Haringey Council

NOTICE OF MEETING

General Purposes Committee

THURSDAY, 22ND OCTOBER, 2009 at 19:00 HRS - 225 HIGH ROAD, WOOD GREEN, LONDON, N22 8HQ.

MEMBERS: Councillors Meehan (Chair), Griffith (Vice-Chair), Aitken, Bloch, Bull, Davies and Rahman Khan

AGENDA

1. APOLOGIES FOR ABSENCE (IF ANY)

2. URGENT BUSINESS

The Chair will consider the admission of any of any late items of urgent business. (Late items will be considered under the agenda item where they appear. New items will be dealt with at item 7 below).

3. DECLARATIONS OF INTEREST

A member with a personal interest in a matter who attends a meeting of the authority at which the matter is considered must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

A member with a personal interest in a matter also has a prejudicial interest in that matter if the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the member's judgment of the public interest **and** if this interest affects their financial position or the financial position of a person or body as described in paragraph 8 of the Code of Conduct **and/or** if it relates to the determining of any approval, consent, licence, permission or registration in relation to them or any person or body described in paragraph 8 of the Code of Conduct.

4. DEPUTATIONS/PETITIONS

To consider any requests received in accordance with Part 4, Section B, paragraph 29 of the Council's constitution.

5. MINUTES (PAGES 1 - 8)

To receive the minutes of the meetings of the General Purposes Committee held on 25 June 2009 and 7 July 2009.

6. TREASURY MANAGEMENT - 2ND QUARTER REVIEW (PAGES 9 - 24)

To receive the Treasury Management report – 2nd Quarter and Half Year ended 30 September 2009/10 Performance Update.

7. NEW ITEMS OF URGENT BUSINESS

To consider any items admitted at item 2 above

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Wednesday 14th October 2009

MINUTES OF THE GENERAL PURPOSES COMMITTEE
THURSDAY, 25 JUNE 2009

Councillors	Meehan (Chair), Griffith (Vice-Chair), Rahman Khan, Aitken, Bull, Davies and Williams
Apologies	Councillor Bloch

MINUTE NO.	SUBJECT/DECISION
GPCO01.	**APOLOGIES FOR ABSENCE (IF ANY)** Apologies for absence were received from Gerald Almeroth (Chief Financial Officer) and Councillor Bloch. Councillor Bloch was substituted for by Councillor Williams. Apologies for lateness were received from Councillors Bull and Davies.
GPCO02.	**URGENT BUSINESS** No items of urgent business were raised.
GPCO03.	**DECLARATIONS OF INTEREST** Mr Terence Mitchison, Legal Advisor, advised Members who were Trustees of the Alexandra Palace and Park Board that they were not required to declare an interest in Agenda Item 5, which contained accounts for the Alexandra Palace and Park charitable trust.
GPCO04.	**DEPUTATIONS/PETITIONS** No deputations or petitions were received.
GPCO05.	**STATEMENT OF ACCOUNTS 2008/2009** The Committee received the Statement of Accounts for 2008/09 and the **tabled** written comments from John Snelling, Employee Side Secretary. Kevin Bartle (Head of Corporate Finance) and Graham Oliver (Head of Finance – Accounting and Control) introduced the report which detailed the financial affairs of the Authority. The Committee noted that the accounts relating to Alexandra Palace and Park (AP&P) were for information only and did not form part of the Authority's accounts for approval by the Committee. Councillor Khan questioned the view that the AP&P was not controlled by the Council as the Council had funded a £2 million deficit with which AP&P closed the financial year. Mr Oliver explained that control of AP&P had been reviewed according to CIPFA (Charted Institute of Public Finance and Accountability) guidance and it had been concluded that there was not a group relationship between AP&P and the Council; therefore the AP&P

accounts were presented to the Committee for information only. In relation to the deficit funding Mr Oliver advised the Committee that the Council had a legal obligation to fund any loss incurred by the Palace and that this funding was budgeted for and monitored throughout the year.

In response to a question about the potential loss relating to the Council investments in Icelandic banks, Mr Bartle reported that the amount that would be lost to the authority under the current predictions was £4.718 million. However, accounting regulations required the authority to account for the fact that these funds had not and would not be available for the authority's use until the future dates identified for repayment. The overall impairment loss recognised in the Income and Expenditure Account in 2008/09, £7.814 million, had been calculated, therefore, by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies were recovered. Adjustments to the assumptions would be made in future accounts as more information became available. The Authority had utilised the capital finance regulations (issued February 2009) to defer the impact of the impairment on the General Fund, and a sum of £9.311m had been transferred to the Financial Instruments Adjustment Account, which related to the capital sum invested. The balance of £1.497m related to interest which had been borne in full by the General Fund.

Mr Bartle went on to explain that the interest impairment of £1.497 million was based on the investments remaining with the Icelandic banks through to 31st March 2009, at the rate at which the original investments were made, which ranged between 5.44% and 6.45%. The actual loss of interest, if the deposits were returned at maturity dates, was £877k. The additional loss identified was again as required under accounting requirements which it was deemed would take account of the loss from being unable to invest the capital sums further. Mr Bartle stressed, however, that in reality this would not have happened given that interest rates had reduced significantly (down to 0.5% or lower) and it would have been impossible for the authority to have achieved the previous levels of return.

Councillor Khan (Chair of the Audit Committee) confirmed that at its meeting on 2nd June 2009 the Audit Committee had commented on the Governance Statement and the concerns/ comments made thereon appeared to have been modified in the revised version along with the Statement of Accounts but asked why, in relation to the balance sheet, cash from the "Net Current Assets" had not been utilised in the past as was the case in 2008/09. Mr Bartle explained that Treasury Management considerations were made and it had been decided to utilise some of the cash due to the uncertainty of current markets rather than borrow to help finance its capital programme.

Councillor Khan expressed concerns at the increase of expenditure on Central Services in 2008/09 and that there had been a lack of consultation on this increase. Mr Oliver explained that Property Services was included within Central Services and there had been a significant decrease in the value of the Council's assets. Mr Oliver also reminded the Committee that the Council's budget had been approved by Cabinet and subsequently scrutinised by the Overview and Scrutiny Committee.

The Statement of Accounts would be brought back to the Committee at its meeting

	on 24th September 2009 following the completion of the external audit. **RESOLVED** That subject to amendments to the minor discrepancy of the figures reported for the General Fund on the Balance Sheet (page 35 of the report) and the Statement of Movement on the General Fund Balance (page 33 of the report) the Council's financial statements for 2008/09 be approved.
GPCO06.	**CONSULTATION FEEDBACK ON RESTRUCTURE OF ENVIRONMENTAL CRIME** The Committee received the report on the results of consultation to proposals on the restructuring of the Environmental Crime Service to create a new Street Enforcement Service. At its meeting on the 10th March 2009 the General Purposes Committee approved restructuring proposals subject to consultation results. The Committee noted that overall responses to the consultation had been positive and constructive with the main areas of concern being around the unsociable hours staff would be required to work in return for a 10% supplement. Mr Robin Payne, Head of Enforcement, highlighted that responses showed staff felt that a 10% supplement was not sufficient and had raised concerns about the training and health and safety implications of working unsociable hours. Mr Payne explained that staff training days would be planned and would mean the service would not be operational during training sessions. In response to questioning from the Committee Mr Payne explained that the 10% supplement for unsociable hours was the maximum amount payable for single-status. The Service expected an area based grant to fund the additional costs but if funding was not provided the cost would be covered by the Service. Employing additional weekend staff, instead of changing the hours of current workers, would create a two tier system and there was not the volume of staff to enable this. There would be a total of 23 Street Enforcement staff plus a Dog Warden. There would be a loss of three unwarranted Street Wardens posts. In terms of pay scales, six officers at the top of the existing P01 grade would see a difference of £1400 less in their salaries but the 10% supplement for unsociable hours would mean staff would not lose out financially. The Service was in discussions with the Human Resources Team to consider raising officers to grade P02. Posts would be evaluated on a consistent basis and any shifts in grades would have an impact on budget plans. Committee Members asked what the equalities implications of the restructure were. Mr Payne explained that an Equalities Impact Assessment (EIA) would be conducted in September 2009 but the main equalities concerns arising from consultation were surrounding people with carer and family commitments and work-life balance. With regard to the proposed two team structure the Committee raised concerns that the North and West area was large compared to the South and commented that there would be different needs in different areas of the borough. Mr Payne explained that consideration was given to aligning the Street Enforcement Service Teams with the Children's Network Areas but funding resources would not enable three enforcement teams to be set up. The new set up of the teams was based on

	enforcement intelligence and evidence of where there were problems but the intention was to retain flexibility when required and to have named contacts for each ward. Committee Members asked that Ward Councillors be given contact details of the named Enforcement Officer for their areas. A late written response to the consultation from John Snelling, Union representative, was tabled and included concerns about evening and weekend working, lack of flexibility of the structure to cope with annual leave and sickness, prospects of training for staff. Mr Payne informed the Committee that the points raised by Mr Snelling would be responded to. **RESOLVED** That the consultation undertaken and the comments from the Union are noted and the proposed steps for introducing a Street Enforcement Service that will replace the existing Environmental Crime Service be agreed.
GPCO07.	**MINUTES** **RESOLVED** That the minutes of the meeting held on 10th March be confirmed as a correct record.
GPCO08.	**NEW ITEMS OF URGENT BUSINESS** No new items of urgent business were received.
GPCO09.	**EXCLUSION OF THE PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for consideration of Agenda Items 10 and 11 as they contained exempt information as defined in Section 100a of the Local Government Act 1972; namely information that was likely to reveal the identity of an individual, and information relating to any individual.

The meeting ended at 20:10 hrs

Councillor George Meehan

Chair

Councillor ……………………………………

Chair

SIGNED AT MEETING…….DAY

OF…………………………………

CHAIR……………………………

MINUTES OF THE GENERAL PURPOSES COMMITTEE
TUESDAY, 7 JULY 2009

Councillors Meehan (Chair), Griffith (Vice-Chair), Rahman Khan and Bloch

Apologies Councillors Bull and Davies

MINUTE NO.	SUBJECT/DECISION
GPCO01.	**APOLOGIES FOR ABSENCE (IF ANY)** Apologies for absence were received from Councillors Gideon Bull and Matt Davies.
GPCO02.	**URGENT BUSINESS** It being a special meeting of the Committee, under the Council's Constitution, Part 4, Section B, Paragraph 17, no other business was permitted to be considered.
GPCO03.	**DECLARATIONS OF INTEREST** There were no declarations of interest in relation to items on the agenda.
GPCO04.	**TREASURY MANAGEMENT – 1ST QUARTERLY REVIEW REPORT** The Committee received the report of the London Borough of Haringey's Chief Financial Officer, Mr Gerald Almeroth, which updated the Committee on the Council's treasury management activities for the first quarter of 2009/10 and made recommendations to revise the Council's approved Treasury Management Strategy Statement (TMSS). Kevin Bartle, Head of Corporate Finance, gave a presentation outlining the key points of the report under consideration by the Committee, which included updated versions of Tables 1 and 2 of the report showing the Council's current investment position as at the date of the Committee meeting. The Committee requested that the full report of the Price Waterhouse Cooper (PwC) review be circulated to all Members of the General Purposes Committee. The Chief Financial Officer stated that the full report had already been provided to the Cabinet but nevertheless agreed to this request. Mark Horsfield from Arlingclose Ltd, the Council's Treasury Management advisors, provided an explanation of the rating system (set by credit rating agencies) for banks and building societies. AAA to AA+ are at the higher end of the rating scale and D (for default) was the lowest for long term (more than 1 year) credit. A different set of criteria was used for short term (less than 1 year) obligations; F1+ being the highest rating. The Council's activity had always been with institutions rated at A or A- and above, however, during this time of recession the Council would only invest in institutions with a minimum AA- long term and F1+ short term credit ratings. The rating system is one of the best tools available but was not the

only check conducted by officers before investments are made.

The Committee were advised that the Council is not currently investing in HSBC Bank due to its high investment threshold requiring investments of sums more than £20m and thus outside of the Council's strategy.

Among other options considered, Colin Duck, a London Borough of Haringey Treasury Officer, explained that Certificates of Deposit (CDs) were deposits that could be sold in the open market, although this could potentially be at a loss if the counterparty subsequently suffered a credit rating downgrade. The Committee noted that there would be no better return from CDs than fixed term deposits and that there had been no opportunity for the Council to invest in CDs due to the restrictions of the counterparty list.

Investments in Money Market Funds (MMFs) are in turn invested by the Fund Managers in a wide range of highly rated institutions, which would enable access to institutions beyond the Council's current approved list and provided preservation of capital. Councillor Bloch expressed some concerns that MMFs had not always maintained the preservation of capital. Mr Horsfield recognised the risk but assured members that in the highly unusual circumstance when this had occurred the relevant institutional owners had stepped-in to protect investors. The difference in returns between investing in MMFs rather than the Debt Management Office (DMO) was between ¾% and 1% and officers' advice was that this was an acceptable and measured risk providing better returns. In response to Councillor Bloch's questioning, officers explained that they had considered investing some of the Council's 'core' funding in MMFs but in the current economic climate longer term investments were not considered appropriate.

The Committee noted that the last loan taken from the Public Works Loans Board (PWLB) by the Council was in July 2007. Since then the Council had maintained high cash reserves and had used this cash instead of taking out loans; the Council would retain the ability to take loans out in the future.

Councillor Khan's raised concerns regarding points 6.11 (which stated that banks and building societies with AA- and F1+ rating were participants in the UK Government's Credit Guarantee Scheme) and 6.16 (which delegated authority on whether to restrict further investments to the Chief Financial Officer) in Appendix A. Mr Almeroth confirmed that regarding 6.11 conditions had been in place since January 2009 to deal with potential downgrading of credit ratings of institutions. With regard to 6.16 Mr Almeroth explained that this paragraph had been applied to allow flexibility when required.

Haringey officers and Arlingclose Ltd officers would be arranging a joint treasury management training session for members in September 2009. The Committee agreed that other members, not just members of the General Purpose Committee, should be invited.

Members agreed that the Committee would reconvene at short notice if circumstances were such that urgent treasury decisions were required.

RESOLVED

1. That Full Council agree to revise the Treasury Management Strategy Statement (TMSS) to include the Clydesdale Bank as a permitted institution for investment purposes on the same terms as the other institutions already on the approved list, i.e. a maximum exposure of £20m and a duration of up to 12 months.

2. That the proposed use of the following treasury management actions which are already approved or contained within the TMSS be noted:

   2.1 The Council's Treasury Management advisors will be asked to identify a minimum of two and a maximum of four AAAm Money Market Funds allowing total investments of up to £10m in accordance with the current TMSS.

   2.2 Investments will be made of up to £10m in bonds issued by the European Investment Bank with redemptions due in December 2010 and March 2011.

   2.3 The premature repayment of Public Works Loan Board (PWLB) loans of up to £25m will be made on favourable terms as approved by the Chief Financial Officer.

   2.4 The use of available cash balances to fund, in the short or medium term, a number of approved capital schemes in 2009/10.

The meeting ended at 20:10hrs

Councillor GEORGE MEEHAN

Chair

Councillor ……………………………………

Chair

SIGNED AT MEETING…….DAY

OF…………………………………

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Haringey Council

General Purposes Committee On 22 October 2009

Report Title.	**Treasury Management – 2nd Quarter and half year ended 30 September 2009 performance update.**
Report of:	**Chief Financial Officer**
Signed :	G. Almeroth **Gerald Almeroth**
Contact Officer :	**Kevin Bartle, Head of Corporate Finance Telephone 020 8489 3743**
Wards(s) affected: **All**	Report for: **Non Key Decision**

1. Purpose of the report

1.1. To update the Committee on the Council's treasury management activities for the second quarter and half year ended 30 September 2009.

2. Recommendations

2.1 That Council is recommended to revise section 6.6 of the Treasury Management Strategy Statement (TMSS) to include 'call accounts' as Specified Investments.

2.2 That Members note the treasury activity undertaken for the second quarter and half year ended 30 September 2009.

3. Reason for recommendation(s)

3.1. To enable further secure investments to be made with the objective of optimising investment returns where possible but keeping risk to a minimum.

4. Summary

4.1. This report sets out the Council's treasury management activity and performance for the second quarter and half year ended 30 September 2009.

5. Head of Legal Services Comments

5.1 The Head of Legal Services has been consulted on the content of this report and comments that the recommendations are within the policy agreed by Council and consistent with the purposes of Financial Regulations. In considering the recommendations Members must take into account the expert financial advice available in the report and any further advice given at the meeting of the Committee in relation to the level of risk inherent in the proposals.

6. Use of appendices

- Appendix A Extract from the Council's TMSS - February 2009
- Appendix B Investments Performance Indicator;
- Appendix C Interest Rate Outlook;
- Appendix D LBH response to CIPFA's Treasury Code of Practice Consultation

7. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

- Financial Planning for 2009/10 to 2011/12 reported to Council and agreed on 23 February 2009.
- Report to General Purposes Committee dated 7 July 2009

For access to the background papers or any further information please contact Kevin Bartle, Head of Corporate Finance, on 0208 489 3743.

8. Background

8.1 In accordance with the recommendations contained in the Treasury Management Strategy Statement (TMSS) and approved by the Council on 23 February 2009, there is a requirement to report to members the treasury management activity on a half yearly basis. However, following the report of PwC into the Council's Icelandic investments, and in view of the continuing developments in this area, it has since been agreed to report to General Purposes Committee on a quarterly basis on all significant matters affecting the operation of the TMSS. This second report outlines the Council's treasury management activities for the quarter and half year ended 30 September 2009 and will cover:

- the investment of surplus balances and the effect of changes to the counterparty list;
- the use of the actions recommended and agreed at the last meeting on 7 July 2009;
- an update on the recovery of monies invested in the Icelandic Banks.

9. Treasury Management Activities for the Quarter Ended 30 September 2009

9.1 In October 2008, the Chief Financial Officer undertook a risk assessment into the institutions holding Council deposits, the results of which prompted a move to revise the Council's approved counterparty list.

9.2 The revised counterparty list was included in the 2009/10 TMSS, was ratified by full Council in February 2009 and incorporates the following:

'The Council will only invest (on a term or certificate basis) in UK banks and building societies that have a minimum AA- long term and F1+ short term credit rating AND are participants in the UK Government's Credit Guarantee Scheme (CGS).'

9.3 This formalised the action already taken to limit the Council's investment activity to the following banks:-

- Abbey National;
- Barclays;
- HSBC;
- Lloyds Banking Group;
- Royal Bank of Scotland;

  and the following Building Society;
- Nationwide.

In addition investments in the above institutions are restricted to a maximum limit of £20m per institution with a maximum duration of 12 months. Furthermore, investment activity, and thus the counterparty limit, is also limited to the Group concerned. The list of permitted investments and instruments is included within an extract of the Council's current TMSS which is attached as Appendix A to this report.

9.4 The effect of adopting the revised lending list is set out in Table 1 below which compares the investment portfolio in October 2008 to the current portfolio profile at 8 October 2009 as follows:

Table 1

Institution	**Value Oct 2008 £m**	**Maturity dates**	**Value 8 October 2009 £m**	**Maturity dates**
UK Banks	1.5	Oct 08	66.3	Oct 09 – Apr 10
UK Building Societies	58.7	Oct 08 – Aug 09	20.0	Nov 09
Irish Banks	61.1	Oct 08 – Jun 09	0	n/a
Irish Building Societies	12.0	Oct 08 – Feb 09	0	n/a
Other Non – UK Banks	23.4	Oct 08 – Nov 09	0	n/a
Debt Management Office	0		16.3	9 Oct 09
TOTAL	**156.7**		**102.6**	

9.5 The impact that the revisions to the TMSS has had is to eliminate the exposure to Irish building societies and banks and other non-UK banks. In addition, investments in UK building societies have been reduced by £38.7m to £20m. These reductions have seen increases in the exposure to UK banks and the government's Debt Management Office (DMO). The DMO is an investment facility operated by the UK government which has the highest security rating but conversely pays a very low interest rate in comparison to other institutions. A list of all outstanding deposits is set out at Appendix B.

9.6 At the time of preparing the first quarterly report in July only 3 investments remained in place that did not achieve the Council's minimum revised credit rating criteria, totalling £12m. These investments, that were placed before October 2008, were:

Table 2

Institution	Principal £M	Date Placed	Maturity
DEPFA Bank Plc	5	30/06/2008	30/06/2009
Skipton BS	2	24/07/2008	23/07/2009
Chelsea BS	5	29/08/2008	28/08/2009
Total	12		

9.7 At the time that the above investments were made they accorded with the approved credit rating criteria then prevailing. Subsequently, these institutions became subject to a number of rating downgrades by the credit rating agencies. The Council, did, nevertheless, undertake risk assessments on these remaining institutions and considered that the risk of none recovery was small. All of the above deposits were repaid on the due dates and consequently the Council no longer retains any investments that do not meet the credit rating criteria set out in the TMSS.

9.8 The security of investments remains the principal investment objective for this authority. The approved performance indicator, which has been developed in conjunction with the treasury management advisors, and provides a credit rating based objective scoring analysis, is provided at Appendix B.

9.9 The credit risk scores of **3.5** (value weighted average) and **4.0** (time weighted average) indicate a low level of security risk based on the methodology adopted by our treasury advisors as follows:

Above target (AAA to AA+, Score 0-2)
Target score (AA to A+, Score 3-5)
Below target (below A+, Score over 5)

Credit risk scores 2009/10

	1st quarter as at 30 June 09	**2nd quarter as at 30 Sept 09**
Value Weighted	4.3	3.5
Time Weighted	4.3	4.0

9.10 On this basis, Haringey remains in the middle of the target range. The scores achieved in this quarter show an improvement over those reported in quarter 1 of 4.3 and 4.3 respectively as shown above and due largely to the repayment of the 3 deposits set out in Table 2 above.

9.11 Although the Council has adopted a more prudent stance in respect of the treasury management function it has still been possible to out perform the investment performance indicator over the first five months (ended August) of 2009/10 as follows:

Target:	0.5% above base rate
Actual Investment performance:	0.7407% above base rate

Interest rate outlook

9.12 The TMSS is predicated on interest rate forecasts provided by the Council's Treasury Management advisors, currently Arlingclose. The latest forecast compared to the version used in the estimates is attached at Appendix C. The base rate is now forecast to remain constant at 0.5% until September 2010 but could rise by a series of phased increases to 4% by December 2011. The interest rate outlook is important because it affects the term of future investments and hence the capacity to maximise interest earned. The Council would not, for example, want to invest for periods in excess 12 months given that the rates are likely to increase in the medium term.

Interest earned in the period ended 30 September 2009

9.13 The interest earnings in the first quarter amounted to £0.682m, and in the second quarter £0.458m totalling £1.14m for the half year. The forecast for investment income in 2009/10 is £2 million. Whilst interest earnings achieved in the first half year indicate that this sum will be achieved, the pattern of replacement investments, i.e. at considerably lower rates of interest, makes it unlikely that the forecast of £2m will be achieved. Based on the best information currently available it is anticipated that investment income for 2009/10 is more likely to be in the order of £1.6m. Members will be kept informed of the position in future quarterly reports.

Update on the recommendations and actions approved at the 7 July meeting

9.14 At the last meeting of General Purposes Committee it was resolved that;

9.14.1 The Council is recommended to revise the Treasury Management Strategy Statement to include the Clydesdale Bank as a permitted institution for investment purposes on the same terms as the other institutions already on the approved list i.e. a maximum exposure of £20m and a duration of up to 12 months.

9.14.2 That Members note the proposed use of the following Treasury Management actions which are already contained within the TMSS:-

9.14.2.1 The Council's treasury management advisors be asked to identify a minimum of two and a maximum of four 'AAAm' rated Money Market Funds allowing total investments of up to £10m in accordance with the current TMSS.

9.14.2.2 Investments will be made of up to £10m in bonds issued by the European Investment Bank with redemptions due in December 2010 and March 2011.

9.14.2.3 The premature repayment of PWLB loans of up to £25m will be made on favourable terms as approved by the Chief Financial Officer.

9.14.2.4 The use of available cash balances to fund, in the short or medium term, a number of approved capital schemes in 2009/10.

9.15 Set out below is an update on each of these proposed actions:-

9.15.1 ***Add Clydesdale Bank to the counterparty list***: Following the Committee's decision, agreed by Council on 20th July 2009, Clydesdale Bank was subsequently placed on 'negative outlook' by Moody's, the credit rating agency and as a result, the Council's treasury management advisors reduced the recommended maturity period for investments with this institution from a maximum duration of one year to a maximum of one month. In view of the additional counterparty risk, no investments will be made with Clydesdale Bank until the restoration of a 'stable' credit rating outlook and an increase in the recommended investment duration period is confirmed by the Council's treasury advisors. Although the counterparty list remains extremely limited at present, reflecting the continued prudent approach, Arlingclose are likely to recommend the addition of a number of international names to the existing counterparty list in due course. These proposals will be considered in a future report.

9.15.2 At present the only outlet for the placement of overnight or very short-term monies is the DMO. Although, as discussed in the first quarterly report, the counterparty is AAA rated, deposits only attract an annual equivalent rate of 0.25%. By contrast, 'call accounts' (which are investments for indeterminate periods) and operate as short term deposit accounts for periods determined by the customer, are currently paying up to 0.80% on similar terms. At least two of the institutions on the approved lending list are currently operating these accounts on the terms described above. At present, the Council is unable to place investments in 'call accounts' as they are not explicitly included in the list of specified investments listed in paragraph 6.6 of the TMSS. In order to maximise earnings on short term investments therefore, it is **recommended** that approval be sought from Council to revise the TMSS to include 'call accounts' as Specified Investments. In instances where call accounts are used, the investment will count against the £20m limit for the relevant counterparty.

9.15.2.1 ***The use of AAAm Money Market Funds;*** At the date of preparing this report due diligence is being undertaken, in conjunction with the Council's treasury advisors, into a number of AAAm Money Market Funds. The choice of the Money Market Fund managers to assess was made with the Council's treasury management advisors on an objective basis. Interviews will take place with representatives of the following firms on 14 October 2009:-

- Prime Rate;
- Henderson Global Investors;
- Royal Bank of Scotland;
- Northern Trust; and,

- Goldman Sachs.

Arlingclose will support the Head of Corporate Finance and the Interim Treasury Manager in the interview process which will consist of a 20 minute presentation from each manager followed by a 25 minute question and answer session. Attendees have been asked to address the following matters in their presentations:-

- how is credit risk identified and controlled, specifically how is the client's capital investment and the fund's capital value protected?
- how is liquidity maintained and managed?
- an overview of the portfolio construction and management, in particular how are investors protected from adverse market swings?
- the key characteristics of the fund; and,
- how many local authority clients each of the fund managers has.

Following the interview process, a recommendation will be made to the Chief Financial Officer on the preferred managers for the Council. On approval, investments up to £10m will be placed with the selected fund managers in accordance with the TMSS.

9.15.3 ***Investments in bonds issued by the European Investment Bank;*** at the last meeting two such investments were proposed, however since then the indicative yields on the investments have narrowed considerably. In view of the interest forecast set out in paragraph 9.12 above, and the associated interest rate risk now implicit in these investments, it has been decided not to proceed until a more favourable yield is indicated that fully reflects the risk of potential rate rises.

9.15.4 ***Repaying some-long term debt to the PWLB;*** at the last meeting a case was made for prematurely repaying some debt to the PWLB on 'neutral terms' to eliminate all treasury risk in respect of the commensurate reduction in the available monies for investment. Although a suitable loan was identified at the July meeting, it was not possible to complete matters on the terms indicated as gilt yields had fallen following implementation of the Governments Quantitative Easing programme. As a result of the technical operations of the Bank of England, i.e. using the additional 'money' to buy gilt edged stocks from banks in order to strengthen their balance sheets, a one way market in gilts has developed. As a consequence gilt prices have risen thereby rendering the proposal financially unviable at this time.

However, following the lower gilt yields currently prevailing a number of loans in the Council's portfolio with lower coupons are currently being shadowed in conjunction with the treasury advisors and it is possible that some early repayment, consistent with the principles set out above, could be achieved during the remainder of 2009/10.

9.15.5 ***Providing medium term finance for Capital Finance;*** at the last meeting it was proposed that consideration be given to providing medium term finance to a number of 2009/10 approved capital schemes that are intended to be financed in due course from sales of council properties. By providing medium term finance the properties can be sold in a more favourable economic climate and treasury risk is eliminated in respect of finance provided. To date, the pattern of the capital spend has meant that it has not been necessary to invoke this facility although it remains available to be utilised if required.

10. Reviews of Treasury Management Operations

10.1 Given the national attention given to treasury management activities and operations since the Icelandic banking crisis, there have been a number of national and local reviews undertaken.

10.2 The recent Internal Audit report to the Council's Audit Committee in April 2009 contains a number of recommendations which were made by PwC following their review of Haringey Council's treasury management procedures and the Audit Commission's national report on Treasury Management. All of the recommendations have already been implemented.

11. The Chartered Institute of Public Finance and Accountancy (CIPFA) Consultation

11.1 As a consequence of the Icelandic banking crisis CIPFA have undertaken a consultation exercise with a view to revising the Treasury Management Code. The scope of the current consultation covered matters of Member scrutiny, changes to TMSS approval procedures, Member training and interim reporting procedures on the implementation of the TMSS. CIPFA's key questions pertaining to these issues together with Haringey's response are attached as Appendix D for information.

12. Update on the Recovery of Monies Invested in the Icelandic Banks

12.1 The administration process for the Icelandic banks in which Council deposits are held is continuing. Since the last meeting a first interim payment has been received in respect of Heritable Bank amounting to £3,267,899 (equivalent to16.13p in the pound of the deposits with that bank). It is anticipated that a second interim payment of £1.9m (equivalent to 10p in the pound) will be received in December 2009. The position with investments in respect of investments held in Glitnir and Landsbanki bank remains unchanged.

12.2 The government has issued a regulation to allow authorities to defer accounting for the net loss until later years. CIPFA has recently issued further accounting guidance for authorities on the assumptions for deferred impairments in the 2008/09 accounts and based on the latest position, this recommends assuming an estimated recovery of 82.3% of the total capital sum invested in all Council Icelandic investments. The Council has, however, accounted for interest not received in relation to these investments in 2008/09.

13. Conclusions

13.1 The proposal recommended in this report, namely the addition of 'call accounts' to the list of specified investments that may be used by the existing counterparties on the approved lending list, will add considerably to the Council's ability to maximise returns on secure and liquid investments.

13.2 Future reports will monitor the implementation of the proposal now recommended, if approved, and will continue to identify opportunities to further underpin the prudent implementation of the TMSS.

Appendix A

Extract from the Council's TMSS – February 2009

6.10 Financial markets and financial institutions remain in a state of heightened risk as the impact of the credit crunch continues to adversely affect the global economy with particular volatility in the financial and banking sectors. In order to reduce risk the Council has considered adopting a more tiered approach to limits and ratings, including the use of sovereign ratings. However, this strategy is recommending an approach that goes further than this. The Council's investment activities have been restricted as a consequence in order to demonstrably address the prevailing higher risk backdrop and it is proposed to continue to restrict this and at the same time take advantage of more AAA rated government backed instruments. This will apply to all new transactions.

6.11 The Council is able to invest in the investment instruments outlined in 6.6 and 6.7 above but it is proposed that investments in banks and building societies (on a term or certificate of deposit basis) are limited to UK banks and building societies that have a minimum AA- long term credit rating and F1+ short term rating and are participants in the UK Government's Credit Guarantee Scheme (CGS).

This will limit activity to the following banks:

- Abbey National
- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland

and the following Building Society:

- Nationwide

The CGS effectively provides a UK Government Guarantee for these institutions, some of whom such as Lloyds Banking Group and Royal Bank of Scotland have effectively been partially nationalised by the UK Government.

It is proposed that deposits with these banks and building society are allowed for periods up to 12 months duration and £20m exposure limit per institution applies at a group level.

Given current conditions and the possibility of downgrade to the UK and its banks the Chief Financial Officer retains delegated power to allow the continuation of use of these six institutions even if they suffer downgrades below a long-term rating of AA- and a short-term rating of F1+, whilst the UK Government Guarantee remains in place.

The previous strategy allowed for the use of non-UK banks and building societies that had minimum ratings of A and F1.

6.12 The Council has an account with the Debt Management Deposit Account Facility (DMADF). This facility allows the Council to invest with the UK Government via HM Treasury for periods up to 6 months. There is no exposure limit on the DMADF as an investment counterparty.

6.13 The Council can utilise Money Market Funds with a AAAm rating and operating on a constant net asset value basis (CNAV). The Council can invest up to £10m in money market funds but has a maximum exposure limit to any one Fund of £5m.

6.14 Investments in other UK local authorities are permitted. There is a £30m exposure limit on each local authority as investment counterparties.

6.15 The Council is permitted to invest in sterling denominated bonds issued by HM Government (Gilts), bonds issued with a HM Government Guarantee and bonds issued by Multi Lateral Development Banks (i.e. European Investment Bank, World Bank). Investments in these bonds will be for periods of up to 6 years. The Council will look to utilise more of this highly secure government backed instruments.

6.16 The permitted investments can be summarised as follows:

Investment	**Maximum Counterparty Limit**	**Maximum Length of Investment**	**Criteria**
Banks and Building Societies	£20m	1 year	Min AA- long term and F1+ rating plus CGS (or equivalent)
Local Authorities	£30m	5 years	
Money Market Funds	£5m	n/a	AAAm and CNAV
HM Government (DMADF)	Unlimited	6 months	
HM Government (Gilts and Treasury Bills)	Unlimited	6 years	
Bonds issued by Multilateral Development Banks	£60m	6 years	
Bonds issued with HM Government Guarantee	£60m	6 years	

The Chief Financial Officer will assess whether to restrict further within these limits based on the latest available market information and advice.

INVESTMENTS PERFORMANCE INDICATOR

INSTITUTION:	Group	Principal	Matures	Days to maturity	Rate	**Credit rating** (source Bloomberg)	**Credit Risk Score**
(a) Outstanding deposits							
Abbey Time Deposits	Santander	£5,125,000.00	02/11/2009	19	0.50%	AA-	4
Abbey Time Deposits		£5,000,000.00	03/12/2009	50	0.67%	AA-	4
Abbey Time Deposits		£6,750,000.00	04/01/2010	82	0.54%	AA-	4
Lloyds	Lloyds Banking Group	£5,000,000.00	30/10/2009	16	1.15%	AA-	4
Lloyds		£5,000,000.00	02/04/2010	170	1.10%	AA-	4
Lloyds		£5,000,000.00	08/01/2010	86	1.65%	AA-	4
Nationwide	Nationwide	£11,500,000.00	02/11/2009	19	5.65%	AA-	4
Nationwide		£8,500,000.00	05/11/2009	22	1.61%	AA-	4
RBS	RBS	£5,000,000.00	11/12/2009	58	3.70%	AA-	4
RBS		£10,000,000.00	17/12/2009	64	1.47%	AA-	4
RBS		£5,000,000.00	03/03/2010	140	0.98%	AA-	4
Barclays	Barclays	£4,500,000.00	29/01/2010	107	1.09%	AA-	4
Barclays		£10,000,000.00	15/01/2010	93	1.25%	AA-	4
DMO	DMO	£16,270,000.00	15/10/2009	1	0.25%	AAA	1
Total		£ 102,645,000		08/12/2009	1.630%		
Number of deposits		14					
Value Weighted Average		£ 7,331,786				AA-	3.5
Time Weighted Average				56		AA-	4.0

Credit risk scored 1 - 10 : 1 = strongest rating lowest risk, i.e. AAA, through to 15 = lowest credit rating, highest risk, i.e. D
Non-rated, non-guaranteed institutions score 11

Above Target (AAA to AA+ Score 0-2)
Target (AA to A+ Score 3-5)
Below Target (Anything less than A+, Score above 5)

On this basis Haringey is in the middle of its target range

Appendix C

Interest Rate Outlook

The TMSS is predicated on interest rate assumptions provided by Arlingclose. The table below provides the current forecast compared with the earlier forecast as follows:

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Official Bank Rate										
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00	4.00
Downside risk					-0.50	-0.50	-0.50	-0.25	-0.25	-0.25
1-yr LIBID										
Upside risk				+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.25	1.50	2.00	2.75	3.50	4.00	4.25	4.25
Downside risk					-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Arlingclose's forecast for interest rates (December 2008)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Official Bank Rate									
Upside risk							+0.25	+0.25	+0.25
Central case	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.50**	**2.00**	**2.50**	**2.50**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.50	-0.50	-0.50	-0.50
1-yr LIBID									
Upside risk									
Central case	**2.50**	**1.75**	**1.50**	**1.50**	**1.50**	**1.75**	**2.00**	**2.75**	**3.00**
Downside risk	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt									
Upside risk									
Central case	**3.00**	**2.75**	**2.50**	**2.00**	**2.00**	**2.50**	**2.75**	**3.00**	**4.00**
Downside risk		-0.50	-0.50	-0.50	-0.50	-0.50			
10-yr gilt									
Upside risk									
Central case	**3.40**	**3.10**	**3.00**	**3.00**	**3.00**	**3.50**	**3.75**	**4.00**	**4.50**
Downside risk	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50			
20-yr gilt									
Upside risk		+0.10	+0.10	+0.10	+0.10	+0.10			
Central case	**4.00**	**4.00**	**4.00**	**4.25**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**
Downside risk		-0.10	-0.10	-0.10	-0.10	-0.10			
50-yr gilt									
Upside risk	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10
Central case	**3.90**	**3.90**	**4.00**	**4.00**	**4.25**	**4.50**	**4.50**	**4.50**	**4.50**
Downside risk	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10

It will be seen that base rate is now forecast to remain constant at until September 2010 but could rise by a series of phased increase to 4% by December 2011.

Appendix D

RESPONSE OF HARINGEY COUNCIL
CIPFA REVISED TREASURY CODE CONSULTATION

The London Borough of Haringey welcomes CIPFA's decision to revise the Treasury Code and the opportunity to comment on the draft.

The four key changes to the Code now proposed are considered to be uncontroversial, easily implemented and are fully supported by this authority.

In relation to the key changes to the sectional guidance, the Council wishes to make the following observations;

Key point 1 – 'Organisations should not solely rely on credit ratings when choosing a counter party, but should use all available market information.'

Whilst the thrust of this point is supported, it would be helpful if a reference could be made in the new Code as to what CIPFA perceive as appropriate additional sources of market information. Additional sources of information could include reading the financial press, awareness of sudden and unexplained downward movements in bank share prices, scrutiny of bank annual reports and accounts, interim statements by bank chairmen and credit default swap prices.

Key point 2 -'That a sound diversification policy will include country, sector and group limits'

The investment in a sector or a country must always be justified on the grounds that it is believed that there is complete security of capital; common sense must prevail at all times. At present it is believed that the majority of local authorities no longer have direct exposure to overseas banks. It is agreed, however, that strict group limits must always be applied. An alternative drafting is suggested as follows:

'That a sound diversification policy will include detailed consideration of the extent of any country and sector allocations and the imposition of strict group limits'

Proposed key changes to the Code:

1. **Enhancement of the role of scrutiny of treasury management strategies and procedures. It will be a public body's responsibility to identify an appropriate body or individual to have responsibility for the scrutiny function which may be a committee such as a finance scrutiny committee or audit committee. This reflects the increased prevalence of Audit Committee and Scrutiny functions across the public services.**

Proposal supported. For information, this issue has been addressed in this authority by the introduction of quarterly reports to the Council's General Purposes (GP) Committee. This is the committee vested with accounts approval responsibilities and is seen as the most appropriate committee to oversee, and scrutinise, treasury management activities.

2. Currently the Treasury Management Strategy must be approved by the full board or council and this is typically done as part of the approval of the budget. The revised Code will allow approval from a relevant committee. Where approval is not by full board or council, the decisions made must be reported to full council. This reflects the evolving political structures within Local Government and ensures that public bodies consider treasury management away from the focus of the budget.

Proposal supported. The Council has already put in place an enhancement to procedures by the regular review and scrutiny of the TMSS and treasury management activities by the GP committee (as outlined above). Any revisions to the TMSS will be routed through the GP committee for agreement before final approval of the Council. It is suggested that in-year revisions could be approved by GP and formally ratified by Council to enable treasury teams to implement actions more speedily and efficiently in times of changing or volatile interest rates.

3. **The requirement for ensuring that staff are appropriately qualified and trained is already contained within the existing code. The revised Code will require training to be available for the relevant board / Council members with responsibility for treasury management. This is to ensure that all those responsible for treasury management are aware of their responsibilities and have access to training.**

Proposal supported. The Council has already implemented routine Treasury Management training for Council members.

4. The existing Code requires the Treasury Management Strategy to be approved prior to the start of the financial year and a report presented after the end of the financial year detailing operational activity throughout the year. The revised code will also require an interim or mid-year operational report.

Proposal supported. The Council already has quarterly reporting to GP committee in place.

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