

Item: 7

Investments Sub-committee: 3 September 2020.

Temporary Loans.

Report by Head of Finance.

1. Purpose of Report

To advise of the status of the temporary loan portfolio as at 30 June 2020.

2. Recommendation

The Sub-committee is invited to note:

2.1.

The status of the temporary loan portfolio as at 30 June 2020, as detailed in section 3 of this report.

2.2.

That, for the period 1 April to 30 June 2020, the temporary loans portfolio made a return of £69,693.20 at an average interest rate of 0.84%.

2.3.

That the Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

3. Temporary Loan Portfolio

3.1.

The temporary loan portfolio as at 30 June 2020 totalled £34,808,793.17. Further details are provided in the Monthly Investment Analysis Review that is prepared by Link Asset Services, attached as Appendix 1 to this report.

3.2.

The following transactions have taken place since 30 June 2020:

- £2,000,000 matured from Bank of Scotland.
- £7,000,000 matured from Santander.
- £2,000,000 invested with Santander at a rate of 0.70%.
- £2,900,000 recalled from Aberdeen Standard Investments Liquidity Fund.
- £3,700,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 0.18%.
- £600,000 recalled from BlackRock ICS Fund.

- £3,700,000 invested with BlackRock ICS Fund, with an average net yield of 0.13%.
- £3,000,000 recalled from Insight Liquidity Fund.
- £3,000,000 invested with Insight Liquidity Fund, with an average net yield of 0.09%.

3.3.

The value of the temporary loans stood at £31,183,135 as at 31 July 2020.

4. Rate of Return

4.1.

For the period 1 April to 30 June 2020, the temporary loans returned an average interest rate of 0.84%. This equates to a return of £69,693.20 on the temporary loans for the three months to 30 June 2020.

4.2.

By comparison, the equivalent 90-day London Inter-Bank Offered Rate of 0.14% is considered to be the target.

4.3.

With inflation quoted at 0.6% for June 2020 based on Consumer Price Index (1.1% Retail Price Index), the return on temporary loans equates to a relative increase of value of 0.24% in real terms.

4.4.

The Council is part of an Investment Portfolio Benchmarking Group overseen by its Treasury Advisers, Link Asset Services, and comprising seven other Scottish Local Authorities, as follows:

- Aberdeen City Council.
- Aberdeenshire Council.
- Angus Council.
- Clackmannanshire Council.
- Midlothian Council.
- Perth and Kinross Council.
- Highland Council.

4.5.

An extract from the analysis report for the benchmarking group as at 30 June 2020, attached as Appendix 2 to this report, indicates that the Council is achieving a higher weighted average rate of return than both the benchmarking group and the Scottish Unitary Authorities.

5. Cash Balances

5.1.

Recurring slippage continues to be a feature within the approved capital programme. During financial year 2019/20, works valued at £8,600,000 were reprofiled into 2020/21 and beyond. A report recommending further slippage of approximately £6,000,000 on the 2019/20 capital programme will be presented to the Policy and Resources Committee on 22 September 2020. This means the total slippage on the planned programme of works during financial year 2019/20 is in the region of £14,600,000.

5.1.1.

In addition to this, it should be noted that Covid-19 closedown measures have had an adverse impact on delivery of the capital programme during the first quarter of financial year 2020/21, such that little capital spend has been incurred during this period. Not only does this impact on the cost of delivering the capital programme, it also delays the timescale over which the capital finance is required. Uncertainty over the timing of contract payments on capital projects results in additional cash balances being held over the short term. Although these surplus balances are re-invested the shorter duration and uncertainty does impact on performance.

5.2.

On 26 March 2020, the Council borrowed £10,000,000 from the Public Works Loan Board, repayable on 25 March 2070, at an interest rate of 1.28%. This is regarded as an effective way for the Council to manage the risk of interest rate movements over the life of the capital programme, and also provide short-term cashflow benefits at a time when the full cost of the Covid-19 crisis to the Council is unknown.

5.3.

Due to Covid-19 lockdown, all Council meetings were cancelled, including the meeting of the Investments Sub-committee scheduled for 28 May 2020. Consequently, the temporary loan portfolio and performance up to 31 March 2020 has not yet been presented to members for consideration.

5.3.1.

For the 12-month period to 31 March 2020, the temporary loans returned an average interest rate of 1.00%, which equated to a return of £267,733.63 for financial year 2019/20. As at 31 March 2020, temporary loan portfolio as at 31 March 2020 totalled £29,624,801. Further details are provided in the Monthly Investment Analysis Review prepared by Link Asset Services, attached as Appendix 3 to this report.

6. Corporate Governance

This report relates to the Council complying with its treasury management policies and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

7. Financial Implications

7.1.

The Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

7.2.

The effective management and control of risk are prime objectives of the Council's treasury management activities, with priority given to security and liquidity when investing funds.

8. Legal Aspects

Section 69 of the Local Government (Scotland) Act 1973 empowers a local authority to lend and invest surplus funds on a temporary basis where it is calculated to facilitate or is conducive or incidental to the discharge of any of their functions.

9. Contact Officers

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Shonagh Merriman, Accounting Manager (Corporate Finance), extension 2105, Email shonagh.merriman@orkney.gov.uk.

10. Appendices

Appendix 1: Link Asset Services Monthly Investment Analysis Review for June 2020.

Appendix 2: Link Asset Services Investment Portfolio Benchmarking Analysis for June 2020.

Appendix 3: Link Asset Services Monthly Investment Analysis Review for March 2020.



Orkney Islands Council

Monthly Investment Analysis Review

June 2020

Monthly Economic Summary

General Economy

The “Flash” (i.e. provisional) Manufacturing UK PMI rose to 50.1 in June from May’s final release of 40.7, suggesting there was a stabilisation in manufacturing activity following the downturn recorded in the previous three months as a result of the coronavirus pandemic. In a similar vein, the “Flash” Services PMI rose to 47.0 in June from 29.0 in May, signalling the slowest pace of contraction in service sector output since the start of the downturn in March. As a result, the Flash Composite PMI reached 47.6 in June compared to 30.0 in May. This was the largest monthly increase since the series began in 1998 and exceeding market forecasts of a rise to 41. In the process, the Composite PMI illustrated that the easing of restrictions related to the coronavirus has had a favourable impact on economic activity, with business operations gradually resuming in a number of sectors and staff brought back from furlough. Meanwhile, the Construction PMI, which is released on a different timescale, rose to 28.9 in May from an all-time low of 8.2 in April, reflecting a gradual reopening of construction sites following lockdown measures being eased in the UK.

The final reading of first quarter GDP was confirmed at 2.2% q/q and 1.7% y/y, which was marginally lower than preliminary estimates, as the coronavirus lockdown weighed on activity. More timely GDP data for April, however, confirmed that the economy shrank 20.4% m/m compared to March, as government restrictions on movement dramatically reduced economic activity. As a result, GDP fell by 10.4% in the three months to April and 24.5% y/y – both of which were record declines. A 26.2% m/m fall in imports, meanwhile, saw the UK record a £0.3 billion trade surplus during April, compared to a downwardly revised £3.96 billion deficit in March.

Against this backdrop, the unemployment rate remained at 3.9% in the three months to April, confounding market expectations of a rise to 4.7%, as the government’s Coronavirus Job Retention Scheme helped fund employees’ wages during lockdown. As a result, the number of people out of work surprisingly fell by 8,000 to 1.34 million, whilst the number of people in work rose by 6,000. Consistent with job vacancies dropping at a record 476,000 in the three months to May, average earnings excluding bonuses rose just 1.7% y/y in the three months to April, down from 2.7% y/y in the three months to March.

Consumer Price Inflation dropped to 0.5% y/y in May from 0.8% y/y in April, matching market expectations – reaching its lowest rate since June 2016 as a result of the pandemic hitting demand and oil prices. Similarly, the core inflation rate – which strips out the more volatile components - eased to 1.2% y/y in May from 1.4% y/y in April, registering the softest pace of price rises seen since October 2016 and below market expectations of a 1.3% rise. With inflation well below its 2% target, it was no surprise to see the Bank of England’s Monetary Policy Committee leave Bank Rate at 0.1% at their June meeting - and also increase the stock of government bonds purchased via their quantitative easing program by £100 billion to £745 billion, as the Bank attempts to support economic recovery.

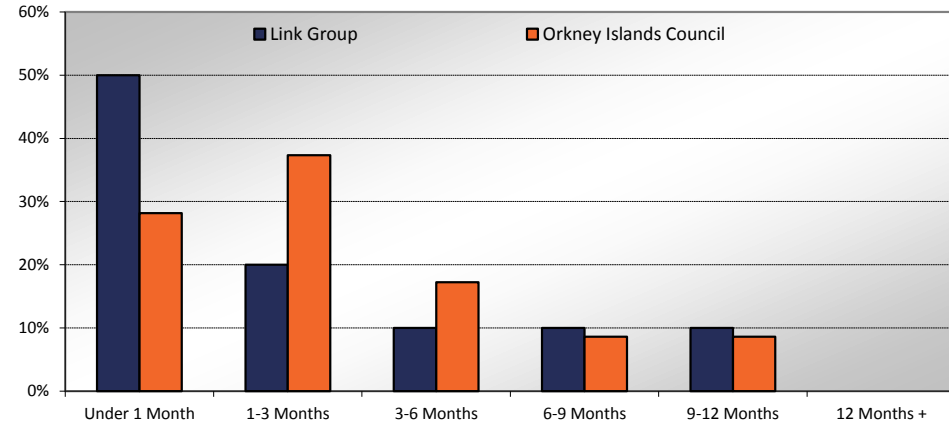
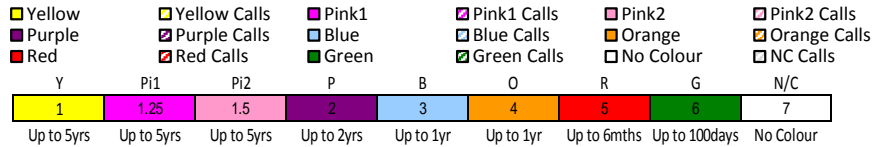
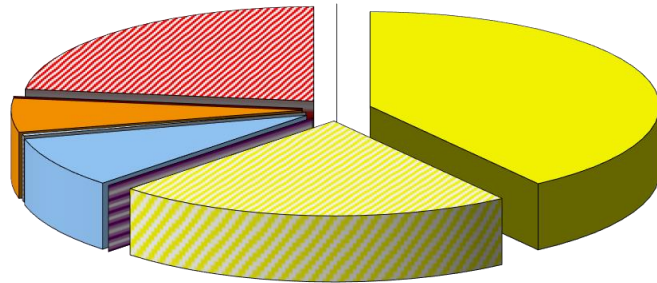
Buoyed by a 42% increase in household goods sales, retail sales jumped a record 12% m/m during May, at least partly

Orkney Islands Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	6,700,000	0.25%		MMF	AAA	0.000%
MMF BlackRock	1,000,000	0.23%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc (RFB)	108,793	0.01%		Call	A	0.000%
Bank of Scotland Plc (RFB)	2,000,000	1.25%	19/07/2019	17/07/2020	A+	0.002%
Santander UK Plc	2,000,000	0.47%		Call35	A	0.005%
Santander UK Plc	1,000,000	0.47%		Call35	A	0.005%
Santander UK Plc	1,000,000	0.47%		Call35	A	0.005%
Thurrock Borough Council	3,000,000	0.45%	19/05/2020	19/08/2020	AA-	0.003%
West Dunbartonshire Council	4,000,000	1.90%	26/03/2020	28/09/2020	AA-	0.006%
Thurrock Borough Council	2,000,000	0.85%	01/10/2019	29/09/2020	AA-	0.006%
Santander UK Plc	2,000,000	0.60%		Call95	A	0.014%
Lancashire County Council	2,000,000	1.02%	14/10/2019	14/10/2020	AA-	0.007%
Santander UK Plc	2,000,000	0.70%		Call180	A	0.026%
West Dunbartonshire Council	3,000,000	0.35%	26/06/2020	26/01/2021	AA-	0.014%
National Westminster Bank Plc (RFB)	3,000,000	0.49%	10/06/2020	09/06/2021	A	0.050%
Total Investments	£34,808,793	0.69%				0.010%

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **2.27**

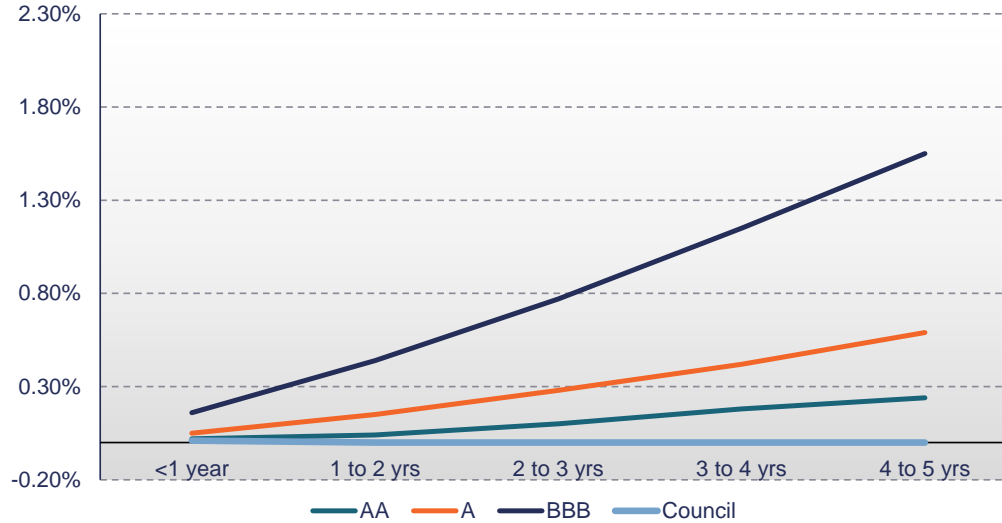
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour		% of Call		Excluding Calls/MMFs/USDBFs			
			in Calls	Amount of Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	62.34%	£21,700,000	35.48%	£7,700,000	22.12%	0.72%	71	144	110	223
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	8.93%	£3,108,793	3.50%	£108,793	0.31%	0.47%	332	351	344	364
Orange	5.75%	£2,000,000	0.00%	£0	0.00%	1.25%	17	364	17	364
Red	22.98%	£8,000,000	100.00%	£8,000,000	22.98%	0.56%	86	86	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£34,808,793	45.42%	£15,808,793	45.42%	0.69%	95	162	137	260

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Investment Risk and Rating Exposure

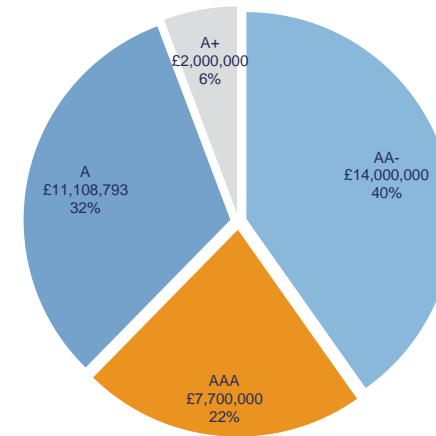
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.010%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
01/06/2020	1765	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Stable from Negative.
19/06/2020	1766	Danske Bank A/S	Denmark	The Long Term Rating was removed from Negative Watch and placed on Negative Outlook. At the same time, the Viability Rating was also removed from Negative Watch.
25/06/2020	1767	Canada Sovereign Rating	Canada	The Sovereign Rating was downgraded to 'AA+' from 'AAA'.

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action

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Investment Portfolio Benchmarking Analysis

June 2020

Group Members:

Aberdeen City Council
Aberdeenshire Council
Angus Council
Clackmannanshire Council
Midlothian Council
Orkney Islands Council
Perth & Kinross Council
The Highland Council

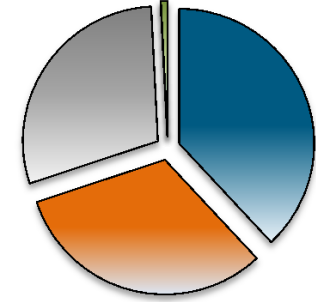
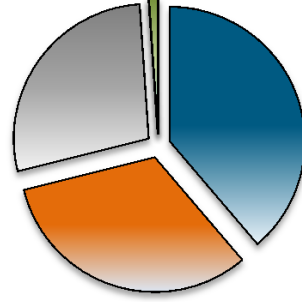
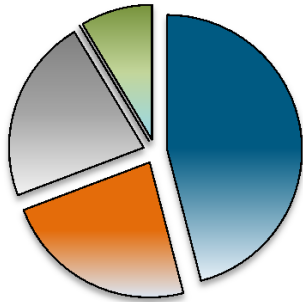
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Summary Sheet

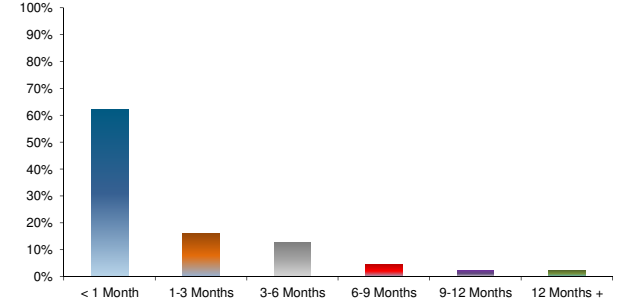
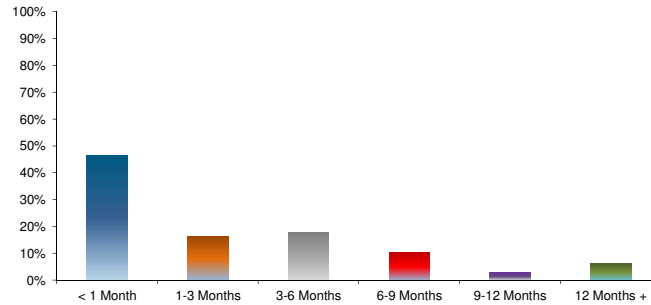
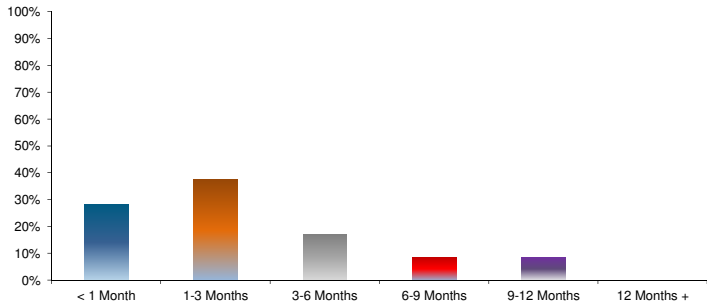
Orkney Islands Council		Benchmarking Group 6 (8) Basic Portfolio Characteristics		Scottish Unitary Authorities (23)	
WARoR	0.69%		0.61%		0.47%
WAM	95		111		61
WATT	162		177		129
WA Credit Risk	2.27		3.05		2.67
Model WARoR	0.48%		0.50%		0.48%
Difference	0.21%		0.11%		0.00%
Model Band	0.38% - 0.59%		0.40% - 0.61%		0.37% - 0.58%
Performance	Above		Above		Inline

Asset Breakdown

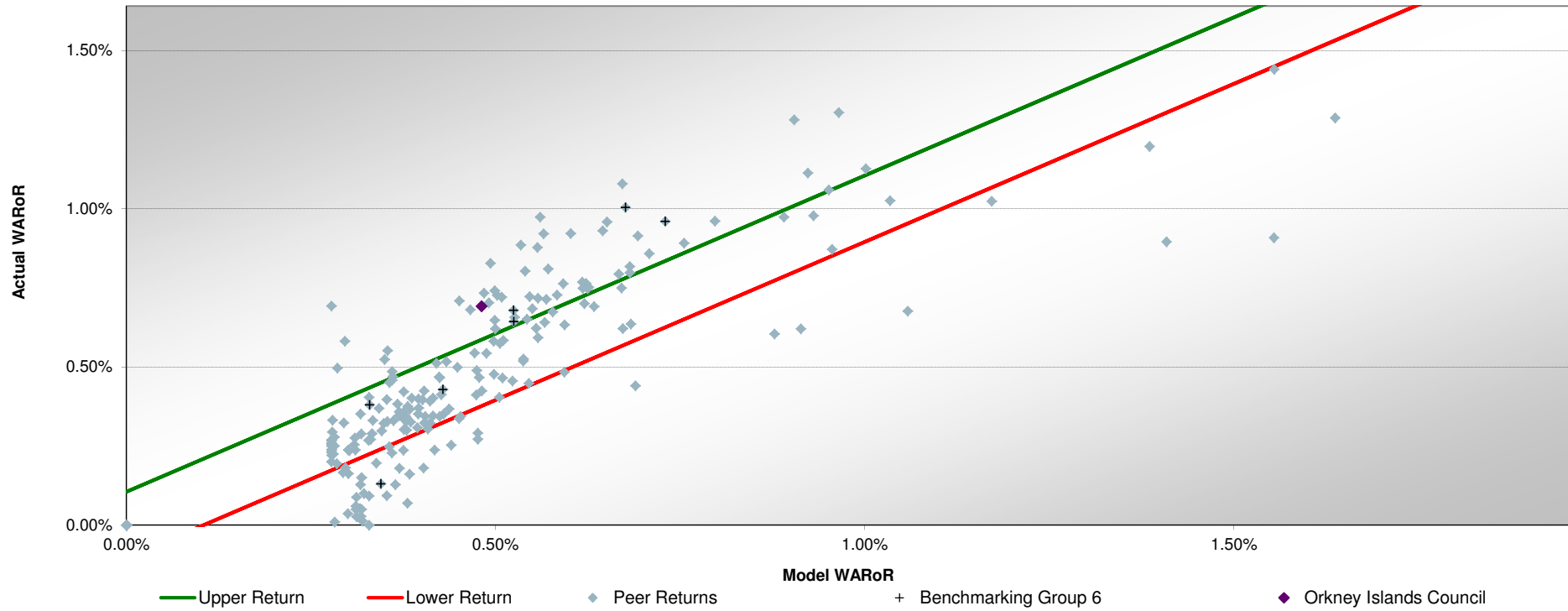
- Fixed Deposits
- Calls & O/N
- MMFs
- USDBFs
- Struct. Prods.
- Bonds
- CDs



Maturity Profiles



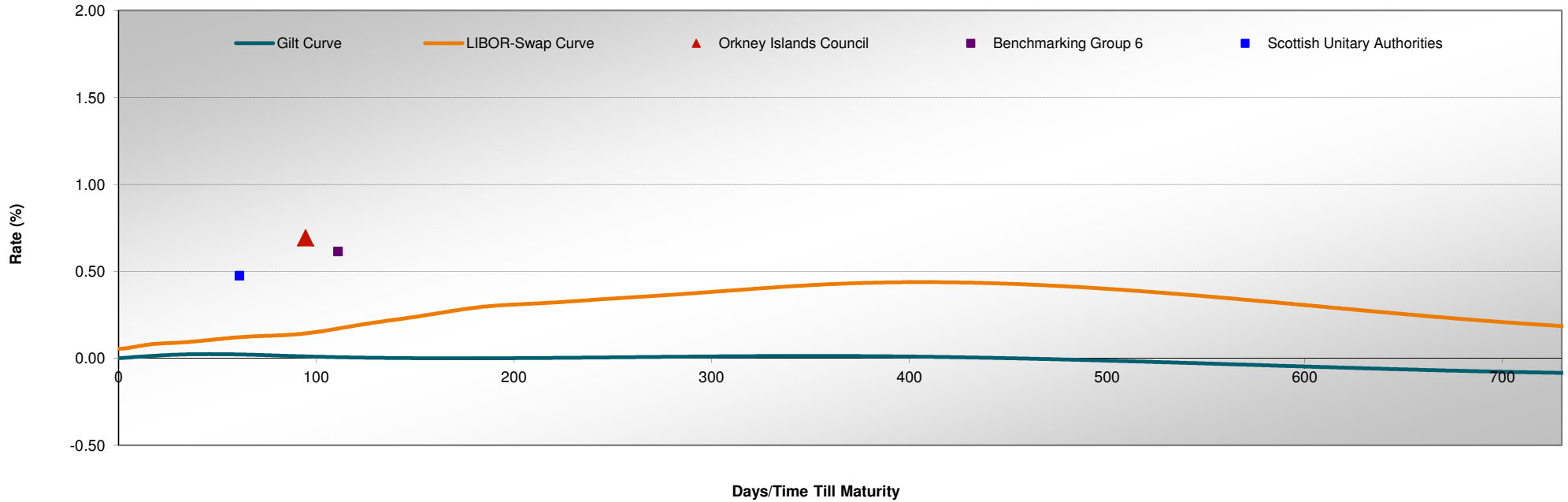
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Orkney Islands Council	0.69%	0.48%	0.21%	0.38%	0.59%	Above

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Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model	
							Gilt	LIBOR-Swap	Bands	Performance
Orkney Islands Council	0.69%	95	162	2.27	0.01%	0.14%	0.68%	0.55%	0.38% - 0.59%	Above
Benchmarking Group 6	0.61%	111	177	3.05	0.01%	0.17%	0.61%	0.44%	0.40% - 0.61%	Above
Scottish Unitary Authorities	0.47%	61	129	2.67	0.02%	0.12%	0.45%	0.35%	0.37% - 0.58%	Inline

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Peer Comparison

	Orkney Islands Council	Benchmarking Group 6 (8)		Scottish Unitary Authorities (23)		Population Average (214)	
Basic Characteristics							
Principal	£34,808,793	£85,523,841		£63,923,704		£89,796,210	
WARoR	0.69%	0.61%		0.47%		0.49%	
WAM	95	111		61		64	
WATT	162	177		129		137	
WA Credit Risk	2.27	3.05		2.67		2.49	
Portfolio Breakdown							
Fixed Deposits	45.97%	38.77%	6	38.07%	17	38.19%	171
Calls & O/N	23.30%	32.33%	8	31.85%	19	26.51%	174
MMFs	22.12%	27.82%	8	29.28%	18	32.17%	156
USDBFs	0.00%	0.00%	0	0.00%	0	1.10%	12
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.17%	4
Bonds	0.00%	0.00%	0	0.00%	0	0.88%	9
CDs	8.62%	1.08%	1	0.80%	3	0.97%	15
Institution Breakdown							
Banks	37.66%	52.10%	8	44.43%	20	38.05%	191
Building Socs.	0.00%	0.00%	0	1.14%	3	3.00%	43
Government	40.22%	20.07%	4	25.14%	13	24.86%	136
MMFs	22.12%	27.82%	8	29.28%	18	32.50%	156
USDBFs	0.00%	0.00%	0	0.00%	0	1.10%	12
MLDBs	0.00%	0.00%	0	0.00%	0	0.00%	0
Other	0.00%	0.00%	0	0.00%	0	0.50%	10
Domestic/Foreign Exposure							
Domestic	77.88%	71.58%	8	69.91%	21	64.10%	203
Foreign	0.00%	0.60%	1	0.81%	2	2.27%	36
MMFs	22.12%	27.82%	8	29.28%	18	32.53%	156
USDBFs	0.00%	0.00%	0	0.00%	0	1.10%	12
Maturity Structure							
< 1 Month	28.18%	46.28%		62.17%		62.11%	
1-3 Months	37.35%	16.40%		16.03%		13.07%	
3-6 Months	17.24%	17.98%		12.71%		14.93%	
6-9 Months	8.62%	10.16%		4.42%		4.87%	
9-12 Months	8.62%	3.06%		2.27%		2.80%	
12 Months +	0.00%	6.13%		2.39%		2.22%	

Orkney Islands Council

Detailed Peer Comparison

	Orkney Islands Council				Benchmarking Group 6 (8)					Scottish Unitary Authorities (23)						
	%	WARoR	WAM	WATT	%	WARoR	WAM	WATT	n	%	WARoR	WAM	WATT	n		
Asset Breakdown																
Fixed Deposits	45.97%	1.02%	98	241	38.77%	1.12%	163	294	6	38.07%	0.84%	95	225	17		
Calls	23.30%	0.55%	85	85	32.33%	0.38%	61	61	8	31.85%	0.36%	35	35	19		
Overnight	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MMFs	22.12%	0.25%	0	0	27.82%	0.25%	0	0	8	29.28%	0.25%	0	0	18		
USDBFs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Structured Prods.	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Cert.of Deposit	8.62%	0.49%	344	364	1.08%	0.49%	43	46	1	0.80%	0.79%	18	48	3		
Gov. Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Corp. Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MLDB Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Institutional Breakdown																
Banks	37.66%	0.64%	134	191	52.10%	0.59%	79	151	8	44.43%	0.50%	44	119	20		
Building Socs.	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	1.14%	0.40%	10	24	3		
Government	40.22%	0.98%	110	223	20.07%	1.08%	151	206	4	25.14%	0.80%	92	160	13		
MMFs	22.12%	0.25%	0	0	27.82%	0.25%	0	0	8	29.28%	0.25%	0	0	18		
USDBFs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MLDBs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Other	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Foreign Breakdown																
Domestic	77.88%	0.82%	121	208	71.58%	0.72%	139	223	8	69.91%	0.53%	80	176	21		
Foreign	0.00%	0.00%	0	0	0.60%	0.12%	7	46	1	0.81%	0.47%	7	21	2		
MMF	22.12%	0.25%	0	0	27.82%	0.25%	0	0	8	29.28%	0.25%	0	0	18		
USDBFs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Sovereign State Breakdown																
UK	77.88%	0.82%	121	208	UK	71.58%	0.72%	139	223	8	UK	69.91%	0.53%	80	176	21
					AUS	0.60%	0.12%	7	46	1	QAT	0.40%	0.02%	3	4	1
											AUS	0.21%	0.04%	3	16	1
											UAE	0.20%	0.02%	7	8	1
Sovereign Rating Breakdown																
AA-	77.88%				AA-	71.58%					AA-	70.31%				
					AAA	0.60%					AAA	0.21%				
											AA	0.20%				

Since MMFs are ring-fenced institutions and do not belong to a specific country, the sovereign breakdowns will exclude them from the analysis. As a result the "% of Portfolio" may not add up to 100%.

Benchmarking Rationale and Methodology

The aim of this benchmarking model is to compare portfolio weighted average rate of returns (WARoR) by adjusting for the risks inherent in the portfolio. The main risks in cash portfolios are:

- Maturity Risk
- Credit Risk

As such, the model must normalise WARoRs by adjusting for these risks so as to calculate risk-adjusted returns, or "Model WARoR". The risks the model looks at include:

- Maturity Risk
- Credit Risk
- Change in the shape of the yield curve

This will account for the majority of all risk in the portfolio, however, there will still be some "model uncertainty" as no model can fully explain each WARoR. The difference in model WARoR and actual WARoR may be due to the following reasons:

- Timing differences
- Higher diversification
- Tilt towards a particular asset type or institution type that is extraordinarily paying an above market rate (e.g. special tranche rates)

As a result, the model will build "Standard Error Bands" around the model WARoR calculated so as to adjust for this model uncertainty. This gives us a range for where the actual WARoR should fall. If the actual WARoR is above this upper band, then we would say the client is above on a risk-adjusted basis given the risks inherent in the portfolio. If the actual WARoR is below the lower band, then we would say the client is below on a risk-adjusted basis given the risks inherent in the portfolio.

Model Band Some values when compared to the Model Band will fall outside the range even if the value appears to be equal to the minimum or maximum. This is due to rounding the data to two decimal places within Excel.

For example:

The value returned is 0.9512 and the range is 0.9541 – 1.2321. When rounded the data will be represented as 0.95 and a range of 0.95 – 1.23, although this appears to be in line with the range the underlying data will actually fall outside.

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology. 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR



Orkney Islands Council

Monthly Investment Analysis Review

March 2020

Monthly Economic Summary

General Economy

The Flash Manufacturing PMI for March fell to 48.0 from 51.7 in February, pointing to a contraction in the sector, as output dropped at the sharpest pace since 2012 as factories shut down across the world in response to the Covid-19 outbreak. March's Flash Services PMI figure, meanwhile, slumped to a record-low of 35.7 from 53.2 in February. With measures to halt the spread of the Covid-19 causing footfall to slump, hotels, restaurants and gyms recorded particularly steep downturns in activity. As a result, the Flash Composite PMI tumbled to 37.1 in March, signalling the fastest downturn in private sector business activity since the series began in 1998. The Construction PMI, which is now released on a different timescale to the main services and manufacturing reports, rose to 52.6 in February from 48.4 in January, easily beating market expectations of 48.8 – but this survey was taken before the Covid-19 outbreak began to severely impact businesses.

GDP data showed that the UK economy stagnated in January prior to the Covid-19 outbreak, as growth in the service sector was offset by falls in production and construction. Year-on-year GDP growth fell to +0.6% from +1.2% in December and missed market expectations of a 0.9% rise.

The UK's unemployment rate edged up to 3.9% in the three months to January from its lowest level since 1975 and above market expectations of 3.8%. The number of people out of work rose by 63,000 to 1.34 million, which was the biggest increase since 2011, while the number of employed people rose by 184,000 to a record high of 32.99 million. Average earnings including bonuses grew 3.1% in the three months to January, up from 2.9% in the previous period. Excluding bonuses, average earnings also grew 3.1%, a slight fall from 3.2% in December.

Consumer Price Inflation (CPI) fell to 1.7% in February, from 1.8% in the previous month, in line with market expectations and remaining below the Bank of England's 2% target. In monthly terms, CPI increased by 0.4% in February following January's 0.3% fall. The core CPI rate (which strips out the more volatile components), rose to 1.7% y/y in February, up from 1.6% y/y in January.

February's retail sales fell by 0.3% m/m following an upwardly revised 1.1% gain in January. This missed market expectations of a 0.2% m/m rise, with a number of retailers noting that sales were hampered by extreme rainfall. Year-on-year sales stagnated, down from the upwardly revised 0.9% y/y growth recorded in January. March's Confederation of British Industry's monthly retail sales index dropped to -3 from +1 in February, but still beat market expectations of -12. The survey revealed that the Covid-19 outbreak hit demand for most products, with sales of clothing and furniture falling the most in the year to March. The GfK Consumer Confidence index, meanwhile, dropped 2 points to -9 in March, falling for the first time in four months as coronavirus anxiety took its toll.

As evident in the Flash PMI reports noted above, March saw the Covid-19 outbreak significantly impact both the UK and global economy. The FTSE 100 index fell from 7021 to 5645 during the month, evidencing the sharp deterioration in the outlook for business profitability. In response to the deteriorating economic conditions, the Bank of England cut Bank Rate twice during the month - firstly cutting by 50bps to 0.25%, and then again by a further 15bps to a record low of 0.1%. The central bank also

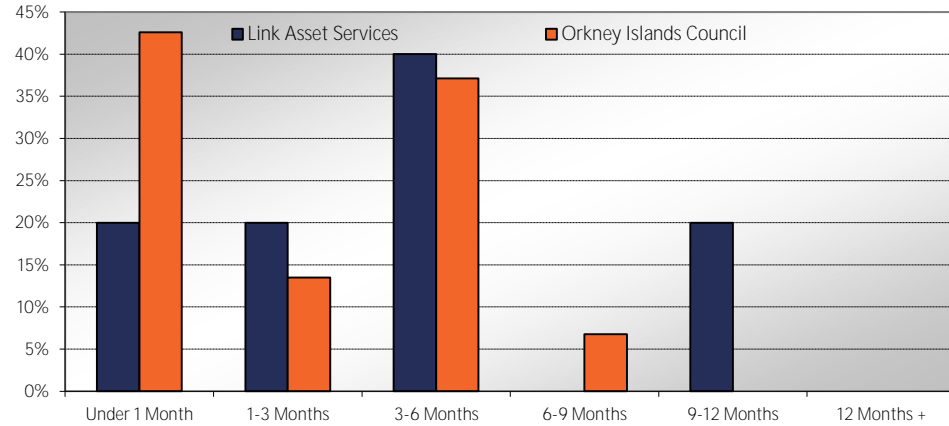
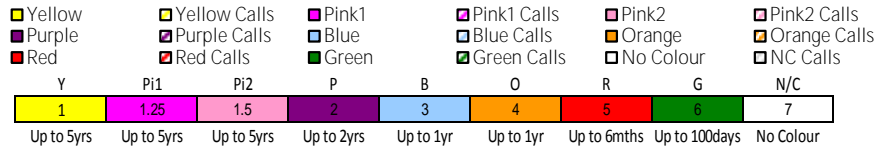
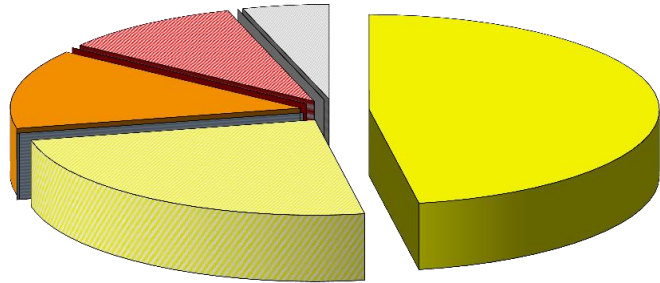
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default	Expected Credit Loss (£)
MMF Aberdeen Standard Investments	3,400,000	0.46%		MMF	AAA	0.000%	4
MMF BlackRock	500,000	0.52%		MMF	AAA	0.000%	1
MMF Insight	3,300,000	0.51%		MMF	AAA	0.000%	4
NatWest Markets Plc (NRFB)	1,424,801	0.30%		Call	BBB	0.000%	6
East Dunbartonshire Council	2,000,000	1.80%	26/03/2020	27/04/2020	AA-	0.002%	0
Thurrock Borough Council	2,000,000	0.84%	30/01/2020	01/05/2020	AA-	0.002%	0
Highland Council	2,000,000	1.00%	02/03/2020	15/05/2020	AA-	0.003%	0
Bank of Scotland Plc (RFB)	2,000,000	1.25%	21/06/2019	22/06/2020	A+	0.011%	220
Santander UK Plc	2,000,000	1.00%		Call95	A	0.013%	252
Bank of Scotland Plc (RFB)	2,000,000	1.25%	19/07/2019	17/07/2020	A+	0.014%	287
Santander UK Plc	1,000,000	1.10%		Call180	A	0.024%	239
West Dunbartonshire Council	4,000,000	1.90%	26/03/2020	28/09/2020	AA-	0.012%	0
Thurrock Borough Council	2,000,000	0.85%	01/10/2019	29/09/2020	AA-	0.012%	0
Lancashire County Council	2,000,000	1.02%	14/10/2019	14/10/2020	AA-	0.013%	0
Total Investments	£29,624,801	1.03%				0.007%	£1,013

The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2019 for Fitch, 1983-2019 for Moody's and 1981-2019 for S&P.

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.10**

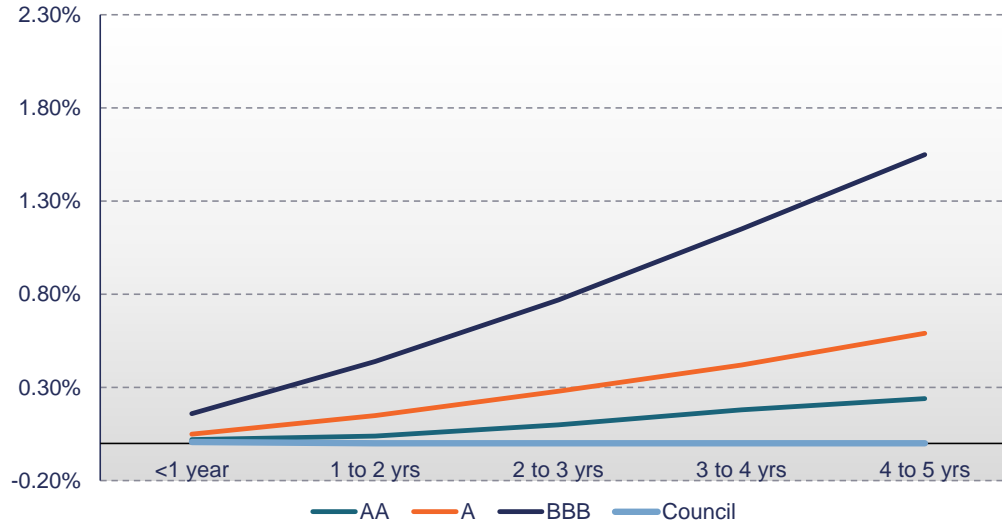
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	71.56%	£21,200,000	33.96%	£7,200,000	24.30%	1.04%	80	123	121	186
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	13.50%	£4,000,000	0.00%	£0	0.00%	1.25%	96	366	96	366
Red	10.13%	£3,000,000	100.00%	£3,000,000	10.13%	1.03%	123	123	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	4.81%	£1,424,801	100.00%	£1,424,801	4.81%	0.30%	0	0	0	0
Total	100.00%	£29,624,801	39.24%	£11,624,801	39.24%	1.03%	82	150	115	226

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Investment Risk and Rating Exposure

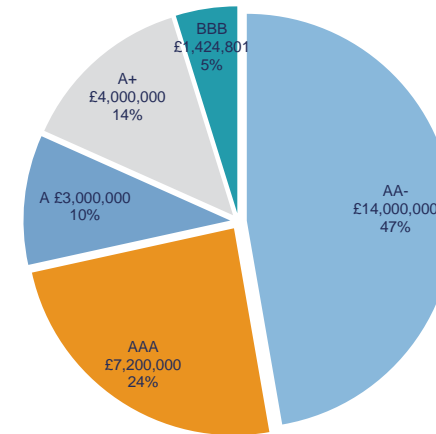
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.007%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

Orkney Islands Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
30/03/2020	1724	United Kingdom Sovereign Rating	United Kingdom	The Sovereign Rating was downgraded to 'AA-' from 'AA'.
30/03/2020	1725	Deutsche Bank AG	Germany	The Outlook on the Long Term Rating was removed from Evolving Outlook and placed on Negative Watch.
30/03/2020	1725	Landesbank Hessen-Thuringen Girozentrale	Germany	The Outlook on the Long Term Rating was changed to Negative from Stable.
30/03/2020	1725	Commerzbank AG	Germany	The Long Term Rating was downgraded to 'BBB' from 'BBB+'. The Short Term Rating was downgraded to 'F2' from 'F1' and the Viability Rating was downgraded to bbb from bbb+.
30/03/2020	1726	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Germany	The Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1727	BNP Paribas	France	The Outlook on Long Term Rating was removed from Stable Outlook. The Long Term and Viability Ratings were placed on Negative Watch.
31/03/2020	1727	Credit Agricole Corporate and Investment Bank	France	The Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1727	Credit Agricole S.A.	France	The Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1727	Credit Industriel et Commercial	France	The Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1727	Societe Generale	France	The Outlook on Long Term Rating was removed from Stable Outlook. The Long Term and Viability Ratings were placed on Negative Watch.
31/03/2020	1728	KBC Bank N.V.	Belgium	The Outlook the Long Term Rating was changed to Negative from Stable.
31/03/2020	1729	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Negative from Positive.

Orkney Islands Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
31/03/2020	1729	UBS AG	Switzerland	The Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1730	Nordea Bank Abp	Finland	The Outlook on the Long Term Rating was removed from Stable Outlook and placed on Negative Watch. The Short Term and Viability Ratings were also placed on Negative Watch.
31/03/2020	1730	Handelsbanken Plc	United Kingdom	The Outlook on the Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
31/03/2020	1730	Svenska Handelsbanken AB	Sweden	The Outlook on the Long Term Rating was removed from Stable Outlook. The Long Term and Viability Rating were placed on Negative Watch.
31/03/2020	1730	Skandinaviska Enskilda Banken AB	Sweden	The Outlook on the Long Term Rating was removed from Stable Outlook placed on Negative Watch. The bank's Short Term and Viability Ratings were also placed on Negative Watch.
31/03/2020	1730	Danske A/S	Denmark	The Outlook on the Long Term Rating was removed from Negative Outlook and placed on Negative Watch. The bank's Viability Rating was also placed on Negative Watch.
31/03/2020	1731	Bank of Scotland Plc (RFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1731	Lloyds Bank Corporate Markets Plc (NRFB)	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A' and the Outlook on the Long Term Rating was changed to Negative from Stable.
31/03/2020	1731	Lloyds Bank Plc (RFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

Orkney Islands Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
				No Rating Changes to Report.

Orkney Islands Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
27/03/2020	1723	Swedbank AB	Sweden	The Long Term Rating was downgraded to 'A+' from 'AA-' and the Short Term Rating was downgraded to 'A-1' from 'A-1+'. The Outlook on the Long Term Rating was changed to Stable from Negative.

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