



Haringey Council
Agenda item:

General Purposes Committee

On 28 June 2010

Report Title.	Treasury Management 2010/11 Quarter 1: Activity & Performance update		
Report of:	Director of Corporate Resources		
Signed :	<i>J. Parker</i> 16/6/10		
Contact Officer :	Nicola Webb, Head of Finance: Treasury & Pensions Telephone 020 8489 3726		
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 and performance in the first quarter of 2010/11.		
2. Recommendation			
2.1	That Members note the Treasury Management activity undertaken during the first quarter of 2010/11 and the performance achieved.		
3. Reason for recommendation			
3.1.	To ensure members are aware of the Treasury Management activities undertaken in the first quarter of 2010/11 and to report on performance.		

4. Summary

- 4.1. This report sets out the Council's Treasury Management activity and performance during the first quarter of 2010/11.

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 its content and recommendation are within the policy agreed by Council and consistent with the purposes of Financial Regulations.

6. Use of appendices

- Appendix 1: Summary of Treasury Management activity and performance

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.

For access to the background papers or any further information please contact Nicola Webb, Head of Finance: Treasury & Pensions, on 0208 489 3726.

8. Treasury Management Strategy Statement 2010/11

- 8.1 The Council approved the Treasury Management Strategy Statement for 2010/11 on 22nd February 2010. The Strategy states that the General Purposes Committee will monitor treasury management activity and performance on a quarterly basis. This report is the first of these quarterly monitoring reports for 2010/11.
- 8.2 The latest government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:
- Security - Liquidity - Yield
- The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds.
- 8.3 The quarterly reports during 2010/11 will be structured according to these factors, so that members can see how they are being addressed operationally.

9. Treasury Management Activity and Performance: Security

- 9.1 The Treasury Management Strategy Statement places a high emphasis on security of the Council's funds. This is achieved in two ways – firstly by minimising the funds held which need to be invested and secondly by maintaining a lending list of high quality counterparties with strict limits.
- 9.2 During the quarter cash balances have remained at levels sufficient to manage the payments the Council was required to make and therefore it was not necessary to borrow additional funds. Officers consulted the Council's treasury management advisors, Arlingclose, about the timing of borrowing and they have advised that rates are expected to remain low for the remainder of the calendar year and so there is no long term disadvantage to delaying long term borrowing to fund the capital programme. The long term borrowing portfolio therefore remained at £636m during the quarter.
- 9.3 The Council approved the list of institutions which the Council can lend to as part of the Treasury Management Strategy Statement. The list was drawn up on the advice of the Council's treasury management advisors and only includes institutions which are assessed as having high credit quality. In addition to the Debt Management Office and AAA rated Money Market Funds, the list included eight UK banks and building societies, but only five are currently being used:
- Barclays Bank
 - Lloyds TSB Bank (part of the Lloyds Banking Group)
 - Bank of Scotland (part of the Lloyds Banking Group)
 - Nationwide Building Society
 - Royal Bank of Scotland
 - HSBC Bank (not actively used)
 - *Clydesdale Bank (currently suspended from use)*
 - *Santander UK plc (currently suspended from use)*
- 9.4 Although HSBC is on the list, it is not actively used as they do not accept deposits for less than one year. Both Clydesdale Bank and Santander UK plc have been suspended from the lending list due to concerns about their parent owners. Clydesdale have not been used during 2010/11 as the credit ratings of their owner, National Australia Bank, are lower than all the other banks on the list. Santander UK plc (formerly Abbey) is a UK bank with a Spanish parent owner. Following the downgrade of Spain's sovereign credit rating at the end of April, officers took the decision to temporarily suspend Santander UK plc from the lending list as a precaution and until a full review of the bank's credit status is undertaken by the Council's treasury management advisers. This may result in the lifting of the suspension.
- 9.5 Three AAA rated money market funds were selected for use by the Council following a selection exercise in November 2009. These funds have been used extensively due to the instant access they offer and the reasonable rate of return.

When it has not been possible to deposit elsewhere, funds have been deposited with the Debt Management Office, which is a government guaranteed facility.

- 9.6 The Council has sought to minimise its security risk by setting limits on each institution on the lending list. The Council complied with all these limits throughout the first quarter. In addition officers have sought to spread the deposits across the available institutions to further minimise security risk. The table below shows the Council's deposits at 11th June 2010:

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Henderson Money Market Fund	AAA	14.95	17.0
RBS Money Market Fund	AAA	13.33	15.1
Debt Management Office	AAA	24.75	28.1
Barclays Bank	AA-	10.00	11.4
Lloyds TSB Bank	A+	4.90	5.6
Nationwide Building Society	A+	10.00	11.4
Royal Bank of Scotland	A+	10.00	11.4
Total		87.93	

- 9.7 Arlingclose, the Council's treasury management advisers have devised a way of scoring the level of credit risk the Council is taking. The scores this produced were reported to General Purposes Committee throughout 2009/10. This measure scores credit risk on a scale of 0 to 10 on both a value weighted and a time weighted basis and the table below demonstrates how to interpret the scores:

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

- 9.8 The score for this quarter is shown below alongside the previous three quarters for comparison:

	Quarter 2 2009/10	Quarter 3 2009/10	Quarter 4 2009/10	Quarter 1 2010/11
Value weighted	3.5	3.5	3.5	2.3
Time weighted	4.0	4.0	4.2	3.6

This shows that the Council still remains within the target score range and the credit quality of its portfolio has got higher. This is mainly due to the temporary suspension of Santander UK plc from the lending list and increased used of AAA money market funds and the Debt Management Office.

10. Treasury Management Activity and Performance: Liquidity

- 10.1 Once the Council is satisfied that security risk is being managed, the next consideration in treasury management is liquidity. The Council has a number of inflows and outflows every month and it is important that the Council's funds are managed to ensure there is sufficient liquidity when it is required.
- 10.2 The tool which officers use to ensure that liquidity is maintained is cash flow forecasting. The Corporate Finance business plan for 2010/11 commits officers to developing further and improving this area of work, so that there is a clearer picture on a day to day basis of the liquidity requirements.
- 10.3 Officers have maintained liquidity throughout the quarter and it has not been necessary to borrow. This has been achieved because no long term investments have been entered into and the AAA rated money market funds have been used extensively, as they provide the Council with instant access. The average balance in these funds during the quarter was £15.6m.
- 10.4 The Council's liquidity was boosted on 2nd June 2010 when an unexpected receipt of £43m was received from Partnership for Schools (only £11m was planned) – the majority of which was for the "Building Schools for the Future" project, and which was originally expected to be received in 4 instalments throughout the year. These additional funds were immediately invested to ensure security of the money and to maximise the return.
- 10.5 The table below shows the Council's deposits at 11th June 2010 and due to the recent large receipt are higher than they have been for some time. This table shows the term of each of the deposits and calculates the weighted average maturity of the portfolio.

Institution	Term of deposit (days)	Amount (£m)
Henderson Money Market Fund	1	14.95
RBS Money Market Fund	1	13.33
Debt Management Office	29	10.00
Debt Management Office	39	13.75
Debt Management Office	4	1.00
Barclays Bank	103	10.00
Lloyds TSB Bank	103	4.90
Nationwide Building Society	53	10.00
Royal Bank of Scotland	71	10.00
Weighted Average Maturity	41.3	

- 10.6 £50m of long term borrowing is due to mature during 2010/11 – the first £10m on 3rd July – and therefore the liquidity position will be closely monitored over the coming months in the light of this.

11. Treasury Management Activity and Performance: Yield

- 11.1 Only once security and liquidity have been considered and the Council is satisfied it has taken all steps to minimise these risks, should yield be a factor. Base rate remained at 0.5% throughout the quarter and Arlingclose's forecast is that it will remain at this rate until the end of the year when it will start to rise slowly during 2011 and 2012.
- 11.2 The Debt Management Office is still paying 0.25% for all deposits, regardless of the length of the fixed term. The money market funds are paying between 0.4% and 0.6%. Banks are paying a variety of rates up to 1.15% depending on the length of time funds are deposited for.
- 11.3 By the end of the quarter, it is expected that interest of £79.4k will have been earned on the Council's deposits at an average rate of 0.66%. The budget for interest earned in 2010/11 is £500k and the current forecast is that the budget will be achieved.
- 11.4 The Council's 2010/11 budget for interest payable is £44.57m. At present this is expected to be on budget.

12. Pension Fund investments

- 12.1 In addition to investing cash on behalf of the Council, the Treasury team invest Pension Fund cash being held pending longer term investments. This is temporarily invested alongside the Council's funds and in accordance with the approved Treasury Management Strategy. Contributions to the Pension Fund exceed benefits payable every month and so a surplus of cash builds up. The Pensions Committee have decided to invest this in property and private equity and the cash is held pending appropriate opportunities being found by the fund managers.
- 12.2 During the quarter an average balance of £35.22m was held. The credit score for the portfolio was 4.2 on a time weighted and 3.2 on a value weighted basis. The weighted average maturity was 64 days, reflecting a balance of funds in an instant access money market fund and fixed term deposits of 1 month or more reflecting different liquidity needs to those of the Council. By the end of the quarter, it is expected that interest of £57.5k will have been earned in the quarter at a rate of 0.65%. The portfolio of investments on 11th June was:

Institution	Long Term Credit Rating	Amount (£m)	Term (Days)
Goldman Sachs Money Market Fund	AAA	14.08	1 (instant access)
Barclays Bank	AA-	4.53	91
Lloyds TSB	A+	5.03	183
Lloyds TSB	A+	5.01	92
Nationwide Building Society	A+	3.11	30
Royal Bank of Scotland	A+	5.00	91
Total Investments		36.76	

13. Future lending list

- 13.1 Officers have considered two possible changes to the Council's lending list for the future – building societies and non UK banks. A change to the list would require the approval of full Council.
- 13.2 The possibility of adding building societies, other than Nationwide, to the list has been discussed with the Council's treasury management advisers, Arlingclose. They are not supportive of this for a number of reasons. Building Society business is almost entirely reliant on the housing market. This is a risk as it is so focused on one area of the economy and one that at the moment is still fairly uncertain. Many do not have credit ratings and those that do are well below the ratings the Council would normally deal with. It is not recommended, therefore, to add further Building Societies to the Council's approved list.
- 13.3 In the case of non UK banks, Arlingclose recommend the inclusion of sixteen non UK banks from eight countries – Australia, Canada, USA, Finland, France, Germany, Netherlands and Switzerland. These banks have been assessed by Arlingclose to be of high credit quality on the basis of their credit ratings, CDS prices, share prices and the sovereign rating of the country in which they are based. However given the recent uncertainties and downgradings in the Eurozone in particular, officers will continue to monitor these overseas banks before considering a recommendation for their inclusion on the Council's approved list. The next report in September will be the mid-year report which the CIPFA Code of Practice requires to be reported to full Council and so it will be timely to recommend any changes to the list at that time.

14. Recommendation

- 14.1 That members note the Treasury Management activity undertaken during the first quarter of 2010/11 and the performance achieved.

Appendix 1: Summary of Treasury Management Activity and Performance

A. Treasury Portfolio

	Position at Q1 2010/11 £000	Position at 31/03/10 £000
Long Term Borrowing PWLB	510,811	510,811
Long Term Borrowing Market	125,005	125,005
Short Term Borrowing	0	0
Total Borrowing	635,816	635,816
Investments: Council	87,934	23,106
Investments: Pension Fund	36,759	33,967
Investments: Icelandic deposits in default	30,030	30,030
Total Investments	154,723	87,103
Net Borrowing position	481,093	593,035

B. Security measure

	Quarter 1 2010/11	Quarter 4 2009/10
Credit score - Value weighted	2.3	3.5
Credit score - Time weighted	3.6	4.2

C. Liquidity measure

	Quarter 1 2010/11	Quarter 4 2009/10
Weighted average maturity – deposits (days)	41.3	32.9
Weighted average maturity – borrowing (years)	21.6	21.8

D. Yield measure

	Quarter 1 2010/11	Quarter 4 2009/10
Interest rate earned	0.66%	0.72%
Interest rate payable	7.00%	7.22%

E. Pension Fund investments

	Quarter 1 2010/11	Quarter 4 2009/10
Credit score - Value weighted	3.0	3.2
Credit score - Time weighted	4.3	4.2
Weighted average maturity – deposits (days)	64	77
Interest rate earned	0.65%	0.92%

