



PAPER C

Purpose: For Decision

Committee report

Committee	AUDIT COMMITTEE
Date	2 DECEMBER 2019
Title	TREASURY MANAGEMENT HALF YEAR REPORT 2019-20
Report of	PENSION FUND AND TREASURY MANAGEMENT ACCOUNTANT

EXECUTIVE SUMMARY

1. In accordance with the Isle of Wight Council's Treasury Management Strategy 2019-20, this report presents the committee with a half year progress report on treasury management policies, practices and activities for the financial year 2019-20.
2. The committee is asked to note this report and to approve the proposed amendments to the treasury limits as detailed below.
3. Throughout the first half of the year, the council has operated within the limits set out in the Treasury Management Strategy, other than as set out below:
 - (a) Exceeding the operational cash limits on three specific occasions which are detailed in the report. The duration and amounts were approved in advance by either the Director of Finance and S151 Officer or the Assistant Director of Finance.
 - (b) The amounts held in the various money market funds has exceeded the current limit. This is due to the additional cash being held as a result of the increased borrowing that took place in the period. It is proposed that the limit be increased from £35 million to £50 million for the remainder of the year to enable flexibility in investing surplus cash holdings.
 - (c) The operational and authorised limits for the amount of PFI and finance lease debt have been exceeded in the six months to 30 September 2019. This has arisen because the PFI contractor has not achieved its agreed milestones and as such the debt repayments have not been made. As it is anticipated that these balances will not be below the existing limits by

the end of the financial year, it is proposed that the operational limit is increased from £101.2 million to £125 million and the authorised limit is increased from £110 million to £135 million.

BACKGROUND

4. 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 annually to produce 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.
5. 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 2019, and its performance against the prudential indicators that were approved as part of the Treasury Management Strategy and also the Capital Strategy. It also provides information about the broader economic background, against which the council's activities can be set.
6. Since the end of the reporting period, on 7 November 2019, the Bank of England's Monetary Policy Committee voted seven to two to maintain the official bank rate at 0.75 per cent.
7. Following on from this, Arlingclose has indicated that it expects the interest rates to remain the same for the foreseeable future, but this may change, dependant on the Brexit outcomes, as well as the wider global economy.
8. The economic context and outlook for the remainder of 2019-20 sections in the appendix were written before the end of October, since then the Brexit deadline has been deferred and a general election has been called.

STRATEGIC CONTEXT

9. 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 2019-22](#)..
10. 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

11. 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.
12. The Treasury Management Strategy includes the overall management of the council's cash flow and borrowing strategy. With interest rates continuing to be

low, it was decided to take a combination of short-term and long-term borrowing in order to balance the requirement for low interest costs and achieving cost certainty.

13. As a result of not undertaking as much short term borrowing as forecast in the Treasury Management Strategy 2019-20, the council has identified savings of approximately £1 million in external interest costs to the end of September. The final level of budget savings will be assessed as part of the 2019-20 budget review.

LEGAL IMPLICATIONS

14. 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 2019-20.
15. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to "have regard" to the code.
16. 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 its financial affairs. Failure to comply with the code could result in adverse comments being raised by the council's external auditors.

EQUALITY AND DIVERSITY

17. 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.
18. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

RISK MANAGEMENT

19. 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.
20. 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.

21. 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.
22. 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.

OPTIONS

23. 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 2019.
24. The options available are:
 - (a) To agree to the following amendments to the Treasury Management Strategy
 - (i) Increase the limit for the holdings in money market funds from £35 million to £50 million for the remainder of the year to enable flexibility in investing surplus cash holdings.
 - (ii) With respect to the value of the PFI and finance lease debt held that the operational limit be increased from £101.2 million to £125 million and the authorised limit is increased from £110 million to £135 million. This is to reflect the delays in making payments with regard to the PFI contract.
 - (b) Not to agree the amendments

EVALUATION

25. The council's treasury management activities for first half of 2019-20 have fallen within the boundaries of the agreed strategy for 2019-20, apart from the instances of non-compliance detailed in paragraph 2 above.
26. Failing to agree the amendments will mean that the council is outside its limits and technically not in compliance with the Treasury Management Strategy and in breach of the CIPFA code. Whilst we are only required to have regard to the code failure to comply could cause reputational damage to the council.

RECOMMENDATION

27. 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 2019.
28. The committee approves the following amendments to the Treasury Management Strategy for 2019/20:
 - (a) Increase the limit for the holdings in money market funds from £35 million to £50 million for the remainder of the year to enable flexibility in investing surplus cash holdings.
 - (b) With respect to the value of the PFI and finance lease debt held that the operational limit be increased from £101.2 million to £125 million and the authorised limit is increased from £110 million to £135 million. This is to reflect the delays in making payments with regard to the PFI contract.

APPENDICES ATTACHED

29. [Appendix 1: Treasury Management Mid-Year Report 2019-20.](#)

BACKGROUND PAPERS

30. Treasury Management Strategy 2019-20
<https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/18-2-19/PaperF-TreasuryManagementStrategy.pdf>
31. Capital Strategy 2019-20
<https://www.iow.gov.uk/Meetings/committees/mod-council/27-2-19/PaperD-AppendixF-CapitalStrategy2019-20.pdf>
32. 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>

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