ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	**THE EXECUTIVE**
DATE:	**18 SEPTEMBER 2017**
SUBJECT:	**ANNUAL TREASURY MANAGEMENT REVIEW FOR 2016/17**
PORTFOLIO HOLDER(S):	**COUNCILLOR JOHN GRIFFITH**
LEAD OFFICER(S):	**R MARC JONES**
CONTACT OFFICER(S):	**GARETH ROBERTS/CLAIRE KLIMASZEWSKI (EXT. 2675/1865)**

Nature and reason for reporting

To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2016/17 (Appendix 8 of the Treasury Management Strategy Statement 2016/17). In accordance with the Scheme of Delegation, this report was presented to the Audit Committee for scruitiny on 25 July 2017, who resolved to forward the report onto the Executive Committee without comment. The report is due to be presented to the Full Council once it has been to this Committee.

Summary

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2016/17, the minimum reporting requirements were that the full Council should receive the following reports:-

- an annual treasury strategy in advance of the year (received on 10 March 2016);
- a mid-year treasury update report (received on 28 February 2017);
- an annual review following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

In order to support the scrutiny role of the members of the Audit Committee, Member training on treasury management issues was undertaken during November 2016.

During 2016/17, the Council complied with its legislative and regulatory requirements. The key data for actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Data for actual prudential and treasury indicators	2015/16 Actual £000	2016/17 Original £000	2016/17 Actual £000
Capital expenditure			
• Non-HRA	16,369	38,665	28,033
• HRA	27,607	14,236	8,607
• Total	43,976	52,901	36,640
Total Capital Financing Requirement:			
• Non-HRA	84,291	95,748	91,515
• HRA	43,365	43,529	42,499
• Total	127,656	139,277	134,014
Gross borrowing	110,744	164,000	117,110
External debt	110,744	164,000	117,110
Investments			
• Longer than 1 year			-
• Under 1 year	10,983	14,600	13,319
• Total	10,983	14,600	13,319

Other prudential and treasury indicators are to be found in the main body of this report. The Section 151 Officer also confirms that borrowing was only taken out for capital purposes and the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2016/17 continued the challenging investment environment of previous years, namely low investment returns.

RECOMMENDATIONS

The Committee is recommended to:-

(i) Note that the outturn figures in this report will remain provisional until the audit of the 2016/17 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in this report will be reported as appropriate;
(ii) Note the provisional 2016/17 prudential and treasury indicators in this report;
(iii) Consider the annual treasury management report for 2016/17 and pass on to the next meeting of the full Council with any comments.

Appendices:

Appendix 1 - Summary Portfolio Valuation as at 31 March 2017
Appendix 2 - Credit ratings of investment counterparties and deposits held with each as at 31 March 2017
Appendix 3 - Credit ratings of investment counterparties and deposits held with each as at 3 July 2017
Appendix 4 - A Commentary by Capita Asset Services on the Economy, Investment and Borrowing Rates

Background papers :

Treasury Management Strategy Statement 2016/17
Prudential and Treasury Indicators 2016/17
Treasury Management Mid-Year Review Report 2016/17
Capital Outturn Report 2016/17

1. INTRODUCTION

This report summarises the following functions / activities / outcomes in financial year 2016/17:-

- Capital activity;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness and the impact on investment balances;
- Interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2016/17

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:-

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- Financed from borrowing: this may be through planned borrowing or otherwise. If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2015/16 Actual (£m)	2016/17 Estimate (£m)	2016/17 Actual (£m)
Non-HRA capital expenditure	16	39	28
HRA capital expenditure	28	14	9
Total capital expenditure	**44**	**53**	**37**
Non-HRA financed in year	16	39	28
HRA financed in year	28	14	9
Non-HRA capital expenditure financed by borrowing	**2**	**9**	**11**
HRA capital expenditure financed by borrowing	**21**	**0**	**0**

3. THE COUNCIL'S OVERALL BORROWING NEED

3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2016/17 capital expenditure financed by borrowing (see above table), and prior years' capital expenditure funded by borrowing which has not yet been paid for by revenue or other resources. The above table shows that £11m of Council fund capital expenditure is financed from borrowing. The actual external borrowing taken out was £6.2m at a reduced rate for the 21st Century Schools projects. The remaining £4.8m was internally borrowed, with Council balances funding this in the short-term to reduce interest payments. However, the expectation is that in the longer term the borrowing will need to be taken out to replenish Council balances.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

3.3 Reducing the CFR

3.3.1 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision, MRP, to reduce the CFR. This is, effectively, a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

3.3.2 The total CFR can also be reduced by:-

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.3.3 The Council's 2016/17 MRP Policy (as required by WG Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 10 March 2016.

3.3.4 The Council's CFR for the year is shown below and represents a key prudential indicator. This would include any PFI and leasing schemes on the balance sheet which would increase the Council's borrowing need, the CFR. There were no such schemes during the year.

CFR: Council Fund	2015//16 Actual (£m)	2016/17 Budget (£m)	2016/17 Actual (£m)
Opening balance	86	91	84
Add capital expenditure financed by borrowing (as above)	2	9	11
Less MRP/VRP*	(4)	(4)	(4)
Closing balance	84	96	91

CFR: HRA	2015/16 Actual (£m)	2016/17 Budget (£m)	2016/17 Actual (£m)
Opening balance	44	44	43
Add unfinanced capital expenditure (as above)	-	-	0
Less MRP/VRP*	(1)	(1)	(1)
Closing balance	43	43	42

** Includes voluntary application of capital receipts*

3.3.5 The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

3.4 Gross borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This, essentially, means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2016 Actual (£m)	31 March 2017 Budget (£m)	31 March 2017 Actual (£m)
Gross borrowing position	110.7	161.0	117.1
CFR	127.7	139.3	134.0

3.4.1 As part of the financing of capital expenditure for 2016/17, internal borrowing was used to finance the gap between available resources (capital receipts, capital grants, capital contributions and revenue contributions) and the capital expenditure. It was decided, in light of current and projected market interest rates and counterparty credit risks, to continue internalising borrowing, in the short-term at least. This means that instead of borrowing externally for all of the Council's borrowing requirement, the Council has instead used its own Council reserves to fund part of its capital programme. However, in March 2017, the Council took out a loan from the PWLB of £6.2m . This was at a preferential rate of 2.2%, specifically for the 21st Centure Schools projects for the year. The majority of this loan (£4m) is supported borrowing funded by Welsh Government.

3.4.2 The internal borrowing strategy has now been implemented throughout each of the last six years. As a result of continuing with this strategy in part, the gap between CFR and external borrowing increased during 2016/17 by £6.4m. The gross borrowing of £117.1m at 31 March 2017 is less than the forecast CFR for the following two years.

	Actual 2016/17 (£m)	Estimated 2017/18 (£m)	Estimated 2018/19 (£m)
Capital Financing Requirement	134	139	141

Source: Treasury Management Strategy 2017/18

3.5 The other debt related indicators are:

3.5.1 The authorised limit - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council maintained gross borrowing within its authorised limit.

3.5.2 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.5.3 Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2014/15	2015/16	2016/17
Authorised limit	£127.0m	£165.0m	£166.0m
Maximum gross borrowing position	£89.6m	£110.7m	£117.1m
Operational boundary	£122.0m	£126.0m	£161.0m
Financing costs as a proportion of net revenue stream – CF	5.79%	6.06%	6.09%
Financing costs as a proportion of net revenue stream – HRA	14.60%	13.83%	18.56%

4. TREASURY POSITION AS AT 31 MARCH 2017

4.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity in accordance with the Treasury Management Strategy 2016/17. The borrowing and investment figures for the Council as at the end of the 2015/16 and 2016/17 financial years are as follows:-

	31 MARCH 2016			31 MARCH 2017		
	£'000	Average Rate (%)	Average Maturity (yrs)	£'000	Average Rate (%)	Av erage Maturity (yrs)
Debt	110,741	5.72	24.9	117,110	5.25	22.7
CFR	127,656			134,014		
Over / (under) borrowed	(16,915)			(16,904)		
Fixed term investments (all < 1 year, managed in house and fixed rate)	5,000	0.50		5,000	0.35	
No notice investments (all managed in house)	11,209	0.35		8,319	0.15	
Total Investments	16,209	0.40		13,319	0.22	

See a more detailed analysis in Appendix 1. The upper limits for fixed rate and variable rate exposures were not breached during the year.

4.2 Borrowing is further broken down by maturity as:-

	31 MARCH 2016		31 MARCH 2017	
	£m	% of total	£m	% of total
Total borrowing	110.7	100	117.1	100
Under 12 months	0.0	0.0	5.5	4.7
12 months and within 24 months	5.5	4.97	5.1	4.3
24 months and within 5 years	14.5	13.1	9.6	8.2
5 years and within 10 years	4.2	3.79	5.6	4.8
10 years and above	86.5	78.14	91.3	78.0

4.3 There was no debt rescheduling during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

4.4 Part of the Council's deposits are held in no notice deposit accounts which pay interest at rates near the prevailing base rate, £8.3m at 0.15% on 31 March 2017 (31 March 2016 11.2m at 0.35%). There was one loan to another local authority for £5m at the interest rate of 0.35%. All investments were for under 1 year.

5. TREASURY STRATEGY FOR 2016/17

5.1 The expectation for interest rates within the strategy for 2016/17 anticipated low but rising Bank Rate (starting in quarter 1 of 2017), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis and Brexit promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.2 In this scenario, the treasury strategy was to postpone borrowing, where possible, to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

5.3 During 2016/17, there was major volatility in PWLB rates, with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3 and then partially easing back towards the end of the year.

6. INVESTMENT OUTTURN FOR 2016/17

6.1 Investment Policy – the Council's investment policy is governed by Welsh Government investment guidance, which has been implemented in the annual Treasury Management Strategy Statement approved by the Council on March 10 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6.2 The Bank Rate remained at its historic low of 0.5% in the first quarter of the year. However, the UK Referendum to leave the EU created an economic shock in the short-term and continuing uncertainty and dampening down of the economy throughout the year. In August 2016, the Bank of England reduced the bank base rate from 0.50% to 0.25% in order to mitigate the decline in the economy. This lead to counter-party organisations reducing rates on investments and the typical call account rates dropped from 0.25% to 0.15% and lower.

6.3 The expected investment strategy was to keep to shorter term deposits (up to 364 days) although the ability to invest out to longer periods was retained. Loans to other local authorities were also made to reduce risk but to try to increase return with the extremely low rates available. Cash balances were expected to be up to £30m, ranging between £9m and £30m. The budget was set at 0.50% or £150k after adjusting for the higher rates on existing investments. As it turned out, average balances of £19.1m returned £54k (0.18%). The lower than budgeted average cash balance was partly the result of continuing to internalise borrowing. The lower than budgeted return was due to worse than anticipated rates of return on investments following Brexit, with rates continuing to fall throughout the year. The interest receivable budget has been revised for 2017/18 to a more realistic budget to reflect the lower interest rates and returns on investment.

7. INVESTMENT SECURITY AND CREDIT QUALITY

7.1 No institutions in which we had made investments had any difficulty in repaying investments and interest on time and in full during the year.

7.2 During 2016/17, credit ratings remained poor across the range of our usual counterparties and worsened following the EU referendum leave outcome. Since late 2008, it has been challenging to place deposits with appropriate counterparties. This is more challenging since the referendum as the banks etc have bourne the brunt of the economic shock due to uncertainty around the future of financial markets. In December 2008, the Council's approval was obtained to extend flexibility with counterparties to deal with market changes; this included the ability to invest all our surplus funds with central government if necessary. The list was further widened in April 2010 to include nationalised and partly nationalised institutions and this list was clarified in March 2013 in relation to nationalised and part nationalised UK banks for the 2014/15 criteria. Previous decisions had extended flexibility for investing with local authorities. Appendix 2 shows the institutions where the Council's deposits were held as at 31 March 2017 and their ratings. 2017/18 Treasury Management Strategy Statement includes the ability to invest in AAA money market investments due to the very limited pool of counterparties that comply with the Council's counterparty criteria.

7.3 The practical effect of these policies was as follows: during the year we continued to use no notice accounts with major high street institutions (Santander, HSBC, RBS and Bank of Scotland) for day to day cash flow. In addition, £5m was placed on a short-term loans basis to two other local authorites during the year. This was to increase return while also reducing risk.

8. ACTIVITY DURING 2016/17

8.1 There was limited significant Treasury Management activity during the year. Investments were made to ensure risks were low but the Council maximised returns by also making loans to other local authorities while also using traditional call accounts. The Council borrowed £6.2m from the PWLB in March 2017 at a low rate of 2.2% for the 21st Century Schools projects. The UK referendum in June 2016 had an impact on investment returns as discussed above.

9. ACTIVITY SINCE 2016/17

9.1 The UK referendum result on 23 June 2016 to leave the European Union continues to create uncertainty and still impacts on UK bank ratings. The majority of the Council's deposits are held in banks which have been downgraded. However, their short and medium term ratings are still within the appropriate ratings approved in the Treasury Management Strategy 2016/17. The status of the banks and the Council's deposits are under constant review to ensure that the Council's risks are minimised. The Council is reducing risk and maximising return by providing loans to other local authorities and also investing in AAA money market when relevant. This spreads the type of investments the Council has and reduces the reliance on the small number of banks the Council can invest in.

9.2 More recently, the result of the election in June 2017 and the failure of any party to secure a majority may also lead to economic uncertainty and, as a result, impact on treasury management activities in 2017/18.

9.3 On May 22nd 2017, a £5m investment with the London Borough of Barking and Dagenham matured, and was repaid to the Isle of Anglesey County Council.

9.4 On June 6th 2017, a loan to the value of £2.5m matured and was repayed in full to the PWLB.

10. CONCLUSION

10.1 A review of the Treasury Management performance for 2016/17 is provided above. The year was fairly stable, with the most significant activity being a loan from PWLB amounting to £6.2m for 21st Century Schools projects. Investment returns reduced to an all time low due to the cut in the bank base rate from a seven year 0.50% to 0.25%. The Ccouncil held appropriate cash balances at all times though the low interest rate meant that the returns were low. However, this is consistent with the Treasury Management Strategy 2016/17 where the key objectives were low risk and ensuring there is sufficient cash to pay the Council's creditors, etc. The financial position of the Council's financial instruments as at 31 March 2017 is shown in Appendix 1.

R MARC JONES
HEAD OF FUNCTION (RESOURCES) &
SECTION 151 OFFICER **25 JULY 2017**

ATODIAD / APPENDIX 1

Summary Portfolio Valuation
As at 31 March 2017

FINANCIAL ASSETS	Nominal / Principal (£)	Fair Value (£)
Cash (interest bearing accounts) (1)	8,319,288	8,335,758
Fixed Term Deposits (2)	5,000,000	5,003,075
FINANCIAL LIABILITIES		
CCC	116,684,478	173,549,156
PWLB loan – Annuity	250,597	408,548

Counterparties

(1)	Cash (interest bearing accounts)	
	Santander	2,941,049
	Bank of Scotland	5,278,012
	HSBC	100,134
	RBS	93
		8,319,288
(2)	Fixed Term Deposits	
	London Borough of Barking and Dagenham	5,000,000

ATODIAD / APPENDIX 2

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 31 Marwth 2017 *
Credit ratings of investment counterparties and deposits held with each as at 31 March 2017*

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	**5,278**	**Galw/ Call**	**n/a**	**0.15**	**A+**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**
HSBC Holdings plc	HSBC Bank plc	**Dim/Nil**	**Galw/ Call**	**n/a**	**0.01**	**AA-**	**F1+**	**Aa2**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc	Santander UK plc	**2,941**	**Galw/ Call**	**n/a**	**0.15**	**A**	**F1**	**Aa3**	**P-1**	**A**	**A-1**	**Coch - 6 mis / Red – 6 months**
Royal Bank of Scotland group plc	The Royal Bank of Scotland plc	**Dim/Nil**	**Galw/ Call**	**n/a**	**0.10**	**BBB+**	**F2**	**A3**	**P-2**	**BBB+**	**A-2**	**Glas – 12 mis/ Blue – 12 months**
Royal Bank of Scotland group plc	National Westminster Bank plc	**100**	**Galw/ Call**	**n/a**	**0.01**	**BBB+**	**F2**	**A3**	**P-2**	**BBB+**	**A-2**	**Glas – 12 mis/ Blue – 12 months**
N/A	London Borough of Barking and Dagenham	**5,000**	**Tymor Sefydlog/ Fixed Term**	**20/2/17-22/5/17**	**0.35**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

* Ceir y Rhestr Meini Prawf Gwrthbartion yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2016/17 / The Counterpart Criteria can be found at Appendix 6 of the 2016/17 Treasury Management Strategy Statement.

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

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 03 Gorffennaf 2017 *
Credit ratings of investment counterparties and deposits held with each as at 03 July 2017*

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
UK	N/A					**AA**	**N/A**	**Aa1**	**N/A**	**AA**	**N/A**	**N/A**
Lloyds Banking Group plc	Bank of Scotland plc	**4,104**	**Galw/ Call**	**n/a**	**0.15**	**A+**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**
HSBC Holdings plc	HSBC Bank plc	**Dim/Nil**	**Galw/ Call**	**n/a**	**0.01**	**AA-**	**F1+**	**Aa2**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc	Santander UK plc	**7,457**	**Galw/ Call**	**n/a**	**0.15**	**A**	**F1**	**Aa3**	**P-1**	**A**	**A-1**	**Coch - 6 mis / Red – 6 months**
Royal Bank of Scotland group plc	The Royal Bank of Scotland plc	**4,021**	**Galw/ Call**	**n/a**	**0.10**	**BBB+**	**F2**	**A2**	**P-1**	**BBB+**	**A-2**	**Glas – 12 mis / Blue – 12months**
Royal Bank of Scotland group plc	National Westminster Bank plc	**100**	**Galw/ Call**	**n/a**	**0.01**	**BBB+**	**F2**	**A2**	**P-1**	**BBB+**	**A-2**	**Glas – 12 mis / Blue – 12months**
Total Deposits 19/06/17		**15,682**										

* Ceir y Rhestr Meini Prawf Gwrthbartion yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2017/18 / The Counterpart Criteria can be found at Appendix 6 of the 2017/18 Treasury Management Strategy Statement.

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

1. The Economy and Interest Rates

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

USA. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

EU. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken by the ECB has resulted in economic growth improving significantly in the eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

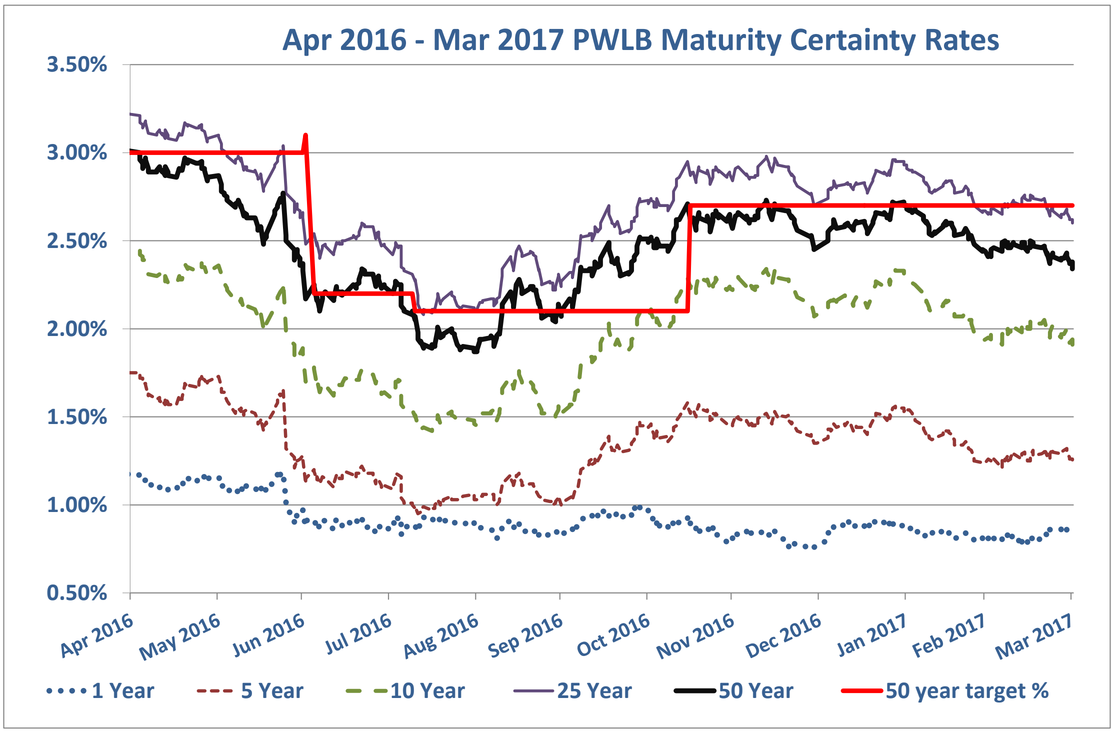
China and emerging market counties. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

Equity markets. The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

2. Borrowing Rates in 2016/17

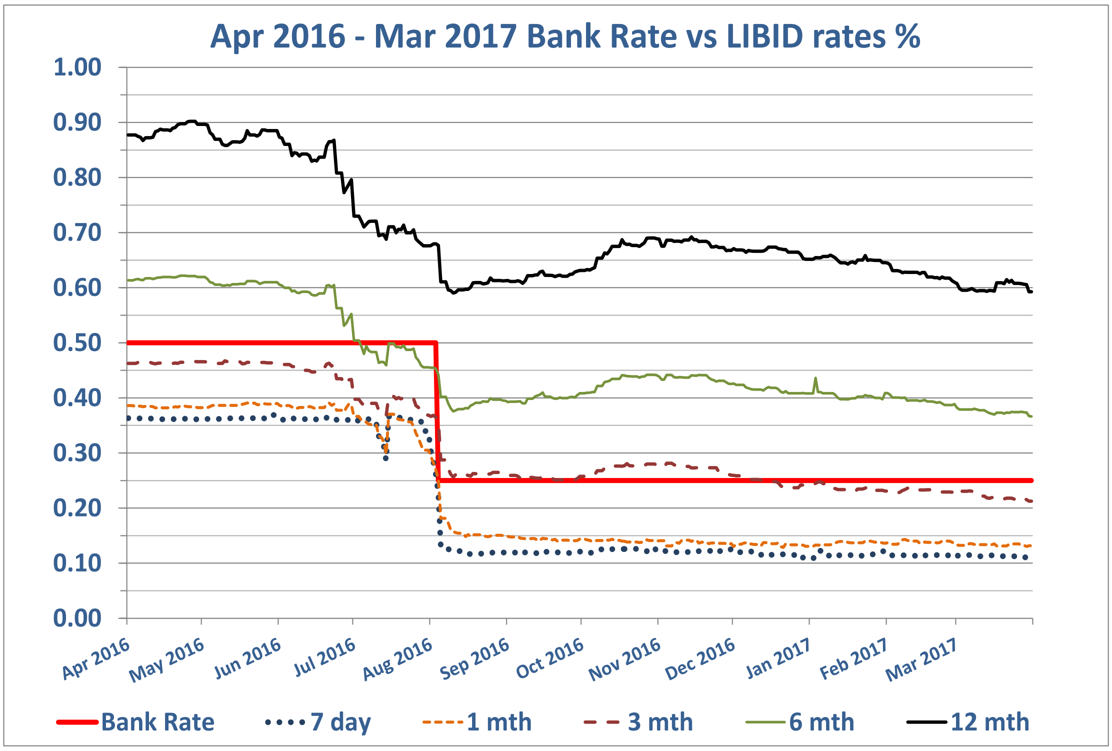
PWLB certainty maturity borrowing rates

During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. The graphs and table for PWLB rates below and in appendix 3, show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

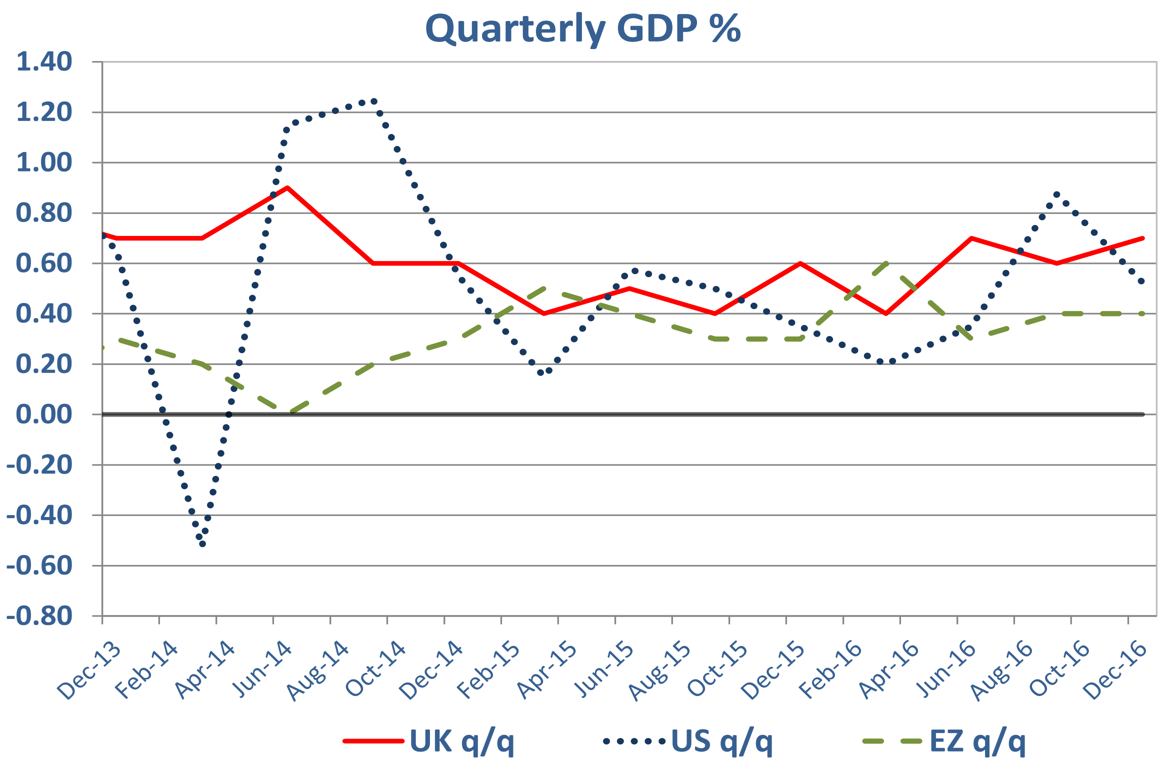


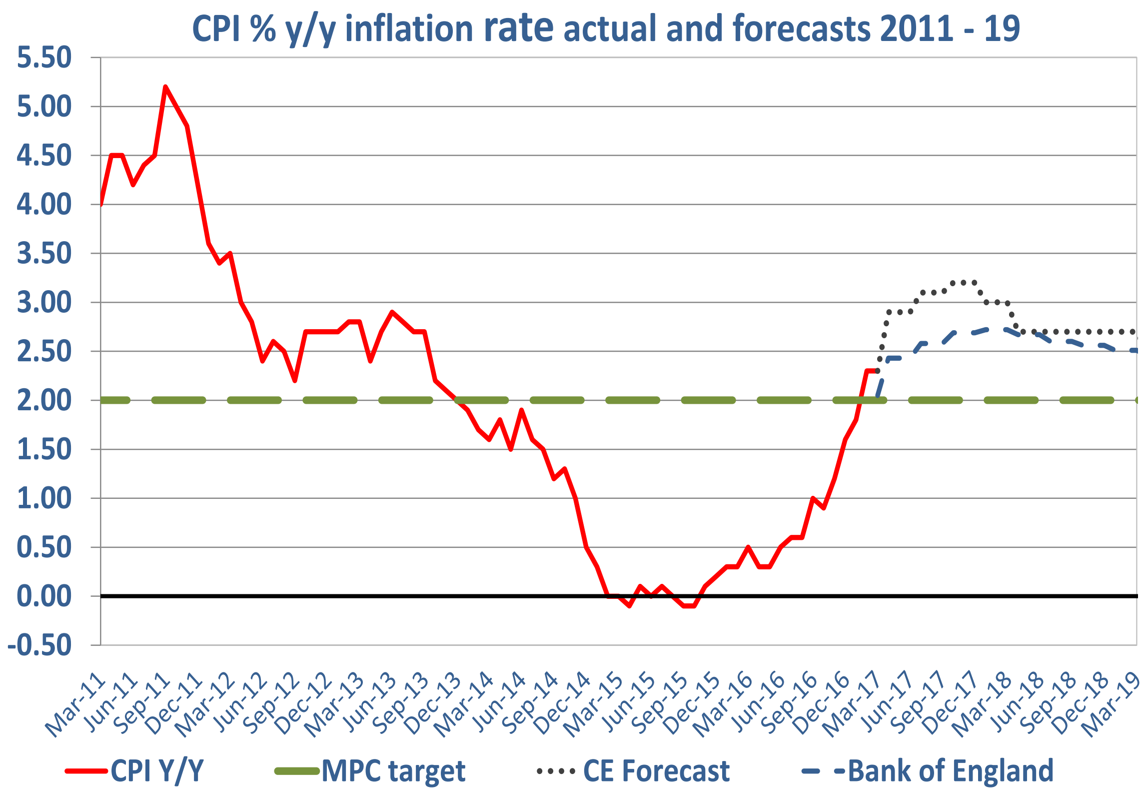
3. Investment Rates in 2016/17

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



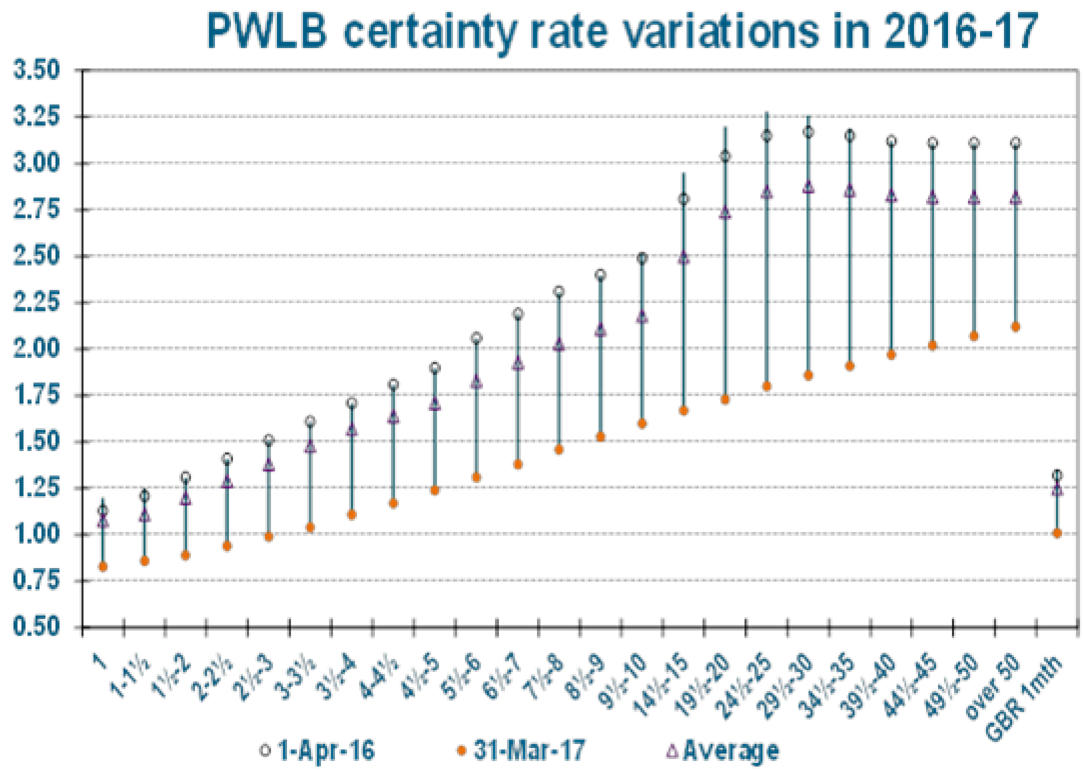
4. Other Graphs





5. Borrowing and investment rates

The PWLB rates are based on the maturity debt certainty rate.



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/16	1.130%	1.160%	1.330%	1.470%	1.620%	2.310%	3.140%	2.950%	1.310%
31/3/17	0.830%	0.860%	0.990%	1.110%	1.240%	1.600%	1.800%	2.070%	1.010%
High	1.200%	1.250%	1.460%	1.630%	1.800%	2.510%	3.280%	3.080%	1.350%
Low	0.760%	0.800%	0.840%	0.880%	0.950%	1.420%	2.080%	1.870%	1.040%
Average	0.928%	0.961%	1.104%	1.226%	1.361%	2.007%	2.724%	2.494%	1.150%
Spread	0.440%	0.450%	0.620%	0.750%	0.850%	1.090%	1.200%	1.210%	0.310%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	20/05/2016
Low date	20/12/2016	15/03/2017	10/08/2016	10/08/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016	30/11/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%

6. Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16

SOURCE CAPITA 2017