

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

19 June 2013

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2012/13

A report detailing treasury management activity undertaken in April and May of the current financial year is to be considered by Audit Committee on 17 June. That report also includes details of the treasury management outturn for the 2012/13 financial year. Cabinet are invited to recommend Council endorse the action taken by Officers thus far in the current financial year and note the outturn position for 2012/13.

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 receives an annual strategy published prior to the start of the financial year, a mid-year review of that strategy and an outturn report (this report).

1.1.2 Additional reports updating Members on current activity are presented to 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.

1.2 2013/14 Treasury Management Performance

1.2.1 As at the end of May 2013 funds invested and interest earned is set out in the table below. Whilst the authority achieved its benchmark return, interest earned of £17,800 is £19,150 lower than our profiled budget for the same period. This underperformance against budget is attributed to the lower than expected return delivered by our external fund manager.

| | Funds invested at 31 May 2013 £m | Average duration to maturity Yrs | Weighted average rate of return % | Interest earned to 31 May 2013 £ | Gross annualised return to 31 May 2013 % | 7 day LIBID benchmark % |
|--|---|---|--|---|---|------------------------------------|
| In-house cash flow excluding Landsbanki | 9.1 | 0.31 | 0.70 | 11,700 | 0.69 | 0.41 |
| Externally managed core funds | 15.4 | 0.56 | 0.59 | 6,100 | 0.24 | 0.41 |
| Total | 24.5 | 0.47 | 0.63 | 17,800 | 0.42 | 0.41 |

1.2.2 The fund manager currently anticipates a gross return (before the deduction of fees) for the 2013/14 financial year as a whole will be between 0.65% and 1.15%. The central case assumption of 0.90% is lower than the return used to prepare our income estimates for the year and takes into account the significant reduction in bank interest rate offerings following the introduction of the “Funding for Lending” scheme by the Bank of England. This lower return implies a shortfall against budget for the year as a whole of some £20,000.

1.2.3 The actual gross annualised return achieved by the fund manager at the end of May of 0.24% is substantially below the underlying yield (weighted average rate of return) of their current portfolio at 0.59%. The portfolio comprises mainly short duration (three / six month) certificates of deposit but also includes a small proportion of UK gilts and European Investment Bank bonds. The fund manager is expected to deliver improved performance as the year progresses both from the underlying yield and via capital profits on gilt trades. Opportunity for the latter is entirely dependent on external events generating volatility in the gilt market.

1.3 2012/13 Treasury Management Outturn

1.3.1 The outturn report referred to Audit Committee is included in **[Annex 4]** of the Revenue and Capital Outturn report elsewhere on this agenda. Prudential and treasury indicators for 2012/13 are included at **[Annex 4 - Appendix 1]**.

1.3.2 Total investment income of £319,900 is marginally below the 2012/13 revised estimate by £2,600 (£26,500 better than expected when measured against our original 2012/13 estimate). The gross return for the year of 1.09% exceeds the 7-day LIBID benchmark by 63 basis points.

1.4 Legal Implications

1.4.1 Members will be aware of our “defaulted” £1m investment with the Icelandic Bank, Landsbanki. Subject to exchange rates, we anticipate that we will recover all of the £1m we had on deposit with Landsbanki, together with the interest that was due had the deposit been repaid on time (October 2008) plus the award of

additional interest for the period October 2008 to April 2009. To date £491,000 has been recovered.

1.5 Financial and Value for Money Considerations

- 1.5.1 Investment income for 2012/13 fell short of the revised estimate by £2,600 (£26,500 better than expected when measured against our original 2012/13 estimate). Interest earned to the end of May 2012 of £17,800 represents a shortfall against profiled budget of £19,150. Interest rates being offered by banks fell significantly in the second half of last financial year following the introduction of the "Funding for Lending" scheme. The scheme, intended to help stimulate economic recovery, is expected to be in place until January 2015. As a consequence there is unlikely to be any significant improvement in investment rates in the near future. Income from our externally managed portfolio is expected to undershoot the 2013/14 budget by £20,000.
- 1.5.2 All investments undertaken in 2012/13 and thus far in 2013/14 have complied in full with the requirements of the relevant Treasury Management Strategy Statement and Annual Investment Strategy.

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 May 2013.
 - 2) Note the 2012/13 outturn position.

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? | N / A | The report gives details of the treasury management activity undertaken in the early part of the current financial year and the outturn position in respect of 2012/13. |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? | 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.