

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

25 June 2014

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2013/14

A report detailing treasury management activity undertaken in April of the current financial year is to be considered by Audit Committee on 16 June. That report also includes details of the treasury management outturn for the 2013/14 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 2013/14.

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 2014/15 Treasury Management Performance

1.2.1 As at the end of April 2014 funds invested and interest earned is set out in the table below. The authority bettered the benchmark return and interest earned of £13,150 was broadly in-line with budget expectations (£300 higher than expected for cash flow and £850 lower for core funds).

	Funds invested at 30 April 2014 £m	Average duration to maturity Yrs	Weighted average rate of return %	Interest earned to 30 April 2014 £	Gross annualised return to 30 April 2014	7 day LIBID benchmark %
In-house cash flow	6.6	0.29	0.81	6,050	0.73	0.41
Externally managed core funds	13.4	0.80	0.59	7,100	0.64	0.41
Total	20.0	0.63	0.66	13,150	0.68	0.41

- 1.2.2 In accordance with previous Investment strategies all of the Council's core funds are currently managed by an external fund manager. Members are reminded that under the 2014/15 Strategy (considered by Audit Committee in January 2014) these funds are to be transferred to in-house management by the end of the financial year.
- 1.2.3 The core fund is being used to support both revenue and capital expenditure over the next few years of our medium term financial strategy as the authority grapples with savings targets to achieve a balanced budget. The core fund balance is currently £13.4m (expected to reduce to circa £11m by the end of the financial year) and is now at a level where in-house management is practical without the need for additional staff resources.
- 1.2.4 The transfer will contribute to savings targets through reduced fund management fees. Diversification of investment across a broad range of high quality counterparties will continue to be a key feature of our portfolio going forward and an element of liquidity within the core fund will be supported via the continued use of certificates of deposit.
- 1.2.5 Steps are currently being progressed to enable the transfer to take place over the summer.

1.3 2013/14 Treasury Management Outturn

- 1.3.1 The outturn report referred to Audit Committee is included in **[Annex 3]** of the Revenue and Capital Outturn report elsewhere on this agenda. Prudential and treasury indicators for 2013/14 are included at **[Annex 3 - Appendix 1]**.
- 1.3.2 Investment income of £159,650 earned during the year is marginally below the 2013/14 revised estimate by £4,750. The gross return for the year of 0.61% exceeds the 7-day LIBID benchmark by 20 basis points. For year-end reporting purposes, notional interest on our "defaulted" Landsbanki investment is added to the figure quoted above making total investment income for the year £179,800, £15,400 higher than our revised estimate.

1.4 Legal Implications

- 1.4.1 Members will be aware that our “defaulted” £1m investment with the Icelandic Bank, Landsbanki was sold at a competitive auction held in January 2014. The combination of partial payments and auction proceeds brought the total amount recovered to just over 95% of the original £1m investment. Participation in the auction has ensured the risks associated with pursuing full recovery (which would take many more years) have been avoided. Officers are satisfied that the price achieved at auction represents a good outcome for the Council.

1.5 Financial and Value for Money Considerations

- 1.5.1 At year end investment income for 2013/14, including notional interest on our “defaulted” Landsbanki investment was £15,400 higher than our revised estimate at £179,800. Investment income earned to the end of April 2014 of £13,150 is broadly in-line with budget expectations for 2014/15.
- 1.5.2 All investments undertaken in 2013/14 and thus far in 2014/15 have complied 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 as identified by the CIPFA Code, including the regular reporting and scrutiny of treasury management activity, 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 April; and
- 2) Note the 2013/14 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 2013/14.
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.