	Corporate Policy and Resources Committee
	Thursday, 13th February 2020

Subject: Budget and Treasury Monitoring – Period 3 2019/20

Report by:	Tracey Bircumshaw Strategic Finance and Business Support Manager
Contact Officer:	Sue Leversedge Business Support Team Leader 01427 676541 Sue.leversedge@west-lindsey.gov.uk
Purpose / Summary:	This report sets out the revenue, capital and treasury management activity from 1 April 2019 to 31 December 2019.

RECOMMENDATION(S):

a) That Members accept the forecast out-turn position of a £914k net contribution to reserves as at 31 December 2019 (see Section 2).
b) Members accept the use of Earmarked Reserves during the quarter approved by the Chief Finance Officer using Delegated powers (2.5.1)
c) That Members approve the amendment to the fees and charges schedule for the Crematorium (2.4.4)
d) Members approve the Capital Budget amendments as detailed in 3.1.3 and accept the current forecast outturn position.
e) That Members' accept the Treasury Management and Prudential Indicators to 31 December 2019.

IMPLICATIONS

Legal: None arising as a result of this report.

Financial: FIN/159/20/SL

The draft revenue forecast out-turn position for 2019/2020 is currently reflecting a net contribution to reserves of £914k as at 31 December 2019 (£628k as at 30 September 2019).

This is after taking account of approved carry forwards of £54k, and carry forward requests from services pending future approval as detailed at Appendix A.

Summary of Out-turn Position 2019/20

Summary of Out-turn Position 2019/20		
	£ 000	
FORECAST OUTTURN AS AT 31.12.19	(1,367)	BEFORE CARRY FORWARDS
CARRY FORWARDS:		
BASE BUDGET-APPROVED IN YEAR	31	ALREADY APPROVED
USE OF EARMARKED RESERVES	23	ALREADY APPROVED
SUB-TOTAL:	**(1,313)**	
SERVICE CARRY FORWARD REQUESTS	399	PENDING APPROVAL BY MANAGEMENT TEAM **.03.20
NET CONTRIBUTION TO RESERVES:	**(914)**	
TO VALUATION VOLATILITY RESERVE	469	
NET CONTRIBUTION TO GENERAL FUND BALANCES	**(445)**	

The items with significant variances are contained within this report at 2.1.

The capital out-turn position for 2019/20 is £20.263m, this is a 10.75% reduction on the current revised budget (original budget + carry forwards + approvals in year) and is due to:

Capital scheme amendments (£0.062m) due to incurred expenditure which cannot be capitalised and need to be treated as revenue.

New capital budgets are requested for the Flooding Recovery Support Scheme £0.050m (fully funded by the Department for the Environment, Food and Rural Affairs (DEFRA)). A replacement civic vehicle £0.026m funded from the trade in value of the existing vehicle and capital receipts. £0.5m in lieu of S106 for the Corringham Road junction. (Details in 3.1.3.)

The Treasury Management activities during the reporting period are disclosed in the body of this report (Section 4).

There have been no breaches of Treasury or Prudential Indicators.

Average investments for the period (Oct-Dec) was £15.228m which achieved an average rate of interest of 1.743% in Quarter 2 (1.555% Jul-Sep).

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: This is a monitoring report only.

Climate Related Risks and Opportunities: This is a monitoring report only.

Title and Location of any Background Papers used in the preparation of this report: n/a

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**X**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**X**

1. Executive Summary

This report provides the oversight of financial performance for;

- Revenue Forecast Out-Turn - Surplus £914k (6.58% of Forecast Net Revenue Expenditure).

- Capital Forecast Out-Turn - £20.263m, a variance of £2.442m against current budget £22.705m, this is made up of:
  - **Anticipated Slippage of £2.422m to 2020/21**
    - See table at 3.1.5 for details of which schemes this relates
  - **Projected overspend on one scheme £0.050m**
    - This is in relation to the Crematorium where compensation events have resulted in variations to contract price. This is within the 10% tolerance originally approved at committee.
  - **£0.008m underspend on one scheme which is now complete.**
    - This is in relation to the Saxilby Industrial Units scheme.
  - **£0.066m spend that cannot be capitalised and the budget therefore needs transferring to revenue and request for additional budget of £0.004m for one scheme pending completion**
    - see 3.1.3 for details

  In addition, **approval to spend £0.030m** for a replacement civic vehicle as the current vehicle has been found to be unsuitable when carrying passengers. The cost of a new vehicle will be offset by the sale value of the existing vehicle, resulting in a net budget requirement of £8k which will be met from Capital Receipts.

  Approval to spend a new capital budget of £0.050m for the Flooding Recovery Support Scheme fully funded by a capital grant from DEFRA.

- Treasury Management Report and Q3 monitoring
  - Average investment interest rate 1.743%
  - Total Investments at end Q3 £11.530m

  The tables below reflect investment movements and prudential borrowing analysis:

Investment Movements	**Q3 £'000**
Investments B/fwd (at 31.3.2019 incl. bank)	**14,265**
Less Capital expenditure	(14,241)
Add PWLB Borrowing in year	5,500
Less Net Revenue Expenditure	(8,319)
Add Net Collection Fund Movement (Ctax/NNDR)	12,042
Add Working Capital Movement	2,283
Investments c/fwd (at 31.12.2019)	**11,530**

Our prudential borrowing position reflects actual borrowing undertaken from the Public Works Loans Board and the amount of internal borrowing required to meet the actual costs of borrowing up to the 31.12.2019:

	Q3
Prudential Borrowing at 31.12.2019	**£'000**
Total External Borrowing (PWLB)	16,500
Internal Borrowing	18,094
Total Prudential Borrowing at 31.12.2019	**34,594**

REVENUE BUDGET MONITORING PERIOD 3
(Forecast outturn for 2019/2020)

2. The Revenue Budget forecast out-turn currently stands at a net contribution to reserves of £914k as detailed in the table below, this is after taking account of £453k of budget carry forwards, the details of which are provided at Appendix A.

   Details of headline variances by Cluster can be found below at 2.1.

SERVICE CLUSTER	2019/20		
	Budget £	**Forecast Outturn £**	**Forecast Outturn Variance £**
Our People	5,185,300	5,024,448	(160,852)
Our Place	1,114,300	1,244,670	130,370
Our Council	5,567,900	5,164,317	(403,583)
Controllable Total	**11,867,500**	**11,433,435**	**(434,065)**
Corporate Accounting:			
Interest Receivable	(242,100)	(298,200)	(56,100)
Interest Payable	773,900	400,797	(373,103)
Investment Income	(1,103,500)	(1,262,500)	(159,000)
Precepts and Levies	2,379,200	2,382,254	3,054
Movement in Reserves:			
To / (From) General Fund	(816,800)	(816,800)	0
Use of Specific Reserves	(743,600)	(773,500)	(29,900)
Contribution to Specific Reserves	2,675,500	2,829,500	154,000
Repayment of Borrowing	10,000	10,000	0
Net Revenue Expenditure	**14,800,100**	**13,904,986**	**(895,114)**
Funding Total	(14,800,100)	(14,819,121)	(19,021)
NET SUBSIDY FROM / (CONTRIBUTION) TO RESERVES FOR THE YEAR	**0**	**(914,135)**	**(914,135)**

(Surplus)-to Valuation Volatility Reserve	(469,203)
Forecast (Surplus)/Deficit-to General Fund	**(444,932)**

2.1 The significant movements being;

Cluster	EXPENDITURE	Total £000	Direction of Travel
	BUDGET UNDERSPENDS		
	Salary savings.	(£324)	↑
Funding	Government Grant income received - EU Exit grant.	(£18)	↔
Investment Income	Net impact of investment property acquisitions, and forecast acquisitions.	(£159)	↑
Interest Payable & Receivable	Treasury management activities.	(£469)	↑
Our Council	Insurance Premium savings.	(£17)	↔
Our Council	Systems Development - Renegotiated contracts (£5k), budget not required (£12k), plus additional income achieved (£14k). Balance made up of various low value savings totalling (£6k).	(£37)	**New**
Our Council	Audit plan savings.	(£13)	↔
Our People	Park Spring Community Centre - reduced contributions towards maintenance of centre. Contingency fund of £20k held in reserves.	(£15)	↓
	PRESSURES		
Interest Payable & Receivable	Estimate of increase in bad debt provision.	£40	↑
Our People	Customer Services - increased software licences costs.	£31	↔
	Various forecast outturn variances <£10k.	£82	↓
		(£899)	

Cluster	INCOME	Total £000	Direction of Travel
	BUDGETED INCOME EXCEEDED		
Our People	Green Waste service income target exceeded (£94k) plus operational savings of (£8k).	(£102)	↔
Our People	Trade Waste income - additional contract secured (£20k) plus increase in customer base.	(£24)	↓
Our People	Shopping Trolley reclaim income.	(£21)	↑
	BUDGETED INCOME NOT ACHIEVED		
Our People	Land Charges income target not forecast to be met.	£17	**New**
Our Place	Impact of property not leased out until 15 July 19 at reduced rate - total pressure £73k (loss of rental income-£56k, plus NNDR-£17k). Balance of £15k due to unexpected repair and maintenance costs, room hire income not achieved, legal and other supplies and services costs.	£88	↑
Our Place	Planning fee income target not forecast to be achieved (£60k planning fee income, £5k est. of appeal costs, offset by £17k reduction in hearing costs).	£48	↑
Our Council	Commercial Contingency - to offset planning fee income pressure.	(£60)	**New**
Our Place	Car park income - pay & display income not forecast to meet target.	£13	↑
Our Place	Loss of rental income £16k, and repair and maintenance costs due to vandalism of public conveniences £10k.	£26	↓
		(£15)	

	TOTAL VARIANCE	**(£914)**

2.2 Significant items (>£10k) of note by Cluster:

2.2.1 Interest & Investment Income

- £469k of the forecast contribution relates to interest payable on borrowing. We provide a base budget estimated on the capital financing of schemes from prudential borrowing and assume that this borrowing will be from the Public Works Loans Board. This ensures we have a sustainable base budget which provides for future interest and minimum revenue provision costs.

  In reality we manage our actual borrowing through our Treasury Management function, utilising any surplus cash balances as internal borrowing, rather than taking on costly additional debt.

  This committee have previously approved that any net surplus be set aside at the year end to the Valuation Risk Reserve should it be required to meet the policy requirement of a minimum 5% of our investment portfolio purchase price.

  Approval to spend up to £30m on investment property (with £7m budgeted this financial year which was carried forward from 2018/19). The 2019/20 base budget assumed a net contribution of £563k in 2019/20 raising to £728k by 2020/21.

  A property has been purchased during this financial year and income generated for investment properties is forecast to be £159k above target.

  The Council continues to assess its options with regards to purchasing commercial investment properties.

- Bad debt provision – over the past 2 years the contribution towards our bad debt provision has been; 2017/18 £89k and 2018/19 £105k. As this has a significant impact on the outturn position of the Council, we are forecasting a contribution for 2019/20 of £40k, in order to provide an accurate forecast outturn position for members during the year.

  This is the forecast contribution required based on the levels of outstanding debt as at 31st December 2019.

2.2.2 Our People

- The 2019/20 budget for Green Waste Charging reflects a net contribution of £752k. With actual income at £915k from subscriptions achieved during this period and operational savings the forecast net contribution is £854k, £102k above the prudent original forecast. (£94k additional income and £8k net operational savings).

- Trade waste is reporting a £24k increase in income. This reflects an additional contract secured for the year.

2.2.3 Our Place

- A tenancy of a previously vacant property has been secured during the year, with effect from 15th July 2019. A reduced rent has been agreed for 2 years to secure this lease, resulting in a forecast loss of rental income of £56k for the year, plus NNDR costs incurred by the Council up to the commencement of the lease of £17k. This is a total pressure against the budget of £73k.

- Planning Services are forecasting a £48k pressure for the year. £60k relates to planning applications plus £5k estimation of appeal costs, offset by £17k reduction in hearing costs. We have benefitted from significant levels of planning fee income over the past 3 years. A variety of economic factors and the adoption of the Local Plan is now impacting upon the reductions projected, reflected by less applications to date. Although there are further large cases anticipated over the remainder of the current year, they are not expected to generate sufficient income to meet the target.

  As Planning is a demand led service, the commercial contingency budget will be utilised to offset any underachievement on fee income – currently forecast as £60k.

- A Commercial Contingency budget of £200k was built into the 2019/20 base budget to mitigate a number of commercial risks, including investment properties. It is proposed that £60k is utilised to offset the forecast pressure on planning fee income.

  If the remaining balance of £140k is not required this Committee will be asked to approve the balance be transferred into reserves later in the year.

2.2.4 Establishment

Current vacancy levels after costs of interim staffing resources has achieved a £324k budget underspend this represents 3.20% of the overall employee budget. This is broken down by cluster as follows;

Cluster	Forecast Outturn £
Our People	(76,565)
Our Place	(102,100)
Our Council	(145,462)
Grand Total	**(324,127)**

2.3 Commercial Projects and Income Target

2.3.1 The Commercial Plan 2015/16 – 2019/20 was intended to be a proactive response in contributing to future financial sustainability. This was to be achieved through charging, trading and investment in order to reduce the net subsidy on services. A target contribution of £1m was set.

2.3.2 Progress against this target will deliver £1,700k of ongoing additional income which has been built into the Medium Term Financial Plan 2019/20-2023/24.

2.3.3 For 2019/20 the forecast net contribution total of £1,994k is detailed below;

- £722k Investment in Commercial Property (Target £600k by 2020/21)
- £170k Trade Waste Income
- £854k Green Waste
- £ 65k Pre-Application Planning Advice
- £ 12k Surestaff Lincs Ltd (Recruitment Agency)
- £ 37k Commercial Loan income
- £ 134k Leisure contract

2.4 Fees and Charges

2.4.1 £2,989k has been received in Fees and Charges up to the end of the period against a budget for the period of £2,826k, additional income to date of £163k. The significant variances are included in the table at 2.1.

2.4.2 The most significant areas of additional income being Garden Waste and Trade Waste (see 2.2.2).

2.4.3 The significant areas of under achieved income against target being Planning Fee income (see 2.2.3).

2.4.4 **Amendment to Fees and Charges Schedule – Crematorium**

Members are asked to approve an addition to the fees and charges schedule presented to this Committee on the 7th November 2019;

Prosperous Communities Committee				Crematorium			
	2019/20	Proposed Increase		2020/21	VAT Amount	2020/21 Charge Inc. VAT	VAT Rate
	£	% Type	or £	£	£	£	
Sanctum 2000 vault (leased for 10 years) **	£791.67			£791.67	£158.33	£950.00	S
Barbican memorial (space lease for 5 years) **	£192.50			£192.50	£38.50	£231.00	S
Mulberry Tree - per leaf, space leased for 5 years **	£137.50			£137.50	£27.50	£165.00	S

** Sanctum 2000 vault/Barbican memorial/Mulberry tree - additional artwork/photo plaque can be provided - POA

There is a need to offer a wide choice of memorialisation to fit all pockets to enable people to choose a memorial that is financially acceptable to them. WLDC offer a range of memorials and it is important for the bereaved to have choice over expenditure and can arrange a memorial that meets with their needs and requirements within the constraints of their own particular budget.

We offer memorials ranging in prices from the cheapest option of a book of remembrance up to a sanctum 2000 vault.

Book of Remembrance - A simple and lasting traditional memorial**.**

Mulberry Tree - A realistic Mulberry memorial tree with a hand carved granite trunk situated at the end of a pathway leading to Remembrance Court. Offering the opportunity for a hand crafted and beautiful memorial tribute. Tree comprises of 240 spaces.

Barbican Plaque - A simple yet stylish design displaying individual granite plaques. Each plaque can be personalised with a choice of personal artwork designs symbolising a personal tribute to a loved one. Barbican comprises of 80 spaces.

Sanctum 2000 Vault - A Sanctum 2000 vault can hold up to 2 sets of cremated remains or other personal tributes. Each vault is adorned with a polished granite plaque and a personal floral tribute vase fitted in the base. The Sanctum 2000 plaque is a truly personalised memorial option that will be beautifully inscribed with your words and bespoke artwork of your choice. The sanctum vault is an individual memorial.

Having benchmarked the fees of our competitors, and considered all costs relating to the purchase, installation and maintenance of the memorials including the foundation costs, the amendment and introduction of the additional memorials identified above is deemed appropriate.

2.5 Use and Contribution to Reserves

2.5.1 2019/20 Use of Reserves – Delegated Decisions

The Chief Finance Officer has used delegated powers to approve the use of earmarked reserves up to £50k, new delegated decisions totalled £111.8k;

- £14.8k from Unapplied Grants reserve (RE13). Local Authority Parks funding received in 2018/19, approved spend by Management Team 28.10.19 (FIN/120/20)

- £10.7k from IT Reserve (RE101). Revenue spend relating to Desktop Refresh – £4.2k staff costs and £6.5k equipment.

- £11.3k from Local Development Framework (RE98). To commission evidence base on sports provision for the Local Plan.

- £16.6k from the IT Reserve (RE01). Revenue spend for development, hardware and support relating to the Telephony project.

- £13k from Local Development Order (LDO) reserve. Contribution towards the LDO & Major Projects Officer post.

- £30.6k from Maintenance of Facilities reserve (RE01);
    - £0.7k - Repairs and maintenance of Ashcroft Road car park.
    - £3k - Revenue spend for LED lighting works.
    - £25k - Property conditions survey.
    - £1.9k – repairs to car park at former site, Caistor.

- £14.8k from Unapplied Grants (RE13);
  - £12.3k use of Flexible Homelessness Support Grant for frontline homelessness service, and repossession prevention.
  - 2.5k use of New Burdens grant (IT for implementation of homelessness prevention act) for bespoke software work.

2.6 Grants

2.6.1 Successful Grant Bids and New Grant determinations

The following grants have been awarded during this period:

Grant Issued By	Name of Grant	Revenue/ Capital	£
Active Lincolnshire	Sport England - Satellite Club Funding	Revenue	400
DWP	Data Sharing	Revenue	10,742
HCLG	Flood Relief Grant	Revenue	35,000
HCLG	Flexible Homelessness Support	Revenue	65,800
HCLG	New Burden - Homelessness Reduction Act	Revenue	24,900
HCLG	Cold Weather Fund	Revenue	10,000
HCLG	Council Tax Annexe Discount Grant	Revenue	11,116
GLLEP	Manufacturing Feasibility	Revenue	50,000
One Public Estate (OPE)	Community Lincs	Revenue	100,000
		TOTAL:	307,958

2.6.2 £100k One Public Estate (OPE) Grant

We have been awarded £100k from the One Public Estate (OPE) project in relation to the former RAF base at Scampton. The grant is received by LCC and West Lindsey District Council incurs the spend and draws down the funds from LCC.

High level objectives:
• Community Engagement & Consultation related specifically to capacity building of the Parish Council and related community groups.
• Production of a high level Place Making Strategy for married quarters (considering opportunities presented by further development sites allocated to the South of the Family Married Quarters).

2.6.3 £50K GLLEP Grant – Manufacturing Feasibility

On the 18th January 2019, Greater Lincolnshire LEP received a grant determination letter confirming the Greater Lincolnshire East Midlands Manufacturing Zone funding totaling £155k. Hemswell Cliff FEZ was one of the areas approved for this grant (£50k), which builds on our existing strengths in food and advanced manufacturing, enabling the sectors to innovate, grow and boost economic growth across the Midlands Engine area. The East Midlands Manufacturing Zone aims to reduce planning restrictions to allow land to be used more productively and provide certainty for business investment. Our grant has been awarded on the premise that it will directly assist the East Midlands to increase competitive advantage in enabling the UK's largest concentration of food producers and supply chain companies.

To support all of the above we are considering some work that would extend to the wider business park but would still incorporate the FEZ designation. A combination of visual concept for the whole estate for investment purposes and some studies associated to the AD plant as localised energy provider. Hence, in principle we would like the proposal to consider the allocation of funding in the following areas:

- Smart Grid/AD Plant Evaluation and Marketing Presentation – up to £20k
- 3D visuals and concept marketing for the finished estate (FEZ site and wider business park) - £25k

Other Items for information

2.7 Planning Appeals

In period 3 2019/20 there were 13 appeals determined, as follows;

Period	Number of Appeals	Allowed	Dismissed
October	6	0	6
November	3	2	1
December	4	1	3
Total for Period 3	**13**	**3**	**10**

Costs have been awarded against us in relation to one appeal. Costs are estimated between £15-£20k.

2.8 Aged Debt Summary – Sundry Debtors Aged

Debt Summary Period 3 Monitoring Report

At the end of December 2019, there was a total of £189k outstanding debt in the system over 90 days. The majority of this debt was over 150 days old and mainly comprised of:

Housing Benefits overpayments £68k the majority of which will look to be recovered through ongoing entitlement or where appropriate on agreed repayment schedules.

Environmental Protection & Licensing £58k
Corporate Governance £17k

Month	90 – 119 days £	120 – 149 days £	150+ days £	Total £
Qtr 1 - May 19	13,566	1,371	174,136	189,073
Qtr 2 - September 19	19,388	109,463	53,029	181,880
Qtr 3 - December 19	3,078	2,127	183,851	189,056

2.9 Changes to the Organisation Structure

There have been the following changes to the organisation structure during period 3;

2.9.1 Housing Benefits - New 12mth fixed term post (Debt Recovery Officer). Impact on MTFP £6,200.

2.9.2 Homelessness & Housing Advice – Increase fixed term post for another 2 years (Private Rented Support Officer). Impact on MTFP £20,400.

2.9.3 Tourism – Make temporary post permanent (Visitor Economy Officer)

2.9.4 Neighbourhood Planning Grant (NPG) – deleted NPG officer post as no longer required – impact on MTFP nil as funded from NPG grant.

2.9.5 Community Safety – Full time post extended for another 2 years (Enforcement Officer) – impact on MTFP nil as funded from reserves.

3.1 CAPITAL BUDGET MONITORING – Quarter 3

3.1.1 The Capital Budget forecast out-turn for schemes approved for spend (includes Stage 3 and Business as Usual) totals £19.368m against a revised budget of £21.679m, a £2.311m underspend. There is a £0.050m overspend on the Crematorium which is within the approved 10% tolerance. There is anticipated slippage on the Commercial Investment portfolio £1.334m, Depot review £0.200m, Street Lighting (Carbon Efficiency) £0.210m and smaller slippage across various schemes amounting to £0.617m. £0.066m of budget is to be transferred to revenue as the expenditure cannot be capitalised. Saxilby Industrial Units has now completed and underspent by £0.008m. Desktop Refresh is due to complete in February but has overspent by £0.004m as additional monitors were required. Pre Stage 1, Stage 1 and Stage 2 are expected to spend £0.895m (subject to future formal approval). This gives an overall total spend of £20.263m as detailed in the table below;

Capital investment Programme 2019/20

Corporate Priority / Scheme	Actuals to 31/12/2019	Original Budget	Revised Budget 2019/20	Final Outturn 2019/20	Over / (Underspend)	Carry Forward Requests/ Drawbacks
	£	£	£	£	£	£
Total Capital Programme Gross Expenditure - Stage 3 and BAU	14,240,739	19,850,958	21,679,323	19,368,173	(19,181)	(2,291,970)
Stage 2	0	947,300	865,000	805,000	0	(60,000)
Stage 1	0	898,860	160,500	90,000	0	(70,500)
Pre-Stage 1	0	0	0	0	0	0
Total Capital Programme Gross Expenditure	14,240,739	21,697,118	22,704,823	20,263,173	(19,181)	(2,422,470)

3.1.2 The capital programme spend to date is £14.241m against a revised budget of £22.705m. Expenditure is forecast to be £20.263m resulting in a £2.442m variance. Of this, £0.066m is requested to be transferred to revenue to cover spend that cannot be capitalised. £0.050m relates to a within tolerance overspend on the Crematorium, £0,008m underspend on one scheme and an anticipated £0.004m overspend on Desktop Refresh. An anticipated £2.422m will be slipped to 2020/21 at the financial year-end.

3.1.3 The Committee is asked to formally approve the following:

- **Net Budget reduction of £0.062m**

  - Reduction of £0.049m on Capital Enhancements to Council owned buildings which is due to the classification of schemes as revenue.

  - Increase of £0.004m on Desktop Refresh due to additional monitors required to complete the roll out of the programme.

  - Reduction of £0.017m on Telephony, due to the classification of some spend as revenue.

  - The Committee have previously approved a Capital Budget and expenditure of £1.010m for the Corringham Road Junction Scheme which is being funded from GLLEP grant and S106. Due to timescales, the Committee are asked to approve the forward funding of £0.5m in lieu of the S106 receipt to be applied to the Northern Neighbourhood development site. A charge will be made on the land to mitigate any financial risk.

  - **New Budget requests of £.076m**

  - The creation of a £0.050m capital budget for Flooding Recovery Support funded by a capital grant from DEFRA. This scheme is designed to help improve flood defences at eligible properties that experienced damage during the November Floods. Grants of up to £5,000 are payable per property and it is anticipated that up to 10 claims will be made.

  - The replacement of the civic vehicle at a cost of £0.026m offset from the trade in value of the existing vehicle and resulting in a net cost of £0.004m which will be funded from capital receipts. This is due to the current vehicle being deemed unsuitable when carrying maximum number of passengers. A 4 year replacement programme will be built into the 2021/22 Capital Programme.

All other amendments to capital schemes will be dealt with as part of the closedown process at the financial year end.

3.1.4 The following schemes have been approved by this Committee during the period and therefore have been moved from stage 2 to stage 3 which is reflects there is approval to commence spending:

Public Sector Hub
Depot Review
Roses Sports Ground 3 G Community Pitch (Spend will only occur upon receipt of completed grant funding agreement)

3.1.5 Individual schemes are detailed in the table below and commentary provided on performance.

Capital Investment Programme 2019/20

Corporate Priority / Scheme	Stage (1 April 2019)	Stage	Actuals to 31/12/2019	Original Budget 2019/20	Revised Budget 2019/20	Final Outturn 2019/20	Over/ (Underspend)	Carry Forward Requests/ Drawbacks	Comments
Open for Business									
Telephony	Stage 2	Stage 3	3,000	18,000	16,560	0	(16,560)	0	£17k to be transferred to revenue as expenditure is not capital
Trinity Arts Address System	Stage 2	Stage 3	34,724	0	35,000	34,724	(276)	0	
People First									
Disabled Facilities Grants	BAU	BAU	519,572	591,600	631,100	631,100	0	0	
Customer First Programme	Stage 1	Stage 1	0	181,300	75,000	85,000	0	10,000	Implementation costs 10k more than anticipated. Clawback from 2020/21
CCTV Expansion	Stage 3	Stage 3	2,200	0	27,265	27,265	0	0	
Channel Optimisation	Stage 1	Stage 1	0	50,000	0	0	0	0	
Asset Management									
Capital Enhancements to Council Owned Assets	BAU	BAU	0	90,000	141,100	45,000	(49,000)	(47,100)	£9k for Plough Décor, 15k sansfield pavillion demolishment and 25k for condition survey to be transferred to revenue. £49k slipped to 2020/21
Carbon Efficiency Project	BAU	Stage 3	910	210,000	210,000	0	0	(210,000)	Procurement process not yet complete - slip to 20/21
Hemswell Masterplan - Public Realm Improvements	Stage 2	Stage 2	0	150,000	0	0	0	0	
Commercial Investment - Crematorium	Stage 3	Stage 3	3,053,458	3,612,600	3,687,600	3,737,600	50,000	0	Compensation events resulted in variations to contract price resulting in a £50k overspend anticipated. This is within the 10% tolerance originally approved at committee
Car Park Strategy Investment	Stage 3	Stage 3	(13,500)	0	0	0	0	0	
Leisure Facilities - Market Rasen	Stage 3	Stage 3	3,333,839	6,040,300	6,486,459	6,486,459	0	0	This project will slip into 20/21 to confirm amount slipped by Q3
Commercial Investment - Property Portfolio	Stage 3	Stage 3	5,681,319	0	7,015,289	5,681,319	0	(1,333,970)	One acquisition already made in 19/20 £1.3m remaining likely to be slipped to 2020/21
Depot Review	Stage 1	Stage 3	80,194	3,700,000	400,000	200,000	0	(200,000)	Project to commence in 20/21 - land purchase should complete this financial year
5-7 Market Place - Redevelopment	Stage 1	Stage 2	0	387,300	35,000	35,000	0	0	
Trinity Entrance Refurbishment	Stage 1	Stage 3	0	500,000	250,000	95,000	0	(155,000)	scheme expected to commence early 2020 residual to be slipped into the next financial year
Roses Sports Ground: 3 G Community Pitch	Stage 2	Stage 3	0	150,000	150,000	150,000	0	0	
Central Lincolnshire Local Plan									
Gainsborough Shop Front Improvement Scheme	Stage 3	Stage 3	0	65,000	45,000	10,000	0	(35,000)	3 Pending applications any residual budget to be Slipped to 2020/21
Gainsborough Heritage Regeneration - THI	Stage 2	Stage 3	0	346,245	147,900	10,000	0	(137,900)	Scheme will commence once recruitment to the post to enable the project is completed
Unlocking Housing - Living over the Shop	Stage 2	Stage 3	0	135,000	100,000	25,000	0	(75,000)	1 application received and in discussion for others. Residual budget to be slipped to 2020/21
Riverside Gateway - Marina/Transformational Change	Stage 2	Stage 1	0	250,000	0	0	0	0	
Gainsborough Regeneration - Dev Partnership	Stage 1	Stage 3	0	1,150,000	0	0	0	0	
Gainsborough Regeneration - Cinema		Stage 2	0	0	650,000	640,000	0	(10,000)	Slipped to 2020/21
Viability Funding - Capital Grant	Stage 3	Stage 3	220,341	0	220,341	220,341	0	0	
Market Rasen 3 year vision	Pre stage 1	Stage 2	0	150,000	0	0	0	0	MRTC will submit a Heritage Action Zone bid which will require match funding from WL, this is likely to be finalised in 2020/21.
Rural Transport	Stage 3	Stage 3	0	0	0	0	0	0	Scheme no longer progressing
Private Sector Renewal	Pre stage 1	Stage 3	73,629	475,000	190,000	190,000	0	0	
Food Enterprise Zone infrastructure	Stage 1	Stage 4	0	1,483,513	0	0	0	0	
Saxilby Industrial Units	Stage 3	Stage 3	582,371	0	607,000	599,371	(7,629)	0	Scheme is now complete
Green Corridor	Stage 1	Stage 1	0	387,560	0	0	0	0	
North Marsh Road - Affordable Housing Scheme (REFCUS)	Stage 1	stage 3	0	360,000	360,000	360,000	0	0	
Riverside Gateway Acquisition		Stage 1	0	0	65,500	5,000	0	(60,500)	Land purchase expected to complete early 2021 - slip budget

Capital Investment Programme 2019/20

Corporate Priority / Scheme	Stage (1 April 2019)	Stage	Actuals to 31/12/2019	Original Budget 2019/20	Revised Budget 2019/20	Final Outturn 2019/20	Over/ (Underspend)	Carry Forward Requests/ Drawbacks	Comments
Excellent, VFM Services									
Vehicle Replacement Programme	BAU	BAU	373,218	435,000	428,218	428,218	0	0	
Replacement Planning/Building Control/Land Charges System	Pre stage 1	Stage 3	0	123,700	0	0	0	0	
Desktop Refresh and experience	BAU	BAU	196,634	0	201,823	206,109	4,286	0	Spend of £8500 for additional monitors is required, resulting in an overspend of £4200
Commercial Loans	Stage 3	Stage 3	66,666	0	66,668	66,666	(2)	0	
Financial Management System	Stage 1	Stage 2	0	150,000	50,000	0	0	(50,000)	System implementation to commence in 2020/21
IT Infrastructure Refresh and Software	BAU	BAU	0	0	0	0	0	0	
Performance Management	Stage 1	Stage 1	0	10,000	10,000	0	0	(10,000)	Implementation is likely to be in 2020/21 budget to be slipped accordingly
Project Management	Stage 1	Stage 1	0	10,000	10,000	0	0	(10,000)	Implementation is likely to be in 2020/21 budget to be slipped accordingly
Public Sector Hub	Stage 1	Stage 3	814	365,000	180,000	82,000	0	(98,000)	Preliminary costs will commence in January with start of works in March - residual budget to be slipped to 2020/21
Environmental Protection Equipment (noise)	Stage 1	Stage 1	0	10,000	0	0	0	0	
Refresh Servers and storage Cloud	Stage 2	Stage 2	0	110,000	110,000	110,000	0	0	
Income Management System Development	Stage 3	Stage 3	31,350	0	82,000	82,000	0	0	
3D Payment Secure	Stage 2	Stage 2	0	0	20,000	20,000	0	0	
Total Capital Programme Gross Expenditure			**14,240,739**	**21,697,118**	**22,704,823**	**20,263,173**	**(19,181)**	**(2,422,470)**	

3.2 Capital Investment in Commercial Property 2019/20

3.2.1 Investment in commercial property is ongoing with one successful acquisition in the financial year to date totaling £5.668m (including costs).

The remaining balance for the 2019/20 Investment Programme is £1.348m, the Council continues to seek additional suitable investment opportunities but it is unlikely this will be spent this financial year and will therefore be slipped at year end into 2020/21. A further £7.0m is proposed for 2020/21, this will fully utilise the £30m allocated for the Council's Investment Property Programme.

3.3 Acquisitions, Disposals and Capital Receipts

3.3.1 The Council has made the following asset acquisition during Quarter 3.

- Saxilby Industrial Units

3.3.2 Following a deed review 17 parcels of land have been identified as belonging to West Lindsey District Council and 16 pieces of land (14 of which are Church yards which are just burden of repair, the other 2 are parcels of land) have been identified as not belonging to West Lindsey District Council, these amendments will have a minimal impact on the Council's balance sheet.

3.3.3 The Council has had no asset disposals during Quarter 3.

3.3.4 Capital Receipts - The total value of capital receipts at the end of Quarter 3 was £174k this was due to income of £130k from the Housing Stock Transfer Agreement share of Right to Buy receipts, £17k loan repayments, £5k repayments from DFG Grant, £10k deposit on Disposals and LCC Sale of Mercury House of which the Council was entitled to a percentage of the sale proceeds £12k.

4. TREASURY MONITORING – PERIOD 3 (Oct - Dec)

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

4.1 Prudential Indicator Breaches

Officers can confirm that there have been no breaches of Prudential Indicators as detailed at 4.10 below.

4.2 Economic Background

UK. Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 much weaker at -0.2%, quarter 3 back up to +0.4% and quarter 4 expected to come in around zero. Political and Brexit uncertainty have dampened growth in 2019.

Despite political uncertainty ending with a decisive overall majority for the Conservative government in the December general election which clears the way for the UK to leave the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020.

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 these remaining uncertainties over the likely type of Brexit become clear. If growth was to reduce significantly, the MPC could also cut Bank Rate in 2020. The Government has announced some major spending increases and is expected to make further commitments in the spring budget; these will provide some support to growth and will take some pressure off the MPC to act to stimulate growth by either cutting Bank Rate or implementing other monetary policy measures.

The MPC did have some concerns over the trend in wage inflation, which was on a rising trend, and peaked at a new post financial crisis high of 3.9% in June. Since then, however, it has been falling steadily back to 3.5% in October, (3 month average figure, excluding bonuses). Growth in employment picked up again to 24,000 in the three months to October, after a fall in the previous month’s figures. However, this is still well below the 2018 average, although the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

As for **CPI inflation** itself, this fell to 1.5% in October and November and is likely to remain between 1.5% and 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

The strong wage inflation figure and the 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 2.0%, i.e. a real term 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.

A more detailed Economic Forecast provided by our Link Asset Services is attached at Appendix 1 and 2 of the Monthly Investment Review attached;

4.3 Interest Rate Forecasts

The Council's treasury advisor, Link Asset Services, has provided the following 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

After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, probably until such time as the fog of Brexit might clear. While the general election in December 2019 has provided political certainty leading to implementation of the UK leaving the EU on 31.1.20, there is still much uncertainty on what sort of trade deal may be agreed by the end of 2020 and its likely impact on the UK economy. Bank Rate forecasts will have to change if this assumption does not materialise. All other forecasts for investment and borrowing rates would also have to change.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

4.4 Interest received has been in excess of the 7 day average libid benchmark (0.57%) with an average yield of 1.644% (including CCLA) and 0.832% (excluding CCLA).

4.5 Investments

The Council held investments of £11.530m in addition to a bank balance of £0.087m.

The table below details where these investments were held as at Q3

Investments at Q3	Q3 £'000
LGIM Money Market Fund	2,530
CCLA Property Fund	3,000
Santander (35 Day Notice Account)	2,000
Lloyds (32 Day Notice Account)	3,000
Lloyds (95 Day Notice Account)	1,000
Total Investments	**11,530**

4.6 Investment in Local Authority Property Fund (CCLA)

The total the Council has invested now stands at £3m (of an approved £4m). Interest is receivable on a quarterly basis with Q3 due during January.

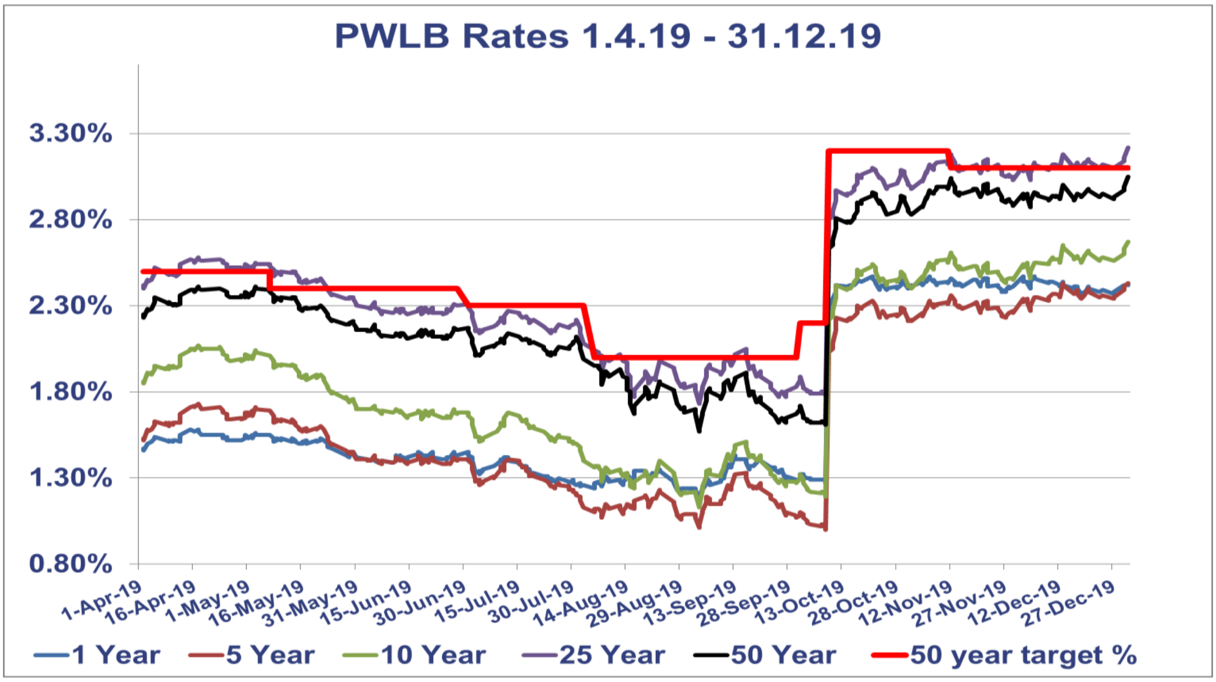
This is a treasury investment and not related to our capital investment in the commercial Property Portfolio.

4.7 New External Borrowing

No new borrowing was undertaken in the third quarter of the financial year.

The Council's total external borrowing stands at £16.5m.

It is anticipated that further borrowing will be undertaken during this financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.43%	2.67%	3.22%	3.05%
Date	21/10/2019	13/12/2019	31/12/2019	31/12/2019	31/12/2019
Average	1.70%	1.64%	1.88%	2.45%	2.31%

4.8 Prudential Borrowing at Q3

	Q3
Prudential Borrowing at Q3	**£'000**
External Borrowing at 31/12/2019	**16,500**
Internal Borrowing at 31/12/2019	**18,094**
Total Prudential Borrowing	**34,594**

4.9 Borrowing in advance of need

The Council has not borrowed in advance of need during the period ending 31 December 2019

4.10 Compliance with Treasury and Prudential Limits

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

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

The prudential and treasury Indicators are shown below and take into account the revisions to the Capital Programme as detailed in section 3 of this report.

	Original £'000	Q1 £'000	Q2 £'000	Q3 £'000
Treasury Indicators				
Authorised limit for external debt	48,519	48,519	48,519	48,519
Operational boundary for external debt	43,184	42,809	40,588	39,165
External Debt	33,863	30,292	28,189	23,198
Long term Leases	0	0	0	0
Investments	(9,527)	(9,258)	(13,706)	(12,886)

Net Borrowing	**24,336**	**21,034**	**14,483**	**10,312**
Prudential Indicators				
Capital Expenditure	21,698	32,062	22,655	20,263
Capital Financing Requirement (CFR)*	43,184	42,810	40,589	39,165
Of Which Commercial Property	22,999	*22,999*	*22,999*	*22,999*
Annual change in CFR*	13,672	19,726	17,505	16,082
In year borrowing requirement	33,863	30,292	28,189	23,198
Under/(over) borrowing	9,321	12,518	12,400	15,967
Ratio of financing costs to net revenue stream*	4.00%	1.69%	1.89%	1.49%
Incremental impact of capital investment decisions:				
Increase/Reduction (-) in Council Tax (band change per annum)	(£0.31)	(£3.30)	(£6.33)	(£7.20)

4.11 Key Changes to the Treasury and Capital Strategies

There are no changes to report to this committee

4.12 The Monthly Investment Review report for December is attached below;

West Lindsey District Council

Monthly Investment Analysis Review

December 2019

Monthly Economic Summary

General Economy

December's economic data began with the November Markit/CIPS Manufacturing PMI survey falling to 48.9, from 49.6 the previous month. The survey's details showed that British manufacturers cut jobs in November at the fastest rate since 2012, as pressures from Brexit and a global trade slowdown caused the sector's longest decline since the financial crisis. The Construction PMI, meanwhile, rose by 1.1 points to 45.3 - still indicating contraction - as companies yet again noted subdued client demand due to political uncertainty. The Services PMI decreased to 49.3 from October's figure of 50.0, leaving the Composite figure also at 49.3 – a decrease from 50.0 in October, indicating a contraction in the UK's economy last month.

The UK trade deficit widened sharply to £5.19bn in October 2019, the biggest since April, from a revised £1.92bn in the previous month. Imports jumped by 6.2%, while exports rose at a much softer 0.8%. GDP data, meanwhile, showed that the UK economy stagnated in the three months to October 2019, falling from the 0.3% q/q growth recorded in the previous period. Year-on-year GDP growth fell slightly to 0.7% in October, from 0.9% y/y in September.

The UK's unemployment rate remained at 3.8% in the three months to October, as the number of people employed rose by 24,000 to 32.8m. Average earnings including bonuses rose by an annual 3.2% rate, slowing from the 3.7% gain recorded in the three months to September. Average earnings excluding bonuses growth slowed less sharply to 3.5% y/y in the three months to October, from 3.6% y/y in the previous period.

CPI was unchanged at 1.5% y/y in November, slightly above market expectations of 1.4% but well below the Bank of England's 2% target. This was the lowest inflation rate since November 2016, but the BoE forecasts suggest that inflation could fall to as low as 1.25% in early 2020 due to caps on energy and water prices. The core CPI rate (which strips out the more volatile components), was 1.7% in November, unchanged from the previous month.

November's retail sales fell by 0.6% m/m after reporting no growth in October, which missed market expectations of a 0.3% m/m increase. This marked the 4th consecutive month of no growth in trade, the longest run since 1996. Year-on-year retail sales growth slowed to 1.0% in November, from the 3.1% gain recorded in the previous period.

The Confederation of British Industry's monthly retail sales balance rose 3 points from a month earlier to 0 in December, the highest level since April, but below market expectations of +3. The latest reading still signalled flat sales overall, with the volume of orders placed on suppliers falling for the 8th consecutive month. The GfK Consumer Confidence index, meanwhile, rose to -11 in December, from the previous month's reading of -14.

Against this backdrop, the Bank of England voted by a 7-2 majority to hold interest rates at 0.75% during their December Meeting. The two dissenting members voted to cut interest rates to 0.5%. Outside of economic and market events the general election on the 12th December saw the Conservatives gain a 78 seat majority. This result provided a late boost to domestic financial markets as the large majority was expected to ease through the Withdrawal Agreement Bill, thus remove some near-term Brexit uncertainty.

In the US, non-farm payrolls rose by 266,000 in November, following an upwardly revised increase of 156,000 in October, easily beating market expectations of 180,000. This was the largest advance in payrolls since January, with notable job gains occurring in health care and in professional and technical services. Employment also increased in manufacturing, reflecting the return of workers from a strike at General Motors. US average hourly earnings for all employees registered a 0.2% m/m gain in November, following an upwardly revised 0.4% rise in October, which was slightly below market expectations of a 0.3% gain. The unemployment rate fell to 3.5% in November from 3.6% in October, which missed market expectations for the rate to remain unchanged.
US CPI increased to 2.1% y/y in November from 1.8% in October, which was marginally above consensus forecasts of a 2.0% rise. This was the highest rate since November 2018, as food inflation was little-changed while energy prices dropped at a much slower pace. The core inflation rate, which excludes volatile items such as food and energy, was unchanged at 2.3 percent, in line with market forecasts. The US economy grew at a 2.1% annualised rate in the third quarter, following the 2% expansion recorded in the second quarter. The increase in real GDP in the third quarter reflected positive contributions from consumption, government spending and residential spending that were partly offset by negative contributions from non-residential fixed investment and private inventory investment.

The Euro Area unemployment rate fell to 7.5% in October, matching market expectations, from an upwardly revised 7.6% in the previous month. This is the lowest rate recorded in the Euro Area since July 2018. The number of unemployed persons in the Euro Area decreased to 12.334 million in October from 12.365 million in September. Across the European Union as a whole, the unemployment rate was unchanged at 6.3% in October, where it has remained for the last six months.

Housing
Buoyed by a 1% monthly gain, Halifax reported that house prices rose by 2.1% y/y in November, which was well above October's 0.9% y/y gain and the consensus forecast of a 1% y/y rise.
Currency
Sterling exhibited significant volatility against both the US Dollar and Euro last month, mainly due to the outcome of the general election. Having garnered a Conservative majority, the PM can fulfil his plan to take the UK out of the EU on the 31st January 2020. As a result, the pound rose from $1.29 to $1.326 and from €1.172 to €1.182
Forecast
The General Election win for the Conservatives has taken away some Brexit uncertainty, and as a result, both Link Asset Services and Capital Economics have left their forecasts unchanged.

Bank Rate	Now	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%

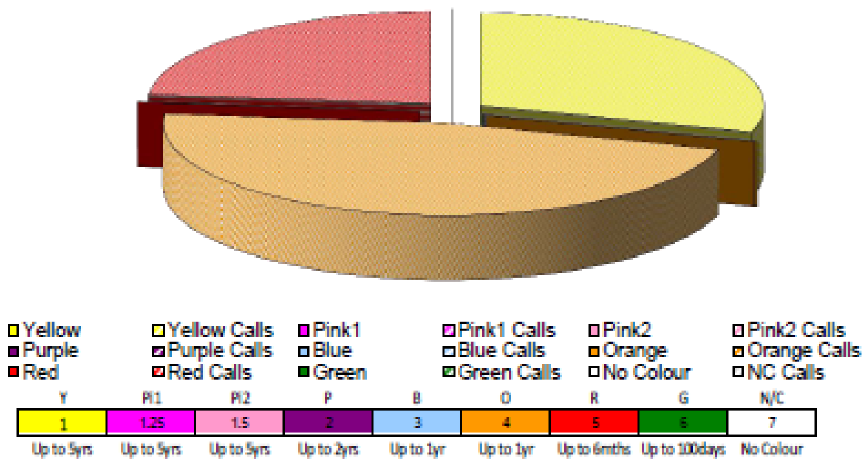
West Lindsey District Council

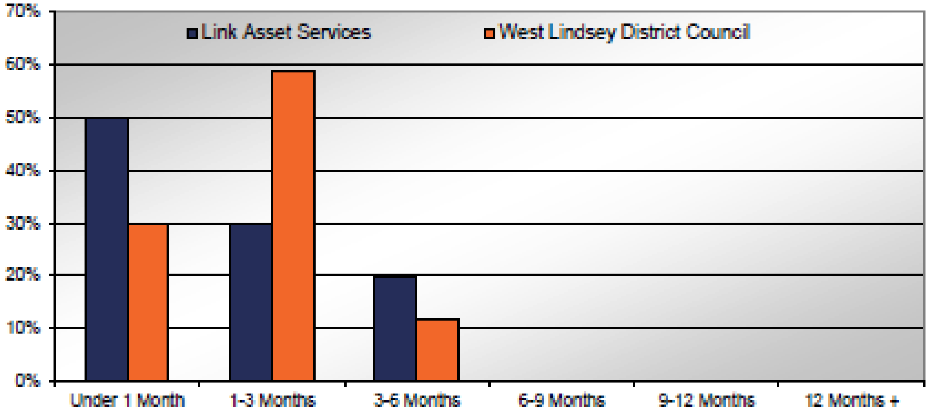
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF LGIM	2,530,000	0.72%		MMF	AAA	0.000%
Lloyds Bank PLc (RFB)	3,000,000	0.95%		Call32	A+	0.005%
Santander UK Plc	1,000,000	0.75%		Call35	A	0.005%
Santander UK Plc	1,000,000	0.75%		Call35	A	0.005%
Lloyds Bank PLc (RFB)	1,000,000	1.10%		Call95	A+	0.014%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
CCLA-LAPF	3,000,000					
Total Investments	**£11,530,000**					
Total Investments - excluding Funds	**£8,530,000**	**0.85%**				**0.004%**
Total Investments - Funds Only	**£3,000,000**					

West Lindsey District Council

Portfolio Composition by Link Asset Services' Suggested Lending Criteria





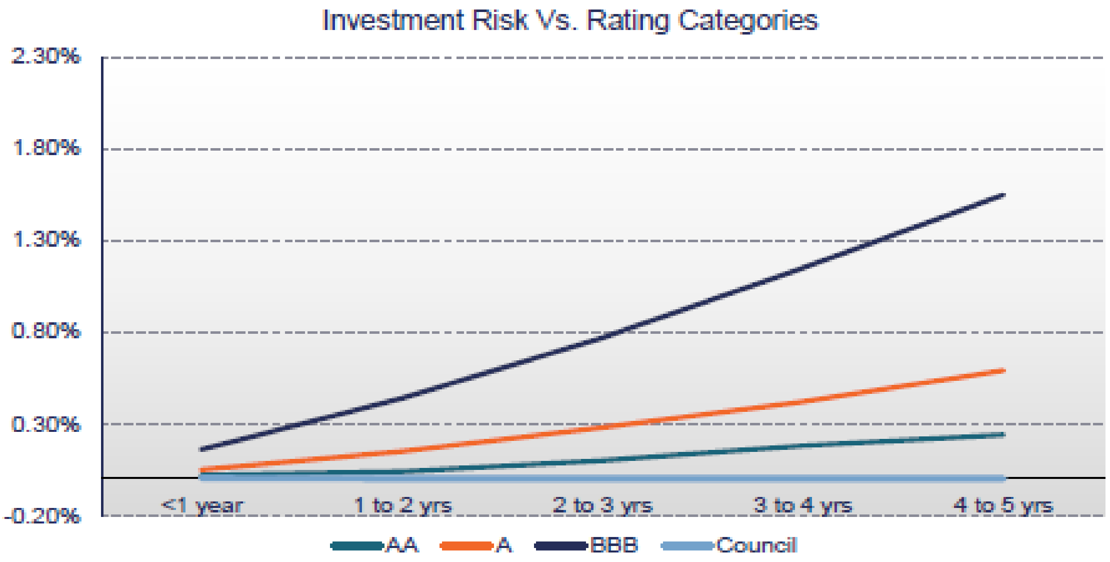
Portfolios weighted average risk number = 3.34

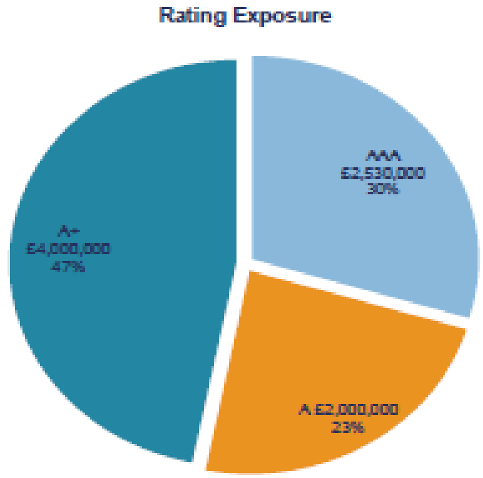
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	29.66%	£2,530,000	100.00%	£2,530,000	29.66%	0.72%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	46.89%	£4,000,000	100.00%	£4,000,000	46.89%	0.99%	48	48	0	0
Red	23.45%	£2,000,000	100.00%	£2,000,000	23.45%	0.75%	35	35	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£8,530,000**	**100.00%**	**£8,530,000**	**100.00%**	**0.85%**	**31**	**31**	**0**	**0**

West Lindsey District Council

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.004%	0.000%	0.000%	0.000%	0.000%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

West Lindsey District Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
06/12/2019	1708	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-'.
06/12/2019	1709	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-'. At the same time the Viability Rating was downgraded to 'a' from 'a+'.
18/12/2019	1711	United Kingdom Sovereign	United Kingdom	The Sovereign Rating was removed from Negative Watch and placed on Negative Outlook.
20/12/2019	1714	Abbey National Treasury Services PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Barclays Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Barclays Bank UK PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Close Brothers Ltd	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Lloyds Bank Corporate Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Lloyds Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	NatWest Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Santander UK PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	National Westminster Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	The Royal Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.

West Lindsey District Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
20/12/2019	1715	Coventry Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Leeds Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Nationwide Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Principality Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Skipton Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Yorkshire Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.

West Lindsey District Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2019	1707	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Positive from Stable.
18/12/2019	1713	HSBC Bank Plc (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

West Lindsey District Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
11/12/2019	1710	Macquarie Bank Ltd.	Australia	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Outlook on the Long Term Rating was changed to Stable from Positive.
18/12/2019	1712	United Kingdom Sovereign	United Kingdom	The Outlook on the Sovereign Rating was changed to Stable from Negative.

West Lindsey District Council

APPENDIX 1: Detailed economic commentary on developments during quarter ended 31 December 2019

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.

Indeed, the malaise in the manufacturing sector appears to have started to affect the services sector as well. 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. At least 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.

Indeed, **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, Michael Saunders and Jonathan Haskel both voted to cut rates immediately at the last two meetings. 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.

Of course, how monetary policy evolves next year depends on how the economy performs. Even if a **Brexit** deal is passed by 31st January this probably won't unleash a tidal wave of business investment that leads to much faster GDP growth. That's because businesses will fear that the UK could end up trading with the EU on WTO terms after 31st December 2020, the immediate effects of which would be similar to those of a "no deal". After all, by pledging not to extend the transition period beyond December 2020, Prime Minister Johnson has left himself just 12 months to strike a new trade agreement with the EU – a feat that has taken others around four years. We suspect that if Johnson falls short he would extend the transition period at the last minute, but by then the damage will have been done and the lingering uncertainty will have kept some business investment on ice.

Admittedly, 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 election honeymoon period was especially short-lived for sterling. Indeed, Johnson's 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. Concerns about Brexit and higher taxes under a Labour government has meant that UK equity indices have underperformed over the last few years. However, the removal of the "Labour" risk at least means there is plenty of room for UK equities to outperform their overseas equivalents, especially if there is a fiscal stimulus early next year.

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.

Meanwhile, 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 2: Detailed commentary on interest rate forecasts

Link Asset Services note: this section has been provided for clients who prefer a more detailed commentary on the background to interest rate forecasts than that provided in the main body of this template in section 2.

Our treasury management advisers, Link Asset Services provided us on 11 November with the following update to their interest rate forecasts. *(Note – some updating has been done.)*

Comparison of forecasts for Bank Rate today v. previous forecast														
	Dec-19	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
11.11.19	0.75	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
5. 8 .19	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	n/a	n/a	n/a	n/a
change	0.00	0.00	0.00	0.00	-0.25	0.00	0.00	0.00	0.00	-0.25	n/a	n/a	n/a	n/a

- ***While the Bank of England and MPC went through the routine at the 7 November meeting week of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), it is very questionable how much all the writing and numbers are worth when faced with the uncertainties of where the UK would be after the general election on 12 December. In October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January; now that the Conservative Government has gained a large overall majority in the election, this departure date can now be progressed. However, there will still be much uncertainty as the terms of a trade deal that will need to be negotiated by the current end of the transition period in December 2020.***

- ***The Bank made a change in their Brexit assumptions to include a deal being eventually passed. Possibly the biggest message that is worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. The MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. Inflation forecasts were cut – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence inflation poses little concern.***

- ***The December MPC meeting again split 7-2 for no change in Bank Rate; the major comment was that it was unclear what impact the post-election Brexit circumstances would have on the economy so they will take no action until there is more clarity.***

- ***In the US, the Fed made three cuts in rates of 0.25% in the second half of 2019 in order to counter the slowdown in growth during the year. It is now unlikely that the US will be heading towards a recession.***

- ***The ECB is increasingly concerned by the headwinds facing the EZ economy as a whole, but especially the German and Italian economies. Germany is particularly***

exposed to a downturn in the world economy due to exports being a very important part of its economy. Italy just looks stuck in weak growth and successive governments have done little to face up to major issues that need dealing with. The ECB has therefore emphasised that while it can tinker at the edges with cuts in rates, and boosting liquidity in financial markets, the heavy lifting will have to be done by fiscal policy measures through national government action. Such siren noises have generally fallen on deaf ears in years gone by and Italy has again had a rap on its knuckles from the ECB for not doing enough to reduce its structural deficit.

- ***The <u>US tariff war with China</u> continues but optimistic noises have been made that a phase one deal will be signed in January.***

- ***<u>China's</u> growth rate has been cooling during 2019, partly as a result of the trade war, despite repeated interventions by the central bank to boost growth through monetary easing.***

- ***<u>Japan</u> is, as always for the last two decades, mired in a battle with trying to get inflation consistently up from near zero, and with weak economic growth. Despite massive monetary policy measures, quantitative easing, and fiscal measures by the government, it is achieving little despite having its foot flat on the floor of the accelerator pedal of measures to stimulate growth.***
- ***As for our forecasts for <u>UK Bank Rate</u>, there is little change apart from the two increases being moved back by one quarter and the 2022/23 financial year being added to our forecasts.***

- ***In order to make any forecast we have had to make <u>one central assumption</u> – a reasonable muddle through outcome to an agreed Brexit trade deal. If the facts change, our forecasts will also change. As events unfold it is possible we could see 25 – 50 bps movements in rates and yields at any time.***

- ***As for <u>PWLB rates</u>, the underlying trend in gilt yields had been on a general falling trend in 2019 until 100 bps were added to all PWLB rates in October. Since then, a rise in the underlying gilt yields has pushed PWLB rates up further.***

- ***Our key advice to clients in the midst of major uncertainties is to focus on <u>managing risk</u>, rather than making a bet on one outcome or the other.***
- ***A key issue facing all central banks, except the US Fed, is that they have very little ammunition, in terms of normal monetary policy measures, to take action to counter the next economic downturn. The Bank of England and the MPC will have an agenda to restock their ammunition as soon as possible by raising Bank Rate when that becomes feasible, and, at a later time, possibly unwinding quantitative easing.***

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.

- Weak capitalisation of some **European banks**, particularly Italian banks.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.

- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

LINK ASSET SERVICES' FORECASTS

We do not currently think that the MPC would increase Bank Rate before agreement being reached on a reasonable UK/EU trade deal. We have moved back our forecast for the first increase from quarter 4 2020 to quarter 1 2021 and the second increase from quarter 1 2021 to quarter 2 2021.

Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments.

Gilt yields and PWLB rates

The general situation is for volatility in bond yields to endure as investor fears and confidence ebb and flow between favouring relatively more "risky" assets i.e. equities, or the "safe haven" of government bonds. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently, although there are likely to also be periods of sharp volatility from time to time.

Our forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU, (apart from the departure of the UK), within our forecasting time period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how volatile PWLB rates and bond yields are at present. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

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

BANK RATE	now	previously
Q1 2020	0.75%	0.75%
Q1 2021	1.00%	1.00%
Q1 2022	1.00%	1.25%

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below.

PWLB debt	Current borrowing rate as at 2.1.20	Target borrowing rate now Q1 2020	Target borrowing rate previous Q1 2020*
5 year	2.40%	2.40%	2.50%
10 year	2.55%	2.70%	2.80%
25 year	3.12%	3.30%	3.40%
50 year	2.98%	3.20%	3.30%

**an extra 1% has been added to allow for the change in PWLB margins on 9 October 2019 in order to produce comparable figures to the now target rates*

Borrowing advice: since November 2018, PWLB rates have fallen significantly up until 100 bps were added to all PWLB rates in October, since when they have been rising again. As our long term forecast for Bank Rate is 2.25%, and all PWLB certainty rates are above 2.25%, there is little value in borrowing from the PWLB. Accordingly, clients will need to reassess their risk appetite in terms of either seeking cheaper alternative sources of borrowing or switching to short term borrowing in the money markets until such time as the Government might possibly reconsider the margins charged over gilt yields. Please speak to your CRM to discuss alternative borrowing sources available.

Our suggested budgeted investment earnings rates for investments up to about three months' duration in each financial year for the next six years are as follows: -

Average earnings in each year	Now	Previously
2019/20	0.75%	0.75%
2020/21	0.75%	0.75%
2021/22	1.00%	1.00%
2022/23	1.25%	1.25%
2023/24	1.50%	1.50%
2024/25	1.75%	1.75%
Later years	2.25%	2.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is unchanged. Negative, (or positive), developments could significantly impact safe haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

APPENDIX 3: Approved countries for investments as at 31 December 2019

Clients may wish to inform members of changes to their approved list of countries for investments.

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

APPENDIX A

REVENUE CARRY FORWARDS - BASE BUDGET ALREADY APPROVED

Budget underspends to be carried forward into 2020/21 which have been approved during the year are provided below for information only.

*please note the figures quoted are forecast as at December 2019 out-turn monitoring. The final carry forward figures will reflect the actual out-turn position at year end.

BASE BUDGET C/FWDS APPROVED IN YEAR			Dec-19	
Committee	Cluster	Business Unit	£ 000	Purpose of Carry Forward
Prosperous Communities	Our People	Housing Strategy	31	Selective Licensing - to fund fixed term posts.
		TOTAL	31	

USE OF EARMARKED RESERVES			Dec-19	
Committee	Cluster	Business Unit	£ 000	Purpose of Carry Forward
Corporate Policy & Resources	Our Council	Customer Services	20	Vacancy in year to carry forward to fund post in 2020/21.
Corporate Policy & Resources	Our Council	Register of Electors	3	Spend on agency staff for 20/21.
		TOTAL	23	

APPENDIX A

REVENUE - PENDING APPROVAL BY MANAGEMENT TEAM

Bids for budget underspends to be carried forward into 2020/21 which require Management Team approval are as follows;

*please note the figures quoted are forecast as at December 2019 out-turn monitoring. The final carry forward figures will reflect the actual out-turn position at year end.

BASE BUDGET C/FWDS PENDING APPROVAL BY MT			Dec-19	
Committee	Cluster	Business Unit	£ 000	Purpose of Carry Forward
Corporate Policy & Resources	Our Council	Business Improvement & Commercial Dev	29	Project spend carry forward to resource new system implementation 20/21.
Corporate Policy & Resources	Our Council	Customer Services	11	Request to c/f full Alysium monies for CRM preparation.
Corporate Policy & Resources	Our Council	Financial Services	32	Towards cost of new finance system implementation 20/21.
Corporate Policy & Resources	Our Place	Operational Buildings	13	Towards cost of moving/clean up costs prior to moving to new operational services depot.
Corporate Policy & Resources	Our Place	Operational Buildings	64	£60k budget for health & safety work at current operational depot site. Carry forward to cover the cost of any reparation costs prior to leaving site for new depot (to be considered as part of wider Depot business case).
Prosperous Communities	Our People	Housing Strategy	22	Contribution towards revenue costs related to private sector enforcement work.
Prosperous Communities	Our People	Housing Strategy	20	Housing Stock Condition Survey - to be carried out 2020/21.
Prosperous Communities	Our People	Private Sector Housing Renewal	10	Approved corpporate training deferred until 20/21.
Prosperous Communities	Our Place	Cemeteries and Churchyards	10	Memorial testing - scheduled to take place Spring 2020.
Prosperous Communities	Our Place	Cemeteries and Churchyards	38	The majority of this budget will need to be slipped as the major works can't be undertaken in the Winter.
Prosperous Communities	Our Place	Culture & Heritage	110	Mayflower project spend to be spent on 4 events in 2020/21.
Prosperous Communities	Our Place	Economic Development	10	Ring fenced revenue spend related to 5-7 Market Place in 2020/21.
Prosperous Communities	Our Place	Economic Development	13	Unspent Place Board budget c/fwd to 2020/21.
Prosperous Communities	Our Place	Economic Development	17	Unspent Gainsborough Regeneration Programme budget to be spent in 2020/21.
		TOTAL	399	