~~POLICY & RESOURCES COMMITTEE~~	~~Agenda Item 29~~ ~~Brighton & Hove City Council~~

Subject:		**Treasury Management Policy Statement 2012/13 – End of year review**	
Date of Meeting:		**11 July 2013**	
Report of:		**Executive Director of Finance & Resources**	
Contact Officer:	**Name:**	**Mark Ireland**	**Tel: 29-1240**
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Ward(s) affected:		**All**	

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 The 2012/13 Treasury Management Policy Statement (TMPS), practices and schedules were approved by Cabinet on 15 March 2012. The TMPS sets out the role of Treasury Management whilst the practices and schedules set out the annual targets and the methods by which these targets will be met. The TMPS includes the Annual Investment Strategy (AIS) which sets out the key parameters for investing council cash funds and was approved by full Council on 22 March 2012 and amended at full Council on 19 July 2012. It is recommended good and proper practice that Members receive half yearly reports and review and endorse treasury management actions during the year.

2. RECOMMENDATIONS:

2.1 That Policy & Resources Committee endorses the key actions taken during the second half year to meet the treasury management policy statement and practices (including the investment strategy) as set out in this report.

2.2 That Policy & Resources notes that the approved maximum indicator for investment risk of 0.05%, authorised borrowing limit and operational boundary have not been exceeded.

3. RELEVANT BACKGROUND INFORMATION AND ANALYSIS:

Overview of Markets

3.1 Financial insecurity within the Euro zone continues with the sovereign debt crisis extending to Cyprus and fears about the way the problem was addressed there with an imposed substantial reduction on all large bank deposits. The Bank of England has kept the base rate at 0.5% and the Monetary Policy Committee remain split over further quantitative easing (effectively printing money) to try to stimulate the economy. It remains to be seen whether there will be further stimulus measures when Mark Carney, the new Governor of the Bank of England, starts shortly. Short and medium term investment rates available in the money markets have fallen sharply as the risk margin has reduced with short term rates well below the base rate of 0.5%. The latest Bank of England inflation forecasts show that inflation will be back within the target range in 2 years.

Treasury Management Strategy

3.2 A summary of the action taken in the period October 2012 to March 2013 is provided in appendix 1 to this report and further information on borrowing and investment performance is shown in the end of year Bulletin at appendix 2. The main points are:

- The council did not enter into any new borrowing arrangements during the period.
- The risk margin on all high quality investments in the money markets has declined significantly and annualised short term investment rates are largely in the range 0.25% to 0.4%.
- The return on investments has nevertheless exceeded the benchmark rate for both in-house investments and those undertaken by the cash manager.
- The two borrowing limits approved by full Council have not been exceeded.

3.3 Treasury management activity in the half-year has continued to focus on the short-term as shown in the table below.

	Amount invested 1 Oct 2012 to 31 Mar 2013			
	Fixed Deposits	Money Market Funds	Total	
Up to 1 week	£111.0m	£74.4m	£185.4m	59.2%
Between 1 week and 1 mth	£49.1m	-	£49.1m	15.7%
Between 1 mth and 3 mths	£78.5m	-	£78.5m	25.1%
Over 3 mths	-	-	-	0.0%
Total	£238.6m	£74.4m	£313.0m	100.0%

Budget v Outturn 2012/13

3.4 The following table summarises the performance achieved on investments compared to the budgeted position and approved benchmark for the whole year.

	In-house investments		Cash Manager investments (net of fees)	
	Aver Bal	Aver rate	Aver Bal	Aver rate
Budget 2012/13	£36.5m	0.88%	£24.6m	1.05%
Actual 2012/13	£68.5m	0.67%	£24.9m	1.29%
Benchmark rate		0.47%		0.47%

3.5 The provisional outturn report to the June meeting of this Committee set out the detailed reasons why the financing costs budget was £0.673m overspent in 2012/13. Approximately £0.7m was due to higher than anticipated delays to and re-profiling of the capital programme with offsetting savings in the Housing Revenue Account and service budgets. Treasury management activity marginally offset the overspend by achieving overall higher than budgeted investment returns.

Summary of Treasury activity October 2012 to March 2013

3.6 The table below summarises the treasury activity in the half-year to March 2013 with the corresponding period in the previous 2 years.

October to March	2010/11	2011/12	2012/13
Long-term borrowing raised - Capital	£20.0m	£10.0m	-
Long-term borrowing raised – HRA	-	£18.1m	-
Long-term borrowing repaid	£15.0m	-	-
Short-term borrowing raised	-	-	-
Short-term borrowing repaid	-	-	-
Investments made	£340.4m	£316.7m	£313.0m
Investments matured	£347.3m	£320.0m	£359.8m

3.7 The following table summarises how the day-to-day cash flows in the second half of the year compare with the same period in the previous 2 years.

October to March	2010/11	2011/12	2012/13
Cash flow shortage - general	-£11.9m	-£13.0m	-£34.9m
HRA settlement payment	-	-£18.1m	-
Net cash flow shortage	-£11.9m	-£31.1m	-£34.9m
Increase in long-term borrowing	+£5.0m	+£28.1m	-
Increase in short-term borrowing	-	-	-£2.0m*
Change in investments	£6.9m	£3.3m	£37.5m
Change in bank balance	-	-£0.3m	-£0.6m

*South Downs National Park

Security of Investments

3.8 A summary of investments made by the in-house treasury team and outstanding as at 31 March 2013 in the table below shows that investments continue to be held in high quality, short–term instruments.

'AAA' rated money market funds	£17.90m	58.98%
'A' rated institutions	£12.45m	41.02%
Total	£30.35m	100.00%
For less than one week	£22.08m	72.74%
Between one week and one month	£4.02m	13.26%
Between one month and 3 months	£4.25m	14.00%
Between 3 months and 6 months	-	-

3.9 Since the end of the financial year two credit rating agencies have reduced the rating of the Co-op Bank to below investment grade. The AIS only allowed short term investments of less than 1 month with the Co-op and currently the council does not have any money invested with them other than day to day transactional amounts because the council banks with the Co-op. On the 17 June the Co-op unveiled a rescue plan to tackle the £1.5bn hole in its balance sheet. The deal will involve a stock market listing for the bank and bond holders will be offered shares in return for their bonds. A majority of bond holders will need to agree to the plan otherwise the Co-op will have to identify an alternative means of raising the capital it needs. It is likely that the credit rating will remain low until a funding plan is agreed. Officers are monitoring the position very closely and will feedback to the Members Budget Review Group on any significant developments as and when they happen.

Risk

3.10 Investment risk is calculated by assessing the financial standing of the counterparty and the period of the investment. Full Council agreed that the limit on the risk indicator for the overall investment portfolio should be 0.05% i.e. there is a 99.95% probability that the council will get its investments back. The actual risk indicator has varied between 0.003% and 0.006% over the last 6 months; well below the maximum limit.

3.11 In February / March 2013 Internal Audit & Business risk undertook an audit of the treasury management function. The audit concluded that “substantial assurance” is provided on the effectiveness of the control framework operating and mitigation of risks for treasury management.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

4.1 The council’s external treasury advisors have been consulted over the content of this report.

5. FINANCIAL & OTHER IMPLICATIONS:

<u>Financial Implications:</u>

5.1 The financial implications of treasury management activity are reflected in the financing costs budget set out in paragraph 3.5.

Finance Officer Consulted: Name Mark Ireland Date: 14/06/13

<u>Legal Implications:</u>

5.2 The TMPS and associated actions are exercised under powers given to the council by Part 1 of the Local Government Act 2003 which includes the power for a local authority to invest for the purposes of the prudent management of its financial affairs (section 12).

Lawyer Consulted: Name Oliver Dixon Date: 21/06/13

Equalities, Sustainability, Crime & Disorder and Public Health Implications:

5.3 There are none arising directly from this report.

Risk and Opportunity Management Implications:

5.4 Risk section included in the body of the report.

Corporate / Citywide Implications:

5.5 The treasury management function provides financing for the capital programme and investment income commensurate with agreed risk parameters.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 The report asks for endorsement of action already taken.

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 previous year. This report fulfils this requirement.

SUPPORTING DOCUMENTATION

Appendices:

1. A summary of the treasury management action taken in the period October 2012 to March 2013.

2. March 2013 Treasury Management Bulletin.

Documents in Members' Rooms

None.

Background Documents

1. Part 1 of the Local Government Act 2003 and associated regulations.

2. "The Treasury Management Policy Statement and associated schedules 2012/13" approved by Cabinet on 15 March 2012.

3. The "Annual Investment Strategy 2011/12" approved by full Council on 22 March 2012 and amended on 19 July 2012.

4. Papers and files held within Strategic Finance, Finance & Resources.

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