Agenda Item No: 08

CABINET

11 SEPTEMBER 2018

EXECUTIVE DIRECTOR OF FINANCE: MARK MCLAUGHLIN

CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE: COUNCILLOR MALCOLM LONGLEY

Subject:	Treasury Management Report, Quarter 1 2018-19.
Recommendations:	That Cabinet note the Treasury Management Report and forward to Full Council to note.

1. Purpose of report

1.1 The purpose of this report is to provide the first quarterly update position on the Treasury Management Strategy 2018-19, which was approved by Council in February 2018.

2. How this decision contributes to the Council plan

2.1 The Council's vision is to make Northamptonshire a great place to live and work. This is achieved through increasing the wellbeing of your county's communities and/or safeguarding the county's communities.

This initiative helps the Council to deliver this vision through the following strategic priorities outlined in the Council Plan:
• Improving infrastructure and place-shaping to enable communities and businesses to thrive and grow sustainably, and generating prosperity. • Maximising the use and value of our assets to support safe and efficient service delivery.

3. Background

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

4. Economic Climate

4.1 A detailed commentary from the Council's treasury advisers of the current economic climate is provided at Appendix A to this report. In brief summary, Q1 saw:

- Bank of England kept base rate unchanged due to concerns whether weak economic growth in 2017 & Q1 2018 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather had been a contributor;

- The economy show signs of regaining momentum, employment growth rose strongly but wage growth softened, and consumer price inflation eased further;
- Progress on Brexit negotiations stalled;
- At its June meeting, the European Central Bank announced it would begin halving its monthly quantitative easing purchases and then end all purchases after December;
- The Federal Reserve continues its upswing in rates, with seven increases since the first one in December 2015, the latest one being in June 2018.

5. Cash Resources

5.1 Since the council's budget position has become clearer, other councils have expressed concern about whether loans to NCC will be repaid. This concern is unfounded because whilst the council may have a budget difficulty, it does not have a cash shortage. For example, the council's cash position has benefited from the recent sale of One Angel Square.

5.2 The Council's Treasury Management Advisors, Link Asset Services, undertook a detailed balance sheet review at 31st March 2018. This review demonstrated that the Council was well below its underlying capital borrowing requirement by £91m.

5.3 The Council could have therefore, if it needed to, have borrowed a further £91m to fund the capital borrowing requirement entirely from external borrowing so bringing additional cash back into the Council.

5.4 Since 31st March 2018, the underlying capital borrowing requirement has increased by £47.6m whilst at Q1 2018-19 borrowing had only increased by £14.6m, a net increase in borrowing capacity of £33m. At Q1 2018-19 the Council could have therefore, if it needed to, have borrowed a further £124m to fund the capital borrowing requirement entirely from external borrowing (further details in paragraphs 6.5 and 6.6 below).

5.5 The increase in the Council's forecast general fund deficit caused by the amendments to its 2017-18 accounts does not change its cash-balance at 31/03/18. The amounts written back were not cash adjustments but changes to the Council's balance sheet.

5.6 It is normal practice for councils to borrow from and lend to each other. Some may find themselves with positive cash balances available to invest short-term. Others, like Northamptonshire, with a borrowing requirement, may borrow short-term for some of their debt at low rates, an average of 0.73% currently.

5.7 Northamptonshire has currently borrowed £139m from other Local Authorities, the majority of which is short term. If on the repayment of these loans the Council had to replace this with borrowing from HM Treasury, at its current short term fixed rates of 1.44% for 1 year and 1.66% for 5 years, this would cost between £1.0m and £1.5m more in interest costs per year. The Council is therefore keen for others to understand that it represents no greater risk than others because of its current budgetary position.

5.8 The Council cannot however use this cash, or borrow to balance its budget.

6. Summary Portfolio Position

6.1 A snapshot of the Council's borrowing and investment position at Q1 2018-19 is shown in the table below against forecasts used in the Treasury Management Strategy Statement (TMSS) approved in February, with the subsequent sections of this report providing further explanation of the numbers:

Table 1: Summary Portfolio Position

	TMSS Forecast February 2018 (agreed by Council)		**Actual Q1 2018-19 (YTD)**		**Forecast Outturn 2018-19**	
	£m	Weighted Av. Rate %	£m	Weighted Av. Rate %	£m	Weighted Av. Rate %
Long Term Borrowing (>1yr):						
PWLB	439.1	3.5	284.2	4.1	284.2	4.1
PWLB (HM Treasury guaranteed)	20.4	2.4	21.1	2.4	20.4	2.4
Market/ Local Authorities	30.0	2.4	43.0	2.3	40.0	2.3
Lender Option Borrower Option (LOBO)	130.0	4.7	130.0	4.7	130.0	4.7
Total Long Term Borrowing	**619.5**	**3.9**	**478.3**	**4.1**	**474.6**	**4.1**
Short Term Borrowing (<1yr)	21.7	0.8	137.0	0.7	110.0	0.8
Total Gross Borrowing	**641.2**	**3.4**	**615.3**	**3.3**	**584.6**	**3.3**
Investments (exc' Third Party Loans)	**0.0**	**-**	**101.9**	**0.6**	**0.0**	**0.6**
Total Net Borrowing	**641.2**		**513.4**		**584.6**	
Third Party Loans	***22.2***	***2.4***	***23.2***	***2.4***	***22.2***	***2.4***

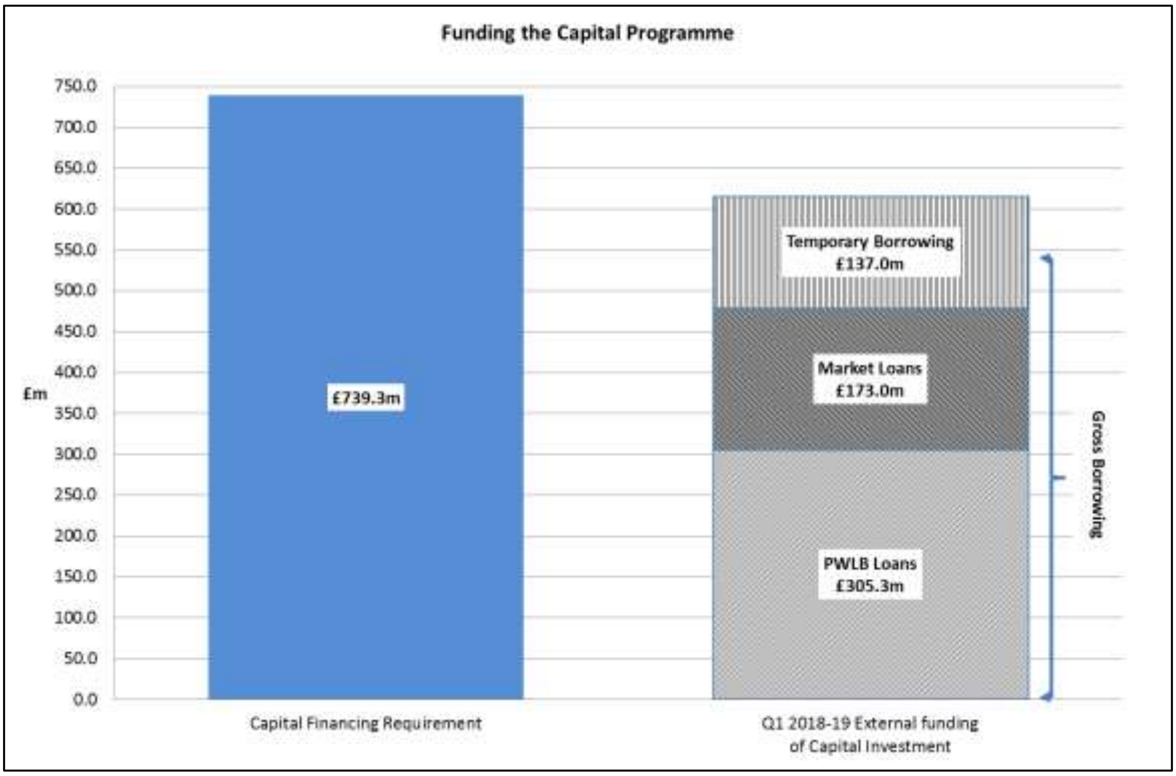
6.2 The current position shows that overall borrowing is currently and forecast to remain lower than originally forecast when the TMSS was approved in February. This is largely due to the cash-backed capital receipt from the sale of One Angel Square and a working capital surplus contribution, both negating the need to undertake additional borrowing.

6.3 The Council is regularly reviewing options as to the timing of any potential long term borrowing against the alternative approach currently forecast to be applied of further utilising cash balances in lieu and undertaking shorter term borrowing where appropriate. The primary benefits to this strategic approach are to generate net interest cost savings and minimise investment counterparty default exposure risk, weighted against the interest rate refinancing risk of borrowing rates increasing in the future.

6.4 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the Council expects to be in terms of borrowing and investment levels. When the 2018-19 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR) excluding PFI liabilities, which is the Council's liability for financing the agreed Capital Programme, would be £739.3m.This figure is naturally subject to change as a result of changes to the approved capital programme and slippage that might occur.

6.5 The chart below compares the latest CFR (£739.3m) against external borrowing at Q1 2018-19.

Chart 1: Funding the Capital Programme



6.6 The chart above demonstrates that at Q1 2018-19 the Council's gross borrowing position (sum of temporary, market and PWLB loans) of £615.3m was well below the CFR of £739.3m. The Council could have therefore, if it needed to, have borrowed a further £124m to fund the capital borrowing requirement entirely from external borrowing so bringing additional cash back into the Council.

7. Interest Rate Forecast

7.1 The latest forecast for interest rates from the Council's treasury advisers is set out below, along with benchmark investment and PWLB borrowing rates (Certainty rate):

Table 2: Interest Rate Forecast

Link Asset Services Interest Rate View											
	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	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

7.2 There are many risks to the forecast set out above, principally around the timing and pace of further rate rises, and a listing of underlying assumptions is attached at Appendix B. Budget estimates prudently include sensitivity analysis of the impact that a slower than forecast economic recovery would have upon the Council, and any benefit of the August interest rate rise will be reported through the Budget Monitoring process.

8. Investments

8.1 The TMSS for 2018-19, which includes the Annual Investment Strategy, was approved by the Council on 28th February 2018. It sets out the Council's investment priorities as being:

1. Security of Capital;

2. Liquidity; and then

3. Yield

8.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

8.3 Table 3 below summarises the maturity profile of the Council's investment portfolio at the end of Q1 2018-19 (excluding third party loans).

Table 3: Investment maturity profile at end of Q1 2018-19

Product	Access Type	Maturity Period 0d £m	0-3m £m	3-6m £m	Total £m	%
Money Market Funds	Same-Day	11.9			**11.9**	**11.7**
Bank Call Account	Instant Access	5.2			**5.2**	**5.1**
Certificate of Deposits	Fixed Term / Tradeable	0.0	64.8	20.0	**84.8**	**83.2**
	Total	**17.1**	**64.8**	**20.0**	**101.9**	**100.0**
	%	**16.8**	**63.6**	**19.6**	**100.0**	

8.4 Set out below are details of the amounts outstanding on loans or share capital classed as capital expenditure advanced to third party organisations at the end of Q1:

- University of Northampton (UoN) - £21.1m - the Council has acted as a conduit to advance PWLB funding to the university. These loans are fully guaranteed by HM Treasury and repayments funded by UoN at no cost to the Council;
- LGSS Law - £0.950m – loan at commercial rates to aid the cashflow of the company;
- Northamptonshire County Cricket Club - £0.9m - loan to facilitate build of a permanent stand at the cricket ground site;
- UK Municipal Bonds Agency (MBA) – £0.2m – advance of seed capital shares to establish the agency to raise bond finance as an alternative to PWLB & markets; and
- Adrenaline Alley - £0.017m – loan at commercial rates to facilitate expansion of urban sports park.

8.5 Financial markets trade on confidence and certainty, and although the Bank of England forward guidance is aimed at providing this, markets remain sceptical. Investment rates have increased from historical lows following the base rate rises, but remain relatively low in short to medium-term durations, with limited pickup in value for longer durations.

8.6 At 31st March 2018 investment balances totalled £33.8m, held in Money Market Funds and Call/Notice accounts. This figure excludes third party loans and share capital which are set out above. Due to the capital receipt from the sale of One Angel Square, together with the front-loaded nature of various government funding streams and timing of capital expenditure, the average level of funds available for investment purposes during this quarter was £129.2m. Short-term loans will be repaid as they mature but in the meantime, short-term investments have been placed in accordance with the Council's approved investment strategy.

8.7 Investment balances are forecast to reduce by the financial year end as internal resources from temporary positive cashflow surpluses are applied to fund expenditure demands in lieu of fully funding the borrowing requirement (internal borrowing) on a net basis. This process effectively reduces the cost of carrying additional borrowing at a higher cost than the income that could be generated through short term investment of those balances, as well as reducing investment counterparty credit risk.

8.8 The Council's investments outperformed the most comparable weighted duration benchmark by 4 basis points. Latest budget projections for the financial year are reported through the Budget Monitoring process.

Table 4: Benchmark Performance – Q1 2018-19

Benchmark	Benchmark Return	Council Performance
3m LIBID	0.55%	0.59%

8.9 Leaving market conditions aside, the Council's return on investments is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds can't be accessed when required.
- Interest rate risk; the risk that arises from fluctuating market interest rates.

8.10 These factors and associated risks are actively managed by the LGSS Integrated Finance Treasury team.

9. Borrowing

9.1 The Council can raise cash through borrowing in order to fund expenditure on its capital programme for the benefit of Northamptonshire. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, underlying borrowing requirement, forecast cash-backed reserves and both current and forecast economic conditions.

9.2 Overall borrowing outstanding increased by £14.6m during Q1. At 31st March 2018 the Council held £600.7m of borrowing, of which £21.6m was HM Treasury guaranteed loans advanced to UoN and £142.0m was for less than 1 year. The balance of outstanding borrowing at the end of Q1 was £615.3m, of which

£21.1m was HM Treasury guaranteed loans advanced to UoN and £137m was for less than 1 year. No new long term loans were brokered during Q1 for capital purposes, however £20.0m of prearranged loans from Q4 2017-18 with delayed drawdowns were received. PWLB principal repayments of £0.5m were made on schedule. A £5.0m loan for less than 1 year was also repaid on schedule.

9.3 The Council sets annual operational limits for borrowing. These limits are set above the CFR to accommodate day-to-day treasury operations and abnormal cash flows that may cause a temporary borrowing requirement. The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed at any point during the year. The Authorised Limit is the limit beyond which external borrowing is prohibited.

9.4 Table 5 below sets out the maximum level of borrowing held during the quarter against the Operational Boundary and Authorised Limit for external borrowing. This demonstrates that the Council continues to remain comfortably within these limits.

Table 5: Borrowing against Operational Boundary and Authorised Limit

	£m
Minimum Borrowing - Q1	600.9
Maximum Borrowing - Q1	620.9
Borrowing - end of Q1	**615.3**
Operational Boundary	**769.3**
Authorised Limit	**799.3**

9.5 Table 6 below sets out the maturity profile of the Council's borrowing portfolio at the end of Q1. The majority of loans are PWLB loans and have a fixed interest rate and are long term in nature which limits the Council's exposure to interest rate fluctuations.

Table 6: Borrowing maturity profile at end of Q1 2018-19

Term Remaining	**Borrowing**	
	£m	**%**
Under 12 months	143.3	23.3
1-2 years	36.3	5.9
2-5 years	37.9	6.2
5-10 years	8.0	1.3
10-20 years	33.0	5.4
20-30 years	9.1	1.5
30-40 years	169.0	27.4

Term Remaining	Borrowing	
	£m	%
40-50 years	141.7	23.0
Over 50 years	37.0	6.0
	615.3	**100.0**

9.6 The presentation of the figures above differs from that in the Treasury Indicator for maturity structure of borrowing in Appendix C as it includes Lender Option Borrower Option (LOBO) loans at their final maturity date rather than their next ‘call’ date. ‘Call’ dates are contractual points within LOBO loan agreements that allow the lender to increase the carrying interest rate at their discretion (the Lender Option). The borrower may then choose to accept the proposed new interest rate, or may repay the loan without penalty (the Borrower Option). In the current low interest rate environment the likelihood of lenders exercising their option to increase the interest rates on these loans, and so triggering the Council’s option to make repayment at par, is considered to be low.

9.7 As noted in Paragraph 8.7 above the Council is internally borrowed, but this position will need to be reversed at some point in the future and replaced by additional borrowing when those cash balances are due to be spent. Officers continue to assess cashflow forecasts against projected movements in borrowing rates. Sharp or sustained increases in borrowing rates will increase the likelihood of additional borrowing being drawn for this purpose earlier than planned.

10. Debt Restructuring

10.1 No debt rescheduling was undertaken during the Q1. Debt rescheduling opportunities are limited in the current economic climate. For PWLB loans, due to the spread between the carrying rate of existing borrowing and early redemption rates, substantial exit (premium) costs would be incurred. For market borrowing, the lender uses the certainty of the loans cashflow profile to hedge against forecast interest rate movements and so would pass the cost of unwinding these instruments onto the Council as an exit (premium) cost.

10.2 Officers continue to monitor the position regularly and take independent advice from the Council’s treasury advisors. Officers are in ongoing dialogue with the Council’s market loan lenders who may be open to negotiating on exit costs in return for early repayment of principal. Further updates on this position will be reported should they materialise.

11. Compliance with Treasury and Prudential Limits

11.1 The Council’s approved Treasury and Prudential Indicators (affordability limits) were approved alongside the TMSS. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits.

11.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s TMSS.

11.3 The Prudential and Treasury Indicators are shown in Appendix C.

12. Consultation and Scrutiny

12.1 This report has been developed in consultation with the Council's external treasury advisers, Link Asset Services.

12.2 The report will also be subject to scrutiny as necessary through the Finance and Resources Scrutiny Committee and the appointed Commissioners.

13. Equality Screening

13.1 There are no equalities implications for this report.

Reason that no EqIA is required	✓ as appropriate
The paper is for information only	✓
The proposal/activity/decision has no impact on customers or the service they receive	
The proposal impacts upon staff but the proposed staffing changes will not affect the service that customers receive*	
Other (Please explain further)	

* Where a proposal affects staff, the appropriate HR processes will be followed, which have already been subject to the EqIA process and will be compliant with HR legislation

14. Alternative Options Considered

14.1 This report has been based on factual information in accordance with Cabinet requirements.

15. Financial Implications

15.1 The financial implications of this report are set out in the Section above.

16. Risk and Business Continuity Management

16.1 The risk to the Council is that it does not adhere to the policies and criteria set out in the Treasury Management Strategy Statement with regards to lending and borrowing decisions. There are internal control processes in place to ensure the Council treasury management operations function within the policies set. Treasury Management risks are managed and monitored daily.

17. List of Appendices

Appendix A: Economic Commentary; Treasury Advisers (Link Asset Services)

Appendix B: Interest Rate Forecast Commentary; Treasury Advisers (Link Asset Services)

Appendix C: Treasury and Prudential Indicators

Author:	Name: Carl Oliver Team: LGSS Integrated Finance Service
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	Email: carl.oliver@milton-keynes.gov.uk
Background Papers:	
Does the report propose a key decision is taken?	NO
If yes, is the decision in the Forward Plan?	N/A
Will further decisions be required? If so please outline the timetable here	YES – to be sent on to Full Council for noting
Does the report include delegated decisions? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Have the financial implications been cleared by the Strategic Finance Manager (SFM)? Have any capital spend implications been cleared by the Capital Investment Board (CIB)	YES Name of SFM: Mark McLaughlin
Has the report been cleared by the relevant Director?	YES Name of Director: Mark McLaughlin
Has the relevant Cabinet Member been consulted?	YES Cabinet Member: Councillor Malcolm Longley
Has the relevant scrutiny committee been consulted?	NO Scrutiny Committee:
Has the report been cleared by Legal Services?	N/A Name of solicitor:
Have any communications issues been cleared by Communications and Marketing?	NO Name of officer:
Have any property Issues been cleared by Property and Asset Management?	NO Name of officer:
Have the Procurement Implications below been referenced in the Paper: • Have you evidenced compliance with the Council's Contract Procedures Rules? • Have you made clear in this paper where you are seeking Cabinet to approve an exemption from the Contract Procedure Rules and detailed the risks and mitigations? • Have you identified any EU or UK legislative risks such as non-compliance with the	NO Name of officer (This should be Head of Procurement)

Public Contract Regulations Act 2015, transparency and open competition? • Have you identified the procurement risks associated with a contract?	
Are there any community safety implications?	NO
Are there any environmental implications:	NO
Are there any Health and Safety Implications:	NO
Are there any Human Resources Implications:	NO
Are there any human rights implications:	NO
Constituency Interest:	Countywide

Appendix A
Economic Commentary; Treasury Advisers (Link Asset Services)

UK:

- UK Growth in 2017 was disappointingly weak in the first half of the year but picked up to 0.5% in quarter 3 and 0.4% in quarter 4. Growth in quarter 1 of 2018 was again disappointing, although on the first revision the rate improved from 0.1 to 0.2% to allay fears that the economy may have started a prolonged period of very weak growth. Initial indications in quarter 2 are that growth may have picked up speed to around 0.4%. The main reason for weak growth during 2017 and 2018 has been that inflation has been exceeding pay growth until recently, meaning that there has been negative growth in consumer disposable income when consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP.
- The manufacturing sector was the bright spot in the economy in 2017 in terms of strong growth but quarter 1 was the weakest quarter for one and a half years and forward indicators do not suggest a return to strong growth is likely
- During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around and the MPC did not disappoint by leaving rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather had been just one contributor. Since May, opinion has again turned to suggest that an August Bank Rate increase is back on the cards.
- However, there remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it is still far too early to be confident about how strong growth and inflationary pressures will be over the next two years, and therefore the pace of any rate increases.

EU:

- A recovery to strong growth in 2016 and 2017 looks as if it will weaken somewhat going forward. Despite providing massive monetary stimulus, the ECB has been struggling to get inflation up to its 2% target. However, in April the headline Eurozone rate jumped up from 1.4% to 1.9% although the core inflation rate was still subdued in rising from 0.7% to 1.1%. At its June meeting, the ECB announced it would halve its monthly quantitative easing purchases from €30bn to €15bn, and then end all purchases after December. It is unlikely to make a start on increasing interest rates until late in 2019.

US:

- Growth in the American economy was volatile in 2015, 2016 and 2017 during each year, with quarter 1 being particularly weak. The annual rate of GDP growth for 2017 was 2.3%. Quarter 1 in 2018 came in at 2.0%, down from 2.9% in the previous quarter. The Trump $1.5 trillion income tax cut package coming into effect in January 2018, is likely to boost growth to the Trump administration's 3% target. However, it is also likely to boost inflation at a time when spare capacity in the economy is minimal and unemployment, in particular, has fallen to the lowest level for 17 years, reaching 3.8% in May. The Fed has started on an upswing in rates with seven increases since the first one in December 2015, the latest one being in June 2018 to lift the central rate to 1.75 – 2.00%. There could be a further two or more increases in 2018. In October 2017, the Fed became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in respect of reinvesting maturing debt.

<u>Asia:</u>

- Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.
- In Japan, the best economic run, (of positive growth for eight quarters), since the 1980s came to an end in quarter 1 with a contraction of -0.6% blamed on weak exports. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, with inflation falling to only 0.4% in May. It is also making little progress on fundamental reform of the economy.

Appendix B
Interest Rate Forecast Commentary; Treasury Advisers (Link Asset Services)

Underlying assumptions to the interest rate forecast are:

- Our interest rate forecast has been revised to reflect the first increase in Bank Rate in August, advanced from November. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by the next increases in May and November 2020 to reach 1.5%. There is, therefore, no change in our Bank Rate forecasts apart from the inclusion of the rate increase last week.
- Financial markets are now expecting the next increase in Bank Rate to be in February 2019 and then only one more in February 2020, therefore ending March 2021 at only 1.25%. The MPC commented that the markets were too cautious with their view of the pace of increases.
- However, the forecasts by the MPC and ourselves are predicated on an assumption that sufficient progress is made, in respect of negotiations, to produce a reasonable agreement for Brexit that benefits both the EU and the UK in a sensible manner. If no agreement is reached at all, then our forecasts for increases in Bank rate and PWLB rates will be subject to greater change, most likely downwards.
- Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.
- As for forecasts of PWLB rates, there is little change apart from some minor advances of the pace of increase. 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.

Appendix C
Treasury and Prudential Indicators

Prudential Indicator	**2018/19 Indicator**	**2018/19 Q1**
Authorised limit for external debt	----- £799.3m	-----
Operational boundary for external debt	----- £769.3m	-----
Gross borrowing	£600.7m	£615.3m
Capital Financing Requirement (CFR) (exc' PFI liabilities)	£739.3m	£739.3m
Ratio of financing costs to net revenue streams	7.0%	7.0%
Incremental impact of capital investment decisions:-		
a) Increase in council tax (band D) per annum.	£7.84p	£7.84
Upper limit of fixed interest rates based on net debt (exc' third party loans)	150%	78%
Upper limit of variable interest rates based on net debt (exc' third party loans)	65%	22%
Principal sums invested > 364 days (exc' third party loans)	£0m	£0m
Maturity structure of borrowing limits:-		
Under 12 months	Max. 80% Min. 0%	38.2%
12 months to 2 years	Max. 50% Min. 0%	8.3%
2 years to 5 years	Max. 50% Min. 0%	9.1%
5 years to 10 years	Max. 50% Min. 0%	1.3%
10 years and above	Max. 100% Min. 0%	43.0%

- The Treasury Management Code of Practice Guidance notes requires that maturity is determined by the earliest date on which the lender can trigger repayment, which in the case of LOBO loans is the next break/call point