

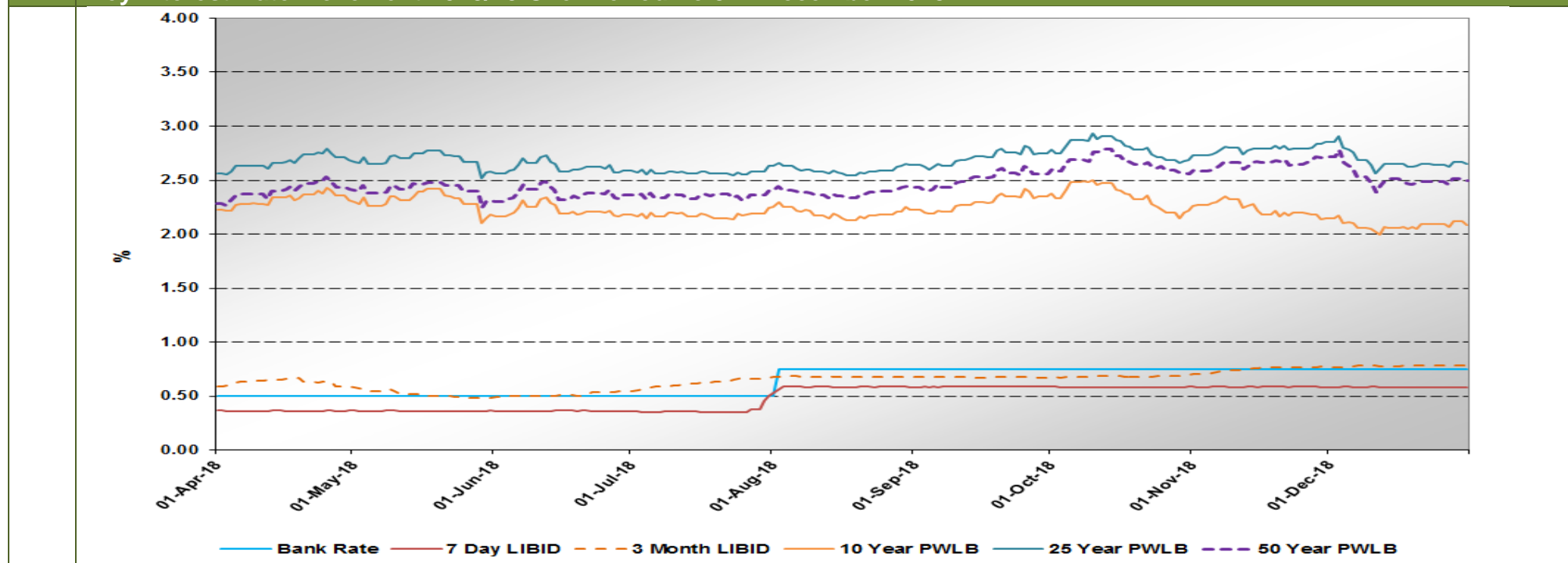
Quarter 3 Treasury Management Bulletin Report at 31st December 2018 – Lincolnshire County Council

Interest Rate Forecast at Time of Strategy 2018/19 – March 2018

Short Term Rates: 0.75% by March 2018

Long Term Rates: Up by 0.30% by March 2018

Key Interest Rate Movement 2018/19 Over Period To 31st December 2018



Key Economic Data

	Qtr 1	Qtr2	Qtr3	Annual Forecast	Direction of Travel
UK GDP	0.1%	0.4%	0.6%	1.3%	Down
CPI Inflation	2.4%	2.7%	2.1%	2.1%	Stable
Base Rate	0.50%	0.75%	0.75%	0.75%	Up
Unemployment Rate	4.2%	4.1%	4.1%	4.0%	Down

Threats To Economy

- **Brexit negotiations at an impasse** – possible disruption to growth and rates increasing quicker than expected.
- **Break up of EU** - possible disruption to growth and rates increasing quicker than expected.
- **US tariff increases** – possible threat to world growth.

Latest Interest Forecast from Link Asset Services – November 2018

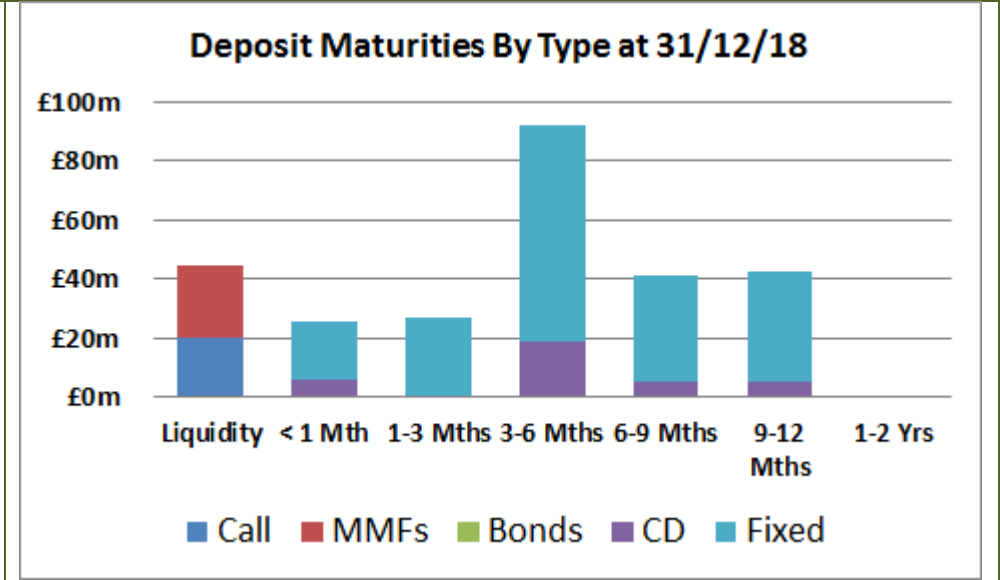
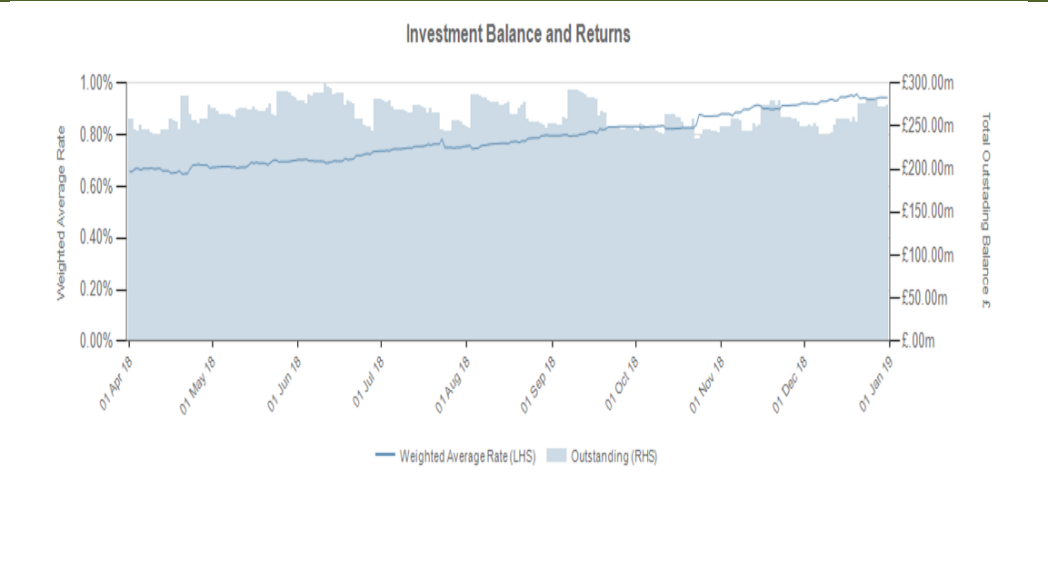
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-21
Bank Base Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
10 yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25 yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50 yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

Investment Strategy / Authorised Lending List Changes During Quarter 3 to 31.12.2018

Counterparty	Action	Reason
Nordea Bank Abp	Sovereign Rating AA+ from AAA	Restructuring of banking structure in October 2018 created new entity domiciled in Finland from Sweden. No change in credit quality.
Handelsbanken plc	Sovereign Rating AA from AAA	Restructuring of banking structure in 2018 created new entity domiciled in UK from Sweden. No change in credit quality.
Aberdeen Standard MMF	Merger of funds.	Merger of Aberdeen MMF & Standard Life MMF on 5/10/18. MMF limit of £20m applies to new entity.
Departure from Lending List	None	

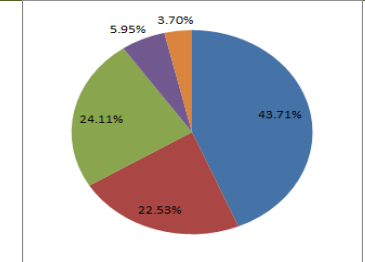
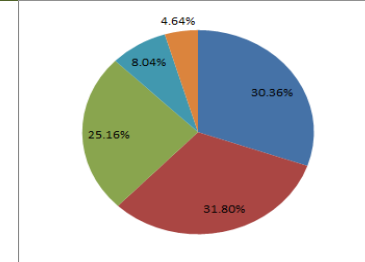
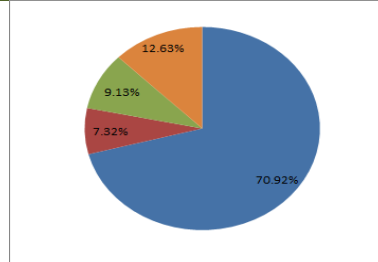
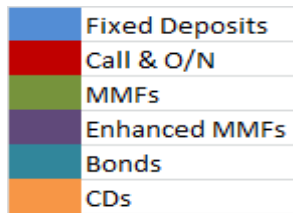
Investment Position at 31st December 2018

Investments Outstanding 31.12.18	Weighted Average Maturity (WAM)	Benchmark Return (7Day/3 Month LIBID) Annualised	Council Performance Annualised
£273.063m	151 Days	0.63%	0.80%



Link Benchmarking Analysis of Investments at 31st December 2018

	LCC	Benchmark Group (9)	English Counties(15)
Return at 31.12.18	0.94%	0.82%	0.86%
WAM	151	82	175
Risk Weighted Score (Duration & Credit Quality)	3.11	2.94	2.82
Model Banding- Expected Return for Risk Taken	0.82% - 0.93%	0.75% - 0.85%	0.76% - 0.87%



Temporary Borrowing for Liquidity Purposes at 31st December 2018

£4m temporary borrowing was outstanding at 31st December 2018, at an interest rate of 0.70%, held for liquidity purposes

Long Term Borrowing Position at 31st December 2018

External Borrowing Position 31/12/2018 and Forecast for 2018/19

Borrowing Position 1/4/2018	£461.391m	4.09%
New Borrowing to 31/12/2018	£20.000m	2.43%
Debt Repaid to 31/12/2018	-£ 25.497m	
Borrowing Position 31/12/2018	£455.894m	4.02%

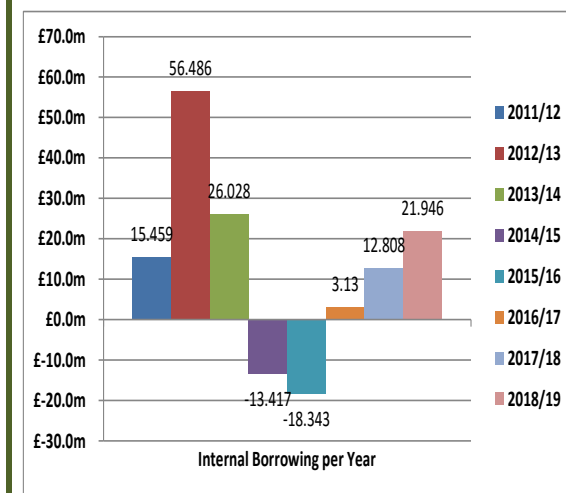
Further action required in 2018/19:

Borrowing Requirement 2018/19	£46.321m	
Further Debt Repayments	-£10.000m	
Projected Borrowing at 31/3/19	£492.215m	
Authorised Limit For External Debt	£651.751m	

Borrowing Requirement Position at 31/12/2018

Capital Programme After Rephasing.	£89.264m
Funded By:	
Borrowing Requirement Less Internal Borrowing	£70.080m <u>(£21.946m)</u> £48.134m
Plus Maturing Debt in Excess of MRP	<u>£18.187m</u>
Less Borrowing Taken	(£20.000m)
Borrowing Requirement 2018/19	£46.321m

Internal Borrowing Position at 31/12/2018 – Total £106.97m



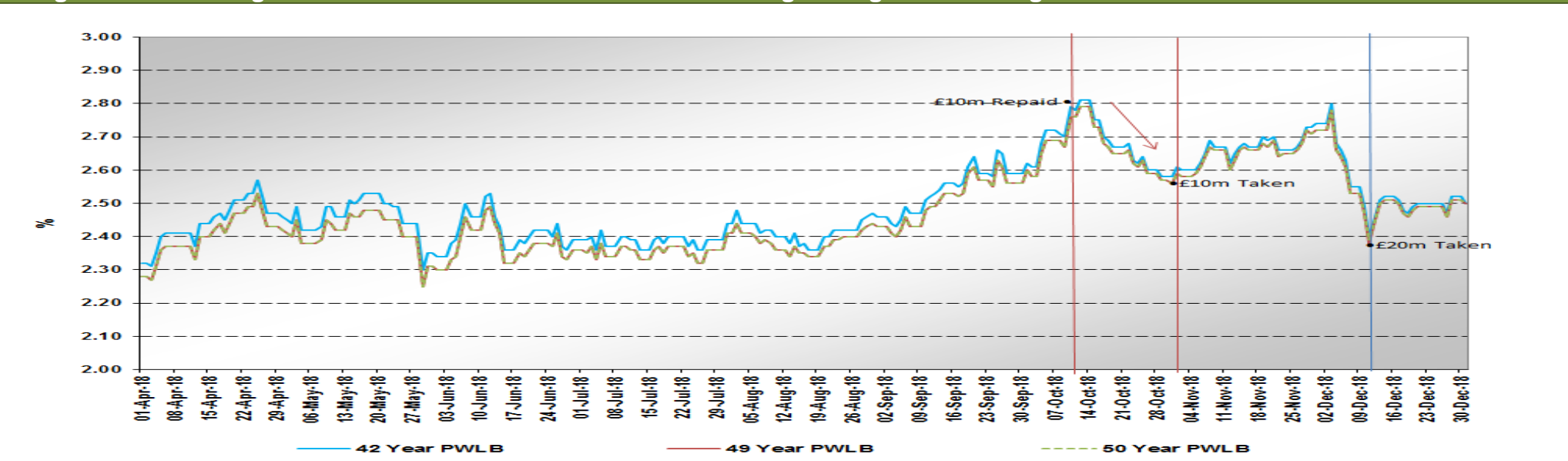
Long Term External Borrowing Activity To 31st December 2018

New Borrowing :PWLB Maturity Loans

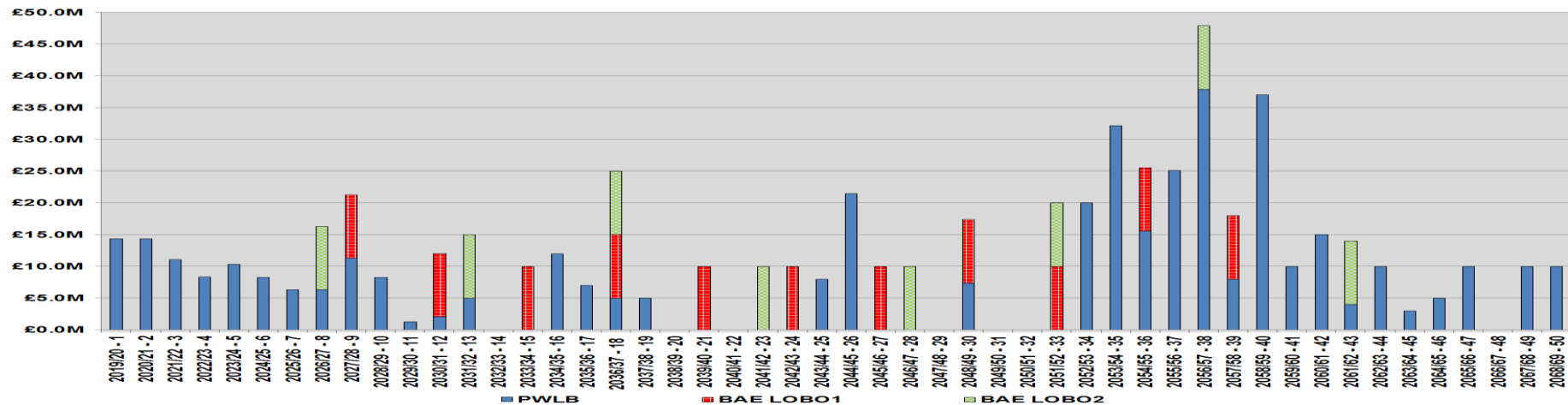
Debt Rescheduling

Amount	Taken	Length	Rate	Loan Repaid: £10m RBS LOBO, Repaid 12/10/18, 42 Years to Run, at 3.8%	Loan Replaced: £10m PWLB Maturity, Taken 1/11/18, 42 Years, at 2.58%
£10.000m	12/12/18	50 Yrs	2.47%	Saving Over Next 42 Years:	Interest Saved: £5.066m
£10.000m	13/12/18	49 Yrs	2.38%		Interest Lost on Premium Paid: -£0.753m
					Premium Paid : <u>-£1.590m</u>
					Overall Saving: £2.723m
					NPV (Discounted at 3.5%): £1.324m
					Annual Saving next 42 Years: £31.5k
					Reduction in Overall Cost of Borrowing: -0.03%

Long Term Borrowing PWLB Rates to 31st December 2018 Showing Timing of Borrowing Taken



Long Term Borrowing Maturity Profile At 31st December 2018 (External Borrowing)



Prevailing Treasury Management Issues

Prudential Indicator Limits 2018/19	No Limits have been breached to 31 st December 2018
Capital Strategy	A requirement of the new Prudential Code 2017, this will pick up the affordability and risk profile of the non-treasury investment activity of the Council, including new Prudential Indicators for non-treasury investment and borrowing activity. Capital Strategy 2019/20 reported to this Committee in January 2019.
International Financial Reporting Standard (IFRS) 9	Effective from 2018/19, it reclassifies financial assets held by the Council on its Balance Sheet, some of which will have to be held a fair value instead of historic cost, such as Money Market Funds, and introduces an Expected Credit Loss model. The Government have just announced a 5 Year Statutory Override to mitigate the impact of this new reclassification of Financial Assets on Councils accounts.
Treasury Management Member Training	Training was delivered to Members on Treasury Management, including the Capital Strategy, on 31 st January 2019 in conjunction with Link Asset Services.
Money Market Fund European Legislation Reform	To comply with European Legislation, money market funds are changing structure from Constant Net Asset Value (CNAV) to Low Volatility Net Asset Value (LVNAV). This transition has been delayed due to issues with the Irish Regulator but it is expected that all funds will have completed the transition by the end of February 2019.