



Purpose: For Noting

Committee report

Committee	AUDIT COMMITTEE
Date	6 DECEMBER 2021
Title	TREASURY MANAGEMENT HALF YEAR REPORT 2021-22
Report of	PENSION FUND AND TREASURY MANAGEMENT ACCOUNTANT

EXECUTIVE SUMMARY

1. In accordance with the Isle of Wight Council's Treasury Management Strategy 2021-22, this report presents the committee with a half year progress report on treasury management policies, practices and activities for the financial year 2021-22.
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. Throughout the first half of the year, the council has operated within the limits set out in the Treasury Management Strategy, other than exceeding the counterparty limit on the operational bank account, as detailed in the report. The limit was breached twice during the first half of the year, and on each time the amount and the duration was approved in advance by either the Technical Finance Manager, or the Director of Finance and S151 Officer.
4. The committee is asked to note this report.

BACKGROUND

5. 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.
6. This report is based on an example report provided by the council's treasury management advisor, Arlingclose Limited. It sets out a summary of the council's treasury management activities in the half year to 30 September 2021, and its performance against the prudential indicators that were approved as part of both the Treasury Management and Capital Strategies. It also provides information about the broader economic background, against which the council's activities can be set.
 7. On 2 November 2021, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 7-2 to maintain the official bank rate at 0.10 per cent. At the same meeting a 6-3 majority voted to maintain the asset purchase programme at £895 billion, but they voted unanimously to maintain the corporate bond purchase programme at £20 billion.
 8. Arlingclose has indicated that although the markets expect the rates to rise by 0.15 per cent as early as December 2021, they foresee lower rate increases. The Bank of England has indicated that they will increase rates in the "coming months", to offset the effects of the economy's growth following the Covid pandemic.
 9. The economic context and outlook for the remainder of 2021-22 sections in the appendix were written at the beginning of October 2021, since then inflation has increased.
- ### STRATEGIC CONTEXT
10. The treasury management strategy forms part of the council's overall budget strategy, specifically supporting the third core value of the latest [Corporate Plan 2021-25: Being effective and efficient](#) - This means being the best that we can be in how we organise and deliver our services, using all our limited resources wisely and carefully, getting on with things where we can.
 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.
 12. Although not explicitly mentioned, the treasury management strategy also applies to the treasury dealings of the pension fund. As part of the current review of the pension fund investment strategy, it is intended that during the second half of the current financial year £25 million (approximately 2.5 percent of the fund's net assets) substantial amount of cash will be disinvested from the investment portfolios and held in treasury investments for operational reasons. The treasury management strategy for 2022-23 will include specific reference to the pension fund.

FINANCIAL / BUDGET IMPLICATIONS

13. 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.
14. The Treasury Management Strategy includes the overall management of the council's cash flow and borrowing strategy. Due to the continuing low interest rates,

it was decided not to replace short-term borrowings as they mature, but to use the cash reserves.

15. As a result of not undertaking as much short-term borrowing as forecast in the Treasury Management Strategy 2021-22, the council has identified savings of approximately £1.4 million in external interest costs to the end of September. The final level of budget savings will be assessed as part of the 2021-22 budget review.

LEGAL IMPLICATIONS

16. 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.
17. 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 2021-22.

EQUALITY AND DIVERSITY

18. 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.
19. The treasury management strategy is not considered to have any impacts on the protected characteristics.

RISK MANAGEMENT

20. 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.
21. 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.
22. 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.
23. 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

24. The council's treasury management activities for the first half of 2021-22 have fallen within the boundaries of the agreed strategy for 2021-22, apart from the instances of non-compliance detailed in paragraph 3 above.

RECOMMENDATION

25. That the performance for the period ended 30 September 2021 against the treasury management indicators is noted by the committee.

APPENDICES ATTACHED

26. Appendix 1 – Treasury Management Performance Report 2021-22

BACKGROUND PAPERS

27. Treasury Management Strategy 2021-22 (Audit Committee 15 March 2021, Agenda Item 5 pages 109-136)
<https://iow.moderngov.co.uk/documents/q190/Public%20reports%20pack%2015th-Mar-2021%2010.00%20Audit%20Committee.pdf?T=10>

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