REPORT TO:	**AUDIT COMMITTEE**		
DATE:	28 October 2019		
TITLE:	**ANNUAL TREASURY OUTTURN REPORT 2018/2019**		
TYPE OF REPORT:	Recommendation		
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OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	*No*

Date of meeting: 28 October 2019

ANNUAL TREASURY OUTTURN REPORT 2018/2019

Summary
The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (2009) and remains fully compliant with its requirements.

This Annual Treasury Outturn Report looks backwards at 2018/2019 and covers:

1. The 2018/2019 Treasury Outturn
2. Compliance with Treasury Limits
3. Outturn Summary

Additional supporting information:

Appendix 1 - Investments as at 31 March 2019
Appendix 2 - Borrowing as at 31 March 2019
Appendix 3 - Prudential Indicators

The Council's Treasury Policy Statement 2018/2019 and annual Treasury Strategy Statement 2018/2019 were approved by Council on the 12 April 2018, amendments approved by Cabinet on the 21 August 2018.

Recommendations
The Audit Committee is asked to note the annual treasury outturn position for 2018/2019.

Reason for the Decision
The Council must make an annual review of its Treasury operation for the previous year, as part of the CIPFA code of Practice.

1. The Annual Treasury Management Review 2018/2019

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 12 April 2018)
- a mid-year, (minimum), treasury update report (Audit Committee 12 November 2018)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken in February 2017. There is training planned to be provided in-house for pre-Audit Committee on 28 October and then training on 9 January 2020 by Link, the council's external treasury management advisors, both in order to support members' scrutiny role.

2. Executive Summary

2.1 During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2017/18 Actual £'000	2018/19 Original Budget £'000	2018/19 Actual £'000
Capital expenditure	19,999	35,201	27,228
Capital Financing Requirement	39,335	42,228	44,251
Gross borrowing	13,800	10,300	13,100
External debt *	14,069	10,300	13,199
Investments *			
• Longer than 1 year	4,000		10,000
• Under 1 year	8,575		2,705
• Total	12,575	23,712	12,705
Net borrowing/(investments)	1,494	(13,412)	494

* Both the External debt and Investments figures shown in the table above include interest accruals. Whereas elsewhere in the report the amounts shown are the principal amounts only.

2.2 Other prudential and treasury indicators follow below in the main body of this report. The Chief Finance Officer confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2.3 The year saw a continuation of the low investment returns experienced in previous years.

3. Introduction and Background

3.1 This report covers the following:-

- Capital activity during the year i.e. capital expenditure and financing (section 4 below);
- Impact of this activity on the Council's underlying indebtedness, i.e. the Capital Financing Requirement (section 5 below);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances (section 6 below);
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

4. The Council's Capital Expenditure and Financing

4.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2017/18 Actual £'000	2018/19 Budget £'000	2018/19 Actual £'000
Capital expenditure	19,999	35,201	27,228
Financed in year	7,901	35,201	22,031
Unfinanced capital expenditure	12,098	0	5,197

5. The Council's Overall borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

5.3 Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

5.5 The Council's 2018/19 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2018/19 on 12 April 2018.

5.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It will include any PFI and leasing schemes (if there are any) that are on the balance sheet, as these increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

CFR (£m): General Fund	**31 March 2018 Actual £'000**	**31 March 2019 Budget £'000**	**31 March 2019 Actual £'000**
Opening balance	27,531	42,787	39,335
Add unfinanced capital expenditure (as above)	13,155	(13,640)	6,143
Less MRP/VRP*	(1,351)	(559)	(1,227)
Closing balance	**39,335**	**28,588**	**44,251**

Includes voluntary application of capital receipts
Note the MRP / VRP will include PFI / finance lease annual principal payments

5.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

5.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
Gross borrowing position	£13.800m	£10.300m	£13.100m
CFR	£39.335m	£28.588m	£44.251m
(Under) / over funding of CFR	(£25.535m)	(£18.288m)	(£31.151m)

5.9 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of 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.

	2018/19
Authorised limit	£36.000m
Maximum gross borrowing position during the year	£18.000m
Operational boundary	£31.000m
Average gross borrowing position	£14.425m
Financing costs as a proportion of net revenue stream	2.67%

6. Treasury Position as at 31 March 2019

6.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2018/19 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2018 Principal	Rate/ Return	31 March 2019 Principal	Rate/ Return
Fixed rate funding:				
- PWLB (E.I.P Loan)	£0.300m	2.92%	£0.100m	2.92%
- Market (Maturity Loan)	£10.000m	3.81%	£10.000m	3.81%
- Local Authorities (Maturity Loans)	£3.500m	0.92%	£3.000m	0.52%
Total debt	**£13.800m**	**3.77%**	**£13.100m**	**2.85%**
CFR	**£39.335m**		**£44.251m**	
Over / (under) borrowing	**(£25.535m)**		**(£31.151m)**	
Total investments	**£12.500m**	**0.84%**	**£12.555m**	**0.70%**
Net debt	**£1.300m**		**£0.545m**	

6.2 The maturity structure of the debt portfolio was as follows:

	31 March 2018 actual	2018/19 original projection	31 March 2019 actual
Under 12 months	£3.800m	£2.500m	£3.100m
12 months and within 24 months	£0.000m	£0.400m	£0.000m
2 years and within 50 years	£0.000m	£0.000m	£0.000m
Over 50 years	£10.000m	£10.000m	£10.000m

6.3 As at the 31 March 2019 the council had one temporary loan of £3m from a local authority which was repaid in July 2019 and £100,000 outstanding on a PWLB loan which has now been repaid. There are 2 market loans are with Barclays of £5m each and these mature in 2077.

6.4 The investments at the year-end comprised £10m in local authorities and £2.555m in Money Market Funds.

6.5 Full details for both the borrowing and the investments can be found in Appendices 4 and 5.

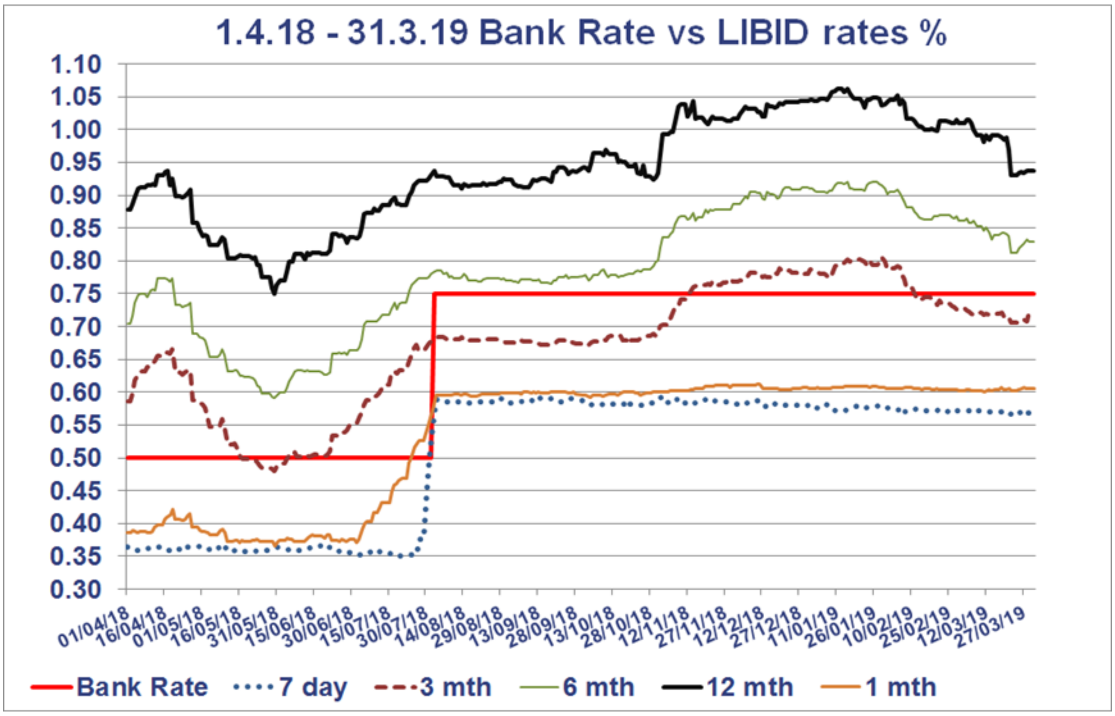
INVESTMENT PORTFOLIO	Actual 31.3.18 £000	Actual 31.3.18 %	Actual 31.3.19 £000	Actual 31.3.19 %
Treasury investments				
Call Accounts	2,460	19.7%	0	0
Money Market Funds	30	0.2%	2,555	20.4%
Local authorities	10,000	80%	10,000	79.6%
Other	10	0.1%	0	0
TOTAL TREASURY INVESTMENTS	**12,500**	**100%**	**12,555**	**100%**

6.6 The maturity structure of the treasury investment portfolio was as follows:

	31 March 2018 Actual £000	31 March 2019 Actual £000
Treasury Investments:		
Longer than 1 year	4,000	10,000
Up to 1 year	8,500	2,555
Total	**12,500**	**12,555**

7. The Strategy for 2018/19

7.1 Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31

Link Asset Services Interest Rate View	12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

7.2 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

7.3 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

7.4 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

7.5 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

7.6 Borrowing strategy and control of interest rate risk

7.7 During 2018-19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

7.8 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

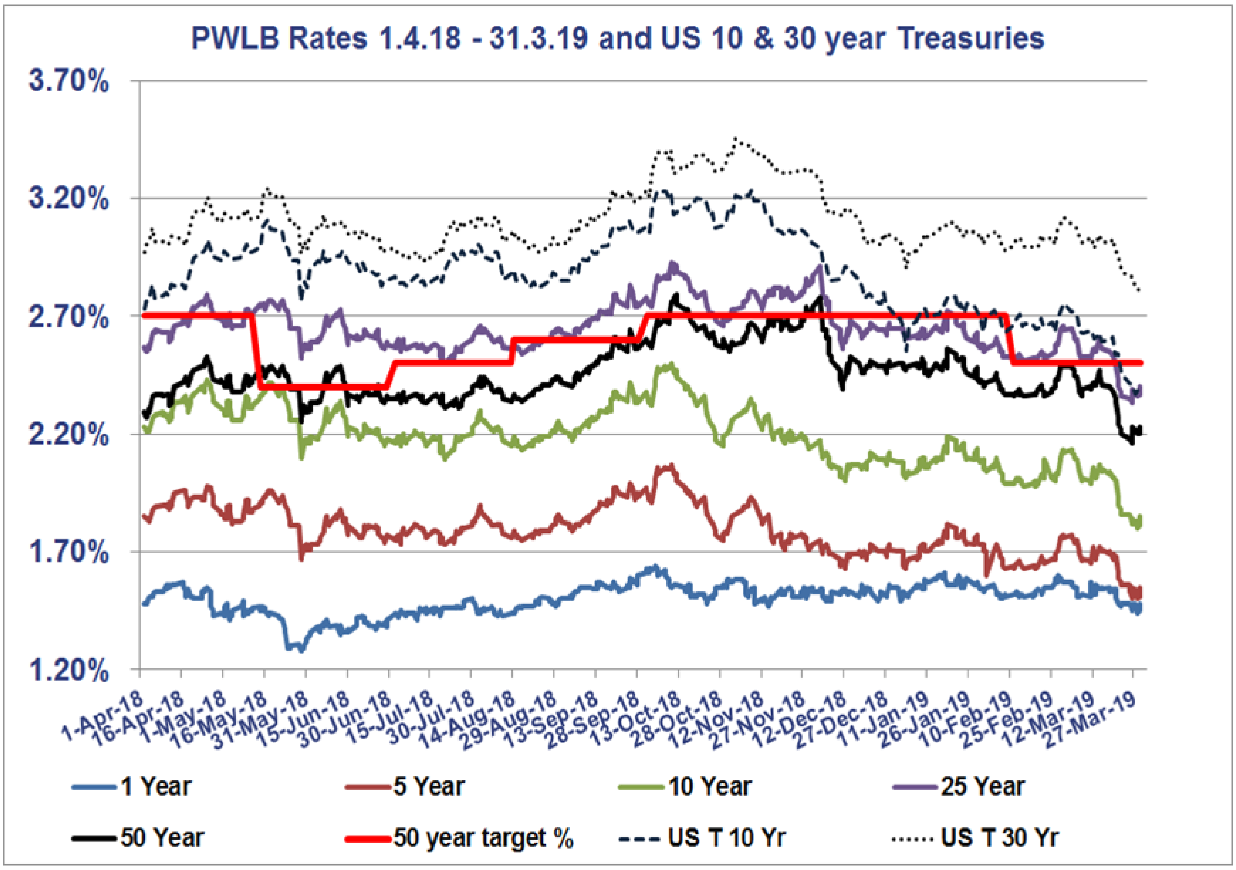
7.9 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

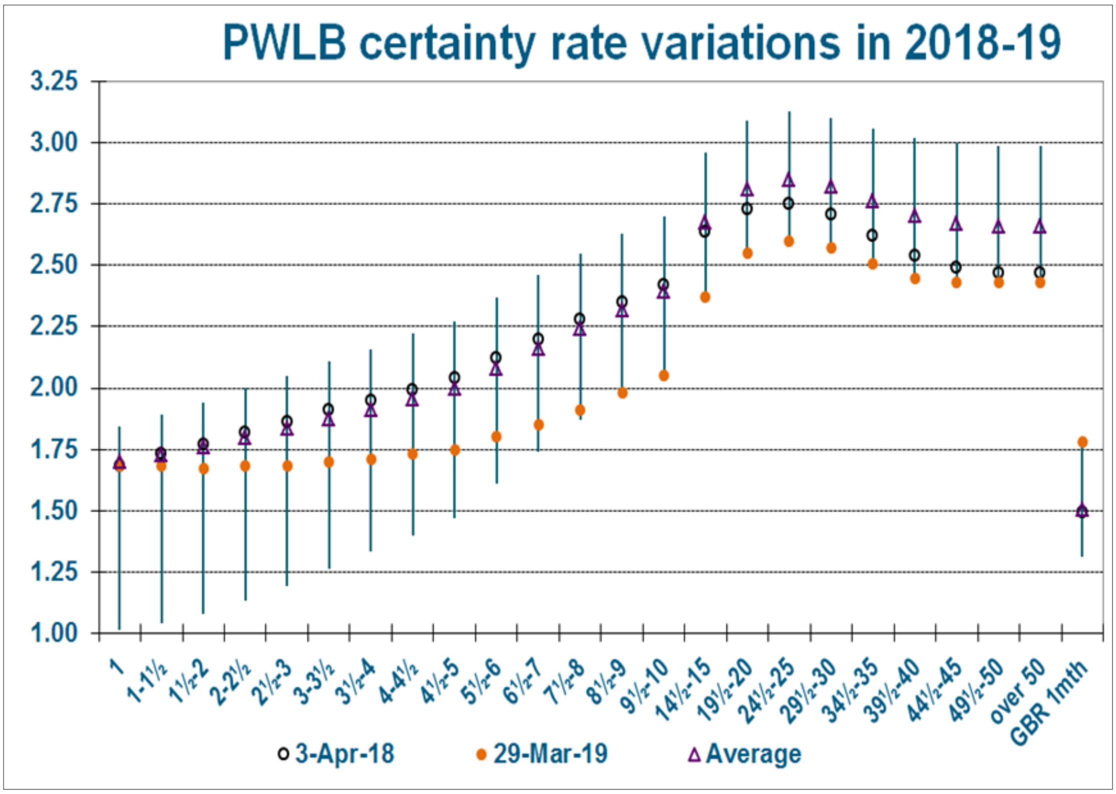
7.10 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (please adapt this outline to what you actually did in the year):

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

7.11 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View	12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%


PWLB Rates 1.4.18 - 31.3.19 and US 10 & 30 year Treasuries
3.70%
3.20%
2.70%
2.20%
1.70%
1.20%
1-Apr-18
16-Apr-18
1-May-18
16-May-18
31-May-18
15-Jun-18
30-Jun-18
15-Jul-18
30-Jul-18
14-Aug-18
29-Aug-18
13-Sep-18
28-Sep-18
13-Oct-18
28-Oct-18
12-Nov-18
27-Nov-18
12-Dec-18
27-Dec-18
11-Jan-19
26-Jan-19
10-Feb-19
25-Feb-19
12-Mar-19
27-Mar-19
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %
US T 10 Yr
US T 30 Yr


PWLB certainty rate variations in 2018-19
3.25
3.00
2.75
2.50
2.25
2.00
1.75
1.50
1.25
1.00
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-40
44½-45
49½-50
over 50
GBR 1mth
3-Apr-18
29-Mar-19
Average

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

7.12 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

8. Borrowing Outturn

8.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

8.2 Borrowing in advance of need

8.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

8.4 Rescheduling

8.5 There was no rescheduling was done during the year as there is only one PWLB loan outstanding (£100,000 at 31 March 2019) which was due to be repaid in 2019. The loan was repaid in 2019 when it became due.

9. Investment Outturn

9.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 11 April 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2018 £'000	31 March 2019 £'000
Balances	5,737	7,672
Earmarked reserves	22,705	25,473
Provisions	2,031	2,132
Usable capital receipts	4,855	6,100
Total	**35,328**	**41,377**

9.4 Investments held by the Council

- The average balance of investments for the year was £14.446m.
- The average rate of return for the year on investments was 0.70%.
- This compares with a budget assumption of £24m investment balances earning an average rate of 0.75%.
- Total investment income was £247,106 compared to a budget of £337,880. It should be noted that the shortfall in investment income is due to the decision taken to internally borrow to fund capital expenditure. This reduced the level of cash available for investing which impacted on the returns achieved.

10. The Economy and Interest Rates

10.1 **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 country in the G7 in quarter 4.

10.2 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 has been having increasing 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 only 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.

10.3 As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 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%.

10.4 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.

10.5 **Brexit.** The Conservative minority government has so far, (8.4.19), 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 proposed 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.

10.6 **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 of 2018 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.

10.7 **EUROZONE.** The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to

0.2% in quarters 3 and 4; it is likely to be only 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 ECB completely 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, 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%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 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 also 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.

10.8 **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.

10.9 **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.

10.10 **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 overdone.

11. Background Information

- Monthly budget monitoring reports
- Treasury Policy Statement 2018/2019 and Annual Treasury Strategy (Council 12 April 2018)
- Treasury Management Strategy Amendments 2018/2019 (Cabinet 21 August 2018)

APPENDIX 1 - Investments as at 31 March 2019:

Treasury Investments	Principal	Start Date	End Date	Rate %	Ratings
BNP (Banque Nationale de Paris) – Money Market Fund	£2,555,000	N/A	N/A	0.75	AAA
Total Call Accounts	**£2,555,000**				
Cheshire West & Chester Council	£2,000,000	19/01/2018	20/01/2020	1.00	AAA
Barnsley Metro Borough Council	£2,000,000	21/09/2017	21/09/2020	0.92	AAA
Dudley Metro Borough Council	£3,000,000	04/04/2018	06/04/2020	1.08	AAA
Northamptonshire County Council	£3,000,000	23/04/2018	23/10/2020	1.25	AAA
Total Fixed Term Investments	**£10,000,000**				
Total Treasury Investments	**£12,555,000**				

APPENDIX 2 - Borrowing as at 31 March 2019:

Start Date	End Date	Loan No	Value £	Institution	Rate %	Term
21.01.19	15.07.19	3816	£3,000,000	Vale of Glamorgan Council	0.92	175 day temporary loan
Total Short Term			**£3,000,000**			
22.03.07	21.03.77	5888	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
12.04.07	11.04.77	5887	£5,000,000	Barclays – fixed rate loan	3.81	Long Term - fixed.
15.09.09	14.09.19	495951	£100,000	PWLB	2.92	Long Term – fixed
Total Long Term			**£10,100,000**			
Total Borrowing			**£13,100,000**			

APPENDIX 3: Prudential Indicators

PRUDENTIAL INDICATOR	2017/2018 Actual £000's	2018/2019 Actual £000's
Capital Expenditure	21,565	27,288
Ratio of financing costs to net revenue stream	1.97%	2.67%
Net borrowing		
brought forward 1 April	13,000	13,800
carried forward 31 March	13,800	13,100
Change in year - increase/(decrease)	800	(700)
Net Investment		
brought forward 1 April	(24,510)	(12,500)
carried forward 31 March	(12,500)	(12,555)
Change in year - increase/(decrease)	(12,010)	(55)

Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2018/2019 unfinanced capital expenditure, and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources

CFR	31 March 2018 Actual £'000	31 March 2019 Actual £'000
Opening Balance	**27,531**	**39,335**
Add unfinanced capital expenditure	13,155	6,143
Less Minimum Revenue Provision (MRP)	(394)	(281)
Less voluntary/additional MRP	(946)	(935)
Less finance lease repayments (where the Council is the lessor)	(11)	(11)
Closing CFR	**39,335**	**44,251**

Net borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2018/2019. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

CFR	**31 March 2018 Actual £'000**	**31 March 2019 Actual £'000**
Borrowing	13,800	13,100
Investments	(12,500)	(12,555)
Net Position	**(1,300)**	**(545)**
Closing CFR	**39,335**	**44,251**

Actual financing costs as a proportion of 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 (Council Tax and Government Grant).

	2018/2019
Authorised limit	£54m
Maximum gross borrowing position	£23.8m
Operational boundary	£49m
Average gross borrowing position	£13.45m
Financing costs as a proportion of net revenue stream	2.67%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**2017/2018 £'000**	**2018/2019 £'000**
Authorised limit for external debt -		
Borrowing	52,000	54,000
Operational boundary for external debt -		
Borrowing	50,000	49,000
Upper limit for fixed interest rate exposure		
Net principal re fixed rate borrowing /investments	52,000	52,000
Upper limit for variable rate exposure		
Net principal re variable rate borrowing / investments	20,800	21,600

Maturity structure of fixed rate borrowing during 2018/2019	**upper limit**	**lower limit**	**Actual**
under 12 months	100%	0%	24%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	76%