

## 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 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. A new loan for £10m was undertaken in May 2019 over a 15 year period on an Equal Instalment of Principal (EIP) basis at a rate of 1.73%.
- 3.2 The Council has 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.
- 3.3 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**

### **Prudential Indicators**

- 4.1 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 2019/20 agreed by Council in February 2019. The Council has not deviated from the Capital related indicators either.
- 4.2 From 2019/20, the Capital related Prudential Indicators have been excluded from the Treasury Management Strategy Statement (TMSS) and included in the Capital Strategy Report which is a new report introduced by the 2017 edition of the Prudential Code. It is intended to give a high level, concise and comprehensible overview to all elected members of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services.
- 4.3 The Capital Strategy Report was included with the Capital Plan report to Council in February 2019 and included the following Capital related Prudential Indicators:

Estimates of Capital Expenditure and Financing  
Ratio of Financing Costs to Net Revenue Stream  
Capital Financing Requirement  
Authorised Limit and Operational Boundary for External Debt

### **4.4 Audit Reviews**

Following a positive internal audit review in November 2017, another audit review was undertaken in February 2019, the results of which are awaited.

## **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 2020/21 and the TM Update Report 2019/20 in January.