

<b>Subject:</b>	<b>Treasury Management Policy Statement (incorporating the Annual Investment Strategy) 2008/09 - End of year review</b>		
<b>Date of Meeting:</b>	<b>9 July 2009</b>		
<b>Report of:</b>	<b>Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Peter Sargent</b>	<b>Tel:</b> 29-1241
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<b>Key Decision:</b>	<b>No</b>		
<b>Wards Affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. SUMMARY AND POLICY CONTEXT:**

- 1.1 The Treasury Management Policy Statement (TMPS) and the Treasury Management Practices (including the schedules) for the year 2008/09 were approved by Policy & Resources Committee on 6 March 2008. The TMPS sets out the key role for treasury management, whilst the practices and schedules set out the annual targets for treasury management and the methods by which these targets shall be met.
- 1.2 The TMPS includes an annual investment strategy, which sets out the key investment parameters for council cash funds. Full Council approved the investment strategy on 13 March 2008.
- 1.3 The purpose of this report is to advise of the action taken during the second half of the financial year 2008/2009 on the TMPS, including the investment strategy (the action for the first half year was reported to Cabinet on 20 November 2008).

**2. RECOMMENDATIONS:**

- 2.1 That Cabinet:
  - (a) endorse the action taken during the second half year to meet the treasury management policy statement and practices (including the annual investment strategy);
  - (b) note the authorised limit and operational boundary set by the Council have not been exceeded; and
  - (c) note that all Members will be offered training on the risks involved in borrowing and investments on an annual basis.

### 3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

#### Overview of markets

- 3.1 The crisis in the financial markets continued throughout the second half year.
- 3.2 The announcement about the collapse of Icelandic Banks and the impact on local authority investments attracted a number of high profile reviews and investigations.
- 3.3 The economic cycle also took a turn for the worse as recession hit the global economy. Several major central banks took unprecedented action to prevent the recession turning into a depression. Several thousands of billions of pounds, dollars and euros were released into the markets. Almost all major UK banks were supported by HM Treasury guarantees.
- 3.4 An overview of the market is set out in Appendix 1 to this report.

#### Treasury Management Strategy

- 3.5 A summary of the action taken in the period October 2008 to March 2009 is provided in Appendix 2 to this report.
- 3.6 Treasury management is one of the criteria used in the comprehensive performance assessment to judge use of resources. The criteria require that “the council has a treasury management strategy that reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.” In 2008/09 this criteria was satisfied.
- 3.7 To counter the increased risk to the council’s investment portfolio the Director of Finance & Resources introduced a programme of debt repayment. In the period November 2008 to March 2009 some £45 million of debt was prematurely repaid. In addition the limits set out in the investment strategy were reviewed with most investment periods limited to a maximum of one month.
- 3.8 The action taken has reduced the cost of the debt portfolio in 2008/09 from a budgeted £11.6 million to £10.9 million. In addition investment returns for the year have been at or around those budgeted for, even though the investment parameters were tightened in the latter part of the financial year. Investment performance is shown in the following table.

	In-house – core investments	In-house – cash flow investments	Cash manager investments
Budget 2008/09	5.47%	5.34%	5.73%
Benchmark rate (i.e. average market rate)	3.56%	3.56%	3.66%
Actual rate	5.59%	5.32%	5.32%

- 3.9 The above performance, together with better than expected cash flow balances, has contributed towards an underspend on the financing costs budget of circa £1.4m in 2008/09. The following table summarises the areas of major underspend.

Budget 2008/09		£7.946m
<u>Treasury management activity</u>		
○ Reduction in the cost of borrowing	-£0.607m	
○ Higher investment income	-£0.595m	-£1.202m
<u>Impact of action taken by external cash manager</u>		+£0.057m
<u>Other changes not directed related to treasury management activity (e.g. reduction in interest payable on interest reserves &amp; provisions)</u>		-£0.273m
Actual 2008/09		£6.528m

- 3.10 The two borrowing limits approved by full Council in March 2008 – the ‘authorised limit’ and ‘operational boundary’ – have not been exceeded during the year.

### **Socially responsible investments**

- 3.11 The council continues to promote its’ ethical investment statement with institutions within which it deposits money. Investment counterparties are advised of the following statement each and every time a deposit is placed with them:

*“Brighton & Hove City Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:*

- *encouraging those institutions to adopt and publicise policies on socially responsible investments;*
- *requesting those institutions to apply council deposits in a socially responsible manner.”*

### **Security of investments**

- 3.12 A summary of investments made by the in-house treasury team and outstanding as at 31 March 2009 is tabled below. The table shows that a substantial proportion of investments are covered by the guarantees and financial support offered by the UK and Irish Governments. Money market funds offer low risk investment opportunities as the underlying investment portfolio is invested in a diverse range of high quality, short-term and negotiable instruments.

Banks subject to HM Treasury Support	£5.0m	15%
Banks subject to Irish Government guarantee	£8.2m	25%
Banks eligible for HM Treasury support	£5.7m	17%
Building societies eligible for HM Treasury support	£13.5m	41%
Money market funds	£0.8m	2%
	£33.2m	100%

## Outcome of independent reviews on local authority investments

3.13 A number of high profile reviews were initiated in response to the failure of the Icelandic Banks in October 2008 and the investments made by local authorities in these banks. The following table sets out the main conclusions of each:

▪ **Communities & Local Government (CLG) Select Committee**

The Select Committee has received both written and oral evidence from a number of local authorities, treasury management advisors and local authority bodies such as the Chartered Institute for Public Finance & Accountancy (CIPFA) and the Local Government Association. The report from the Select Committee concluded “...that it would be inappropriate to seek to restrict local authorities’ investment options.” The report further concluded that investment strategies should continue to concentrate on security and liquidity but that “...yield should not be neglected. The risk involved in seeking yield should be mitigated by robust and responsive Codes, guidelines and best practice.”

The report outlines a number of recommendations, including:

- (a) the sharing of information between local authorities,
- (b) an Audit Committee with specific responsibility for the scrutiny of the treasury management function. Members of the committee will need to properly trained. The Select Committee encourage the appointment of a person with relevant experience either to serve or to chair the committee,
- (c) changes to investment guidance and codes to emphasis that local authorities should view investment decisions within the context of wider financial and economic information rather than over reliance on credit ratings,
- (d) a review of the terms of using external advisors, and
- (e) the Audit Commission to review its own auditing procedures to ensure local authorities are adhering to codes and guidance on treasury management.

▪ **CIPFA**

CIPFA issued a treasury management bulletin in March 2009. The bulletin indicates that a revised treasury management code and guidance will be issued in the Summer. Changes to be included in the revised code include:

- (a) greater emphasis on diversification of investments,
- (b) improved information and regular reviews by councillors in both executive and scrutiny functions,
- (c) enhanced skills and training for local authority staff involved in the treasury management function, and
- (d) the use of the main three rating agencies in selecting counterparties for investment.

▪ **Audit Commission**

The Audit Commission made 4 main recommendations:

- (a) central government to review the statutory investment framework within which local authorities operate;
- (b) CIPFA to tighten its code of practice, to promote the sharing of information amongst local authorities and to develop appropriate training and qualifications;
- (c) local authorities to improve reporting to elected members, offering training where appropriate, to ensure full compliance with treasury management codes of practice, to be explicit about the risks involved and for elected

members to confirm the level of risk that is acceptable to the organisation and ensure the treasury management function is properly resourced; and (d) the Commission to work with CIPFA and other organisations to develop guidance and tools to help manage risk and to instruct auditors to review treasury management as part of their 2008/09 Audit for use of resources.

- 3.14 The treasury management policy statement and annual investment strategy approved by Cabinet contain much of what is now being recommended.
- 3.15 One of the recommendations in this report is for Cabinet to note the provision of training for all members involved in approving the annual treasury management policy statement and investment strategy.

#### **4. CONSULTATION**

- 4.1 The council's external treasury advisor has contributed to this report.

#### **5. FINANCIAL & OTHER IMPLICATIONS**

##### Financial Implications:

- 5.1 The financial implications arising from the action taken under the TMPS are included in Financing Costs. Details of the 2008/09 outturn for financing costs are included under Section 3.9 above.
- 5.2 Cabinet agreed at its meeting on 20 November 2008 to earmark the underspend on Financing Costs to offset the lower investment returns in 2009/10 and subsequent years. In addition Council approved as part of the Budget Strategy to earmark further sums to supplement the underspend. The current reserve stands at £2.881m. This reserve will be kept under review and any changes reported back to Cabinet.

*Finance Officer consulted: Peter Sargent*

*Date: 10/06/09*

##### Legal Implications:

- 5.3 The TMPS and action under it must be in accordance with Part I of the Local Government Act 2003 and regulations issued thereunder. Relevant guidance also needs to be taken into account.
- 5.4 This report is for information purposes only and as such it is not considered that anyone's rights under the Human Rights Act will be adversely affected by it.

*Lawyer consulted:*

*Neil Weeks*

*Date: 22/06/09*

##### Equalities Implications:

- 5.5 No equalities impact assessment is required for this report.

Sustainability Implications:

- 5.6 None arising from this report.

Crime & Disorder Implications:

- 5.7 None arising from this report.

Risk and Opportunity Management Implications:

- 5.8 Action taken in the six months to March 2009 is consistent with the risks identified within the TMPS and associated schedules.

Corporate / Citywide Implications:

- 5.9 None arising from this report.

**6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

- 6.1 This report sets out action taken in the six months to March 2009. No alternative options are therefore considered necessary.

**7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 Treasury management is governed by a code that is recognised as 'best and proper practice' under the Local Government Act 2003. The Code requires a minimum of two reports per year, one of which is a report looking back at the closing year. This report fulfils this requirement.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Appendix 1 – Economic background
2. Appendix 2 – A summary of the action taken in the period October 2008 to March 2009
3. Appendix 3 – Performance and balances
4. Appendix 4 – Prudential indicators 2008/09 Actual

### **Documents In Members' Rooms**

None

### **Background Documents**

1. Part I of the Local Government Act 2003 and associated regulations
2. "The Treasury Management Policy Statement and associated schedules 2008/09" approved by Policy & Resources Committee on 6 March 2008
3. The "Annual Investment Strategy 2008/09" approved by full Council on 13 March 2008
4. Papers held within Strategic Finance, Finance & Resources
  - "The Prudential Code for Capital Finance in Local Authorities" published by CIPFA 2003
  - Bulletin issued by CIPFA – "Treasury Management in Local Authorities: Post Icelandic Banks collapse" – March 2009
  - Report issued by the Audit Commission – "Risk and Return: English Local Authorities and the Icelandic Banks" – March 2009
  - Communities & Local Government: Seventh report of Session 2008-09 – Local authority investments – published June 2009

