

Appendix A

Economic Background 1 April 2018 to 30 September 2018

The UK economy expanded by 0.4% in Q2 2018 up from 0.2% in Q1 2018, leading to a 1.2% Gross Domestic Product (GDP) year-on-year rate (as at the end of June 2018). The annual Consumer Price Index (CPI) measure of inflation increased to 2.7% as at the end of August 2018, up from 2.5% in July 2018. Inflation is likely to remain above the Bank of England's Monetary Policy Committee (MPC) 2.0% target over much of the next three years. The labour market saw the unemployment rate for the three months to 30 June 2018 at 4.0%, down from 4.3% a year earlier and at its lowest level for 40 years.

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

Period	1 April 2018	30 September 2018
1 year	1.5%	1.6%
3 year	1.7%	1.7%
5 year	1.9%	1.9%
10 year	2.3%	2.3%
25 year	2.6%	2.7%
50 year	2.3%	2.6%

The rates above reflect the PWLB's 'Certainty Rate'. The Government after 1 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.

The outlook for the six-month period ending 31 March 2019 continues to remain muted as uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

The Bank of England's MPC voted unanimously to increase its Base Rate at its meeting in August 2018 to 0.75%, up from 0.50%. A relatively weak economic environment limits the speed of any further rises in the Base Rate, although the Bank is of the view that it will "need to raise interest rates a bit more over the next few years". The long term neutral level of Base Rate is considered by the Bank to be between 2% and 3%.