

Appendices



Item No.

**NORTHAMPTON**  
BOROUGH COUNCIL

## CABINET REPORT

Report Title

INVESTMENT STRATEGY UPDATE 2008-09

**AGENDA STATUS:**

**PUBLIC**

<b>Cabinet Meeting Date:</b>	5 November 2008
<b>Key Decision:</b>	YES
<b>Listed on Forward Plan:</b>	NO
<b>Within Policy:</b>	NO
<b>Policy Document:</b>	YES
<b>Directorate:</b>	Finance and Support Services
<b>Accountable Cabinet Member:</b>	Malcolm Mildren
<b>Ward(s)</b>	Not Applicable

### 1. Purpose

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1.1 The purpose of the report is to update Cabinet on the Council's position in relation to its investment portfolio in the light of the current economic climate and to give added flexibility to the Treasury Strategy to enable the Finance Department to respond promptly in this rapidly changing environment.

### 2. Recommendations

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2.1 It is recommended that the Cabinet recommend the revised Treasury Management Strategy and Treasury Management Policy (TMP) 1 to Council for approval.

2.2 It is recommended that the Cabinet notes the delegated decision taken by the Chief Executive to raise investment limits for certain banks and endorses that decision.

### **3. Issues and Choices**

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#### **3.1 Report Background**

- 3.1.1 The Council's Treasury Strategy 2008-9 to 2010-11 was agreed at Council in February 2008. This incorporates the Council's Investment Strategy as well as its Finance and Borrowing Strategy.
- 3.1.2 The Council takes its responsibility for managing its financial resources very seriously and endeavours to minimise risk while maximising return in accordance with Government and professional guidance and legislation.

#### **3.2 Issues**

- 3.2.1 During the last couple of months events in the world economy have moved at an unprecedented rate. These events have had a direct impact on the Council's investment market, with the effect of increased volatility and risk.
- 3.2.2 Under the Local Government Act 2003 the Council is required to have regard to the CLG (formerly ODPM) Guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in the Public Services Code of Practice (2001) and updated Guidance Notes (2006).
- 3.2.3 The Council operates within the Treasury Management Strategy, which was agreed by Council in February 2008. The existing strategy follows Government guidelines of striking a prudent balance between risk and return. It is important to note that no investment strategy is risk free.
- 3.2.4 Under the agreed strategy all investments, with the exception of those to other local authorities, are placed only with those banks, building societies and authorised deposit takers under the Financial Services and Markets Act 2000 and allocated a satisfactory colour rating by Sector Treasury Services, whose list is updated monthly. This list is based upon credit ratings issued by the main rating agencies. Any changes to ratings during the month are notified to the authority immediately and action taken to remove from/add to the list as appropriate.
- 3.2.5 Recent events in relation to the banking sector have led to certain Governments offering national guarantees to specific banks and building societies to protect the principal invested by depositors.
- 3.2.6 Changes will only be able to be applied to new investments. In its ongoing investments this authority has no funds invested with Icelandic banks.
- 3.2.7 The Council does have investments with foreign banks based in Ireland and Singapore. The Governments of both of these countries have issued guarantees. It is intended that when these investments mature, any amount that is not needed for cash flow purposes will be invested in line with the most recent professional advice in relation to risk at the time of maturity.

#### **The Way Forward**

- 3.2.8 While no organisation is officially regarded as being 100% secure, the latest advice from our professional advisers (Sector Treasury Services) is that Councils should restrict their new investments to UK banks under the UK Government guarantee, or (currently for a maximum of 3 months) Irish banks under the Irish Government guarantee. (See annex A).

- 3.2.9 The Council works to minimise risk to the public funds under its care by following the latest advice available on secure institutions for all new investments.
- 3.2.10 The Council limits the amount it may place with a single institution (or Group) under its policy of spreading investment to minimise risk. This hampers the authority's ability to respond quickly to changing economic circumstances.
- 3.2.11 The Treasury Strategy has been amended to reflect these issues and the revised strategy is included for recommendation to Council at annex B.
- 3.2.12 In order to manage short-term issues with limits relating to deposit accounts and investments in the current banking sector crisis the Chief Executive agreed on 20 October 2008 to vary the limits with a small number of guaranteed institutions to enable the council's resources to be appropriately placed as follows:
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|---|------|
| Abbey                                     | £10m |
| Lloyds TSB/HBOS/Bank of Scotland combined | £10m |
| Barclays                                  | £10m |
| HSBC                                      | £10m |
| Nationwide Building Society               | £10m |
- 3.2.13 New investments will not be placed with HBOS or Bank of Scotland until any merger with Lloyds TSB is finalised and the position in relation to guarantees is confirmed.
- 3.2.14 The Council's Capital and Treasury Team will ensure that maturing investments, that are not required for cash flow purposes, are re-invested in institutions that fall within the categories supported by the latest advice.
- 3.2.15 It must be noted that in limiting the Council's investments to lower risk organisations, this is likely to reduce the level of interest returns that can be achieved. Based on average balances 1% for 12 months is worth approximately £520k. However, rates are currently good (and above the target set in the 2008/09 revenue budget) due to the banks' present need for cash, and it is felt that it is more important in the current circumstances to minimise the risk to the principal being invested.

### **Other Issues**

#### **3.2.16 Council Policy on Reserves and Balances**

The Council Wide Revenue Budget 2008-09 to 2010-11 report (agreed by Council in February 2008) included the Council's policy on reserves and balances – i.e. aiming for a minimum level of unallocated general fund reserves of £2.75m at the end of 2008/09 having regard to the outcome of the financial risk assessment.

#### **3.2.17 Treasury Management Practices (TMPs)**

The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The TMPs were agreed by Cabinet on 3 July 2006. They should be reviewed on a regular basis, and this review is currently in progress, and will take account of the economic events of 2008.

In order to manage the current situation, and to enable the Capital and Treasury Team to respond promptly to changes in the risk profile of financial institutions in future, a revised TMP1 and accompanying schedule is attached at annex C to this report for approval. This includes restrictions and revised counterparty limits that are recommended for the current economic condition and delegated powers to enable the Chief Finance Officer to respond quickly to market fluctuations and instability in the future.

### **3.3 Choices (Options)**

3.3.1 Cabinet are asked to agree the recommendations at paragraph 2 above.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

4.1.1 The Treasury Strategy report set the Council's policy on its debt and investment portfolios over the next and following two financial years. It is being revisited at this point, well before its annual review, in recognition of the need to adapt quickly to the unpredictable fluctuations in the economy and the banking world of the past few months.

### **4.2 Resources and Risk**

4.2.1 The report pertains to the management of the Council's investment portfolio, and resources and risk are dealt with in the main body of the report.

4.2.2 The risk management of the treasury function is considered as an integral part of day-to-day treasury activities, and is also specifically covered in the Council's Treasury Management Practices (TMPs).

### **4.3 Legal**

4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance. The relevant legislative and regulatory documents are listed in the background papers.

### **4.4 Equality**

4.4.1 There are no specific equalities issues or implications associated with this report.

### **4.5 Consultees (Internal and External)**

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisers, Sector, and with the Portfolio holder for Finance.

### **4.6 How the Proposals deliver Priority Outcomes**

4.6.1 The Audit Commission Key Lines of Enquiry for the Use of Resources (Financial Standing) requires the Council to “keep its treasury management strategy under review and monitor against it. The strategy [should] reflect the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services”. – A well managed organisation that puts our customers at the heart of what we do.

#### **4.7 Other Implications**

4.7.1 No other implications have been identified.

### **5. Background Papers**

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#### **Statute, Regulation and Guidance**

HM Treasury statements on financial support to the banking industry (8 October 2008 and 13 October 2008)

Joint Statement by Government and the Local Government Association re Icelandic Banks (9 October 2008)

CIPFA Treasury Management in the Public Services - Code of Practice and Cross-Sectoral Guidance Notes 2001

Local Government Act 2003

Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

ODPM Guidance on Local Government Investments 2004

CIPFA Treasury Management in the Public Services - Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (Fully Revised Second Edition 2006)

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008

CIPFA Prudential Code for Capital Finance in Local Authorities 2003

CIPFA Prudential Code for Capital Finance in Local Authorities – Fully Revised Guidance Notes for Practitioners 2007

#### **Reports to Cabinet & Council**

Capital Programme 2006-07 Monitoring – Report to Cabinet 3 July 2006 (Contains the Council’s Treasury Management Practices (TMPs))

Capital Programme 2008-09 to 2012-13 - Report to Cabinet 20 February 2008

Council Wide Revenue Budget 2008-09 to 2010-11 - Report to Cabinet 20 February 2008

Housing Revenue Account (HRA) Budget 2008/09 and Rent Setting - Report to Cabinet 20 February 2008

Prudential Indicators for Capital Finance 2008-09 to 2010-11 - Report to Cabinet 20 February 2008

Prudential indicators for Capital Finance 2007-08 - Position as at 30 November 2007 - Report to Council 21 January 2008 (Contains formal adoption of the CIPFA Code of Practice for Treasury Management)

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**Institutions under UK and Ireland Government Guarantee**  
*as at 20 October 2008*

**UK**

Abbey  
Barclays  
HSBC  
Lloyds TSB  
Nationwide Building Society  
Royal Bank of Scotland  
Standard Chartered  
Northern Rock

**Ireland** (*Guarantee in place until 28 September 2010*)

Allied Irish Bank  
Bank of Ireland  
Anglo Irish Bank  
Irish Life and Permanent  
Irish Nationwide Building Society  
Education Building Society

Education Building Society do not appear on Sector's list, so are not recommended, and Irish Nationwide is already covered in Nationwide Building Society.

**Additional Information**

**Singapore** (*Guarantee in place until December 2010*)

The Government of Singapore has announced that it will guarantee all local and foreign currency deposits of individual and non-bank customers in banks, finance companies and merchant banks licensed by the Monetary Authority of Singapore.