		Call	AA-	0.000%
Buckinghamshire County Council	5,000,000	1.00%	28/09/2018	05/04/2019	AA	0.000%
Birmingham City Council	5,000,000	0.85%	25/02/2019	05/04/2019	AA	0.000%
Lancashire County Council	5,000,000	0.95%	25/09/2018	11/04/2019	AA	0.001%
West Berkshire Council	1,500,000	0.90%	12/03/2019	12/04/2019	AA	0.001%
Leeds City Council	5,000,000	0.85%	18/10/2018	16/04/2019	AA	0.001%
North Lanarkshire Council	5,000,000	0.90%	18/11/2018	16/04/2019	AA	0.001%
Slough Borough Council	5,000,000	0.90%	23/10/2018	23/04/2019	AA	0.002%
Surrey County Council	10,000,000	0.92%	26/10/2018	26/04/2019	AA	0.002%
Eastbourne Borough Council	5,000,000	0.88%	31/01/2019	30/04/2019	AA	0.002%
Gloucester City Council	5,000,000	0.85%	07/01/2019	07/05/2019	AA	0.002%
Eastbourne Borough Council	3,000,000	0.95%	20/11/2018	20/05/2019	AA	0.003%
London Borough of Enfield	5,000,000	1.00%	29/08/2018	29/05/2019	AA	0.004%
Blaenau Gwent County Borough Council	3,000,000	0.90%	19/12/2018	10/06/2019	AA	0.005%
Birmingham City Council	5,000,000	0.95%	27/03/2019	27/06/2019	AA	0.006%
London Borough of Croydon	10,000,000	0.95%	15/10/2018	15/07/2019	AA	0.007%
Leeds City Council	5,000,000	0.90%	22/10/2018	22/07/2019	AA	0.007%
Cherwell District Council	1,000,000	1.05%	22/10/2018	22/07/2019	AA	0.007%
Bracknell Forest Borough Council	5,000,000	1.00%	21/01/2019	22/07/2019	AA	0.007%
Salford City Council	5,000,000	0.90%	25/10/2018	25/07/2019	AA	0.008%
Highland Council	5,000,000	0.95%	01/02/2019	02/09/2019	AA	0.010%
Cherwell District Council	3,000,000	1.05%	13/03/2019	13/09/2019	AA	0.011%
Surrey County Council	5,000,000	1.01%	28/03/2019	30/09/2019	AA	0.012%
Leicestershire Police	10,000,000	1.05%	29/03/2019	30/09/2019	AA	0.012%
Lloyds Bank Plc (RFB)	10,000,000	1.05%	01/10/2018	01/10/2019	A+	0.027%
Isle of Wight Council	5,000,000	1.00%	18/10/2018	17/10/2019	AA	0.013%
Cherwell District Council	7,000,000	1.10%	18/02/2019	18/11/2019	AA	0.015%
Great Yarmouth Borough Council	5,000,000	1.10%	14/12/2018	13/12/2019	AA	0.017%
Eastleigh Borough Council	5,000,000	1.00%	15/03/2019	16/12/2019	AA	0.017%
North Tyneside Metropolitan Borough Council	8,000,000	1.20%	15/03/2019	13/03/2020	AA	0.023%
Total Investments	£194,580,000	0.93%				0.007%



	% 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	86.49%	£168,300,000	12.95%	£21,800,000	11.20%	0.95%	101	186	116	214	
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	7.71%	£15,000,000	33.33%	£5,000,000	2.57%	0.93%	123	243	184	365	
Red	5.80%	£11,280,000	100.00%	£11,280,000	5.80%	0.68%	0	0	0	0	
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%	£194,580,000	19.57%	£38,080,000	19.57%	0.93%	97	180	120	224	

Portfolios weighted average risk number = 1.46
 WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

APPENDIX 4 - ECONOMIC COMMENTARY FROM LINK ASSET SERVICES

Economic Background

UK

After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing individual country in the G7 in quarter 4.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend, reaching 1.8% in January before rising marginally to 1.9% in February. However, in the February Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

BREXIT

The Conservative minority government has so far, (1.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the current deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE

Growth was 0.4% in quarters 1 and 2, but then weakened to 0.2% in quarters 3 and 4 and is likely to be 0.1- 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth in the second half of 2018 and into 2019, 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%), has prompted the ECB to take new measures to stimulate growth. However, with its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the bottom of cutting rates. At its March meeting it said that it expects to leave interest rates at their present levels “at least through the end of 2019”, but that is of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans.

CHINA

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; 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

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.

WORLD GROWTH

Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overblown. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

Interest Rate Forecast

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

Link Asset Services Interest Rate View												
	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%

After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, probably until such time as the fog of Brexit might clear and there is some degree of certainty of what the UK will be heading into.

The above forecast and other comments in this report are based on a central assumption that there will be an agreement on a reasonable form of Brexit. In view of the current, (1 April 2019), lack of any majority in the House of Commons for one option for Brexit, the above forecasts will probably need revision to take account of the current impasse if that were to continue. This could mean that the start of increases in Bank Rate may need to be pushed back.

The balance of risks to the UK:

- 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 broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.