




Haringey Council
Agenda item:

General Purposes Committee

On 29 March 2010

Report Title.	Treasury Management 4th Quarter Performance update for the period ending 31 March 2010	
Report of:	Chief Financial Officer	
Signed :	 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 fourth quarter and period ending 31 March 2010.	
2. Recommendations		
2.1	That Members note the Treasury Management activity undertaken for the fourth quarter and period ending 31 March 2010.	
3. Reason for recommendation(s)		
3.1.	To ensure members are aware of the Treasury Management activities undertaken in the fourth quarter of 2009/10 and to report on performance.	

4. Summary

- 4.1. This report sets out the Council's Treasury Management activity and performance for the fourth quarter and period ending 31 March 2010.

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 – Investments Performance Indicator.
- Appendix B – Interest Rate Outlook

7. Local Government (Access to Information) Act 1985

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

- Financial Planning Report for 2010/11 to 2011/13 reported to Council and agreed on 22 February 2010.
- Reports to General Purposes Committee dated 7 July 2009, 22 October 2009 and 12 January 2010.

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

8. Performance Update – 4th Quarter and Period ending 31 March 2010

8.1 At the last meeting of this Committee, Members were advised of a number of constitutional changes which became necessary following the revisions to CIPFA's Code of Practice on Treasury Management in December 2009. The Constitution Review Working Group has now endorsed the consequent constitutional changes, which have formalised the reporting process whereby this Committee receives quarterly reports on the implementation and regular monitoring of the treasury management policies and practices. The other constitutional changes relate to a scrutiny responsibility given to the Audit Committee and additional reporting to Council. This fourth quarter report outlines the Council's treasury management activity for the period ending 31 March 2010.

9. Treasury Management Activities for the Quarter ending 31 March 2010

9.1 As has been reported previously, 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 In the Council's 2009/10 Treasury Management Strategy Statement (TMSS), investments in banks and building societies (on a term, at call or on a 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 from the Fitch credit rating agency and are participants in the UK Government's Credit Guarantee Scheme. This currently limits activity to seven UK institutions all of which have maximum investment limits of £20m at group level and term durations of a maximum of 12 months.

9.3 Following a change in the requirements of the CIPFA Code, which were reported directly to the Audit Committee on 1 February 2010, following this Committee's endorsement of the proposed 2010/11 TMSS, recognition should now be given to the credit ratings of the three main agencies (Fitch, Moody's and Standard and Poor's) and decisions made on the basis of the lowest of these ratings. However, the Code recognises that credit ratings have limitations and should not be solely relied upon. Consequently further analysis should be undertaken into a range of other indicators as set out below.

9.4 In addition to the credit rating criteria adopted, a real time information monitoring process is maintained on the institutions included in the lending list by the Council's treasury advisors. This is obtained from a reliable source and includes, in addition to credit rating movements, all breaking news concerning relevant indicators including credit default swaps, share price movements, regulatory matters, government and parent guarantee facilities, corporate news etc. This information is evaluated by the treasury advisors and, if considered significant, communicated to Council officers. If the information obtained is negative and more likely to place Council funds in potential jeopardy, future dealing with the counterparty would be suspended with immediate effect.

9.5 After considering the credit ratings of the three agencies and assessing the other indicators referred to above, the current counterparty list containing the seven institutions is still considered to be safe and secure by both Arlingclose and Council officers and is retained in full in the recently approved 2010/11 TMSS as follows:

- Santander UK Plc (formerly known as Abbey)
- Lloyds TSB Bank Plc (Lloyds Banking Group)
- Bank of Scotland Plc (Lloyds Banking Group)
- Barclays
- Clydesdale
- Royal Bank of Scotland
- Nationwide Building Society

Future assessments of existing UK and potential UK counterparties will continue to be made based on the consideration of the range of indicators set out above. As agreed at the last meeting this assessment currently includes a detailed analysis of all UK building societies and a report on this matter will be submitted to a future meeting of the committee. The required amendments to reflect the change of methodology referred to in 9.3, 9.4 and 9.5 have been incorporated into the TMSS and were approved by the Council at its meeting on 22 February 2010.

9.6 The effect of adopting the current lending list is set out in Table 1 below which compares the investment portfolio reported by the Chief Financial Officer in October 2008 to the current portfolio profile at 15 March 2010 as follows:

Table 1

Institution	Value Oct 2008 £m	Maturity dates	Value 15 Mar 2010 £m	Maturity dates
UK Banks	1.5	Oct 08	36.3	Mar 10 – Apr 10
UK Building Societies	58.7	Oct 08 – Aug 09	9.4	Mar 10 – May 10
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
Money Market Funds	0		11.1	16 Mar 10
Debt Management Office	0		0	
TOTAL	156.7		56.8	

Note: This table includes Pension Fund but excludes Icelandic investments.

9.7 It can be seen from the table, the significant impact that the revisions to the TMSS has had. This includes eliminating the exposure to Irish building societies

and banks and other non-UK banks. In addition, investments in UK building societies have been reduced by £49.3m to £9.4m. These reductions have been matched by increases in the exposure to UK banks and money market funds. A list of all outstanding deposits is set out at Appendix A.

- 9.8 The security of investments remains the principal investment objective for this authority. Appendix A sets out a performance indicator, which has been developed in conjunction with the treasury management advisors, and provides a credit rating based objective scoring analysis.
- 9.9 The credit risk scores of 3.5 (value weighted average) and 4.2 (time weighted average) indicate a low level of security risk based on the methodology adopted by our treasury advisors as set out at the foot of the table 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 2009/2010

	1 st quarter as at 30 Jun 09	2 nd quarter as at 30 Sep 09	3 rd quarter as at 31 Dec 09	4 th quarter as at 31 Mar 10
Value Weighted	4.3	3.5	3.5	3.5
Time Weighted	4.3	4.0	4.0	4.2

- 9.10 On this basis, Haringey is within the target range. The scores achieved in this quarter are broadly similar to those reported in quarters 2 and 3 but show an improvement over those reported in quarter 1 of 4.3 and 4.3 respectively.
- 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 eleven months (ended February) of 2009/10 as follows:

Target: 0.5% above Base Rate

Actual Investment performance: 0.5397% above Base Rate

Interest Rate Outlook

- 9.12 The TMSS is predicated on interest rate forecasts provided by the Council's Treasury Management advisors, Arlingclose. The latest forecast compared to the version used in the estimates is shown as Appendix B. It can be seen that 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 3% by March 2013. The interest rate outlook is important because it affects borrowing decisions and 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 year ending 31 March 2010

9.13 The interest earnings in the fourth quarter are forecast to amount to £0.042m, making £1.335m for the year to date. The budget for investment income in 2009/10 is £2 million. The shortfall of £0.665m (compared to the estimate of £2m) is due to the pattern of investment replacement, i.e. new deposits are being made at lower rates than those maturing and capital expenditure which is currently being financed by revenue balances pending long-term borrowing. It should be noted, however, that this shortfall is offset by a reduction in borrowing costs in year resulting from the non-replacement of a long term loan.

10. Icelandic Investments

- 10.1 The administration process for the Icelandic banks in which Council deposits are held is continuing. It has already been reported to the Committee that two interim payments have been received in respect of Heritable Bank amounting to £5,726,195.44 (equivalent to circa 29p in the pound of the deposits with that bank). The position with investments in respect of those held in Glitnir Bank has changed in that the Glitnir Winding Up Board recently decided not to allow priority status to local authorities' deposit claims. A formal legal objection to this decision has been filed. The Council has £2m deposits in Glitnir. Further information will be provided to Cabinet once the position is clearer. The position in relation to Landsbanki Bank remains unchanged.
- 10.2 The government has issued a regulation to allow authorities to defer accounting for the net loss until 2010/11. The latest estimate of the impairment to be charged to the Council's accounts assumes an estimated recovery of 83.3% of the total capital sum invested in all Council Icelandic investments; this amounts to £6.2m.
- 10.3 However, CLG subsequently advised that Authorities could request permission to capitalise the impairment that would result from the Icelandic investments by mid-December. The Council's application for permission to capitalise costs of £11.1m was successful which means that the loss may now be financed over a period of 20 years from 2009/10.
- 10.4 The Council has received offers of interest from two companies specialising in buying the claims in respect of the Icelandic investments. Further offers are anticipated as the administration process continues. It is not unusual in insolvency processes such as this for financial institutions to seek to purchase other organisations debts.
- 10.5 Council officers will, in conjunction with the Council's treasury advisors and administrators of the Icelandic banks, weigh up the relative recoveries expected from selling the claims or retaining them until the administration process is complete. The committee will be kept informed of developments.

11. **Borrowing from the Public Works Loan Board (PWLB)**

11.1 It has been previously reported that in order to reduce treasury risk, internal balances have been used to provide interim financing for the capital programme and for repaying £17.8m of maturing PWLB debt. Clearly a continuation of internal borrowing cannot be sustained as a long-term strategy and following discussion with Arlingclose it has been decided that, based on the forecast pattern of cash flow, an immediate borrowing of £20m is suggested.

11.2 Consequently, in accordance with his delegated authority, the Chief Financial Officer has drawn down a loan from the PWLB on the following terms;

- £20m variable
- 10 year loan with interest fixed at six monthly intervals (currently 0.70% p.a.)
- repayable by equal instalments of principal.

The reasons for opting for this method of borrowing are:

- Equal instalments of principal will enable a smooth maturity profile to be established over the period of the loan.
- Temporary investments arising from short-term surplus cash will avoid the 'cost of carry' as borrowing and lending rates match.
- Should the yield curve steepen, the variable rate loan can be converted to a favourable fixed rate of interest thus avoiding future rate rises.

11.3 A long-term strategy for 2010/11 is currently being discussed with Arlingclose and this will be reported at the next meeting. The long-term strategy will incorporate capital expenditure forecasts, the pattern of future PWLB loan redemptions, modes of borrowing and forecasts of short-term and long-term interest rates.

12. **Recommendation**

12.1 That Members note the Treasury Management activity undertaken for the fourth quarter and period ending 31 March 2010.

