

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 9 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 resulted in a fairly healthy cash flow position during the first half of 2020/21 which reduced gradually over the period leading up to Christmas. The investment of the cash has been carefully managed and monitored throughout the year 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 remains sufficient to meet the ongoing pressures arising from the impact of COVID-19, it has been decreasing over the course of the year as the Council's income has been reducing as a result of the impact of COVID-19. 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 PWLB Borrowing Update

- 4.1 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.
- 4.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.
- 4.3 The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

5 Controls

5.1 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 2020/21 as stated in the TM Strategy Statement and the Capital Strategy Report agreed by Council in February 2020. The Council has not deviated from the Capital related indicators either.

5.2 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.

5.3 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

5.4 **Audit Reviews**

Following a positive internal audit review in December 2019, another annual audit review will be undertaken in January or February.

6 **Future**

6.1 **TM Strategy for next six months**

As the further impact of COVID-19 is felt over the coming months and as planned capital expenditure is incurred or delayed in some cases as a result of the pandemic, the Council will continue to monitor its cash flow 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.

6.2 **Reports**

The next reports will be the annual TM Review Report 2020/21 and the TM Update Report 2021/22 which will be reported to the Corporate Governance Committee in July.