

Treasury Management (TM) Update Report

1 Changes in the external environment

Economic Outlook

- 1.1 Recent economic data releases have continued to show the resilience of the UK economy. Activity in the UK's manufacturing sector grew at the fastest pace for two and a half years in December as the weaker pound helped to increase exports. Consumer borrowing also increased by its fastest rate for more than a decade in December according to new statistics from the Bank of England. Consumer credit rose by £1.9bn during the month and has grown by 10.8% in total during the past 12 months. The Bank also published data on mortgage approvals which reached their highest level for 8 months in November.
- 1.2 However, the Bank of England's Monetary Policy Committee has stated that the global economic outlook has become more fragile and in view of this volatility, the Council will continue to take a cautious approach in relation to its investments.

2 Investment Strategy

- 2.1 Conventional bank deposits have become riskier because of a lower likelihood that the UK and other governments will support failing banks. As the Banking Reform Act 2014 was implemented in the UK from January 2015, banks were no longer able to rely on government bail-outs if they got into difficulty. They would be required instead to bail themselves out by taking a proportion of investors' deposits to build up their capital. This new risk has been termed 'bail-in' risk and is potentially a greater risk to investors than the 'bail-out' risk of the past.
- 2.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will consider more secure investments such as reverse repurchase agreements (REPOs) and covered bonds as detailed below.
- 2.3 The Council has also been placing a far greater emphasis on investing with the UK Government's Debt Management Office and other local authorities in order to minimise these risks.

Reverse Repurchase Agreements (REPOs)

- 2.4 These involve the purchase of a security (usually bonds, gilts or other government securities) tied to an agreement to sell it back later at a pre-determined date and price. REPOs provide protection through the ownership of collateral in the form of securities which is significantly more secure than investing in unsecured bank deposits. These are

therefore secured investments with banks which are exempt from bail-in risk so they offer a safer alternative at similar rates to unsecured bank deposits.

Covered Bonds

- 2.5 These are also secured investments with banks which are exempt from bail-in risk and they offer a secure option for long term investments.

(The glossary in Appendix 1 Annex C provides definitions of the various treasury terms used)

3 Borrowing Strategy

- 3.1 The Council has continued with its strategy of internal borrowing to fund most of its borrowing requirement. The Council has also continued to undertake temporary borrowing from other local authorities as required to cover short-term cash flow requirements as this is a good source of readily available cash at historically low rates.
- 3.2 The Council will continue to monitor its cash position and interest rate levels to ensure that long term borrowing is undertaken from the PWLB at the optimal time to fund on-going Capital commitments.

4 Controls

4.1 Prudential Indicators

The Council sets prudential indicators which set boundaries within which its treasury management activity operates. The indicators are calculated to demonstrate that the Council's borrowing is affordable and include measures that show the impact of capital and borrowing decisions over the medium term. The Council has remained within all of its borrowing and investment limits for 2016/17 agreed by Council in February 2016. The Council has not deviated from the Capital related indicators either.

4.2 Audit Reviews

Following a positive internal audit review in February 2016, the next audit review will be undertaken in February 2017.

5 Future

5.1 TM Strategy for next six months

As the Corporate Plan is progressing, the Council will continue to review its cash position to ensure that borrowing is undertaken if required. The Council will also monitor market conditions and interest

rate levels to ensure that external borrowing is undertaken at the optimal time in line with the TM strategy.

5.2 **Reports**

The next reports will be the annual TM Review Report 2016/17 and the TM Update Report 2017/18 which will be reported to the Corporate Governance Committee in July.