

Appendix 2

Treasury Management (TM) Update Report

1 Changes in the external environment

Economic Outlook

- 1.1 The economic outlook remains uncertain following Britain's withdrawal from the EU and the impact of the coronavirus. In view of this uncertainty, the Council will continue to take a cautious approach in relation to its investments.

2 Investment Strategy

- 2.1 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council has placed a far greater emphasis on investing with the UK Government's Debt Management Office in order to minimise these risks.
- 2.2 The Council was concerned about its cash flow position in March as the financial impact of COVID-19 was anticipated to be significant. The Council has been required to make business support payments to businesses over the last 3 months to help them deal with the impact of COVID-19. The Welsh Government has been giving grants in advance to enable local authorities to make these payments. The Welsh Government also gave Revenue Support Grant (RSG) instalments in advance during April to help local authorities to deal with the impact of COVID-19.
- 2.3 At the end of March, the Council also locked in a proportion of its debt at a very low rate (HRA Certainty Rate) with the Public Works Loan Board (PWLb) to fund HRA capital expenditure. A new loan for £15m was undertaken over a 15 year period on an Equal Instalment of Principal (EIP) basis at a rate of 0.94%.
- 2.4 All of these factors have resulted in a healthy cash flow position and the investment of the cash has been carefully managed and monitored over the last 3 months to ensure the availability of the cash for making business support payments and other payments as required.
- 2.5 Although the Council's current cash flow position is healthy, it is anticipated that the Council will face cash flow pressures over the next few months as a result of the impact of COVID-19. This could result in the potential loss of income of up to £2m per month and the monthly RSG income is approximately £2m lower each month because of the RSG instalments received in advance in April. This means that the Council's cash flow position will need to be monitored carefully each month going forward.

3 Borrowing Strategy

- 3.1 The Council will therefore continue to undertake temporary borrowing from other local authorities in the future 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 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 2020/21 agreed by Council in February 2020. 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 2020 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

The Internal Audit review undertaken in December 2019 concluded that the treasury management system continues to be well controlled.

5 Future

5.1 TM Strategy for next six months

As the impact of COVID-19 is felt over the coming months and as planned capital expenditure is incurred, the Council will continue to review its cash position to ensure that temporary borrowing is undertaken if required. The Council will also monitor market conditions and interest rate levels to ensure that external PWLB 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 2021/22 and the TM Update Report 2020/21 in January.