



Purpose: For Noting

Committee report

Committee	AUDIT COMMITTEE
Date	23 NOVEMBER 2020
Title	TREASURY MANAGEMENT HALF YEAR REPORT 2020-21
Report of	TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. In accordance with the Isle of Wight Council's Treasury Management Strategy 2020-21, this report presents the committee with a half year progress report on treasury management policies, practices and activities for the financial year 2020-21.
2. The council's activities have fallen within the boundaries of the prudential indicators set for the current 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 first half of the year and is forecasting to contribute 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.
3. The committee is asked to note this report.

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 2020, 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. On 17 September 2020, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to maintain the official bank rate at 0.10 per cent. At their meeting on 4 November 2020, the MPC voted unanimously to maintain the official Bank Rate at 0.1 percent and also voted unanimously to increase the asset purchase programme by £150 billion to £875 billion and to maintain the corporate bond purchase programme at £20billion.
7. Arlingclose has indicated that it expects the interest rates to remain the same for the foreseeable future, but this may change, depending on the continuing effect of the Covid-19 pandemic, the effect of the Brexit negotiations and the wider global economy.
8. The economic context and outlook for the remainder of 2020-21 sections in the appendix were written before the end of October, since then a further month-long lock down has been implemented which will influence the future economy.
9. The Brexit negotiations are still ongoing, and the government is still working towards the exit deadline of 31 December 2020.

STRATEGIC CONTEXT

10. The 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.
11. 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.

FINANCIAL / BUDGET IMPLICATIONS

12. 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.
13. 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.
14. As a result of not undertaking as much short term borrowing as forecast in the Treasury Management Strategy 2020-21, 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 2020-21 budget review.

LEGAL IMPLICATIONS

15. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require authorities to “have regard” to the CIPFA Code of Practice for Treasury Management when determining and keeping under review the strategy as to how much money they can borrow.
16. 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 2020-21.

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. The treasury management strategy is not considered to have any impacts on the protected characteristics.

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 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.
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.

EVALUATION

23. The council's treasury management activities for the period ended 30 September 2020 have fallen within the boundaries of the agreed strategy for 2020-21.

RECOMMENDATION

24. That the committee notes the performance for the period ended 30 September 2020 against the treasury management indicators.

APPENDICES ATTACHED

25. Appendix A – Treasury Management Performance Report 2020-21

BACKGROUND PAPERS

26. Treasury Management Strategy 2020-21 (Audit Committee 16 March 2020, Paper H) <https://www.iow.gov.uk/Meetings/committees/Audit%20Committee/16-3-20/PAPER-H.pdf>

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