



PAPER F

Purpose: For Noting

Committee report

Committee	AUDIT COMMITTEE
Date	3 DECEMBER 2015
Title	TREASURY MANAGEMENT SEMI-ANNUAL REPORT
Report of	MANAGING DIRECTOR AND SECTION 151 OFFICER

EXECUTIVE SUMMARY

1. In accordance with the Isle of Wight Council's Treasury Management Strategy 2015-16, this report presents the committee with a half-year progress report on treasury management policies, practices and activities for the financial year 2015-16.
2. This report is for noting.

BACKGROUND

3. The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the code"), which requires authorities to produce annually prudential indicators and a treasury management strategy statement on the likely financing and investment activity. The code also recommends that members are informed of treasury management activities at least twice a year.
4. This report, from a template provided by the council's treasury management advisers, Arlingclose Limited, sets out a summary of the council's treasury management activities in the half year to 30 September 2015, and its performance against the prudential indicators approved as part of the annual treasury management strategy. It also provides information about the broader economic background, against which the council's activities can be set.

STRATEGIC CONTEXT

5. The council's arrangements for treasury management support effective service and project delivery across the authority, in turn supporting the key priorities set out in the [Corporate Plan 2015-17](#).

6. There is a need for regular review of the Treasury Management Strategy, in line with the Corporate Plan and Medium Term Financial Strategy, to ensure the key priorities of the council continue to be deliverable within the reduced resources available to the council.

FINANCIAL / BUDGET IMPLICATIONS

7. The council's current treasury management arrangements are conducted by council staff within existing budgets.
8. The treasury management strategy includes the overall management of the council's cash flow and borrowing strategy. With interest rates low, the strategy has been to avoid long-term external loans (with interest rates at in excess of 4%) and take short-term loans when needed (with interest rates of below 1%). This has generated significant savings as part of the budget strategies over recent years.
9. As a result of not undertaking as much short term borrowing as forecast in the Treasury Management Strategy 2015-16, the council anticipates a saving of approximately £275,000 in external interest costs for the year to 31 March 2016.
10. Conversely, as a result of continuing low interest rates, and the later than anticipated receipt of the Asda capital receipt, the council anticipates a shortfall in its investment income of approximately £180,000 for the year to 31 March 2016.

LEGAL IMPLICATIONS

11. Failure to provide this information will mean that the council is in breach of the requirements set out in the CIPFA Code of Practice for Treasury Management 2011, and the council's approved treasury management strategy 2015-16.
12. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to "have regard" to the code.

EQUALITY AND DIVERSITY

13. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it.
14. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this

RISK MANAGEMENT

15. Treasury management activities have a high level of risk in that they relate to transactions that can amount to several million pounds which are undertaken

with external bodies. When the council has surplus monies to invest, there are risks if those organisations to whom it lends default on repayment. The costs to the council of its treasury management activities are dependent on fluctuating interest rates.

16. The overall strategy of borrowing short-term and avoiding long-term debt carries the risk that, if interest rates suddenly rise, when longer term debt is eventually required, it will cost more.
17. The council manages these risks by adopting a treasury management strategy which includes maintaining a limited list of organisations to whom it is authorised to lend, and restricting the maximum amount to be invested with each organisation, based on advice obtained from its external treasury management advisers, Arlingclose Limited. It also operates protocols for maintaining financial controls.
18. There is also a treasury management group which meets on a monthly basis to review activities, and make decisions regarding borrowing requirements, changes to the approved lending and borrowing lists, and any other strategic treasury management decisions. The members of the treasury management group are the Strategic Manager – Financial Services, the Technical Finance Manager, the Principal Accountant – Corporate, the Senior Finance Business Partner, and the two Finance Business Partners.
19. Although there is no statutory requirement to comply with the code, the council is obliged under S151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. Failure to comply with the code could result in adverse comments being raised by the council's external auditors.
20. The committee's overview of the council's treasury management arrangements plays an important part in the council's overall governance regime. It has an important role to play in the monitoring of treasury management activities, including overview of the risks faced by this function both internally, which are directly controllable through segregation of duties and reporting arrangements, and externally, controllable through the monitoring of counterparties and lending limits, and also regular monitoring of general economic factors..

RECOMMENDATION

21. That the committee receive this report and note the performance of the council's treasury management function for the first half of the year ended 31 March 2016.

APPENDICES ATTACHED

22. [Appendix 1](#) – Semi-annual Treasury Report 2015-16.

BACKGROUND PAPERS

23. Treasury Management Strategy 2015-16: Updated
<https://www.iwight.com/documentlibrary/download/treasury-management-strategy-2012-13>
24. CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)
http://www.tisonline.net/localauthorityaccounting/content/Treasury_Code_2011.pdf.

Contact Point: Jo Thistlewood, Technical Finance Manager, ☎ 821000
e-mail jo.thistlewood@iow.gov.uk

DAVE BURBAGE
Managing Director

CLLR JONATHAN BACON
*Leader and Executive Member for Children's
Services and Lead Member for Resources*