Ashfield
DISTRICT COUNCIL

Report To:	AUDIT COMMITTEE	Date:	16TH DECEMBER 2019
Heading:	TREASURY MANAGEMENT MID YEAR REPORT 2019/20		
Portfolio Holder:	COUNCILLOR DAVID MARTIN – CABINET MEMBER (INWARD)		
Ward/s:	ALL		
Key Decision:	No		
Subject to Call-In:	No		

Purpose of Report

This mid-year report has been written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and covers the following:

- An economic update for the 2019/20 financial year as at 30 September 2019;
- The Council's capital position (prudential indicators);
- The Council's investment portfolio for 2019/20;
- The Council's borrowing position for 2019/20.

Recommendation(s)

- For Audit Committee to note the contents of the report;
- For Audit Committee to note and recommend to Cabinet that they approve the changes to the 2019/20 Prudential Indicators for the Capital Financing Requirement, the Operational Boundary and the Authorised Limit, to reflect the impact of in-year changes to the 2019/20 Capital Programme.

Reasons for Recommendation(s)

In accordance with Council's Financial Regulations the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

In accordance with the Council's Financial Regulations Cabinet are responsible for the implementation and regular monitoring of Treasury Management policies and practices and are to receive, as a minimum, each year reports setting out the Annual Treasury Management Strategy and Plan for the coming year; a mid-year review and an annual Treasury Management Performance Report.

Alternative Options Considered
None

Detailed Information

1 Background

1.1 The Council aims to operate a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending commitments. This management of longer-term cash may involve arranging long or short-term loans, or the use of longer-term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Accordingly, treasury management is defined as:

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

2 Economics and interest rates to date in 2019/20

2.1 In the UK, the first half of the year continued to be impacted by the on-going Brexit uncertainties along with the change in Prime Minister and the uncertainty over when the next general election would be held.

2.2 The Monetary Policy Committee (MPC) of the Bank of England maintained the Bank Rate at 0.75%, which has been in effect since 2nd August 2018. It is expected that the MPC will hold off on changes until beyond the December General Election and some clarity on Brexit.

2.3 Public Works Loans Board (PWLB) has been the main source of borrowing for the Council. PWLB rates have been on a falling trend during the first six months of the year reaching historic lows. The 50 year PWLB (certainty) rate for new long term borrowing fell from 2.44% on the 1 April to 1.87% by 30 September 2019.

2.4 PWLB rates had been based on gilt yields plus 0.80% (80 basis points). On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of an additional 1% (100 basis points) on top of the current margin of 0.80% (80 basis points) increasing the cost of borrowing from this source. There was no prior warning that this would happen.

2.5 The UK's economy is influenced by UK and worldwide events. A full economic update and interest rate forecast provided by Link Asset Services is included at Appendix 1.

3 The Council's Capital Position (including Prudential Indicators)

3.1 Prudential Indicator for Capital Expenditure

3.1.1 Table 1 below shows the original capital programme for 2019/20 approved by Full Council on the 5th March 2019, the 2019/20 current approved estimates reflecting changes approved to 30 September 2019 and 2019/20 revised estimate.

Table 1 – 2019/20 Capital Expenditure by Service

Capital Expenditure by Service	2019/20 Original Estimate £m	2019/20 Current Approved Estimate £m	2019/20 Revised Estimate £m
General Fund	26.394	53.671	53.473
Area Schemes	0.486	1.363	1.116
HRA - Decent Homes	9.195	9.999	7.207
HRA – Other	1.457	2.069	2.025
Total capital expenditure	**37.532**	**67.102**	**63.821**

3.1.2 The main reason for the increase in General Fund capital expenditure is due to the re-profiling of future years approved investment property expenditure, the 2019/20 planned expenditure has been increased by bringing forward planned 2022/23 expenditure. In addition there was slippage on the 2018/19 capital expenditure which resulted in additional capital expenditure now likely to be incurred in 2019/20.

3.2 Changes to the Financing of the Capital Expenditure

3.2.1 Table 2 below draws together the main strategy elements of the capital expenditure plans (above), highlighting the expected financing arrangements of this capital expenditure. This shows the amounts directly financed (from capital receipts, capital grants and capital reserves) and the unfinanced amount to be met from borrowing. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 2 – 2019/20 Financing of the Capital Expenditure

Capital Expenditure	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Total capital expenditure	**37.532**	**63.821**
Financed by:		
Capital receipts	1.180	1.299
Capital grants	2.473	3.167
Capital reserves	9.597	8.166
Total financing	**13.250**	**12.632**
Borrowing requirement	**24.282**	**51.189**

3.2.2 The 2019/20 borrowing requirement has increased as a result of bringing forward investment property expenditure from 2022/23 to 2019/20 and due to the slippage on capital expenditure in 2018/19 to 2019/20.

3.3 Capital Financing Requirement, Operational Boundary and Authorised Limit

3.3.1 Table 3 below shows the original and revised estimate for the CFR, Operational Boundary and Authorised Limit. The CFR represents the Council's underlying need to borrow for capital expenditure. The Operational Boundary is set to monitor the Council's actual borrowing against it; it is set as a warning for if debt should approach the boundary. The Authorised Limit sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow.

3.3.2 The revised 2019/20 CFR includes the additional capital expenditure for Investment Properties as well as slippage brought forward on schemes from 2018/19. The Operational Boundary has been revised upward to reflect the change in CFR and to include an amount for working capital payments. The Authorised Limit has been increased in line with changes to the Operational Boundary. The difference between the Authorised Limit and the Operational Boundary reflects the worst case scenario of having to borrow to finance the capital programme that is not proposed to be financed through borrowing.

Table 3 – 2019/20 Capital Financing Requirement, Operational Boundary and Authorised Limit

	2019/20 Original Estimate £m	**2019/20 Revised Estimate (Adjusted for Slippage) £m**
Prudential Indicator – Capital Financing Requirement		
CFR Non-Housing	58.215	88.259
CFR – Housing	80.081	80.081
Total CFR	**138.296**	**168.340**
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	140.000	170.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	**140.000**	**170.000**
Prudential Indicator – the Authorised Limit for external debt		
Borrowing	150.000	180.000
Other Long Term Liabilities	0.000	0.000
Total debt 31st March	**150.000**	**180.000**

3.4 2019/20 Estimate of the Ratio of Financial Cost to Net Revenue Stream

3.4.1 Table 4 shows the estimate of ratio of financial cost to net revenue stream for 2019/20 for the Housing Revenue Account and General Fund. Financing costs are Minimum Revenue Provision (MRP) charges and external interest payable.

Table 4 – 2019/20 20 Estimate of the Ratio of Financial Cost to Net Revenue Stream

	Original 2019/20 Estimate %	Revised 2019/20 Estimate %
Housing Revenue Account	13.99	14.21
General Fund	12.33	11.08

3.4.2 The change to the General Fund estimate is mainly due to slippage on the 2018/19 capital programme which has resulted in lower Minimum Revenue Provision charges in 2019/20.

3.5 **2019/20 Estimate of the Incremental Impact of Financial Cost to Net Revenue Stream**

3.5.1 Table 5 shows the estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Table 5 – 2019/20 Estimate of the Incremental Impact of Financial Cost to Net Revenue Stream

	Original 2019/20 Estimate £	Revised 2019/20 Estimate £
General Fund (Band D)	27.42	45.78
HRA (52 Weeks)	0	0

3.5.2 The change to the General Fund estimate is mainly due to the inclusion of the additional £20m for Investment Properties that was previously scheduled to be included in 2022/23 and slippage from the 2018/19 Capital Programme.

4. Investment Portfolio 2019/20

4.1 In accordance with the Code, it is the Council's priority to ensure security of Capital and liquidity to obtain an appropriate level of return, which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are still very low and in line with the 0.75% Bank of England Base Rate. The average investment portfolio yield for all investments in the first six months of the year is 0.65%.

4.2 **Call Accounts**

4.2.1 Table 6 below shows the Council held £3.719m of call account investments as at 30 September 2019 (£0.300m at 31 March 2019), the movement is due to higher cash balances in year compared to at year end, this is a result of council tax being collected over 10 months, so cash receipts falls in the final two months of the year. The average interest rate achieved across all call account counterparties in the first six months of the year is 0.51%.

Table 6 – Call Accounts as at 30/09/2019

Borrower	**Balance at 30/09/19 £m**

Barclays Bank	0.169
Handelsbanken	3.550
Total Call Accounts	**3.719**

4.3 **Money Market Funds (MMF)**

4.3.1 The Council currently has two Low Volatility Net Asset Value (LVNAV) Money Market Funds. This means that the value of the shares that the Council holds in these funds may go down as well as up. However, it is unlikely that there will be a change in the price of the MMF shares between the prices paid and monies received when the shares are sold. Table 7 below shows the Council held £6.450m of MMF investments as at 30 September 2019 (£2.084m at 31 March 2019) the movement is due to higher cash balances in year compared to at year end, this is a result of council tax being collected over 10 months, so cash receipts falls in the final two months of the year. The average interest rate achieved across MMF in the first six months of the year is 0.69%.

Table 7 – MMF's as at 30/09/2019

Borrower	**Balance at 30/09/19 £m**
Aberdeen Standard Liquidity – Money Market Fund	5.000
Insight Investments – Money Market Fund	1.450
Total Call Accounts	**6.450**

4.4 Fixed Term Deposits

4.4.1 Table 8 below shows the activity for fixed term deposits to 30th September 2019. The average interest rate achieved across Fixed Term Deposits in the first six months of the year is 0.76%. At the end of September, the Council had two fixed term deposits, one with Thurrock Council for 364 days and one with Suffolk Council for 3 months.

Table 8 - Fixed Term Deposits 30/09/2019

Opening Balance 01/04/19 £m	**No. of investments**	**New Investments Apr-Sept £m**	**No. of investments**	**Repayments Apr-Sept £m**	**No. of investments**	**Closing Balance 30/09/19 £m**	**No. of investments**
5.000	1	9.000	5	10.000	4	4.000	2

4.5 The Council's budgeted investment return for 2019/20 is £35k and performance for the half year to 30 September 2019 is £40k, which comprises £7k from call accounts, £25k from MMF and £8k from fixed term deposits. The estimated full year outturn is £63k. (£28k additional interest above budget).

4.6 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20. The current investment counterparty criteria selection, approved in the Treasury Management Strategy, is meeting the requirement of the treasury management function.

5 Borrowing Position

5.1 The borrowing activities undertaken during the year to 30 September 2019 are summarised below:

Type of Loan	As at 31 March 2019 £m	Borrowed £m	Repaid £m	As at 30 Sept 2019 £m
Fixed PWLB	41.248	6.000	7.012	40.236
Mortgage Loans – LOBO	25.500	0	0	25.500
Fixed Market Loans -	15.000	0	0	15.000
Total External Debt	**81.748**	**6.000**	**7.012**	**80.736**

6 Investment Properties

6.1 As at the 1st April 2019 the Council had spent £23.749m on investment properties. During 2019/20 it disposed of one property, initially purchased for £4.334m and purchased two other properties for £16.828m. The total net expenditure to date on investment properties is £36.243m. These investment properties are expected to generate £2.851m gross rental income per annum which is a gross yield of 7.9%. The CFR and therefore MRP charges have increased as result of activity in investment properties.

7 Glossary of Terms

Call Accounts
A bank account for investment funds it has no fixed deposit period, provides instant access to funds and allows unlimited withdrawals and deposits.

Consumer Price Index (CPI)
The official measure of inflation of consumer prices of the United Kingdom.

Fixed Tern Deposits
This is where an agreed monetary amount is placed with a counterparty for an agreed fixed period.

Gross Domestic Product (GDP)
This is the monetary value of all the finished goods and services produced by a country within its borders in a specific time period, usually a year.

LIBID
The London Interbank Bid Rate, that is, the interest rate at which banks bid to take short-term deposits from other banks.

Monetary Policy Committee (MPC)
This is a committee of the Bank of England which decides the official interest rate in the UK (the Bank of England Base Rate) and also directs other monetary policy such as quantitative easing and forward guidance.

Money Market Fund (MMF)
Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Public Works Loan Board (PWLB)
The PWLB is a statutory body operating within the UK Debt Management Office to lend money from the National Loan Fund to local authorities and to collect the repayments.

Quantitative Easing (QE)
An unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

Retail Price Index (RPI)
A measure of inflation by measuring changes in the price levels of a sample of representative goods and services purchased by households. They use different items and different formulae for the calculations which means that CPI is often lower than RPI.

y/y
Year on year is a method of evaluating two or more measured events to compare the results of one time period with those of a comparable time period on an annualised basis.

Implications

Corporate Plan:
Corporate Plan: Effective treasury management and investment in properties is providing an income stream to support delivery of the key services within the Corporate Plan to our residents.

Legal:
Requirement to adhere to the CIPFA Prudential Code. Ensures compliance with Financial Regulations.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The General Fund Investment Income is expected to be £28k greater than budget
General Fund – Capital Programme	No significant implications
Housing Revenue Account – Revenue Budget	No significant implications
Housing Revenue Account – Capital Programme	No significant implications

Risk:

Risk	Mitigation
Loss of invested funds	Spread of investments within portfolio and adherence to Treasury Management Strategy including limits and Prudential Indicators
Risk that the investment properties become void or fall in value	Spread of assets within the portfolio and a reserve to cushion any void periods.

Human Resources:
Not applicable

Equalities:
Not applicable

Other Implications:
Not applicable

Reason(s) for Urgency
Not applicable

Reason(s) for Exemption
Not applicable

Background Papers
Link Asset Services – Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2019/20.

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Appendix 1

Economic Update provided by Link Asset Services

The United Kingdom (UK) is part of a global economy and, as a result, is affected not only by events at home but also by events overseas. The information below provides a brief update on the UK economy and the wider global economy.

UK. This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or before 31 October, with or without a deal. MPs rejected the fast tracked timetable for the Brexit Bill on 22nd October 2019 which is likely to lead to a further extension.

The first half of 2019/20 has seen UK **economic growth fall** as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. This mirrored investor confidence around the world which is now expecting a significant downturn or possibly even a recession in some developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left the Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, (July 2.1%), and is likely to shift only a little upwards over the rest of 2019/20. It does not therefore pose any immediate concern to the MPC at the current time.

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.2% y/y), in quarter 2, employment rose by 115,000 in the same quarter: this suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Wage inflation picked up to a high point of 3.9%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 1.8%. As 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. This could mean that the MPC will need to take action to raise Bank Rate if there is an agreed Brexit deal as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. Rates were further cut in September by 0.25%.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.9% during 2018 to +0.4% q/q (+1.2% y/y) in quarter 1 and then to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 5.2% y/y in June with car production especially being hit. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) meeting in July expressed concern as to the weak outlook for growth and how low inflation was despite all the monetary stimulus the bank still has in place. The ECB is therefore expected to take action to cut its main rate of -0.4% further, but only marginally, and to look at the potential for more quantitative easing and/or other instruments of monetary policy to provide further stimulus to economic growth. On the political front, Spain and Italy are in the throes of trying to form coalition governments while the very recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. The trade war with the US does not appear to have had a significant effect on GDP growth as yet as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

1.1.2 Interest Rate Forecasts

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

Link Asset Services Interest Rate View	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

It has been little surprise that the Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its last meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That is shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth.

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

1.13 The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates are currently a little below those to the downside.

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**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of anti-austerity noise.

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

- **German minority government and Other minority EU governments.** Germany, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions, which could prove fragile.

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

- The increases in interest rates in the US during 2018, combined with a trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. In mid-2019, investor fears of a looming recession have again sparked moves by investors out of riskier assets i.e. equities, into safe havens of government bonds of major western countries. Some **emerging market countries**, which have borrowed heavily in dollar denominated debt, could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.

- There are concerns around the level of **US corporate debt**, which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings, which will increase their cost of financing and further negatively impact profits and cash flow.

- **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 the revised Withdrawal Agreement is successful, this could remove some 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