



## Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>16 MARCH 2020</b>
Title	<b>TREASURY MANAGEMENT STRATEGY STATEMENT 2020-21</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) 2020-21.
2. The committee is asked to adopt the Treasury Management Strategy Statement for 2020-21.

### BACKGROUND

3. The council has delegated the review of the annual treasury management strategy to the Audit Committee. As such, all references to the council adopting the various requirements of a treasury management strategy in the following paragraphs, are delegated to the audit committee.
4. The Local Government Act 2003 (the act) and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. This is set out in the borrowing strategy (section 4 of the attached TMSS).
5. 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 treasury investments and for giving priority to the security and liquidity of those investments.
6. The act and subsequent regulations require the council to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), and Treasury Management Practices (TMPs).
7. The council's constitution specifies that the Chief Financial Officer, namely the Director of Finance and section 151 officer, has responsibility for treasury management and all banking arrangements. This includes the development and review of the council's treasury management practices (TMPs), which detail the way in which the council delivers the treasury management strategy.
8. 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.
- TMP 13 – Non-treasury investments

9. The TMPs have been reviewed in the preparation of the 2020-21 TMSS and no changes have been made.
10. In accordance with TMP 6, the Audit Committee will receive an annual report on the compliance with the 2019-20 TMSS at its meeting in July 2020, and a half-yearly progress report on the delivery of the 2020-21 TMSS at its December 2020 meeting.

### STRATEGIC CONTEXT

11. This Treasury Management Strategy forms part of the council's overall budget strategy, specifically supporting the first outcome of the latest [Corporate Plan 2019-22](#) - A financially balanced and sustainable council.
12. 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

13. 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

14. 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 is a key part of the effective budget management of the council.
15. The indicative budget for investment income in 2020-21 is £0.16 million, and this is based on an average investment portfolio of £21.6 million at an interest rate of 0.74 per cent.
16. The indicative budget for debt interest paid in 2020-21 is £9.65 million. The cash flows, on which this strategy is based, include an average debt portfolio of £245.3 million at an average interest rate of 3.93 per cent.

17. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## LEGAL IMPLICATIONS

18. 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

19. 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.
20. The Treasury Management Strategy is not considered to have any impacts on the protected characteristics.

## RISK MANAGEMENT

21. 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.
22. 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.
23. 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.

24. 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**

25. That the committee adopt the Treasury Management Strategy Statement for 2020-21.

**APPENDICES ATTACHED**

26. [Appendix 1](#) - Treasury Management Strategy Statement 2020-21.

**BACKGROUND PAPERS**

27. The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectorial 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>

28. Treasury Management Practices

<https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/18-2-19/PaperF-AppendixB-TreasuryManagementPractices.pdf>

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