

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

12 October 2010

Report of the Director of Finance

Part 1- Public

Delegated

1 SCRUTINY OF TREASURY MANAGEMENT ACTIVITY

Members are invited to scrutinise and endorse the Treasury Management activity for the current year.

1.1 Introduction

1.1.1 Because of the timing of meetings it is not always possible to give members of this Committee an opportunity to scrutinise treasury management activities before they are considered by Cabinet or the Finance and Property Advisory Board. However, I am conscious of the key scrutiny role played by this Committee in respect of treasury management activity and would ask Members to scrutinise and endorse the Treasury Management Update, previously considered by Finance and Property Advisory Board in September 2010.

1.2 Treasury Management Update

1.2.1 The position after the first five months of the 2010 financial year was reported to the Finance and Property Advisory Board on 29 September. A copy of that report can be found at **[Annex 1]**. At the end of August out-performance against benchmark and interest earned was as follows:

	Gross annualised return 1/4/10 to 31/8/10	Libid 7 day benchmark	Level of out-performance	Interest Earned £
In-house cash flow – excl of Landsbanki	0.86%	0.50%	0.36%	39,750
In-house managed core funds	6.58%	0.50%	6.08%	118,600
Externally managed core funds	0.92%	0.50%	0.42%	66,900
Total	1.36%	0.50%	0.86%	225,250

- 1.2.2 Details of investments held on 24 September and a copy of our internal lending list of the same date are appended at **[Annex 2]** and **[Annex 3]**. Members will note by reference to **[Annex 2]** that the value of investments held on 24 September was £34.9m and that £15.8m of that figure was managed internally.
- 1.2.3 The Annual Investment Strategy approved by Council on 18 February specifies various parameters that must be adhered to when selecting an investment. Those parameters limit the Council's risk exposure and include, amongst other criteria, minimum counter party credit ratings, acceptable investment instruments, counter party limits and investment duration. Regardless of whether an investment is placed by in-house or external managers suitable checks should be undertaken by those placing the investment to ensure the various parameters are complied with.
- 1.2.4 Members will note from **[paragraph 1.4.11 of Annex 1]** that the 5 year maximum duration to maturity was breached when the external fund manager purchased a modest holding in 10 year gilts during late June, July and August. The computer system error that allowed the purchase to be attributed to the T&MBC element of the fund has now been corrected and the gilt holding returned a profit when it was disposed of in late August. Our own internal procedures have been strengthened to ensure more timely identification of a breach were one to occur in future. Full compliance checks are now undertaken by the in-house team on all investments made by the external fund manager on a weekly basis.

1.3 Legal Implications

- 1.3.1 In respect of the Landsbanki investment, the position remains as outlined at **[Section 1.6.1 of Annex 1]**.

1.4 Financial and Value for Money Considerations

- 1.4.1 Although each of the investment categories out-performed the Libid benchmark, the £225,250 of investment income earned during the first five months of this year fell short of the estimate by just over £56,000.
- 1.4.2 This shortfall is likely to grow for the reasons set out at **[Section 1.7.1 of Annex 1]** and it is likely that a variation to the budget for investment income will need to be brought forward to Members for consideration at the revised estimate stage.

1.5 Risk Assessment

- 1.5.1 The application of best practice, in the form of regular reporting and scrutiny of treasury management activities, as identified by the CIPFA Code is considered to be the most effective way of mitigating the risks associated with treasury management.

1.6 Recommendations

1.6.1 Members are **RECOMMENDED** to scrutinise and endorse:

- 1) the action taken by officers in respect of treasury management activity undertaken in April to September 2010;
- 2) note the temporary breach in duration limit following the purchase of 10 year gilts by the external fund manager.

Background papers:

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Nil

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