



Purpose: For Noting

Committee report

Committee	AUDIT COMMITTEE
Date	26 JULY 2021
Title	TREASURY MANAGEMENT ANNUAL REPORT 2020-21
Report of	TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. In accordance with the council's Treasury Management Strategy 2020-21, this report presents the annual report on treasury management policies, practices and activities for the year ended 31 March 2021.
2. In November 2020, 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 apart from the two indicators detailed below:
 - (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 first of the boundaries that was exceeded was the maximum invested in any individual organisation. In November 2020, due to the level of Covid-19 grant income received, the limits on the maximum amount which could be placed in an individual money market fund were breached on two funds by £2.5 million each. This breach was identified in advance and agreement was obtained from the Director of Finance and Section 151 Officer. It was decided that as the money market funds had a higher credit rating than the council's main bank, Lloyds, then we would transfer the excess funds into two separate money market funds, thus diversifying any additional risk. The limit was exceeded on one occasion for three days.

5. The second boundary that was breached was the overall total of the amount collectively held in all money market funds. The amount invested was greater than the approved limits due to the level of grants received from the government in response to the Covid-19 pandemic. The limits were exceeded on three separate occasions during the year, for a total of 21 days.
6. The committee is asked to note this report, including these two breaches, and highlight any areas which may need to be addressed in the forthcoming year.

BACKGROUND

7. 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 councillors are informed of treasury management activities at least twice a year.
8. 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 2021, and its performance against the prudential indicators that were approved as part of the Treasury Management Strategy.
9. 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."
10. 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.
11. Detailed information on the council's performance in respect of these items is set out in Appendix 1 to this report.

STRATEGIC CONTEXT

12. 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](#).
13. 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.

CONSULTATION

14. 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.
15. No external consultation has been undertaken.

FINANCIAL / BUDGET IMPLICATIONS

16. 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.
17. 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.
18. At the November 2020 meeting, the committee received a report which forecast net annual savings from treasury management activities in 2020-21 of £1 million.
19. The total net savings on treasury management activity was £1.0 million for the year ended 31 March 2021, contributed towards the overall financial result of the council.
20. The council earned interest of 0.27 per cent on average investments of £59.0 million. This is on par with the average of other local authorities measured by Arlingclose Limited during 2020-21.

LEGAL IMPLICATIONS

21. 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.
22. 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

23. 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.

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

RISK MANAGEMENT

25. 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 (counterparty risk). The costs to the council of its treasury management activities are dependent on fluctuating interest rates.
26. 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 (refinancing risk).
27. The council manages the counterparty risk 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.
28. The refinancing risk is mitigated by maintaining a combination of both short-term and long-term borrowing, which is regularly reviewed, based on interest rate projections provided by Arlingclose Limited.
29. It also operates protocols for maintaining financial controls. The treasury management function is reviewed by the council's internal auditors on a regular basis. The most recent review, a follow-up of 2019-20 exceptions which was completed in 2020-21, provided the highest level of assurance on the operation of these controls.
30. 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.
31. 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

32. The council's treasury management activities for the year ended 31 March 2021 have fallen within the boundaries of the agreed strategy for 2020-21.

RECOMMENDATION

33. That the committee notes the performance for the year ended 31 March 2021 against the treasury management indicators.

APPENDICES ATTACHED

34. Appendix 1 – Treasury Management Performance Report 2020/21.

BACKGROUND PAPERS

35. 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>
36. Treasury Management Half-yearly progress report (Audit committee, 23 November 2020, Item 9)
<https://iow.moderngov.co.uk/documents/s1574/201111%20TM%20Half%20year%20report%20cover%20for%20publication.pdf>

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