

# CYNGOR SIR YNYS MÔN

<b>ADRODDIAD I:</b>	<b>CYNGOR SIR</b>		
<b>DYDDIAD:</b>	<b>27 MAWRTH 2014</b>		
<b>PWNC:</b>	<b>DATGANIAD STRATEGAETH RHEOLI'R TRYSORLYS A'R STRATEGAETH FUDDSODDI FLYNYDDOL: ADRODDIAD ADOLYGU CANOL BLWYDDYN 2013/14</b>		
<b>SWYDDOG(ION) ARWEINIOL:</b>	<b>CLARE J WILLIAMS</b>		
<b>SWYDDOG CYSWLLT:</b>	<b>CLARE J WILLIAMS</b>	<b>(FFÔN: 2601)</b>	

## Natur a rheswm dros adrodd

I gydymffurfio ag argymhellion Côt Ymarfer CIPFA ar Reoli Trysorlys.

Penderfynodd y Cyngor i dderbyn nifer o adroddiadau rheoli trysorlys i gael eu hystyried, gyda'r adroddiad adolygu canol-blwyddyn yma'n un ohonynt. Yn ogystal, penderfynodd y Cyngor mai'r Pwyllgor Archwilio fydd yn gyfrifol am sgrwtineiddio materion rheoli trysorlys ac ystyriwyd yr adroddiad gan y pwyllgor yna yn ei gyfarfod ar 11 Rhagfyr 2013 a penderfynodd i dderbyn yr adroddiad a nodi ei gynnwys.

Mae rhannau 1 i 9 (cynhwysol) a'r atodiadau o'r adroddiad isod yn ail adrodd y geiriad, a'r ffigyrau a gynhwysir ynddo, o'r adroddiad a gyflwynwyd i'r Pwyllgor Archwilio yn Rhagfyr 2013. Rhan 10 yw'r argymhelliad i'r cyfarfod yma o'r Cyngor Sir.

## 1. Cefndir

1.1 Dau o ofynion Côt Ymarfer y Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth mewn perthynas â Rheoli'r Trysorlys (a ddiwygiwyd yn 2011) yw bod y Cyngor llawn yn cael adroddiad adolygu canol blwyddyn ar weithgareddau rheoli trysorlys a dirprwyo'r gwaith o sgrwtineiddio strategaethau a pholisïau rheoli trysorlys. Bydd yr adroddiad hwn yn cwrdd â'r gofynion hyn ac yn rhoi sylw i'r isod:

- Diweddariad economaidd am y chwe mis cyntaf, gan edrych ymlaen hefyd i ail hanner 2013/14;
- Adolygiad o'r Datganiad Strategaeth Rheoli'r Trysorlys a'r Strategaeth Fuddsoddi Flynyddol;
- Gwariant cyfalaf y Cyngor (dangosyddion darbodus);
- Adolygiad o bortffolio buddsoddi'r Cyngor ar gyfer 2013/14;
- Adolygiad o strategaeth fenthyca'r Cyngor ar gyfer 2013/14;
- Adolygiad o unrhyw ad-drefnu dyled a ddigwyddodd yn ystod 2013/14;
- Crynodeb o weithgareddau ers chwarter 2;
- Edrych ymlaen i'r flwyddyn nesaf; ac
- Adolygiad o gydymffurfiaeth gyda Therfynau Trysorlys a Darbodus ar gyfer 2013/14.

## 2. Diweddariad Economaidd

2.1 Mae Ymgynghorwyr Trysorlys y Cyngor (Capita Asset Services (a elwir yn flaenorol yn Sector)) wedi paratoi crynodeb ychydig ar ôl diwedd y chwarter cyntaf o'r cefndir economaidd a'r rhagolygon economaidd (Atodiadau 1 a 2) ynghyd â'r rhagolygon isod.

	Rhag 2013	Maw 2014	Meh 2014	Medi 2014	Rhag 2014	Maw 2015	Meh 2015
<b>Cyfradd Banc(%)</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>Cyfradd 5 mlynedd PWLB(%)</b>	2.50	2.50	2.60	2.70	2.70	2.80	2.80
<b>Cyfradd 10 mlynedd PWLB(%)</b>	3.60	3.60	3.70	3.80	3.80	3.90	3.90
<b>Cyfradd 25 mlynedd PWLB(%)</b>	4.40	4.40	4.50	4.50	4.60	4.60	4.70
<b>Cyfradd 50 mlynedd PWLB(%)</b>	4.40	4.40	4.50	4.50	4.60	4.70	4.80

**2.2** Yn ddiweddar cafwyd sylwadau gan Capita mewn perthynas â'r rhagolygon ar gyfer graddfeydd llog a oedd yn cysylltu'n ôl i fis Awst a'r Adroddiad ar Chwyddiant gan Fanc Lloegr a gyhoeddwyd bryd hynny ac y cyfeiriwyd ato yn yr adroddiad blaenorol. Gellir gweld y sylwadau hyn yn Atodiad 3.

**2.3** Llynedd lansiodd Trysorlys Ei Mawrhydi gyfradd fenthyca is i ddarparu cyllid PWLB yn rhatach ar gyfer awdurdodau lleol, yn dod i rym ar 1 Tachwedd 2012 ar sail dreigl 12 mis. I fod yn gymwys i dderbyn y 'gyfradd sicrwydd' hon, sydd 0.2% yn is na'r gyfradd safonol gyfredol, mae angen i'r awdurdodau lleol gyflwyno gwybodaeth benodol erbyn dyddiad cau, sef canol Medi. Cydymffurfiodd yr Awdurdod hwn gyda'r gofynion hynny unwaith eto ac mae'n parhau i fod yn gymwys i dderbyn y gyfradd is. Mae'r rhagolygon uchod ar gyfer cyfraddau PWLB wedi ymgorffori y disgownt hwn.

### **3. Datganiad ar y Strategaeth Rheoli Trysorlys a Diweddariad ar y Strategaeth Fuddsoddi Flynyddol**

**3.1** Cymeradwywyd y Datganiad ar y Strategaeth Rheoli Trysorlys (DSRhT) ar gyfer 2013/14 gan y Cyngor hwn ar 5 Mawrth 2013. Nid oes unrhyw newidiadau polisi i'r DSRhT; mae'r manylion yn yr adroddiad hwn yn diweddarau'r sefyllfa yn wyneb y sefyllfa economaidd ddiweddaraf.

### **4. Sefyllfa Gyfalaf y Cyngor (Dangosyddion Pwyllog)**

**4.1** Mae'r rhan hon o'r adroddiad wedi ei strwythuro i ddiweddarau:

- Cynlluniau gwariant cyfalaf y Cyngor;
- Sut mae'r cynlluniau hyn yn cael eu cyllido;
- Effaith y newidiadau yn y cynlluniau gwariant cyfalaf ar y dangosyddion pwyllog a'r angen sylfaenol i fenthyca; a
- Cydymffurfiaeth gyda'r terfynau sydd wedi eu sefydlu ar gyfer gweithgareddau benthyca.

#### **4.2 Dangosydd Pwyllog ar gyfer Gwariant Cyfalaf**

Mae'r tabl isod yn dangos yr amcangyfrifon diwygiedig ar gyfer gwariant cyfalaf a'r newidiadau ers cytuno ar y rhaglen gyfalaf ar gyfer y Gyllideb.

<b>Gwariant Cyfalaf</b>	<b>Amcangyfrif Gwreiddiol 2013/14 £m</b>	<b>Y sefyllfa ar 30 Medi 2013 £m</b>	<b>Amcangyfrif Cyfredol 2013/14 £m</b>
Cronfa'r Cyngor	19,000	6,394	23,600
CRT	4,900	1,031	4,100
Cyfanswm	23,900	7,425	27,700

**4.2.1** Mae'r amcangyfrif cyfredol ar gyfer gwariant cyfalaf yn fwy na'r amcangyfrifon gwreiddiol a hynny'n bennaf oherwydd bod cynlluniau a gyllidir gyda grant (grant 100%) wedi cael eu gosod ar ôl yr amcangyfrifon gwreiddiol ac oherwydd cynnwys amcangyfrif ar gyfer y cyfalafu a ragwelir ar gyfer tâl cyfartal. Oherwydd symudiadau yn y rhaglen a'r cyllidebau unigol ystyrir bod y gwariant uwch hwn yn fforddiadwy o fewn cyllideb referniw 2013/14.

#### **4.3 Newidiadau i Gyllido'r Rhaglen Gyfalaf**

**4.3.1** Nid oes unrhyw newidiadau sylweddol i gyllido'r rhaglen gyfalaf i adrodd yr adeg yma, heblaw am y posibilrwydd o fenthyca digefnogaeth yn ymwneud â chyfalafu hawliadau tâl cyfartal. Daw'r sefyllfa yma'n gliriach wrth i ddiwedd y flwyddyn agosau.

#### 4.4 Newidiadau i'r Dangosyddion Pwyllog ar gyfer y Gofynion Cyllido Cyfalaf (GCC), Dyled Allanol a'r Terfyn Gweithredol

4.4.1 Mae'r tabl sy'n dilyn yn dangos y GCC, sef yr angen allanol sylfaenol i fenthycia i bwrpas cyfalaf. Mae hefyd yn dangos y sefyllfa ddyled a ddisgwyllir dros y cyfnod. Yr enw ar hyn yw'r Terfyn Gweithredol.

#### 4.4.2 Dangosydd Pwyllog – Gofyniad Cyllido Cyfalaf

4.4.2.1 Rhagwelir byddwn ychydig o flaen y darged i fod o fewn y rhagacan gwreiddiol ar gyfer y Gofyniad Cyllido Cyfalaf. Mae hyn ar sail dderbyn y cyfeiriad cyfalafu ar gyfer tâl cyfartal.

#### 4.4.3 Dangosydd Pwyllog – Dyled Allanol / y Terfyn Gweithredol

	Amcangyfrif Gwreiddiol 2013/14 £m	Amcangyfrif Cyfredol 2013/14 £m
<b>Dangosydd Pwyllog – Gofyniad Cyllido Cyfalaf</b>		
GCC – Cronfa'r Cyngor	88,500	90,252
GCC – CRT	23,700	24,044
Cyfanswm GCC	112,200	114,296
Symudiad net yn y GCC	6,436	7,881
<b>Dangosydd Pwyllog – Dyled Allanol/Terfyn Gweithredol</b>		
Benthyca	117,000	89,590
Ymrwymadau tymor hir eraill	2,000	Nil
Cyfanswm Dyled 31 Mawrth	119,000	89,590

#### 4.5 Cyfyngiadau ar Weithgareddau Benthyca

4.5.1 Yr elfen gyntaf allweddol o reolaeth dros y gweithgareddau trysorlys yw dangosydd pwyllog i sicrhau na fydd benthyca net (benthyciadau llai buddsoddiadau), dros y tymor canol, ond yn cael ei wneud i ddiben cyfalaf. Ni ddylai benthyciadau allanol net, ac eithrio yn y tymor byr, fod yn uwch na'r cyfanswm GCC yn y flwyddyn flaenorol ynghyd ag amgyfrifon unrhyw GCC ychwanegol ar gyfer 2013/14 a'r ddwy flynedd ariannol nesaf. Mae hyn yn caniatáu peth hyblygrwydd ar gyfer benthyca buan cyfyngedig ar gyfer blynyddoedd y dyfodol. Mae'r Cyngor wedi cymeradwyo polisi o fenthycia cyn i'r angen godi a glynir wrth y polisi hwnnw os gwelir bod hynny'n ddoeth.

	Amcangyfrif Gwreiddiol 2013/14 £m	Y sefyllfa ar 30 Medi 2013 £m
Benthyca gros	112,300	96,100
Ymrwymadau tymor hir eraill	Dim	Dim
Benthyca gros	112,300	96,100
GCC (sefyllfa diwedd y flwyddyn)	112,300	d/b

4.5.2 Erbyn diwedd y flwyddyn, rhagwelir bydd y GCC yn £114m, ac, o ganlyniad, mae gofyn i fenthycia £25m. Dywed y datganiad strategaeth rheoli'r trysorlys (Adran 3.5.1) y bydd agwedd hyblyg yn cael ei mabwysiadu mewn perthynas â'r dewis rhwng benthyca mewnol ac allanol. Parheir i ddilyn y dull hwnnw o weithredu a rhoddir sylw i'r holl ffactorau a restrir yn yr adran honno. Mae'r penderfyniad i barhau i fewnoli wedi ei yrru'n bennaf gan 2 ffactor: (1) cyfyngu risg credyd i'r awdurdod (2) cyfyngu cost cario. Mae hyn yn erbyn cefndir o gyfraddau buddsoddi a chyfraddau PWLB sy'n parhau i fod yn hanesyddol o isel, gyda dim ond cynnydd graddol yn cael ei ragweld i'r tymor canol. Mae'r dull hwn o weithredu yn gyson â'r hyn a wneir gan lawer o awdurdodau lleol eraill a holwyd mewn seminarau a gweithdai y bu swyddogion cyllid yn bresennol ynddynt. Mae'r ymgynghorwyr a benodwyd ar gyfer y trysorlys (Capita Asset Services) hefyd wedi cefnogi'r penderfyniad i barhau i fenthycia'n fewnol ar hyn o bryd. Erbyn diwedd y flwyddyn rhagwelir y bydd benthyca allanol yn £90m. Rhoddir gwybod am unrhyw newidiadau i'r dull cyfredol o weithredu fel sy'n briodol.

- 4.5.3** Ni rhagwelir anawsterau ar gyfer eleni na blynyddoedd i ddod o ran cydymffurfio gyda'r dangosydd pwylllog hwn.
- 4.5.4** Mae dangosydd pwylllog arall yn rheoli lefel gyffredinol y benthycyca. Hwn yw'r terfyn awdurdodedig na chaniateir benthycyca y tu draw iddo. Mae angen i Aelodau osod a diwygio'r terfyn hwn. Mae'n adlewyrchu lefel y benthycyca y gellid ei fforddio yn y tymor byr, er nad yw'n ddymunol, ond sydd ddim yn gynaliadwy yn y tymor hir. Hwn yw'r uchafswm benthycyca gyda rhywfaint o ddarpariaeth wrth gefn ar gyfer symudiadau annisgwyl. Hwn yw'r terfyn statudol a benderfynir dan Adran 3(1) Deddf Llywodraeth Leol 2003.

Terfyn awdurdodedig ar gyfer dyled allanol	Dangosydd Gwreiddiol 2013/14 (£m)	Y sefyllfa ar 30 Medi 2013 (£m)
Benthycyca	122,000	96,100
Ymrwymadau tymor hir eraill	2,000	Diml
Cyfanswm	124,000	96,100

## 5. Portffolio Buddsoddi 2013/14

- 5.1** Yn unol â'r Côd, blaenoriaeth y Cyngor yw sicrhau diogelwch cyfalaf a hylifedd, a chael dychweliad priodol, o'i gydbwyso yn erbyn y risg gysylltiedig. Fel sydd wedi ei nodi yn Adran 3, mae'r farchnad fuddsoddi'n anodd iawn o ran denu'r cyfraddau llog a welwyd yn gyffredin yn y degawdau a fu oherwydd bod cyfraddau'n isel iawn ac yn gyson â Chyfradd Banc 0.5%. Yn wir, mae cyflwyno'r cynllun Cyllid ar gyfer Benthycyca wedi gostwng cyfraddau buddsoddi yn y farchnad ymhellach. Mae'r posibilrwydd o ymestyn yr argyfwng dyled sofran ym mharth yr Ewro a'i effaith bosib ar fanciau yn annog strategaeth risg isel a thymor byr. O gofio'r hinsawdd yma o risg, mae dychweliadau ar fuddsoddiadau yn debygol o barhau i fod yn isel.
- 5.2** Roedd gan y Cyngor £25m o fuddsoddiadau ar 30 Medi 2013 (£14m ar 31 Mawrth 2013) a'r elw o'r portffolio buddsoddi am chwe mis cyntaf y flwyddyn yw 0.90%. Gellir gweld rhestr lawn o'r buddsoddiadau ar 30 Medi 2013 yn Atodiad 5. Gellir gweld crynodeb o'r buddsoddiadau a'r cyfraddau yn Atodiad 4.
- 5.3** Ni aethpwyd dros ben y terfynau sydd wedi eu cymeradwyo ar gyfer y Strategaeth Fuddsoddi Flynyddol yn ystod y chwe mis cyntaf 2013/14.
- 5.4** Y dychweliad y mae'r Cyngor wedi cyllidebu ar ei gyfer o fuddsoddiadau ar gyfer 2013/14 yw £0.3m. Fel nodwyd yn y strategaeth, mae rhywfaint o'r benthycyca wedi cael ei fewnoli yn ystod y flwyddyn ac felly mae'r dychweliadau o'r buddsoddiadau a ragwelir yn is na'r rheini y cyllidebwyd ar eu cyfer. Fodd bynnag, bu modd gwneud arbedion o ran llog ar fenthyciadau ac mae'r canlyniad net a ragwelir o fewn y gyllideb.

### 5.5 Meini prawf gwrthbartïon buddsoddi

- 5.5.1** Mae'r meini prawf ar gyfer dewis gwrthbartïon buddsoddi ac a gymeradwywyd yn y DSRhT yn cwrdd â gofynion y swyddogaeth rheoli trysorlys er ei bod yn mynd yn anoddach i fuddsoddi arian gan fod yr ansawdd credyd yn parhau i leihau .
- 5.5.2** O ran y buddsoddiadau sy'n parhau, rhoddwyd gwybod eisoes am broblemau statws credyd o fewn Santander UK plc. Yn ystod y chwarter penderfynwyd parhau i fuddsoddi gyda'r banc hwn. Mae'r sail ar gyfer gwneud y penderfyniad yn gyson â'r rhesymau yr adroddwyd arnynt yn chwarter 1:-

- Mae adran 4.3 y Strategaeth Fuddsoddi Flynyddol ar gyfer 2013/14 yn rhoi manylion am y polisi teilyngdod credyd. Yn gryno, y broses yw cymhwyso graddfeydd credyd sylfaenol ar gyfer buddsoddiadau. Yn ogystal â hynny cymerir cyngor gan Sector ynghylch teilyngdod credyd ac mae hynny'n arwain at awgrymiadau ynghylch hyd y cyfnod buddsoddi. Cyfeirir hefyd at ddata a gwybodaeth sydd gan y farchnad;
- Nid yw statws credyd Santander wedi newid yn ystod y chwarter ac mae'r holl raddfeydd tymor hir 2 lefel yn is na'r meini prawf a gymeradwywyd ar gyfer benthyca, ac mae 2 o'r graddfeydd tymor byr 1 lefel yn is na'r meini prawf;
- Y cyngor gan yr ymgynghorwyr a benodwyd gan yr Awdurdod Lleol (Capital Asset Services) yw ei fod yn briodol parhau i fuddsoddi (am hyd a 100 o ddyddiad fe awgrymir);
- Roedd gwaith dadansoddi a monitro annibynnol mewn perthynas â'r marchnadoedd yn cefnogi'r casgliadau y daeth Capital Asset Services iddynt;
- O gofio'r holl ystyriaethau uchod, gwnaed penderfyniad i barhau i fuddsoddi gyda Santander, ar sail galw yn unig.

## 6. Benthyca

**6.1** Gofyniad cyllido cyfalaf (GCC) y Cyngor a ragwelir ar gyfer 2013/14 yw £7.9m. Mae'r GCC yn dynodi angen sylfaenol y Cyngor i fenthyca i bwrpas cyfalaf. Os yw'r GCC yn gadarnhaol, gall y Cyngor fenthyca gan PWLB neu gan y farchnad (benthyca allanol) neu o'r balansau mewnol am gyfnod dros dro (benthyca mewnol). Mae'r cydbwysedd rhwng benthyca allanol a mewnol fel arfer yn cael ei ddylanwadu gan amgylchiadau'r farchnad. Mae'r Cyngor wedi rhagweld benthyca diwedd y flwyddyn ariannol o £90m ac wedi defnyddio £25m o gyllid llif arian yn lle benthyca. Mae hyn yn ffordd ddoeth a chost-effeithiol o weithredu yn yr hinsawdd economaidd sydd ohoni ond bydd angen parhau i fonitro rhag ofn y bydd yr elw o giltiau yn well na'r disgwyl.

**6.2** Ceir crynodeb o'r sefyllfa benthyca yn Atodiad 4.

## 7. Ad-drefnu Dyledion

**7.1** Ni wnaed unrhyw waith ad-drefnu dyledion yn ystod y chwe mis cyntaf 2013/14.

## 8. Gweithgareddau ers Chwarter Dau

**8.1** Ers diwedd y chwarter, aeddfedodd dau gyfrif adnau tymor sefydlog; roedd un yn gyfrif adnau 6 mis, am £5m gyda Banc Brenhinol yr Alban (RBS) ar gyfradd o 0.95% ac roedd y llall yn gyfrif adnau 364 Diwrnod, £5m ar gyfradd o 1.58%. Ailfuddsoddwyd y cyntaf yn llawn gydag RBS am 3 mis ar gyfradd o 0.8%. Ailfuddsoddwyd yr ail gydag RBS ar sail galw yn unig ar gyfradd o 0.6% ar y pryd. Gwnaed y penderfyniad i ailfuddsoddi gydag RBS yn bennaf oherwydd ei fod wedi ei wladoli'n rhannol sy'n ei wneud yn un o'r gwrthbartion sydd fwyaf teilwng i gredyd; fodd bynnag, roedd hefyd yn cynnig cyfraddau llog cystadleuol iawn. Ailfuddsoddwyd yr ail ar sail galw yn unig er mwyn cadw hyblygrwydd. Mae'r gyfradd a enillir ar hyn o bryd ar y cyfrif galw wedi codi'n ddiweddar i 0.8%. Roedd y penderfyniad hwn i fuddsoddi gydag RBS yn cael ei gefnogi gan Capita Asset Services.

**8.2** Yn ogystal, buddsoddiadau wedi parhau gyda Santander ar sail alwad yn unig.

**8.3** Ni wnaed unrhyw fuddsoddiadau tymor sefydlog eraill ers diwedd y chwarter ac ni fenthycwyd unrhyw arian newydd ac ni chafodd unrhyw ddyledion eu haildrefnu.

## **9. Cynlluniau ar gyfer y flwyddyn nesa**

**9.1** Yn ei gyfarfod yn Chwefror, bydd y Pwyllgor yma yn ystyried y cynlluniau ar gyfer benthyca a buddsoddi ar gyfer y blwyddyn ariannol nesaf. Yn ôl y strategaeth cyllideb referniw cyfredol, y cynlluniau cychwynnol yw:-

- i ddefnyddio'r dyraniad benthyca gyda chefnogaeth cyffredinol sydd ar gael o £2.193m (£2.140m yn 2013/14) ynghyd ag unrhyw ddyraniad y flwyddyn gyfredol sydd heb ei ddefnyddio;
- i ddefnyddio'n llawn y benthyca gefnogir gan y Fenter Benthyca Llywodraeth Leol Priffyrdd;ac
- i fenthyca, ar sail ddi-gefnogaeth, i gyllido blaenoriaethau buddsoddi cyfalaf, gan gysylltu i mewn i'r amcanion trawsnewid.

## **10. Argymhelliad**

**10.1** Nodi cynnwys yr adroddiad.

## **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.

## 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 take 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.



## 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 Benthycu 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	%
Benthycu – graddfa sefydlog Borrowing – fixed rate	96.1	5.53	96.1	5.53
Benthycu – 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.

**Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuoedd 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	Adneuoedd / 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 - 12 months
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 Benthycy 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 chwrrd â meini prawf y Rhestr Benthycy 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)**

<b>Tymor Hir Fitch Long Term</b>	<b>Tymor Hir Moodys Long Term</b>	<b>Tymor Hir S&amp;P Long Term</b>
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-
<b>Tymor Byr Fitch Short Term</b>	<b>Tymor Byr Moodys Short Term</b>	<b>Tymor Byr S&amp;P Short Term</b>
F1+	d/b / n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3