

## Appendix 2

### Treasury Management Update Report

#### 1 Changes in the external environment

##### 1.1 Economic Outlook

Financial markets have begun to stabilise in recent times with many financial institutions showing signs of stabilisation and, in some cases, considerable improvement. This has resulted in an extension in the duration limits with a number of the Council's investment counterparties

Although the economic outlook in the UK remains challenging, stronger than expected economic data has been encouraging. Some progress has also been made towards addressing the Eurozone's sovereign debt crisis. The Council is however continuing to be cautious in relation to our current investment strategy and this is likely to continue for the medium term until we see stronger signs of economic growth.

#### 2 Investment Strategy

##### 2.1 Our current investment time limits with the banks which we invest with are as follows:

- Royal Bank of Scotland (RBS) and National Westminster Bank for a maximum period of **overnight**,
- Close Brothers for a maximum period of **100 days**,
- Lloyds TSB and Bank of Scotland for a maximum period of **6 months**;
- Nationwide BS and Barclays for a maximum period of **12 months**.

##### 2.2 In practice, there is no gain to be had by taking advantage of the 6 month investment term with Lloyds TSB and Bank of Scotland because we are able to achieve the same rate in an instant access account. We are however investing with Barclays Bank for 12 months in order to achieve a higher rate of return. We also have a 1 month notice account with Close Brothers which is paying a very good rate of return.

##### 2.3 The Council is also able to invest with the UK Government's Debt Management Office which is currently paying a rate of 0.25%. We have also opened a safe custody account which enables us to purchase Treasury Bills from the Government and these pay a similar rate of return. These options are used as a last resort if safe limits have been reached with financial institutions.

**2.4** We only take advantage of the longer investment terms where it makes financial sense to do so and we also use instant access call accounts which give greater flexibility to reduce our investment cash without the need for borrowing.

**2.5** In view of the limited number of banks which are available now for new investments, the Council intends to reduce its investment balances and to use temporary borrowing as a means of funding short term cash flow requirements.

### **3 Borrowing Strategy**

**3.1** The strategy outlined above is likely to continue in the medium term which means that we will continue to reduce our investment balances and rely on internal borrowing as much as possible instead of external borrowing. This is sustainable while the Council has sufficient balances and reserves to avoid the need for external borrowing but this will be monitored throughout the year with a view to externalising borrowing if required.

## **4 Controls**

### **4.1 Prudential Indicators**

The Council sets prudential indicators which set boundaries within which our 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 2013/14 agreed by Council in February 2013. The Council has not deviated from the Capital related indicators either.

### **4.2 Audit Reviews**

The Internal Audit review undertaken in February 2013 concluded that TM continues to be very well managed. The report listed the following key areas which are managed well:

- The Council has a treasury management strategy and policy that County Council has approved.
- Treasury management activity is closely scrutinised and reported regularly at elected member level.
- Treasury management processes and procedures are robust, well established and followed meticulously.
- Key risks are effectively managed, with only a few minor improvements necessary.

## **5 Future**

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

As stated above, the Council intends to reduce its investment balances and to use temporary borrowing as a means of funding short term cash flow requirements.

### **5.2 Reports**

The next report will be the Treasury Management Strategy Statement and Prudential Indicators 2014/15 which will be reported to the Corporate Governance Committee in January and to Council in February.