Agenda Item No: 6

TREASURY MANAGEMENT REPORT – QUARTER THREE UPDATE 2019-20

To:	**General Purpose Committee**		
Meeting Date:	**24th March 2020**		
From:	**Chief Finance Officer**		
Electoral division(s):	**All**		
Forward Plan ref:	**N/a**	*Key decision:*	**No**
Purpose:	**To provide the quarterly update on the Treasury Management Strategy 2019/20, approved by Council in February 2019.**		
Recommendation:	**The General Purposes Committee is recommended to note the Treasury Management Report.**		

	Officer contact:		***Member contacts:***
Name:	Tom Kelly	Names:	Councillors Count & Hickford
Post:	Head of Finance	Post:	Chair/Vice-Chair
Email:	treasury@cambridgeshire.gov.uk	Email:	Steve.Count@cambridgeshire.gov.uk Roger.Hickford@cambridgeshire.gov.uk
Tel:	01223 715568	Tel:	01223 706398

1. BACKGROUND

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

2. ECONOMIC CLIMATE

2.1 A detailed commentary from the Council's treasury advisors of the current economic climate is provided at **Appendix A** to this report. In brief summary, Q3 2019/20 saw:

- Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, with a slight dip in quarter 2, and quarter 3 back up to +0.4%.
- The Monetary Policy Committee (MPC) abstained from increasing the Bank Rate.
- Growth in employment picked up again to 24,000 in the three months to October 2019. Furthermore, the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

3. INTEREST RATE FORECAST

3.1 The latest forecast for UK Bank Rate along with Public Works Loan Board (PWLB) borrowing rates (certainty rate) from the Council's treasury advisors is set out in Table 1 below.

3.2 The long term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are above 2.25%; this means there is little value in borrowing from the PWLB currently. PWLB rates remain at an all-time high meaning that all local authorities are reassessing their risk appetite in terms of either seeking cheaper alternative sources of borrowing, or switching to short term borrowing in the money markets.

3.3 This follows the first 10 months of 2019 when there was a sharp fall in longer term PWLB rates to completely unprecedented, historically low levels - until the Treasury unexpectedly added 1% to all PWLB rates from 9th October 2019. Since then, gilt yields and PWLB rates have been rising. During the summer of 2019, the Council borrowed £100m (in two tranches) on a long term basis from the PWLB to optimise its long term borrowing position, in view of the very low rates at that time.

3.4 The sharp increase in PWLB borrowing rates may provide an opportunity for the UK Municipal Bonds Agency (UKMBA) to kick start bond issuance on behalf of the sector, which would be seen as an alternative borrowing mechanism. UKMBA are poised to review the current strategy and remove the following huddle of "joint and several liability" (JSL), which saw borrowers having to commit to cover liability caused by defaults on payment of other participants. Cambridgeshire County Council (CCC) is an investor in the UKMBA. During quarter 4, it is understood that the agency successfully issued a 5 year, £350m bond on behalf of Lancashire County Council. The offer was substantially cheaper than PWLB and was significantly oversubscribed, partly reflecting prevailing market uncertainty. Lancashire County Council has a separate Moody's rating.

3.5 The PWLB rates shown in Table 1 below are inclusive of the new increased margins and certainty rate discount. These forecasts are based on the outcome of the Brexit agreement and the assumption that we will negotiate a trade deal.

Table 1: Interest Rate Forecast (%)

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

3.6 To incentivise the construction of new infrastructure, in the Autumn Budget 2017 the Government announced that it would make available £1bn of lending at the Local Infrastructure Rate of gilts + 60bps to English local authorities. The Council was notified during Q3 that it was successful in its bid to HM Treasury to access £60.8m of borrowing at the Local Infrastructure Rate for the following energy schemes:

Project title	**Anticipated borrowing requirement (£m)**[1]
North Angle Solar Farm, Soham	23.2
Babraham Smart Energy Grid	11.4
Stanground Closed Landfill Energy Project	9.7
Trumpington Smart Energy Grid	7.0
Swaffham Prior Community Heat Scheme	3.2[2]
Woodston Closed Landfill Energy Project	2.5
Schools Energy Programme	2.0
Smart Energy Grid Demonstrator scheme at the St Ives Park and Ride	1.8[3]
Total anticipated expenditure	**60.8**

[1] Anticipated borrowing requirement as at date of bid submission (29th March 2019)
[2] 50% of total project budget; £3.2m anticipated grant funding from the Heat Networks Delivery Unit
[3] 50% of total project budget; £1.8m anticipated ERDF grant funding

This will enable the Council to borrow from the PWLB at a discount of 1.4% from normal rates, as the expenditure for those energy schemes is incurred over coming years.

4. INVESTMENTS

4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by Council in February 2019. It sets out the Council's investment priorities as being:

1. Security of Capital;
2. Liquidity; and then
3. Yield

4.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

4.3 At 31st March 2019 investment balances totalled £29.6m, held in Money Market Funds, Call/Notice accounts and the CCLA Property Fund. This figure excludes third party loans and share capital. Due to the nature of various government funding streams and timing of capital expenditure, the level of funds available for investment purposes during Q1 was £72.7m, Q2 was £107.2m and Q3 was £82.4m.

In November 2019, the Commercial and Investment - Investment Working Group reviewed a proposal to invest funds into the CCLA Diversified Income Fund, under the Treasury Management Strategy. As a result, £1.5m was subsequently placed in this fund. The diversified income fund is considered to be a medium term investment, due to the facility to withdraw funds at short notice alongside the need to take a medium to longer term view about changes in underlying capital values. The asset class covered by the diversified income funds are split between assets and equity; please see Fig's 1 & 2, which shows both the asset and equity allocation as at 31/12/2019.

Fig 1.

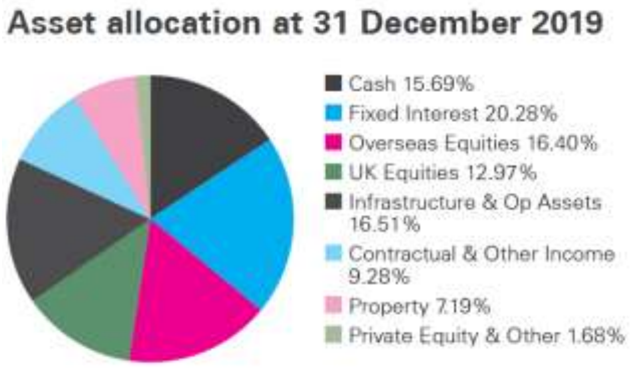
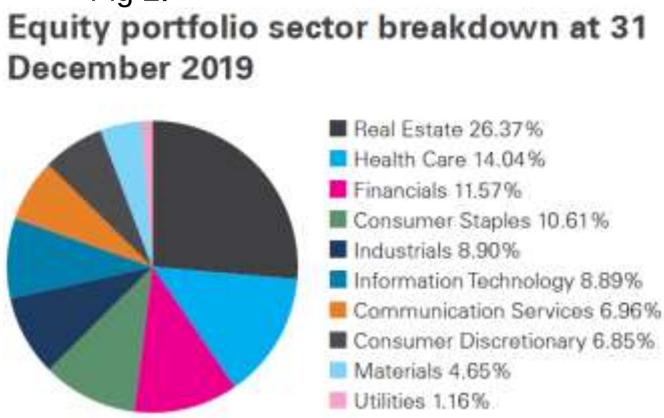


Fig 2.



4.4 The Council's overall investment in Q3, including the CCLA Property Fund and Diversified Income Fund, as well as third-party investment, averages £114.7m. The average excluding Third Party investment is £110.3m. This is shown in Fig's 3 & 4, along with the average overall investment for 2019/20 as at 31/12/2019.

Fig 3. Overall average investment, including third-party investment

Date	Deals	Average Balance	Weighted Average Rate
April average		£44,758,341.92	1.07561%
May average		£87,481,706.78	0.36085%
June average		£70,593,302.21	2.54133%
2019/2020 Q1 average		£67,829,475.10	1.26447%
July average		£64,076,886.13	0.86063%
August average		£82,895,062.00	0.51901%
September average		£136,504,760.99	0.76881%
2019/2020 Q2 average		£94,035,578.50	0.71569%
October average		£122,400,416.35	0.68356%
November average		£123,516,175.18	0.61866%
December average		£98,598,893.25	0.91883%
2019/2020 Q3 average		**£114,744,172.32**	**0.72890%**
2019/2020 average		**£92,291,706.58**	**0.85465%**

Fig 4. Overall average investment, excluding third-party investment

Date	Deals	Average Balance	Weighted Average Rate
April average		£40,271,066.92	0.84055%
May average		£82,994,431.78	0.20815%
June average		£66,106,027.21	2.49762%
2019/2020 Q1 average		£63,342,200.10	1.12840%
July average		£59,589,611.13	0.68558%
August average		£78,418,296.68	0.36680%
September average		£132,044,635.99	0.68719%
2019/2020 Q2 average		£89,560,698.06	0.59230%
October average		£117,940,291.35	0.58895%
November average		£119,056,050.18	0.52250%
December average		£94,050,381.16	0.80799%
2019/2020 Q3 average		**£110,254,264.71**	**0.62851%**
2019/2020 average		**£87,807,697.40**	**0.73548%**

4.5 Table 2 below summarises the maturity profile of the Council's investment portfolio at the end of Q3 2019/20 (excluding third party loans):

Table 2 - Investment maturity profile at end of Q3 2019/20

		Maturity Period					
		0d	0-3m	3-6m	~5yrs	Total	
Product	**Access Type**	**£m**	**£m**	**£m**	**£m**	**£m**	***%***
Money Market Funds	Same-Day	5.9				**5.9**	***7.2***
Bank Call Account	Instant Access	15.0				**15.0**	***18.2***
Certificate of Deposits	Fixed Term / Tradeable		50.0	0.0		**50.0**	***60.6***
Pooled Property Fund	Redemption Period Applies				10.1	**10.1**	***12.2***
Pooled Diversified Income Fund	Redemption request – two business days				1.5	**1.5**	***1.8***
	Total	**20.9**	**50.0**	**0.0**	**11.6**	**82.5**	***100.0***
	%	***25.3***	***60.6***	***0.0***	***14.1***	***100.0***	

4.6 Set out below are details of the amounts outstanding on loans and share equity investments classed as capital expenditure advanced to third party organisations at the end of Q3:

Table 3 - Loans/Equity holdings in This Land Ltd

Loan Summary	**Amount (£m)**	**Repayment Year**
Bridging Loan	8.500	2020/21
Loans for land acquired from third parties	2.040	2021/22
Construction & Development loans	7.100	2029/30
Loans for land acquired from CCC	78.872	2028/29
Total Loans	**96.512**	
Equity holding	**3.951**	Continuous
Total Loans/Equity in This Land Ltd	**100.463**	

Table 4 - Third Party Loans

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	3.600	2042/43
Estover Playing Field 2015 CIC (Guaranteed by March Town Council)	0.350	0.305	2024/25
Wisbech Town Council	0.150	0.150	2043/44
VIVA Arts & Community Group*	0.300	0.300	2043/44
Total Third Party Loans	**4.800**	**4.435**	

* This loan was advanced on December 10th 2019; the purpose of the loan is for Viva to undertake a capital project which will facilitate the development of a community arts facility at Mill, Soham.

Table 5 - Cashflow Loans

Loan Counterparty	Amount (£m)
LGSS Law Ltd	0.325

4.7 Investment balances are forecast to reduce by the financial year end as internal resources from temporary positive cashflow surpluses are applied to fund expenditure demands in lieu of fully funding the borrowing requirement (internal borrowing) on a net basis. This process effectively reduces the cost of carrying additional borrowing at a higher cost than the income that could be generated through short term investment of those balances, as well as reducing investment counterparty credit risk.

4.8 In Q3 the Council's investments held with CCLA Property Fund, returned an average dividend of 4.39% on the Council's investment held in the CCLA Property Fund. Any impact upon latest budget projections for the financial year are reported through the Budget Monitoring process.

Table 6 - Average Benchmark Performance – Q3 2019/20

	Benchmark	Benchmark Return	Council Performance
Q1 (First Qtr)	**3m LIBID**	0.68%	1.31%
Q2 (Sec Qtr)	**3m LIBID**	0.64%	1.15%
Q3(This Qtr)	**3m LIBID**	0.66%	2.52%
Q1+2+3 (YTD)	**3m LIBID**	0.66%	1.66%

4.9 Leaving market conditions aside, the Council's return on investments is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.

- Interest rate risk; the risk that arises from fluctuating market interest rates.

4.10 These factors and associated risks are actively managed by the Cambridgeshire County Council Finance team.

5. BORROWING

5.1 The Council can raise cash through borrowing in order to fund expenditure on its capital programme for the benefit of Cambridgeshire. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, underlying borrowing requirement, forecast cash-backed reserves and both current and forecast economic conditions.

5.2 The Council will continue to utilise short to medium-term borrowing from other local authorities via the Council authorised broker as PWLB rates are not favourable at present. The Council intends to keep a proportion of the borrowing portfolio short-dated; in doing so, the Council will also be in the position to take up any funding opportunities that could arise in the near term. However, as the year-end draws to a close, the interest rate for short term borrowing tends to worsen.

5.3 Also, to take advantage of low-interest rates and an increase in supply to the market, during Q3 the Council repaid on maturity a total of £104m short-term loans from other local authorities; £41m of this was short-dated loans, borrowed for cash flow.

Loans raised during Q3 amounted to £111m, of which £41m was the short-dated loan for cash flow (payable within 1 to 20 days). The remaining £70m was split as follows:

- £40m short-term borrowing, maturing within 1 year with an average rate of 1.02%
- £30m fixed-term loans, maturing within 2 years with an average rate of 1.47%.

5.4 Therefore overall borrowing outstanding increased during Q3 compared to Q2 by £6.92m. At Q2, the Council held £748.2m of borrowing, of which £218.5m matures in less than 1 year. At the end of Q3, the Council held £755.0m of borrowing, of which £230.5m matures in less than 1 year.

5.5 Table 7 below sets out the maturity profile of the Council's borrowing portfolio at the end of Q3. £374.5m is held with the PWLB, £320m from other local authorities, £45m in market loans and £15.5m in a single market Lender Option Borrower Option (LOBO) loan.

Table 7 - Borrowing Maturity Profile – Q3 2019/20

Term Remaining	Borrowing	
	£m	%
Under 12 months	230.5	30.5
1-2 years	120.0	15.9
2-5 years	42.5	5.6
5-10 years	80.4	10.7
10-20 years	102.3	13.6
20-30 years	43.6	5.8
30-40 years	45.0	5.9
40-50 years	40.0	5.3
Over 50 years	50.5	6.7
TOTAL	**755.0**	**100.0**

5.6 Market LOBO loans are included in Table 7 at their final maturity rather than their next potential call date. In the current low interest rate environment, the likelihood of lenders exercising their option to increase the interest rates on these loans - and so triggering the Council's option to repayment at par - is considered to be low.

5.7 The Council is in an internally borrowed cash position and balances will need to be replenished at some point in the future (subject to expenditure demands). This strategy is prudent while investment returns are lower than the cost of servicing debt and also serves to mitigate counterparty risk. The Council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

6. BORROWING RESTRUCTURING

6.1 No borrowing rescheduling was undertaken during the Q3. Rescheduling opportunities are limited in the current economic climate. For PWLB loans, due to the spread between the carrying rate of existing borrowing and early redemption rates, substantial exit (premium) costs would be incurred. For market borrowing, the lender uses the certainty of the loans cashflow profile to hedge against forecast interest rate movements and so would pass the cost of unwinding these instruments onto the Council as an exit (premium) cost. Officers continue to monitor the position regularly.

7. TREASURY AND PRUDENTIAL INDICATORS

7.1 The Council's Treasury and Prudential Indicators (affordability limits) were approved alongside the TMSS. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits.

7.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators set out in the Council's TMSS, shown in **Appendix B**.

8. BANKING PROVIDER

8.1 As reported to the General Purposes Committee in July 2019, the Council commenced a tender for banking services to coincide with the expiration of the current contract with Barclays Bank PLC. NatWest Bank were successful in that procurement process, and the mobilisation and implementation process has now begun with that bank to enable switchover of accounts and all associated payment, income and internet banking processes during 2020. CCC and LGSS have established project governance around this programme of work, supported by the implementation team at NatWest.

9. ALIGNMENT WITH CORPORATE PRIORITIES

9.1 A good quality of life for everyone

There are no significant implications for this priority.

9.2 Thriving places for people to live

There are no significant implications for this priority.

9.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

9.4 Net zero carbon emissions for Cambridgeshire by 2050

There are no significant implications for this priority.

10. SIGNIFICANT IMPLICATIONS

10.1 Resource Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the Council's overall financial position, will impact the Debt Charges Budget and are reported through the Budget Monitoring process.

10.2 **Procurement/Contractual/Council Contract Procedure Rules Implications**

There are no significant implications for this category.

10.3 **Statutory, Legal and Risk Implications**

The Council continues to operate within the statutory requirements for borrowing and investments. Further details can be found within the Prudential Indicators in Appendix C.

10.4 **Equality and Diversity Implications**

There are no significant implications for this category.

10.5 **Engagement and Communications Implications**

There are no significant implications for this category.

10.6 **Localism and Local Member Involvement**

There are no significant implications for this category.

10.7 **Public Health Implications**

There are no significant implications for this category.

Implications	**Officer Clearance**
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Not applicable
Has the impact on statutory, legal and risk implications been cleared by LGSS Law?	Not applicable
Have the equality and diversity implications been cleared by your Service Contact?	Not applicable
Have any engagement and communication implications been cleared by Communications?	Not applicable

Have any localism and Local Member involvement issues been cleared by your Service Contact?	Not applicable
Have any Public Health implications been cleared by Public Health	Not applicable

Source Documents	**Location**
None	Not applicable

Appendix A
Economic Commentary; Extract from Treasury Advisors (Link Asset Services)

UK

During the quarter ended 31 December 2019 *(quarter 3 of 2019):*

- The Conservative Party secured a large majority in the general election;
- GDP rose by 0.4% q/q in Q3, but weakened at the start of Q4;
- The fundamentals that determine consumer spending softened a little, but remained healthy;
- Inflation remained below the Bank of England's 2% target;
- There was a widespread rise in investors' global interest rate expectations;
- The Monetary Policy Committee kept Bank Rate on hold at 0.75%, but struck a more dovish tone;
- Andrew Bailey was appointed to take over as Bank of England Governor, (from the March MPC meeting).

The economy posted a solid rise in activity in Q3 of 0.4% q/q, but that will probably be the highpoint as Q4 looks like it was much weaker. Indeed, much of the boost in Q3 reflected a faster recovery in exports than imports from a Brexit-deadline driven dip in Q2. This won't be repeated. And the monthly data for October show that imports have now also recovered. What's more, the timelier PMI surveys are pointing to a contraction in GDP in Q4 of around 0.2%. Admittedly, the surveys have been weaker than the official data recently so we are not expecting GDP to fall. But monthly GDP didn't rise at all in October and we don't expect it to do any better in November and December. Overall, we are expecting no GDP growth in Q4.

Consumer spending growth fell from +0.5% q/q in Q2 to +0.3% q/q in Q3 and the fundamentals that determine consumer spending have started to soften. Consumer confidence has remained relatively weak and employment rose by just 24,000 in the three months to October. The unemployment rate is still at its 45 year low of 3.8% and the tightness in the labour market means that wage growth is still reasonably strong. Wage growth on the measure excluding bonuses was 3.5% in October. And with inflation having fallen to 1.5% in November, well below the Bank of England's 2% target, real wage growth has remained close to its recent highs.

CPI inflation stayed at 1.5% in November, depressed by a smaller rise in cigarette prices than in November 2018 and downward pressure from one or two core components, including hotel accommodation and clothing. Looking ahead to 2020, inflation is likely to spend more time below the 2% target than above it. After all, agricultural commodity prices point to a fall back in food price inflation to 0% by the middle of 2020. And the recent slide in wholesale electricity and gas prices suggest utility prices will pull down inflation again when the price cap is reviewed in April 2020.

Meanwhile, investors have revised up their **interest rate expectations**. At the start of October the market was pricing in more than one 25bps rate cut from 0.75% within a year and then for interest rates to stay close to 0.25%. Now, however, they are pricing in less than one rate cut over the next two years and then for interest rates to climb back to 0.75%. This is partly because of the strengthening in global interest rate expectations. And it's partly because a large Conservative Party majority, a possible Brexit deal and a fiscal stimulus early next year should support GDP growth and could eventually lead to interest rate hikes. Indeed, the key reason most MPC members decided to keep interest rates on hold at December's meeting appears to be to allow greater time to assess whether Brexit uncertainty is fading. The Bank noted that "there was no evidence yet about the extent to which policy uncertainties among companies and households had declined" and that "initial information would not become available until early next year."

That said, **the MPC** maintained its dovish stance. And there was no alteration to the guidance in the minutes that "if global growth fails to stabilise or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in GDP growth and inflation". As a result, a cut in the coming months is possible if the economic news fails to improve. So we think that the markets are right to price in a 22% or so chance of the MPC cutting rates from 0.75% to 0.50% by March.

The confirmation that **Andrew Bailey** will take over from Mark Carney as Governor of the Bank of England on 16th March 2020 doesn't change the outlook for monetary policy. As Bailey has never served on the MPC, we don't know whether he's a dove, a hawk or somewhere in between. Our first insight will be at his appearance in front of the Treasury Committee probably in January or February and his first MPC meeting will be 26th March 2020. (Carney will extend his term as Governor from 31st January to 15th March to fill the gap.) In any case, as it is very rare for new Governors to come in and change the dial on monetary policy on day one. Bailey's appointment doesn't change our forecast that monetary policy will remain unchanged until 2021.

A boost to GDP growth of about 0.4% in the 2020/21 financial year is already in the bag due to the £13.4bn (0.6% of GDP) rise in **government spending** in September's Spending Round. And we expect that a £20bn (1% of GDP) rise in public investment in the next Budget will add an extra 0.25% to GDP growth in both 2020 and 2021. This may generate a gradual rise in the quarterly rate of GDP growth from 0.0% q/q in Q4 2019 to around 0.5% q/q by the end of 2020. But this won't show up in the average annual growth rate for the whole of 2020, which may ease from 1.3% in 2019 to 1.0%. Indeed, we think that growth won't pick up until 2021, when we expect it to rise to 1.8%.

Turning to the **financial markets,** in the immediate post-election aftermath the pound soared to around $1.35 and €1.21, its highest level since mid-2018. However, the commitment not to extend the transition period beyond 2020 saw the pound give up all of its post-election gains and more. We think that sterling will struggle to get much above $1.35 as long as there is a risk of something like a no deal Brexit at the end of 2020.

By contrast, the post-election jump in **UK equities** could just be the start of a sustained rally.

Meanwhile, **10 year gilt yields** have been pushed up from 0.47% at the start of October to 0.87% at the end of December by the upward revision to global interest rates. But a fiscal boost and improved sentiment could eventually lead to tighter monetary policy and push up gilt yields even further. We think that the 10 year gilt yield could be 1.25% by the end of 2021.

Elsewhere, in the **US** the markets have revised up their expectations for interest rates from expecting two cuts over the next two years to giving up on the Fed doing much at all. We agree that interest rates are unlikely to go anywhere over the next few years but we are more optimistic on GDP growth over the next couple of years than the market.

We think economic growth in **the euro-zone** will be sluggish until mid-2020 and then recover more gradually than the ECB, among others, assumes. The most reliable business surveys have stopped falling in the past few months, but still suggest that growth has more-or-less stalled. More fundamentally, the main components of demand are likely to be weak next year. Household consumption growth is slowing because employment is softening, and wage growth is also coming off the boil. Business investment also looks set to slow sharply. And fiscal policy will probably be only mildly expansionary.

Appendix B
Treasury and Prudential Indicators

Prudential Indicator	**2019/20 Indicator**	**2019/20 Q3**
Authorised limit for external debt (Inc' loans raised to on-lend to Housing & Investment Company)	----- £1,088.0m -----	
Operational boundary for external debt (Inc' loans raised to on-lend to Housing & Investment Company)	----- £1,058.0m -----	
Capital Financing Requirement (CFR) *[Including PFI and Finance Lease Liabilities]*	£1,008.0m	£913.60m
Ratio of financing costs to net revenue streams	9.2%	8.4%
Upper limit of fixed interest rates based on net debt	150%	103%
Upper limit of variable interest rates based on net debt	65%	-3%
Principal sums invested > 364 days (exc' third party loans)	£50.0m	£11.5m
Maturity structure of borrowing limits:-		
Under 12 months	Max. 80% Min. 0%	30.5%
12 months to 2 years	Max. 50% Min. 0%	15.9%
2 years to 5 years	Max. 50% Min. 0%	5.6%
5 years to 10 years	Max. 50% Min. 0%	10.7%
10 years and above	Max. 100% Min. 0%	37.3%

- The Treasury Management Code of Practice guidance notes requires that maturity is determined by the earliest date on which the lender can trigger repayment, which in the case of LOBO loans is the next break/call point. This approach differs to Table 7 at paragraph 5.5 above, which instead shows the Council's LOBO loan at maturity date as the likelihood of the option being exercised is low.