ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**21 JANUARY 2019**
SUBJECT:	**TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2018/19**
PORTFOLIO HOLDER(S):	**COUNCILLOR ROBIN WILLIAMS**
HEAD OF SERVICE:	**MARC JONES, HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER (EXT. 2601)**
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LOCAL MEMBERS:	**n/a**

1. Background

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

A report setting out our Capital Strategy will be taken to the full Council before 31st March 2019.

1.2 Treasury Management

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 borrowing, 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. Introduction

This report has been written in accordance with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:-

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

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

(iii) 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.

(iv) 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.

(v) 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 part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A summary of activity since Quarter 2; and
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3. Economic Update

3.1 The Council's treasury advisers provided an economic update and can be found in Appendix 1. They have also recently provided the following interest rate forecast:-

	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021
Bank Rate (%)	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5yr PWLB rate (%)	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB rate (%)	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB rate (%)	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB rate (%)	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

3.2 The Council's treasury advisers recently provided a commentary alongside the interest rate forecast above. This commentary can be found in Appendix 2.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by this Council on 28 February 2018. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Investment Portfolio 2018/19

5.1 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 current 0.75% 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 and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

5.2 The Council held £6.089m of investments as at 30 September 2018 (£5.993m at 31 March 2018) and the investment portfolio yield for the first six months of the year was 0.65%. A full list of investments as at 30th September 2018 can be found in Appendix 3. A summary of the investments and rates can be found in Appendix 4.

5.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

5.4 The Council's budgeted investment return for the whole of 2018/19 is £0.017m and performance for the year to date exceeds the budget, with £0.023m received to the end of Quarter 2. The reason for this is the increase in bank rate from 0.5% to 0.75% that occurred in August 2018.

5.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

5.6 The Approved countries for investments can be seen in Appendix 5.

6. Borrowing

6.1 The projected capital financing requirement (CFR) for 2018/19 is £142.0m. 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 £125.6m and will have used £16.4m 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.

6.2 No borrowing was undertaken during the first half of this financial year. However, it is anticipated that borrowing will need to be undertaken during the second half of the financial year.

6.3 During the first half of the financial year a short-term borrowing from the Tyne & Wear Pension Fund matured and was repaid. The borrowing was for £5m and was taken out on 19/01/18 at an interest rate of 0.50%. It was repaid on 19/04/18.

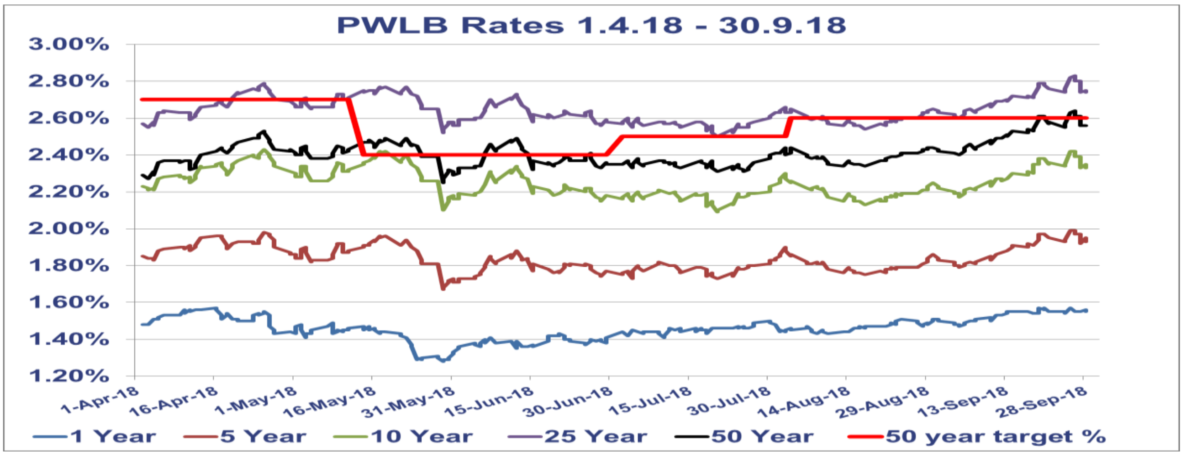
6.4 Debt rescheduling opportunities have been very limited in the current economic climate, given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has, therefore, been undertaken to date in the current financial year.

6.5 Since Quarter 2 ended, the Authority has arranged to borrow £5m from North Yorkshire County Council. The borrowing will take place from 16/10/18 until 16/01/19 at a rate of 0.85%. This decision is in line with our current borrowing strategy of only borrowing longer term when we require the funding and not to borrow simply to take advantage of low borrowing rates as the cost of carry (difference between the interest paid and the investment return) is too high.

6.6 Appendix 6 shows additional graphs including Comparison of borrowing parameters to actual external borrowing, as provided by Link Asset Services.

6.7 Appendix 7 shows additional information including on LOBO's, as provided by Link Asset Services.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date: -



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	**1.48%**	**1.84%**	**2.22%**	**2.55%**	**2.27%**
30.9.18	**1.55%**	**1.93%**	**2.33%**	**2.74%**	**2.56%**
Low	**1.28%**	**1.67%**	**2.09%**	**2.50%**	**2.25%**
Date	**01/06/2018**	**29/05/2018**	**20/07/2018**	**20/07/2018**	**29/05/2018**
High	**1.57%**	**1.99%**	**2.43%**	**2.83%**	**2.64%**
Date	**17/04/2018**	**25/09/2018**	**25/04/2018**	**25/09/2018**	**25/09/2018**
Average	**1.46%**	**1.84%**	**2.25%**	**2.64%**	**2.41%**

7 The Council's Capital Position (Prudential Indicators)

7.1 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; and
- Compliance with the limits in place for borrowing activity.

7.2 Prudential Indicator for Capital Expenditure

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

Capital Expenditure	2018/19 Original Estimate £'000	Position as at 30 September 2018 £'000	2018/19 Current Estimate £'000
Council Fund	44,891	8,169	23,685
HRA	15,998	3,103	10,372
Total	60,889	11,272	34,057

7.2.1 The projected expenditure shows that the majority of projects are on target to be completed within budget but there are 4 major projects (Gypsy and Travellers Sites, Improvements to the A5025 to Wylfa, 21st Century School at Llangefni and the acquisition of HRA properties) which are expected to significantly underspend the budget in 2018/19, and this is reflected in the above table. A full breakdown on the planned capital expenditure for 2018/19 is provided in the Capital Budget Monitoring Report Q2, presented to the Executive on 26 November 2018.

7.3 Changes to the Financing of the Capital Programme

7.3.1 There are some changes to the financing of the capital programme as can be seen in table below. The main reason for the change is as noted in paragraph 7.2.1, there will be significant underspend on four capital schemes in 2018/19. However, these four schemes will slip into 2019/20 along with their funding and it is not anticipated, at this point, that any funding will be lost due to the delays.

7.3.2 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original funding of the capital programme, and the expected funding arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Financing	2018/19 Original Estimate £'000	2018/19 Revised Estimate £'000
Capital Grants	33,411	15,628
Capital Receipts	1,228	1,346
Reserves	474	972
Revenue Contribution	13,329	7,703
Supported Borrowing	5,064	3,853
Unsupported Borrowing	5,999	4,181
Loan	374	374
Underspend from 2017/18	1,010	0
Total	**60,889**	**34,057**

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

7.4.1 Table 7.4.3 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, which this is set annually by the Council as part of the Treasury Management Strategy Statement.

7.4.2 Prudential Indicator – Capital Financing Requirement

	2018/19 Operational Boundary as per TMSS 2018/19 £000	2018/19 Opening Borrowing Position £000	Amount Within the Boundary £000	2018/19 Estimate Borrowing Position £000	Amount Within The Boundary £000
Prudential Indicator – External Debt/ The Operational Boundary					
Borrowing	169,000	116,425	52,575	124,455	44,545
Other long term liabilities	3,000	1,353	1,647	1,168	1,832
Total Debt 31 March	**172,000**	**117,778**	**54,222**	**125,623**	**46,377**

7.4.3 Prudential Indicator – Capital Financing Requirement (CFR)

7.4.3.1 We are currently slightly below the original forecast Capital Financing Requirement due to the forecast underspend in borrowing, mainly down to the 21st Century schools programme and the revised funding method for the Seiriol Extra Care.

	2018/19 Original Estimate £000	2018/19 Revised Estimate £000
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	104,425	101,217
CFR – HRA	40,815	40,815
Total CFR	145,060	142,032
Net movement in CFR	**8,194**	**5,166**

Original CFR Forecast	**145,060**
Underspend in Unsupported Borrowing due to revised Band A Matrix with greater weighting for Capital Grants for Llangefni New Build rather than borrowing	-1,818
Underspend in Supported Borrowing mainly due to revised funding method for Seiriol Extra Care	-1,210
Revised CFR Forecast	**142,032**

7.5 Limits to Borrowing Activity

7.5.1 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 2018/19 and the next two financial years. 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.

	2018/19 Original Estimate £000	Current Position at 30 September 2018 £000	2018/19 Revised Estimate £000
External Borrowing	116,425	111,420	124,455
Internal Borrowing	27,467	n/a	16,409
Plus other long term liabilities	1,168	1,168	1,168
CFR (year-end position)	**145,060**	**n/a**	**142,032**

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

7.5.3 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 £177m. 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	2018/19 Original Indicator	Current Borrowing Position as at 30 September 2018 £'000
Borrowing	174,000	111,420
Other long term liabilities	3,000	1,168
Total	**177,000**	**112,588**

8. Recommendation

8.1 To consider the content of the report and forward any comments onto the full Council.

MARC JONES
HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER **21 NOVEMBER 2018**

Diweddariad ar yr Economi hyd yma a'r rhagolygon / Economic Update & Forecasts

United Kingdom

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

United States of America

President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

Eurozone

Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

China
Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan
Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

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

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

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK
- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates
- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Crynodeb Benthyca a Buddsoddi – Chwarteroedd 1 a 2 2018/19
Borrowing and Investment Summary – Quarters 1 and 2 2018/19

	30 Medi / Sept 2018		30 Mehefin / June 2018	
	£m	% (paid on borrowing and received on investment)	£m	% (paid on borrowing and received on investment)
Benthyca – graddfa sefydlog Borrowing – fixed rate	111.4	5.15	114.4	5.15
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	6.1	0.65	8.7	0.38
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
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	6.1	0.65	8.7	0.38
Adneuon Uchaf yn y Chwarter Highest Deposits in the Quarter	14.8	d/b / n/a	22.5	d/b / n/a
Adneuon Isaf yn y Chwarter Lowest Deposits in the Quarter	6.1	d/b / n/a	5.5	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	10.4	0.48	14.2	0.31

Ni dorwyd 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.

ATODIAD / APPENDIX 4

Graddfeydd Credyd Gwrthbartïon buddsoddi a'r adneuon a ddelir gyda phob un ar 30 Medi 2018*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2018*

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 Long Term Rating	Graddfa Tymor Byr Standard & Poor's Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**6.086**	**Galw/ Call**	**n/a**	**0.65**	**A+**	**F1**	**Aa3**	**P-1**	**A+**	**A-1**	**Glas – 12 mis/ Blue -12m months**
Santander Group plc	Santander UK plc	**0.001**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**Aa3**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc (Part / Nationalised)	**0.002**	**Galw/ Call**	**n/a**	**0.25**	**BBB+**	**F2**	**Baa2**	**P-2**	**BBB-**	**A-3**	**Glas - 12 mis / Blue - 12 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2018/19/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 6 of the 2018/19 Treasury Management Strategy Statement / Annual Investment Strategy

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

Approved countries for investments

Based upon lowest available sovereign credit rating

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

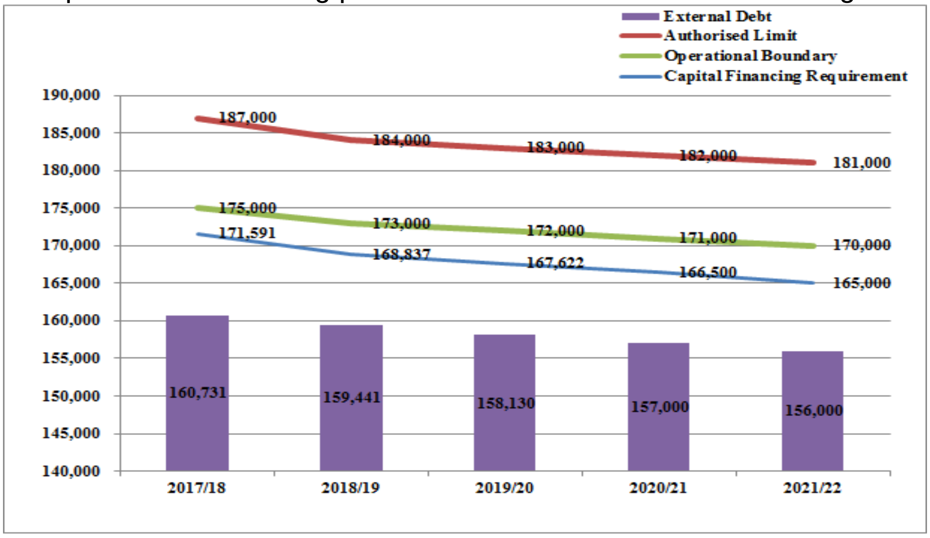
AA+
- Finland
- U.S.A.

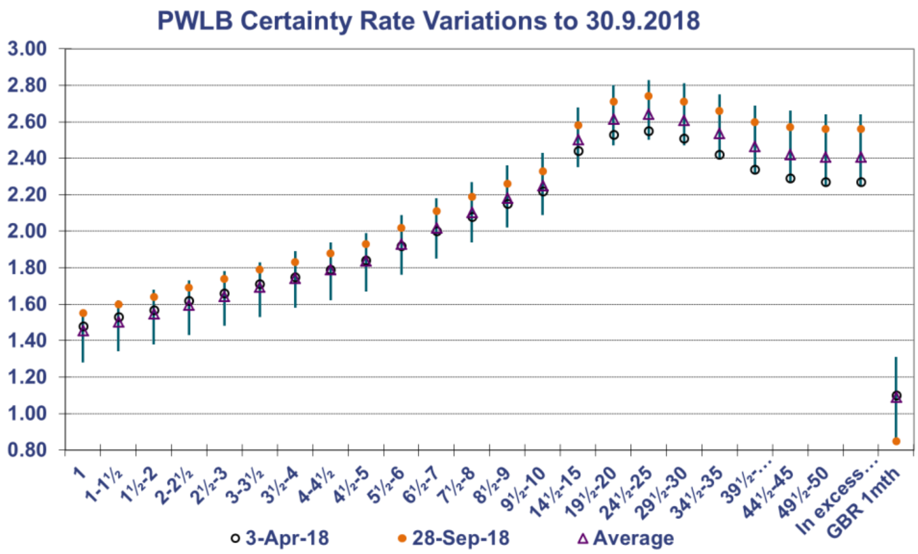
AA
- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-
- Belgium
- Qatar

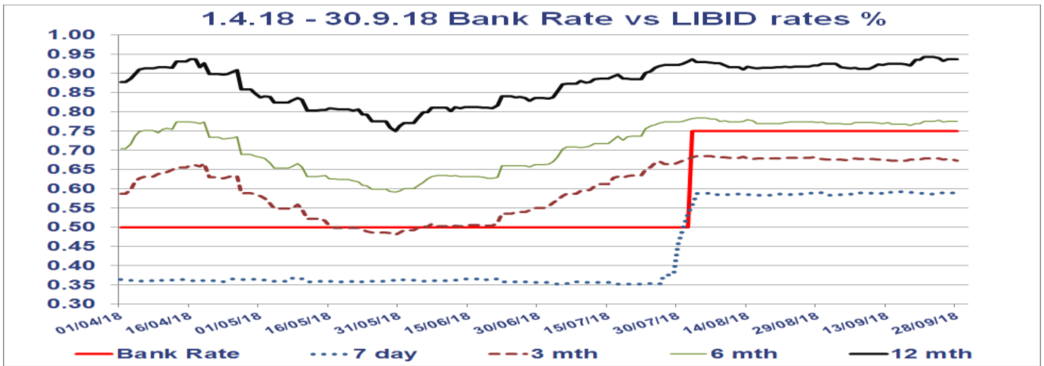
Graffiau Ychwanegol / Additional Graphs

Comparison of borrowing parameters to actual external borrowing





	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.59	0.60	0.68	0.78	0.94
High Date	02/08/2018	14/09/2018	18/09/2018	06/08/2018	03/08/2018	21/09/2018
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.58	0.43	0.47	0.61	0.71	0.87
Spread	0.25	0.24	0.23	0.21	0.19	0.19



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ATODIAD / APPENDIX 7

Gwybodaeth Ychwanegol / Additional information

1. UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered) will be considered for investment purposes.

2. IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted.

3. Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

4. LOBOs

a) **Inverse LOBOs**- Any authority which has these LOBOs may wish to update members on developments in the current financial year.

b) **Rescheduling of LOBOs** into fixed rate debt. We already have paragraph 8. Debt rescheduling so that may be a suitable point to add in information to update members on developments in the current financial year.

5. WELSH AUTHORITIES

Treatment of Money Market Funds and investments involving the purchase of loan capital etc
LAS comment: clients may need to check their current TMSS in order to ascertain whether some additions to approved investments can be made as a result of the updated 2018 regulations. If so, a specific resolution requesting member approval for specific additions of types of investment should be added to this report.

The 2018 No.325 (W.61) Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 have been issued which have introduced some changes to the treatment of certain types of treasury management investments. Paragraph 9 now makes clear that the following types of investment are not to be treated as being capital expenditure: -

1. A treasury investment involving the acquisition of loan capital, through a bond issued via grant or for financial assistance for a capital purpose will remain capital expenditure;

2. An investment in a money market fund;

3. An investment in the shares of a company to which Part 12 of the Corporation Tax Act 2010(1) (real estate investment trusts) applies;

4. The acquisition of shares in an investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961(2) (local authority investment schemes).

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