Agenda Item No. 9

To: **Joint Audit Committee**

Date: **29 July 2019**

By: **Chief Finance Officer**

Title: **Treasury Management Annual Report 2018/19**

Purpose of Report:

To ensure that an effective system of scrutiny is in place in respect of Treasury Management, strategy, policies and practices.

This report presents the performance up to and including 31 March 2019.

Terms of Reference:
As set out in the Committee's terms of reference, the Committee is responsible for;

10. Ensuring that an effective system of scrutiny is in place in respect of Treasury Management, strategy, policies and practices.

Recommendations – the Joint Audit Committee is recommended to:

- Review and comment on the Treasury Management annual report for the year to 31 March 2019

---

1 Introduction

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that those charged with governance and scrutiny receive regular updates on treasury management activity.

1.2 The annual performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the PCC's 2018/19 Treasury Management Strategy Statement (TMSS).

1.3 The report is attached.

2 Financial Considerations

2.1 Financial implications are considered throughout this report.

3 Legal Considerations

3.1 Relevant legislation and guidance has been complied with in the delivery of the Treasury Management activities.

4 Equity Considerations

4.1 There are no equality implications arising from the contents of this report.

5 Risk Management Considerations

5.1 Associated risks have been considered and adequate control measures implemented. All Treasury Management activity during the year is carried out in accordance with the approved Treasury Management Policy Statement and Strategy, which has the underlying aim of minimising risk to ensure the Commissioner's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

6 Performance Overview

- £46.493m of investments were held as at 31 March 2019.
- We received £590k interest, which was £90k more than expected for the year.
- Gross investment return of 0.84% was achieved against the 0.71% originally anticipated and compared to LIBID of 0.51% and a benchmark (17 policing bodies) weighted average rate of return of 0.75%.
- The Bank of England base rate increased to 0.75% from 0.50% on 2 August 2018.
- No new borrowing was taken, maintaining the loan balance at £4.5m.
- There was no change in the CFR and other Prudential Indicators are within approved limits.

Treasury Management Performance to 31 March 2019

Contents:

1 Purpose of the Report

2 Background

3 Treasury Management Strategy Update

4 Investment Performance

5 Prudential Indicators

6 Economic Update

7 Compliance

Appendix I Prudential Indicators Forecast as at 31 March 2019

Appendix II Investment Portfolio as at 31 March 2019

Appendix III Investment Rate of Return compared with Benchmark

Appendix IV Investment Rate of Return compared with Budget

Appendix V PWLB certainty rates

Appendix VI Economic Update

1 Purpose of the Report

1.1 The purpose of this report is to summarise the Treasury Management performance for the financial year to 31 March 2019.

2 Background

2.1 The annual performance of Treasury Management activity is reported in line with CIPFA's Code of Practice on Treasury Management and the 2018/19 Treasury Management Strategy Statement.

2.2 The Police and Crime Commissioner (PCC) operates a balanced revenue budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties. The priority is to provide adequate security and liquidity before considering optimising investment return.

2.3 The second main function of the treasury management service is the funding of the PCC's capital programme. The capital programme provides a guide to the borrowing need of the PCC over a longer term cash flow period, ensuring the PCC can fulfil the capital spending plans.

2.4 Accordingly, treasury management is defined as:

"The management of the PCC's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.5 This annual report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- Economic update for the 2018/19 financial year;
- Review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The PCC's capital expenditure (prudential indicators);
- Review of the PCC's investment portfolio for 2018/19;
- Review of the PCC's borrowing strategy for 2018/19;
- Review of any debt rescheduling undertaken during 2018/19;
- Review of compliance with Treasury and Prudential Limits for 2018/19.

3 Treasury Management Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the PCC on 26 March 2018 and is underpinned by adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

3.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of the PCC's treasury management activities.
- Creation and maintenance of Treasury Management Practices (TMPs), setting out the manner in which the PCC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- The PCC will receive reports on its treasury management policies, practices and activities, including, as a minimum, an **annual strategy** and plan in advance of the year, a **mid-year review** and an **annual report** after its close, in the form prescribed in its TMPs.
- The PCC nominates the Joint Audit Committee (JAC) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- The PCC nominates the Chief Finance Officer as the responsible officer for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

3.3 The TMSS for 2018/19 was approved by the Commissioner following recommendation from JAC on 20 March 2018 (no revisions were made to this strategy during the year).

https://www.sussex-pcc.gov.uk/about/transparency/pcc-decisions/decisions/0092018-approval-of-the-201819-treasury-management-strategy-statement/

3.4 The TMSS covers the specific activities proposed in relation to both borrowing and investments and ensures a wide range of advice is taken to maintain and preserve all principal sums, whilst obtaining a reasonable rate of return. The primary objective of the investment strategy is to maintain the security of investments at all times.

3.5 Credit ratings are one of the controls required by the strategy.

4 Investment Performance

4.1 Interest Receivable

4.1.1 The PCC's budgeted investment return for the 2018/19 year was £500,000 and actual interest received by the PCC for the year to 31 March 2019 was higher than expected at £590,195 (£576,894 2017/18).

4.1.2 The PCC's daily average investment portfolio of £70.2m for the year generated a gross investment return of 0.84%. This exceeded the average 7 Day LIBID benchmark of 0.51% by 0.33% and the UK Bank Rate which increased to 0.75% from 0.50% on 2 August 2018. This is illustrated in Appendix III.

4.1.3 The Police and Crime Commissioner for Sussex is a member of a Benchmarking Analysis group with data collected by our treasury advisors Link Asset Services which includes data from 10 other Local Authorities. The return on investment results for the year to 31 March 2019 indicates the performance for the PCC for Sussex did not exceed that of the benchmarking group 8 but did the majority of other peer returns collated by Link Asset Services including 18 other police forces. March 2019 benchmarking results on a Weighted Average Rate of Return (WARoR) basis were as follows:

Performance Group	WARoR
The PCC for Sussex	1.01%
Benchmarking Group 8	1.06%
Police	0.75%
Model	0.88%

4.1.4 Extrapolation of the income forecast based on actual interest received during 2018/19 as compared with the original budget is summarised in the table below:

Movement from original investment income budget	**£'000**
Original Budget	**500**
Higher average investment portfolio than budget (£0.2m)	**2**
Higher rate of return than budget estimate (0.126%)	**88**
Net Interest receivable forecast	**590**

4.2 Investment Portfolio Activity 2018/19

4.2.1 In accordance with the Code and the Treasury Management Strategy Statement (TMSS) for 2018/19, the PCC gives priority to the security of capital followed by liquidity, and then to obtain an appropriate level of return which is consistent with the PCC's risk appetite.

4.2.2 The PCC held £46.49m of investments as at 31 March 2019 (£57.29m at 31 March 2018).

4.2.3 During 2018/19 the PCC for Sussex operated instant access call accounts with UK-regulated banks (NatWest Reserve and Santander) and five Sterling Money Market Funds, where funds can be deposited and withdrawn without notice to provide for day to day working capital requirements. Cash was also deposited in fixed term deposits where planning indicated money could be invested for longer periods.

4.2.4 The following table illustrates the portfolio movement during the year. Appendix II gives a full list of Investments held at 31 March 2019.

Investment	**2017/18 Balance 31-Mar-18 £m**	**2018/19 Purchased £m**	**2018/19 Redeemed £m**	**2018/19 Balance 31-Mar-19 £m**
UK Banks – Fixed Deposits	20.0	43.0	(49.0)	**14.0**
Non UK Banks – Fixed	5.0	46.0	(41.0)	**10.0**
UK Banks – Call Accounts	20.0	0.0	(10.0)	**10.0**
Money Market Funds	12.2	388.0	(387.8)	**12.4**
Heritable Bank *(i)*	0.1	0.0	0.0	**0.1**
TOTAL	**57.3**	**477.0**	**(487.8)**	**46.5**

(i) Excludes £0.1m remaining impairment recognised in the 2008-09 accounts

4.2.5 The decrease in average investment portfolio at 31 March 2019 reflects timing of receipt of government grants and precepts from local authorities, along with timing and use of reserves for capital and revenue expenditure in year.

4.3 Liquidity

4.3.1 The maximum period for investments with UK Banks of medium quality (Fitch long term rating of A or equivalent) was set at 364 days within the TMSS for 2018/19. Explicit approval from the PCC is required to extend beyond this time period for this category of Bank. There were no long term investments place during the 2018/19 year.

The maturity profile of the PCC's investments is shown in the following table:

Deposits with financial institutions	**2017/18 31-Mar-18**	**2018/19 31-Mar-19**
	£m	**£m**
Instant Access Call	12.2	**12.4**
Less than 1 month	10.0	**14.0**
1 month to 3 months	15.0	**10.0**
3 months to 6 months	10.0	**10.0**
6 months to 1 year	10.0	**0.0**
1 year to 2 years	0.0	**0.0**
Heritable Bank(i)	0.1	**0.1**

TOTAL	**57.3**	**46.5**

(i)Heritable deposits not shown in specific time periods as final repayment dates unknown

4.4 Heritable Bank

4.4.1 The former Sussex Police Authority had three deposits with Heritable Bank totalling £6.8m when Heritable was taken into administration in October 2008. An original claim of £6.8m was submitted to the administrators Ernst & Young in November 2008, which included interest accrued of £44,828.

4.4.2 Total repayments received to date amount to £6.7m representing 98.6% of the total claim against investments in Heritable Bank.

4.4.3 Full recovery is expected but timing is uncertain.

4.4.4 A loan impairment of £1.360m (20%) was recognised in the 2008-09 accounts as a prudent forecast of potential loss. This provision was reversed to the extent of £0.994m in 2013/14 and £0.273m in 2015/16 to reflect repayment amounts received in excess of expectations at the time of impairment. The remaining impairment of £0.093m reflects the Principal Value of the investment not yet recovered as at 31 March 2019 and the overall carrying value of the Heritable bank investment in the books of the PCC is £Nil.

4.5 Credit Risk

4.5.1 Analysis of the PCC's investment portfolio by long term credit rating is shown in the following table:

Deposits with financial institutions	**2017/18 31-Mar-18**	**2018/19 31-Mar-19**
	£m	
AAA rated counterparties (i)	12.2	12.4
AA rated counterparties (iv)	0.0	4.0
A+ rated counterparties (ii)	5.0	0.0
A rated counterparties (iii)	40.0	30.0
Heritable Bank	0.1	0.1
TOTAL	**57.3**	**46.5**

(i) Money Market Funds
(ii) Barclays
(iii) Santander, Qatar, Goldman Sachs International Bank
(iv) Thurrock

4.6 Borrowing

4.6.1 The PCC's capital financing requirement (CFR) for 2018/19 is £17.411m. The CFR denotes the PCC's underlying need to borrow for capital purposes. If the CFR is positive the PCC may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).

4.6.2 At 31 March 2019 the PWLB long-term borrowing held by the PCC for Sussex amounted to £4.5m which will be fully matured in 13 years.

4.6.3 Total interest of £0.201m was payable to PWLB in 2018/19 relating to the long-term borrowing by the PCC, representing an average interest rate of 4.5%.

PWLB LOAN	PWLB No.	Date of Advance	Maturity Date	Interest Rate	Amount £	Annual Interest £
Loan 1	489785	31-Mar-05	01-Mar-31	4.85	1,250,000	60,625
Loan 2	490633	24-Oct-05	01-Jun-31	4.45	1,250,000	55,625
Loan 3	491430	31-Mar-06	01-Mar-32	4.25	1,000,000	42,500
Loan 4	492302	02-Oct-06	01-Jun-32	4.25	1,000,000	42,500
TOTAL					**4,500,000**	**201,250**

4.6.4 No new external borrowing was taken in the 2018/19 financial year. All daily cash flow shortages are funded by withdrawals from instant access accounts and Money Market Funds held by the PCC.

4.6.5 Use of internal resources in lieu of borrowing by the PCC continued to be the most cost effective means of funding capital expenditure. This also lowers overall treasury risk by reducing both external debt and temporary investments.

4.6.6 The long-term borrowing requirement continues to be periodically reviewed in consultation with treasury management advisors (Link Asset Services). Whilst there are several claims that competitive alternative borrowing sources to the PWLB are available, the PWLB remains the preferred source of borrowing given the transparency and control that its facilities continue to provide.

4.6.7 Trends and variations in the PWLB interest rates are illustrated in Appendix V.

4.7 Debt Rescheduling

4.7.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates.

4.7.2 The long term borrowing portfolio was reviewed during the year with our advisors Link Asset Services. The premium is still very expensive to redeem the loans in the PCC's portfolio and therefore we concluded that debt rescheduling remains unattractive at this time. No debt rescheduling activity was undertaken as a consequence.

4.7.3 The PCC will continue to first assess early repayment or rescheduling against the requirements of the medium term financial plan and any future borrowing requirements. Where rescheduling is appropriate, the

PCC will consider alternative refinancing to achieve cost savings and a reduction in risk.

5 Prudential Indicators

5.1 The PCC's Capital Position

5.1.1 The following table shows the final revised budget for capital & investment expenditure and the adjustments approved since the original capital budget was agreed by the PCC in February 2018.

Capital Expenditure by Investment Portfolio	Original Budget £m	Approved Adjustments £m	Final Budget £m
IT Strategy	4.117	(0.176)	3.941
Fleet Strategy	4.746	(0.399)	4.347
Estates Strategy	2.465	2.285	4.750
ERP System	0.000	2.080	2.080
Video Enabled Justice	0.000	0.867	0.867
Digital Policing	0.000	10.058	10.058
Operational Investments	0.562	3.099	3.661
Total Planned Spend	**11.890**	**17.814**	**29.704**

The above adjustments include;

- £9.005m increase for PCC approved carried forward from 2017/18
- £1.128m increase to reflect revenue to capital transfers in Fleet (for ANPR, vehicles write off adjustments and a specialist crime vehicle)
- £5.583m increase to reflect revenue to capital transfers in Estates
- £0.050m increase in the Estates budget reflecting budget brought forward from 2019/20 for Midhurst Police Station
- £0.421m increase to reflect revenue to capital transfers for (ERP) the Enterprise Resource Planning System
- £2.215m increase to reflect revenue to capital transfers in Operational Investments
- £0.867m increase for Video Enabled Justice funded by Home Office transformation grant
- £10.058m increase Digital Policing funded by Home Office transformation grant
- £0.060m reduction to Operational Investments no longer required and therefore to be re-purposed for other priority areas of spend
- £11.588m reduction to reflect PCC approved slippage to 2019/20

5.1.2 The table below illustrates planned financing of the capital expenditure budget for 2018/19.

	Original Estimate £000	Approved Adjustments £000	Revised Estimate £000
Total Planned	**11.890**	**17.814**	**29.704**
Financed by:			
Home Office Capital	0.906	0.000	0.906
External Funding	0.000	11.060	11.060
Revenue contribution	2.063	0.000	2.063
Capital Receipts	7.250	1.533	8.783
Reserves	1.671	5.221	6.892
Total Financing	**11.890**	**17.814**	**29.704**
Borrowing	**0**	**0**	**0**

5.1.3 The following table shows the final capital and investment outturn position and the source of funding for the 2018/19 year.

Capital and Investment Budget Outturn 2018/19

	Actual	Revised Budget	Variance over/ (under)spend	
	£m	£m	£m	%
IT Strategy	1.421	3.941	(2.520)	(64%)
Fleet Strategy	4.679	4.347	0.332	8%
Estates Strategy	4.737	4.750	(0.013)	(0%)
Video Enabled Justice	0.855	0.867	(0.012)	(1%)
Digital Policing	9.713	10.058	(0.345)	(3%)
Enterprise Resource	1.657	2.080	(0.423)	(20%)
Operational Investments	2.205	3.661	(1.456)	(40%)
Total	**25.267**	**29.704**	**(4.437)**	**(15%)**
Net Carry Forward			(3.718)	

Capital and Investment Funding 2018/19

Source of Funding	Revenue Sources £m	Capital Sources £m	Total Financing £m
Home Office Capital Grant	0.000	0.906	0.906
Other Grants and Income	11.312	0.135	11.447
Capital Receipts	0.000	0.033	0.033
Revenue Funding	2.063	0.000	2.063
Reserves	6.495	4.323	10.818
Total	**19.870**	**5.397**	**25.267**

5.2 Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.2.1 The CFR indicates the underlying external need to incur borrowing for a capital purpose. The Operational Boundary shows the expected debt position over the period.

5.2.2 The following table illustrates 2018/19 performance against the original Prudential Indicator forecasts for the Capital Financing Requirement, External Debt and Operational Boundary.

	2018/19 Budget £m	2018/19 Amendments £m	2018/19 Actual £m
Prudential Indicator – Capital Financing Requirement			
Total CFR	**17.411**	**0**	**17.411**
Net movement in CFR	**(0.948)**	**0**	**(0.948)**
Prudential Indicator – External Debt / the Operational Boundary			
Long Term Borrowing	4.500	0	4.500
Long Term PFI Liability	14.259	0	14.259
Long Term Finance Lease	0.624	0	0.624
Total debt 31 March	**19.383**	**0**	**19.383**
15% External Debt allowance	2.907	0	2.907
Operational Borrowing	**22.290**	**0**	**22.290**

5.3 Limits to Borrowing Activity

5.3.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years.

5.3.2 The PCC will not borrow in advance of need purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of funds. This complies with the Prudential Code.

	2018/19 Budget £m	2018/19 Amendments £m	2018/19 Final £m
Gross borrowing	4.500	0	4.500
Plus other long term PFI	14.259	0	14.259
Gross Debt	**18.759**	**0**	**18.759**
CFR* (year-end position)	**17.411**	**0**	**17.411**

** Includes on balance sheet PFI schemes and finance leases*

5.3.3 In the case of the PCC for Sussex, current gross debt does exceed the CFR. Current gross debt relates to a long term PWLB loan of £4.5m in addition to long term liabilities for PFI contract repayment.

5.3.4 The Chief Finance Officer confirms the PCC is not borrowing for revenue purposes. It is not currently cost effective to repay the PWLB loan debt but this situation is under continual review and will be considered when economic circumstances make it viable.

5.3.5 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the PCC. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2018/19 Original Indicator £m	2018/19 Amendments £m	2018/19 Final Indicator £m
Borrowing	4.500	0	4.500
PFI long term liability	14.259	0	14.259
Finance lease liability	0.624	0	0.624
Additional external debt	2.907	0	2.907
Additional contingency	15.000	0	15.000
Total	**37.290**	**0**	**37.290**

5.3.6 The Chief Finance Officer reports that no difficulties were experienced during the 2018/19 year or are envisaged for future years in complying with this prudential indicator.

A listing of Prudential Indicators can be found at Appendix I.

6 Economic Update

6.1 A review of economic performance to date and outlook can be found at Appendix VI.

7 Compliance

7.1 During the year to 31 March 2019 the PCC complied with relevant statutory and regulatory stipulations, which require the PCC to identify and where possible quantify the levels of risk associated with its treasury management activities.

7.2 Internal Audit core testing provided satisfactory assurance on Treasury Management. It found that;

- Cash flow information was accurate and complete,
- Investment/borrowing decisions were appropriate and to the maximum benefit of the cash flow,
- Notification of rating changes were actioned,
- Payments were appropriately authorised and made accurately only for bona-fide transactions, and
- Treasury management transactions were accurately reflected in the accounting system.

7.3 Bi-weekly meetings take place with the Treasury Management team and the CFO as responsible officer, to provide updates and discuss planning to manage the investment portfolio effectively and efficiently in compliance with the approved TMSS.

7.4 Compliance against Prudential Indicators can be found at Appendix I.

7.5 The Chief Finance Officer confirms compliance with the approved Treasury Management Strategy Statement for 2018/19 and that a prudent investment approach has been followed with priority given to security and liquidity of amounts invested over actual yield achieved.

IAIN McCULLOCH

CHIEF FINANCE OFFICER

Contact: Iain McCulloch, Chief Finance Officer

Tel No: 01273 481582

E-mail: Iain.McCulloch@sussex-pcc.gov.uk

Prudential Indicators Forecast as at 31 March 2019

Impact of Capital Plans on Council Tax	Base: Actual 2017/18	Base: Estimate 2018/19	Base: Actual 2018/19	2017/18 Compliance
Impact on Council Tax (Band D Equivalent)	153,91	165,91	165,.91	Yes, no change
Tax base Increase	3.36%	7.80%	7.80%	
Financial	**Actual 2017/18 £ '000s**	**Estimate 2018/19 £ '000s**	**Actual 2018/19 £ '000s**	
Capital Expenditure	27,321	11,890	5,397	Yes, PCC approved changes
Capital Financing Requirement	18,358	17,411	17,411	
Authorised Borrowing Limit	38,231	37,290	37,290	Yes, no change
Operational Boundary	23,231	22,290	22,290	Yes, no change
Net Borrowing	(65,500)	(35,500)	(44,723)	
Financing costs	2,400	2,400	1,959	
Net revenue Stream	(295,608)	(307,996)	(313,582)	
Financing costs/Net revenue Stream	0.81%	0.78%	0.62%	
Borrowing	**Actual 2017/18 £ '000s**	**Estimate 2018/19 £ '000s**	**Actual 2018/19 £ '000s**	
Long Term Borrowing	4,500	4,500	4,500	Yes, no change
Long Term PFI Liability	15,052	14,259	14,259	Yes, no change
Long Term Finance Lease Liability	649	624	624	Yes, no change
Total Long Term Debt	**20,201**	**19,383**	**19,383**	Yes, no change
15% x External Debt (Long term borrowing)	*3,030*	*2,907*	*2,907*	Yes, no change
Operational borrowing limit	***23,231***	***22,290***	***22,290***	Yes, no change
£15m additional	*15,000*	*15,000*	*15,000*	Yes, no change
Authorised borrowing limit	***38,231***	***37,290***	***37,290***	Yes, no change
Investments	(70,000)	(40,000)	(43,577)	
Maximum investments longer than 1 year	(17,500)	(10,000)	(10,894)	Yes, no £10m >1yr
Maximum % investment longer than 1 year	25%	25%	25%	Yes, no £10m >1yr
Borrowing (actual external borrowing)	4,500	4,500	4,500	Yes, no extra borrowing in yr
Investments	(70,000)	(40,000)	(43,577)	
Net Borrowing	**(65,500)**	**(35,500)**	**(39,077)**	
Treasury Management	**Actual 2017/18**	**Estimate 2018/19**	**Actual 2018/19**	
Compliance with CIPFA Code of Practice	YES	YES	YES	
Debt Maturity:				
10-15 Years	100%	100%	100%	Yes, no change
Actual Debt at Fixed Rates as % Net Borrowing	31%	55%	43%	Yes, below maximum
Actual Debt at Variable Rates as % Net Borrowing	8%	14%	11%	Yes, below maximum
Maximum % Borrowing at Fixed Rates	100%	100%	100%	Yes, 100% fixed (PWLB)
Maximum % Borrowing at Variable Rates	25%	25%	25%	Yes, no variable loans held
Maximum % Investments at Fixed Rates	100%	100%	100%	Yes, can't exceed this limit
Maximum % Investments at Variable Rates	85%	85%	85%	Yes maximum 61% in year
Maximum Investment allowed > 365 days	25%	25%	25%	Yes, £10m investments >1yr

Investment Portfolio as at 31 March 2019

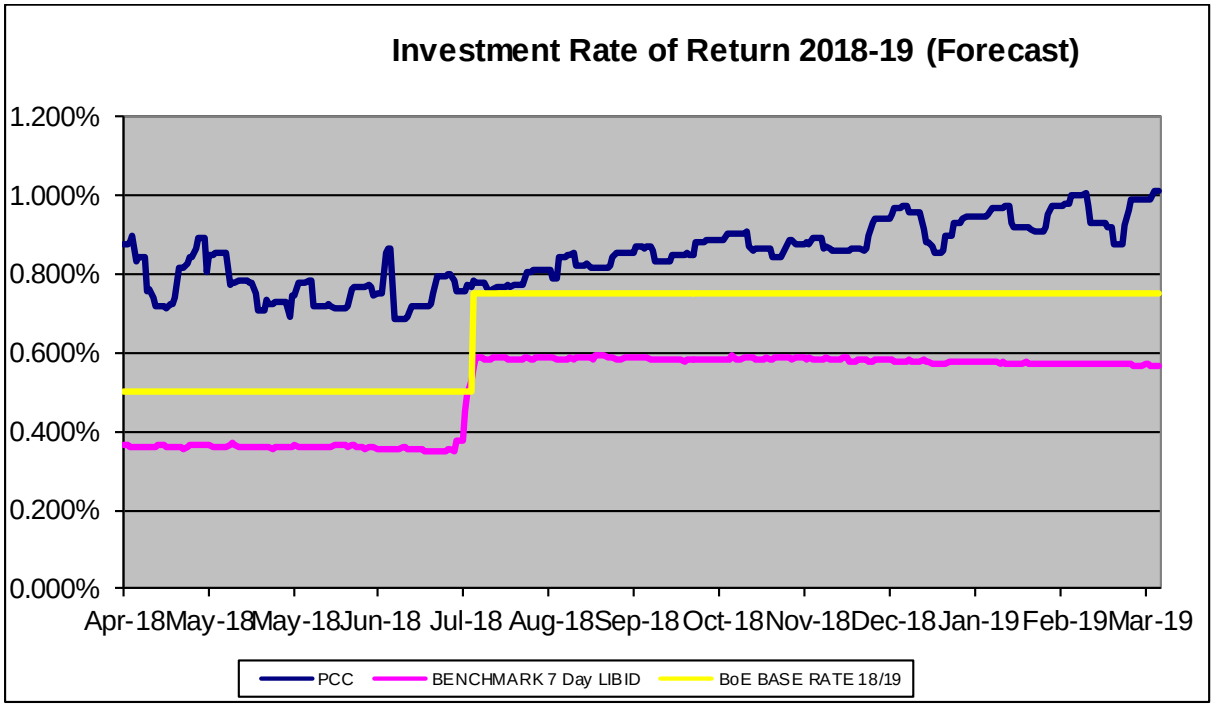
Counterparty	Investments as at 31-Mar-19 £
UK Banks incorporated in UK:	
Lloyds Bank	
Thurrock BC	4,000,000
Goldman Sachs	10,000,000
Qatar	10,000,000
Santander UK Plc	10,000,000
NatWest Reserve (RBS Group)	
Total Banks incorporated in UK	**34,000,000**
Icelandic Banks in Administration:*	
Heritable Bank Ltd	93,049
Total Icelandic Banks	**93,049**
TOTAL UK BANKS	**34,093,049**
Money Market Funds:	
Aberdeen Liquidity Fund	2,400,000
Federated	10,000,000
Total Money Market Funds	**12,400,000**
Total Investments	**46,493,049**

*Banks incorporated inside or outside the EEA entitled to accept deposits through a branch in the UK are classified as UK Banks for the purposes of statistical reports to DCLG

APPENDIX III

Investment Rate of Return

Gross Investment Return as compared with the benchmark (7 day LIBID) and the Bank of England base rate.



Investment Income Budget Performance

	2018/19		
	BUDGET PORTFOLIO	RATE OF RETURN	BUDGET INTEREST
	£'000	%	£'000
Investment Portfolio	70,000	0.71%	500
INVESTMENT INCOME BUDGET	**70,000**		**500**

INTEREST **SURPLUS** COMPARED WITH BUDGET ASSUMPTIONS (90,515)

Outturn to 31 March 2018	2018/19		
	£'000	%	£'000
Average Portfolio (excluding PFI reserve)	70,236		
Average Investment Return Rate		0.84%	590

	PORTFOLIO		BUDGET INTEREST
	£'000		£'000
(a) Average investment portfolio > than assumed in original budget	236	0.71%	**2**
(b) Actual rate of return > than assumed in original budget	70,236	0.126%	**88**
INTEREST SURPLUS/(DEFICIT)			**90**

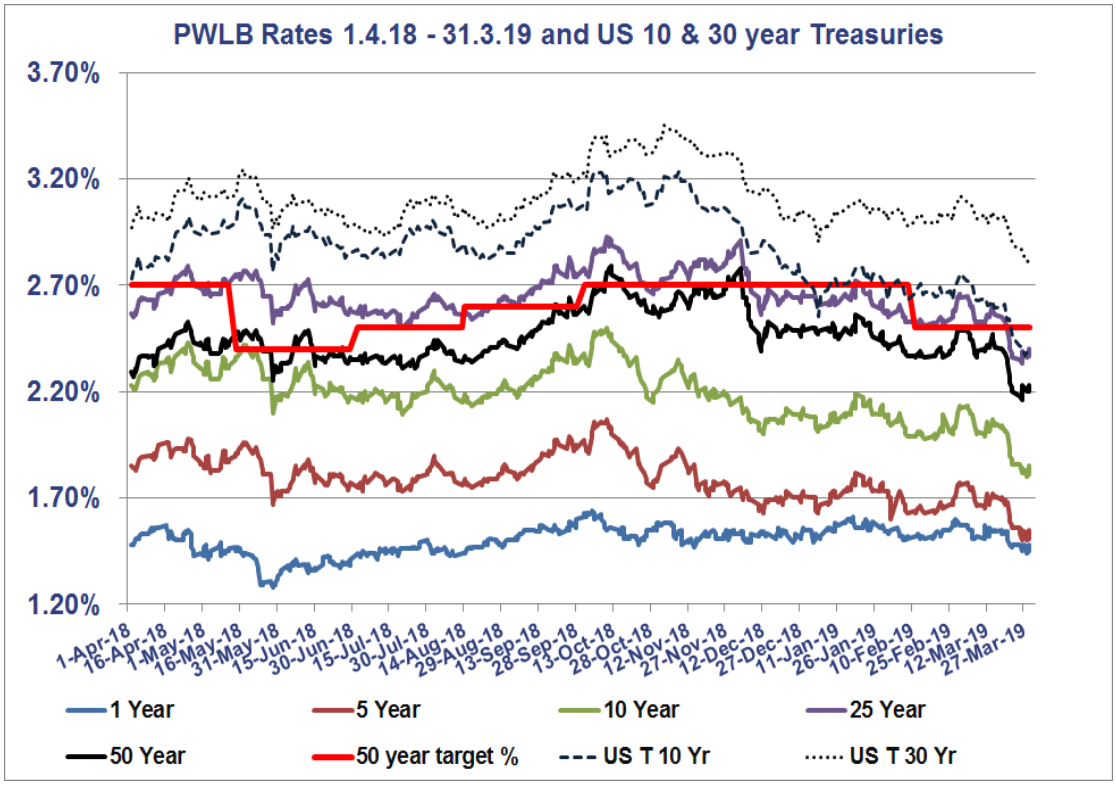
	2018/19		
	ACTUAL	RATE	ACTUAL
	£'000	%	£'000
Average Investment Portfolio	70,236	0.84%	590
INVESTMENT INCOME	**70,236**		**590**

PWLB certainty rates, half year ended 31 March 2019

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

	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%

As outlined below, the general trend has been a sharp fall in interest rates during the year.



Economic Update

Economic performance to date and outlook

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.

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.

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%.
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, (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.

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.

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 possibly by 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.

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 overdone.

Interest rate forecasts
The PCC's treasury advisor, Link Asset Services, provided the following forecast:

	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	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	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	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	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Link Asset Services reviewed its interest rate forecasts shortly after quarterly Bank of England Inflation Report and the MPC meeting on 12 February at which the MPC kept the Bank Rate unchanged at 0.75%.