

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

11 October 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW

A report detailing treasury management activity undertaken during the period April to July of the current financial year was considered by Audit Committee on 4 September. The report also provided an update on progress in securing property fund investment and 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, note the progress made in respect of property fund investment and retain the current risk parameters.

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 4 September 2017 is replicated in full at **[Appendix 1]**.

1.2 Investment Performance

- 1.2.1 A gross annualised return of 0.58% was generated on investments for the period April to July 2017. In cash terms, investment income of £66,100 is £24,150 better than our profiled budget for the same period.
- 1.2.2 Investment returns offered by banks and building societies are broadly the same today as they were a year ago. The additional income can be attributed primarily to higher core cash balances resulting from a delay by the Valuation Office in

clearing outstanding business rate appeals. Income for the 2017/18 financial year as a whole is expected to exceed budget by some £50,000.

- 1.2.3 All investments undertaken in 2017/18 complied in full with the requirements of the 2017/18 Treasury Management and Annual Investment Strategy including prudential and treasury limits.

1.3 Long term Investment Update

- 1.3.1 A review of long term investment opportunities (bonds, equities and property) was presented to Audit Committee in January 2017. The review concluded property fund investment to be the most appropriate. The use of commercial property funds for both existing cash balances and any new money derived from the sale of assets was subsequently approved by Council, February 2017.
- 1.3.2 Capita, the Council's treasury advisors, assisted in the detailed analysis and selection of suitable commercial property funds. Interviews with the fund managers from four funds were held in May 2017. Three funds were selected for immediate investment. Investments totalling £3m have been placed with the Local Authorities' Property Fund (£1m, June 2017), the Lothbury Property Trust (£1m, July 2017) and the Hermes Property Unit Trust (£1m, September 2017). Any additional investment in property funds will be dependent on new money being made available from the sale of existing assets.
- 1.3.3 Property funds are expected to generate a revenue stream net of fund management fees of some 4% per annum. Income of £72,500 (after deducting additional treasury advisor fees of £7,500) is anticipated in 2017/18 and £120,000 in 2018/19. These figures are in addition to existing budget provision.
- 1.3.4 Commercial property values have a strong correlation to economic activity (GDP). Property values rise as the economy grows and fall during a recession. During a recession property values can fall significantly reducing the underlying value of the Council's investment.
- 1.3.5 The costs associated with buying and selling property are deducted from the sum invested on entry to a fund and its subsequent value on exit. These costs are expected to be recouped over time as property values rise increasing the underlying value of the Council's investment.
- 1.3.6 Property fund investment is only appropriate for cash that is available long term and has no spending commitment associated with it. The duration of a property fund investment may need to be extended to avoid crystallising a loss in the event that property values fall.

1.4 Review of Risk Parameters

- 1.4.1 The 2017/18 Treasury Management and Annual Investment Strategy was approved by Council in February 2017. 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. In conducting a mid-year review of the Strategy no change to the Council's current risk appetite is proposed.

1.5 Legal Implications

1.5.1 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.

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

1.6 Financial and Value for Money Considerations

1.6.1 As outlined above.

1.7 Risk Assessment

1.7.1 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.

1.8 Equality Impact Assessment

1.8.1 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.

1.9 Recommendations

1.9.1 Audit Committee endorsed the recommendations contained in the report to them on 4 September 2017 [**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 2017.
- 2) Note the progress made in respect of property fund investments.
- 3) Retain the existing parameters intended to limit the Council's exposure to investment risks.

Background papers:

contact: Michael Withey

Capita interest rate forecast (August 2017)

Capita Benchmarking data (June 2017)

Sharon Shelton
Director of Finance and Transformation