

Haringey Council

Report for:	Corporate Committee 22 nd January 2013	Item number	
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Title:	Treasury Management 2012/13 Quarter 3 Activity & Performance update
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Report authorised by :	<i>J. Parker</i> 11/1/13 Director of Corporate Resources
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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 2012/13.

2. Cabinet Member Introduction

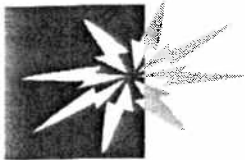
- 2.1 Not applicable.

3. Recommendations

- 3.1 That members note the Treasury Management activity undertaken during the third quarter of 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 third quarterly monitoring 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.

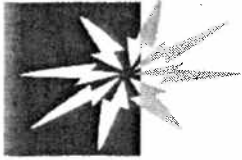
5.3 The quarterly reports during 2012/13 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

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 the majority of the loans have been taken from other local authorities at very low rates on short term bases. However longer term interest rates continue to be carefully monitored and in November 2012 £10m was borrowed from the PWLB when rates had temporarily fallen. The ability to take advantage of low interest rates in this way has resulted in the anticipated saving on the treasury management budget of £1m reported in the latest Cabinet budget monitoring report.

7. Head of Legal Services and Legal Implications

7.1 The contents and recommendation of this report 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 to 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

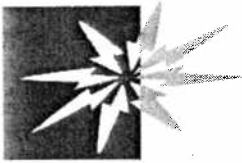
12.1 Not applicable.

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 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. £11.3m of debt matured in the third quarter, £7.3m of this was PWLB debt and the remainder was maturing local authority debt.

13.3 From 1st November 2012, the PWLB introduced a new reduced "certainty rate" which is 0.20% lower than the standard rates, in return for additional information about borrowing plans. The Council provided this information and so it is entitled to borrow at the lower rate. In the light of this and a short term fall in rates generally, Arlingclose, the treasury management advisers, advised that £10m of borrowing be taken from the PWLB in November. This was taken in two deals both for periods of 9 years to fit in with the Council's maturity profile. The first loan was taken at a fixed rate of 2.36% and when rates fell further the second was taken at 2.29%. Since then rates have been above 2.29% and at the time of writing it is 2.60%.



13.4 In December, the level of cash fell and so a total of £5m was borrowed short term from other local authorities to maintain the Council's liquidity. Due to the availability of other local authorities willing to lend, it was taken in three deals.

13.5 The table below summarises the borrowing taken since the last report in September 2012.

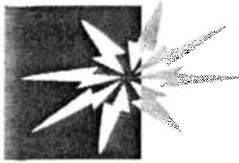
Month taken	Counterparty	Amount	Period	Interest Rate
Nov	PWLB	£5m	9 years	2.36%
Nov	PWLB	£5m	9 years	2.29%
Dec	Mid Devon District Council	£2m	3 months	0.29%
Dec	Oxford City Council	£2m	3 months	0.32%
Dec	Lewes District Council	£1m	3 months	0.32%

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, and given this background, the Council has kept cash investments to a minimum and short term. Money Market Funds continue to be 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 31st December 2012:



Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Debt Management Office	AAA*	10,570	50.5
BlackRock MMF	AAA	2,000	9.5
Deutsche MMF	AAA	1,890	9.0
Goldman Sachs MMF	AAA	1,900	9.1
Invesco MMF	AAA	1,530	7.3
JP Morgan MMF	AAA	1,700	8.1
RBS MMF	AAA	1,360	6.5
Total		20,950	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 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:

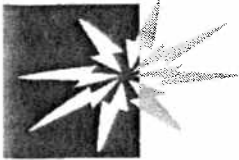
Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

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

	Quarter 4 2011/12	Quarter 1 2012/13	Quarter 2 2012/13	Quarter 3 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 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.

15.3 The table below shows the Council's deposits at 31st December 2012, the term of each of the deposits and it also shows the calculated weighted average maturity of the portfolio.

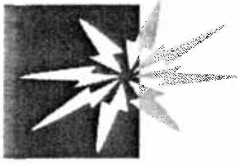
Institution	Term of deposit (days)	Amount (£m)
Debt Management Office	17	9,070
Debt Management Office	7	1,500
BlackRock MMF	1	2,000
Deutsche MMF	1	1,890
Goldman Sachs MMF	1	1,900
Invesco MMF	1	1,530
JP Morgan MMF	1	1,700
RBS MMF	1	1,360
Weighted Average Maturity	8.36	20,950

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 or 2016.

16.2 The interest rates which money market funds are paying have reduced during the last quarter to between 0.30% and 0.40%. The Debt Management Office continues to pay 0.25% on all deposits regardless of the period of investment. By the end of the third quarter of the financial year, interest of £55k had been earned on the Council's deposits at an average rate of 0.38%.

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 4.05% currently. The interest payable on borrowing during the three quarters of the year was £15.1m. The average rate payable on the borrowing portfolio is currently 5.47%.



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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

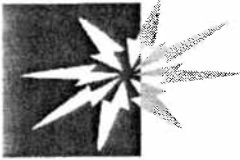
17.1 The distributions received from the Icelandic banks now total £23.9m out of the original £36.9m invested, which is 65%. Final recovery rates of 100% for Glitnir, 98% for Landsbanki and 86-90% for Heritable are still expected.

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.

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.

18.3 CIPFA have removed the gross debt to net debt indicator from the Prudential Code as it did not achieve the purpose of providing transparency about the levels of borrowing in advance of need in authorities. Instead, as part of the prudential indicators reporting, the Council is required to report on whether the level of gross debt is higher than the Capital Financing Requirement (CFR). If it is, this indicates borrowing in advance of need, which should be explained. Indicator 7 in Appendix 2 shows the Council's gross debt is well within the CFR due to the policy of internal borrowing.



Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at Q3 2012/13 £000	Position at Q2 2012/13 £000
Long Term Borrowing PWLB	208,155	205,901
Long Term Borrowing Market	125,000	125,000
Short Term Borrowing	20,000	23,000
Total Borrowing	353,155	353,901
Investments: Council	20,950	15,580
Investments: Icelandic deposits in default	12,995	13,918
Total Investments	33,945	29,498
Net Borrowing position	319,210	324,403

2. Security measure

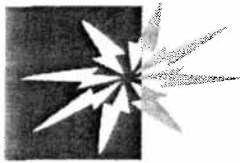
	Quarter 3 2012/13	Quarter 2 2012/13
Credit score – Value weighted	1.0	1.0
Credit score – Time weighted	1.0	1.0

3. Liquidity measure

	Quarter 3 2012/13	Quarter 2 2012/13
Weighted average maturity – deposits (days)	8.36	4.21
Weighted average maturity – borrowing (years)	27.2	28.5

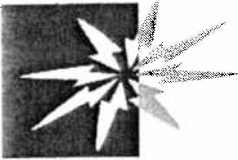
4. Yield measure

	Quarter 3 2012/13	Quarter 2 2012/13
Interest rate earned	0.36%	0.33%
Interest rate payable	5.46%	5.47%



Appendix 2: Prudential Indicators

No.	Prudential Indicator	2012/13 Original Indicator	2012/13 Position/Forecast at Quarter 3
CAPITAL INDICATORS			
1	Capital Expenditure	£k	£k
	General Fund	44,350	38,400
	HRA	43,514	42,000
	TOTAL	87,864	80,400
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.70	2.71
	HRA	15.35	13.87
3	Capital Financing Requirement	£k	£k
	General Fund	298,901	254,229
	HRA	272,854	271,714
	TOTAL	571,755	525,943
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	1.31	0.72
	Weekly Housing rents	0.20	0.11



TREASURY MANAGEMENT LIMITS				
5	Borrowing Limits		£k	£k
	Authorised Limit		788,917	353,155
	Operational Boundary		638,545	353,155
6	HRA Debt Cap		£k	£k
	Headroom		54,684	55,824
7	Gross debt compared to CFR			£k
	Gross debt			411,456
	CFR			525,943
8	Upper limit – fixed rate exposure		100%	95.48%
	Upper limit – variable rate exposure		40%	4.52%
9	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	40%	9.19%
	12 months & within 2 years	0%	35%	7.13%
	2 years & within 5 years	0%	35%	10.66%
	5 years & within 10 years	0%	35%	11.44%
	10 yrs & within 20 yrs	0%	35%	5.35%
	20 yrs & within 30 yrs	0%	35%	3.43%
	30 yrs & within 40 yrs	0%	35%	4.48%
	40 yrs & within 50 yrs	0%	50%	27.09%
50 yrs & above	0%	50%	21.24%	
10	Sums invested for more than 364 days		£0	£0
11	Adoption of CIPFA Treasury Management Code of Practice		√	√