

Treasury Management (TM) Update Report

1 Changes in the external environment

Economic Outlook

- 1.1 The political backdrop to the UK remains uncertain and fragile and the Governor of the Bank of England expects the UK economy to contract as the Brexit negotiations commence. It's likely therefore that he will continue to support an unchanged policy stance for much of the rest of the year so the Bank Rate is expected to be maintained at its current level for the near future.
- 1.2 The Governor has also issued warnings about the current level of household debt but this has not increased the threat to the general resilience of banks. However, banks are expected to reinforce their positions by adding to their financial cushions. In view of this uncertainty, 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 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 2017/18 agreed by Council in February 2017. The Council has not deviated from the Capital related indicators either.

4.2 Audit Reviews

The Internal Audit review undertaken in February 2017 concluded that the treasury management system continues to be well controlled. The report listed the following key areas which have been managed well:

- The Council's Treasury Management Strategy Statement and Investment Strategy is scrutinised by Corporate Governance annually and approved by County Council. This restricts the activity of the treasury management function to defined parameters, thereby managing risks.

- Several members of staff within Finance can carry out treasury management functions, allowing for continuity of service and appropriate segregation of duties.
- Real-time advice and updates are provided by external treasury management advisers and are followed by members of staff.
- Daily cash-flow projections are prepared and checked for correctness by an independent person. These are reviewed by a senior member of staff and surplus funds invested and deficit balances cleared promptly and appropriately.
- Regular reconciliations are carried out between the general ledger and the treasury management system (Logotech).
- Our sample testing confirmed that members of staff continue to adhere to the Council's Treasury Management Policies and procedures, which provides a robust framework to ensure the effective management and control of its treasury management activities.
- The Money Laundering Policy has now been updated to reflect changes in key positions so that members of staff know who to contact to raise any concerns or suspicions.

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 Treasury Management Strategy Statement and Prudential Indicators 2018/19 and the TM Update Report 2017/18 which will be reported to the Corporate Governance Committee in January.