

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

13 April 2010

Report of the Director of Finance

Part 1- Public

Delegated

1 TREASURY MANAGEMENT MONITORING REPORT

This report provides an update in respect of treasury management activities and invites Members to comment upon and to endorse the action taken.

1.1 Introduction

- 1.1.1 I last reported to this Committee on treasury activities on 13 October 2009 and can confirm that since such activities have continued to be undertaken in accordance with the Treasury Policy Statement, the Strategy for 2009/10, the revised Treasury Management Code of Practice 2009 and Cross Sectoral Guidance Notes and the Guidance Notes for Local Authorities including Police Authorities and Fire Authorities. An update on treasury management activities is provided in the body of this report and in the relevant annexes.
- 1.1.2 Members will recall considering a subsequent report at the meeting held on 26 January 2010. However, that report was concerned with the adoption by Cabinet and Council of a revised Treasury Policy Statement, and also the Treasury Management Strategy Statement and Investment Strategy for 2010/11.

1.2 All Investments

- 1.3** Members are invited to consider and comment upon the information set out below and at [**Annexes 1, 2 and 3**] in respect of investments held at 29 March 2010, the lending lists of the same date and the February report provided by Sector in respect of our internally managed investments.

1.4 Externally Managed Funds

- 1.4.1 The Council's Fund Manager achieved a return of 1.35% for the year to February 2010, compared to a 7-day Libid benchmark of 0.45%. However, the expected return for the year has been down graded to nearer 1.2% principally because of the continuation of a low interest environment.
- 1.4.2 Investment income achieved for the year to February 2010 was £222,450.

- 1.4.3 At the end of February 2010 the value of the fund stood at £20.66m. However this balance fell to just over £16.5m during March when longer term cash flow surpluses passed to Investec to reduce counter party risk were recalled.

1.5 Internally Managed Funds

- 1.5.1 Both core and cash flow funds are currently managed internally, although in respect of the former this is not set to continue as it is our intention, as set out in the Treasury Management and Investment Strategy that on maturity core funds are passed to our external fund manager. The outcomes for each of these areas are shown separately below.

Core Funds

- 1.5.2 Internal management achieved a return of 6.2% for the year to February 2010, compared to a 7-day Libid benchmark of 0.45%. Investment income achieved for that period amounted to £539,200.
- 1.5.3 At the 29 March 2010 the value of the core fund managed internally stood at £5m. This was invested at an averaged rate of 6.2% and an averaged maturity of 1.31 years.

Cash flow funds

- 1.5.4 The Council achieved a net return of 0.70% on its internal cash flow investments made for the year to February 2010, compared to a 7-day Libid benchmark of 0.45%. Investment income achieved for that period was £39,700.
- 1.5.5 In cash terms, the value of internally managed investments at the 29 March 2010 was £4.93m, inclusive of the defaulted investment of £1m with Landsbanki. The balance net of Landsbanki was invested at an averaged rate of 0.8% and an averaged maturity of 0.03 years.

1.6 Legal Implications

- 1.6.1 The LGA, our legal advisors and our representatives on the Creditors Committee are working hard to protect our interests and remain optimistic that we will be accorded "secured creditor" and, if so, expect to obtain a substantial settlement in respect of our defaulted investment of £1m with Landsbanki.
- 1.6.2 It should be noted that the claim for "secured creditor" status is being challenged by unsecured creditors and that any decision is unlikely to be finalised for many months.

1.7 Financial and Value for Money Considerations

- 1.7.1 The return achieved on our external managed funds is monitored against all of the players in the public sector cash management market place using data provided by Sector Treasury Services. The performance for internally managed core funds

is monitored similarly, whilst that for cash flow is monitored against market rates, a passive investment stance and the rate achieved on the short term Sector model portfolio.

- 1.7.2 Whilst Investec remain the leading fund manager when measured against their peers by Sector, their returns and those on cash flow surpluses are lower than was expected because of the slowness of economic recovery in the UK and the consequent continuation of abnormally low interest rates. As a result investment income will be below the revised estimate for the year.
- 1.7.3 In respect of our “defaulted” £1m investment with Landsbanki it remains unclear how much and when any settlement might be made.

1.8 Risk Assessment

- 1.8.1 The adoption and implementation of the revised Treasury Management Code of Practice 2009 and Cross Sectoral Guidance Notes and the Guidance Notes for Local Authorities including Police Authorities and Fire Authorities, the consequent revision of the Treasury Management Policy Statement and the adoption of the Treasury Management Strategy Statement and Annual Investment Strategy for 2010/11 are considered to have ensured that risks arising from the treasury management function are minimised.

1.9 Recommendations

- 1.9.1 This Committee is invited to comment upon and to endorse the contents of the report.

Background papers:

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Nil

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Director of Finance