ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**EXECUTIVE COMMITTEE**
Date:	**14 DECEMBER 2020**
Subject:	**TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2020/21**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS**
Head of Service / Director:	**R MARC JONES**
Report Author: Tel: E-mail:	**JEMMA ROBINSON** **01248 752675** **JemmaRobinson@ynysmon.gov.uk**
Local Members:	**n/a**

A –Recommendation/s and reason/s

- Consider the Treasury Management Mid-Year Review Report for 2020/21 and refer on to the next meeting of the full Council with any comments for final consideration.

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 a decision for the Executive?

- To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2020/21 (Appendix 8 of the Treasury Management Strategy Statement 2020/21). In accordance with the Scheme of Delegation, this report was scrutinised by the Audit Committee on 01 December 2020. The report will be presented to the full Council once it has been accepted by this Committee.

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?

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

10	**Other**	The Audit Committee resolved to: • To accept the Treasury Management Mid-Year Review report for 2020/21, and to recommend it to the Executive without comment.
E – Impact on our Future Generations(if relevant)		
1	**How does this decision impact on our long term needs as an Island**	
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	
5	**Outline what impact does this decision have on the Equalities agenda and the Welsh language**	
F - Appendices:		
Appendix A –Treasury Management Mid-Year Review for 2020/21		
FF - Background papers (please contact the author of the Report for any further information):		
• Treasury Management Strategy Statement 2020/21 • Prudential and Treasury Indicators 2020/21 • Treasury Management Outturn Report 2019/20		

APPENDIX 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 2020/21, 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 was taken to the Executive Committee on 2 March 2020, and a revised Strategy for 2021/22 will be taken to the full Council before 31 March 2021.

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 half of the 2020/21 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 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

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 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023
Bank Rate (%)	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB rate (%)	1.80%	1.80%	1.80%	1.80%	1.80%	1.90%	1.90%	1.90%	1.90%	1.90%
10yr PWLB rate (%)	2.10%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%
25yr PWLB rate (%)	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%	2.70%	2.70%	2.70%	2.70%
50yr PWLB rate (%)	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%

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 2020/21 was approved by the full Council on 10 March 2020. 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. Annual Investment Strategy

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. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. As shown by the interest rate forecasts in section 3, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31 March 2023, investment returns are expected to remain low.

5.2 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

5.3 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

5.4 The Council held £42.224m of investments as at 30 September 2020 (£20.208m at 31 March 2020) and the investment portfolio yield for the first six months of the year was 0.07%. A full list of investments as at 30 September 2020 can be found in Appendix 3. A summary of the investments and rates can be found in Appendix 4.

5.5 Due to the large sums of grants received from Welsh Government to help deal with the Covid crisis and the availability of call accounts to the Council, this has resulted in the Council holding balances in call accounts over and above the limits approved within the Annual Investment Strategy included in the TMSS 2020/21. When producing the TMSS 2020/21, these unprecedented times could not be foreseen. In light of this, counterparty limits will be assessed and reviewed when producing the TMSS for 2021/22.

5.6 The Council's budgeted investment return for the whole of 2020/21 is £0.053m and performance for the year to date is in line with the budget, with £0.027m received to the end of Quarter 2. However, our projection to year end is that we will underachieve the budget by approximately £0.011m. Although our cash balances have been higher than normal, this is offset by the lower than anticipated interest rates.

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

5.8 The approved countries for investments can be seen in Appendix 5.

5.9 The table below shows a list of investments made to other Local Authorities during the first half of this financial year. Given that security of funds is the key indicator of this Council, other Local Authorities is seen as the most secure way of investing funds, and this gives a greater rate of return than most bank call accounts.

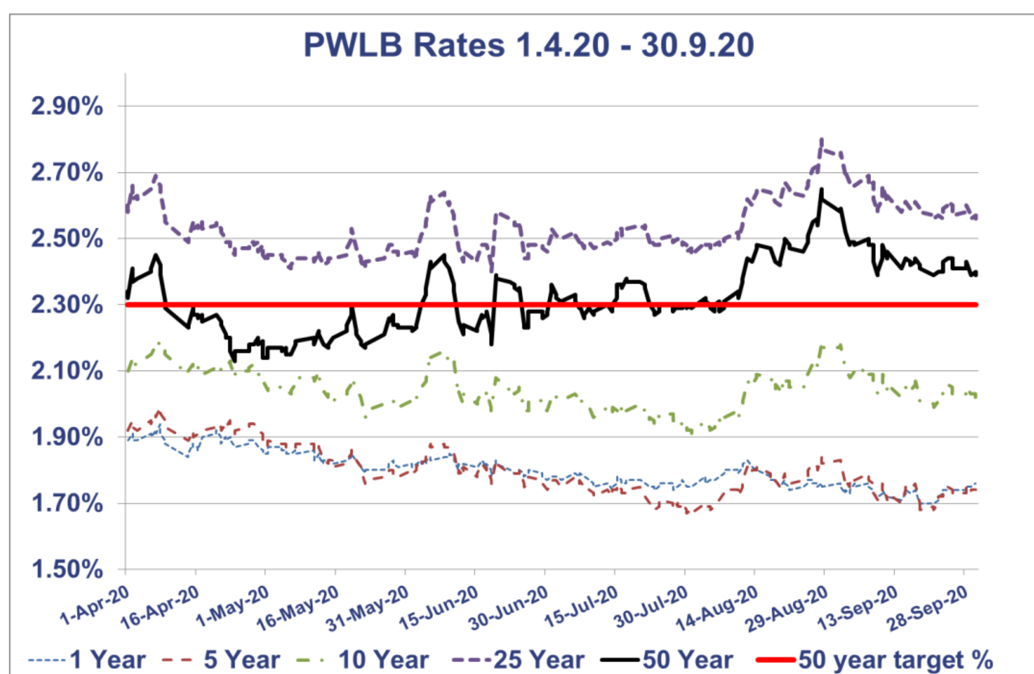
Local Authority	Start Date	End Date	Interest Rate %	Amount £
Blackpool Borough Council	30/07/2020	23/10/2020	0.15	5,000,000
Thurrock Council	11/09/2020	11/01/2021	0.15	5,000,000
Dudley Metropolitan Borough Council	25/09/2020	23/12/2020	0.15	3,500,000

6. Borrowing

6.1 The projected capital financing requirement (CFR) for 2020/21 is £140.6m. 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 £128.9m and will have used £11.7m 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, and it is anticipated that borrowing will be undertaken during the second half of the financial year. There will be a borrowing requirement to fund a part of the 2020/21 capital programme and this will be through internal borrowing (drawing down cash balances) and external borrowing. External borrowing is in relation to funding the capital cost of new vehicles as per the conditions of the waste contract awarded to Biffa. This is anticipated to be £4.449m and is subject to Executive approval on 30 November 2020. In addition, the effect of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates varied within a relatively narrow range between April and July but the longer end of the curve rose during August. This increase came in two periods: the first in the second week of the month was on the back of hopes for fresh US stimulus. This saw investors switch monies out of government bonds and into equities. The second shift higher at the longer end of the curve came in the latter stages of the month as investors reacted to the announcement of the tweak to the Fed's inflation target. Despite moves further out in the yield curve, the short end remained anchored on the basis of no fundamental change to the interest rate outlook. The 50-year PWLB target rate for new long-term borrowing was unchanged at 2.30%.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%

6.3 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has, therefore, been undertaken to date in the current financial year.

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	2020/21 Original Estimate £'000	Position as at 30 September 2020 £'000	2020/21 Current Estimate £'000
Council Fund	30,434	7,791	20,967
HRA	19,032	3,680	12,788
Total	**49,466**	**11,471**	**33,755**

7.2.1 The projected expenditure shows that the majority of projects are on target to be completed within budget but the main project that is forecast to be underspent is the 21st Century Schools Programme, along with HRA forecasting a significant underspend. This is reflected in the above table. A full breakdown on the planned capital expenditure for 2020/21 is provided in the Capital Budget Monitoring Report Q2, presented to the Executive on 30 November 2020.

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 the table below. The main reason for the change is as noted in paragraph 7.2.1, as there will be significant underspend in capital schemes in 2020/21 (21st Century Schools Programme and HRA). However, these schemes will slip into 2021/22, 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	2020/21 Original Estimate £'000	2020/21 Revised Estimate £'000
Capital Grants	20,769	15,070
Capital Receipts	793	782
Reserves	619	487
Revenue Contribution	16,133	10,152
Supported Borrowing	7,955	5,727
Unsupported Borrowing	1,796	136
Loan	1,401	1,401
Total	**49,466**	**33,755**

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

7.4.1 Tables 7.4.2 and 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 is set annually by the Council as part of the Treasury Management Strategy Statement.

7.4.2 Prudential Indicator – the Operational Boundary for external debt

	2020/21 Operational Boundary as per TMSS 2019/20 £'000	2020/21 Opening Borrowing Position £'000	Amount Within the Boundary £'000	2020/21 Estimated Borrowing Position £'000	Amount Within the Boundary £'000
Prudential Indicator – External Debt/ The Operational Boundary					
Borrowing	189,000	139,232	49,768	128,924	60,076
Other long term liabilities	3,000	0	3,000	0	3,000
Total Debt 31 March	**192,000**	**139,232**	**52,768**	**128,924**	**63,076**

7.4.3 Prudential Indicator – Capital Financing Requirement (CFR)

7.4.3.1 We are currently slightly below the original forecast for Capital Financing Requirement due to the forecast underspend in borrowing, mainly down to the 21st Century Schools Programme.

	2020/21 Original Estimate £'000	2020/21 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	108,536	101,469
CFR – HRA	39,449	39,198
Total CFR	147,985	140,667
Net movement in CFR	**5,951**[1]	**3,763**[2]

[1] Movement between 2019/20 estimate and 2020/21 estimate in TMSS 2020/21
[2] Movement between 2019/20 actual (per Statement of Accounts 2019/20) and 2020/21 revised estimate

Original CFR Forecast	147,985
Reduced MRP between TMSS 2020/21 forecast and Capital Q2 2020/21 revised forecast	154
Underspend in Unsupported Borrowing for HRA in 2020/21	-250
Underspend on loan (difference between TMSS 2020/21 forecast and Capital Q2 revised forecast)	-3
Underspend in Unsupported Borrowing in 2019/20 and 2020/21 due to the delay in the progress of the 21st Century Schools programme	-4,105
Underspend in Supported Borrowing in 2019/20 due to additional grant received in 2019/20 as substitute funding which reduced the need for Supported Borrowing	-3,114
Revised CFR Forecast	**140,667**

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 2020/21 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. The current borrowing position is £135.650m, which is below the CFR forecast for this and the next two financial years (see table below), therefore, this indicator has not been breached.

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**
CFR (year-end forecast)	**140,667**	**163,266**	**168,970**

	2020/21 Original Estimate £'000	**Current Position at 30 September 2020 £'000**	**2020/21 Revised Estimate £'000**
External Borrowing	139,232	135,650	128,924
Internal Borrowing	8,753	5,017	11,743
Plus other long term liabilities	0	0	0
CFR (year-end position)	**147,985**	**140,667**	**140,667**

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 £183m. 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	2020/21 Original Indicator £'000	Current Borrowing Position as at 30 September 2020 £'000	Estimated Borrowing Position as at 31 March 2021 £'000
Borrowing	178,000	135,650	128,924
Other long term liabilities	5,000	0	0
Total	**183,000**	**135,650**	**128,924**

8. Compliance with Treasury and Prudential Limits

8.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020/21. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in compliance with the Council's Treasury Management Practices, however, please refer to paragraph 5.5 for explanation regarding deviation from approved investment limits.

9. Recommendation

9.1 To consider the content of the report and refer the report to the Full Council for consideration along with any additional comments the Executive may wish to make.

MARC JONES
DIRECTOR OF FUNCTION (RESOURCES)
& SECTION 151 OFFICER

10 NOVEMBER 2020

ATODIAD / APPENDIX 1

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

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is

also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth. One key addition to **the Bank's forward guidance** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

EU. The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and 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. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

World growth. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Asset Services

ATODIAD / APPENDIX 2

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

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows:-

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)

- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - Bank of England** takes action too quickly, or too far, 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.

- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020:** this could have repercussions for the US economy and SINO-US trade relations.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary 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.

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

ATODIAD / APPENDIX 3

Crynodeb Benthyca a Buddsoddi – Chwarteroedd 1 a 2 2020/21
Borrowing and Investment Summary – Quarters 1 and 2 2020/21

	30 Medi / Sept 2020		30 Mehefin / June 2020	
	£'m	% (talwyd ar fenthyca a dderbyniwyd ar fuddsoddi) / % (paid on borrowing and received on investment)	£'m	% (talwyd ar fenthyca a dderbyniwyd ar fuddsoddi) / % (paid on borrowing and received on investment)
Benthyca – graddfa sefydlog Borrowing – fixed rate BBGC / PWLB Dim BBGC / Non-PWLB	 132.9 2.7	 4.24 0	 132.9 2.7	 4.24 0
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	28.7	0.03	44.6	0.02
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	13.5	0.15	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	44.2	0.07	44.6	0.02
Adneuon Uchaf yn y Chwarter Highest Deposits in the Quarter	51.6	d/b / n/a	56.9	d/b / n/a
Adneuon Isaf yn y Chwarter Lowest Deposits in the Quarter	42.2	d/b / n/a	37.2	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	48.2	0.04	48.0	0.18

ATODIAD / APPENDIX 4

Graddfeydd Credyd Gwrthbartïon buddsoddi a'r adneuon a ddelir gyda phob un ar 30 Medi 2020*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2020*

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	**7.207**	**Galw/ Call**	**n/a**	**0.00**	**A+**	**F1**	**Aa3**	**P-1**	**A+**	**A-1**	**Oren – 12 mis / Orange -12 months**
Santander Group plc	Santander UK plc	**7.490**	**Galw/ Call**	**n/a**	**0.12**	**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 (Rhan / Gwladoli / Part / Nationalised)	**0.002**	**Galw/ Call**	**n/a**	**0.01**	**A+**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Glas - 12 mis / Blue – 12 months**
The Royal Bank of Scotland Group plc	National Westminster Bank Deposit	**14.025**	**Galw/ Call**	**n/a**	**0.01**	**A+**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Glas - 12 mis / Blue – 12 months**
Cyngor Bwrdeistref Blackpool Borough Council	Cyngor Bwrdeistref Blackpool Borough Council	**5.000**	**Sefydlog/ Fixed**	**30/07/20 - 23/10/20**	**0.15**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Cyngor Thurrock Council	Cyngor Thurrock Council	**5.000**	**Sefydlog/ Fixed**	**11/09/20 – 11/01/21**	**0.15**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Cyngor Bwrdeistref Metropolitan Dudley Metropolitan Borough Council	Cyngor Bwrdeistref Metropolitan Dudley Metropolitan Borough Council	**3.500**	**Sefydlog/ Fixed**	**25/09/20 – 23/12/20**	**0.15**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 8 o'r Datganiad Strategaeth Rheoli Trysorlys 2020/21/Strategaeth Buddsoddi Blynyddol/The Approved Lending List can be found at Appendix 8 of the 2020/21 Treasury Management Strategy Statement / Annual Investment Strategy

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

ATODIAD / APPENDIX 5

Gwledydd cymeradwy ar gyfer buddsoddi
Approved countries for investments

Yn seiliedig ar y gyfradd credyd sofran isaf sydd ar gael
Based upon lowest available sovereign credit rating

AAA

- Awstralia / Australia
- Denmarc / Denmark
- Yr Almaen / Germany
- Lwcsembwrg / Luxembourg
- Yr Iseldiroedd / Netherlands
- Norwy / Norway
- Singapôr / Singapore
- Sweden / Sweden
- Y Swistir / Switzerland

AA+

- Canada
- Y Ffindir / Finland
- U.D.A. / U.S.A.

AA

- Abu Dhabi (UAE)
- Frainc / France

AA-

- Gwlad Belg / Belgium
- Hong Kong
- Qatar
- D.U. / U.K.

Graffiau Ychwanegol / Additional Graphs

Cymhariaeth o baramedrau benthyca â benthyca allanol gwirioneddol /
Comparison of borrowing parameters to actual external borrowing