CABINET	Agenda Item 44 Brighton & Hove City Council

Subject:		**Treasury Management Policy Statement (incorporating the Annual Investment Strategy) 2009/10 - End of year review**	
Date of Meeting:		**22 July 2010**	
Report of:		**Director of Finance & Resources**	
Contact Officer:	**Name:**	**Peter Sargent**	**Tel: 29-1241**
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Key Decision:	**No**		
Wards Affected:	**All**		

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 2009/10 were approved by Cabinet on 12 March 2009. 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 19 March 2009.

1.3 The purpose of this report is to advise of the action taken during the second half of the financial year 2009/2010 on the TMPS, including the investment strategy (the action for the first half year was reported to Cabinet on 12 November 2009).

2. RECOMMENDATIONS:

2.1 That Cabinet:

(a) endorses the action taken during the second half year to meet the treasury management policy statement and practices (including the annual investment strategy); and

(b) notes the authorised limit and operational boundary set by the Council have not been exceeded.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Overview of markets

3.1 The second half year has evidenced a welcome improvement in economic performance, albeit still very fragile. Fear of a collapse of another leading financial institution lessened markedly in the UK and this was reflected in the more 'normal' behaviour of money market rates. However the news of financial assistance to support some Eurozone economies is a reminder that global uncertainty remains.

3.2 The UK economy continued to post a mixed performance and it was far from clear how far down the road to recovery it had travelled. The bias of the Bank of England's Monetary Policy Committee (MPC) decisions remained directed towards policy ease throughout the half year. The MPC kept the Bank Base Rate at ½% and agreed a further £25 billion extension of the Quantitative Easing programme to £200 billion. The accommodative policy approach of the MPC, coupled with a marginal improvement in market confidence, created an environment in which money market rates eased to yet lower levels.

3.3 An overview of the market is set out in Appendix 1 to this report.

Treasury Management Strategy

3.4 A summary of the action taken in the period October 2009 to March 2010 is provided in Appendix 2 to this report.

3.5 The programme of early debt repayment introduced in 2008 to counter the increased risk to the council's investment portfolio was suspended during the second half of the year due in the main to the improvement in the financial markets. Despite this improvement in the markets the Director of Finance & Resources maintained the restriction on new investments to a maximum of one month.

3.6 The two borrowing limits approved by full Council in March 2009 – the 'authorised limit' and 'operational boundary' – have not been exceeded during the year.

3.7 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."*

Budget v Outturn 2009/10

3.8 The following table summarises the performance on investments compared with the budgeted position and benchmark.

	In-house – core investments		Cash manager investments	
	Aver bal	Aver rate	Aver bal	Aver rate
Budget 2009/10	£95.1m	1.54%	£23.2m	1.65%
Actual	£29.0m	2.44%	£23.7m	3.48%
Benchmark rate (i.e. average market rate)	-	0.34%	-	0.40%

3.9 The above performance, together with savings in interest costs on the debt repayment programme, has contributed towards an underspend on the financing costs budget of circa £0.6m in 2009/10. The following table (after adjusting for principal repayments and interest on PFI projects) summarises the areas of major variance.

Budget 2009/10		£10.333m
PFI transactions		+£2.576m
Revised Budget 2009/10		£12.909m
Treasury management activity		
○ Reduction in the cost of borrowing	-£0.807m	
○ Lower investment income	+£0.549m	-£0.258m
Other changes not directed related to treasury management activity (e.g. reduction in interest payable on interest reserves & provisions)		-£0.340m
Actual 2009/10		£12.311m

Summary of treasury activity October 2009 to March 2010

3.10 The policy of reducing debt to minimise the capital risk to the council has had a significant impact on treasury management activity. This impact is demonstrated in the table below which compares treasury activity in the half-year to March 2010 with the corresponding period in the previous two years.

	Oct 07 to Mar 08	Oct 08 to Mar 09	Oct 09 to Mar 10
Short-term borrowing raised	-	£21.4m	£138.0m
Short-term borrowing repaid	-	£21.4m	£119.4m
Investments made	£330.7m	£318.9	£230.0m
Investments maturing	£342.2m	£408.6	£228.0m

3.11 Short-term borrowing has been used to fund day-to-day cash flow shortages whereas in the previous two years investments were used as shown in the following table.

	Oct 07 to Mar 08	Oct 08 to Mar 09	Oct 09 to Mar 10
Cash flow shortage	(£19.7m)	(£46.0m)	(£31.6m)
Increase / (decrease) in long-term	£8.0m	(£44.0m)	£15.0m

borrowing			
Increase / (decrease) in short-term borrowing	-	-	£18.6m
Decrease / (increase) in investments	£11.5m	£89.7m	(£2.0m)
Decrease / (increase) in bank balance	£0.2m	£0.3m	-

Interest rate risk

3.12 The report to Cabinet in November 2009 identified the next key treasury management decision was the timing of new long-term borrowing. To protect the council from projected rising long-term interest rates flexible borrowing, where the terms of the borrowing have been agreed in advance of cash being received, totalling £30 million has been negotiated. Details of these loans are set out in Appendix 2.

Security of investments

3.13 A summary of investments made by the in-house treasury team and outstanding as at 31 March 2010 is tabled below. The table shows that investments continue to be held in high quality, short-term and negotiable instruments.

AAA institutions	£33.5m	78%
AA institutions	£5.0m	12%
AAA rated money market funds	£4.4m	10%
	£42.9m	100%
Period – less than one month	£40.4m	94%
Period – over one month and less than three months	£2.5m	6%
	£42.9m	100%

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 2009/10 outturn for financing costs are included under Section 3.9 above.

5.2 Cabinet agreed at it's 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. At 31 March 2010 the reserve stands at £2.085 million. This reserve will be kept under review and any changes reported back to Cabinet.

Finance Officer consulted: Peter Sargent Date: 01/07/10

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: Abraham Ghebre-Ghiorgis Date: 01/07/10

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 2010 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 2010. 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 2009 to March 2010

3. Appendix 3 – Performance and balances

4. Appendix 4 – Prudential indicators 2009/10 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 2009/10" approved by Cabinet on 12 March 2009

3. The "Annual Investment Strategy 2009/10" approved by full Council on 19 March 2009

4. Papers held within Strategic Finance, Finance & Resources

5. "The Prudential Code for Capital Finance in Local Authorities" published by CIPFA 2003 and revised in 2009