



Committee report

Committee	AUDIT COMMITTEE
Date	26 SEPTEMBER 2016
Title	TREASURY MANAGEMENT ANNUAL REPORT 2015-16
Report of	THE TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. In accordance with the council's Treasury Management Strategy 2015-16, this report presents the committee with the annual report on treasury management policies, practices and activities for the financial year 2015-16.
2. In December 2015, the committee received the half-year progress report on treasury management activities. This report updates the previous report, and includes additional information required for the annual report.
3. The council's activities have fallen within the boundaries of the prudential indicators set for the year:
 - (a) Due to continuing low interest rates, and the strategy to undertake short-term borrowing, the council has incurred lower than forecast costs of borrowing for the year, contributing positively to the overall out-turn.
 - (b) Due to continuing low interest rates, a prudent investment strategy and reduced surplus funds for investment, the council has attracted lower than average returns on its investments, in comparison to other local authorities who use the same treasury management advisers, Arlingclose Limited.
4. The council undertook one investment which falls under the definition of a non-scheduled investment in accordance with the Treasury Management Strategy 2015-16, and hence needs reporting to the committee:
5. During the period between Friday 15 January and Monday 18 January 2016, the council deposited £6,125,000 in an instant access account with National Westminster Bank (its main banker) for a period of three days. This was outside the parameters set within the treasury management strategy as follows:

- (a) The approved investment counterparties in the Investment Strategy states that the council may invest a maximum of £2.0 million in institutions with a minimum credit rating of BBB+, which was the rating that National Westminster Bank held at that time.
 - (b) Investment limits in the Investment Strategy specifies that in order that no more than 15 per cent of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK government) will be £4.0 million
6. The reason for making this investment was one of practicality; on Friday 15 January the council's on-line banking software was not available, due to technical issues with National Westminster Bank. As transactions between the council's bank accounts can be made with appropriate email authorisation, whereas external transactions required a faxed CHAPS payment request, it was decided that the instant access account would be used to hold the surplus balance over the weekend, with a view to further reinvestment on the Monday morning. The investment earned interest of £125.86 for the three days.
7. The alternative to transferring the surplus funds into the instant access account would have either been to incur additional time and fees (£10 per transaction) in processing CHAPS payments (multiple payments being required to split the surplus funds between counterparties with a maximum investment limit of £4 million), or to leave the funds in the council's current account over the weekend. The counterparty risk (the risk of the investment counterparty failing) for the council of leaving the funds in the current account was equal to that of transferring the funds to the instant access account.
8. The decision to invest this sum for this period was discussed with, and approved by, the then head of finance and section 151 officer in advance of the decision being made.
9. The committee is asked to consider this report and highlight any areas which may need to be addressed in the forthcoming year.

BACKGROUND

10. 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.
11. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA code and the Department for Communities and Local Government's (CLG's) Investment Guidance.
12. The code of practice defines treasury management as:

The management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

13. The code of practice requires that a report be provided on the actual performance of the council against the following prudential indicators at the end of each financial year:
 - Ratio of financing costs to net revenue stream.
 - Actual capital expenditure.
 - Actual capital financing requirement.
 - Actual external debt.
14. Detailed information on the council's performance against all of these indicators is set out in Appendix B to this report.

STRATEGIC CONTEXT

15. 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.
16. 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

17. The council's current treasury management arrangements are conducted by council staff within existing budgets.
18. 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 in excess of four per cent) and take short-term loans when needed (with interest rates of below one per cent). This has generated significant savings as part of the budget strategies over recent years.
19. At the December 2015 meeting, the committee received a report which forecast annual savings in borrowing costs for 2015-16 of £275,000, offset by a shortfall in annual investment income of £180,000 – a forecast net saving of £95,000
20. As at 31 March 2016, the total net savings had increased to £510,000 for the year, which contributed to the overall financial result of the council.

LEGAL IMPLICATIONS

21. 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.

22. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to “have regard” to the code.

EQUALITY AND DIVERSITY

23. 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.
24. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

RISK MANAGEMENT

25. 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.
26. 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.
27. 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.
28. Although there is no statutory requirement to comply with the code, the council is obliged under section 151 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.
29. 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.

EVALUATION

30. The council's treasury management activities for 2015-16 have fallen within the boundaries of the agreed strategy for 2015-16, taking into account the non-specified investment as reported in paragraphs 4 to 8 above.

RECOMMENDATION

31. That the committee considers the performance for the year ended 31 March 2016 against the prudential indicators and highlights any issues arising that need to be addressed in 2016-17.

APPENDICES ATTACHED

32. [Appendix A](#) – Performance report.
[Appendix B](#) – Prudential indicators.
[Appendix C](#) – External context – overview provided by Arlingclose Limited.
[Appendix D](#) – Glossary of terms.

BACKGROUND PAPERS

33. Treasury Management Strategy 2015-16 (Audit committee 19 February 2015, paper F)
<https://www.iwight.com/Meetings/committees/Audit%20Committee/19-2-15/Paper%20F.pdf>
34. Treasury Management Semi-Annual Report (audit Committee 3 December 2015, paper F)
<https://www.iwight.com/Meetings/committees/Audit%20Committee/3-12-15/PAPER%20F.pdf>
35. Revision to Treasury Management Strategy 2015-16 (Audit Committee 29 September 2015, paper G)
<https://www.iwight.com/Meetings/committees/Audit%20Committee/29-9-15/PAPER%20G.pdf>

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