

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

02 February 2010

Report of the Director of Finance

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2010/11

To seek Member approval of the adoption of the revised CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes 2009, the revised Treasury Management Guidance Notes for Local Authorities 2009 and the Treasury Management Strategy Statement and Annual Investment Strategy for 2010/11 as required by the Local Government Act 2003.

1.1 Introduction

- 1.1.1 In response to the difficulties caused by the banking crisis CIPFA undertook a review of the Treasury Management Code of Practice (the Code) and Cross-Sectoral Guidance Notes and the Treasury Management Guidance Notes for Local Authorities including Police Authorities and Fire Authorities after inviting feedback from a wide range of organisations, including Government, the Local Government Association, the Audit Commission and public service organisations. The outcome of that review was the issue, in December 2009, of a revised Code and revised Guidance Notes along with a requirement for local authorities to formally adopt them.
- 1.1.2 Consideration of the revised Code and Guidance coincides with the formulation of our Treasury Management Strategy Statement and Investment Strategy for 2010/11. It seemed appropriate, therefore, to allow members to consider the policy and strategic issues at the same time via this report and the Treasury Management Strategy Statement and Annual Investment Strategy for 2010/11 which is set out at **[ANNEX 1]**.
- 1.1.3 Members may recall that one of our responses to the banking crisis was to add the review of treasury management activities to the portfolio of the Audit Committee. Accordingly, that Committee was asked to review the matters covered by this report and **[ANNEX 1]** on 26 January 2010. Due to timing issues it will be necessary to verbally report upon any recommendations or observations made by this Committee.

- 1.1.4 The Strategy is a complex technical document and is a specialist area of work, I should be grateful if Members could **raise any queries with the author of this report (John Pickup 6112) in advance of the meeting as John will not be present on 2 February.**
- 1.2 Adoption of the Treasury Management Code of Practice 2009 and Cross Sectoral Guidance Notes and the Guidance Notes for Local Authorities including Police Authorities and Fire Authorities**
- 1.2.1 The key requirements of the code are reproduced in summarised form at paragraph 1.1 of **[ANNEX 1]**. The revised Code and Guidance Notes are lengthy documents (56 and 40 pages respectively) and are not appended to this agenda given their size. Copies were, however, provided to the five Members of the Audit Committee and Members of the Cabinet prior to the meeting of the former on 26 January 2010. If other Members wish to obtain copies, please contact John Pickup, Exchequer Services Manager and he will be pleased to assist.
- 1.2.2 It is interesting to note that one of the primary changes to the Code is a specific reference to “investments”, a term that was not included in the original definition of treasury management. This change tends to highlight the fact that it was investment management that promoted the changes that now need to be implemented. Other primary changes relate to the assessment and spread of counter party risk, enhancement of the scrutiny process and the strengthening of internal processes via 12 Treasury Management Practices (TMPs).
- 1.2.3 It is my aim to complete a review of our TMPs and to then invite the Audit Committee to consider them before seeking their adoption by Cabinet.
- 1.2.4 The four clauses which we are required to adopt are set out at **Appendix 1** of **[ANNEX 1]**.
- 1.3 Treasury Management Policy Statement**
- 1.3.1 As for the revised Code, the specific reference to “investments” is the most significant change that can be found in the revised Treasury Management Policy Statement, which members are invited to review at **Appendix 2** of **[ANNEX 1]** to this report.
- 1.4 Treasury Management Strategy Statement and Investment Strategy for 2010/11**
- 1.4.1 The proposed strategy for 2010/11 is set out at **[ANNEX 1]** of this report. Members may care to note that in a low interest rate environment the strategy is geared towards keeping investments short in order to benefit from the compounding of interest and that the expected returns from cash flow and core investments are 1.25% and 2.5% respectively.

1.5 Legal Implications

- 1.5.1 These are set out at **[ANNEX 1]** and the revised Code and Guidance Notes, and are considered to have been fully met. In addition to which, Sector Treasury Services are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.6 Financial and Value for Money Considerations

- 1.6.1 The return achieved on our external and internally 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.
- 1.6.2 In respect of our “defaulted” £1m investment with Landsbanki it is unclear how much and when any settlement might be made. 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, should obtain a settlement in excess of 80%.

1.7 Risk Assessment

- 1.7.1 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.

1.8 Recommendations

- 1.8.1 I **RECOMMEND** that Cabinet consider and recommend to full Council the adoption of the:
- 1) CIPFA Treasury Management Code of Practice 2009 and Cross Sectoral Guidance Notes and the four clauses set out at **Appendix 1** of **[ANNEX 1]**.
 - 2) Revised Treasury Management Policy Statement set out at **Appendix 2** of **[ANNEX 1]**.
 - 3) Treasury Management Strategy Statement and Annual Investment Strategy for 2010/11 **[ANNEX 1]**.

Background papers:

contact: John Pickup
Extension 6112

Sector Treasury Services template and guidance notes.

CIPFA publications – “Treasury Management in the Public Services -Guidance Notes for Local Authorities including Police Authorities and Fire Authorities Fully Revised Third Edition 2009”

“Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes Fully Revised Second Edition 2009”

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