

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

12 October 2016

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW 2016/17

A report detailing treasury management activity undertaken during the period April to July of the current financial year was considered by Audit Committee on 5 September. The report also reminded Members of the parameters that define the Council's risk appetite. Cabinet are invited to recommend that Council endorse the action taken by officers in respect of treasury management activity to date, retain the current risk parameters and note the review of the Council's long term cash balances.

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 5 September 2016 is replicated in full at **[Appendix 1]**.

1.2 2016/17 Treasury Management Performance

- 1.2.1 A gross annualised return of 0.75% was generated on investments for the period April to July 2016. In cash terms, investment income of £74,750 is £13,700 better than our profiled budget for the same period. The additional income is attributed to higher than expected cash flow and core fund balances and the opportunity that this created to invest more in higher yielding term deposits.

- 1.2.2 Following the August 2016 cut in Bank Rate (from 0.5% to 0.25%) the pace of income generation will slow as the year progresses such that income for the year as a whole is now expected to return to budget at £206,000.
- 1.2.3 Depending on how the economy performs over the next few months the Bank of England have indicated a further rate cut may be needed to provide added stimulus. If the Bank Rate were to fall to 0.1%, income for the year as a whole is likely to fall below budget by some £20,000.
- 1.2.4 All investments undertaken in 2016/17 complied in full with the requirements of the 2016/17 Annual Investment Strategy including prudential and treasury limits.

1.3 Review of Risk Parameters

- 1.3.1 The 2016/17 Investment Strategy was approved by full Council in February 2016. The Strategy limits the Council's exposure to investment risks via the specification of minimum sovereign and counterparty credit ratings and associated exposure limits. The Strategy also imposes restrictions on the duration of an investment and the type of investment instrument that can be used.
- 1.3.2 A change in Capita's use of Credit Default Swap (CDS) data in November 2015, coupled with volatility in UK Bank CDS prices in the run-up to the referendum, resulted in a number of term deposits due to be placed in March and April of this year being delayed. Audit Committee in June supported an amendment to the Annual Investment Strategy to allow officers, under certain circumstances, to set Capita's post CDS duration assessment to one side and base term deposit duration on credit ratings alone. In undertaking this review no further changes that impact on the Council's risk appetite are proposed.
- 1.3.3 Rather than a cut in Bank Rate, the interest rate forecast presented to Audit Committee in January 2016 (and used in the Council's budget projections) assumed Bank Rate would begin to rise from mid-2016. Whilst the August rate cut and the potential for a second has limited impact on investment income this financial year, the impact over the course of the next few years will be significant. To mitigate some of that impact Officers are reviewing the Council's cash balances with a view to placing surplus funds in a property fund or similar long-term investment. Property funds might also be appropriate for 'new money' the Council was able to generate from the sale of existing land and buildings. The risks and rewards associated with such funds will be considered by Audit Committee in January 2017 when the Annual Investment Strategy for 2017/18 is presented.

1.4 Legal Implications

- 1.4.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

1.4.2 This mid-year review fulfils a requirement in The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.

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 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.8 Recommendations

1.8.1 Audit Committee endorsed the recommendations contained in the report to them on 5 September 2016 [**Appendix 1**] and as detailed below. 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 July 2016.
- 2) Retain the existing parameters intended to limit the Council's exposure to investment risks.
- 3) Note the review of the Council's long term cash balances and the use of property funds for subsequent consideration by Audit Committee in January 2017.

Background papers:

contact: Michael Withey

Nil

Sharon Shelton
Director of Finance and Transformation