Annual Treasury Management Outturn Report
2018/19

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PURPOSE

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

2. During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:
   - an annual treasury strategy in advance of the year (Council, 12 April 2018)
   - a mid-year, (minimum), treasury update report (Council, 13 December 2018)
   - an annual review following the end of the year describing the activity compared to the strategy, (this report).

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

4. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Committee before they were reported to full Council. Member training on treasury management issues was undertaken during the year on 12/02/2019 in order to support members' scrutiny role.

EXECUTIVE SUMMARY

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

Prudential and treasury indicators	2017/18 Actual £000	2018/19 Original Budget £000	2018/19 Revised Budget £000	2018/19 Actual £000
Capital expenditure:				
General Fund	21,038	49,881	45,714	39,235
Total	**21,038**	**49,881**	**45,714**	**39,235**
Capital Financing Requirement:				
General Fund	**0**	40,000	20,000	15,046
Total	**0**	**40,000**	**20,000**	**15,046**
Gross borrowing:				
Long Term credit arrangements	0	0	0	0
External debt	0	40,000	20,000	12,000
Total	**0**	**40,000**	**20,000**	**12,000**
Investments:				
Longer than 1 year	8,000	25,000	25,000	25,000
Under 1 year	48,000	23,000	23,000	23,000
Total	**56,000**	**48,000**	**48,000**	**48,000**
Net borrowing or (Net Investment)	**(56,000)**	**(8,000)**	**(28,000)**	**(36,000)**

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

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

INTRODUCTION AND BACKGROUND

8. 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.

The COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

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

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

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

£000	**2017/18**	**2018/19**	**2018/19**	**2018/19**
	Actual	**Original Budget**	**Revised Budget**	**Actual**
	£000	**£000**	**£000**	**£000**
Capital expenditure	**21,038**	**49,881**	**45,714**	**39,235**
Financed By:				
Capital Grants	2,888	8,108	3,599	3,966
Capital Receipts	18,150	1,273	22,115	20,133
Revenue Contribution		500		90
Total Finance	**21,038**	**9,881**	**25,714**	**24,189**
Borrowing need	**0**	**40,000**	**20,000**	**15,046**

THE COUNCIL'S OVERALL BORROWING NEED

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

12. 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.

13. **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.

14. 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).

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

16. The Council's CFR for the year is shown below, and represents a key prudential indicator. This would include PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract. However the Council had no PFI and leasing schemes on the balance sheet at 31 March 2019.

CFR : General Fund	2017/18 Actual £000	2018/19 Original Budget £000	2018/19 Revised Budget £000	31 March 2019 (2018/19) Actual £000
Opening balance	0	0	0	0
Add unfinanced capital expenditure (as above)	0	40,000	20,000	15,046
Less MRP/VRP	0	(300)	0	0
Less PFI & finance lease repayments	0	0	0	0
Closing balance	**0**	**39,700**	**20,000**	**15,046**

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

18. **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. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2017/18 Actual	2018/19 Original Budget	2018/19 Revised Budget	31 March 2019 (2018/19) Actual
	£000	£000	£000	£000
Gross borrowing position	**0**	**40,000**	**20,000**	**12,000**
CFR	0	40,000	20,000	15,046
Under / over funding of CFR	0	0	0	3,046

19. **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.

20. **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.

21. **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2018/19
Authorised limit	£80m
Maximum gross borrowing position during the year	£12m
Operational boundary	£70m
Average gross borrowing position	£12m
Net financing costs as a proportion of net revenue stream	-4.92%

TREASURY POSITION at 31 March 2019

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

DEBT PORTFOLIO	31 March 2018 Principal £000	Rate/ Return %	Average Life (years)	31 March 2019 Principal £000	Rate/ Return %	Average Life (years)
Fixed rate funding:						
-PWLB	0	0%	-	0	0%	-
-Market:	0	0%	-	0	0%	-
Northern Ireland Housing	-	-	-	5,000	0.90%	3 months
Portsmouth City Council	-	-	-	7,000	1.00%	3 months
Total	**-**	**-**	**-**	**12,000**	**0.96%**	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	**0**	**0%**		**12,000**	**0.96%**	3 months
CFR	**0**	**0%**		**15.046**	**0%**	
Over / (under) borrowing	**0**	**0%**		**3.046**	**0%**	

INVESTMENT PORTFOLIO	31 Mar 2018 Principal £000	Rate/ Return %	Average Life (years)	31 Mar 2019 Principal £000	Rate/ Return %	Average Life (years)
Investments:						
- in house	56,000	0.92%	1 year	48,000	1.27%	1.6 years
- with fund managers	0	-	-	0	-	-
Total investments	**56,000**	**0.92%**	**1 year**	**48,000**	**1.27%**	**1.6 years**

The maturity structure of the debt portfolio was as follows:

	31 March 2018 2017/18 actual	2018/19 original limits	31 March 2019 2018/19 actual
Under 12 months	0%	100%	100%
12 months and within 24 months	0%	100%	0%
24 months and within 5 years	0%	100%	0%
5 years and within 10 years	0%	100%	0%
10 years and within 20 years	0%	100%	0%
20 years and within 30 years	0%	100%	0%
30 years and within 40 years	0%	100%	0%
40 years and within 50 years	0%	100%	0%

23. The Council was debt free until March 2018/19. The limits for maturity structure of the debt portfolio at 100% across the table is a reflection of the fact that the Council is in its early years of borrowing therefore any new borrowing could will potentially be the only borrowing at 100% limit.

INVESTMENT PORTFOLIO	Actual 31 March 2018 £000	Actual 31 March 2018 %	Actual 31 March 2019 £000	Actual 31 March 2019 %
Treasury investments				
Banks	5,000	9%	0	0%
Building Societies - rated	33,000	59%	40,000	83%
Goldman Sachs International	8,000	14%	8,000	17%
Local authorities	10,000	18%	0	0%
Total	**56,000**	**-**	**48,000**	**-**
Bond funds	-	-	-	-
Property funds	-	-	-	-
Total managed externally	-	-	-	-
TOTAL TREASURY INVESTMENTS	**56,000**	**100%**	**48,000**	**100%**

INVESTMENT PORTFOLIO	Actual 31 March 2018 £000	Actual 31 March 2018 %	Actual 31 March 2019 £000	Actual 31 March 2019 %
Non Treasury investments				
Third party loans:	-	-	-	-
Subsidiaries – Greensand Property Holdings Ltd	2,270	3%	2,270	2%
Companies – Horley Business Park Development LLP	552	1%	602	1%
Associate – Pathway for Care Ltd	1,100	2%	1,100	1%
Investment Property	66,055	94%	98,445	96%
TOTAL NON TREASURY INVESTMENTS	**69,977**	**100%**	**102,417**	**100%**
Treasury investments	56,000	44%	48,000	32%
Non Treasury investments	69,977	56%	102,417	68%
TOTAL OF ALL INVESTMENTS	**125,977**	**100%**	**150,417**	**100%**

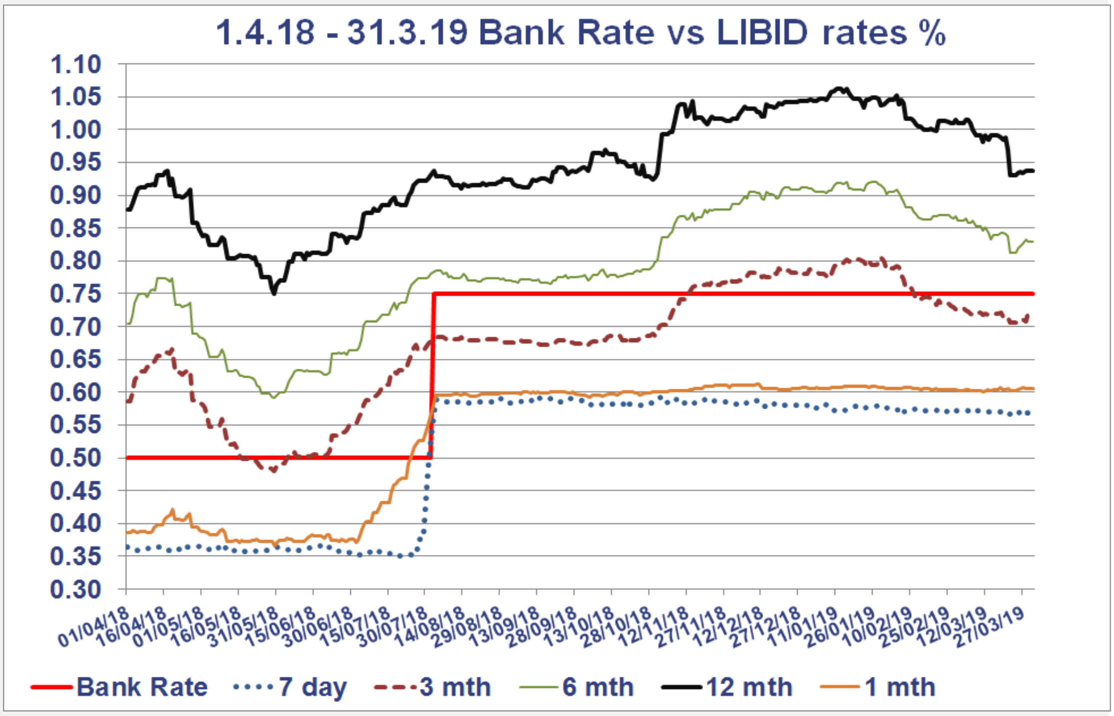
The maturity structure of the investment portfolio was as follows:

	2017/18 Actual £000	2018/19 Budget £000	2018/19 Actual £000
Investments			
Longer than 1 year	8,000	25,000	25,000
Up to 1 year	48,000	23,000	23,000
Total	**56,000**	**48,000**	**48,000**

THE STRATEGY for 2018/19

Link Asset Services Commentary.

Investment strategy and control of interest rate risk



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

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

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.

Borrowing strategy and control of interest rate risk

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

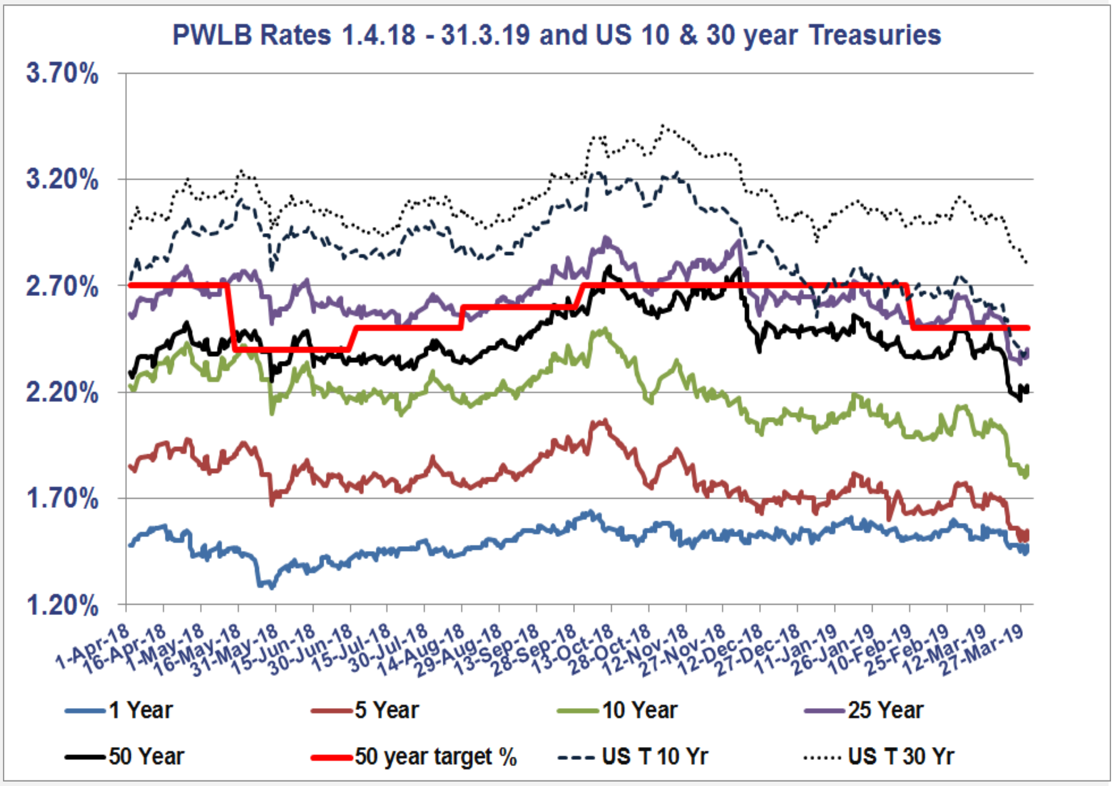
The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or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

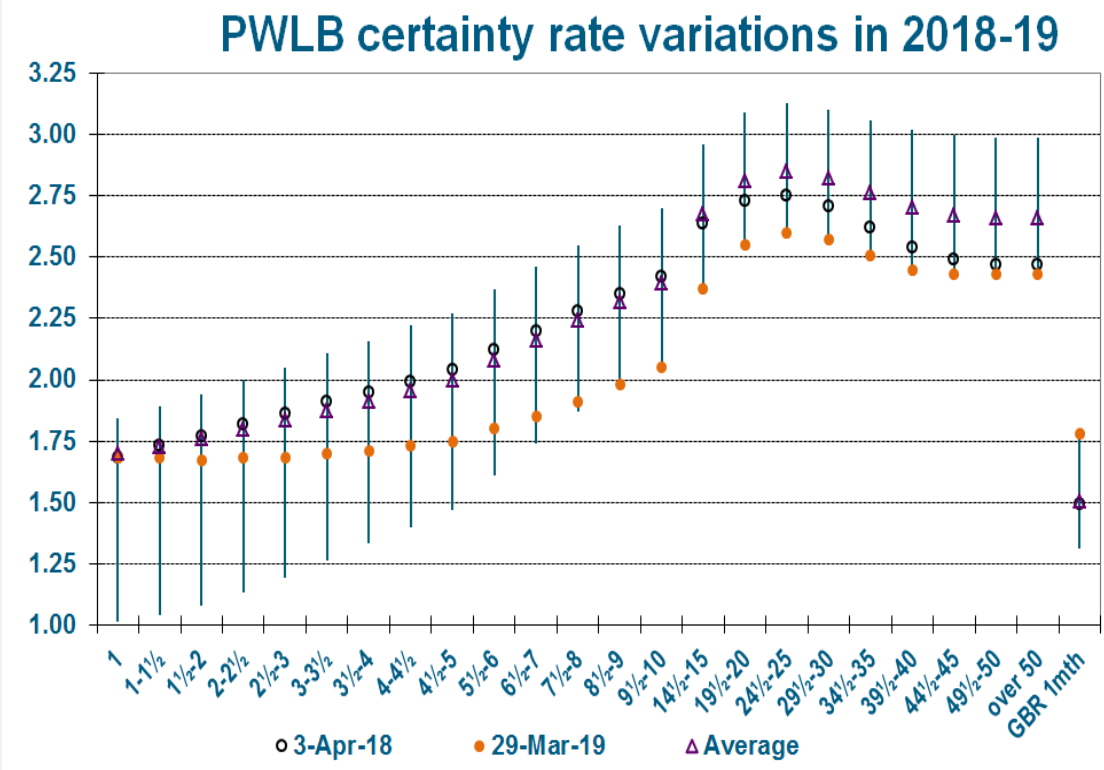
- Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks*:* if it had been felt that there was a significant risk of a gradual 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%

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

BORROWING OUTTURN

24. Borrowing - loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:

Lender	Principal	Type	Interest Rate	Start date	Maturity Date	Duration
Short-term Market Loan	£5m	Fixed interest rate	0.90%	14/02/2019	14/05/2019	3 months
Short-term Market Loan	£7m	Fixed interest rate	1.00%	14/03/2019	14/06/2019	3 months

25. This compares with a budget assumption of long term borrowing at an interest rate of 2.5%. The low interest rate financial environment offers opportunity to use short term debt. In addition this was considered to be a short term cash flow shortfall therefore did not warrant the need to borrow on a long term basis.

Borrowing in advance of need

26. 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.

INVESTMENT OUTTURN

27. **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 12 April 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, (such as rating outlooks, credit default swaps, bank share prices etc.).

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

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

Usable Reserves	2017/18 Actual	2018/19 Actual
	£000	£000
General Fund Balances	**12,547**	**12,547**
Earmarked reserves	**21,703**	**25,042**
Usable capital receipts	**15,810**	**627**
Capital Grants Unapplied	**13,308**	**16,038**
Total	**63,368**	**54,254**

30. **Investments held by the Council**

- The Council maintained an average balance of £48m of managed funds.
- The managed funds earned an average rate of return of 1.27%.
- The comparable performance indicator is the average 12 month LIBID uncompounded rate, which was 0.947%.
- This compares with a budget assumption of £48m investment balances earning an average rate of 1.3%.
- Total investment income was £863.6k compared to a budget of £607.6k

THE ECONOMY AND INTEREST RATES

Link Asset Services Commentary.

UK. After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in **household spending power** is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government has so far, (8.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the proposed deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall 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.

OTHER ISSUES

31. **Pooled Investment Funds.** The Council had no pooled investment funds during the year ended as at 31st March 2019.

32. **Non-treasury management investments**. The Council's current approach to making property investment decisions was approved by Executive in 2014 and explains how investment decisions are made, delivery approaches and how risks will be managed. In order to support investment decisions we rely upon the principles established in our evolving Commercial Investment Strategy and powers under the Localism Act 2011. This forms the framework for maximisation of new and existing income streams to support service provision. We will continue to identify suitable property investments and to complete substantial due diligence.

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2017/18	2018/19	2018/19	2018/19
	Actual	Original Budget	Revised Budget	Actual
	£000	£000	£000	£000
Capital Expenditure				
General Fund	20,847	49,881	45,714	39,235
Ratio of net financing costs to net revenue stream				
General Fund	-4.98%	-2.37%	-2.37%	-4.92%
Gross borrowing requirement General Fund				
Brought forward 1 April	0	0	0	0
Carried forward 31 March	0	40,000	20,000	12,500
In year borrowing requirement	0	40,000	20,000	12,500
Gross Debt				
General Fund	0	40,000	20,000	12,000
Capital Financing Requirement				
General Fund	40,000	40,000	20,000	15,046
Annual change in Capital Financing Requirement				
General Fund	40,000	40,000	20,000	15,046

2. TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2018/19	2018/19
	Actual	Original Budget	Revised Budget	Actual
	£000	£000	£000	£000
Authorised Limit for external debt				
Borrowing	80,000	80,000	80,000	80,000
Other long term liabilities	0	0	0	0
Total	80,000	80,000	80,000	80,000
Operational Boundary for external debt -				
Borrowing	70,000	70,000	70,000	70,000
Other long term liabilities	0	0	0	0
Total	**70,000**	**70,000**	**70,000**	**70,000**
Actual external debt	0	40,000	20,000	12,000

Maturity structure of fixed rate borrowing during 2018/19	upper limit	lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
Maturity structure of investments during 2018/19	upper limit	lower limit
Longer than 1 year	£30m	£0m
Up to 1 year	£30m	£0m
Total	£60m	£0m