

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

09 October 2013

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT MID-YEAR REVIEW 2013/14

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 7 October. The report also reminds Members of the parameters that define the Council's risk appetite and of the arrangements for managing the Council's investments. Cabinet are invited to recommend that Council endorse the action taken by officers in respect of treasury management activity to date and to retain the current risk parameters and management arrangements.

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, Innovation 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 on 7 October 2013 is replicated in full at **[Appendix 1]**.

1.2 2013/14 Treasury Management Performance

- 1.2.1 A gross annualised return of 0.60% was generated on investments (excluding Landsbanki) for the period April to August. Whilst this bettered the 7 day LIBID benchmark by 19 basis points, in cash terms, investment income of £66,100 was £32,000 below our profiled budget for the same period.

- 1.2.2 The Bank Rate has remained at the emergency level of 0.5% for some four years and is expected to continue at this level for a further three years. Despite this stability, interest rates being offered by banks and other financial institutions have fallen following the introduction in summer 2012 of the 'Funding for Lending' scheme by the Bank of England. The scheme is expected to remain in place until January 2015 and as consequence no improvement in interest rate offerings is anticipated for the remainder of this financial year. Given current performance, a shortfall against budget for the year as a whole of £60,000 - £70,000 is considered likely.
- 1.2.3 All investments undertaken in 2013/14 complied in full with the requirements of the 2013/14 Treasury Management Strategy Statement and Annual Investment Strategy (2013/14 Investment Strategies) including prudential and treasury limits.

1.3 Risk Parameters and Management Arrangements

- 1.3.1 The 2013/14 Investment Strategies were approved by full Council in February 2013. The strategies limit the Council's exposure to investment risks via the specification of minimum sovereign and counterparty credit ratings and associated exposure limits. The strategies also impose restrictions on the duration of an investment and the type of investment instrument that can be used. In conducting a mid-year review of those strategies no change to the Council's current risk appetite is proposed.
- 1.3.2 Responsibility for the Council's investment is split between in-house management of cash flow surpluses (funds received and spent during the course of a financial year) and the external management of the Council's core cash (revenue and capital reserves used to support expenditure over a number of years). Our core cash balance is currently £15.4m but some £3m is expected to be used this financial year to support the Council's revenue budget and capital expenditure plans. A similar drawdown can be anticipated in subsequent years as the Council works towards achieving a balanced budget. Members are invited to retain the current management arrangement for the remainder of this financial year. Alternative arrangements will be presented to the January meeting of Audit Committee for the 2014/15 financial year.

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 2012. To date the Council has received £542,700 in partial payments from the Landsbanki Winding-up Board. A separate report in Part 2 of the Audit Committee Agenda for 7 October provides further detail on current recovery action.

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 2013; and
- 2) Retain the parameters intended to limit the Council's exposure to investment risks and retain the management arrangements as set out in the 2013/14 Investment Strategies.

Background papers:

contact: Michael Withey

Nil

Sharon Shelton

Director of Finance and Transformation

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.