



Committee report

Committee	AUDIT COMMITTEE
Date	20 MARCH 2023
Title	TREASURY MANAGEMENT STRATEGY 2023/24
Report of	DIRECTOR OF FINANCE AND SECTION 151 OFFICER

EXECUTIVE SUMMARY

1. This report presents the Treasury Management Strategy (TMS) 2023/24.
2. The committee is asked to adopt the Treasury Management Strategy for 2023/24.

RECOMMENDATION

3. That the committee adopt the Treasury Management Strategy for 2023/24.

BACKGROUND

4. 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 (TMS) in the following paragraphs, are delegated to the audit committee.
5. 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 TMS).
6. The council must also approve an annual investment strategy in compliance with government guidance on local government investments. Section 5 of the attached TMS sets out the council's policy for managing its treasury investments and for giving priority to the security and liquidity of those investments.
7. 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).

8. 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.
9. 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
10. It is proposed to undertake a full review of the TMP's during 2023/24. No changes have been made prior to this report being published.
11. In accordance with TMP 6, the Audit Committee will receive an annual report on the compliance with the 2022/23 TMS at its meeting in July 2023, and regular progress reports regarding the 2023/24 TMS at the September 2023, December 2023 and March 2024 meetings.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

12. The strategy specifically supports the council's capital programme and the [Corporate Plan 2021 – 2025](#) ensuring the key priorities of the council are deliverable within the reduced resources available to the council.

Responding to climate change and enhancing the biosphere

13. Through its treasury management activity, the council invests in a combination of money market funds, call accounts maintained by banks and in other local authorities. The council needs to review these investments in relation to their impact on the council's Climate and Environment Strategy.
14. As a result, each of the financial institutions that the council invests in has provided their Environmental, Social and Governance statements, together with any specific statements relating to climate change.
15. The council will include all [scope 1 and 3 emissions](#) created directly by itself or indirectly (for example emissions made by our contractors, investments or travel) in our annual carbon footprint.

16. Investments count towards downstream scope 3 emissions which contribute towards the Council's overall carbon footprint.

Economic Recovery and Reducing Poverty

17. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards reducing the numbers of residents, and especially children, who are living in poverty.

Impact on Young People and Future Generations

18. Although there is no direct impact within the report at Appendix 1 relating to this corporate priority, the Treasury Management Strategy and the prudential indicators that are set, enable the council to contribute towards the future sustainability of the council.

CONSULTATION

19. 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.
20. No external consultation has been undertaken.

FINANCIAL / BUDGET IMPLICATIONS

21. The financial and budgetary implications arising from the recommendations to adopt the Treasury Management Strategy and policy are reflected within the approved Revenue Budget 2023/24.
22. 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. During 2023/24, the average investment portfolio is forecast to be £5 million and the average debt portfolio is forecast to be £205 million.
23. If actual levels of investments and borrowing, as well as actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

LEGAL IMPLICATIONS

24. 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

25. 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.
26. The Treasury Management Strategy is not considered to have any impacts on the protected characteristics.

RISK MANAGEMENT

27. 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.
28. 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.
29. 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.

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.

APPENDICES ATTACHED

31. Appendix 1 - Treasury Management Strategy 2023/24

32. Appendix 2 – Differences between 2022/23 and 2023/24 strategies

BACKGROUND PAPERS

33. Treasury Management Practices

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

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