Somerset West and Taunton Council

Full Council – 30 July 2019

Taunton Deane Borough Council Treasury Management Outturn Report 2018/19

This matter is the responsibility of Cllr Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Steve Plenty, Finance Specialist

1 Executive Summary / Purpose of the Report

1.1 To provide members with an update on the Treasury Management activity of Taunton Deane Borough Council and performance against the Prudential Indicators for 2018/19.

1.2 Highlights for the year include:

- Investment activities continue to remain restricted due to the current economic climate;
- Interest rates still remain low;
- Accrued interest received on investments in 2018/19 was £0.728m;
- Accrued interest payable on external loans in 2018/19 was £2.502m;
- Prudential Indicators were all met in 2018/19 and are to be noted;
- The Operational and Authorised Boundary Limits were not breached;
- The Council continues to maintain CIPFA best practice requirements

2 Recommendations

2.1 To approve the Treasury Management Outturn Report for the 2018/19 financial year and compliance with the Prudential Indicators.

3 **Risk Assessment** (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council fails to maintain an adequate system of internal control	Possible (3)	Moderate (3)	Medium (9)
Mitigation: The Council has an agreed Treasury Management Strategy Statement (TMSS) and effective management practices to ensure compliance	Rare (1)	Moderate (3)	Low (3)

Risk Scoring Matrix

Likelihood							
	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			Impact				

Likelihood of risk occurring	**Indicator**	**Description (chance of occurrence)**
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background and Full details of the Report

4.1 The Council's treasury management strategy for 2018/19 was approved at Full Council on 22 February 2018. The Council invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

4.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.3 These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit, Governance and Standards Committee and this report was presented to the committee at their meeting on 26th June 2019.

4.4 The 2017 Prudential Code includes a requirement for local authorities to provide a

Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's latest Capital Strategy, complying with CIPFA's requirement, was approved by Somerset West and Taunton Shadow Full Council on 21 February 2019.

4.5 Treasury management is defined as:

> "The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".

4.6 Overall responsibility for treasury management remains with the Council with operational responsibility delegated to the S151 Officer. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

5 External Context – Analysis by Arlingclose

5.1 Commentary related to the external context and economic analysis by Arlingclose, the Council's Treasury Management advisor, can be found in Appendix A to this report.

6 The Council's External Debt

6.1 On 31 March 2019 the Council had net borrowing of £48.344m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 Below.

Table 1: Balance Sheet Summary

	31.03.19 Actual £000
General Fund CFR	15,395
HRA CFR	103,029
Total CFR	118,424
External Borrowing	(92,500)
Less: Usable Reserves	(42,262)
Less: Working Capital	(1,894)
(Net Borrowing Requirement) / Net Investment Capacity	(48,344)

6.2 The Council's strategy during the year was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. Towards the end of the financial year it was necessary to temporarily borrow £10m externally to fund short term cash flow which was repaid on 15 May 2019. Total borrowing has remained below the CFR throughout the period. This approach enabled the Council to maintain cash held in strategic longer term investments, and is consistent with our approach to managing risk and short term cash flow changes – the cost of short term borrowing is currently much lower than the return on strategic investments.

6.3 The treasury management position as at 31 March 2019 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31/03/18 Balance £000	2018/19 Movement £000	31/03/19 Balance £000
Long Term Borrowing	(82,500)	3,500	(79,000)
Short Term Borrowing	(3,000)	(10,500)	(13,500)
Total Borrowing	(85,500)	(7,000)	(92,500)
Long Term Investments	2,228	(67)	2,161
Short Term Investments	16,194	(11,181)	5,013
Cash and Cash Equivalents	17,818	2,525	20,343
Total Investments	36,240	(8,723)	27,517
Net Borrowing	(49,260)	(15,723)	(64,983)

Borrowing Activity

6.4 As at 31 March 2019, the Council held £92.5m of external loans which is an increase of £7m from the reported position at 31 March 2018. This is due to the temporary borrowing of £10m taken out towards the end of the financial year as referred to above.

Table 3: Borrowing Position

	31/03/18 Balance £000	2018/19 Movement £000	31/03/19 Balance £000
PWLB Fixed Rate Loans	77,500	(3,000)	74,500
PWLB Variable Rates Loans	5,000	0	5,000
Barclays Bank Fixed Rate Loan	3,000	0	3,000
Local Authority Loan	0	10,000	10,000
Total	**85,500**	**7,000**	**92,500**

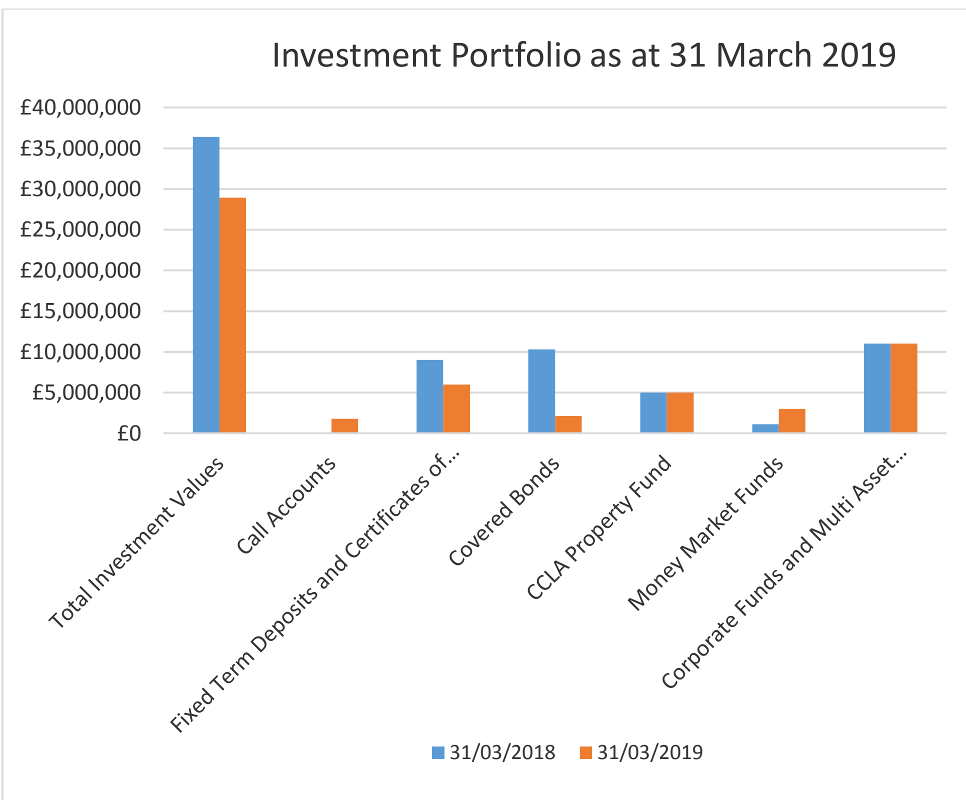
6.5 The Council's chief objective if it needs to borrow is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Investment Activity

6.6 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Council's investment balance ranged between £21.069m and £48.686m. The year-end investment position and the year-on-year change is shown in table 4 below.

Table 4: Investment Position

Type of Investment	**31/03/18 Balance £000**	**2018/19 Movement £000**	**31/03/19 Balance £000**
Call Accounts	0	1,800	1,800
Fixed Term Deposits and Certificates of Deposits	9,000	(3,000)	6,000
Covered Bonds	10,295	(8,167)	2,128
CCLA Property Fund	5,000	0	5,000
Money Market Funds	1,100	1,900	3,000
Corporate Funds and Multi Asset Investments	11,022	(0,022)	11,000
Total Investments	**36,417**	**(7,489)**	**28,928**



6.7 A further breakdown can be found in Appendix B to this report.

6.8 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.9 In furtherance of these objectives and given the increasing risk and falling returns from short-term unsecured bank investments the Council has diversified into higher yielding asset classes. £8m which is available for longer term investment has been moved into property funds, bonds and multi-asset funds (£5m in CCLA Property Fund and £3m Investec Diversified Income Multi-Asset Fund). These funds have no defined maturity date but are available for withdrawal after a notice period, their performance and continued sustainability in meeting the Council's investment objectives, is regularly reviewed. In light of their performance and the Council's latest cash flow forecasts, investment in these funds has been maintained.

6.10 The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk. This is an extract from Arlingclose's quarterly investment benchmarking.

Table 5: Investment Benchmarking – Treasury Investments Managed In-house

	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return %
31.03.2018	2.93	AA	39%	0.89
30.09.2018	4.10	AA-	72%	0.79
31.03.2019	4.29	AA-	86%	0.91
Similar LAs	4.13	AA-	53%	0.86
All LAs	4.20	AA-	55%	0.85

7 Non-Treasury Investments

7.1 The definition in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the MHCLG's Investment Guidance in which the definition of investments is further broadened to also include all such assets held particularly for financial return.

7.2 The Council also holds £2.676m of such investments held as loans to local businesses, charities, partnerships and sports clubs as at 31 March 2019. These investments generated £0.081m of investment income for the Council representing an average rate of return of 2.88%.

8 Treasury Performance

8.1 The Council measures and manages the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in Table 6 below.

Table 6: Performance

	Budget 2018/19 £000	Actual 2018/19 £000	Variance 2018/19 £000
Interest Paid	2,913	2,502	(411)
Interest Received	(746)	(728)	18

9 Compliance Report

9.1 The Section 151 Officer is pleased to report that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	31/03/19 Actual	2018/19 Limit	Complied
Any single organisation, except UK Government	£4.8m	£6m each	✓
UK Central Government	Nil	Unlimited	✓
Any group of organisations under the same ownership	£3.0m	£6m per Group	✓
Any group of pooled funds under the same management	£15.0m	£15m per Manager	✓
Negotiable instruments held in a broker's nominee account	£2.0m	£20m per Broker	✓
Foreign countries	Nil	£6m per Country	✓
Registered Providers	Nil	£14m in Total	✓
Loans to unrated corporates	Nil	£6m in Total	✓
Money Market Funds	£4.0m	£28m in Total	✓

9.2 Compliance with the authorised limit and the operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	2018/19 Maximum £000	31/03/19 Actual £000	2018/19 Operational Boundary £000	2018/19 Authorised Limit £000	Complied
Borrowing	92,500	92,500	200,000	220,000	✓

9.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2018/19.

10 Treasury Management Indicators

10.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

10.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	31/03/19 Actual	2018/19 Target	Complied
Portfolio average credit rating	AA-	A-	✓

10.3 The target of A- was recommended by the Council's Treasury Management advisors, Arlingclose, as the minimum rating Taunton Deane Borough Council should achieve in relation to its investments placed during the year. On a quarterly basis the Council submits details of its current investments and Arlingclose produce an investment benchmarking document, which as at 31 March 2019, reported that Taunton Deane Borough Council had an average credit rating of AA- which is above the recommendation suggested by Arlingclose. This therefore means that the Council's investments are exposed to less credit risk than is recommended by our advisors.

10.4 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	31/03/19 Actual	**2018/19 Target**	**Complied**
Total cash available within 3 months	£24.8m	£6.0m	✓

10.5 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	31/03/19 Actual	**2018/19 Limit**	**Complied**
Fixed			
Upper limit on fixed interest rate exposure on Debt	94.59%	100%	✓
Upper limit on fixed interest rate exposure on Investments	28.10%	100%	✓
Variable			
Upper limit on variable interest rate exposure on Debt	5.41%	100%	✓
Upper limit on variable interest rate exposure on Investments	71.90%	100%	✓

10.6 Fixed rate investment and borrowing are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

10.7 As at 31 March 2019 investment returns ranged between 0.25% (investment held in the Santander Instant Access Account) and 4.34% (CCLA Property Fund).

10.8 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	15%	50%	0%	✓
1 year and within 2 years	4%	50%	0%	✓
24 months and within 5 years	24%	50%	0%	✓
5 years and within 10 years	44%	75%	0%	✓
10 years and within 20 years	6%	100%	0%	✓
20 years and within 30 years	0%	100%	0%	✓
30 years and within 40 years	4%	100%	0%	✓
40 years and within 50 years	0%	100%	0%	✓
50 years and above	3%	100%	0%	✓

10.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

10.10 **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£2.1m	£0.0m	£0.0m
Limit on principal invested beyond year end	£30.0m	£30.0m	£30.0m
Complied	✓	✓	✓

11 Compliance with Prudential Indicators 2018/19

11.1 **Introduction:** The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

11.2 This report compares the approved indicators with the outturn position for 2018/19. Actual figures have been taken from, or prepared on a basis consistent with, the

Council's unaudited Statement of Accounts 2018/19. Therefore, these figures will be subject to the findings of the external audit by Grant Thornton.

11.3 **Capital Expenditure:** The Council's capital expenditure and financing may be summarised as follows:

Capital Expenditure	**2018/19 Approved £000**	**2018/19 Actual £000**
General Fund	55,678	15,398
HRA	24,886	11,379
Total	**80,564**	**26,777**

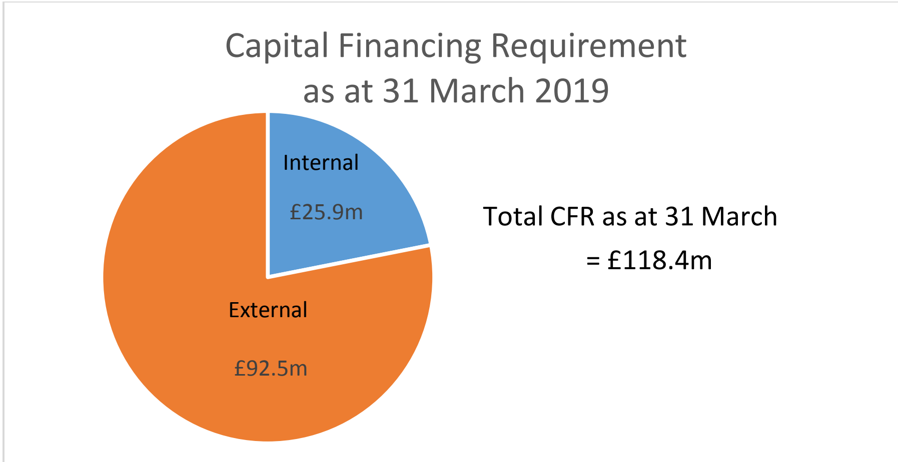
Capital expenditure has been financed as follows:

Capital Financing	**2018/19 Approved £000**	**2018/19 Actual £000**
Capital Receipts	5,184	2,899
Capital Grants and Contributions	3,897	2,471
Revenue Contributions	13,937	7,180
Major Repairs Reserve	9,496	7,352
Borrowing	47,400	6,875
Capital Financing Reserve	650	0
Total Financing	**80,564**	**26,777**

11.4 While £80.564m has been approved on General Fund and HRA capital projects, only £26.777m was actually spent during the year. Taking into account under/overspends and budgets no longer required, £53.787m represents the slippage on approved schemes and budget approvals which have been profiled across future financial years.

11.5 **Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31/03/19 Estimate £000**	**31/03/19 Actual £000**	**Difference £000**
General Fund	18,277	**15,395**	(2,882)
Housing Revenue Account	100,729	**103,029**	2,300
Total CFR	**119,006**	**118,424**	**(582)**



11.6 **Actual Debt:** The Council had £92.5m of external debt as at 31 March 2019.

11.7 **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt and Capital Financing Requirement (CFR)	**31/03/19 Estimate £000**	**31/03/19 Actual £000**
Capital Financing Requirement	119,006	118,424
Gross Debt	(82,500)	(92,500)
Headroom	**36,506**	**25,924**
Borrowed in Excess of CFR (Y/N)	**N**	**N**

11.8 Total debt remained below the CFR during the forecast period.

11.9 **Operational Boundary for External Debt:** The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary and Total Debt	**31/03/19 Boundary £000**	**31/03/19 Actual Debt £000**	**Complied**
Borrowing	200,000	92,500	✓
Total Debt	**200,000**	**92,500**	✓

11.10 **Authorised Limit for External Debt:** The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	**31/03/19 Boundary £000**	**31/03/19 Actual Debt £000**	**Complied**
Borrowing	220,000	92,500	✓
Total Debt	**220,000**	**92,500**	✓

11.11 **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**31/03/19 Estimate %**	**31/03/19 Actual %**	**Difference %**
General Fund	-0.35	**-0.34**	0.01
Housing Revenue Account	9.94	**9.39**	-0.55
Total	**9.59**	**9.05**	**-0.54**

11.12 **Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**31/03/19 Estimate £**	**31/03/19 Actual £**	**Difference £**
General Fund – Increase in Annual Band D Council Tax	4.44	**11.77**	7.33
Housing Revenue Account – Increase in Average Weekly Rents	-0.82	**-0.73**	-0.09

12 Links to Corporate Aims / Priorities

12.1 The Treasury Management and Investment Strategy supports the delivery of the Corporate Aims.

13 Finance / Resource Implications

13.1 The Treasury Management function has been well-managed during the year in compliance with the Treasury Management Strategy Statement. As interest rates remain low the opportunities to generate significant income through short term investments has been limited.

13.2 This report provides full details of the Treasury Management activity during the year. A summary of the key points follows:

- As at 31 March 2019, Taunton Deane's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £118.424m, while usable reserves and working capital which were the underlying resources available for investment were £42.262m and £1.894m respectively.

- As at 31 March 2019, Taunton Deane had external borrowing of £92.5m, attributable to the Housing Revenue Account, and £28.928m of investments.

- The Council's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

14 Legal Implications

14.1 The S151 Officer has a statutory responsibility to ensure appropriate arrangements are in place to adequately control the Council's resources. The Council is required to have regard to the Prudential Code, Treasury Management Code and relevant statutory guidance.

15 Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection, and Consultation Implications

15.1 None in respect of this report.

Democratic Path:

- **Audit, Governance and Standards Committee – Yes**
- **Full Council – Yes**

Reporting Frequency: Annual

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External Context – Analysis by Arlingclose **Appendix A**

Economic Commentary: After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the New Year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Appendix B

Investments as at 31 March 2019

Borrower	Amount £	Rate of Interest %	Date of Investment	Date of Maturity
Lloyds Bank Plc	1,000,000	1.000	19/10/2018	18/04/2019
Lloyds Bank Plc	2,000,000	1.000	16/01/2019	16/07/2019
Standard Chartered Bank	3,000,000	0.950	15/11/2018	15/05/2019
Leeds Building Society	1,064,814	1.565	24/04/2015	16/11/2020
Leeds Building Society	1,063,530	1.622	01/05/2018	16/11/2020
Santander UK Plc	1,800,000	Variable	N/A	On Demand
Invesco	200,000	Variable	N/A	On Demand
CCLA Public Sector Deposit Fund	1,000,000	Variable	N/A	On Demand
CCLA Property Fund	5,000,000	Variable	N/A	On Demand
Investec	3,000,000	Variable	N/A	On Demand
Columbia Threadneedle	2,000,000	Variable	N/A	On Demand
Royal London	1,000,000	Variable	N/A	On Demand
Aberdeen Liquidity Short Duration	1,000,000	Variable	N/A	On Demand
Aberdeen Liquidity Fund Sterling	2,800,000	Variable	N/A	On Demand
Payden	2,000,000	Variable	N/A	On Demand
Federated Cash Plus	1,000,000	Variable	N/A	On Demand
TOTAL	**28,928,344**			