


Haringey Council

Report for:	Corporate Committee 27 th September 2012	Item number	
--------------------	--	------------------------	--

Title:	Treasury Management 2012/13 Mid Year Activity & Performance update
---------------	--

Report authorised by :	 Assistant Director - Finance
-----------------------------------	---

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 2012/13 in accordance with the CIPFA Treasury Management Code of Practice.

2. Cabinet Member Introduction

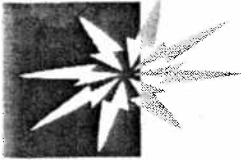
- 2.1 Not applicable.

3. Recommendations

- 3.1 That members note the Treasury Management activity undertaken during the first half of 2012/13 and the performance achieved.

4. Other options considered

- 4.1 None.



5. Background information

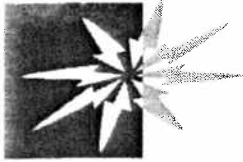
- 5.1 The Council approved the Treasury Management Strategy Statement for 2012/13 on 28th February 2012. Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the second quarterly monitoring report and the mid year report for 2012/13.
- 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 2012/13 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

6. Comments of the Chief Financial Officer and financial implications

- 6.1 Interest rates remain low and so the strategy of minimising cash balances is continuing in 2012-13. Borrowing is being taken only when required and at very low rates on a short term basis from other local authorities. The ability to do this has resulted in the anticipated saving on the treasury management budget of £1m reported in the latest Cabinet budget monitoring report.
- 6.2 Officers continue to monitor interest rates closely with the Council's treasury management advisers to ensure this strategy remains in the best interests of the Council. Action will be taken to switch to longer term borrowing from the PWLB when it is appropriate.

7. Head of Legal Services and Legal Implications

- 7.1 The Head of Legal Services has been consulted on the content of this report. Its content and recommendation are in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council.



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

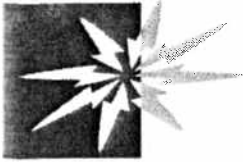
12.1 Not applicable.

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 officers have been managing cash balances to keep them to a minimum and only borrowing externally when it is required to meet the Council's obligations. £63m of debt has matured since 1st April 2012, much of which is maturing local authority debt taken during 2011/12. Given the outlook for interest rates is that they will remain low over the medium term, the Council has been undertaking further borrowing from local authorities as and when required. Due to the shortage of highly rated counterparties to lend to, other local authorities are willing to lend to the Council at increasingly lower rates.

13.3 The table overleaf summarises the borrowing taken from 1st April 2012 to date. Due to the cashflow pattern where more income is received early in the financial year, it has only been necessary to replace £23m of the £63m maturing debt so far.



Month taken	Counterparty	Amount	Period	Interest Rate
April	Shropshire County Council	£5m	1 month	0.50%
June	Derbyshire County Council	£5m	1 year	0.70%
July	West Yorkshire Police Authority	£5m	5 months	0.35%
July	London Borough of Hackney	£5m	9 months	0.40%
August	Worcestershire County Council	£3m	3 months	0.28%

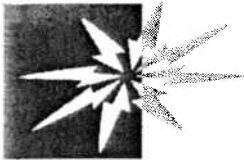
13.4 In the 2012 budget it was announced that local authorities would be able to access interest rates 0.2% lower than the current PWLB rates in exchange for more information about an authority's plans for future borrowing. This was described as the "certainty rate". Officers have provided the information to DCLG as requested and so the Council will be able to take advantage of the lower rates from November 2012 when the scheme goes live.

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.

14.2 The economic environment remains uncertain, particularly in relation to the Eurozone and the knock on impacts on other countries. In the light of this uncertainty, further downgrades of banks and countries have been taking place since April 2012. Given this background, the Council has, as discussed in section 13 above, kept cash investments to a minimum and short term. Money Market Funds are being used extensively as the portfolios are spread across a range of underlying investments, which diversifies risk. They also provide instant access enabling officers to take action quickly if there are any concerns about creditworthiness. The remainder of the Council's investments are with the government guaranteed Debt Management Office. Given the short term nature of the Council's investments, the very small uplift in interest rate achievable from investing with a bank is not sufficient to justify the additional risk.

14.3 The deposits continue to be spread across the available money market funds to further minimise security risk. The table overleaf shows the Council's deposits on 11th September 2012:



Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Debt Management Office	AAA*	7,830	50.3
BlackRock MMF	AAA	600	3.9
Deutsche MMF	AAA	1,420	9.1
Goldman Sachs MMF	AAA	1,220	7.8
Invesco MMF	AAA	1,490	9.5
JP Morgan MMF	AAA	1,520	9.8
RBS MMF	AAA	1,500	9.6
Total		15,580	100.0

** The Debt Management Office does not have a credit rating, so the UK Government rating is used as a proxy.*

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:

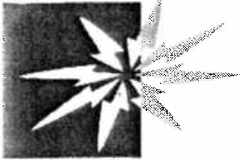
Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

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

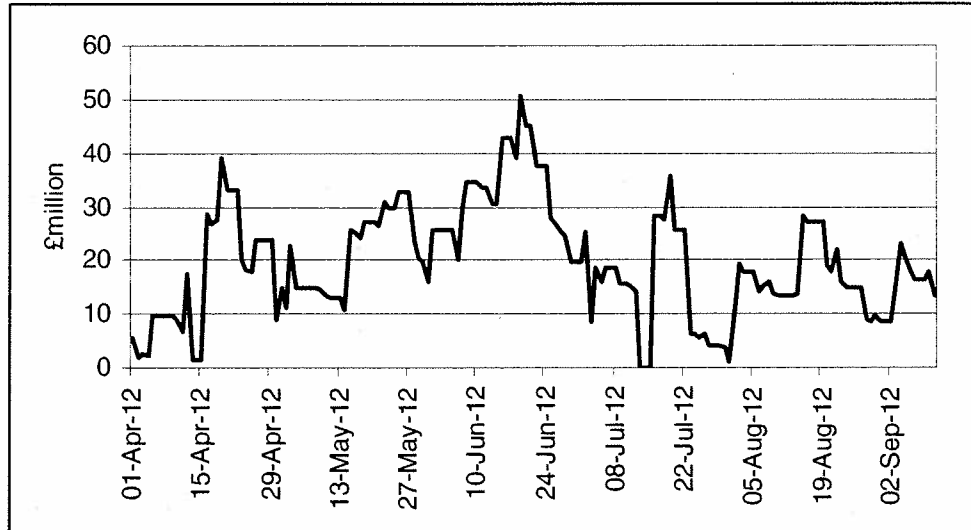
	Quarter 3 2011/12	Quarter 4 2011/12	Quarter 1 2012/13	Quarter 2 2012/13
Value weighted	1.0	1.0	1.0	1.0
Time weighted	1.0	1.0	1.0	1.0

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.



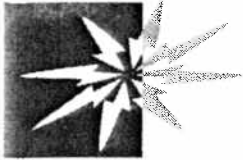
15.2 The graph below shows the level of the Council's cash balances every day since 1st April 2012. It demonstrates the fluctuations seen every month and the way the balances have been managed to a minimum level.



15.3 The graph also shows liquidity has been maintained 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.

15.4 The table below shows the Council's deposits at 10th September 2012, the term of each of the deposits and calculates the weighted average maturity of the portfolio.

Institution	Term of deposit (days)	Amount (£m)
Debt Management Office	10	5,550
Debt Management Office	1	2,280
BlackRock MMF	1	600
Deutsche MMF	1	1,420
Goldman Sachs MMF	1	1,220
Invesco MMF	1	1,490
JP Morgan MMF	1	1,520
RBS MMF	1	1,500
Weighted Average Maturity	4.2	15,580



16. Treasury Management Activity and Performance: Yield

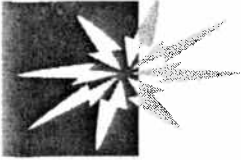
- 16.1 Only once security and liquidity have been considered and the Council is satisfied it has taken all steps to minimise these risks, should yield be a factor. Base rate has remained at 0.5% throughout the financial year to date and the Council's treasury management adviser, Arlingclose, is forecasting that it will remain at this rate until at least the middle of 2013 and probably as far ahead as 2015.
- 16.2 The interest rates which money market funds are paying have reduced in the last few months to 0.40% - 0.45%. The Debt Management Office continue to pay 0.25% on all deposits regardless of the period of investment. By the end of the first half of the financial year, it is expected that interest of £40k will have been earned on the Council's deposits at an average rate of 0.40%.
- 16.3 Short term borrowing from other local authorities can currently be achieved at rates between 0.28% - 0.50% depending on the period. This is considerably lower than borrowing for longer from the PWLB, which costs up to 4.30% currently. The interest payable on borrowing during the first half of the year was £10.2m. The average rate payable on the borrowing portfolio is currently 5.57%.
- 16.4 The low interest rates available for borrowing are the reason for the anticipated saving on the treasury management budget of £1m set out in the latest Cabinet budget monitoring report.

17. Icelandic Banks Update

- 17.1 The distributions received from the Icelandic banks now total £23m out of the original £36.9m invested, which is 62%. Final recovery rates of 100% for Glitnir, 98% for Landsbanki and 86-90% for Heritable are still expected.

18. Prudential Indicators

- 18.1 The Council set prudential indicators for 2012/13 in February 2012. 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.

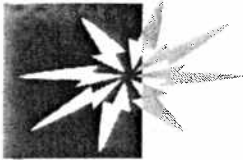


Haringey Council

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.

19. Recommendation

19.1 That members note the Treasury Management activity undertaken during the first half of 2012/13 and the performance achieved.



Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at Q2 2012/13 £000	Position at Q1 2012/13 £000
Long Term Borrowing PWLB	205,901	218,972
Long Term Borrowing Market	125,000	125,000
Short Term Borrowing	23,000	35,000
Total Borrowing	353,901	378,972
Investments: Council	15,580	19,795
Investments: Icelandic deposits in default	13,918	14,485
Total Investments	29,498	34,280
Net Borrowing position	324,403	344,692

2. Security measure

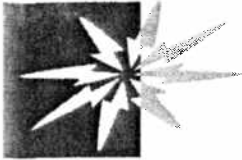
	Quarter 2 2012/13	Quarter 1 2012/13
Credit score – Value weighted	1.0	1.0
Credit score – Time weighted	1.0	1.0

3. Liquidity measure

	Quarter 2 2012/13	Quarter 1 2012/13
Weighted average maturity – deposits (days)	4.21	2.37
Weighted average maturity – borrowing (years)	28.5	25.6

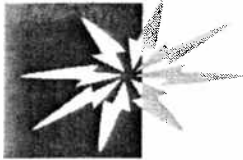
4. Yield measure

	Quarter 2 2012/13	Quarter 1 2012/13
Interest rate earned	0.33%	0.45%
Interest rate payable	5.47%	5.44%



Appendix 2: Prudential Indicators

No.	Prudential Indicator	2012/13 Original Indicator	2012/13 Position/Forecast at Quarter 2
CAPITAL INDICATORS			
1	Capital Expenditure	£k	£k
	General Fund	44,350	51,400
	HRA	43,514	42,800
	TOTAL	87,864	94,200
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.70	2.79
	HRA	15.35	14.12
3	Capital Financing Requirement	£k	£k
	General Fund	298,901	281,064
	HRA	272,854	272,854
	TOTAL	571,755	553,918
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	1.31	0.53
	Weekly Housing rents	0.20	0.12



TREASURY MANAGEMENT LIMITS				
5	Borrowing Limits		£k	£k
	Authorised Limit		788,917	353,901
	Operational Boundary		638,545	353,901
6	HRA Debt Cap		£k	£k
	Headroom		54,684	54,684
7	Net debt to gross debt		£k	£k
	Limit on proportion of net debt to gross debt		531,755	392,276
8	Upper limit – fixed rate exposure		100%	96.7%
	Upper limit – variable rate exposure		40%	3.3%
9	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	40%	12.1%
	12 months & within 2 years	0%	35%	4.4%
	2 years & within 5 years	0%	35%	10.6%
	5 years & within 10 years	0%	35%	10.6%
	10 yrs & within 20 yrs	0%	35%	5.6%
	20 yrs & within 30 yrs	0%	35%	4.0%
	30 yrs & within 40 yrs	0%	35%	3.6%
	40 yrs & within 50 yrs	0%	50%	27.9%
	50 yrs & above	0%	50%	21.2%
10	Sums invested for more than 364 days		£0	£0
11	Adoption of CIPFA Treasury Management Code of Practice		√	√

