



PAPER F

Purpose: For Noting

Committee report

Committee	AUDIT COMMITTEE
Date	3 DECEMBER 2018
Title	TREASURY MANAGEMENT HALF YEAR REPORT 2018-19
Report of	PENSION FUND AND TREASURY MANAGEMENT ACCOUNTANT

EXECUTIVE SUMMARY

1. In accordance with the Isle of Wight Council's Treasury Management Strategy 2018-19, this report presents the committee with a half year progress report on treasury management policies, practices and activities for the financial year 2018-19.
2. The committee is asked to note this report.

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 advisor, Arlingclose Limited, sets out a summary of the council's treasury management activities in the half year to 30 September 2018, and its performance against the prudential indicators that were approved as part of the Treasury Management Strategy. It also provides information about the broader economic background, against which the council's activities can be set.
5. Since the end of the reporting period, on 1 November 2018, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the bank rate at 0.75 per cent.

6. Following from this, Arlingclose has indicated that they expect the interest rates to be increased twice during 2019.

STRATEGIC CONTEXT

7. 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 2017-20](#).
8. 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

9. The council's current treasury management arrangements are conducted by council staff, with support from an external treasury management advisor, Arlingclose Limited, within existing budgets.
10. 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 2.5 per cent) and take short-term loans when needed (with interest rates of below one and half per cent). This has generated significant savings as part of the budget strategies over recent years.
11. As a result of not undertaking as much short term borrowing as forecast in the Treasury Management Strategy 2018-19, the council has identified savings of approximately £0.8 million in external interest costs to the end of September. The final level of budget savings will be assessed as part of the 2018-19 budget review.

LEGAL IMPLICATIONS

12. 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 2018-19.
13. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to "have regard" to the code.

EQUALITY AND DIVERSITY

14. 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.

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

RISK MANAGEMENT

16. 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.
17. 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.
18. The council manages these risks by adopting a treasury management strategy which includes maintaining a limited list of organisations to which 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 advisor, Arlingclose Limited. It also operates protocols for maintaining financial controls.
19. 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.
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.

EVALUATION

21. The council's treasury management activities for first half of 2018-19 have fallen within the boundaries of the agreed strategy for 2018-19.

RECOMMENDATION

22. The committee receives this report and notes the performance of the council's treasury management function for the first half of the year ended 30 September 2018.

APPENDICES ATTACHED

23. [Appendix 1: Treasury Management Mid-Year Report 2018-19.](#)

BACKGROUND PAPERS

24. Treasury Management Strategy 2018-19
<https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/19-2-18/PAPER%20G.pdf>
25. CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)
<https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2017-edition-online>

Contact Point: Jo Cooke, Pension Fund and Treasury Management Accountant,
☎ 821000 e-mail [jo.cooke1 @iow.gov.uk](mailto:jo.cooke1@iow.gov.uk)

CHRIS WARD
*Director of Finance and Section
151 Officer*

CLLR ADIAN AXFORD
Chairman of Audit Committee