

Appendix A – Economic Summary and Counterparty Update

Economic Summary

Growth and Inflation: The UK economy as measured by its Gross Domestic Product (GDP) expanded by 2.0% for the year to March 2017, down from 2.3% a year earlier.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However, the sharp fall in the Sterling exchange rate following the Brexit referendum had an impact on import prices which, together with rising energy prices, resulted in the Office for National Statistics' new main measure of inflation, the Consumer Price Index including owner occupiers' housing costs (CPIH), rising to 2.3% for the year to March 2017, from 0.3% the year before.

The labour market continued to improve through 2016 and in Q1 2017, the latest figures showing the employment rate at 74.8% (the highest rate since comparable records began in 1971) and the unemployment rate at 4.6%. However, wage growth remained modest at around 2.1% excluding bonuses, which meant that real earnings were negative (i.e., after inflation), suppressing consumers' spending power.

UK Monetary Policy: The repercussions on economic growth of the Brexit referendum outcome were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August 2016 and embark on further gilt and bond purchases to £435BN (Quantitative Easing) to maintain the supply of credit to the economy (previously £375BN). This policy change was significant given that the Bank Rate had been maintained at 0.5% over an extended period of eight years since 2009.

Financial markets: The FTSE All Share Index rose 18% from 3,395 to 3,996 and the MSCI World Index rose 13% from 1,648 to 1,860 over the 12 months to 31 March 2017.

PWLB rates: The movement in rates at which local authorities can borrow from the Public Works Loan Board (PWLB) is set out in the table below.

Period	31 March 2016	31 March 2017
1 year	1.1%	0.8%
3 year	1.3%	1.0%
5 year	1.6%	1.3%
10 year	2.3%	2.0%

The rates above reflect the PWLB's 'Certainty Rate'. The Government after 1st November 2012, reduced by 0.2% the interest rates on loans from the PWLB to local authorities who provide information to Government on their plans for long-term borrowing and associated capital spending. The Council has provided the required information and can therefore access this Certainty Rate.

PWLB interest rates have fluctuated during the year. Overall at the year end the rates were lower than those at the start of the 2016/17 financial year. This gave support to the Council's strategy of sourcing its borrowing from other local authorities on a short term rolling basis in order to achieve significant revenue cost savings over the more traditional route of borrowing long term from the PWLB.