

CYNGOR SIR YNYS MÔN

| | |
|------------------------------|--|
| Adroddiad i: | PWYLLGOR GWAITH |
| Dyddiad: | 19 RHAGFYR 2016 |
| Pwnc: | RHEOLI'R TRYSORLYS - ADRODDIAD CANOL BLWYDDYN 2016-17 |
| Aelod(au) Portffolio: | Y CYNGHORYDD H E JONES |
| Pennaeth Gwasanaeth: | MARC JONES EST. 2601 |
| Awdur yr Adroddiad: | GARETH ROBERTS |
| Rhif Ffôn: | 01248 752675 |
| E-bost: | GarethJRoberts@ynysmon.gov.uk |
| Aelodau Lleol: | d/b |

A - Argymhelliad/Argymhellion a Rheswm/Rhesymau

- Adolygu'r adroddiad er mwyn bod yn gyson â chanllawiau proffesiynol ac er mwyn cydymffurfio gydag argymhellion Côt Ymarfer CIPFA ar Reoli Trysorlys;
- Cafodd yr adroddiad ei sgrwtineiddio gan y Pwyllgor Archwilio ar 6 Rhagfyr 2016 a phenderfynwyd anfon yr adroddiad ymlaen i'r Pwyllgor hwn heb unrhyw sylw;
- Ystyried cynnwys yr adroddiad, ac i gyfeirio'r adroddiad ymlaen i'r Cyngor Sir gydag unrhyw sylwadau.

B - Pa opsiynau eraill wnaethoch chi eu hystyried a beth oedd eich rhesymau dros eu gwrthod ac/neu ddewis yr opsiwn hwn?

d/b

C - Am ba reswm y mae hwn yn benderfyniad i'r Pwyllgor Gwaith?

Er mwyn cydymffurfio â'r cynllun dirprwyo, fel nodwyd yn y Datganiad ar Strategaeth Rheoli Trysorlys 2016/17, a gymeradwywyd gan y Cyngor ar 10 Mawrth 2016.

CH - A yw'r penderfyniad hwn yn gyson â'r polisi a gymeradwywyd gan y Cyngor llawn?

Ydi

D - A yw'r penderfyniad hwn o fewn y gyllideb a gymeradwywyd gan y Cyngor?

d/b

DD - Gyda phwy wnaethoch chi ymgynghori? Beth oedd eu sylwadau?

| | | |
|----------|---|--|
| 1 | Prif Weithredwr / Uwch Dim Arweinyddiaeth (UDA) (mandadol) | |
| 2 | Cyllid / Adran 151 (mandadol) | d/b – adroddiad y Swyddog Adran 151 yw hwn |
| 3 | Cyfreithiol / Swyddog Monitro (mandadol) | |
| 4 | Adnoddau Dynol (AD) | |
| 5 | Eiddo | |
| 6 | Technoleg Gwybodaeth Cyfathrebu TGCh) | |
| 7 | Sgrwtini | |
| 8 | Aelodau Lleol | |
| 9 | Unrhyw gyrff allanol / arall/eraill | |

| E - Risgiau ac unrhyw gamau lliniaru (os yn berthnasol) | |
|---|-----------------------------|
| 1 | Economaidd |
| 2 | Gwrthdodi |
| 3 | Trosedd ac Anhrefn |
| 4 | Amgylcheddol |
| 5 | Cydraddoldebau |
| 6 | Cytundebau Canlyniad |
| 7 | Arall |
| F - Atodiadau: | |
| <p>Atodiad A - Adroddiad Adolygu Canol Blwyddyn Rheoli Trysorlys 2016/17</p> <p>Atodiad 1 - Perfformiad Economaidd hyd yma a'r rhagolygon</p> <p>Atodiad 2 - Sylwadau ar y rhagolygon diweddaraf ar raddfeydd llog</p> <p>Atodiad 3 - Edrych i'r Dyfodol gan Capita Asset Services</p> <p>Atodiad 4 - Crynodeb Benthycu a Buddsoddi – Chwarteri 1 a 2 2016/17</p> <p>Atodiad 5 - Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 30 Medi 2016</p> <p>Atodiad 6 – Gwledydd a gymeradwywyd i bwrpas buddsoddi</p> | |
| FF - Papurau Cefndir (cysylltwch os gwelwch yn dda gydag awdur yr Adroddiad am unrhyw wybodaeth bellach): | |
| <ul style="list-style-type: none"> Datganiad ar y Strategaeth Rheoli Trysorlys (DSRhT) ar gyfer 2016/17 a gymeradwywyd gan y Cyngor hwn ar 10 Mawrth 2016 | |

1. Rhagarweiniad

Mae'r Cyngor yn gweithredu cyllideb gytbwys, sy'n golygu'n fras bod arian a godir yn ystod y flwyddyn yn ddigon i dalu am ei wariant. Mae rhan o'r gweithrediadau rheoli trysorlys yn sicrhau bod y llif arian hwn yn cael ei gynllunio'n ddigonol, gydag arian dros ben yn cael ei fuddsoddi mewn gwrthbartion risg isel, gan ddarparu hylifedd digonol yn y lle cyntaf cyn ystyried sicrhau'r elw mwyaf posib o'r buddsoddiadau.

Ail brif swyddogaeth y gwasanaeth rheoli'r trysorlys yw cyllido cynlluniau cyfalaf y Cyngor. Mae'r cynlluniau cyfalaf hyn yn rhoi syniad o faint y bydd angen i'r Cyngor gael benthyg, sef, yn y bôn, y cynllunio llif arian tymor hirach i sicrhau bod y Cyngor yn gallu cyflawni ei weithrediadau gwariant cyfalaf. Gall rheoli'r llif arian yn y tymor hirach gynnwys trefnu benthyciadau tymor hir neu dymor byr, neu ddefnyddio gwargedau llif arian tymor hir, ac ar adegau gellir ailstrwythuro unrhyw ddyledion i gwrdd ag amcanion risg neu gost y Cyngor.

Yn unol â hynny, diffinnir rheoli trysorlys fel: -

"Rheoli buddsoddiadau a llif arian yr awdurdod lleol, ei drefniadau bancio a thrafodion ar y farchnad arian a'r farchnad gyfalaf; rheolaeth effeithiol o'r risgiau sy'n gysylltiedig â'r gweithgareddau hynny; a cheisio'r perfformiad gorau posib sy'n gyson â'r risgiau hynny."

2. Cefndir

Mae prif ofynion y Côt fel a ganlyn:

1. Creu a chynnal Datganiad ar y Polisi Rheoli'r Trysorlys sy'n nodi polisïau ac amcanion gweithgareddau rheoli trysorlys y Cyngor.
2. Creu a chynnal yr Arferion Rheoli'r Trysorlys sy'n nodi sut bydd y Cyngor yn ceisio cyflawni'r polisïau a'r amcanion hynny.
3. Y Cyngor llawn yn derbyn Datganiad Blynyddol ar y Strategaeth Rheoli'r Trysorlys, sy'n cynnwys y Strategaeth Fuddsoddi Flynyddol a Pholisi Darpariaeth Isafswm Refeniw ar gyfer y flwyddyn i ddod, Adroddiad Adolygu Canol Blwyddyn (yr adroddiad hwn) ac Adroddiad Blynyddol, sy'n rhoi sylw i weithgareddau a gynhaliwyd yn ystod y flwyddyn flaenorol.
4. Y Cyngor llawn yn dirprwyo cyfrifoldebau am weithredu a monitro'r polisïau ac arferion rheoli'r trysorlys ac am weithredu a gweinyddu penderfyniadau rheoli'r trysorlys.
5. Y Cyngor yn dirprwyo'r gwaith o archwilio'r strategaeth a'r polisïau rheoli'r trysorlys i gorff penodol, sef y Pwyllgor Archwilio yn achos y Cyngor hwn.

Paratowyd yr adroddiad canol blwyddyn hwn yn unol â Chôt Ymarfer CIPFA ar Reoli'r Trysorlys, ac mae'n cynnwys y canlynol:-

- Diweddariad economaidd ar gyfer rhan gyntaf blwyddyn ariannol 2016/17;
- Adolygiad o'r Datganiad ar y Strategaeth Rheoli'r Trysorlys a'r Strategaeth Fuddsoddi Flynyddol;
- Gwariant cyfalaf y Cyngor (dangosyddion darbodus);
- Adolygiad o bortffolio buddsoddi'r Cyngor ar gyfer 2016/17;
- Adolygiad o strategaeth fenthyca'r Cyngor ar gyfer 2016/17;
- Adolygiad o unrhyw aildrefnu dyledion yn ystod 2016/17;
- Crynodeb o weithgaredd ers Chwarter 2;
- Edrych ymlaen i'r flwyddyn nesaf; ac
- Adolygiad o gydymffurfiaeth gyda Therfynau Trysorlys a Darbodus ar gyfer 2016/17.

3. Diweddariad economaidd

3.1 Yn fuan ar ôl diwedd y chwarter cyntaf cafwyd crynodeb gan ymgynghorwyr trysorlys y Cyngor o'r perfformiad economaidd hyd yma a'r rhagolygon. Gellir ei weld yn Atodiad 1. Maent hefyd wedi darparu'r rhagolygon canlynol ar gyfer y gyfradd llog:-

| | Rhagfyr 2016 | Mawrth 2017 | Mehefin 2017 | Medi 2017 | Rhagfyr 2017 | Mawrth 2018 | Mehefin 2018 |
|-------------------------------|--------------|-------------|--------------|-----------|--------------|-------------|--------------|
| Cyfradd Banc (%) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Cyfradd 5 mlynedd y BBGC (%) | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.70 | 1.70 |
| Cyfradd 10 mlynedd y BBGC (%) | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.40 |
| Cyfradd 25 mlynedd y BBGC (%) | 2.90 | 2.90 | 2.90 | 2.90 | 3.00 | 3.00 | 3.00 |
| Cyfradd 50 mlynedd y BBGC (%) | 2.70 | 2.70 | 2.70 | 2.70 | 2.80 | 2.80 | 2.80 |

3.2 Yn ddiweddar, mae ymgynghorwyr trysorlys y Cyngor wedi darparu sylwebaeth i gyd-fynd â'r rhagolygon uchod ar gyfer cyfraddau llog. Gellir gweld y sylwebaeth hon yn Atodiad 2.

3.3 Yn dilyn y gostyngiad yn y gyfradd llog, mae'r incwm a ragwelir o'r buddsoddiadau yn llai nag y cyllidebwyd ar gyfer 2016/17.

4. Datganiad ar y Strategaeth Rheoli'r Trysorlys a Diweddariad ar y Strategaeth Fuddsoddi Flynyddol

4.1 Cymeradwywyd y Datganiad ar y Strategaeth Rheoli'r Trysorlys (DSRrT) ar gyfer 2016/17 gan y Cyngor hwn ar 10 Mawrth 2016. Nid oes unrhyw newidiadau polisi i'r DSRrT; mae'r manylion yn yr adroddiad hwn yn diweddar'u'r sefyllfa yng ngoleuni'r sefyllfa economaidd ddiweddaraf

5. Sefyllfa Gyfalaf y Cyngor (Dangosyddion Darbodus)

5.1 Mae'r rhan hon o'r adroddiad wedi ei strwythuro i roi diweddariad ar: -

- Cynlluniau gwariant cyfalaf y Cyngor;
- Sut mae'r cynlluniau hyn yn cael eu hariannu;
- Effaith y newidiadau yn y cynlluniau gwariant cyfalaf ar y dangosyddion darbodus a'r angen sylfaenol i fenthycu; a
- Cydymffurfio â'r cyfyngiadau sydd yn eu lle ar gyfer gweithgarwch benthyca.

5.2 Dangosydd Darbodus ar gyfer Gwariant Cyfalaf

Mae'r tabl hwn yn dangos yr amcangyfrifon diwygiedig ar gyfer gwariant cyfalaf o gymharu â'r gyllideb gyfalaf.

| Gwariant cyfalaf | Amcangyfrif Gwreiddiol 2016/17 £'000 | Sefyllfa ar 30 Medi 2016 £'000 | Amcangyfrif Cyfredol 2016/17 £'000 |
|--------------------|--------------------------------------|--------------------------------|------------------------------------|
| Cronfa'r Cyngor | 38,080 | 11,880 | 30,910 |
| Cyfrif Refeniw Tai | 14,170 | 3,660 | 12,150 |
| Cyfanswm | 52,250 | 15,540 | 43,060 |

5.2.1 Mae'r amcangyfrif cyfredol ar gyfer gwariant cyfalaf yn llai na'r un gwreiddiol a hynny'n bennaf oherwydd bod Prosiect Ffordd Nanner wedi costio llai na'r disgwyl ac am na wnaed cymaint o waith ar-lein ag yr amcangyfrifwyd yn wreiddiol. Yn ogystal, parheir i ddisgwyl am gyllid gan Swyddfa Cyllid Ewropeaidd Cymru ar gyfer Cynllun Seilwaith Caerdybi & Llangefni ac ni ragwelir y bydd unrhyw Wariant Cyfalaf arno eleni. I gael dadansoddiad llawn o'r gwariant cyfalaf ar gyfer 2016/17, gweler yr Adroddiad Monitro Cyllideb Cyfalaf a gyflwynwyd i'r Pwyllgor Gwaith ar 28 Tachwedd 2016.

5.3 Newidiadau i Ariannu'r Rhaglen Gyfalaf

5.3.1 Nid oes unrhyw newidiadau sylweddol i adrodd arnynt ar hyn o bryd ynghylch ariannu'r rhaglen gyfalaf.

5.3.2 Mae'r Tabl isod yn dangos yr amcangyfrif cyfredol ar gyfer ariannu Rhaglen Gyfalaf 2016/17 o'i gymharu â'r rhagolwg gwreiddiol. Mae'r prif wahaniaeth yn ymwneud â'r cyllid ar gyfer Grantiau Cyfalaf a Benthycia â Chymorth, a hynny oherwydd y trefniant i ariannu Rhaglen Ysgolion yr Unfed Ganrif ar Hugain ar gyfer 2016/17. Mae'r cyllid gan Lywodraeth Cymru ar ffurf Grant Cyfalaf a Benthycia â Chymorth, ac amcangyfrifwyd y byddai hynny ar sail 50:50 yn 2016/17. Fodd bynnag, mae mwy o bwysoliad tuag at Fenthycia â Chymorth yn 2016/17, sy'n golygu bod y Benthycia â Chymorth wedi cynyddu a bod y Grant Cyfalaf wedi gostwng. Yn y blynyddoedd i ddod fel arall fydd hi gyda chyfran uwch o'r Grant Cyfalaf. Y rhesymau hyn, ynghyd â'r tanwariant a ragwelir yng Nghynllun Seilwaith Strategol Caergybi a Llangefni ac yn y Cynllun Prifffyrdd Newydd i Wylfa Newydd, fel y nodwyd yn flaenorol, yw'r prif resymau y bydd y Grant Cyfalaf yn llai yn 2016/17.

| Cyllido Cyfalaf | Amcangyfrif Gwreiddiol 2016/17 £'000 | Amcangyfrif Diwygiedig 2016/17 £'000 |
|-----------------------|--|--|
| Grantiau Cyfalaf | 24,700 | 14,370 |
| Derbyniadau Cyfalaf | 6,570 | 6,580 |
| O Gronfeydd Wrth Gefn | 780 | 290 |
| Cyfraniad refeniw | 10,680 | 8,940 |
| Benthycia â Chymorth | 2,190 | 6,380 |
| Benthycia Digymorth | 6,730 | 5,900 |
| Yswiriant | 600 | 600 |
| Cyfanswm | 52,250 | 43,060 |

5.4 Newidiadau i'r Dangosyddion Darbodus ar gyfer y Gofyniad Cyllido Cyfalaf (GCC), Dyled Allanol a'r Ffin Weithredol

5.4.1 Mae'r tabl isod yn dangos y GCC, sef yr angen allanol sylfaenol gael benthycio at ddiben cyfalaf. Mae hefyd yn dangos y sefyllfa ddyled ddisgwyliedig dros y cyfnod. Gelwir hyn y Ffin Weithredol.

5.4.2 Dangosydd Darbodus - Gofyniad Cyllido Cyfalaf

5.4.2.1 Rydym ar y trywydd iawn i gyflawni'r Gofyniad Cyllido Cyfalaf a ragwelwyd yn wreiddiol.

5.4.3 Dangosydd Darbodus - Dyledion Allanol / y Ffin Weithredol

| | Amcangyfrif gwreiddiol 2016/17 £'000 | Sefyllfa GCC ar 30 Medi 2016 £'000 |
|--|--|--|
| Dangosydd Darbodus - Gofyniad Cyllido Cyfalaf | | |
| GCC - Cronfa'r Cyngor | 95,748 | 92,981 |
| GCC – CRT | 43,529 | 42,498 |
| Cyfanswm GCC | 139,277 | 135,479 |
| Symudiad net yn y GCC | 9,099 | 7,823 |
| | Amcangyfrif Gwreiddiol 2016/17 £'000 | Y Sefyllfa Fenthycia ar 30 Medi 2016 £'000 |
| Dangosydd Darbodus - Dyledion Allanol / y Ffin Weithredol | | |
| Benthycia | 161,000 | 110,739 |
| Rhwymedigaethau tymor hir eraill | 3,000 | dim |
| Cyfanswm y ddyled ar 31 Mawrth | 164,000 | 110,739 |

5.5 Cyfyngiadau ar Weithgareddau Benthycu

5.5.1 Y rheolaeth allweddol gyntaf dros weithgareddau trysorlys yw dangosydd darbodus sy'n sicrhau, yn y tymor canol, na fydd benthycu net (benthyciadau llai buddsoddiadau) i ddibenion cyfalaf yn unig. Ni ddylai'r benthycu allanol gros, ac eithrio yn y tymor byr, fod yn fwy na'r cyfanswm GCC yn y flwyddyn flaenorol ynghyd ag amcangyfrifon o unrhyw GCC ychwanegol ar gyfer 2016/17 a'r ddwy flynedd ariannol nesaf. Mae hyn yn caniatáu rhywfaint o hyblygrwydd ar gyfer benthycu cynnar ar raddfa gyfyngedig yn blyneddodded i ddod. Mae'r Cyngor wedi cymeradwyo polisi o fenthycu cyn y bydd yr angen yn codi ac fe gedwir at y trefniant hwn os gwelir y byddai'n ddoeth gwneud hynny.

| | Amcangyfrif Gwreiddiol 2016/17 £'000 | Y Sefyllfa ar 30 Medi 2016 £'000 |
|----------------------------------|--|--|
| Benthycu gros | 139,277 | 110,739 |
| Rhwymedigaethau tymor hir eraill | Dim | Dim |
| Benthycu gros | 139,277 | 110,739 |
| GCC (sefyllfa diwedd blwyddyn) | 139,277 | d / b |

5.5.2 Ni ragwelir unrhyw anawsterau o ran cydymffurfio â'r dangosydd darbodus hwn yn y flwyddyn gyfredol.

5.5.3 Mae dangosydd darbodus pellach yn rheoli'r lefel fenthycu gyffredinol. Hwn yw'r Terfyn Awdurdodedig ac ni chaniateir cymryd benthycu mwy na'r swm hwn. Aelodau sy'n pennu a diwygio'r terfyn hwn, sef £169m. Mae'n adlewyrchu faint o arian y gallwn fforddio ei fenthycu yn y tymor byr, er nad yn ddymunol, ond nid yw'n gynaliadwy yn y tymor hirach. Hwn yw'r uchafswm y disgwylir y bydd angen ei fenthycu, gyda pheth hyblygrwydd ar gyfer symudiadau annisgwyl. Hwn yw'r terfyn statudol a bennir o dan adran 3(1) Deddf Llywodraeth Leol 2003.

| Terfyn Awdurdodedig ar gyfer dyled allanol | Dangosydd Gwreiddiol 2016/17 £'000 | Y Sefyllfa Fenthycu ar 30 Medi 2016 £'000 |
|---|--|---|
| Benthycu | 166,000 | 110,739 |
| Rhwymedigaethau tymor hir eraill | 3,000 | dim |
| Cyfanswm | 169,000 | 110,739 |

6. Portffolio Buddsoddi 2016/17

6.1 Yn unol â'r Côt, blaenoriaeth y Cyngor yw sicrhau diogelwch cyfalaf a hylifedd, a chael lefel briodol o elw ar ei fuddsoddiadau sy'n gyson ag archwaeth risg y Cyngor. Fel y nodir yn Adran 3, mae'n farchnad fuddsoddi anodd iawn o ran cael y cyfraddau llog a welwyd yn gyffredin yn y degawdau blaenorol gan fod y cyfraddau yn isel iawn ar hyn o bryd ac yn gyson â'r gyfradd banc sylfaenol, sef 0.25%. Mae'r posibilrwydd parhaus o argyfwng dyled sofran ym mharth yr Ewro, ynghyd â'r risgiau eraill a allai gael effaith ar statws credyd y banciau yn ein hannog i ddilyn strategaeth risg isel. O ystyried yr amgylchedd risg hwn, mae'r incwm a geir o fuddsoddiadau yn debygol o barhau i fod yn isel.

6.2 Ar 30 Medi 2016 'roedd gan y Cyngor £14.6m o fuddsoddiadau (£16.2m ar 31 Mawrth 2016) a'r elw a gafwyd o'r portffolio o fuddsoddiadau yn chwe mis cyntaf y flwyddyn oedd 0.35%. Mae rhestr lawn o fuddsoddiadau a oedd gan y Cyngor ar 30 Medi 2016 i'w gweld yn Atodiad 5. Gellir gweld crynodeb o'r buddsoddiadau a'r cyfraddau yn Atodiad 4.

6.3 Ni fuddsoddiwyd mwy na'r terfynau a gymeradwyir yn y Strategaeth Fuddsoddi Flynyddol yn ystod chwe mis cyntaf 2016/17.

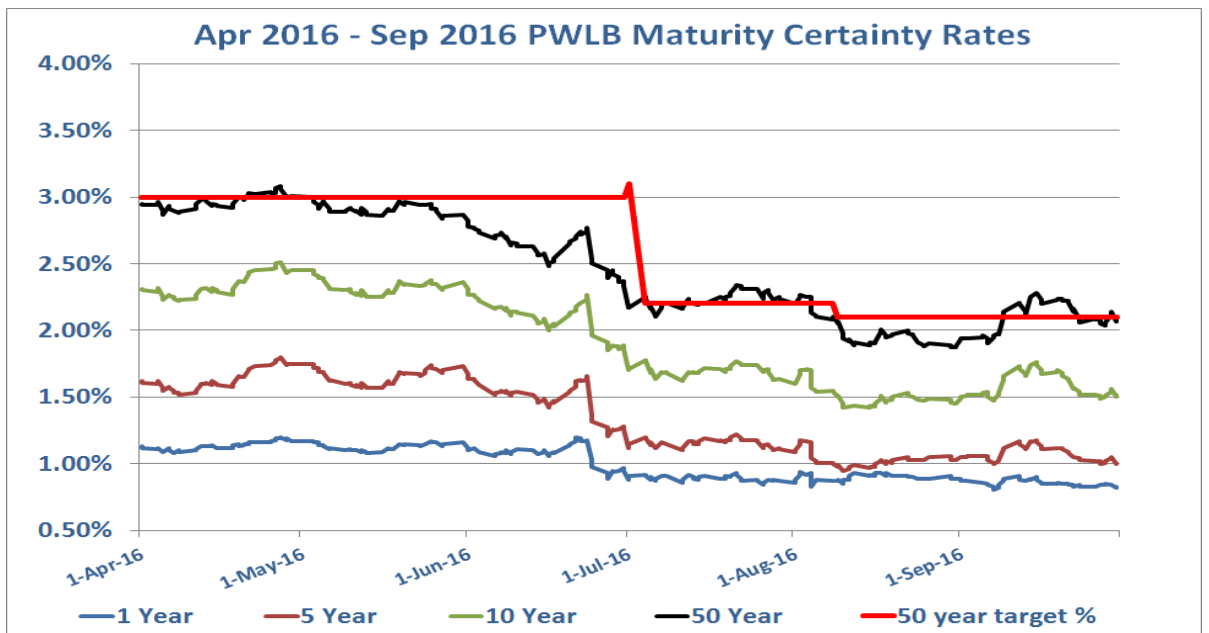
- 6.4** Yr incwm y mae'r Cyngor wedi cyllidebu y bydd yn ei dderbyn o'i fuddsoddiadau yn 2016/17 yw £0.150m. Fodd bynnag, nid yw'r perfformiad dros y flwyddyn hyd yma yn cwrdd â'r gyllideb honno, gan mai dim ond £0.037m sydd wedi ei dderbyn hyd at ddiwedd Chwarter 2. Oherwydd y gostyngiad yn y cyfraddau llog yn ystod hanner cyntaf y flwyddyn, ni fydd modd derbyn incwm o £0.150m fel y cyllidebwyd yn 2016/17.
- 6.5** Mae'r meini prawf ar gyfer buddsoddiadau gyda gwrthbartion a gymeradwywyd yn y DSRhT yn cwrdd â gofyniad y swyddogaeth rheoli trysorlys.
- 6.6** Yn ystod chwe mis cyntaf 2016/17, aeddfedodd buddsoddiad tymor sefydlog gyda Chymdeithas Adeiladu Nationwide am £5m ar 15 Mai 2016. Penderfynwyd ailfuddsoddi'r swm hwn yn llawn gyda Chymdeithas Adeiladu Nationwide am dri mis arall i 16 Awst, 2016 ar gyfradd o 0.51%. Wedi i'r buddsoddiad aeddfedu bryd hynny, ailfuddsoddiwyd y swm llawn unwaith eto gyda Chymdeithas Adeiladu Nationwide am dri mis tan 16 Tachwedd, 2016 ar gyfradd o 0.28%.
- 6.7** Yn ystod chwe mis cyntaf 2016/17, agorodd Cyngor Sir Ynys Môn gyfrif adneuo gyda'i brif fanc, sef National Westminster Bank plc. Yr enw ar y cyfrif yw 'Corporate Cash Manager' a'r gyfradd llog ar y cyfrif hwn ar hyn o bryd yw 0.01%. Fel arfer, ni fydd y cyfrif yn cael ei ddefnyddio ond pan fydd y balansau yn y cyfrifon eraill y mae'r Cyngor yn eu defnyddio wedi cyrraedd yr uchafswm.

7 Benthycia

- 7.1** Y gofyniad ariannu cyfalaf a ragwelir (GCC) ar gyfer 2016/17 yw £135.5m. Mae'r GCC yn dynodi angen sylfaenol y Cyngor i fenthycia at ddibenion cyfalaf. Os bydd y GCC yn gadarnhaol, efallai y bydd y Cyngor yn benthycio gan y Bwrdd Benthyciadau Gwaith Cyhoeddus neu'r farchnad (benthycia allanol) neu o falansau mewnol ar sail dros dro (benthycia mewnol). Mae'r cydbwysedd rhwng benthyciadau allanol a benthyciadau mewnol yn cael ei yrru'n gyffredinol gan gyflwr y farchnad. Rhagwelir y bydd y Cyngor wedi benthycia £110.7m ar ddiwedd y flwyddyn ac y bydd wedi defnyddio £24.8m o gronfeydd llif arian yn lle benthycia. Mae hon yn ffordd ddoeth a chost-efeithiol o weithredu yn yr hinsawdd economaidd sydd ohoni, ond bydd angen monitro'r sefyllfa'n barhaus os bydd yr enillion o giltiau yn uwch nag a ragwelwyd.
- 7.2** Ni chymerwyd unrhyw fenthyciadau yn ystod hanner cyntaf y flwyddyn ariannol hon.
- 7.3** Fel y dangosir yn y graff isod, y duedd gyffredinol hyd yma yw gostyngiad sydyn mewn cyfraddau llog yn y flwyddyn ariannol hon. Mae'r graff a'r tabl isod yn dangos y symudiadau yng nghyfraddau sicrwydd y Bwrdd Benthyciadau Gwaith Cyhoeddus (sef pan fo'r llywodraeth wedi gwneud gostyngiad o 20 pwynt sail (0.20%) yn y cyfraddau llog ar fenthyciadau i brif awdurdodau lleol (gan gynnwys Cyngor Sir Ynys Môn) sy'n darparu gwybodaeth fel sy'n ofynnol ar eu cynlluniau ar gyfer benthycia yn y tymor hir a gwariant cyfalaf cysylltiedig) ar gyfer chwe mis cyntaf y flwyddyn hyd yma:-

Cyfraddau sicrwydd BBGC 1 Ebrill, 2016 i 30 Medi 2016

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---------|------------|------------|------------|------------|------------|
| 1/4/16 | 1.13% | 1.62% | 2.31% | 3.14% | 2.95% |
| 30/9/16 | 0.83% | 1.01% | 1.26% | 1.41% | 1.66% |
| Low | 0.81% | 0.95% | 1.42% | 2.08% | 1.87% |
| Date | 07/09/2016 | 10/08/2016 | 10/08/2016 | 12/08/2016 | 30/08/2016 |
| High | 1.20% | 1.80% | 2.51% | 3.28% | 3.08% |
| Date | 27/04/2016 | 27/04/2016 | 27/04/2016 | 27/04/2016 | 27/04/2016 |
| Average | 0.99% | 1.33% | 1.92% | 2.69% | 2.46% |



8 Aildrefnu dyledion

8.1 Ychydig iawn o gyfleoedd a gafwyd i aildrefnu dyled yn yr hinsawdd economaidd sydd ohoni o ystyried strwythur y cyfraddau llog, ac yn dilyn ychwanegu'r cynnydd posib a ragwelir yn yr incwm a geir o giltiau sydd wedi cael effaith ar gyfraddau benthycia newydd y BBGC ers mis Hydref 2010. Felly nid oes unrhyw ddyledion wedi eu haildrefnu hyd yma yn y flwyddyn ariannol gyfredol. Cynhaliwyd ymarfer i benderfynu a fyddai'n werth aildrefnu rhai o'r dyledion ond ni fyddai'n gost effeithiol oherwydd codir tâl am ad-dalu'n benthyciadau'n gynamserol ac mae'r tâl hwnnw'n fwy na'r arbedion yn y taliadau llog.

9 Gweithgaredd ers Chwarter 2

9.1 Yn ychwanegol at y trosglwyddiadau arferol rhwng cyfrifon a gynlluniwyd i sicrhau'r incwm mwyaf posib o fuddsoddiadau, ers Chwarter 2 mae'r buddsoddiad tymor sefydlog a wnaed gyda Cymdeithas Adeiladu Nationwide (a grybwyllir yn adran 6.6) am £5m ar gyfradd o 0.28% wedi aeddfedu ar 16/11/16. Nid yw'r arian hwn wedi ei ailfuddsoddi unwaith eto gyda'r Nationwide a bellach fe'i had-dalwyd i Gyngor Sir Ynys Môn. Ers diwedd y chwarter, buddsoddwyd £5m gyda Chyngor Dinas Aberdeen. Mae'r buddsoddiad hwn am 2 fis o 18/10/16 i 16/12/16 ar gyfradd o 0.22%.

10 Cynlluniau ar gyfer y flwyddyn nesaf

10.1 Yn ei gyfarfod nesaf ym mis Chwefror, bydd y Pwyllgor hwn yn ystyried y cynlluniau benthycia ar gyfer y flwyddyn ariannol nesaf. Y cynlluniau cychwynnol, yn ôl y Rhaglen Gyfalaf ddrafft ar gyfer 2017/18 yw: -

- defnyddio rhywfaint o'r £2.203m o arian benthycia â chymorth cyffredinol, ynghyd â £1.269m o arian benthycia â chymorth penodol ar gyfer y rhaglen Ysgolion yr Unfed Ganrif ar Hugain
- cymryd benthyc £0.653m ar sail ddigymorth ar gyfer y cynlluniau cyfalaf yn y gronfa gyffredinol a £ 4.326m ar y rhaglen ysgolion yr unfed ganrif ar hugain.

11 Argymhelliad

11.1 Ystyried cynnwys yr adroddiad ac anfon unrhyw sylwadau ymlaen at y Cyngor Llawn.

Perfformiad Economaidd hyd yma a'r rhagolygiad/ Economic performance to date and outlook**1. United Kingdom**

GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015. In addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. House prices have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

2. United States of America

The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, the first estimate for quarter 3 at 2.9% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the bond market and bond yields have risen sharply in the week since his election. Time will tell if this is a temporary over reaction, or a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing the Fed. Rate. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further. If the Trump package of policies is fully implemented, there is likely to be a significant increase in inflationary pressures which could, in turn, mean that the pace of further Fed. Rate increases will be quicker and stronger than had been previously expected.

In the first week since the US election, there has been a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

3. Eurozone

In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a 'no' vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear what the political, and other, repercussions could be if there is a 'No' vote.
- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- French presidential election; first round 13 April; second round 7 May 2017.
- French National Assembly election June 2017.
- German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

4. **Asia**

Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

5. **Emerging countries**

There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the remaining two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

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

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

We have updated our forecasts of 9 August to take into account the Bank of England quarterly Inflation Report for November 2016, the decision of the MPC meeting of 3 November, and the US Presidential election of 8 November. We also felt that we should allow financial markets to settle down for a few days after the result of that election, which provided a surprise outcome. We therefore undertook a review of our forecasts on 15 November.

Despite many ominous warnings that there could be significant turbulence in financial markets if Donald Trump won the election, markets have surprised by their lack of such a reaction. In fact, stock markets in America have hit a new record high in the first few days since the election. However, Treasury yields have risen sharply in expectation of a significant rise in inflation, as an economy which is already working near to full capacity could be in line for a significant boost to economic growth if Trump's expansion of infrastructure expenditure plans become a reality.

His plans to cut taxes, at the same time as boosting expenditure, could also lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unaltered. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer in its forward guidance that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolve in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in June 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

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Capital Economics' forecasts for economic growth are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.

Employment has been continuing to grow steadily, despite initial expectations that the referendum would cause a fall in employment. House prices are also continuing to rise at a modest pace; but a downturn in prices could dampen consumer confidence and expenditure.

Rising EU and geopolitical risks e.g.

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- Spain has had two general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (130), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of Italian banks poses a major risk with state aid firmly ruled out by the EU as a potential way out.

- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a 'no' vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear if a No vote could bring down the government.
- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
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The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks.

Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre despite the ECB cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing during 2016. Growth could be negatively impacted by political developments which would then also impact on UK exports and growth.

The US economy has been growing strongly in quarter three at 2.9%, (on an annualised basis), after only 1.4% in quarter 2. The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing the Fed. Rate. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further; this could give rise to a growing gap between Treasury and gilt yields over time. If the Trump package of policies is implemented, there is likely to be an increase in inflationary pressures which could then mean that the pace of further Fed. Rate increases will be quicker and stronger than formerly expected.

In the first week since the US election, there has already been a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels by the artificial and temporary power of quantitative easing.

Japan is struggling to gain consistent significant growth, although quarter 3 has come in at +2.2%, (annualised rate). It is also struggling to put deflation firmly behind it and to get inflation up to reasonable levels, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy

Chinese economic growth has been weakening despite successive 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.

Edrych i'r Dyfodol gan Capita Asset Services/ Capita Asset Services Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat during 2016. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

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

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Borrowing advice: although yields have risen from their low points, yields are still at historic lows and borrowing should be considered if appropriate to your strategy. We still see value in the 40yr to 50yr range at present but that view would be negated if Bank Rate does not climb to at least 2.5% over the coming years. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that Bank Rate may not rise from 0.25% until June 2019 and then will only rise slowly.

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

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

Crynodeb Benthycyca a Buddsoddi – Chwarteroedd 1 a 2 2016/17
Borrowing and Investment Summary – Quarters 1 and 2 2016/17

| | 30 Medi / Sept 2016 | | 30 Mehefin / June 2016 | |
|--|---------------------|---|------------------------|---|
| | £m | % (a dalwyd ar fenthycyca a dderbyniwyd ar fuddsoddiad) | £m | % (a dalwyd ar fenthycyca a dderbyniwyd ar fuddsoddiad) |
| Benthycyca – graddfa sefydlog Borrowing – fixed rate | 110.7 | 5.42 | 110.7 | 5.42 |
| Benthycyca – 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 | 9.6 | 0.14 | 14.8 | 0.39 |
| Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year | 5.0 | 0.28 | 5.0 | 0.51 |
| 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 | 14.6 | 0.18 | 19.8 | 0.42 |
| Cyfartaledd Adneuon yn y Chwarter Highest Deposits in the Quarter | 24.8 | d/b / n/a | 29.7 | d/b / n/a |
| Cyfartaledd Adneuon yn y Chwarter Lowest Deposits in the Quarter | 14.6 | d/b / n/a | 16.4 | d/b / n/a |
| Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter | 22.4 | 0.35 | 23.3 | 0.39 |

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.

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuron a ddelir gyda phob un ar 30 Medi 2016*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2016*

| Grŵp Bancio/ Banking Group | Sefydliad/ Institution | Adneuron / 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 | 2,097 | Galw/ Call | n/a | 0.15 | A+ | F1 | A1 | P-1 | A | A-1 | Coch - 6 mis/ Red - 6 months |
| HSBC Holdings plc | HSBC Bank plc | 0 | Galw/ Call | n/a | 0.01 | AA- | F1+ | Aa2 | P-1 | AA- | A-1+ | Oren – 12 mis / Orange – 12 months |
| Santander Group plc | Santander UK plc | 6,527 | Galw/ Call | n/a | 0.15 | 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 | 1 | Galw/ Call | n/a | 0.10 | BBB+ | F2 | A3 | P-2 | BBB+ | A-2 | Glas - 12 mis / Blue - 12 months |
| National Westminster Bank Ltd | National Westminster Bank Ltd Cash Manager A/c | 1,025 | Galw/Call | n/a | 0.01 | BBB+ | F2 | A3 | P-2 | BBB+ | A-2 | Glas – 12 mis/ Blue – 12 months |
| Nationwide Building Society | Nationwide Building Society | 5,000 | Fixed Term | 16/08/2016 – 16/11/2016 | 0.28 | A | F1 | Aa3 | P-1 | A | A-1 | Coch – 6 mis/ Red - 6 months |

* Ceir y Rhestr Benthycu Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2016/17/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 6 of the 2016/17 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
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium