

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

10 October 2018

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 August of the current financial year was considered by Audit Committee on 1 October. The report also provided an update on progress in securing additional 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 its 2011 minor update) 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 1 October 2018 is replicated in full at **[Appendix 1]**.

1.2 Investment Performance

- 1.2.1 A gross annualised return of 0.74% was generated on cash flow and core cash investments for the period April to August 2018. In cash terms, investment income of £104,250 is £33,050 better than our profiled budget for the same period.
- 1.2.2 The additional income is due in part to higher core fund balances (unspent business rate appeal provisions) and in part due to an improvement in investment rates Banks offered in the lead-up to and are now offering following the August

Bank Rate rise. Income for the 2018/19 financial year as a whole is expected to exceed budget by some £75,000.

- 1.2.3 All investments undertaken in 2018/19 complied in full with the requirements of the 2018/19 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 and reaffirmed February 2018.
- 1.3.2 £2m of the Council's existing cash balances was identified for long term investment. This in combination with £1m anticipated from the sale of surplus property was applied in 2017/18 bringing the total investment in property funds in that financial year to £3m. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. More recently a further £2m has been invested in property funds. This has been financed from the 2018/19 business rates pilot grant (£0.5m), the better than expected 2017/18 outturn (£0.5m) and a further £1m in anticipated sale proceeds. Further investments are envisaged though timing is dependent on the progress of planned disposals.
- 1.3.3 Income from property funds of £30,200 has been received thus far in 2018/19 (quarter ending June 2018) which represents an annualised return of 3.62%.
- 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 2018/19 Treasury Management and Annual Investment Strategy was approved by Council in February 2018. 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 and 2011. The 2017 revision of the Code is the subject of a separate report elsewhere on this agenda.

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 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 2018.
 - 2) Note the £5m in property fund investments that have been undertaken since June 2017.

- 3) Retain the existing parameters intended to limit the Council's exposure to investment risks.

Background papers:

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[Link interest rate forecast \(August 2018\)](#)

[Link benchmarking data \(June 2018\)](#)

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