

## Appendix 2

### Treasury Management (TM) Update Report

#### 1 Changes in the external environment

##### Economic Outlook

- 1.1 The economic outlook remains uncertain following 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 (DMO) in order to minimise these risks. The majority of our investment cash is therefore placed with the DMO on a short term basis to meet monthly outgoings and the remainder with two instant access call accounts up to a maximum limit of £3m with each.
- 2.2 Although the Council's current cash flow position remains healthy, the position is reviewed constantly with a view to undertake further temporary borrowing if required later in the year as the level of our investment cash decreases.

#### 3 Borrowing Strategy

- 3.1 The Council currently has 6 temporary loans from other local authorities for £30m in total over periods up to 1 year. This total is made up of £5m which is repayable in February, £3m in May, £15m in October and £7m in November. At that time, the Council will review its cash flow position and will either repay those loans or continue the loans for a further period if the cash is required. Local authority loans remain a readily available source of cash at historically low rates so 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.
- 3.2 Although the Council hasn't borrowed from the Public Works Loan Board (PWLB) since March 2020, the Council will 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.
- 3.3 At the last strategy meeting with the Council's treasury advisers, Arlingclose Ltd, the analysis of the Balance Sheet projections showed that the Council is likely to have a significant borrowing requirement in the future. Despite this, it was agreed that temporary local authority

borrowing continues to be the best strategy. They advised against borrowing too far in advance of need given the ongoing high cost of carry from having expensive borrowing that is invested for the short term at extremely low rates.

#### **4 PWLB Borrowing Update**

- 4.1 Following the PWLB's recent review of its borrowing terms, we have been required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. In particular, we had to confirm that we were not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. We were able to give this assurance so we can continue to take advantage of PWLB borrowing at low rates.

#### **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 2021/22 as stated in the TM Strategy Statement and the Capital Strategy Report agreed by Council in February 2021. 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 2021 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**

The Internal Audit review undertaken in January 2021 found that there are effective controls in place with good examples of working practices identified. A medium assurance rating was awarded with 3 recommendations made to review risk registers, the documentation of procedures and the recording of Treasury Management decisions. All of these recommendations are currently being implemented.

## **6 Future**

### **6.1 TM Strategy for next six months**

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 Medium Term Capital Strategy**

Work is currently underway to develop a medium term strategy for capital. This will help identify projects that we are planning to develop and invest in over a 5 to 10 year period, but have not yet gone through the approval process. This will impact on the level of borrowing that the Council will require to undertake over the coming years. A detailed model is currently being developed with our Treasury Management advisers to help inform the decision making process to ensure that the correct balance is maintained between the need to invest in our assets and continue to deliver an ambitious investment programme and ensuring the plans remain prudent and affordable.

### **6.3 Reports**

The next reports will be the annual TM Review Report 2021/22 and the TM Update Report 2022/23 which will be reported to the Governance and Audit Committee in July.