

## Appendix 2

### Treasury Management (TM) Update Report

#### 1 Changes in the external environment

##### Economic Outlook

- 1.1 The political backdrop to the UK remains uncertain as the Brexit negotiations continue ahead of Britain's planned withdrawal from the EU in March 2019. 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 Council has only held a minimal amount of investments for short-term cash flow purposes and has placed a far greater emphasis on investing with the UK Government's Debt Management Office and other local authorities in order to minimise these risks.

#### 3 Borrowing Strategy

- 3.1 In line with its TM strategy and following advice from its treasury consultants, the Council has locked in a proportion of its debt at very low rates with the Public Works Loan Board (PWLB) to fund the capital programme. In total, two new loans for £20m were undertaken in May 2018 over a 15 year period on an Equal Instalment of Principal (EIP) basis.
- 3.2 This has also enabled the Council to repay many of its temporary loans from other local authorities but it will continue to undertake temporary borrowing from other local authorities if required to cover short-term cash flow requirements in the future as this is a good source of readily available cash at historically low rates.
- 3.3 At the same time, the Council will also continue to monitor its cash position and interest rate levels to ensure that further 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 2018/19 agreed by Council in February 2018. The Council has not deviated from the Capital related indicators either.

### 4.2 Audit Reviews

The Internal Audit review undertaken in November 2017 concluded that the treasury management system continues to be well controlled. The audit report listed the following key points:

- *“Overall, effective controls continue to operate within the Council's Treasury Management function ensuring that risks are well managed, for example;*
  - *Several members of staff within Finance can carry out treasury management activities, which allows for continuity of service and appropriate separation of duties.*
  - *Real-time advice and updates are provided by external treasury management advisers and are followed by members of staff.*
- *Our sample testing confirmed that members of staff continue to adhere to the Council's Treasury Management policies and procedures, which in the main provides a robust framework to ensure the effective management and control of its treasury management activities.*
- *There is an opportunity to further strengthen the controls around daily cash flow management, to ensure that the Council is both receiving returns on investing large surplus balances and avoiding interest charges when balances fall into an overdraft facility.*
- *Regular reconciliations are carried out between the general ledger and the treasury management system (Logotech).*
- *The Council's Treasury Management Strategy Statement and Investment Strategy is scrutinised by the Corporate Governance Committee annually and approved by County Council. This governs the activity of the treasury management function to defined parameters, thereby managing risks.”*

## **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**

This report will be submitted to Cabinet in September following a review by the Corporate Governance Committee. The next reports to the Corporate Governance Committee will be the Treasury Management Strategy Statement and Prudential Indicators 2019/20 and the TM Update Report 2018/19 in January.