



Purpose: For Noting

# Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>28 SEPTEMBER 2020</b>
Title	<b>TREASURY MANAGEMENT ANNUAL REPORT 2019-20</b>
Report of	<b>TECHNICAL FINANCE MANAGER</b>

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## EXECUTIVE SUMMARY

1. In accordance with the council's Treasury Management Strategy 2019-20, this report presents the annual report on treasury management policies, practices and activities for the year ended 31 March 2020.
2. In December 2019, 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 result.
  - (b) Due to continuing low interest rates, a prudent investment strategy and reduced surplus funds for investment, the council has attracted returns on its investments that are about on par in comparison to other local authorities who use the same treasury management advisor, Arlingclose Limited.
4. The committee is asked to note this report and highlight any areas which may need to be addressed in the forthcoming year.

## BACKGROUND

5. The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA) 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.

6. 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 during the year to 31 March 2020, and its performance against the prudential indicators that were approved as part of the Treasury Management Strategy.
7. The code of practice defines treasury management as follows:  
*"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."*
8. 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 and that it encompasses:
  - the revenue effect of transactions executed;
  - the risk implications for decisions made;
  - compliance on agreed policies/practices and statutory/regulatory requirements;
  - performance report;
  - compliance with the CIPFA code recommendations;
  - monitoring of treasury management indicators.
9. Detailed information on the council's performance in respect of these items is set out in Appendix A to this report.

## STRATEGIC CONTEXT

10. 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](#).
11. 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.

## DEBT RESTRUCTURING

12. The council keeps under review its outstanding debt maturity profile, and periodically considers whether it may be advantageous to repay some of its outstanding Public Works Loan Board (PWLB) or LOBO (lender option, borrower option) loans to obtain interest rate savings.
13. During 2019-20, the council engaged its treasury management advisers, Arlingclose Limited, to review whether the LOBO loan could be refinanced to generate additional savings. It was determined that the refinancing of this loan would not be undertaken – initially this was because the lender would not consider a refinancing deal, as it was

not attractive to them; when the deal became attractive for the lender, it was not financially beneficial to the council.

14. Similarly, the council looked at whether savings could be generated from repaying those PWLB loans with higher interest rates, and reborrowing the principle at lower rates. Given the additional premium payable on early settlement of PWLB loans, it is considered best value to retain the existing debt profile.

## CONSULTATION

15. The annual treasury management report has been considered by senior accountants within the Financial Management team, including the Director of Finance and the Assistant Director of Finance.
16. No external consultation has been undertaken.

## FINANCIAL / BUDGET IMPLICATIONS

17. 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.
18. 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.
19. At the December 2019 meeting, the committee received a report which forecast net annual savings from treasury management activities in 2019-20 of £1 million.
20. The total net savings on treasury management activity was £1.5 million for the year ended 31 March 2020, contributed towards the overall financial result of the council.
21. The council earned interest of 0.85 per cent on average investments of £23.4 million. This is on par with the other local authorities measured by Arlingclose Limited.

## LEGAL IMPLICATIONS

22. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 explicitly require English authorities to "have regard" to the CIPFA Code of Practice for Treasury Management.
23. Should the council not receive this report, it is in breach of the requirements set out in the code and the council's approved Treasury Management Strategy 2019-20.

## EQUALITY AND DIVERSITY

24. 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.

25. The annual treasury management report has no implications for any of the protected characteristics.

## RISK MANAGEMENT

26. 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.
27. 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.
28. 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.
29. 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.
30. 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

31. The council's treasury management activities for the year ended 31 March 2020 have fallen within the boundaries of the agreed strategy for 2019-20.

### RECOMMENDATION

32. That the committee notes the performance for the year ended 31 March 2020 against the treasury management indicators.

## APPENDICES ATTACHED

33. Appendix A – Treasury Management Performance Report 2019/20.

## BACKGROUND PAPERS

34. Treasury Management Strategy 2019-20 (Audit Committee 18 February 2019, Paper F)  
<https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/18-2-19/PaperF-TreasuryManagementStrategy.pdf>
35. Treasury Management Half-yearly progress report (Audit committee, 2 December 2019, Paper C)  
<https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/2-12-19/PaperC-TreasuryManagementHalfYearReport2019-20.pdf>

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