READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**21 NOVEMBER 2017**	**AGENDA ITEM:**	**6**
TITLE:	**TREASURY MANAGEMENT 2017/18 ACTIVITY TO SEPTEMBER**		
RESPONSIBLE COUNCILLOR:	**CLLR STEVENS**	**AREA COVERED:**	**CHAIR OF AUDIT & GOVERNANCE**
SERVICE:	**FINANCIAL**	**WARDS:**	**BOROUGHWIDE**
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1. EXECUTIVE SUMMARY

This report sets out for the Committee information about the Council's treasury activities to the end of September in 2017/18. The report is largely based on a template provided by Arlingclose, the Council's treasury advisor, for activity in the first half of the financial year.

2. RECOMMENDED ACTION

2.1 Audit & Governance Committee is asked to note progress in implementing the 2017/18 treasury strategy, and the key issues emerging.

2.2 Audit & Governance Committee is asked to note the Council intends to opt up (to continue) to be treated as a Professional Client in MIFID 2 as set out in paragraphs 4.1-4.3 of the report.

3. Background

3.1 The Council's Treasury Management Strategy for 2017/18 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement for:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.

- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.

- The receipt by the Council of an annual strategy report for the year ahead and an annual review report of the previous year.

- The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

3.2 Treasury management in this context is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

In addition to the annual strategy and annual review reports, the Code of Practice recommends that councillors should receive at least one interim report during the year.

Practically in Reading we meet these requirements by providing a brief update as part of each budget monitoring report, and this "mid year" report. This report therefore ensures the Council meets CIPFA's recommendations. There were no significant breaches of Treasury Management Policies or Prudential Indicators during the half year.

3.3 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk and is intended to explain how, so far

- *the Council tried to minimise net borrowing costs over the medium term*
- *we ensured we had enough money available to meet our commitments*
- *we ensured reasonable security of money we have lent and invested*
- *we maintained an element of flexibility to respond to changes in interest rates*
- *we managed treasury risk overall*

The remainder of this report has been prepared based on a template provided by Arlingclose Limited, the Council's treasury advisor.

3.4 External Context

Economic backdrop: Commodity prices fluctuated over the period to September 2017 with oil falling below $45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

3.5 The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

3.6 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose was not convinced the UK's economic outlook justified such a move at this stage, but the Bank's interpretation of the data seems to have shifted, and the rate was increased to 0.25% in November.

3.7 In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the \$4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by \$10bn a month.

3.8 Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly \$1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

3.9 Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

3.10 In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening. Any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition; illustrated by the 0.25% increase in November.

3.11 Financial markets: Government Bond (Gilt) yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

3.12 The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

3.13 Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

3.14 There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in

September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3.

3.15 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

3.16 The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

4. Regulatory Updates

4.1 MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. However, from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, subject to meeting certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved. Formally, the delegation to make such decisions in Reading rests with the Chief Finance Officer (currently the Interim Director of Finance), though in practice most day to day transactional decisions are approved and signed off by the Head of Finance or another senior finance manager all of whom have many years' experience at various levels of local authority treasury activities. Whilst some of those postholders are due to change over the next year, it is expected that the relevant senior finance staff will continue to meet the criteria.

4.2 The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. Local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice (several of which are regularly used by the Council). The Authority has not opted down to retail client status in the past as the costs (from potential loss of were considered to outweigh the benefits.

4.3 As the Council normally meets all the conditions to opt up to professional status and intends to do so in order to maintain the current MiFID status. Committee members may recall that we normally aim to operate with a minimum £10m balance but from January will increase this norm to £15m to provide some headroom above the minimum MIFID 2 limit (as potentially breaches of the limit have to be reported to the regulator.

4.4` CIPFA Consultation on Prudential and Treasury Management Codes

In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further technical consultation on changes to the codes in August with a September deadline for responses.

4.5 The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to a Council meeting which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the (statutory) authorised borrowing limit would be included in this report but other (more technical) indicators may in future be delegated to another committee. There consultation proposal suggested dropping certain prudential indicators, notably those related to the Housing Revenue Account. However local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

4.6 Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of "investments" as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy (TMS). Approval of the technical detail of the TMS may be delegated to a committee rather than needing approval of Council. There are also plans to drop or alter some of the current treasury management indicators. The Head of Finance submitted a brief response largely modelled on the Arlingclose response though arguing that bearing in mind the significance of HRA borrowing in many authorities it would be more sensible to retain HRA indicators to ensure consistency of approach rather than strongly recommend local indicators.

4.7 CIPFA has indicated that it intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although we understand the actual publication date will now be in 2018. CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year, though these have not been set out in detail yet.

4.8 Furthermore, the Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. As this report was being finalised DCLG published a consultation paper revising its Investment Guidance and the MRP guidance. The investment guidance covers a wider range of activity including property investment and LA company investment, and some aspects of the MRP guidance appear on an initial read to have been tightened, but it is too early to advise on the impact of these proposed changed.

5. Local Context

5.1 On 31st March 2017, the Council had net borrowing of £326m arising from its historic revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m
General Fund CFR	303.2
HRA CFR	190.0
Total CFR	**493.2**
Less: Other debt liabilities (mainly PFI Related)	-31.0
Borrowing CFR	**462.2**
Less: Usable reserves	-82.2
Less: Working capital	-55.9
Net borrowing	**324.1**

5.2 The Council's current strategy is to maintain borrowing and investments below their underlying levels implied by the CFR, sometimes known as "internal borrowing", in order to reduce risk and minimise interest costs. The treasury management position as at 30th September 2017 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Rate %
Long-term borrowing Short-term borrowing	297.4 56.0	-3.3 +11.0	294.1 67.0	3.66% 0.39%
Total borrowing	**353.4**	**+7.7**	**361.1**	**3.05%**
Long-term investments – CCLA Property Fund Money Market Funds / Call Account	15.0 12.2	0.0 19.1	15.0 31.3	c.4.50% 0.18%
Total investments	**27.2**	**19.1**	**46.3**	**c.1.60%**
Net borrowing	**326.2**	**13.4**	**314.8**	

Overall we needed £11.4m less net borrowing at 30 September compared to the March year end. This is mainly because of the Council's general cash income within the year is front loaded, with expenditure more evenly spread, so by mid-year the need to borrow reduces. This position switches round markedly in the final quarter of the year. The increase in cash held as investments reflects the timing of borrowing.

5.3 Borrowing Strategy during the half year

At 30/9/2017 the Council held £359.15m of loans, (an increase of £5.75m on 31/3/2017), as part of its strategy for funding previous years' capital programmes. The 30th September 2017 borrowing position is show in table 3 below.

Table 3: Borrowing Position

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Weighted average rate %	30.9.17 Weighted average maturity years
Long Term					
Public Works Loan Board	267.4	(3.3)	264.1	3.60	29.7
Banks (LOBO)	25.0	0.0	25.0	4.21	*55.4
Banks (Fixed)	5.0	0.0	5.0	3.99	38.2
Short Term					
Local authorities	56.0	11.0	67.0	0.39	0.2
Total borrowing	**353.4**	**7.7**	**361.1**	**3.05**	**26.1**

*to final maturity, assuming options not called

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

5.4 Only short term borrowing has been taken (almost) exclusively from other local authorities for period of up to 9 months to benefit from short term interest rates and the treasury advisor's (and largely market) view that UK interest rates will remain at low levels for some years to come. Therefore, in furtherance of our strategic objectives, no new long term borrowing (over one year) was undertaken, whilst existing loans were allowed to mature without replacement. This strategy has enabled the Council to keep net capital financing costs (including allowing for foregone investment income) about £250k below budget (as reported in Budget Monitoring) and reduce overall treasury risk.

5.5 The "cost of carry" analysis performed by the Council's treasury management advisor Arlingclose did not provide a compelling case for there being value in borrowing in advance for future years' planned expenditure and therefore none was taken.

5.6 The Council continues to hold £25m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2017/18. The Director and Head of Finance are considering (with Arlingclose's help) the possibility that £10m of these loans might be restructured next year, if a solution can be identified that would produce a budget saving without materially increasing treasury risk

5.7 Leasing & PFI

There was no significant activity on lease or PFI schemes during the period.

5.8 Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and borrowed money held to facilitate the effective management of cashflow. During the first half of 2017/18 the Council's investment balance ranged between £19m and £70million due to timing differences between income and expenditure. The overall investment movement during the half year is shown in table 4 below.

Table 4: Investment Position

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Weighted average rate %	30.9.17 Weighted average days to maturity
Money Market Funds	10.2	11.2	21.5	0.15	1
Call Accounts	1.9	7.9	9.8	0.18	1
Pooled Funds (CCLA Property Fund)	15.0	0.0	15.0	9.07	n/a*
Total investments	**27.1**		**46.3**		

*The CCLA Property Fund is a longer term investment, so "Weighted Average Maturity" is not really meaningful (though there is a monthly opportunity to buy/sell units)

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

5.10 To achieve these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Council has mainly held its cash balances in money market funds, which have a similar, and sometimes higher yield. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	*Bail-in Exposure	Rate of Return
31.03.2017	4.91	A+	100%	0.84%
30.06.2017	4.92	A+	100%	3.34%
30.09.2017	4.92	A+	100%	3.01%
Similar LAs	**4.8**	**A+**	**70%**	**1.46%**
All LAs	**4.44**	**AA-**	**65%**	**1.12%**

*Bail in exposure provides an indication of the capital losses the Council may incur, in the (low risk) scenario that the banking institutions to whom money has been lent failed.

The better credit score and reduced bail in exposure achieved by other authorities reflect that some of them have money lent to other local authorities, which both improves the credit score and reduced the bail in exposure.

5.11 The Council's £15m of externally managed pooled property fund investment generated a dividend returns of £356k in the half year. This income to the budget helped support services in year. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Investment in this fund is planned to be maintained for several years to allow time for capital growth to outstrip the 7% bid/offer margin when (most of) our units were purchased.

6. Other Investment Activity – Property Investments

6.1 Although not currently classed as treasury management activities and therefore not covered by the CIPFA Code, the Council also bought £24m of investment property in 2016/17, and held a further £1.9m (restated balance sheet value) at the start of the year. Further investments have been investigated, but none yet made during 2017/18.

6.2 These non-treasury investments generated c.£737k of investment income for the Council after taking account of direct costs and MRP, representing a rate of return of c.6.1% annual return. This is higher than the return earned on treasury investments, but reflects the additional risks to the Council of holding such investments.

6.3 Assuming CIPFA's proposed amendments to the Treasury Management Code are adopted in the revised Code from 2018/19, these will henceforth need to be included in the expanded definition of "investments".

6.4 Performance Report

The Council primarily measures the financial performance of its treasury management activities in terms of its impact on the revenue budget, where there is an underspend as reported in budget monitoring.

The Prudential Indicator that measures treasury costs as a percentage of the overall budget also serves as a measure. The estimate at the start of the year and forecast for the year as a whole are as in Table 6 below. A comparison with 2016/17 provides an indication of the impact of capital financing costs on the overall budget over time.

Table 6: Performance on the Funding Cost Indicator

Ratio of Financing Costs to Net Revenue Stream	**2016/17 February Revised %**	**2016/17 Actual %**	**2017/18 (February) Budget Estimate %**	**2017/18 (Mid Year) Forecast Outturn %**
General Fund	7.5	**7.0**	10.1	8.0
HRA	25.4	**25.0**	25.9	24.7

Prudential Code Compliance Report

7.1 We can report that all treasury management activities undertaken during the first half of 2017/18 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, save the cash position for seven days in the half year as explained in 7.3 below. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

Figures in £m	H1 Maximum	30.9.17 Actual	2017/18 Limit	Complied
Any single bank with A- or better credit rating (subject to duration advice) or other Local Authorities	13.6	9.8	20	✓
Any group of funds under the same management	**As MMF below**		**20**	✓
Registered Providers (of Social Housing with A- credit rating or better)	**0**	**0**	**5**	✓
Unsecured investments with Building Societies	**0**	**0**	**10**	✓
Money Market Funds	**20 (in one fund)**	**21.5 (over 2 funds)**	**20**	✓
CCLA Property Fund	**15**	**15**	**20**	✓

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

Table 8: Debt Limits

	H1 Maximum	30.9.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	372.0	361.1	460	470	✓
PFI & finance leases	**31.0**	**c.30.6**	**40**	**40**	✓
Total debt	**403.0**	**391.7**	**500**	**510**	✓

Since the operational boundary is intended as a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

7.3 Treasury Management Indicators

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

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

	30.9.17 Actual	2017/18 Target	Complied
Portfolio average credit	4.92	Below 6.0	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments. The minimum is normally £10m, though when this was indicator was introduced, it was recognised that there may be brief periods when this might be breached. During the half year there were two such brief periods in April and May between salary payment day and the month end. At the time the Council could easily have borrowed to avoid the technical breach, but as the borrowing was not otherwise required, but was not undertaken. As indicated above, when MIFID 2 comes in, we are likely to have to report such breaches so may consider borrowing instead. The normal minimum is being increased to £15m to allow some headroom above the MIFID 2 £10m minimum.

	30.9.17 Actual	2017/18 Target	Complied
Total cash available within 3 months	£31.3m	£10m	✓
Minimum in the 6 month period	£4.7m		✓

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

	30.9.17 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	99.6%	110%	✓
Upper limit on variable interest rate exposure	13.7%	15%	✓

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.

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

	30.9.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	19.3%	25%	0%	✓
12 months and within 24 months	1.3%	25%	0%	✓
24 months and within 5 years	3.9%	25%	0%	✓
5 years and within 10 years	6.1%	25%	0%	✓
10 years and above	69.2%	100%	40%	✓

During the half year the under 12 month maturity peaked at 21.5% of borrowing in early August. Taking account of our present debt maturity structure, if we persist with the present "short term" strategy we can have temporary borrowing of up to about £96m before the 25%<12 month limit would be breached. This will need to be carefully monitored towards the end of the financial year on the present forecast cash flow (and will may need recalibration if the LOBO restructure mentioned in paragraph 5.6 above proceeds. Given the low prospect of LOBO's options being called (and the Council's ability to replace them with PWLB loans at a much lower rate), LOBO's have been assumed to run significantly beyond a year.

7.6 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 Council has not made such investments for some time.

8. Outlook for the remainder of 2017/18

8.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e after inflation) struggles in the face of higher inflation.

8.2 The Bank of England's Monetary Policy Committee changed its rhetoric, implying a rise in Bank Rate in "the coming months" towards the end of the half year. Our advisor, Arlingclose was not convinced the UK's economic outlook wholly justified such a move at this stage, but the Bank's interpretation of the data has shifted, and the bank rate was increased by 0.25% to 0.5% at the beginning on November.

8.3 Arlingclose will be reviewing its forecast (which had anticipated a continuation of a 0.25% rate, possibly as far as 2020 (though with upside risk of 0.25%-0.5% from December 2017). In the longer term market Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

8.4 The Bank Rate increase was so well signalled that it would have been a major shock had it not been introduced, and we understand that the 10-year treasury yields in fact nudged downwards shortly after the BoE''s announcement. One comment we have seen says that "over time the rate rise may ease the pressure on banks and pension funds, whilst also increasing the cost of debt; however, 3-year forecasts only show rates moving to 1.0%. The BoE decision reflects an erosion of economic slack and an increase in domestically generated inflation (as opposed to imported inflation which the BoE has so far been able to '*look through*')".