North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 25 JULY 2019

SUBJECT OF REPORT: TREASURY MANAGEMENT OUT-TURN 2018/19

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: RICHARD PENSKA, DIRECTOR OF FINANCE

KEY DECISION: NO

RECOMMENDATIONS

The Audit Committee is asked to note the council's performance in carrying out its treasury management activities in 2018/19.

1. SUMMARY OF REPORT

This report informs the Audit Committee of the council's;

- treasury management activities during 2018/19 and confirms that the transactions during the year complied with the approved Treasury Management Policy, *in accordance with the requirement of the council's Accountability and Responsibility Framework*.
- prudential indicators for 2018/19, *as required by CIPFA's Prudential Code for Capital Finance in Local Authorities*.

2. POLICY

Treasury management activities are undertaken by officers within the Financial Management team of the Corporate Services Directorate. The remit of this team is broad and covers a range of day-to-day operational tasks relating to the management of cash-flows and resultant outcomes of borrowing and investment decisions, as well as setting the strategic direction required by the council to deliver its core services and cover key financial risks.

This report confirms that treasury activities during 2018/19 were carried out in accordance with the Treasury Management Policy approved by Council in February 2018.

3. DETAILS

External Investments - Background

It should be noted that the council has an in-house treasury team who manage the overall cash-flow activities for both investments and borrowing transactions daily, and in addition to this, we also utilise the services of an external fund manager, Tradition UK, who manage a small proportion of the council's investment balances on our behalf.

Both teams operate within the boundaries of the council's approved Investment Strategy which aims to be flexible and offer the ability to operate a mixed portfolio, with funds divided between in-house and external fund manager and a range of investment products. This flexibility allows the council to take advantage of a range of investment opportunities and market conditions that may occur throughout the year, as well as enabling the council to diversify both credit and counter-party risk by allowing the council to invest in higher-rated institutions via our fund manager.

Clearly the primary objective of the council's Investment Strategy is to maintain the security of all cash balances by ensuring that all investments placed are within secure products and only offered to counter-parties who meet strict risk criteria.

Arlingclose have been appointed as the council's treasury management advisors. Advice is provided on the credit quality of counterparties as well as recommended investment durations and maximum exposures.

At an operational level, the in-house treasury team manage the majority of the overall cash-flows, which at times can be volatile and fluctuate significantly during the months and year. These fluctuations bring constraints when reviewing potential investment opportunities, which therefore impact upon the potential level of investment returns achievable. The external fund managers have no cash-flow or timing constraints, they have the primary objective of maximising the return on the investments managed within the various risk parameters of the council's Investment Strategy and returns would be expected to be higher.

During 2018/19 the majority of the council's investments were made utilising fixed-term cash deposits with a range of banks and building societies in both the UK and overseas as well as to other local authorities. These types of deposit do offer the protection of the principal sums invested which means that by using these investments the council is significantly reducing the risk of capital losses, however they can limit the level of interest return available in a low interest rate environment.

The remaining £10m of the council's investment portfolio was held in the CCLA property fund and two pooled investment funds. Which provides diversity within the portfolio and an opportunity to increase returns in a managed way.

External Investment Balances

At the year-end the council's external investments totalled £80.5m, which is an increase on the £66m recorded at the end of the previous year. This sum includes monies managed by the council's in-house team during the year as well those sums managed by the council's external fund manager. This increase is the result of the increase in grants and contributions received in advance.

Analysis of Investments (principal sums placed) - £m			
	NSC Cash Deposits	Tradition UK Ltd	**TOTAL**
Investments maturing in less than 1 year	60.5	10.0	**70.5**
Investments maturing after 1 year	10.0	0.0	**10.0**
Investment Balance – 31 March 2019	**70.5**	**10.0**	**80.5**
Investments maturing in less than 1 year	42.0	14.0	**56.0**
Investments maturing after 1 year	10.0	0.0	**10.0**
Investment Balance - 31 March 2018	**52.0**	**14.0**	**66.0**

The table below shows further analysis of the principal sums of investments held at 31 March 2019, compared to the same period last year.

	31/3/2019 £m	31/3/2018 £m	Movement £m
UK Banks	**5.0**	18.0	-13.0
Overseas Banks	**11.0**	14.0	-3.0
UK Building Societies	**0.0**	7.0	-7.0
Local Authorities	**48.5**	17.0	31.5
Debt Management Office	**6.0**	0.0	6.0
CCLA (*)	**5.0**	5.0	0.0
Pooled Investment Funds (**)	**5.0**	5.0	0.0
TOTAL INVESTMENTS 31 March	**80.5**	66.0	**-14.5**

(*) A valuation was carried out at the end of the financial year based upon the traded share prices at that time and this showed that the council's investment balance had reduced to £4.896m, which is a reduction of 0.104m compared to its purchase price. This was an increase of £0.101m from the valuation at 31 March 2018. The increase is largely a result of buying interest from both domestic and international investors and growth in rental valuations.

(**) Valuations were also carried out for the two pooled investment funds at the end of the financial year based upon the traded share prices at that time and this showed that the council's £5m investment balance had reduced to £4.855m, which is a reduction of 0.145m compared to the purchase price.

Following the adoption of IFRS 9, Financial Instruments, certain investments are required to be accounted for as fair value through profit and loss, which means that they are revalued on an annual basis and any changes reflected within the council's revenue budget. Under this method any short-falls or losses arising from the annual revaluation process are required to be charged to the revenue budget would need to be funded by council-tax payers.

However in order to overcome the increased "income statement volatility" and provide councils with a more stable environment to set and monitor their investment income budgets, in November 2018 MHCLG agreed to implement a five-year time-limited statutory over-ride, which allows councils to transfer any annual revaluation losses to an earmarked reserve, which effectively protect the council's general fund revenue budget from the fair value movements while the investments are held. The statutory over-ride remains in place until 31 March 2023.

At the end of the financial year the combined loss of £0.249m (31 March 2018: £0.304m) in respect of the CCLA and pooled investments was charged to the council's revenue budget, however rather than the loss be funded by the tax-payer, the statutory over-ride was applied and the balance transferred into an earmarked reserve. It is anticipated that these capital losses will be recovered before March 2023, which is when the over-ride period expires.

Members should note that these investments offer higher returns compared to fixed term cash deposits, although this does reflect the higher nature of the risk undertaken.

Investment Performance in 2018/19

The table below shows the average rates of return achieved during 2018/19 on investments placed by both of the treasury teams.

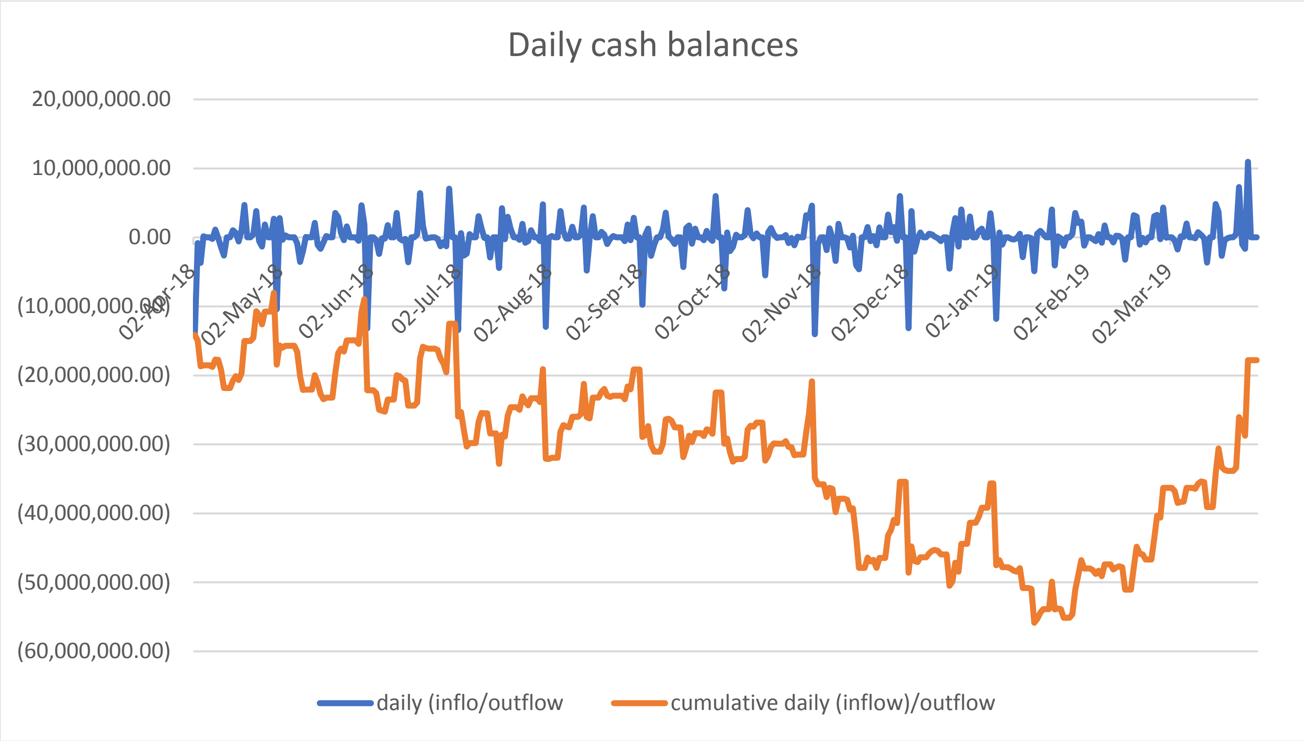
	In-house				Tradition			
	Ave Return (%)	Return (£m)	Ave Duration (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Duration (days)	Ave Loans (No.)
Qtr 1 – b/fwd & to 30 Jun	0.26%	0.36	56	36	0.38%	0.08	118	7
Qtr 2 – to 30 Sept	0.24%	0.33	49	16	0.06%	0.01	8	1
Qtr 3 – to 31 Dec	0.25%	0.32	37	17	0.21%	0.04	32	2
Qtr 4 – to 31 Mar	0.06%	0.06	4	11	0.12%	0.02	7	3
Annual Average for Fixed Term deposits	**0.81%**	**1.07**	**146**	**80**	**0.77%**	**0.15**	**165**	**13**
Benchmark	0.67%				0.67%			
CCLA pooled fund	4.79%	0.24	365	NA	NA	NA	NA	NA
UBS Multi Asset Fund	4.69%	0.05	365	NA	NA	NA	NA	NA
Investec Diversified Income Fund	4.54%	0.18	365	NA	NA	NA	NA	NA

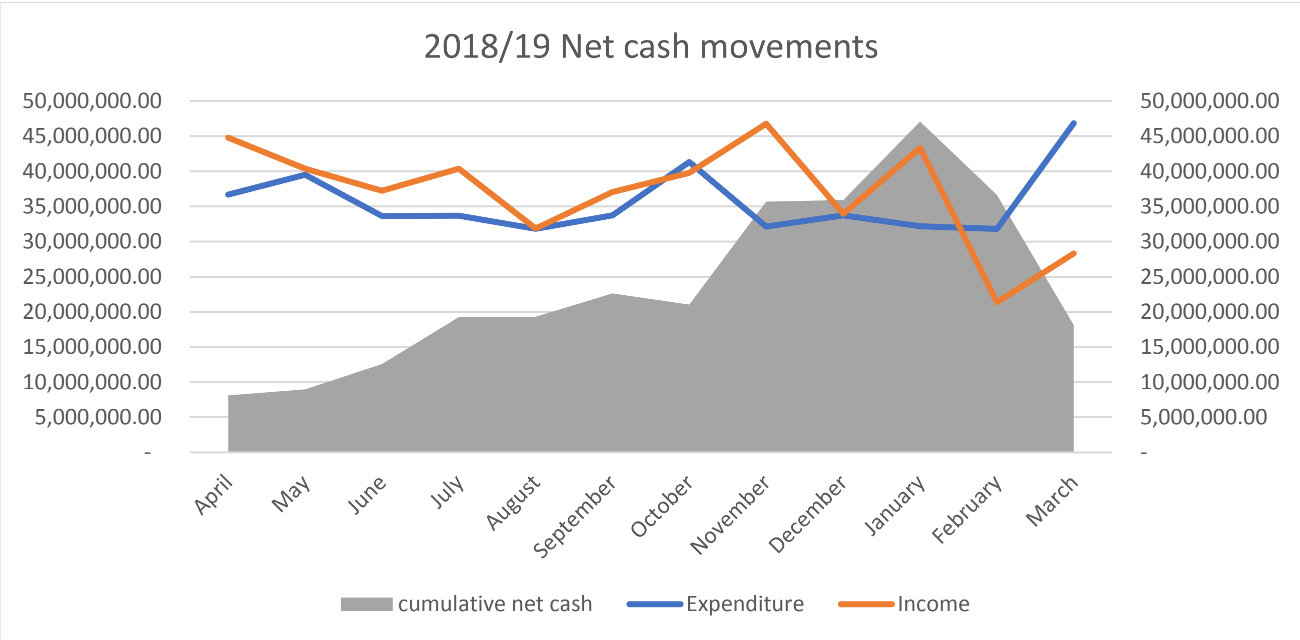
It can clearly be seen that both categories of investments exceeded the annual benchmark comparisons for the year, although it should be noted that the official benchmark, which is largely driven by the bank base rate, continued to remain at an all-time low throughout the year and so does make a simple comparison to the defined benchmark less relevant.

The table shows that the council's in-house team achieved a marginally higher average rate of return during the year from its investments placed than that of the external fund manager, however the table also shows that the number and 'duration' of investments placed by each team differs significantly, and it is this factor which impacts on the interest rate achieved with the yield curve offering higher rates of return for longer investment periods.

As noted above, the primary function of the council's treasury team is to manage cash-flows which means that although cash balances can be high at the start of any given week, they may easily be required in the next week, meaning that the council can only invest them for a limited duration, often at very low rates. The majority of the council's returns are generated at the start of the financial year when durations of term deposits are maximised to coincide with the council's cash flow profile and where yields are higher. The CCLA and other pooled investment funds offer a significantly higher return than traditional cash deposits.

The table below shows the daily cash inflows and outflows over the course of the year. It demonstrates the semi-regular income and expenditure peaks and troughs. For the first 10 months of the year, income tends to exceed expenditure resulting in a build-up of cash balances. After January, the reduction in monthly council tax income receipts means these balances are depleted in the last two months of the year. This is illustrated in the second table below.





Investment Interest Budgets 2018/19

The table below shows that the council achieved £1.180m in interest during the year, which is £0.454m more than budgeted. This is also £0.281m higher than the £0.899m level achieved in 2017/18. The increase in investment balances during the year as well as the continued impact from the 2017/18 increase in the base rate from 0.50% to 0.75% resulted in improved returns in comparison with the previous year. With returns on internally managed investments increasing from £0.372m to £0.566m and Tradition's investments increasing from £0.089m to £0.098m.

	In-House – Cash Deposits £000	In-House – MM Funds £000	Tradition UK Ltd £000	CCLA Property Fund £000	Other Pooled Funds £000	**TOTAL £000**
Actual Interest Generated	566	48	98	240	229	**1,181**
Investment Interest Budget	300	16	60	200	150	**726**
Variance to Budget	266	32	38	40	79	**455**

The council also utilises the CCLA property fund to generate higher returns on a smaller proportion of the council's balances. During 2017/18 additional investments were made into two pooled funds of a different asset class to provide additional diversification and protection against EU bail-in risk whilst generating greater returns. The full year effect of this was seen on other pooled funds returns in 2018/19.

Long-term Borrowing 2018/19

During the year the council repaid the following loan which had reached its maturity date. The balance held with tradition was reduced from £14m to £10m.

Long-term Borrowing repaid during 2018/19				
	Ref	Principal £m	Interest Rate %	Maturity Date
Loan repaid at maturity	PWLB 50	0.1	2.11	31/03/2019

There was no new long-term borrowing arranged during 2018/19.

As can be seen from the table below, the council's long-term PWLB debt totals £148.22m and is profiled for repayment between April 2019 and March 2058 with no more than £15m repayable in any one year. This is in accordance with the council's current borrowing policy and is structured in a way to reduce exposure to significant cash-flow movements and adverse interest rates at the time each loan matures.

Repayment periods	PWLB £m	Ave Rate %
Less than 1 year	1.00	5.50
Between 1 and 2 years	0.34	4.75
Between 2 and 5 years	20.00	3.45
Between 5 and 10 years	36.93	3.66
Over 10 years	89.95	4.19
TOTAL	148.22	

Prudential Indicators

A key element of control under the Local Government Act 2003 capital financing system is that exercised by the statutory CIPFA Prudential Code. Under this system individual authorities are responsible for deciding the level of their affordable borrowing as opposed to the previous system of credit approvals issued by the Government.

Under the Code councils are required to establish certain key Prudential Indicators for both Treasury Management and Capital Financing activities. The actual level of these indicators for 2018/19 are shown in Appendix 1.

As can be seen from this Appendix the actual indicators for the year were within the budgeted levels approved by Council in February 2018, as part of the MTFP process.

Minimum Revenue Provision (MRP) 2018/19

When the council funds capital expenditure by long-term borrowing, the costs are charged to the council tax payer in future years, reflecting the long-term use of the assets. There are two elements to this cost;

- the interest on actual borrowing undertaken is charged in the year it is payable, and
- the principal (or capital) repayment element is charged as a "minimum revenue provision" (MRP).

Statutory regulations prescribe the minimum levels which must be charged to the councils revenue budget each year, however in addition to this 'minimum' payment, the council is also required to make additional voluntary repayments of capital for new loans entered into using the prudential borrowing powers, first having demonstrated that such borrowing is prudent, affordable and sustainable.

The council is required to approve an annual statement which details its policy for determining the level of capital repayments to be charged to its revenue accounts. The statement below covers the 2018/19 charges within the revenue accounts, in accordance with these requirements.

The MRP charge for 2018/19 was calculated using the revised methodology, which spreads the repayment of capital evenly, using an average asset life of 33 years. In addition, the council made a Voluntary Provision based upon the useful economic lives of assets financed by unsupported borrowing prior to 2016/17, thereby following the prudent approach included within the guidance which is intended to match the borrowing liability to the benefits of the capital assets acquired using this source of finance, rather than over the average asset life used under the statutory provision. The total MRP charge at the end of the year was £4.678m (2017/18: £4.334m)

Review of the Treasury Management Strategy

Economic background

With GDP Growth rising to 0.6% in the third calendar quarter from 0.4% in the second, the fourth quarter economic growth slowed to 0.2% with weaker expansion in production, construction and services dragging 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 2018, no further changes to monetary policy have been made since.

Portfolio Performance

2018/19 was the third full year of investment in the CCLA property fund. The fund generated returns of 4.79% or £0.240m, accounting for more than a quarter of total returns from the council's investment portfolio.

2018/19 was the second full year of investment in two other pooled investment funds, with £1m placed with UBS Multi-Asset Fund and £4m with Investec Diversified Income Fund. These funds generated returns of 4.69% or £0.05m, and 4.54% or £0.18m respectively.

Returns from traditional fixed term deposits both internally and externally both exceeded budget largely thanks to the rates increase in August.

These fixed term deposits are becoming increasingly able to generate returns in line with budgeted expectations due the current economic conditions and slowly rising interest rates. The average rate of return achieved in 2018/19 of 1.07% is unlikely to be improved upon in 2019/20 unless there is a rate increase with 12-month deposits currently being quoted at less than 1.00% and 6-month deposits being quoted at around 0.80%.

Borrowing

No additional borrowing was undertaken during 2018/19. In 2018/19 an investment property (the Sovereign Centre) was acquired under a finance lease carried at £21.0m.

The 2019/20 Capital Programme is currently £150m and it is assumed £39.3m of this will be funded by borrowing profiled as follows:

Year	**£**
2019/20	£21.2m
2020/21	£13.1m
2021/22	£ 5.0m
2022/23	£ 0.0m
Funded by borrowing	£39.3m

However, delivery of the programme is predicated on strategic decisions supported by the council's commercial investment programme and therefore some of the timings remain uncertain. We will continue to keep you informed of progress.

4. CONSULTATION

None

5. FINANCIAL IMPLICATIONS

Financial implications are contained throughout the report.

It should be noted that both the investment and borrowing values shown throughout the report reflect the principal sums of the investments held by the council at the end of the financial year, however accounting legislation requires the council to reflect either the fair and amortised cost valuations within its Statement of Accounts, which means that the figures will be presented differently there.

6. RISK MANAGEMENT

The council does face significant types and degrees of risk in this area, from both internal and external sources. However the council has implemented, and adheres to, strict policies and internal controls in order to mitigate such risks.

The council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return. The majority of its surplus cash is therefore held as short-term investments, and utilises the UK Government and highly rated banks and pooled funds where appropriate.

The council's primary objective for the management of its debt is to ensure its long-term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board at long-term fixed rates of interest.

However, the combination of short duration investments and long duration debt can expose the council to the risk of falling investment income during periods of low interest rates. This risk is partially mitigated by the inclusion of some longer-term investments and the option to prematurely repay some long-term loans.

The council measures its exposure to credit risk by monitoring the individual credit ratings of each investor within its portfolio on at least a monthly basis.

7. EQUALITY IMPLICATIONS

None

8. CORPORATE IMPLICATIONS

None

9. OPTIONS CONSIDERED

N/a

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BACKGROUND PAPERS

Capital & Treasury Management Strategy report – Executive, February 2018

PRUDENTIAL INDICATORS

1.1 Introduction

The CIPFA Prudential Code for Capital Finance in Local Authorities sets out the factors, or indicators that must be considered by each local authority when making decisions about capital investment and associated borrowing.

1.2 Treasury Management Prudential Indicators

The following Treasury Management prudential indicators were set for 2018/19 as part of the MTFP process. The estimates are shown below together with the actual indicators for 2018/19.

1.2.1 In respect of its external debt, the council approved the following authorised limit for its total external debt gross of investments for 2018/19. This limit separately identifies borrowing from other long-term liabilities such as finance leases or lease premium incentives. The actual level of external debt is shown, and is well within the limits set at the start of the year.

Authorised Limit for External Debt	**2018/19 Limit £m**	**2018/19 Actual £m**
Borrowing – NSC Other Long Term Liabilities (Avon debt, leases, temporary borrowing etc)	298 55	148.3 36.3
Authority Total	**353**	**184.6**

1.2.2 The council also approved the following operational boundary for external debt for the same period. The operational boundary for external debt was based on the same estimates as the authorised limit, but reflected estimates of the most likely, prudent, but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements. As can be seen below, the actual level of external debt is well within the operational boundary set at the start of the year.

Operational Limit for External Debt	**2018/19 Limit £m**	**2018/19 Actual £m**
Borrowing – NSC Other Long Term Liabilities (Avon debt, leases, temporary borrowing etc)	257 50	148.3 36.3
Authority Total	**307**	**184.6**

1.2.3 Interest rate exposure

This indicator is set to control the council's exposure to interest rate risk, including both exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed.

Interest Rate Exposures	2018/19 Limit	2018/19 Actual	Complied?
Upper limit on fixed rate exposures (net)	229	81.2	Yes
Upper limit on variable rate exposures (net)	38	(9.9) *	Yes

* This includes £10m of pooled fund investments with a variable return. However, the funds have both fixed and variable rate instruments within their portfolios.

Fixed rate investments and borrowings 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.

1.2.4 Maturity structure of borrowing

The council also set upper and lower limits for the maturity structure of its borrowings for 2017-2020. This indicator is set to control the council's exposure to refinancing risk. These limits are shown below, together with the actual percentage of borrowing that is maturing in each period.

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual 2018/19	Complied?
Under 12 months	50%	0%	0.67%	Yes
12 months and within 24 months	30%	0%	0.23%	Yes
24 months and within 5 years	40%	0%	13.49%	Yes
5 years and within 10 years	50%	0%	24.92%	Yes
10 years and above	100%	0%	60.69%	Yes

1.2.4 Principal sums invested for periods longer than 364 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 total principal sums invested to final maturities beyond the period end are shown below. The council is required to set a maximum amount to be invested beyond the end of the financial year for the forthcoming financial year and the following two years.

Principal sums invested for periods longer than 364 days	2018/19 £m	2019/20 £m	2020/21 £m
Upper Limit of Principal sums invested beyond the year	65	59	59
Actual principal sums invested beyond one year	10	10	10
Complied?	Yes	Yes	Yes

1.3 Other Prudential Indicators

The first indicator details the Capital Expenditure incurred by the council and charged to the capital programme. The actual spend for 2018/19 is shown below, alongside the revised estimated spend for 2018/19. The lower actual figure is due to rephasing including £30m commercial investment.

Capital Expenditure £000	**2018/19 Estimate**	**2018/19 Actual**
Total Spend	107,759	50,142

1.3.2 The ratio of financing costs to net revenue stream for 2018/19 is shown below. The reduction in MRP following the change in accounting policy has have resulted in a ratio lower to that estimated.

Ratio of Financing Costs to Net Revenue Stream %	**2018/19 Estimate**	**2018/19 Actual**
Ratio	12.58	6.80

1.3.3 The actual capital financing requirement for the authority at 31st March 2019, together with the estimated requirement is shown below;

Capital Financing Requirement £000	**2018/19 Estimate**	**2018/19 Actual**
CFR Total	230,215	190,572

1.3.4 The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, North Somerset Council does not associate borrowing with particular items or types of expenditure. The council has, at any point in time, a number of cash-flows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

1.3.5 CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

> "In order to ensure that over a medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any two additional capital financing requirement for the current and next two financial years."

The Council's S151 Officer, reports that the authority has met this requirement in 2018/19.

APPENDIX 2

Economic and market review for April to March 2019

Economic background:

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 did not yield any positive results. The EU have granted an extension to 31st October 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.

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Council's External Borrowing at 31st March 2019

Borrowing	Amount (£)	Start	Maturity	Interest Rate
PWLB	1,000,000	29-Mar-01	29-Mar-23	4.875000
PWLB	3,000,000	24-Aug-99	30-Mar-25	5.000000
PWLB	1,000,000	28-Jan-00	30-Sep-19	5.500000
PWLB	5,000,000	11-Feb-02	30-Sep-23	5.000000
PWLB	1,563,630	02-Nov-01	02-Nov-21	5.000000
PWLB	2,436,370	02-Nov-01	02-Nov-21	5.000000
PWLB	5,000,000	11-Dec-03	31-Mar-29	5.050000
PWLB	5,000,000	11-May-04	31-Mar-26	5.050000
PWLB	5,000,000	11-May-04	31-Mar-30	5.000000
PWLB	5,000,000	11-May-04	31-Mar-31	5.000000
PWLB	5,000,000	06-May-05	31-Mar-27	4.600000
PWLB	5,000,000	22-Nov-05	31-Mar-32	4.300000
PWLB	5,000,000	11-Jan-06	31-Mar-52	3.900000
PWLB	5,000,000	11-Aug-06	31-Mar-37	4.400000
PWLB	5,000,000	25-Aug-06	31-Mar-38	4.300000
PWLB	5,000,000	24-Aug-07	31-Mar-40	4.650000
PWLB	950,000	24-Aug-07	31-Mar-39	4.650000
PWLB	2,700,000	19-Jan-10	31-Mar-34	4.560000
PWLB	6,000,000	26-Jan-10	31-Mar-35	4.530000
PWLB	6,600,000	26-Jan-10	31-Mar-36	4.520000
PWLB	340,000	24-Mar-11	31-Mar-21	4.750000
PWLB	4,100,000	24-Mar-11	31-Mar-39	5.330000
PWLB	4,100,000	24-Mar-11	31-Mar-33	5.320000
PWLB	3,986,000	23-Mar-12	31-Mar-34	4.360000
PWLB	800,000	23-Mar-12	31-Mar-28	4.120000
PWLB	3,225,500	23-Mar-12	31-Mar-33	4.340000
PWLB	931,000	23-Mar-12	31-Mar-37	4.420000
PWLB	565,000	24-Nov-14	31-Mar-39	3.660000
PWLB	470,000	24-Nov-14	31-Mar-28	3.230000
PWLB	6,355,000	24-Nov-14	31-Mar-41	3.680000
PWLB	440,000	24-Nov-14	31-Mar-37	3.620000
PWLB	4,900,000	30-Mar-15	31-Mar-28	2.470000
PWLB	5,000,000	02-Feb-17	31-Mar-23	1.810000
PWLB	2,760,000	02-Feb-17	31-Mar-25	2.120000
PWLB	2,500,000	16-Feb-18	31-Mar-22	1.890000
PWLB	2,500,000	16-Feb-18	31-Mar-24	2.120000
PWLB	5,000,000	16-Feb-18	31-Mar-25	2.230000
PWLB	5,000,000	16-Feb-18	31-Mar-29	2.550000
PWLB	15,000,000	16-Feb-18	31-Mar-58	2.620000
Overall Total	**148,222,500**			