

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

10 October 2012

Report of the Director of Finance

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT MID-YEAR REVIEW 2012-13

A report detailing treasury management activity undertaken during the period April to August of the current financial year is to be considered by the Audit Committee on 9 October. The report also examines the risk parameters contained within the 2012-13 Treasury Management Strategy Statement and Annual Investment Strategy (TMSS & AIS). Cabinet are invited to recommend Council endorse the action taken by Officers thus far in the current financial year and to endorse two changes that define the Council's risk appetite.

1.1 Introduction

- 1.1.1 Council adopted the 2009 CIPFA Code of Practice for Treasury Management on 18 February 2010. That Code, and subsequent updates, requires as a minimum that full Council approves an annual strategy prior to the start of the financial year, a mid-year review of that strategy (this report) and an outturn report.
- 1.1.2 Additional reports updating Members on current activity are presented to the Audit Committee and performance is also reported on a regular basis to the Finance and Property Advisory Board. The combination of Member reporting and detailed scrutiny of activity ensures this Council complies with Best Practice.
- 1.1.3 The treasury management report presented to the Audit Committee 9 October 2012 is replicated in full at **[Appendix 1]**.

1.2 2012-13 Treasury Management Performance

- 1.2.1 A gross annualised return of 1.26% was generated on investments (excluding Landsbanki) for the period April to August. This bettered the 7 day LIBID benchmark by 75 basis points. In cash terms, investment income of £153,300 exceeded budget provision by some £30,000.

- 1.2.2 The Bank Rate has remained at the emergency level of 0.5% for some three years and is expected to continue at this level for a further two years. Despite this stability, interest rates being offered by banks and other financial institutions have fallen since the start of the financial year. As a consequence, enhanced returns for the remainder of this year are considered unlikely. However, it is hoped that our revised estimates will incorporate the gains made thus far.
- 1.2.3 All investments undertaken in 2012-13 complied in full with the requirements of the 2012-13 TMSS & AIS including prudential and treasury limits.

1.3 Review of Risk Parameters

- 1.3.1 The 2012-13 TMSS & AIS requires that investment is only undertaken with banks and other financial institutions that are regulated by a "AAA" credit rated sovereign including investment with UK institutions. The USA, UK and a number of key European "AAA" rated sovereigns are currently assessed as having a "negative outlook" by one or more of the three main credit rating agencies (Fitch, Moody's and Standard & Poor's). In the event that these outlooks translate into an actual downgrade the ability to diversify investment across a broad range of highly rated counterparties will be diminished. The timing of any rating action is not thought to be imminent but as a precaution the Treasury Management Team propose that investment in the UK be exempt from the "AAA" sovereign requirement. The broader implications for our external fund manager's lending list will be considered when the risk parameters for our 2013-14 TMSS & AIS are determined.
- 1.3.2 In response to Euro zone concerns and recognising the interconnected relationship between banks our external treasury advisors have for some time been recommending a 3 month duration limit on investments. That duration limit applies to all banks other than the UK nationalised and semi-nationalised banks. The current recommended duration limit for the UK state supported institutions is 12 months. In recognition of that state support the Treasury Management Team propose reverting back to the pre 2012-13 TMSS & AIS exposure limit of 25% for the UK nationalised and semi-nationalised banks. The exposure limit for all other banks will remain, as present, at 20%. This approach is increasingly being adopted by other local authorities to ease pressure on their lending lists.

1.4 Legal Implications

- 1.4.1 In respect of the "defaulted" £1m investment with Landsbanki, agreement to the Council's settlement was approved by the Icelandic District Court in May and payment of our first distribution of funds (£429,000) received 8 June. Subject to exchange rates, we anticipate that we will recover all of the £1m we had on deposit together with interest that was due had the deposit been repaid on time.

1.5 Financial and Value for Money Considerations

- 1.5.1 As outlined above.

1.6 Risk Assessment

1.6.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity as identified by the CIPFA Code, is considered to be the most effective way of mitigating the risks associated with treasury management.

1.7 Equality Impact Assessment

1.7.1 See 'Screening for equality impacts' table at end of report.

1.8 Recommendations

1.8.1 Subject to any comments from the Audit Committee, Cabinet is invited to **RECOMMEND** that Council:

- 1) endorse the action taken by officers in respect of treasury management activity for the period April to August;
- 2) exempt investment in the UK from the current "AAA" sovereign requirement; and
- 3) increase the counterparty / group exposure limit from the current 20% to 25% for the UK nationalised and semi-nationalised banks.

Background papers:

contact: Michael Withey

Nil

Sharon Shelton
Director of Finance

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	N/A
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	N/A
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.