East Devon District Council
Annual Treasury Management Review
2018/19

Contents

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Purpose

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).

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 28/2/2018).
- a mid-year, (minimum), treasury update report (Council 27/2/2019).
- an annual review following the end of the year describing the activity compared to the strategy, (this report).

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.

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 Cabinet before they were reported to the full Council. Member training on treasury management issues was undertaken on 30/01/2018 and on 26/06/2019 in order to support members' scrutiny role.

Executive Summary

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 Budget (per EDDC TM Strategy 2018/19 Document) £000	2018/19 Actual £000
Capital expenditure in year			
• Non-HRA	6,864	6,477	9,417
• HRA	5,843	625	3,677
• HRA Major Repairs	4,315	4,466	4,152
• **Sub Total**	**17,022**	**11,568**	**17,246**
• Third Party Loans /Investments	600	1,500	1,575
• **Total Capital Expenditure (Gross*)**	**17,622**	**13,068**	**18,821**
**2018/19 Budget: £13,068 less £ (864) external funding = £12,204 net. 2018/19 Actual HRA £3,677 + £199 = £3,876*			
Capital Financing Requirement:			
• Non-HRA	7,927	16,572	10,063
• Non-Treasury loans /investments	600	1,500	4,733
• **Sub Total**	**8,527**	**18,072**	**14,796**
• HRA	80,601	79,011	80,595
• **Total**	**89,128**	**97,083**	**95,391**
External Debt			
Gross borrowing for capital purposes (excluding accrued interest)			
• Non-HRA existing	235	4,395	171
• Non-HRA new	0	2,883	4,603
• Non-HRA existing - borrowing to finance Third Party Loans	1,285	2,945	1,222
• Non-HRA new - borrowing to finance Third Party Loans	0	0	1,525
• **Sub Total**	**1,520**	**10,223**	**7,521**
• HRA existing and new	80,601	79,011	80,595
• **Total**	**82,121**	**89,234**	**88,116**
**2018/19 Budget: £138 + £4257 = £4,395 and £1,222 + £1,723 = £2,945.*			
Temporary cash flow borrowing	**6,122**	**2,350**	**2,235**
Total external debt (for capital purposes and temporary cash flow purposes)	**88,243**	**91,584**	**90,351**

Prudential and treasury indicators continued	2017/18 Actual £000	2018/19 Budget (per EDDC TM Strategy 2018/19 Document £000	2018/19 Actual £000
Investments			
Non-Treasury Loans and Investments *(Note 1)*			
• Longer than 1 year	4,372	Not reported in EDDC TM Strategy 2018/19	5,848
• Under 1 year	87		99
• **Total**	**4,459**		**5,947**
Treasury Investments			
• Longer than 1 year	0	Not reported in EDDC TM Strategy 2018/19	0
• Under 1 year	33,158		36,996
• **Total**	**33,158**		**36,996**
Cash at Bank for daily operations			
• Longer than 1 year	0	Not reported in EDDC TM Strategy 2018/19	0
• Under 1 year	145		204
• **Total**	**145**		**204**
Note 1: Excludes fair value adjustments & interest.			
Total Investments	**37,762**		**43,147**

Net borrowing	**50,481**		**47,204**

Other prudential and treasury indicators are to be found in the main body of this report. The Strategic Lead Finance also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

The financial year 2018/19 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

The Council is recommended to:

1. Approve the actual 2018/19 prudential and treasury indicators in this report.
2. Note the annual treasury management report for 2018/19.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- 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;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure & Financing 2018/19

The Council undertakes capital expenditure on long-term assets. The 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.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

Combined General Fund, Non-Treasury Loans and Investments and HRA	2017/18 Actual £000	2018/19 Budget (per EDDC TM Strategy 2018/19 Document £000	2018/19 Actual £000
Capital expenditure (gross)	17,022	13,068	17,246
Third Party loans & investments	600	0	1,575
• **Total**	**17,622**	**13,068**	**18,821**
**2018/19 Budget: £13,068 less £ (864) external funding = £12,204 net.*			
Financed in year			
• External funding	1,488	864	1,889
• Other	13,407	8,983	10,487
• **Total**	**14,895**	**9,847**	**12,376**
Unfinanced capital expenditure	**2,727**	**3,221**	**6,445**

General Fund/ Non-Treasury Loans and Investments only	2017/18 Actual £000	2018/19 Budget (per EDDC TM Strategy 2018/19 Document £000	2018/19 Actual £000
Capital expenditure (gross)	6,864	7,977	9,417
Non-Treasury loans & investments	600	0	1,575
• **Total**	**7,464**	**7,977**	**10,992**
Financed in year			
• External funding	1,488	864	1,889
• Other	3,249	3,892	2,658
• **Total**	**4,737**	**4,756**	**4,547**
Unfinanced capital expenditure	**2,727**	**3,221**	**6,445**

	£000	£000
2018/19 Original Budget spending (gross)		***7,977***
Significant variances in General Fund spending in year:		
Loan to Norman Lockyer Observatory	*25*	
Purchase of founding shares in South West Mutual	*50*	
Loan to Exeter Science Park for Grow-on Buildings	*1,500*	
Flood Alleviation Work – Feniton £125k and Whimple £41k	*166*	
Exmouth Sea Wall emergency work	*596*	
Beach Management/Safety Works at Beer and Seaton delayed	*(107)*	
Magnolia Public Convenience Improvements Scheme slippage	*(100)*	
Streetscene: Recycling and Refuse Vehicles and Equipment slippage from 2017/18	*764*	
Delay in Sports Centres and Swimming Pool Schemes - revised dates agreed with LED.	*(798)*	
Parks, Pleasure Grounds, Play Equipment and Playgrounds underspend	*(141)*	
Beach Properties: Reroofing of seaside tenanted properties not carried out	*(40)*	
Mamhead Slipway retention paid	*33*	
Overspend on plant and equipment for street cleansing	*28*	
Energy Saving and Renewables – underspend of £(85)k on industrials and £(40)k on Public Halls, Community Centres and Pavilions	*(125)*	
Disabled Facility Grants expenditure over budget	*235*	
Relocation Project – Re-profiling of expenditure into 2019/20	*(429)*	
Expenditure funded through S106	*199*	
Economy: Exmouth Regeneration slippage from 2017/18	*1,115*	
Car Park Improvements – Maer Road Exmouth Car Park £83k not budgeted but Broadclyst Car Park budgeted not spent £(27)	*56*	
Other general fund spending (various items)	*(12)*	
		3,015
(A number of these items were scheme slippage from the previous year)		
2018/19 Actual spending		***10,992***

HRA only	2017/18 Actual £000	2018/19 Budget (per EDDC TM Strategy 2018/19 Document £000	2018/19 Actual £000
Capital expenditure (gross)	10,158	5,091	7,829
• **Total**	**10,158**	**5,091**	**7,829**
Financed in year			
• External funding	0	0	0
• Other financing	10,158	5,091	7,829
• **Total**	**10,158**	**5,091**	**7,829**
Unfinanced capital expenditure	**0**	**0**	**0**

Of the increase of £2.738m in HRA capital spending, £3.024m is attributable to the house purchase replacement scheme that was not included in the original programme; it was separately agreed and funded through HRA resources. Offsetting this, there was an under-spend of £ (0.314)m on HRA Major Repairs.

2. The Council's Overall Borrowing Need

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 tables), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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.

Reducing the CFR – the Council's (non HRA) 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 non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). 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.

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).

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 28 February 2018.

The Council's CFR for the year is shown below, and represents a key prudential indicator. *(The Council does not have any PFI and leasing schemes on the balance sheet, but if it did they would increase the Council's borrowing need. However, no borrowing would actually be required against these schemes as a borrowing facility would be included in the contract).*

CFR: Combined General Fund, Non-Treasury Loans and Investments and HRA	31 March 2018 Actual £000	31 March 2019 Budget (per EDDC TM Strategy 2018/19 Document £000	31 March 2019 Actual £000
Opening balance	87,685	95,578	89,128
Add unfinanced capital expenditure	2,127	3,221	4,870
Add unfinanced Non-Treasury loans and investments	600	0	1,575
Timing difference	91	0	0
Less MRP/VRP* and other movements	(1,375)	(1,716)	(182)
Less PFI & finance lease repayments	0	0	0
Closing balance	**89,128**	**97,083**	**95,391**

CFR: General Fund and Non-Treasury Loans and Investments only	31 March 2018 Actual £000	31 March 2019 Budget (per EDDC TM Strategy 2018/19 Document £000	31 March 2019 Actual £000
Opening balance	5,777	14,980	8,527
Add unfinanced capital expenditure	2,127	3,221	4,870
Add unfinanced Non-Treasury loans and investments	600	0	1,575
Timing difference	91	0	0
Less MRP/VRP* and other movements	(68)	(129)	(176)
Less PFI & finance lease repayments	0	0	0
Closing balance	**8,527**	**18,072**	**14,796**

CFR: HRA only	31 March 2018 Actual £000	31 March 2019 Budget (per EDDC TM Strategy 2018/19 Document £000	31 March 2019 Actual £000
Opening balance	81,908	80,598	80,601
Add unfinanced capital expenditure	0	0	0
Less MRP/VRP* and other movements	(1,307)	(1,587)	(6)
Less PFI & finance lease repayments	0	0	0
Closing balance	**80,601**	**79,011**	**80,595**

** includes voluntary application of capital receipts*

Note the MRP/ VRP would normally include PFI/ finance lease annual principal payments, except that the Council has no PFI/finance lease borrowings.

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

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 allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

General Fund and Non-Treasury Loans and Investments	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
		(per EDDC TM Strategy 2018/19 Document	
	£000	£000	£000
Gross borrowing position	**7,642**	**12,573**	**9,756**
CFR - General Fund & Non-Treasury Loans and investments	**8,527**	**18,072**	**14,796**

HRA	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
		(per EDDC TM Strategy 2018/19 Document	
	£000	£000	£000
Gross borrowing position	**80,601**	**79,011**	**80,595**
CFR - HRA	**80,601**	**79,011**	**80,595**

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.

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.

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 General Fund & Non-Financial Loans & Investments £000	2018/19 HRA £000
Authorised Limit	12,756	87,844
Maximum gross borrowing position*	9,756	80,601
Operational Boundary	9,756	80,601
Average gross borrowing position*	4,520	80,598
	%	%
Financing costs as a proportion of net revenue stream	(2.83)	24.97

The authorised limit is based on gross borrowing and so gross maximum borrowing for the year is shown.

The authorised limit allows for any potential overdraft position (as this counts against the overall borrowing). The General Fund allows £3m headroom for rescheduling, (i.e. borrowing in advance of repayment). For the HRA a debt cap of £87.844m has been used. This is the debt cap formerly set by the Government as the authorised limit (though formally abolished by the Government on 29 October 2018).

The maximum gross borrowing position is the higher of the opening, closing or any intermediate position which would be applicable if a loan is taken out for less than one year.

** excludes interest accrued but not yet due to be paid.*

3. Treasury Position as at 31 March 2019

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:

INVESTMENT PORTFOLIO	31 March 2018 Principal £000	31 March 2019 Principal £000
Non Treasury Investments		
· Third Party Loans	3,302	4,740
· Investments in associates	332	332
· Investments in companies	825	875
Total Non Treasury Investments	**4,459**	**5,947**
Treasury Investments		
· Banks	1,000	2,900
· Money Markets	2,250	4,200
· **Total Managed in house**	**3,250**	**7,100**
· **Total Cash Funds managed externally**	**29,908**	**29,896**
Total Treasury Investments	**33,158**	**36,996**
Cash at Bank for Daily Operations	**145**	**204**
Total Investments	**37,762**	**43,147**
· Maturity longer than 1 year	4,372	5,848
· Maturity under 1 year	33,390	37,299
Total Investments	**37,762**	**43,147**

DEBT PORTFOLIO FOR GENERAL FUND	31 March 2018 Principal £000	31 March 2019 Principal £000
Fixed rate funding:		
· PWLB	1,520	7,521
· Market (maturing in under 12 months)	4,500	0
Variable rate funding		
· Market (maturing in under 12 months)	1,622	2,235
Total Debt	**7,642**	**9,756**
CFR	**8,527**	**14,796**
Over/ (under) borrowing	**(885)**	**(5,040)**

DEBT PORTFOLIO FOR HRA	31 March 2018 Principal £000	31 March 2019 Principal £000
Fixed rate funding:		
· PWLB	80,601	80,595
Total Debt	**80,601**	**80,595**
CFR	**80,601**	**80,595**
Over/ (under) borrowing	**0**	**0**

The maturity structure of the PWLB debt portfolio at 31 March 2019 was as follows:

PWLB Borrowing	31 March 2019	
	General Fund £000	HRA £000
Under 12 months	970	1,920
12 months and within 24 months	2,455	2,260
24 months and within 5 years	2,753	8,796
5 years and within 10 years	851	17,710
10 years and within 20 years	492	49,565
20 years and within 30 years	0	271
30 years and within 40 years	0	73
Total	**7,521**	**80,595**

4. The Strategy for 2018/19

The Council's strategy was to maintain an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), would not be fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy was prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. However, the intention was to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. In practice the capital finance requirement was most likely to be funded via a combination of external fund disinvestment and/or loans from the PWLB.

5. Borrowing Strategy in 2018/19

During 2018-19, the Council maintained an under-borrowed position, despite taking the opportunity to re-finance some internal borrowing: (see the section below on Borrowing Outturn for details). 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.

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.

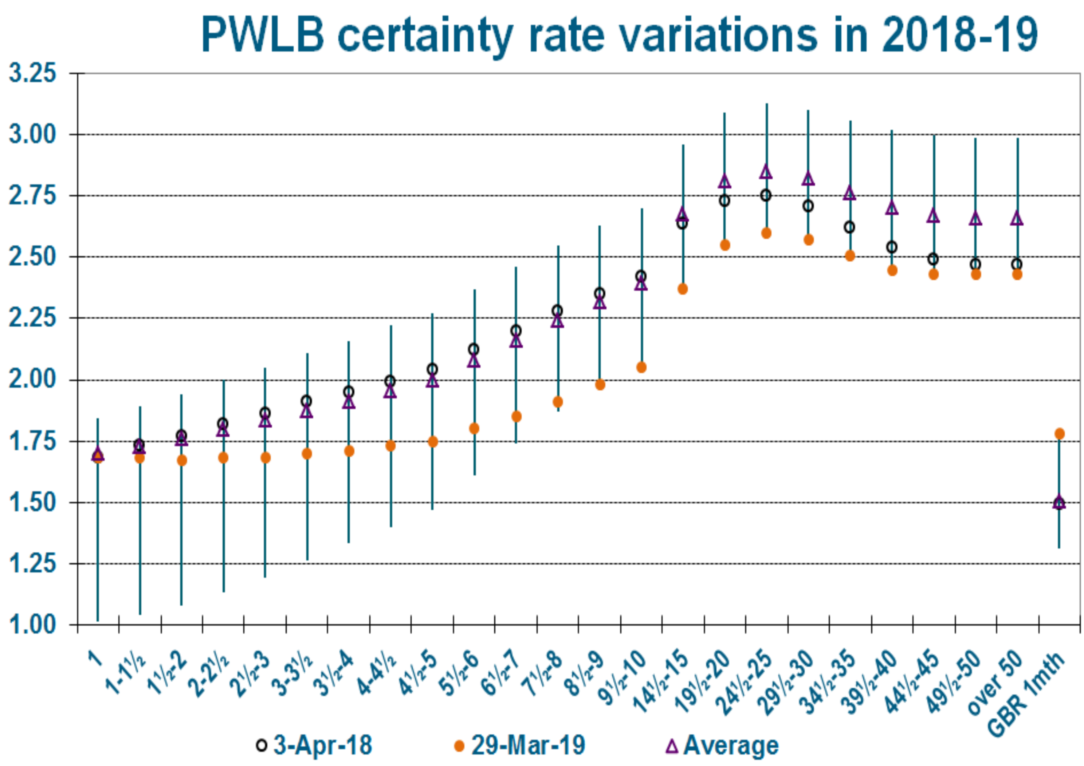
The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or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

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Strategic Lead Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

* 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.

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%



	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%

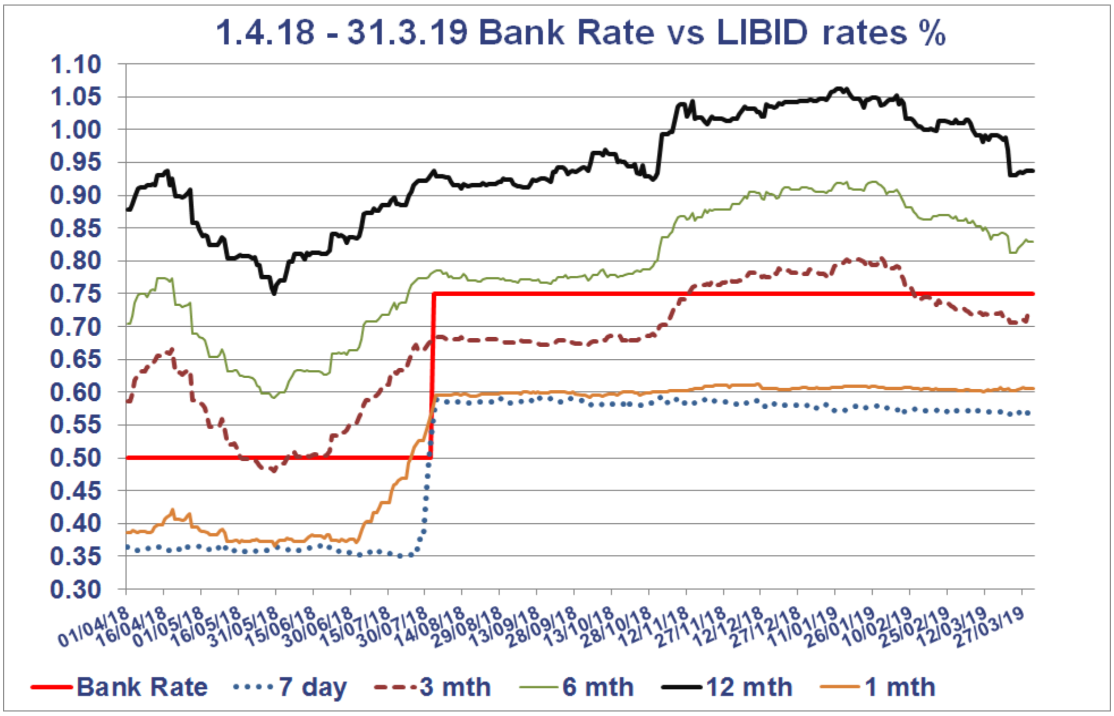
6. Investment Strategy in 2018/19

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.

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.

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.

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.



	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. Borrowing Outturn for 2018/19

Treasury Borrowing
At the beginning of the year, the Council borrowed £4.5m temporarily from Leicester City Council, from 19 March 2018 until 6 April 2018 at a fixed rate of 0.85%, for cash flow purposes.

Long Term Borrowing
Loans were drawn from the PWLB as follows:

- to re-finance £1.581m of naturally maturing HRA debt;
- to re-finance £5m of prior years' net capital expenditure previously financed internally;
- to match-finance loans to third parties of £1.525m made to Exeter Science Park and Norman Lockyer Observatory during the year.

The Council's long term borrowing is all from the PWLB at fixed rates. Details are as follows:

Borrowing for General Fund and Non-Financial Loans and investments	Original Principal £	Principal Owing at 31/03/2019 £	Interest Rate	Maturity
Refuse Loan (GF)	598,500	170,663	3.68%	31 March 2021
LED One (GF)	750,000	624,175	2.49%	30 April 2034
LED Two (GF)	700,000	597,814	2.87%	30 April 2034
General Loan (GF)	5,000,000	4,603,007	1.75%	20 April 2024
Norman Lockyer Observatory (GF)	25,000	25,000	2.50%	12 October 2028
Exeter Science Park Grow-on Building (GF)	1,500,000	1,500,000	1.55%	10 December 2020
Total General Fund Borrowing from PWLB	**8,573,500**	**7,520,659**		

Borrowing for HRA	Original Principal £	Principal Owing at 31/03/2019 £	Interest Rate	Maturity
Self-Financing Loans	79,992,492	79,992,492	1.55% to 3.46%	27 March 2020 to 14 March 2039
Affordable Housing Loan	646,000	602,411	5.31%	31 March 2051
Total HRA Borrowing from PWLB	**80,638,492**	**80,594,903**		

Borrowing in advance of need
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. Investment Outturn for 2018/19

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 28/2/2018. 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.

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

Investments held by the Council - the Council maintained an average balance of £8.265m of internally managed funds. The internally managed funds earned an average rate of return of 0.75%. The comparable performance indicator is the average 7-day LIBID uncompounded rate, which was 0.57%.

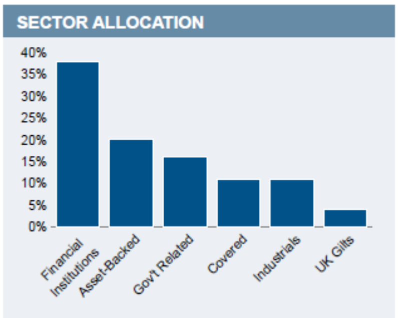
Investments held by fund managers - the Council uses Payden & Rygel and Royal London external fund managers to invest part of its cash balances. The performance of the managers against the benchmark return was:

External Fund Managers	Market Value of Investments Held at 31.3.2018	Market Value of Investments Held at 31.3.2019	Distribution Return	Benchmark (7 Day Libid Compounded)
Payden & Rygel Global Ltd - Sterling Reserve	£15.451m	£15.435m	1.07%	0.57%
Royal London Asset Management - Cash Plus Fund	£14.457m	£14.461m	0.84%	0.57%
	£29.908m	**£29.896m**	**0.93%**	**0.57%**

The following performance summaries have been compiled using information from the fund manager's quarterly performance reviews for the quarter to 31 March 2019.

Payden & Rygel Global Ltd – Sterling Reserve
This fund is invested in a diversified range of sterling denominated, high credit quality, liquid, government, agency and corporate bonds. The fund holds both fixed and floating-rate structures but as at 31 March 2019, had a bias toward holding floating-rate securities.

As at 31 March 2019 the portfolio's duration was 0.59 years; (31 March 2018: 0.71 years). The relatively low duration stance was due to expectations of a bank base rate hike. The fund's sector allocation was as follows:



The fund remains constructive on sterling corporate bonds and has increased its stake from 45% of the fund to around 50%, whilst reducing its allocation to high-quality securitized debt by the same amount, to around 30%. The Fund's exposure to UK Gilts remains similar. In the final quarter of the year, the fund outperformed 7-day LIBID by around 0.26% on a net of fees basis and its average credit quality was AAAf.

Royal London Asset Management – Cash Plus Fund

RLAM Asset Allocation	At 31.3.2018	At 31.3.2019	Notes
Cash and cash instruments	57.5%	49.6%	Cash, Certificates of Deposit, Time Deposits, Floating Rate Notes (FRNs), Forward Settlement
Covered bonds	30.0%	42.8%	Covered bonds issued by banks and building societies
Corporate bonds	11.1%	5.3%	FRNs and short dated bonds
Gilts and Supranationals	1.4%	2.3%	UK Government securities and treasury bills
Total	**100%**	**100%**	

The portfolio retains an allocation to short-dated corporate bonds; this is likely to reduce over time. CDs will be focused on medium and longer dated CDs as and when longer dates offer value in the context of the expected interest rate path. The portfolio has exposure to some longer dated supranational bonds, offering good rates of interest and diversification.

9. The Economy and Interest Rates

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 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.

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.