ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	**AUDIT COMMITTEE**
DATE:	**15 MARCH 2016**
SUBJECT:	**TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2015/16**
PORTFOLIO HOLDER(S):	**COUNCILLOR H E JONES**
HEAD OF SERVICE:	**MARC JONES (EXT. 2601)**
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LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

- To consider the content of the report.
- To act on any comments made by the Executive or Full Council.
- To review the report to be consistent with professional guidance and to comply with the recommendations of the CIPFA Code of Practice on Treasury Management.

B - What other options did you consider and why did you reject them and/or opt for this option?

n/a

C - Why is this decision for the Executive?

To comply with the scheme of delegation, as set out in the Treasury Management Strategy Statement 2015/16, that was approved by this Council on 26 February 2015.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

n/a

DD - Who did you consult?		**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	n/a – this is the Section151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	

E - Risks and any mitigation (if relevant)		
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

Appendix 1 - Treasury Management Mid-Year Review Report 2015/16
Appendix 2 - Economic performance to date and outlook
Appendix 3 - Commentary on the latest interest rates forecasts
Appendix 4 - Borrowing and Investment Summary – Quarters 1 and 2 2015/16
Appendix 5 - Credit ratings of investment counterparties and deposits held with each as at 30 September 2015
Appendix 6 - Equivalent Credit Ratings (Fitch, Moodys, S&P)
Appendix 7 - Summary of the loans taken out to fund the HRA Settlement
Appendix 8 - Approved countries for investments

FF - Background papers (please contact the author of the Report for any further information):

- Treasury Management Strategy Statement (TMSS) for 2015/16 that was approved by this Council on 26 February 2015.

APPENDIX 1

1. Introduction

The Council operates 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.

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 operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:-

"*The management of the local 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*."

2. Background

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an Annual Treasury Management Strategy Statement, which includes the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report (this report) and an Annual Report, covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months, and looking forward to the second half, of 2015/16;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2015/2016;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A summary of activity since Quarter 2;
- A look ahead to next year; and
- A review of compliance with Treasury and Prudential Limits for 2015/16.

3. Economic Update

3.1 The Council's treasury advisers provided a summary of the economic performance to date and outlook shortly after the end of the first quarter, and can be found in Appendix 2. They have also recently provided the following interest rate forecast:

	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017
Bank Rate (%)	0.50	0.50	0.75	0.75	1.00	1.00	1.25
5yr PWLB rate (%)	2.30	2.40	2.60	2.70	2.80	2.80	2.90
10yr PWLB rate (%)	2.90	3.00	3.10	3.20	3.30	3.40	3.50
25yr PWLB rate (%)	3.60	3.70	3.80	3.90	4.00	4.10	4.10
50yr PWLB rate (%)	3.50	3.60	3.70	3.80	3.90	4.00	4.00

3.2 The Council's treasury advisers recently provided a commentary alongside the interest rate forecast above. This commentary can be found in Appendix 3.

3.3 The Bank rate forecast has remained similar to the forecast at the budget setting period; therefore the projected investment income remains in line with the budget.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by this Council on 26 February 2015. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position.

5. The Council's Capital Position (Prudential Indicators)

5.1 This part of the report is structured to update:-

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow;
- Compliance with the limits in place for borrowing activity; and
- HRA Reform

5.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure in comparison to the capital budget.

Capital Expenditure	2015/16 Original Estimate £m	Position as at 30 September 2015 £m	2015/16 Current Estimate £m
Council Fund	23,470	6,835	19,000
HRA	10,260	2,364	7,900
Total	33,730	9,199	26,900

5.2.1 The current estimate for capital expenditure is behind the original estimate mainly due to the anticipated slippage in the two 21st Century Schools projects.

5.3 Changes to the Financing of the Capital Programme

5.3.1 There are no significant changes to the financing of the capital programme to report at this stage.

5.3.2 The Table below shows the current estimate for the financing of the Capital Programme 2015/16 in comparison to the original forecast. The main difference relates to the forecast underspend in both the 21st Century Schools projects and the Housing Revenue Account projects. The underspend in the 21st Century Schools will result in less Unsupported Borrowing being undertaken and less Grant being received in 2015/16. The forecast underspend in the Housing Revenue Account projects will result in less contribution from Revenue.

Capital Financing	2015/16 Original	2015/16 Revised Estimate £m ('000)
Capital Grants	14,720	11,870
Capital Receipts	4,650	4,650
From Reserves	190	190
Revenue Contribution	7,600	5,240
Supported Borrowing	0	1,215
Unsupported Borrowing	6,570	3,735
Total	**33,730**	**26,900**

5.4 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.4.1 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

5.4.2 Prudential Indicator – Capital Financing Requirement

5.4.2.1 We are on target to achieve the original forecast Capital Financing Requirement.

5.4.3 Prudential Indicator – External Debt/the Operational Boundary

	2015/16 Original Estimate £m	CFR Position at 30 September 2015 £m
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	92,787	87,268
CFR – HRA	43,836	43,367
Total CFR	136,623	130,635
Net movement in CFR	21,863	22,053
	2015/16 Original Estimate £m	**Borrowing Position at 30 September 2015 £m**
Prudential Indicator – External Debt/the Operational Boundary		
Borrowing	157,000	110,748
Other long term liabilities	3,000	Nil
Total debt 31 March	160,000	110,748

5.5 Limits to Borrowing Activity

5.5.1 The first key control over the treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2015/16 Original Estimate £m	Position as at 30 September 2015 £m
Gross borrowing	136,623	110,748
Plus other long term liabilities	Nil	Nil
Gross borrowing	136,623	110,748
CFR (year end position)	136,623	n/a

5.5.2 It is not envisaged that there will be any difficulties for the current year in complying with this prudential indicator.

5.5.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members, currently £165m. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2015/16 Original Indicator (£m)	Current Borrowing Position as at 30 September 2015 (£m)
Borrowing	162,000	110,748
Other long term liabilities	3,000	Nil
Total	165,000	110,748

5.6 HRA Reform

5.6.1 The reform of the HRA subsidy arrangements took place on the 2nd April 2015. It involved the Council paying funds to the Welsh Government to remove the Council from the HRA subsidy system, and the payment made was £21.1m. This will impact on the capital structure of the Council, (as the HRA Capital Financing Requirement will rise by the size of the Welsh Government payment). The borrowing for this was made on the 2nd April 2015 through the Public Works Loan Board. A breakdown of the borrowing can be seen in Appendix 7.

6. Investment Portfolio 2015/16

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £26.0m of investments as at 30 September 2015 (£11.0m at 31 March 2015) and the investment portfolio yield for the first six months of the year was 0.38%. A full list of investments as at 30th September 2015 can be found in Appendix 5. A summary of the investments and rates can be found in Appendix 4.

6.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

6.4 The Council's budgeted investment return for 2015/16 is £0.1m and performance for the year to date is in line with the budget, with £0.048m received to the end of Quarter 2.

6.5 Investment Counterparty criteria

6.5.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of the new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum Short Term sovereign rating of F1 (Fitch), P-1 (Moody's), A-1 (Standard & Poor's), and a minimum Long Term sovereign rating of A (Fitch), A2 (Moody's) and A (Standards & Poor). This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

6.6 During the first six months of 2015/16, a fixed term investment was made with Nationwide Building Society for £5m at a rate of 0.5% for 3 months (18/08/15 – 17/11/15).

7. Borrowing

7.1 The projected capital financing requirement (CFR) for 2015/16 is £130.6m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has projected year end borrowings of £110.7m and will have used £19.9m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

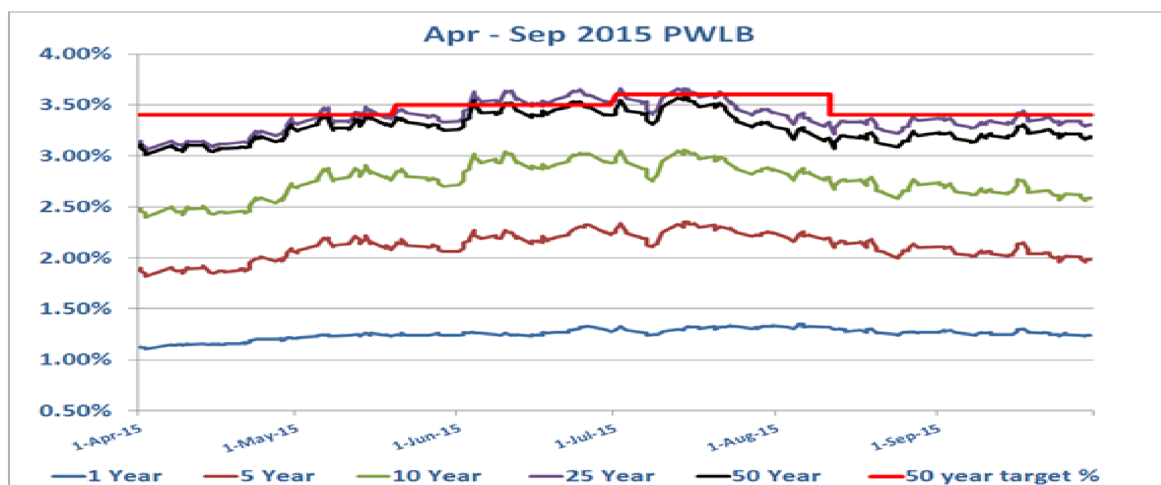
7.2 Due to the HRA Settlement, new external borrowing of £21.169m was undertaken from the PWLB on 02/04/2015. These were taken out at different rates and for different period and amounts, and can be summarised in the table in Appendix 7.

7.3 It is anticipated that no further borrowing will be undertaken during this financial year.

7.4 The graph and table below show the movement in PWLB certainty rates (which is when the government has reduced by 20 basis points (0.20%) the interest rates on loans to principal local authorities (including the Isle of Anglesey County Council) who provide information as required on their plans for long-term borrowing and associated capital spending) for the first six months of the year to date:

PWLB certainty rates 1 April 2015 to 30 September 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%



8. Debt Rescheduling

8.1 No debt rescheduling was undertaken during the first six months of 2015/16. An exercise was undertaken to determine if it would be worthwhile to reschedule some of the debt, however, it would not be cost effective as a premium charge will occur on all premature repayment of loan which is greater than the savings in interest payments that would be achieved.

9. Activity since Quarter Two

9.1 In addition to the normal transfers between call accounts designed to maximize Investment Income, since Quarter 2 the fixed term investment made with Nationwide Building Society for £5m at a rate of 0.5% matured on 17/11/15. This investment was rolled over with Nationwide Building Society for a further 3 months until 16/02/16 at a rate of 0.51%.

10. Plans for next year

10.1 At its next meeting in February, this Committee will consider the plans for borrowing and investment for the next financial year. The initial plans, according to the current strategy are:-

- to use the required sum from the available general supported borrowing allocation of £2.189m (£2.189m in 2014/15) plus any unused allocation brought forward from this year;
- to borrow, on an unsupported basis, to fund capital investment priorities, linking in to the transformation objectives.

11. Recommendation

11.1 To consider the content of the report and forward onto the next meeting of the County Council together with any comments.

11.2 The report is referred on to the Audit Committee for their review and feedback to the Executive.

APPENDIX 2

Perfformiad Economaidd hyd yma a'r rhagolygiad/ Economic performance to date and outlook

1. U.K.

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% though there was a rebound in quarter 2 to +0.7%. The Bank of England's August Inflation Report included a forecast for growth to remain around 2.4 – 2.8% over the next three years. However, the subsequent forward looking Purchasing Manager's Index, (PMI), surveys in both September and early October for the services and manufacturing sectors showed a marked slowdown in the likely future overall rate of GDP growth to about +0.3% in quarter 4 from +0.5% in quarter 3. This is not too surprising given the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets creating headwinds for UK exporters. Also, falls in business and consumer confidence in September, due to an increase in concerns for the economic outlook, could also contribute to a dampening of growth through weakening investment and consumer expenditure. For this recovery to become more balanced and sustainable in the longer term, the recovery still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly over the last few years although it has now ticked up recently after the Chancellor announced in July significant increases planned in the minimum (living) wage over the course of this Parliament.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. It has therefore been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which slipped back to zero in June and again in August However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn. The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. Despite average weekly earnings ticking up to 2.9% y/y in the three months ending in July, (as announced in mid-September), this was unlikely to provide ammunition for the MPC to take action to raise Bank Rate soon as labour productivity growth meant that net labour unit costs appeared to be only rising by about 1% y/y. However, at the start of October, statistics came out that annual labour cost growth had actually jumped sharply in quarter 2 from +0.3% to +2.2%: time will tell if this is just a blip or the start of a trend.

There are therefore considerable risks around whether inflation will rise in the near future as strongly and as quickly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets. On the other hand, there are also concerns around the fact that the central banks of the UK and US have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are therefore arguments that they need to raise rates sooner, rather than later, so as to have ammunition to use if there was a sudden second major financial crisis. But it is hardly likely that they would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has therefore progressively been pushed back during 2015 from Q4 2015 to Q2 2016 and increases after that will be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20.

2. U.S.

GDP growth in 2014 of 2.4% was followed by first quarter 2015 growth depressed by exceptionally bad winter weather at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) and strong growth was initially expected going forward. Until the turmoil in financial markets in August caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. might start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, and due to a 20% appreciation of the dollar which has caused the Fed to lower its growth forecasts. Since then the nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to significantly weaken. This has pushed back expectations of the first rate increase from 2015 into 2016.

3. Eurozone

The ECB fired its big bazooka by announcing a massive €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government debt of selected EZ countries. This programme started in March and will run to September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment. There has also been a continuing trend of marginal increases in the GDP growth rate which hit 0.4% in quarter 1 2015 (1.0% y/y) and +0.4%, (1.5% y/y) in Q2 GDP. The ECB has also stated it would extend its QE programme if inflation failed to return to its target of 2% within this initial time period.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

4. China and Japan

Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Q2 2015 growth was -1.6% (annualised) after a short burst of strong growth of 4.5% in Q1. During 2015, Japan has been hit hard by the downturn in China. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy, due to political lobbies which have traditionally been supporters of Abe's party.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market. Many commentators are concerned that recent growth figures around that figure, could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer. Overall, China is still expected to achieve a growth figure that the EU would be envious of. However, concerns about whether the Chinese cooling of the economy could be heading for a hard landing, and the volatility of the Chinese stock market, have caused major volatility in financial markets in August and September such that confidence is, at best, fragile.

5. Emerging countries

There are considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in western currency denominated debt since the financial crisis, caused by western investors searching for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields (due to QE), and near zero interest rates, into emerging countries, there is now a strong current flowing to reverse that flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields. This change in investors' strategy and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US and UK, has helped to cause the dollar and sterling to appreciate. In turn, this has made it much more costly for emerging countries to service their western currency denominated debt at a time when their earnings from commodities are depressed. There are also going to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates, if available at all.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by sovereign wealth funds of countries highly exposed to falls in commodity prices which, therefore, may have to liquidate investments in order to cover national budget deficits.

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Capita Asset Services

Sylwadau ar y rhagolygon diweddaraf ar raddfeydd llog/ Commentary on the latest interest rates forecasts

The Councils treasury advisors undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

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

The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:-

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows;
- UK economic growth turns significantly weaker than we currently anticipate;
- Weak growth or recession in the UK's main trading partners - the EU, US and China;
- A resurgence of the Eurozone sovereign debt crisis;
- Recapitalisation of European banks requiring more government financial support;
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens.

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

- Uncertainty around the risk of a UK exit from the EU;
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ;
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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.

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Capita Asset Services

Crynodeb Benthyca a Buddsoddi – Chwarteroedd 1 a 2 2015/16
Borrowing and Investment Summary – Quarters 1 and 2 2015/16

	30 Medi / Sept 2015		30 Mehefin / June 2015	
	£m	% (paid on borrowing and received on investment)	£m	% (paid on borrowing and received on investment)
Benthyca – graddfa sefydlog Borrowing – fixed rate	110.7	5.42	110.7	5.42
Benthyca – graddfa amrywiol Borrowing – variable rate	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuon – galw hyd at 30 diwrnod Deposits – Call to 30 days	21.0	0.36	25.0	0.34
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	5.0	0.5	0.0	nil
Adneuon – Tymor sefydlog 1 bl. + Deposits – Fixed Term 1 year +	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Cyfanswm Adneuon Total Deposits	26.0	0.38	25.0	0.34
Cyfartaledd Adneuon yn y Chwarter Highest Deposits in the Quarter	33.4	d/b / n/a	32.0	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Lowest Deposits in the Quarter	25.5	d/b / n/a	11.0	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	28.0	0.34	26.5	0.34

Ni torwyd unrhyw un o’r dangosyddion trysorlys yn ystod hanner cyntaf y flwyddyn.
None of the treasury indicators were breached during the first half of the year.

APPENDIX 5

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 30 Medi 2015*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2015*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuon / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From / To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**7,488**	**Galw/ Call**	**n/a**	**0.40**	**A+**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Coch - 6 mis/ Red - 6 months**
HSBC Holdings plc	HSBC Bank plc	**500**	**Galw/ Call**	**n/a**	**0.25**	**AA-**	**F1+**	**Aa2**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc	Santander UK plc	**7,198**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,789**	**Galw/ Call**	**n/a**	**0.25**	**BBB+**	**F2**	**A3**	**P-2**	**BBB+**	**A-2**	**Glas - 12 mis / Blue - 12 months**
Nationwide Building Society	Nationwide Building Society	**5,000**	**Fixed Term**	**18/08/2015 – 17/11/2015**	**0.50**	**A**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**

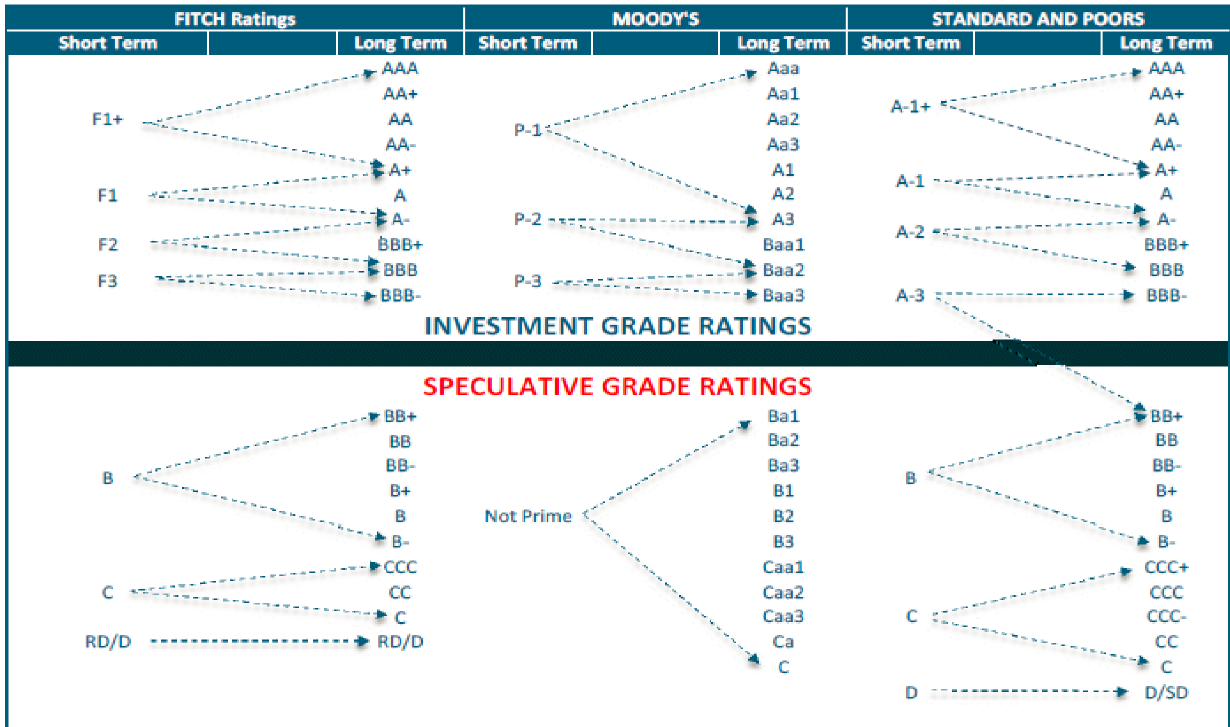
* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2015/16/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 6 of the 2015/16 Treasury Management Strategy Statement / Annual Investment Strategy

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

- Yn Atodiad 5 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 6.

APPENDIX 6

Graddfeydd Credyd Cyfatebol/
Equivalent Credit Ratings (Fitch, Moodys, S&P)



1. This comparison highlights the differences and similarities in the use of nomenclature between the rating agencies
2. The lines linking the short-term and long-term indicate normal (although not absolute) relationships between the two rating scales at each agency

CRYNODEB OR BENTHYCIADAU A GYMERWYD AR GYFER Y SETLIAD CRT
SUMMARY OF THE LOANS TAKEN OUT TO FUND THE HRA SETTLEMENT

Date of Loan	Maturity Date	Interest Rate %	Amount (£)
02/04/2015	01/04/2026	3.67	527,601.00
02/04/2015	01/04/2027	3.73	490,601.00
02/04/2015	01/04/2028	3.80	262,440.00
02/04/2015	01/04/2029	3.85	684,697.00
02/04/2015	01/04/2030	3.91	450,706.00
02/04/2015	01/04/2031	3.96	660,449.00
02/04/2015	01/04/2032	4.01	314,886.00
02/04/2015	01/04/2033	4.05	636,565.00
02/04/2015	01/04/2034	4.09	623,834.00
02/04/2015	01/04/2035	4.13	611,357.00
02/04/2015	01/04/2036	4.16	599,130.00
02/04/2015	01/04/2037	4.18	587,147.00
02/04/2015	01/04/2038	4.20	225,467.00
02/04/2015	01/04/2042	4.25	999,781.00
02/04/2015	01/04/2043	4.25	1,020,120.00
02/04/2015	01/04/2044	4.25	1,009,718.00
02/04/2015	01/04/2045	4.25	11,464,215.00
			21,168,714.00

APPENDIX 8

Approved countries for investments

Based upon lowest available sovereign credit rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- Saudi Arabia