

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

08 October 2014

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT MID-YEAR REVIEW 2014/15

A report detailing treasury management activity undertaken during the period April to August of the current financial year is to be considered by the Audit Committee on 6 October. The report also reminds Members of the parameters that define the Council's risk appetite and of the arrangements for managing the Council's investments. Cabinet are invited to recommend that Council endorse the action taken by officers in respect of treasury management activity to date, to retain the current risk parameters and note the change in management responsibility for the Council's core fund investments.

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 6 October 2014 is replicated in full at **[Appendix 1]**.

1.2 2014/15 Treasury Management Performance

- 1.2.1 A gross annualised return of 0.62% was generated on investments for the period April to August. Whilst this bettered the 7 day LIBID benchmark by 27 basis points, in cash terms, investment income of £60,400 was £9,400 below our profiled budget for the same period. The shortfall against budget is attributed to the relatively poor performance achieved by our external fund manager in the early part of the year.

- 1.2.2 Historically, the Council's core funds have been managed by an external fund manager and are being used to support both revenue and capital expenditure over the next few years of our medium term financial strategy as the Council grapples with savings targets to achieve a balanced budget. The core fund balance of £13.4m (expected to reduce to circa £11m by the end of the financial year) is at a level where In-house management is practical without the need for additional staff resources. The 2014/15 Annual Investment Strategy made provision for these funds to be transferred to In-house management by the end of the financial year and thus contribute to future savings targets through reduced fund management fees. I'm pleased to report that the transfer to In-house management took place on 1 August 2014.
- 1.2.3 Following the transfer, initial core fund maturities have been reinvested in nine month term deposits (both fixed and tradable certificates of deposit) to generate yield. Other maturities as they arise will be invested in shorter duration instruments (mix of three and six month durations) to retain a degree of liquidity and take advantage of interest rate rises should they occur. Although its 'early days' there was a noticeable improvement in yield during August which will continue as the months pass such that interest earned on core funds is expected to be in-line with budget for the final eight months of the financial year.
- 1.2.4 All investments undertaken in 2014/15 complied in full with the requirements of the 2014/15 Annual Investment Strategy including prudential and treasury limits.

1.3 Review of Risk Parameters and Regulatory Changes

- 1.3.1 The 2014/15 Investment Strategy was approved by full Council in February 2014. 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.
- 1.3.2 The Audit Committee report makes reference to regulatory changes that may impact in the future on: the Council's use of Money Market Funds (used for daily cash management purposes); and bank credit ratings following the removal of sovereign support. Neither issue is expected to have any implications for our investment approach over the remainder of this financial year but the issues will need to be revisited in preparing the 2015/16 Annual Investment Strategy.

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 annual review report fulfils the requirements of 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 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 the period April to August 2014.
- 2) Note the transfer of responsibility for core fund investments to In-house management took effect on 1 August 2014.
- 3) Retain the existing parameters intended to limit the Council's exposure to investment risks.

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?	No	N/A

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	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.