



## PAPER G

Purpose: For Decision

# Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>19 FEBRUARY 2018</b>
Title	<b>TREASURY MANAGEMENT STRATEGY STATEMENT 2018-19</b>
Report of	<b>DIRECTOR OF FINANCE AND SECTION 151 OFFICER</b>

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### EXECUTIVE SUMMARY

1. This report presents the Treasury Management Strategy Statement (TMSS) 2018-19. The strategy forms part of the council's overall annual budget strategy, to be approved by Full Council on 28 February 2018.
2. The committee is asked to agree the Treasury Management Strategy Statement for 2018-19, for onward approval by Full Council.
3. The committee is asked to authorise the Director of Finance and section 151 officer to make amendments to the council's Treasury Management Practices (Appendix E of the attached TMSS) in accordance with the revised CIPFA codes and government guidance detailed below.

### BACKGROUND

4. The Local Government Act 2003 and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. These are set out in the Borrowing Strategy (section 4 of the attached TMSS) and the Minimum Revenue Provision (MRP) Statement (Appendix D of the attached TMSS) respectively.
5. The Act and subsequent regulations require the council to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA's) revised Code of Practice for Treasury Management ("the TM code"), and Treasury Management Practices ("TMPs"). The council is also required to have regard to the CIPFA Prudential Code for Capital Finance ("the prudential code") and to set prudential indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. With regard

to its capital investment plans the council also has a duty to determine a prudent MRP.

6. The council must also approve an annual investment strategy in compliance with government guidance on local government investments. Section 5 of the attached TMSS sets out the council's policy for managing its investments and for giving priority to the security and liquidity of those investments.
7. The council's TMPs, included in Appendix E of the attached TMSS, sets out how the council proposes to achieve its stated policy objectives, and how it will manage and control its treasury management activities. The TMPs specifically cover the following areas:
  - TMP 1 – Risk management.
  - TMP 2 – Performance measurement.
  - TMP 3 – Decision making and analysis.
  - TMP 4 – Approved Instruments, methods and techniques.
  - TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements.
  - TMP 6 – Reporting requirements and management information arrangements.
  - TMP 7 – Budgeting, accounting and audit arrangements.
  - TMP 8 – Cash and cash flow management.
  - TMP 9 – Money laundering.
  - TMP 10 – Training and qualifications.
  - TMP 11 – Use of external service providers.
  - TMP 12 – Corporate governance.
8. The objectives of the prudential code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The framework requires that the council sets and monitors its performance against a set of prudential indicators which are designed to support and record local decision making in these key areas.
9. The prudential indicators, included in Appendix C of the attached TMSS, are intended to ensure that decisions concerning capital expenditure, debt and treasury management are both affordable and prudent.

## CHANGES TO CIPFA TREASURY MANAGEMENT CODE AND PRUDENTIAL CODE REQUIREMENTS

10. CIPFA published new versions of the *Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes* (the TM Code) and *The Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) in late December 2017, for adoption in 2018-19.
11. In February 2018, the Ministry for Housing, Communities and Local Government (MHCLG) published revised guidance on local authority investments and minimum revenue provision (MRP), both of which are effective from 2018-19.
12. The council's treasury management adviser, Arlingclose Limited, has advised that as the new code does not recommend any changes to the format or content of the TMSS, the current format of the TMSS as presented is sufficient to meet the requirements of both the new TM code and the revised MHCLG guidance.

### Treasury Management Indicators

13. The main changes from the TM code are to the treasury management indicators (section 6 of the attached TMSS). However, the local authority sector specific guidance notes, which contain details of these changes, will not be published until later in 2018. Hence the current TMSS includes the indicators as required in the previous version of the TM Code.

### Capital Strategy

14. The updated prudential code includes a new requirement for the council to produce a Capital Strategy - a summary document covering capital expenditure and financing, treasury management and non-treasury investments. A statement published on the CIPFA website in early January 2018 recognises that authorities may require a lead-in period to create a capital strategy.  
*"Therefore the Treasury and Capital Management Panel recognises that this requirement may not be able to be fully implemented until 2019-20 financial year."*
15. The council is working towards the completion of a capital strategy, which will be presented to a future audit committee meeting.

### Prudential indicators

16. The prudential code has introduced changes to the prudential indicators (PI) (Appendix C of the attached TMSS), which will be implemented by the council in the 2019-20 strategy. The changes are set out below:
  - (a) There is no longer a requirement for local authorities to formally adopt the TM code (PI 8).

- (b) Two additional existing PIs have been deleted – only one of which was relevant to this council (incremental impact on council tax – PI 7).
  - (c) Three other PIs are recommended to be included in the new capital strategy – authorised limit, operational boundary and capital expenditure (PIs 5, 4 and 1).
17. Arlingclose recommends that the council should present all indicators in the 2018-19 TMSS, and should consider whether to adopt the deleted indicators as local indicators in future years.

### Treasury Management Practices

18. The TM code has updated the recommended wording for TMP1 *Risk Management* and TMP 4 *Approved Instruments, Methods and Techniques*. The council has not adopted the revised wording in the TMSS presented for approval today; the committee is asked to authorise the Director of Finance and Section 151 Officer to make amendments to the TMPs, once further guidance is issued by CIPFA.

### STRATEGIC CONTEXT

19. The Treasury Management Strategy forms part of the council's overall budget strategy, specifically supporting the first outcome of the latest [Corporate Plan 2017-20](#) - A financially balanced and sustainable council.
20. The strategy specifically supports the council's capital programme and the Medium Term Financial Strategy, ensuring the key priorities of the council are deliverable within the reduced resources available to the council.

### CONSULTATION

21. The draft strategy has been prepared in conjunction with advice received from the council's treasury management adviser, Arlingclose Limited, which has provided details of the external economic context and has reviewed the draft strategy for compliance with regulations etc.

### FINANCIAL / BUDGET IMPLICATIONS

22. There are no direct financial or budgetary implications arising from the review of the Treasury Management Strategy and policy. However, the establishment of effective arrangements for the regular monitoring and review of the council's treasury management arrangements and prudential indicators is a key part of the effective budget management of the council.
23. The indicative budget for investment income in 2018-19 is £0.16 million, and this is based on an average investment portfolio of £40.0 million at an interest rate of 0.40 per cent.

24. The indicative budget for debt interest paid in 2018-19 is £8.6 million. The cash flows, on which this strategy is based, include an average debt portfolio of £217.7 million at an average interest rate of 3.94 per cent.
25. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## LEGAL IMPLICATIONS

26. The Local Government Act 2003 and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. The Act and subsequent regulations require the council to have regard to CIPFA's *Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes* (the TM Code) and *The Prudential Code for Capital Finance in Local Authorities* (the Prudential Code).

## EQUALITY AND DIVERSITY

27. 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. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
28. The Treasury Management Strategy is not considered to have any impacts on the protected characteristics.

## RISK MANAGEMENT

29. 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.
30. 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.
31. The council manages these risks by adopting a treasury management strategy which includes a statement of treasury management practice specifically relating to risk, covering the following risk areas:
  - Credit and counterparty risk – who the council is permitted to lend to and borrow from and what instruments it can utilise.

- Liquidity risk – ensuring that sufficient, but not excessive, funds are available when needed.
  - Interest rate risk – minimising the council's exposure to significant fluctuations in interest rates, both investment income and borrowing costs, by continually reviewing the instruments it uses.
  - Exchange rate risk – minimising the council's exposure to foreign exchange risk by restricting the exposure to foreign currency investments and overseas counterparties.
  - Refinancing risk – ensuring that the maturity profile of long term debt is as evenly spread as possible, and planning for the replacement of maturing debt at the most favourable interest rates.
  - Legal and regulatory risk – ensuring compliance with regulations and statutory requirements.
  - Risk of fraud, error and corruption – ensuring that appropriate controls are in place around staffing and processes, and ensuring appropriate business continuity arrangements exist.
  - Market risk – ensuring that the council's treasury management activities are not compromised by adverse economic circumstances.
32. 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

33. That the council be recommended to agree the Treasury Management Strategy Statement for 2018-19.
34. That the Director of Finance and section 151 officer be authorised to make amendments to the council's Treasury Management Practices.

#### APPENDICES ATTACHED

35. [Appendix 1](#) - Treasury Management Strategy Statement 2018-19.

## BACKGROUND PAPERS

36. CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)  
[http://www.tisonline.net/investments/content/Treasury\\_Code\\_2011.pdf](http://www.tisonline.net/investments/content/Treasury_Code_2011.pdf)
37. CIPFA The Prudential Code for Capital Finance in Local Authorities (2011 Edition)  
[http://www.tisonline.net/localauthorityaccounting/content/Prudential\\_Code\\_2011.pdf](http://www.tisonline.net/localauthorityaccounting/content/Prudential_Code_2011.pdf)

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