ITEM No. 5

Lothian Valuation Joint Board

Annual Investment Report

25th June 2010

1 Purpose of report

The purpose of this report is to adopt the CIPFA Code of Practice for Treasury Management in the Public Sector, CIPFA's Prudential Code for Capital Finance in Local Authorities and approve an Annual Investment Strategy for the Board, all of which are required by new investment regulations in Scotland.

2 Investment Regulations

2.1 Provisions were made in the Local Government in Scotland Act 2003 to allow Ministers to make regulations governing the investment of surplus funds by Scottish local authorities. The Local Government Investments (Scotland) Regulations 2010 were finally approved by the Scottish Parliament on 10 March 2010 and came into force on 1 April 2010. Ministers have issued consent giving local authorities powers to invest their surplus funds, subject to meeting certain reporting criteria. Local Authorities, including Joint Boards, have a three month transition period from 01 April in which to adopt the new regulations and before authorities can invest they must approve an Annual Investment Strategy detailing the investments which are permitted.

3 CIPFA Codes of Practice

3.1 The new investment regulations also require all Scottish local authorities to adopt in full both CIPFA's Treasury Management in the Public Sector - Code of Practice and Cross-Sectoral Guidance Notes (the TM Code) and CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The TM Code, which has been revised following recent events with Icelandic Banks, emphasises the management of risk in treasury management, and specifies the key principles and policies which authorities should formally adopt. These are contained in Appendix 1. The TM Code also recommends a form of words for authorities to include in their Treasury Management Policy Statement, and these are included as 1 to 3 in the Treasury Management Policy Statement in Appendix 2.

4 Annual Investment Strategy

4.1 The new Regulations require an annual investment strategy to be approved by the Board and that the absence of such approval would be in breach of the Regulations. The guidance accompanying the Regulations requires local authorities to "manage their investments in a way that minimises the risk to the capital sum and optimises the return on the funds consistent with those risks".

4.2 Currently the Board maintains any cash balances with the City of Edinburgh Council as part of the Council's banking arrangements. Any cash balance is effectively lent to the Council, but is offset by expenditure undertaken by the City of Edinburgh Council on behalf of the Board. Interest is given on month end net indebtedness balances between the Council and the Board in accordance with LASAAC's Guidance Note 2 on Interest on Revenue Balances. However, the average monthly balance during 2009/10 was only £402,535, with the lowest monthly balance being £151,228. Given administration arrangements with the City of Edinburgh Council and the relatively small investment balances which the Board has, it is recommended that the current arrangements are continued. Although the investment return will be small, the Board will gain security from its counterparty exposure being to the City of Edinburgh Council. The Annual Investment Strategy for the Board is contained in Appendix 2.

5 Recommendations

5.1 It is recommended that the Board:-

(i) notes the introduction new regulations governing the Board's Investments;

(ii) adopts CIPFA's 2009 Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes as the basis for treasury management by the Board;

(iii) adopts CIPFA's Prudential Code for Capital Finance in Local Authorities;

(iv) adopts the key principles and policies set out in Appendix 1; and

(v) approves the Annual Investment Strategy / Treasury Management Policy Statement in Appendix 2

D. McGougan

DONALD McGOUGAN,
Treasurer.
14th June 2010

Appendices 2

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Background Papers

APPENDIX 1

CIPFA Code of Practice
For Treasury Management in the Public Sector

(a) Key Principles:

The Code of Practice identifies the following 3 Key Principles in respect of Treasury Management in the public services:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy and should ensure that priority is given to security and liquidity when investing funds; and

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

(b) Key Policies:

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

    - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
    - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. The Board will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Board, and for the execution and administration of treasury management decisions to the Board's Treasurer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the xxx Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

APPENDIX 2

Annual Investment Strategy

(a) Treasury Management Policy Statement

1. The Board defines its Treasury Management activities as:

   The management of the Board's investments, its banking , money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2. The Board regards the successful identification monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. The Board acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive measurement techniques, within the context of effective risk management.

Treasury Management is carried out on behalf of the Board by the City of Edinburgh Council. The Board therefore adopts the Treasury Management Practices of the City of Edinburgh Council. The Board's approach to investment is a low risk one, and its investment arrangements reflect this.

(b) Permitted Investments

The Board will maintain its banking arrangement with the City of Edinburgh Council's group of bank accounts. The Board has no Investment Properties and makes no loans to third parties. As such the Board's only investment / counterparty exposure is to the City of Edinburgh Council.

(c) Prudential Indicators

The Board has no Capital Programme and therefore also has no long term borrowing. The indicators relating to debt are therefore not relevant for the Board. By virtue of the investment arrangements permitted in (b) above, all of the Board's investments are variable rate, and subject to movement in interest rates during the period of the investment.