Public Document Pack

CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL

GŴYS A RHAGLEN	**SUMMONS AND AGENDA**
ar gyfer	**for a**
CYFARFOD ARBENNIG O GYNGOR SIR YNYS MÔN	**EXTRAORDINARY MEETING OF THE ISLE OF ANGLESEY COUNTY COUNCIL**
a gynhelir yn	**to be held at the**
SIAMBR Y CYNGOR SWYDDFA'R SIR LLANGEFNI	**COUNCIL CHAMBER COUNCIL OFFICES LLANGEFNI**
DYDD IAU 27 MAWRTH 2014	**THURSDAY 27 MARCH 2014**
➔ am 10.30 o'r gloch ←	**➔ at 10.30 am ←**

A G E N D A

1. <u>DECLARATION OF INTEREST</u>

To receive any declaration of interest from any Member or Officer in respect of any item of business.

2. <u>TO RECEIVE ANY ANNOUNCEMENTS FROM THE CHAIRPERSON, LEADER OF THE COUNCIL OR THE CHIEF EXECUTIVE</u>

3. <u>TREASURY MANAGEMENT</u>

To submit a report by the Head of Function (Resources).

4. <u>EXCLUSION OF THE PRESS AND PUBLIC</u>

To consider adoption of the following:-

"Under Section 100(A)(4) of the Local Government Act 1972, to exclude the press and public from meeting during discussion on the following item on the grounds that it may involve the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test".

5. <u>NORTH WALES RESIDUAL WASTE TREATMENT PROJECT</u>

- To report that the Partnership and Regeneration Scrutiny Committee on 13th March, 2014 had considered the above and had resolved:-

"To accept the report and the recommendation contained therein".

- To report that the Executive on 17th March, 2014, had considered the above and had resolved:-

"To recommend the County Council that it endorses the recommendations contained within the report".

- To submit a report by the Head of Environment and Technical.

6. <u>EXCLUSION OF THE PRESS AND PUBLIC</u>

To consider adoption of the following:-

"Under Section 100(A)(4) of the Local Government Act 1972, to exclude the press and public from meeting during discussion on the following item on the grounds that it may involve the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test".

7. <u>PAY POLICY STATEMENT 2014-15</u>

- To submit a report by the Head of Profession (Human Resources).

8. EXCLUSION OF THE PRESS AND PUBLIC

To consider adoption of the following:-

"Under Section 100(A)(4) of the Local Government Act 1972, to exclude the press and public from meeting during discussion on the following item on the grounds that it may involve the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test".

9. EQUAL PAY

To submit a verbal update by the Deputy Chief Executive.

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**COUNTY COUNCIL**
DATE:	**27 MARCH 2014**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW REPORT 2013/14**
LEAD OFFICER:	**CLARE J WILLIAMS**
CONTACT OFFICER:	**CLARE J WILLIAMS (TEL: 2601)**

Nature and reason for reporting

To comply with the recommendations of the CIPFA Code of Practice on Treasury Management.

The Council has resolved to receive a number of treasury management reports for consideration, with this mid-year review report being one of them. The Council has also resolved that the Audit Committee be responsible for scrutiny of treasury management matters and that committee considered the content of the report at its meeting on 11 December 2013 and resolved to accept the report and note its contents.

Sections 1 to 9 (inclusive) and the appendices of the report below replicate the wording of, and figures contained within, the report presented to the Audit Committee in December 2013 and Section 10 is the recommendation for this meeting of the County Council.

1. Background

1.1 Two of the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) are the receipt by the full council of a mid-year review report on treasury management activity and the delegation of the role of scrutiny of treasury management strategy and policies. This report will fulfill those requirements and covers the following:

- An economic update for the first six months, and looking forward to the second half, of 2013/14;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2013/14;
- A review of the Council's borrowing strategy for 2013/14;
- A review of any debt rescheduling undertaken during 2013/14;
- A summary of activity since quarter 2;
- A look ahead to next year; and
- A review of compliance with Treasury and Prudential Limits for 2013/14

2. Economic Update

2.1 The Council's treasury advisers (Capita Asset Services (formerly called Sector)) provided a summary of the economic background and the economic outlook shortly after the end of the first quarter (Appendices 1 & 2) and have also recently provided the following forecast.

	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015
Bank Rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5yr PWLB rate (%)	2.50	2.50	2.60	2.70	2.70	2.80	2.80
10yr PWLB rate (%)	3.60	3.60	3.70	3.80	3.80	3.90	3.90
25yr PWLB rate (%)	4.40	4.40	4.50	4.50	4.60	4.60	4.70
50yr PWLB rate (%)	4.40	4.40	4.50	4.50	4.60	4.70	4.80

2.2 Capita recently provided a commentary alongside the interest rate forecast above which links back to August and the Bank of England Inflation Report that was issued at that time, which was referred to in the previous report. This commentary can be found in Appendix 3.

2.3 Last year HM Treasury launched a discounted borrowing rate to provide cheaper PWLB borrowing to local authorities, effective from 1 November 2012 on a 12 month rolling basis. In order to be eligible for this 'certainty rate', which is 0.2% below the current standard rate, local authorities are required to submit specified information by a deadline of mid September. This Authority again complied with the requirements and, therefore, continues to be eligible for this discounted rate. The above forecasts for PWLB rates incorporate this discount.

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by this Council on 5 March 2013. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position.

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

4.1 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.

4.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2013/14 Original Estimate £m	Position as at 30 September 2013 £m	2013/14 Current Estimate £m
Council Fund	19,000	6,394	23,600
HRA	4,900	1,031	4,100
Total	23,900	7,425	27,700

4.2.1 The current estimate for capital expenditure is ahead of the original estimates mainly due to there being grant funded schemes (100% grant funded) awarded subsequent to the original estimates and due to the inclusion of an estimate for the anticipated equal pay capitalisation direction. Due to movements on the programme and individual budgets the increased expenditure is considered affordable within the revenue budget for 2013/14.

4.3 Changes to the Financing of the Capital Programme

4.3.1 There are no significant changes to the financing of the capital programme to report at this stage other than the potential for unsupported borrowing relating to the capitalisation of equal pay claims. This position will become clearer as the year end approaches.

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

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

4.4.2 Prudential Indicator – Capital Financing Requirement

4.4.2.1 We are projected to be marginally ahead of the original forecast capital financing requirement. This is on the basis of being awarded the capitalisation direction for equal pay.

4.4.3 Prudential Indicator – External Debt/the Operational Boundary

	2013/14 Original Estimate £m	2013/14 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	88,500	90,252
CFR – HRA	23,700	24,044
Total CFR	112,200	114,296
Net movement in CFR	6,436	7,881
Prudential Indicator – External Debt/the Operational Boundary		
Borrowing	117,000	89,590
Other long term liabilities	2,000	Nil
Total debt 31 March	119,000	89,590

4.5 Limits to Borrowing Activity

4.5.1 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 2013/14 and 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.

	2013/14 Original Estimate £m	Position as at 30 September 2013 £m
Gross borrowing	112,300	96,100
Plus other long term liabilities	Nil	Nil
Gross borrowing	112,300	96,100
CFR (year end position)	112,300	n/a

4.5.2 By the end of the year the CFR is projected to be £114m, and there is a borrowing requirement of £25m as a result. The treasury management strategy statement (Section 3.5.1) states that a flexible approach will been adopted with regards to the choice between internal and external borrowing. This has been, and will continue to be, the case, with consideration to all the factors listed in that section. The decision to continue to internalise has been driven mainly due to 2 factors: (1) To limit the Authority's exposure to credit risk (2) to limit the cost of carry. These are set against the backdrop of PWLB and investment rates continuing to remain at historically low levels with only a steady increase forecast into the medium term. This current stance is in line with many other local authorities that have been asked in seminars and workshops attended by officers within the finance service. The appointed treasury advisors (Capita Asset Services) have also supported the decision to continue to internalise borrowing at this time. External borrowing at year end is therefore, expected to be £90m. Any changes to the current approach will be reported as appropriate.

4.5.3 It is not envisaged that there will be any difficulties for the current or future years in complying with this prudential indicator.

4.5.4 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. 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	**2013/14 Original Indicator (£m)**	**Position as at 30 September 2013 (£m)**
Borrowing	122,000	96,100
Other long term liabilities	2,000	Nil
Total	124,000	96,100

5. Investment Portfolio 2013/14

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 0.5% Bank Rate. Indeed, the introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

5.2 The Council held £25m of investments as at 30 September 2013 (£14m at 31 March 2013) and the investment portfolio yield for the first six months of the year was 0.90%. A full list of investments as at 30th September 2013 can be found in Appendix 5. 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 2013/14.

5.4 The Council's budgeted investment return for 2013/14 is £0.3m. As indicated in the strategy, some borrowing has been internalised and so, during the year, the projected investment returns are below those budgeted for. However, there have been corresponding savings on loan interest and the forecast net outturn is within budget.

5.5 Investment Counterparty criteria

5.5.1 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function, although it is continuing to be challenging to place funds as the credit quality of counterparties continues at a reduced level.

5.5.2 In terms of continuing investments, it has previously been reported that there have been credit rating issues with Santander UK plc. During the quarter the decision was made to continue investing with the bank. The basis for this decision is in line with the basis reported in quarter 1:

- The approved 2013/14 Annual Investment Strategy, section 4.3, details the creditworthiness policy. In summary, the process is to apply minimum credit ratings for investments. Layered on top of this is Sector's creditworthiness service, which results in suggested investment durations. In addition to this, reference is made to market data and information;
- Santander's credit rating remained unchanged during the quarter, with all the long term ratings being 2 levels below the approved lending list criteria, and 2 of the short term ratings being 1 level below the criteria;
- The advice from the Authority's appointed treasury management advisers (Capital Asset Services) was that it was appropriate to continue investing (with the suggested duration being to up to 100 days);
- Independent analysis and monitoring of the markets backed up the conclusions reached by Capital Asset Services;
- Given all the considerations stated above, the decision was made to continue to invest with Santander, on a call basis only.

6. Borrowing

6.1 The projected capital financing requirement (CFR) for 2013/14 is £7.9m. 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 £90m and will have used £25m 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 A summary of investments held can be found in Appendix 4.

7. Debt Rescheduling

7.1 No debt rescheduling was undertaken during the first six months of 2013/14.

8. Activity Since Quarter Two

8.1 Since the end of the quarter two fixed term deposits matured: one was a 6 month, £5m deposit with the Royal Bank of Scotland (RBS) at a rate of 0.95% and the other was a 364 Day, £5m deposit with RBS at a rate of 1.58%. The first maturity was reinvested in full with RBS for 3 months at a rate of 0.8%. The second maturity was reinvested with RBS on a call basis only at a rate originally at 0.6%. The decision to reinvest with RBS was mainly due to the fact that its part nationalised status makes it one of the most creditworthy counterparties; however, it was also offering very competitive interest rates. The second maturity was reinvested on call basis only in order to maintain flexibility. The rate currently received on the call account has recently risen from the original rate by 20 basis points to 0.8. This decision to invest with RBS was supported by Capita Asset Services.

8.2 Additionally, investments have continued with Santander on a call basis only.

8.3 No other fixed term investments have been made since the end of the quarter and no new borrowing or debt rescheduling has taken place.

9. Plans for next year

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

- to use the available general supported borrowing allocation of £2.193m (£2.140m in 2013/14) plus any unused allocation brought forward from this year;
- to use the Highways Local Government Borrowing Initiative borrowing availability in full; and
- to borrow, on an unsupported basis, to fund capital investment priorities, linking in to the transformation objectives.

10. Recommendation

To note the content of the report.

CLARE J WILLIAMS
HEAD OF FUNCTION (RESOURCES) **13 MARCH 2014**

Cefndir Economaidd / Economic background

During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy grew 0.7% in Q2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. Pay growth also rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the top rate of income tax. Excluding bonuses, earnings rose by just 1.0% y/y, well below the rate of inflation at 2.7% in August, causing continuing pressure on household's disposable income.

The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre 2008.

Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the MPC provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid 2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

CPI inflation (MPC target of 2.0%), fell marginally from a peak of 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to 2.0% in 2015.

Financial markets sold off sharply following comments from Ben Bernanke (the Fed chairman) in June that suggested the Fed. may 'taper' its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK. Equity prices fell initially too, as Fed. purchasing of bonds has served to underpin investor moves into equities out of low yielding bonds. However, as the market moves to realign its expectations, bond yields and equities are likely to rise further in expectation of a continuing economic recovery. Increases in payroll figures have shown further improvement, helping to pull the unemployment rate down from a high of 8.1% to 7.3%, and continuing house price rises have helped more households to escape from negative equity. In September, the Fed. surprised financial markets by not starting tapering as it felt the run of economic data in recent months had been too weak to warrant taking early action. Bond yields fell sharply as a result, though it still only remains a matter of time until tapering does start.

Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

Allan gan / From: CAPITA ASSET SERVICES – TREASURY SOLUTIONS

Rhagolygon Economaidd am ail hanner 2013/14 / Economic outlook for the second half of 2013/14

Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable: the coalition government fell on 29 September.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds

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

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further QE if there is a dip in strong growth or if the MPC were to decide to take action to combat the market's expectations of an early first increase in Bank Rate. If the MPC does takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The tension in the US over passing a Federal budget for the new financial year starting on 1 October and raising the debt ceiling in mid October could also see bond yields temporarily dip until agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed. will cause bond yields to rise.

Allan gan / From: CAPITA ASSET SERVICES – TREASURY SOLUTIONS

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

Since the August Bank of England Inflation Report we have had a continuing run of strong economic news which has consolidated confidence in a UK economic recovery. Such a run of resoundingly good economic news is not something that the UK is accustomed to and so it has taken some time for markets (and forecasters!) to shed some continuing caution that this is all too good to be true and could just be a statistical aberration. What we have seen since August is an initial robust rise in gilt yields, especially in shorter / medium term yields e.g. 5 and 10 years, followed by a partial backtracking. This overall rise in yields reflects the market view that the Bank of England's target level for unemployment of 7%, before it will review changing Bank Rate, will be reached much sooner than the Bank's view back in August of towards the end of 2016. In its latest quarterly Inflation Report this month, the Bank has shortened this period to possibly as early as the end of 2014. Financial markets have also moved their expectations back from their over optimism, which reached fever pitch in September, and are now expecting a first increase in Bank Rate in Q2 2015. This is not our house view however, and the Bank has been at pains to emphasise that reaching a 7% unemployment rate is NOT a trigger for the first increase in Bank Rate but this target is only an assurance that they will NOT increase Bank Rate before that rate is reached. 7% is, therefore, merely a point at which the MPC would start to ask the question whether Bank Rate warrants being increased. This question will then be dependent on MPC forecasts for inflation and growth. The MPC does have a twin mandate of controlling inflation AND supporting the Government's policy for growth and employment. Provided inflation looks likely to stay near to the target rate of 2% (Bank forecast is now 1.9% Q4 2015), the MPC are likely to give priority to supporting growth and employment. This could mean a continuation of loose monetary policy and consequently an extended period of historically low Bank Rate compared to what we have viewed as being 'normal' rates.

This latest house view is very different from market expectations of a first increase in Bank Rate of Q2 2015. It should be noted that in this latest forecast, although we have moved the first increase in Bank Rate forward to Q2 2016, we are only forecasting Bank Rate to reach 1.25% in Q1 2017. This is a slow rate of increase because we have major reservations that the current bout of strong economic growth (the Bank has now upped its forecasts for 2014 to 2.8% and for 2015 to 2.5%), will wilt as the major stimulus has come from consumer spending and an uplift in borrowing to buy property. Whilst the release of this burst of pent up demand to buy property is having a very welcome effect on the economy, this surge is very likely to fade in time and will then leave a major question mark over where growth is going to come from. Basically, there are four main areas of demand in the UK economy: -

1. Consumers – but most consumers are maxed out on borrowing and trying to pay down debt. In addition, most consumers are experiencing declining disposable income as wage increases are less than inflation. This will not reverse until productivity and business investment improve so as to warrant paying higher wages. It is mainly higher wages that could provide a solid stimulus to an increase in consumer expenditure which would then underpin strong growth.

2. Government – again, maxed out on borrowing and committed to austerity programmes to reduce its expenditure.

3. Foreigners buying our exports – but the EU, our major export market, is likely to experience tepid growth, at best, for the next few years.

4. Business investment in fixed capital formation; but this has fallen from 13.5% to 10.4% of GDP over the last six years. Why should companies increase this level of investment when labour productivity has fallen significantly over the last six years, and so there should be potential to improve productivity in order to facilitate increased levels of production? Export markets also look relatively weak, so again, there is little need to invest in order to expand production for that reason. Finally, the Bank keeps on commenting on the level of surplus capacity in the economy so there is an issue as to how long it will take for that capacity to absorb increases in levels of production before new investment appears on the agenda of companies.

Turning to the US, in terms of the start of Fed tapering of asset purchases, we are still of the view that tapering will start soon, but not now till Q1 2013 at the earliest; so there is no material change in our US outlook. However, UK gilt yields are still closely tracking movements in US treasury yields and these could, therefore, be volatile as the political deadlock and infighting between Democrats and Republicans over the budget, and the raising of the debt limit, has only been kicked down the road, rather than resolved. The Fed. is likely to want to prefer to delay tapering until it knows what sort of agreement eventually emerges so that it can ascertain what impact it is likely to have on the US economy and consumers.

Short term turbulence in financial markets

We can only repeat our previous warnings that we are in times when events can precipitate major volatility in markets. While Ireland has made very good progress towards probably being able to exit from its bail out soon, it looks increasingly likely that Greece is now going to need a third bailout package, though not one on the same scale as the first two. Concerns are also rising over Portugal requiring another bailout. Slovenia looks increasingly like it is heading towards a bailout. A growing lack of confidence in the Eurozone austerity programmes could cause bond yields to rise for Eurozone countries. This could help maintain UK gilts as a safe haven and so depress gilt yields close to current levels for an extended period.

This latest forecast is based on an initial assumption that we will not be heading into a major resurgence of the Eurozone debt crisis, or a break-up of the Eurozone, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where Eurozone institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the Eurozone will be tepid for the next couple of years and is, therefore, likely to dampen UK growth, as the EU is our biggest export market. We are also concerned that some Eurozone countries experiencing low growth, will, over the next few years, see a significant increase in total government debt to GDP ratios. There is a potential danger for these ratios to rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the Eurozone debt crisis. While the ECB has adequate resources to manage a debt crisis in a small Eurozone country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the European Central Bank and to Eurozone politicians. Our PWLB forecasts are based around a balance of risks. However, we would flag up the potential for upside risks, especially for longer term PWLB rates, as follows: -

- A further increase in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities;
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields;
- A reversal of Sterling's safe-haven status on an improvement in financial stresses in the Eurozone;
- A reversal of QE; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

It should be highlighted how unpredictable PWLB rates and bond yields continue to be as we are experiencing exceptional levels of volatility which are highly correlated to political developments, (or lack of them), in the sovereign debt crisis.

Allan gan / From: CAPITA ASSET SERVICES – TREASURY SOLUTIONS

Crynodeb Benthyca a Buddsoddi – Chwarter 1 a 2 2013/14
Borrowing and Investment Summary – Quarters 1 and 2 2013/14

	30 Medi / Sept 2013		30 Mehefin / June 2013	
	£m	**%**	**£m**	**%**
Benthyca – graddfa sefydlog Borrowing – fixed rate	96.1	5.53	96.1	5.53
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	14.7	0.67	13.7	0.67
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	10.0	1.27	10.0	1.27
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	24.7	0.90	23.7	0.92
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	25.7	0.88	28.0	0.92

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

ATODIAD / APPENDIX 5

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar Mehefin 2013 *
Credit ratings of investment counterparties and deposits held with each as at 30 September 2013*

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	**10,000**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Glas - 12 mis/ Blue - 12 months**
HSBC Holdings plc	HSBC Bank plc	**489**	**Galw/ Call**	**n/a**	**0.25**	**AA-**	**F1+**	**Aa3**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 1 2months**
Santander Group plc	Santander UK plc	**4,169**	**Galw/ Call**	**n/a**	**0.80**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Gwyrdd – 3 mis/ Green - 100 days**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,000**	**Tymor Sefydlog/ Fixed Term (364 diwrnod/days)**	**Tachwedd/ November 2012 Tachwedd/ November 2013**	**1.58**	**A**	**F1**	**A3**	**P-2**	**A**	**A-1**	**Glas - 12 mis / Blue - 12 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,000**	**Tymor Sefydlog/ Fixed Term (6 mis/months)**	**Mai /May 2013 / Tachwedd/ November 2013**	**0.95**	**A**	**F1**	**A3**	**P-2**	**A**	**A-1**	**Glas – 12 mis / Blue - 12 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 5 o'r Datganiad Strategaeth Rheoli Trysorlys 2013/14/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 5 of the 2013/14 Treasury Management Strategy Statement / Annual Investment Strategy

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

- Santander oedd yr unig sefydliad i beidio â chwrdd â meini prawf y Rhestr Benthyca Cymeradwyedig. Fe parhawyd i fuddsoddi yn Santander. Trafodir hyn yn Rhan 5.5.2./The only institution not to meet the Approved Lending List credit criteria was Santander. Investment in Santander did continue though. This is discussed in Section 5.5.2.
  Yn Atodiad 6 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 6.

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

Tymor Hir Fitch Long Term	Tymor Hir Moodys Long Term	Tymor Hir S&P Long Term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Tymor Byr Fitch Short Term	**Tymor Byr Moodys Short Term**	**Tymor Byr S&P Short Term**
F1+	d/b / n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

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DDIM I'W GYHOEDDI
NOT FOR PUBLICATION

NORTH WALES RESIDUAL WASTE TREATMENT PROJECT

PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

Paragraff 14 Paragraph 14	Atodlen 12A Deddf Llywodraeth Leol 1972 Schedule 12A Local Government Act 1972
Y PRAWF – THE TEST	
Mae yna fudd y cyhoedd wrth ddatgan oherwydd / There is a public interest in disclosure as:- • Mae'r Adroddiad Pwyllgor sydd wedi ei amgáu a'r atodiadau yn rhoi gwybodaeth ar broses gaffael fanwl ar gyfer Prosiect Trin Gwastraff Gweddilliol Gogledd Cymru ynghyd â chynnig i wneud cytundeb partneriaeth tymor hir gydag awdurdodau lleol eraill yng Ngogledd Cymru i drin gwastraff gweddilliol. / The enclosed Committee Report and accompanying appendices provide information on a detailed procurement process for the North Wales Residual Waste Treatment Project together with a proposal to enter into a long term partnership agreement with other North Wales local authorities for the treatment of residual waste.	Y budd y cyhoedd with beidio datgelu yw / The public interest in not disclosing is:- • Mae'r wybodaeth a geir yn yr Adroddiad Pwyllgor sydd ynghlwm a'r atodiadau yn dangos y costau a dendrwyd ac a ddarparwyd gan fidiwr a ffefrir arfaethedig ynghyd â manylion yn ymwneud â chontract, sefyllfaoedd ariannol a risg a ddarparwyd fel rhan o'u tendr ac sydd yn fasnachol sensitif. / The information contained within the enclosed Committee Report and accompanying appendices show the tendered costs provided by a proposed preferred bidder together with details relating to contract, financial and risk positions provided as part of their tender which are commercially sensitive.
Mae budd y cyhoedd wrth gadw'r eithriad o bwys mwy na budd y cyhoedd wrth ddatgelu'r wybodaeth The public interest in maintaining the exemption outweighs the public interest in disclosing the information.	

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By virtue of paragraph(s) 14 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 5.

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PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

(Teitl yr Adroddiad/Title of Report)   Datganiad Polisi Tâl/Pay Policy Statement2014

Paragraff(au) Paragraph(s) 13, 14	Atodlen 12A Deddf Llywodraeth Leol 1972 Schedule 12A Local Government Act 1972

Y PRAWF – THE TEST

Mae yna fudd y cyhoedd wrth ddatgelu oherwydd / There is a public interest in disclosure as:-	Budd y cyhoedd with beidio datgelu yw / The public interest in not disclosing is:-
Mae budd i'r cyhoedd wybod am faterion sy'n ymwneud â sefydliad y Cyngor a gweithwyr y Cyngor gan eu bod yn weithwyr cyhoeddus. Mae diddordeb uniongyrchol gan y cyhoedd yng nghostau gwasanaethau ac arbedion effeithlonrwydd.	Mae yna ddisgwyliad rhesymol fod pob mater sy'n ymwneud â gweithiwr unigol y Cyngor yn cael eu trin yn gyfrinachol. Mae'r adroddiad hwn â goblygiadau cyflogaeth sy'n ymwneud ag uwch dîm arweinyddiaeth y Cyngor a mae'n bosib adnabod unigolion o deitl y swydd.
There is public interest in knowing of matters which relate to the Council's establishment as public sector workers. The public have direct interest in the cost of services and efficiency savings.	There is a reasonable expectation that all matters relating to an individual employee of the Council are treated confidentially. This report has implications in relation to the remuneration of senior leadership team posts and it will be possible to identify individuals from post titles.

Argymhelliad - Mae budd y cyhoedd wrth gadw'r eithriad o bwys mwy na budd y cyhoedd wrth ddatgelu'r wybodaeth. [* - dilëwch y geiriau amherthnasol]
Recommendation - The public interest in maintaining the exemption outweighs the public interest in disclosing the information. [* - delete as appropriate]

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By virtue of paragraph(s) 13, 14 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

CYNGOR SIR/COUNTY COUNCIL
Job Evaluation and Single Status/Ar farnu a Statws Sengl

Paragraff(au) 12, 13, 15,16 1972 Paragraph(s) 12, 13, 15,16	Atodlen 12A Deddf Llywodraeth Leol Schedule 12A Local Government Act 1972
Y PRAWF – THE TEST	
Mae yna fudd y cyhoedd wrth ddatgelu oherwydd / There is a public interest in disclosure as:- Mae'r adroddiad yn cynnwys gwybodaeth sydd yn debygol o ddatgelu unigolion Mae'r adroddiad yn cynnwys gwybodaeth sydd yn debygol o fod yn rhan o drafodaethau gyda'r undebau .	Y budd y cyhoedd with beidio datgelu yw / The public interest in not disclosing is:- The report contains information that is likely to reveal the identity of individuals. The report contains information relating to contemplated consultations in connection with labour relations matters.
Argymhelliad – Mae'r budd i'r cyhoedd wrth gynnal yr eithriad, o leiaf ar hyn o bryd, yn gorbwyso'r budd i'r cyhoedd o ddatgelu'r wybodaeth. **Recommendation** - The public interest in maintaining the exemption, at least at this stage, outweighs the public interest in disclosing the information.	

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