

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

22 June 2009

Report of the Director of Finance

Part 1- Public

Delegated

1 TREASURY MANAGEMENT – STRENGTHENING OF CORPORATE GOVERNANCE IN RESPONSE TO THE BANKING CRISIS

This report identifies measures that are designed to strengthen the robustness and adequacy of the treasury management process and seeks member endorsement of them.

1.1 Introduction

- 1.1.1 My report to the Finance and Property Advisory Board on 20 May 2009 sought to update members on the latest position in respect of our investment with Landsbanki and to identify how we should respond to the various recommendations made by the Audit Commission, Local Government Association, Treasury Select committee and CIPFA in connection with strengthening treasury management governance.
- 1.1.2 Members of that Board endorsed the report and in particular the intention to invite this Committee to review routine treasury management activities and the Annual Treasury Management Strategy Statement and Investment Strategy.
- 1.1.3 The purpose of this report is to invite members of this Committee to consider the content, style and frequency of information reported to you and to determine what training needs, if any, might help members to fulfil this role.

1.2 Landsbanki – Current Position

- 1.2.1 In accordance with advice from CIPFA part of the investment of £1m has been impaired. Based on the assumption that local authority deposits are attributed “priority” status the impairment assumes a recoverable amount of 95% and that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012. The Local Government Association is co-ordinating the efforts of all UK authorities with Icelandic investments. At the current time it is not possible to say with certainty that we will recover all of our investment or when reimbursement will be made.

1.3 Adequacy and Robustness of Treasury Management Activities and Reporting

- 1.3.1 The Annual Treasury Management Strategy Statement and Investment Strategy is crucial to the day to day operation of treasury management activities within the authority. This is approved by Council via Cabinet in February of each year and sets out in detail the parameters within which treasury management activities will be undertaken for the forthcoming year. I believe that this Committee has a role to play in assessing the effectiveness of that Strategy and the Treasury Management Practices that underpin it and, therefore, propose to bring it before you as part of the 2010/11 budget setting process. However, to do so it will be necessary to bring forward the February meeting date to late January. Provisionally, I have therefore, blocked out Tuesday 26 January 2010 in the Council's diary.
- 1.3.2 Day to day treasury activities are currently reported via my Financial Planning and Control reports to the Finance and Property Advisory Board, the relevant extract from the meeting on 20 May 2009 is attached at **[ANNEX 1]**. Members are invited to consider whether the style and content of that report are appropriate as the basis of future reports to this Committee, together with the lending lists and a statement of investments held as shown at **[ANNEXES 2, 3 and 4]**.

1.4 Developing a Greater Understanding of Treasury Management

- 1.4.1 The Credit Worthiness seminar mentioned in my report to the Finance and Property Advisory Board took place on 28 May and was attended by members, including the Chairman of this Committee, and those officers engaged on routine treasury management activities. It is my intention to offer members the opportunity to attend future seminars. Feedback on the extent of any training needs for members of this Committee would therefore be most welcome.
- 1.4.2 My officers will continue to attend seminars and training organised by various bodies, but most notably by our treasury advisers, Sector. Members might like to note that two of them will in fact be attending a Treasury Practitioners Workshop on 3 July 2009 to explore how the risk of counter party failure for cash flow investments might be reduced by moving away from wholly fixed term investments.

1.5 Legal Implications

- 1.5.1 The contract with Landsbanki remains in default. The Council is registered as a creditor and is taking action via the Creditors Committee sponsored by the LGA, by the representatives of that Committee who have been appointed to serve on the Icelandic Creditors Committee and by externally appointed legal advisers.

1.6 Financial and Value for Money Considerations

- 1.6.1 The degree to which the deposit of £1m with the Icelandic Bank, Landsbanki will be repaid and when will not be known before November 2009. There are no significant cash flow issues arising from the default.
- 1.6.2 Costs incurred by the Creditors Committee representatives and the external legal advisers are to be apportioned pro rata to exposure to Icelandic banks, they should not prove to be significant and can be accommodated within existing budgets.

1.7 Risk Assessment

- 1.7.1 This report identifies how processes can be strengthened to further protect the Council's interests and invites members to consider what other actions might be appropriate.

1.8 Recommendations

- 1.8.1 Members are **RECOMMENDED** to endorse:

- 1) The measures taken in response to the banking crisis.
- 2) The proposals for the reporting of treasury management activities to this Committee, as outlined at paragraphs 1.3.1 and 1.3.2 above.

Background papers:

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Nil

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