

# TONBRIDGE & MALLING BOROUGH COUNCIL

## AUDIT COMMITTEE

01 April 2019

### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Matters for Information

#### 1 TREASURY MANAGEMENT PERFORMANCE UPDATE

The report provides details of investments undertaken and return achieved in the first eleven months of the current financial year.

##### 1.1 Introduction

1.1.1 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.

##### 1.2 Performance 1 April 2018 to 28 February 2019

1.2.1 A full list of investments held on 28 February 2019 is provided at **[Annex 1]** and a copy of our lending list is provided at **[Annex 2]**. The table below provides a summary of funds invested and income earned at the end of February.

	Funds invested at 28 Feb 2019 £m	Average duration to maturity Days	Weighted average rate of return %	Interest / dividends earned to 28 Feb 2019 £	Annualised return %	LIBID benchmark (average from 1 April) %
Cash flow	15.3	3	0.80	104,500	0.72	0.50 (7 Day)
Core cash	24.0	113	0.99	189,000	0.90	0.67 (3 Mth)
Sub-total	39.3	70	0.91	293,500	0.83	0.60 (Ave)
Long term	5.0			117,900	3.54	
Total	44.3					

*Long term (Property funds) return based on dividends to Dec 2018.*

1.2.2 **Cash flow and core cash investments.** Interest earned of £293,500 from cash flow surpluses and core cash balances to the end of February is £37,000 better than the revised estimate for the same period (£127,000 better when compared to the original estimate for 2018/19). The authority also outperformed the LIBID benchmark by 23 basis points. The additional income is due in part to higher core cash balances (unspent business rate appeals 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 2018 Bank Rate rise.

- 1.2.3 The benchmarking service provided by the Council's treasury advisor enables our performance to be gauged against Link's other local authority clients. An extract from the latest benchmarking data is provided at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. At 31 December 2018 the Council's return at 0.91% (purple diamond) was above the local authority average of 0.83%. Based on the Council's exposure to credit / duration risk that return was also above Link's predicted return (above the upper boundary indicated by the green diagonal line). The Council's risk exposure was broadly in-line with the local authority average.
- 1.2.4 **Long term investment.** Some 20% (£3m) of the Council's expected long term cash balances together with new money derived from the sale of assets and other windfalls is being invested in externally managed property funds. These investments generate an annual income stream and an expectation of capital appreciation over time sufficient to recoup fund entry and exit costs circa 8%.
- 1.2.5 Income from property funds of £117,900 has been received thus far in 2018/19 (quarter ending December 2018) which represents an annualised return of 3.54%.
- 1.2.6 Capital appreciation is recorded in the table below. The economy has slowed in recent months and so has the rate at which fund sale values have been appreciating. Since inception, progress towards breakeven is still encouraging.

<b>Property fund</b> (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	<b>Purchase price</b>  <b>(a)</b> <b>£</b>	<b>Sale value at date of purchase</b>  <b>(b)</b> <b>£</b>	<b>Current sale value February 2019</b>  <b>(c)</b> <b>£</b>	<b>Current sale value above (below) purchase price</b>  <b>(c-a)</b> <b>£</b>
LAPF (Primary, July 2017)	1,000,000	922,200	975,100	(24,900)
Lothbury (Primary, July 2017)	1,000,000	927,700	985,400	(14,600)
Hermes (Secondary, October 2017)	1,000,000	939,000	1,009,900	9,900
LAPF (Primary, June 2018)	1,000,000	922,200	935,000	(65,000)
Lothbury (Secondary, July 2018)	1,000,000	973,000	966,400	(33,600)
<b>Total</b>	<b>5,000,000</b>	<b>4,684,100</b>	<b>4,871,800</b>	<b>(128,200)</b>

### 1.3 Legal Implications

- 1.3.1 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. In addition, Link Asset Services are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

#### **1.4 Financial and Value for Money Considerations**

- 1.4.1 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via Link's benchmarking service.
- 1.4.2 Whilst the annual income stream from a property fund exhibits stability (circa 4% per annum net of management fees) capital values rise and fall with the cyclical nature of economic activity. During a downturn in the economy capital values may fall significantly. The duration of a property fund investment may need to be extended to avoid crystalizing a loss and as a consequence the investment's duration cannot be determined with certainty.
- 1.4.3 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped overtime through capital appreciation.
- 1.4.4 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to 12 months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.

#### **1.5 Risk Assessment**

- 1.5.1 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 an effective way of mitigating the risks associated with treasury management.

Background papers:

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Link Asset Services - benchmarking data.

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