



Haringey Council

Report for:	Corporate Committee 23 rd January 2012	Item number	
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Title:	Treasury Management 2011/12 - Quarter 3 update
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Report authorised by :	Director of Corporate Resources J. Power 12/1/12
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Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions nicola.webb@haringey.gov.uk 020 8489 3726
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Ward(s) affected: N/A	Report for Non Key Decision
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1. Describe the issue under consideration

- 1.1 This report updates the Committee on the Council's treasury management activities and performance in the third quarter of 2011/12.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

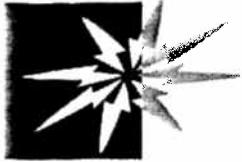
- 3.1 That members note the Treasury Management activity undertaken during the third quarter of 2011/12 and the performance achieved.

4. Other options considered

- 4.1 None.

5. Background information

- 5.1 The Council approved the Treasury Management Strategy Statement for 2011/12 on 24th February 2011. Corporate Committee is



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responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the third quarterly monitoring 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 and two were revised on 21st November 2011. They are monitored on a quarterly basis.

6. Comments of the Chief Financial Officer and Financial Implications

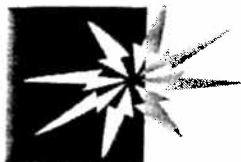
- 6.1 Action was taken during the quarter to react swiftly to the downgrades announced by the credit rating agencies in the quarter. As monies had been kept on call in recent months, it was possible to withdraw all funds as soon as announcements were made. Although the interest rate it is now possible to earn on cash balances has fallen as a result of the reduction of the counterparties available, the impact is limited due to the low level of cash balances being held.

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 in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council. 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.



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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 quarter £21m of borrowing was repaid to the PWLB on maturity, which takes the repayments in this financial year to date to £33m. A further £20.5m is due to mature during the final quarter of the year. As discussed in the last report, the Council is already making significant use of internal cash balances, so there was a need to borrow this year to fund the majority of these repayments.

13.3 It was reported in the last quarterly update to Committee that this borrowing need would be met by taking short term borrowing from other local authorities, rather than from the PWLB. The Communities & Local Government Department will be reducing the Council's debt by an estimated £232m as a result of the introduction of self financing for housing at the end of March 2012 and this will be done by repaying a proportion of each of the Council's PWLB loans. Therefore it is in the Council's interests to maximise the amount of the loans with relatively high interest rates that are repaid by government, and not taking out any new borrowing from the PWLB at current relatively low rates will assist with this.



13.4 The programme of borrowing from local authorities which has been undertaken is set out overleaf. It is currently expected that this borrowing will be sufficient to meet cashflow needs until the end of the financial year, however this will be kept under review.

Counterparty	Amount	Period	Interest Rate
Buckinghamshire County Council	£5m	11 months	0.98%
Derbyshire County Council	£5m	9 months	0.80%
Derbyshire County Council	£5m	11 months	0.98%
East Riding of Yorkshire	£5m	9 months	0.98%
London Borough of Ealing	£5m	10 months	0.90%
London Borough of Ealing	£5m	1 year	0.90%
Portsmouth City Council	£4m	1 year	1.06%
Tewkesbury Borough Council	£1m	1 year	1.00%
West Sussex County Council	£5m	10 months	0.98%
Total / Weighted Average	£40m	10.5 months	0.95%

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 throughout the third quarter.

14.2 As reported in the last quarterly update, the economic environment has been deteriorating over the last 6 months as economic growth continues to be very low and concerns about the Eurozone persist. In the light of this, the rating agencies have been reviewing the ratings they attribute to banks across the world. Many UK banks have been downgraded to a level below the minimum level acceptable for the Council's lending list. All monies which were invested with these banks has been withdrawn in full. The result of the downgrades is that the Council is now only investing in instant access AAA rated Money Market Funds and the government guaranteed Debt Management Office.

14.3 Money Market Fund portfolios are spread across a range of underlying investments, which diversifies risk. However there is still an element of risk and so officers and Arlingclose, the Council's treasury management advisers review the underlying investments regularly and seek assurance from the Money Market Funds about their investment policies.



14.4 In addition officers have sought to minimise security risk by making use of the government guaranteed Debt Management Office in addition to money market funds. The table below shows the Council's deposits on 31st December 2011:

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Debt Management Office	AAA*	30.77	75.3
Deutsche MMF	AAA	1.31	3.2
Goldman Sachs MMF	AAA	1.44	3.5
Invesco MMF	AAA	2.75	6.8
JP Morgan MMF	AAA	4.50	11.0
RBS MMF	AAA	0.08	0.2
Total		40.85	100.0

* The UK government sovereign rating of AAA is shown as the Debt Management Office forms part of the UK government.

14.5 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

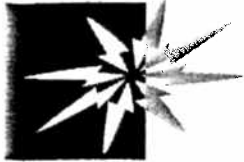
14.6 The scores for the latest quarter are shown below alongside the previous three quarters for comparison:

	Quarter 4 2010/11	Quarter 1 2011/12	Quarter 2 2011/12	Quarter 3 2011/12
Value weighted	2.3	2.6	2.5	1.0
Time weighted	3.5	1.8	1.8	1.0

Due to the fact the whole of the portfolio is currently invested in AAA counterparties, the score is 1.

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.

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 £28m.

15.3 The table below shows the Council's deposits at 31st December 2011, the term of each of the deposits and calculates the weighted average maturity of the portfolio. This remains very low at the current time, with the money market funds being instant access and the Debt Management Office maturities set to cover specific dates when there are expected to be large outflows.

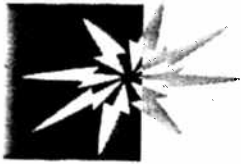
Institution	Term of deposit (days)	Amount (£m)
Deutsche MMF	1	1.31
Goldman Sachs MMF	1	1.44
Invesco MMF	1	2.75
JP Morgan MMF	1	4.50
RBS MMF	1	0.08
Debt Management Office	2	14.10
Debt Management Office	3	8.57
Debt Management Office	12	8.10
Weighted Average Maturity	3.95	40.85

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 2014 when it will start to rise slowly.

16.2 Money market funds are paying between 0.55% and 0.65%. The Debt Management Office is currently paying 0.25% for all fixed term deposits regardless of the period of investment.

16.3 By the end of the third quarter of the financial year, interest of £226k had been earned on the Council's deposits at an average rate of 0.67%. The interest payable on borrowing during the three quarters



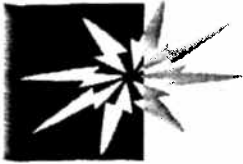
of the year was £29.9m. The average rate payable on the borrowing portfolio has fallen to 5.98% from 6.8% at 31st March 2011, mainly due to the short term borrowing from local authorities.

17. Icelandic Banks Update

- 17.1 It was reported to Corporate Committee in the last treasury management update report that the Icelandic Supreme Court would be hearing an appeal against the decision in April 2011 that the deposits relating to local authority test cases had priority status. It was announced in October 2011 that the decision that the deposits have priority status was upheld by the Supreme Court. Following this it has been necessary for the claims of the non-test cases, including the Council, to be put to the Icelandic District Court to establish that the decision on priority status applies.
- 17.2 It has recently been confirmed that the Council's outstanding deposit with Glitnir Bank has priority status, however confirmation regarding the Landsbanki deposits is still awaited. A verbal update will be provided if the confirmation is received by the time of the meeting.
- 17.3 It is anticipated 100% of the Glitnir deposit will be recovered and information about the timing of this is expected in the next few months. If priority status is confirmed for the Landsbanki deposits, a recovery rate of 98% is expected, however this will happen over a period of years. The Heritable Bank estimated recovery rate of 86-90% is still the base case estimate of the administrators Ernst & Young.

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. Updates to two of the indicators were agreed by Council in November 2011. Appendix 2 sets out the current approved 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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Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at Q3 2011/12 £000	Position at Q2 2011/12 £000	Position at Q1 2011/12 £000
Long Term Borrowing PWLB	469,806	490,806	502,806
Long Term Borrowing Market	125,000	125,000	125,000
Short Term Borrowing	43,000	13,000	3,000
Total Borrowing	637,806	628,806	630,806
Investments: Council	40,849	29,110	49,140
Investments: Icelandic deposits in default	24,107	24,939	25,746
Total Investments	64,956	54,049	74,886
Net Borrowing position	572,850	574,757	555,920

2. Security measure

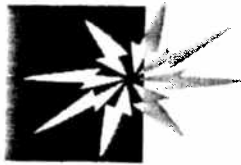
	Quarter 3 2011/12	Quarter 2 2011/12	Quarter 1 2011/12
Credit score – Value weighted	1.0	2.5	2.6
Credit score – Time weighted	1.0	1.8	1.8

3. Liquidity measure

	Quarter 3 2011/12	Quarter 2 2011/12	Quarter 1 2011/12
Weighted average maturity: deposits (days)	3.95	1	1
Weighted average maturity: borrowing (years)	21.83	22.18	22.35

4. Yield measure

	Quarter 3 2011/12	Quarter 2 2011/12	Quarter 1 2011/12
Interest rate earned	0.67%	0.77%	0.70%
Interest rate payable	6.05%	6.43%	6.49%



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Appendix 2: Prudential Indicators

No.	Prudential Indicator	2011/12 Approved Indicator		2011/12 Position/Forecast at Quarter 3
CAPITAL INDICATORS				
1	Capital Expenditure	£79,874k		£99,235k
2	Ratio of financing costs to net revenue stream			
	General Fund	4.95%		4.50%
	HRA	31.90%		26.79%
3	Capital Financing Requirement	£773,366k		£813,791k
4	Incremental impact of capital investment decisions			
	Band D Council Tax	£1.00		£2.82
	Weekly Housing rents	£0.02		£0.01
TREASURY MANAGEMENT LIMITS				
5	Authorised Limit	£946,879k		£637,806k
	Operational Boundary	£818,434k		£637,806k
6	Upper limit – fixed rate exposure	100%		98.2%
	Upper limit – variable rate exposure	40%		1.8%
7	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	25%	16.23%
	12 months & within 2 years	0%	25%	4.03%
	2 years & within 5 years	0%	50%	15.74%
	5 years & within 10 years	0%	60%	13.50%
	10 yrs & within 20 yrs	0%	60%	7.07%
	20 yrs & within 30 yrs	0%	60%	3.92%
	30 yrs & within 40 yrs	0%	60%	1.57%
	40 yrs & within 50 yrs	0%	60%	26.18%
	50 yrs & above	0%	60%	11.76%
8	Sums invested for more than 364 days	£20,000k		£0
9	Adoption of CIPFA Treasury Management Code of Practice	√		√

