


**Haringey Council**

<b>Report for:</b>	Corporate Committee 15 <sup>th</sup> May 2012	<b>Item number</b>	
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<b>Title:</b>	Treasury Management 2011/12 - Quarter 4 update and use of counterparties
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<b>Report authorised by :</b>	Interim Chief Financial Officer 
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<b>Lead Officer:</b>	Nicola Webb, Head of Finance – Treasury & Pensions <a href="mailto:nicola.webb@haringey.gov.uk">nicola.webb@haringey.gov.uk</a> 020 8489 3726
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<b>Ward(s) affected:</b> N/A	<b>Report for Non Key Decision</b>
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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 fourth quarter of 2011/12 and outlines the Council's use of counterparties during 2011/12 at the request of the Committee at the January meeting.

**2. Cabinet Member Introduction**

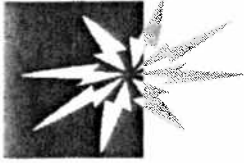
- 2.1 Not applicable.

**3. Recommendations**

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

**4. Other options considered**

- 4.1 None.



## **5. Background information**

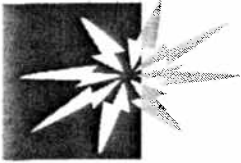
- 5.1 The Council approved the Treasury Management Strategy Statement for 2011/12 on 24<sup>th</sup> February 2011. Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the final quarterly monitoring 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 24<sup>th</sup> February 2011 and two were revised on 21<sup>st</sup> November 2011. They are monitored on a quarterly basis.

## **6. Comments of the Chief Financial Officer and Financial Implications**

- 6.1 During the quarter the interest rate earned dropped to 0.39% as a result of the restricted number of counterparties available to the Council to lend to. However over the course of the financial year an average interest rate of 0.60% was achieved.
- 6.2 The repayment of a proportion of all the Council's PWLB loans by the Communities & Local Government Department as part of the introduction of self financing for housing has significantly reduced the Council's external debt portfolio. This reduction in loans with high interest rates and the strategy of using temporary borrowing from local authorities has resulted in the average rate payable on the external borrowing portfolio being reduced to 5.87% from a rate of 6.8% at 1<sup>st</sup> April 2011. This also compares favourably with the target rate of 6.5% set in advance of the 2011/12 financial year.

## **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 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 & performance  
Appendix 2: Prudential Indicators

## **12. Local Government (Access to Information) Act 1985**

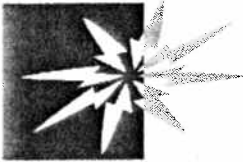
12.1 Not applicable.

## **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 £17m of borrowing was repaid to the PWLB on maturity, which takes the repayments in this financial year to £50m. In addition a £3m loan was repaid to Portsmouth City Council on maturity. A further two loans were taken from local authorities to maintain sufficient cashflow for the Council. The details are as follows:

Counterparty	Amount	Period	Interest Rate
Royal Borough of Kensington & Chelsea	£5m	74 days	0.33%
London Borough of Islington	£5m	61 days	0.45%



13.3 On 28<sup>th</sup> March 2012 the Communities & Local Government (CLG) Department reduced the Council's debt by £233.85m as a result of the introduction of self financing for housing. This was done by repaying a proportion of each of the Council's PWLB loans. CLG also funded the premiums arising from the early repayments. Following this repayment, the Council's external debt portfolio is as follows:

	Amount	Percentage
PWLB Loans	£219m	55.6%
Market Loans	£125m	31.7%
Local Authority Loans	£50m	12.7%
Total	£394m	100.0%

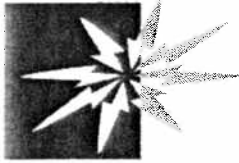
#### **14. Treasury Management Activity and Performance: Security**

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 fourth quarter.

14.2 As reported in the last quarterly update, 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 was withdrawn in full in October 2011. The result of the downgrades is that the Council is 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 overleaf shows the Council's deposits on 31<sup>st</sup> March 2012:



Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
BlackRock MMF	AAA	0.905	16.5
Deutsche MMF	AAA	0.220	4.0
Goldman Sachs MMF	AAA	0.400	7.3
Invesco MMF	AAA	2.200	40.2
JP Morgan MMF	AAA	0.375	6.9
RBS MMF	AAA	1.370	25.1
<b>Total</b>		<b>5.470</b>	<b>100.0</b>

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:

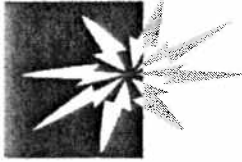
	Quarter 1 2011/12	Quarter 2 2011/12	Quarter 3 2011/12	Quarter 4 2011/12
Value weighted	2.6	2.5	1.0	1.0
Time weighted	1.8	1.8	1.0	1.0

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



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reasonable return. The average balance in these funds during the quarter was £11m.

15.3 As all of the Council's funds were invested in money market funds on 31<sup>st</sup> March 2012, the weighted average maturity of the investment portfolio was 1 day, as the money market funds are instant access.

## **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 2015 when it will start to rise slowly.

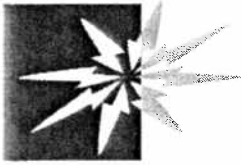
16.2 Money market funds are paying between 0.55% and 0.65%. The Debt Management Office is currently paying 0.25% for all fixed term deposits regardless of the period of investment.

16.3 Interest of £251k was earned on the Council's deposits at an average rate of 0.60% over the financial year. The interest payable on borrowing during 2011/12 was £39.3m. During 2011/12 the average rate payable on the borrowing portfolio has fallen to 5.87% from 6.8% at 31<sup>st</sup> March 2011, mainly due to the short term borrowing from local authorities and the maturing of loans with high interest rates.

## **17. Icelandic Banks Update**

17.1 Since the last treasury management report to Corporate Committee in January 2012, initial distributions have been received from Landsbanki and Glitnir. £2.3m was received from Landsbanki in February and £1.7m from Glitnir in March.

17.2 The total monies returned to the Council from Icelandic banks now totals £18.3m, approximately half of the original amount invested. It is still expected that 100% of the Glitnir deposit will be recovered – 80% has already been received. A recovery rate of 98% is expected for Landsbanki, 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.

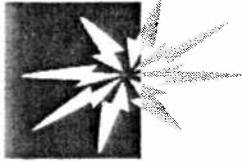


## **18. Prudential Indicators**

- 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. The repayment of HRA borrowing on 28<sup>th</sup> March 2012 has resulted in some of the figures looking significantly lower than forecast, however it has been necessary to have limits at the higher level to ensure there were no breaches in the period up to 28<sup>th</sup> March 2012.

## **19. Use of counterparties during 2011/12**

- 19.1 At the January 2012 Corporate Committee meeting, a report on the use of counterparties during 2011/12 was requested for the Committee to consider whether additional counterparties are required to be added to the lending list in 2012/13.
- 19.2 The table overleaf shows the counterparties used by both the Council and the Pension Fund during 2011/12 and the percentage of investments placed with each of them.

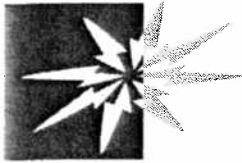


<b>Counterparty</b>	<b>Percentage</b>
Debt Management Office	5.9%
<b>Banks:</b>	
Barclays Bank	5.3%
Lloyds Bank	3.5%
Nationwide Building Society	4.6%
Nat West	6.6%
Royal Bank of Scotland	3.8%
Santander UK	10.5%
<b>Total Banks</b>	<b>34.3%</b>
<b>Money Market Funds:</b>	
BlackRock	10.2%
BlackRock Government	3.7%
Deutsche	11.8%
Goldman Sachs	12.0%
Invesco	2.4%
JP Morgan	7.6%
RBS	12.1%
<b>Total Money Market Funds</b>	<b>59.8%</b>

19.3 In October 2011 the majority of UK banks were downgraded and therefore removed from the Council's lending list. This resulted in the Council only being able to invest in Money Market Funds and the Debt Management Office. The use of counterparties since then has been as follows:

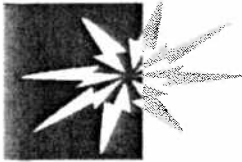
<b>Counterparty</b>	<b>Percentage</b>
Debt Management Office	9.3%
<b>Money Market Funds:</b>	
BlackRock	15.0%
BlackRock Government	11.9%
Deutsche	14.8%
Goldman Sachs	15.0%
Invesco	5.1%
JP Morgan	14.4%
RBS	14.5%
<b>Total Money Market Funds</b>	<b>90.7%</b>





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- 19.4 Although the Debt Management Office was used 9.3% of the time, the cash balances in the second half of the year were falling significantly from an average of £63m in October down to an average of £23m during March 2012.
- 19.5 In the Treasury Management Strategy for 2012/13 agreed by Council in February 2012, a lower criterion of a long term rating of A- was agreed for 8 UK banks. This enabled these UK banks to be brought back onto the lending list. However many of these banks are on negative rating watch with the potential to be downgraded below the new criterion. For this reason the Council is currently only lending to Nat West, who offer a call account enabling funds to be withdraw as required.
- 19.6 In the light of the counterparty analysis above, the situation with the UK banks and the uncertainty around the potential knock on impact from issues on-going in the Eurozone, it is proposed to make no changes to the lending list at the current time. The situation will be kept under review and included in quarterly reports throughout 2012/13.



Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at Q4 2011/12 £000	Position at Q3 2011/12 £000	Position at Q2 2011/12 £000	Position at Q1 2011/12 £000
Long Term Borrowing PWLB	218,972	469,806	490,806	502,806
Long Term Borrowing Market	125,000	125,000	125,000	125,000
Short Term Borrowing	50,000	43,000	13,000	3,000
<b>Total Borrowing</b>	<b>393,972</b>	<b>637,806</b>	<b>628,806</b>	<b>630,806</b>
Investments: Council	5,470	40,849	29,110	49,140
Investments: Icelandic deposits in default	19,441	24,107	24,939	25,746
<b>Total Investments</b>	<b>24,911</b>	<b>64,956</b>	<b>54,049</b>	<b>74,886</b>
<b>Net Borrowing position</b>	<b>369,061</b>	<b>572,850</b>	<b>574,757</b>	<b>555,920</b>

2. Security measure

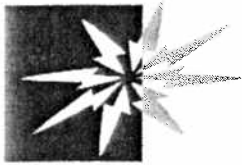
	Quarter 4 2011/12	Quarter 3 2011/12	Quarter 2 2011/12	Quarter 1 2011/12
Credit score – Value weighted	1.0	1.0	2.5	2.6
Credit score – Time weighted	1.0	1.0	1.8	1.8

3. Liquidity measure

	Quarter 4 2011/12	Quarter 3 2011/12	Quarter 2 2011/12	Quarter 1 2011/12
Weighted average maturity: deposits (days)	1	3.95	1	1
Weighted average maturity: borrowing (years)	24.80	21.83	22.18	22.35

4. Yield measure

	Quarter 4 2011/12	Quarter 3 2011/12	Quarter 2 2011/12	Quarter 1 2011/12
Interest rate earned	0.39%	0.67%	0.77%	0.70%
Interest rate payable	5.87%	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 4
<b>CAPITAL INDICATORS</b>				
1	Capital Expenditure	£79,874k		£79,874k
2	Ratio of financing costs to net revenue stream			
	General Fund	4.95%		4.49%
	HRA	31.90%		26.65%
3	Capital Financing Requirement	£773,366k		£492,638k
4	Incremental impact of capital investment decisions			
	Band D Council Tax	£1.00		£1.71
	Weekly Housing rents	£0.02		£0.01
<b>TREASURY MANAGEMENT LIMITS</b>				
5	Authorised Limit	£946,879k		£393,972k
	Operational Boundary	£818,434k		£393,972k
6	Upper limit – fixed rate exposure	100%		95.85%
	Upper limit – variable rate exposure	40%		4.15%
7	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	25%	17.98%
	12 months & within 2 years	0%	25%	6.23%
	2 years & within 5 years	0%	50%	9.64%
	5 years & within 10 years	0%	60%	10.21%
	10 yrs & within 20 yrs	0%	60%	5.54%
	20 yrs & within 30 yrs	0%	60%	3.07%
	30 yrs & within 40 yrs	0%	60%	2.54%
	40 yrs & within 50 yrs	0%	60%	25.76%
	50 yrs & above	0%	60%	19.03%
8	Sums invested for more than 364 days	£20,000k		£0
9	Adoption of CIPFA Treasury Management Code of Practice			√

