Haringey Council

Report for:	Corporate Committee	**Item number**	

Title:	Treasury Management 2011/12 Mid Year Activity & Performance update

Report authorised by :	Director of Corporate Resources

Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions nicola.webb@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	**Report for** Non Key Decision

1. Describe the issue under consideration

1.1 This report updates the Committee on the Council's treasury management activities and performance in the first half of 2011/12 in accordance with the CIPFA Treasury Management Code of Practice.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That members note the Treasury Management activity undertaken during the first half of 2011/12 and the performance achieved.

3.2 That members agree the following revised 2011/12 Prudential Indicators: Capital Expenditure £79,874k and Capital Financing Requirement £773,366k.

4. Other options considered

4.1 None.

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5. Background information

5.1 The Council approved the Treasury Management Strategy Statement for 2011/12 on 24th February 2011. Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the second quarterly monitoring report and the mid year report for 2011/12.

5.2 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.

5.3 The quarterly reports during 2011/12 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

5.4 Prudential Indicators for 2011/12 were set by Council on 24th February 2011. At this time no information was available about Decent Homes funding and so it was noted the prudential indicators may need to be reviewed during 2011/12.

6. Comments of the Chief Financial Officer and financial Implications

6.1 The plan to undertake short term borrowing from other local authorities during 2011/12, rather than borrowing from the PWLB, will be beneficial to the Council. The Communities and Local Government Department will be paying off a proportion of each PWLB loan the Council has outstanding on 1st April 2012. As the Council has a large number of loans at high interest rates, it is in the Council's interests to have the largest possible proportion of each of these loans repaid. Borrowing from other local authorities in the short term is the most cost effective way of maximising the benefit to the Council of the change. There is a risk that PWLB rates increase by the middle of 2012 when these loans will need to be re-financed, however given the current economic environment and forecasts for interest rates, this risk is assessed to be low.

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7. Head of Legal Services and Legal Implications

7.1 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. In considering the report Members must take into account the expert financial advice available in within it and any further oral advice given at the meeting of the Committee.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Summary of Treasury Management activity of performance
Appendix 2: Prudential Indicators

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Treasury Management Activity and Performance: Borrowing

13.1 The Treasury Management Strategy Statement places a high emphasis on security of the Council's funds. One of the ways to do this is to minimise the funds held which need to be invested. This is where the borrowing and investment strategies interact.

13.2 During the financial year to date cash balances have remained at levels sufficient to manage the payments the Council was required to make. £10m of PWLB long term borrowing matured in mid August and a further £40m of PWLB debt is due to mature in during 2011/12. As the Council is already maximising the use of internal cash balances, the Council does have a need to borrow this year.

13.3 As reported in the Treasury Management Strategy Statement in February, subject to the Localism Bill receiving royal assent, a new

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system of self financing for housing will be implemented in April 2012. This will involve a removal of the housing subsidy system through a one-off reallocation of debt. For the Council, this is expected to equate to a reduction in debt of £241m. Communities & Local Government Department proposes to settle this by repaying a proportion of each of the Council's PWLB loans.

13.4 It is in the Council's interests to maximise the amount of the loans with relatively high interest rates that are repaid by government. Therefore on the advice of Arlingclose, it is proposed not to take any PWLB borrowing until after the repayment on 1st April 2012. However as stated in 13.2 above, the Council does have a borrowing need. This will be met by taking short term borrowing from other local authorities, which matures after 1st April 2012. The loans taken so far are:

Counterparty	Amount	Period	Interest Rate
Derbyshire County Council	£5m	9 months	0.8%
London Borough of Ealing	£5m	1 year	0.9%

14. Treasury Management Activity and Performance: Security

14.1 The Council has sought to minimise its security risk by setting limits on each institution on the lending list. The Council has complied with all these limits during the financial year to date with only one exception as reported to Committee in June 2011. For one day the amount invested in the Deutsche Money Market Fund was £130,000 above the maximum allowable limit. It was identified the next day and immediately rectified. Procedures have been reviewed as a result of this to ensure it does not happen again.

14.2 The economic environment has been deteriorating over the last few months and growth forecasts for most developed nations have been cut. This and the on-going concern about possible defaults in the Euorzone are causing uncertainty in the markets. In the light of this uncertainty, the Council has continued to invest funds on an instant access basis, which enables officers to react quickly in the light of any concerns about creditworthiness. Money Market Funds are being used extensively as the portfolios are spread across a range of underlying investments, which diversifies risk. Officers and Arlingclose review the underlying investments periodically and seek assurance from the Money Market Funds about their investment policies.

14.3 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 on 12th September 2011:

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Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Nat West	A+	6.45	22.2
Santander UK	AA-	8.13	27.9
BlackRock MMF	AAA	1.55	5.3
Deutsche MMF	AAA	7.80	26.8
Goldman Sachs MMF	AAA	0.83	2.9
JP Morgan MMF	AAA	4.35	14.9
Total		29.11	100.0

14.4 Arlingclose, the Council's treasury management advisers have devised a way of scoring the level of credit risk the Council is taking. 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

14.5 The scores for the latest quarter are shown below alongside the previous three quarters for comparison:

	Quarter 3 2010/11	Quarter 4 2010/11	Quarter 1 2011/12	**Quarter 2 2011/12**
Value weighted	2.2	2.3	2.6	2.5
Time weighted	1.9	3.5	1.8	1.8

15. Treasury Management Activity and Performance: Liquidity

15.1 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. This is achieved through cashflow forecasting and monitoring.

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15.2 Officers have maintained liquidity throughout the quarter. 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 and a reasonable return. The average balance in these funds during the quarter was £10.8m.

15.3 The table below shows the Council's deposits at 12th September 2011, the term of each of the deposits and calculates the weighted average maturity of the portfolio. It can be seen this is one day, as all the Council's cash is invested on an instant access basis at present.

Institution	Term of deposit (days)	Amount (£m)
Nat West	1	6.45
Santander UK	1	8.13
BlackRock MMF	1	1.55
Deutsche MMF	1	7.80
Goldman Sachs MMF	1	0.83
JP Morgan MMF	1	4.35
Weighted Average Maturity	1	29.11

16. Treasury Management Activity and Performance: Yield

16.1 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 has remained at 0.5% throughout the financial year to date and Arlingclose's forecast is that it will remain at this rate until at least the middle of 2012 when it will start to rise slowly.

16.2 Money market funds are paying between 0.55% and 0.65%. The Call accounts with Nat West and Santander UK are paying 0.90% and 0.85% respectively.

16.3 By the end of the first half of the financial year, it is expected that interest of £144k will have been earned on the Council's deposits at an average rate of 0.73%. The interest payable on borrowing during the first half of the year was £20.3m. The average rate payable on the borrowing portfolio has fallen to 6.43% from 6.8% at 31st March 2011.

17. Icelandic Banks Update

17.1 The administration process for Heritable Bank is being undertaken by Ernst and Young in the UK. Their work is directed by the creditors' committee of which the Council is a member. 60% of Heritable deposits have now been returned – this amounts to £12m in the case of the Council. Ernst & Young have recently advised that their base case estimate of the recovery rate is now 86-90%. This is still an estimate, but it is an improvement on the previous estimate of 80-85%.

17.2 In April 2011 the Icelandic District Court ruled that local authority deposits in Landsbanki and Glitnir have priority status. The other creditors have appealed this decision and the appeal will be heard by the Icelandic Supreme Court during 2011. At the time of writing it is expected that the appeal will be heard during September 2011. A verbal update will be provided if a result is known by the time of the meeting.

17.3 The expected recovery rate of these deposits depends on the outcome of this appeal. The lawyers appointed on behalf of all local authorities are confident about that the outcome will be in favour of local authorities. If priority status is confirmed, then the expected recovery is 95% for Landsbanki and 100% for Glitnir. However if priority status is overturned then the recovery rates are expected to be 38% for Landsbanki and 29% for Glitnir.

18. Prudential Indicators

18.1 The Council set prudential indicators for 2011/12 in February 2011. The set of indicators is made up of those which provided an indication of the likely impact of the planned capital programme and those which are limits set on treasury management activity. Appendix 2 sets out the original indicators, the current forecast for each of the capital indicators and the current position on each of the treasury management limits.

18.2 None of the limits on treasury management have been breached in the year to date. Borrowing is well within the operational and authorised limits set due to the continued policy of using internal cash balances to fund the capital programme.

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18.3 Since the Prudential Indicators were agreed in February 2011, the Council has received notification of Decent Homes funding for a total of £19m of borrowing in 2011/12. In addition an estimated additional £1.8m of the expenditure agreed by Cabinet for solar panels is expected to be incurred during 2011/12. As a result of these changes, two of the capital prudential indicators need to be updated. The proposed revised indicators are set out in the table below. They have been updated to reflect these changes as well as other minor changes which have emerged from capital budget monitoring so far this year:

Prudential Indicator		Original Indicator	Revision proposed
1	Capital Expenditure	£60,197k	£79,874k
3	Capital Financing Requirement	£756,511k	£773,366k

18.4 The capital expenditure indicator reflects the anticipated spend on the capital programme. The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

19. Recommendation

19.1 That members note the Treasury Management activity undertaken during the first half of 2011/12 and the performance achieved.

19.2 That members agree the proposed revisions to the 2011/12 Prudential Indicators set out in paragraph 18.3 above.

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Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at Q2 2011/12 £000	Position at Q1 2011/12 £000
Long Term Borrowing PWLB	492,806	502,806
Long Term Borrowing Market	125,000	125,000
Short Term Borrowing	13,000	3,000
Total Borrowing	630,806	630,806
Investments: Council	29,110	49,140
Investments: Icelandic deposits in default	24,939	25,746
Total Investments	54,049	74,886
Net Borrowing position	576,757	555,920

2. Security measure

	Quarter 2 2011/12	Quarter 1 2011/12
Credit score – Value weighted	2.5	2.6
Credit score – Time weighted	1.8	1.8

3. Liquidity measure

	Quarter 2 2011/12	Quarter 1 2011/12
Weighted average maturity – deposits (days)	1	1
Weighted average maturity – borrowing (years)	22.18	22.35

4. Yield measure

	Quarter 2 2011/12	Quarter 1 2011/12
Interest rate earned	0.77%	0.70%
Interest rate payable	6.43%	6.49%

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Appendix 2: Prudential Indicators

No.	Prudential Indicator	2011/12 Original Indicator		2011/12 Position/Forecast at Quarter 2
CAPITAL INDICATORS				
1	Capital Expenditure	£60,197k		£79,874k
2	Ratio of financing costs to net revenue stream			
	General Fund	4.95%		4.54%
	HRA	31.90%		26.55%
3	Capital Financing Requirement	£756,511k		£773,366k
4	Incremental impact of capital investment decisions			
	Band D Council Tax	£1.00		£0.95
	Weekly Housing rents	£0.02		£0.02
TREASURY MANAGEMENT LIMITS				
5	Authorised Limit	£946,879k		£630,806k
	Operational Boundary	£818,434k		£630,806k
6	Upper limit – fixed rate exposure	100%		98.75%
	Upper limit – variable rate exposure	40%		1.25%
7	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	25%	12.4%
	12 months & within 2 years	0%	25%	6.5%
	2 years & within 5 years	0%	50%	5.1%
	5 years & within 10 years	0%	60%	25.0%
	10 yrs & within 20 yrs	0%	60%	7.1%
	20 yrs & within 30 yrs	0%	60%	4.0%
	30 yrs & within 40 yrs	0%	60%	1.6%
	40 yrs & within 50 yrs	0%	60%	26.5%
	50 yrs & above	0%	60%	11.8%
8	Sums invested for more than 364 days	£20,000k		£0
9	Adoption of CIPFA Treasury Management Code of Practice	√		√