Report considered by the Executive Committee – 4 February 2015

Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	4 February 2015
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	**Treasury Management Strategy 2015/16**
EXECUTIVE SUMMARY	This report is being presented as the Fire Authority is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy. These documents (Appendix A) all support the Medium Term Financial Plan (agenda item 7). The changes of note are: 1. The Authority proposes to invest in enhanced money market funds (the current strategy only permits instant access money market funds). Use of these will help the Authority achieve a more optimal balance of liquidity and yield without compromising security. 2. The Authority proposes that up to 10% of the portfolio can be invested with other local authorities for more than one year, up to a maximum of five years. This allows the Authority to lend at higher rates of interest to the highest rated counterparties. 3. The Authority proposes to invest in Certificates of Deposit (CDs). This will allow access to additional investment terms and rates. It also improves liquidity as CDs can be traded in a secondary market (although it is envisaged CDs will be held to maturity unless there are significant changes in economic/local circumstances).
ACTION	Decision.
RECOMMENDATIONS	It is recommended that: the Authority be recommended to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy for 2014/15.

RISK MANAGEMENT	Making investments in the Authority's own name means that the Authority bears the risk of any counterparty failure. This risk will be managed in accordance with the strategy and with advice from external treasury management advisors. The Director of Finance and Assets will act in accordance with the Authority's policy statement; treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management. There are no direct staffing implications. All of the proposed changes will have an insignificant impact on the risk of counterparty failure. All deposits placed in accordance with the changes will still be made in line with the Creditworthiness Policy detailed in the body of the report.
FINANCIAL IMPLICATIONS	The proposed budget for 2015/16 is £100k. It is anticipated that the budget will be met. Detailed information is shown within Appendix A.
LEGAL IMPLICATIONS	The Authority is required by section 15(1) of the Local Government Act 2003 to have regard to the Department for Communities and Local Government Guidance on Local Government Investments; and by regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]to have regard to any prevailing CIPFA Treasury Management Code of Practice
HEALTH AND SAFETY	No direct impact.
EQUALITY AND DIVERSITY	No direct impact.
USE OF RESOURCES	The projected income has been factored into the Medium Term Financial Plan.
PROVENANCE SECTION & BACKGROUND PAPERS	Treasury Management Strategy and Policy Statements 2013/14 http://bucksfire.gov.uk/files/3814/0292/6941/TREASURYMANAGEMENTfeb14.pdf Treasury Management Practices http://www.bucksfire.gov.uk/NR/rdonlyres/FDA454EA-1735-4569-BE96-C1E3D0079A75/0/ITEM6TreasuryManagementPracticesandASep13andAnnexA.pdf Department for Communities and Local Government Guidance on Local Government Investments (DCLG Guidance) https://www.gov.uk/government/uploads/system/uplo

	ads/attachment_data/file/320206/1501971.pdf This paper should also be read in conjunction with the paper "The Prudential Code, prudential indicators and minimum revenue provision"
APPENDICES	Appendix A – Treasury Management Policy Statement Treasury Management Strategy Statement and Annual Investment Strategy Appendix B – Provisional Counterparty List Appendix C – Prospects for Interest Rates
TIME REQUIRED	10 minutes.
REPORT ORIGINATOR AND CONTACT	Linda Blunt lblunt@bucksfire.gov.uk 01296 744404

Appendix A – Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy

Treasury Management Policy Statement

This Authority defines its treasury management activities as:

The management of the Authority's 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.

This Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The investment policy objective for this Authority is the prudent investment of its treasury balances. The Authority's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and DCLG guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Authority's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Authority will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

Treasury Management Strategy Statement

Current Portfolio Position

The Authority's treasury portfolio position as at 31 December 2014 comprised:

Borrowing

Fixed Rate Funding: £8.265m Average Rate: 4.59%

Investments

£20.722m Average Rate 1 April 2013 to 31 December 2014: 0.69%

It is anticipated that a number of large payments will be made before the end of the year. Therefore, projected interest receivable (see 'Prospects for Interest Rates' below) has been modelled on an average fund balance of £18.5m.

Prospects for Interest Rates

For 2015/16, the Authority will continue with Capita (formerly known as Sector) as its external treasury management advisor. Capita's view of the prospects for interest rates can be seen in Appendix C.

Capita advise that the current benchmark rate of return on investments should be Base Rate (currently 0.50%), although the rate may be higher if the Authority is able and willing to commit funds for longer durations (up to one year). Using this benchmark figure would give an annual return of circa £92.5k on a balance of £18.5m (the total projected return for 2014/15 is circa £120k).

If the Annual Investment Strategy was to remain unchanged from 2014/15, the Authority projects that it could achieve an average rate of 0.59%, which would give an annual return of circa £109k on a balance of £18.5m.

By adopting use of enhanced money market funds, and extending the investment period for local authority investments as detailed within the Annual Investment Strategy (AIS) the Authority projects that it could achieve an average rate of 0.61%, which would give an annual return of circa £113k on a balance of £18.5m.

Borrowing Strategy

The Authority's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio
- To manage the Authority's debt maturity profile, leaving no one future year with a disproportionate level of repayments

No additional borrowing is forecast to take place during the duration of the medium term financial plan.

Investment Strategy

This Authority maintains investments that are placed with reference to cash flow requirements. Investment of the Authority's funds is in accordance with the Annual Investment Strategy.

Debt Rescheduling

The potential for debt rescheduling is monitored in light of interest rate movements.

Any rescheduling will be in accordance with the borrowing strategy. The reasons for rescheduling include:

- The generation of cash savings at minimum risk
- Fulfilment of the borrowing strategy
- Enhancement of the maturity profile of the borrowing portfolio

Due to the current level of penalties on the early repayment of borrowing, it is not expected that any debt will be restructured over the medium term.

Annual Investment Strategy (AIS)

A prudent investment policy has two objectives (as defined by the DCLG guidance):

- achieving first of all security (protecting the capital sum from loss);
- and then liquidity (keeping the money readily available for expenditure when needed);
- once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with those priorities.

Investment Policy

In accordance with guidance from the DCLG and CIPFA, and in order to minimise the risk to investments, the Authority has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps (CDS) and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita in producing its colour coding which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

This Authority applies the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No colour not to be used

The Capita creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

As well as continuing to invest in AAA rated money market funds (MMFs), the Authority also proposes to invest in AAA rated enhanced money market funds (EMMFs) during the year. An EMMF provides the same level of security as a MMF, but whilst MMFs provide instant access to funds, EMMFs require a notice period (typically seven days) before funds can be drawn. EMMFs pay a slightly higher interest rate and will be a useful tool for balancing liquidity and yield whilst maintaining the security of the deposit.

The Authority also proposes to invest in certificates of deposit (CDs). CDs are a negotiable form of fixed deposit, the difference being that you are not obligated to hold the CD to maturity, thus providing added liquidity to the Authority's investment portfolio. CDs create no additional risk as they are issued by UK and international banks and Building Societies and the Authority will invest only in CDs offered by counterparties on the lending list as determined by Capita's creditworthiness policy (as detailed earlier in this section). Although the CDs will be limited to the same counterparties, it may open up rates or durations not offered by those counterparties under a traditional fixed-term deposit.

Country Limits

In 2014/15, the Authority determined that it would not only use approved counterparties based within the United Kingdom during the year but allowed a limited number of counterparties from outside of the UK to be used. Although none of these counterparties were used during 2014/15, these will remain on the lending list for 2015/16. The primary purpose of this is not to increase yield, but to provide additional diversity to the portfolio to effectively manage risk. A number of non-UK banks are ranked higher than some of the UK banks on the Authority's current counterparty list. A list of the proposed counterparties is shown in Appendix B. Although Capita advise that investments can be placed with some of the counterparties for longer than 100 days, the Authority proposes to limit the duration of all non-UK investments to 100 days.

Counterparty Limits

As per the 2014/15 AIS, the Authority has determined that the maximum balance that can be invested with a single counterparty at any point in time will be no more than 30% of the portfolio, up to a limit of £5 million.

The one exception to this limit in the 2015/16 AIS will continue to be Lloyds, where the maximum balance that can be invested will be a limit of £7.5 million. Of this £7.5 million, no more than £5 million will be invested in non-instant access (call) accounts.

The rationale for this is that Lloyds are the Authority's main banking provider, and as part of the contract will pay credit interest on all balances at a rate of Base Rate minus 0.10% (currently giving an effective rate of 0.40%). This means that:

- A higher rate can be achieved than on most other instant-access accounts
- The staff time taken to move money between our main bank account and other instant access account is reduced
- The banking charges associated with the movement of the money between accounts is reduced

- The additional risk exposure to the Authority is minimal as:
    - Lloyds are part nationalised and enjoy significant support from the Government
    - All amounts over the current £5 million limit would be available for withdrawal immediately should circumstances require

Investment Security

Investments are defined as being in one of two categories:

- Specified investments – these are investments with high security and high liquidity. All specified investments are in sterling and have a maturity of no more than one year. They will be with the UK government, a local authority, a parish council or with an investment scheme or body of "high credit quality" (as judged against the Creditworthiness Policy detailed earlier in this paper)
- Non-specified investments – any type of investment that does not meet the specified investment criteria. A maximum of 10% will be held in aggregate in non-specified investments i.e. the Authority may invest funds with other Local Authorities for longer than 364 days – up to a maximum of five years as denoted by the yellow banding on the Capita creditworthiness policy detailed earlier in this paper. Local authorities are Government backed.

Investment Training

Relevant training and updates will be provided to relevant staff by the external treasury management advisors. This will be supplemented by additional training from CIPFA where necessary.

Investment of Money Borrowed in Advance of Need

The Authority does not currently have any money that has been borrowed in advance of need. No further borrowing is planned over the medium term.

Investment Liquidity

In consultation with external treasury advisors, the Authority will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

Appendix B – Provisional Counterparty List

This list is based on information provided by Capita as at January 2015. Please note that all colours indicated refer to Capita's creditworthiness policy (see Appendix A):

UK Based Counterparties

Country	Counterparty	Maximum Duration
UK	Abbey National Treasury Services	Red - 6 mths
UK	Bank of New York Mellon (International) Ltd	Orange - 12 mths
UK	Barclays Bank plc	Red - 6 mths
UK	Cater Allen	Red - 6 mths
UK	Citibank International PLC	Green - 100 days
UK	Close Brothers	Green - 100 days
UK	Credit Suisse International	Red - 6 mths
UK	Goldman Sachs International	Green - 100 days
UK	HSBC Bank plc	Orange - 12 mths
UK	MBNA Europe Bank	Green - 100 days
UK	Merrill Lynch International	Red - 6 mths
UK	Morgan Stanley & Co International plc	Green - 100 days
UK	Santander UK PLC	Red - 6 mths
UK	Standard Chartered Bank	Red - 6 mths
UK	Sumitomo Mitsui Banking Corporation Europe Ltd	Green - 100 days
UK	UBS Ltd	Red - 6 mths
UK	Nationwide BS	Red - 6 mths
UK	Debt Management Office	Yellow - 60 mths
UK	Other Local Authorities	Yellow - 60 mths
UK*	Lloyds Banking Group	Blue - 12 mths
UK*	Royal Bank of Scotland Group	Blue - 12 mths

* Indicates that the counterparty is nationalised/part nationalised

The Authority will also have the ability to invest in AAA rated money market funds (MMFs) and enhanced money market funds. Enhanced money market funds (EMMFs) are money market funds with a fixed notice period for the date of return and whilst still achieving the security of AAA money market funds may achieve a slightly higher rate of interest.

AAA MMFs the Authority currently holds accounts with are CCLA, Igins and Goldman Sachs, and currently we only have balances held in the CCLA MMF. Proposed AAA EMMFs would be at least one of Insight Liquidity Plus Fund, Ignis Short Duration Cash Fund, Payden Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Sterling Investment Cash Fund, Henderson Institutional Cash Fund, Royal London Asset Management Cash Plus, Blackrock Ultra Short Bond Fund and TwentyFour Senior Secured Bond Fund.

Non-UK Based Counterparties

Country	Counterparty	Maximum Duration (as rated by Capita)
Germany	Deutsche Bank AG	Green - 100 days
Germany	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Green - 100 days
Germany	Landesbank Berlin AG	Green - 100 days
Germany	Landesbank Hessen-Thueringen Girozentrale	Green - 100 days
Germany	Landwirtschaftliche Rentenbank	Orange - 12 mths
Sweden	Nordea Bank AB	Orange - 12 mths
Sweden	Skandinaviska Enskilda Banken AB	Red - 6 mths
Sweden	Svenska Handelsbanken AB	Orange - 12 mths
Sweden	Swedbank AB	Red - 6 mths

As noted in Appendix A, the duration of all non-UK investments will be limited to 100 days, even where Capita advise that a longer duration is acceptable.

There are a number of other non-UK based counterparties that have not been included on the list, as either the rates offered are significantly lower than available elsewhere, or that the counterparty is unlikely to take deposits of the size the Authority would be able to offer.

Counterparties Rated ‘No Colour’ by Capita

As noted in Appendix A, sole reliance will not be placed on the use of Capita ratings. The Authority will also use market data and market information, information on government support for banks and the credit ratings of that supporting government. The Authority proposes to continue to use the following UK building societies rated as ‘no colour’ to its counterparty list. The rationale for this is:

- Building societies have an unparalleled record of investor safety. No investor (retail or wholesale) has lost money invested with a building society at least since the Second World War
- All building societies are “credit institutions” for the purposes of the EU Banking Directives, and are required to meet the same standards for capital adequacy and risk control as UK and other EU banks
- Where occasionally a society has encountered difficulties, a merger with a stronger society has ensured that both retail savers and wholesale depositors experience no uncertainty or interruption to service

The purpose of keeping these additional counterparties on The Authority’s Counterparty List is to improve the liquidity and cash management of the portfolio. The building societies listed below generally offer more flexibility with their fixed term deposits, allowing maturities on selected days and less than one month in duration. This will allow the Authority greater flexibility to manage ad-hoc large payments, such as retirement lump sums, which may only become known a few weeks in advance of payment.

The following building societies that the Authority proposes to use all have group assets of at least £10billion. The maximum duration for investments will be limited to 100 days.

Country	**Counterparty**	**Maximum Duration (as rated by Capita)**
UK	Coventry Building Society	No colour - 0 mths
UK	Leeds Building Society	No colour - 0 mths
UK	Skipton Building Society	No colour - 0 mths
UK	Yorkshire Building Society	No colour - 0 mths

Appendix C – Prospects for Interest Rates

The Authority will continue to use Capita as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives the Capita central view:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

The following paragraphs provide Capita's commentary on the current economic situation *(due to the potentially volatile nature of the economy, this section will be updated further before presentation to the CFA).*

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Over time, an increase in investor confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the Eurozone debt crisis, or a break-up of the Eurozone, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where Eurozone institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the Eurozone will be tepid for the next couple of years and some Eurozone countries experiencing low or negative growth, will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the Eurozone debt crisis. While the European Central Bank (ECB) has adequate resources to manage a debt crisis in a small Eurozone country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to Eurozone politicians.

Downside risks currently include:

- The situation over Ukraine poses a major threat to Eurozone and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world.
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalisation of European banks requiring considerable government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti-austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.
- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This

is a return to a similar environment to the one which led to the 2008 financial crisis.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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