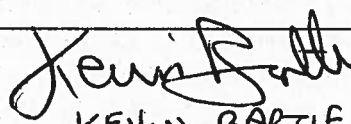


Report for:	Corporate Committee 19th September 2013	Item number	
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Title:	Treasury Management 2013/14 Mid Year Activity and Performance Update
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Report authorised by :	 KEVIN BARTLE for Director of Corporate Resources
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Lead Officer:	Ian Talbot, Interim Head of Finance – Treasury & Pensions ian.talbot@haringey.gov.uk 020 8489 8621
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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 first half of 2013/14 in accordance with the CIPFA Treasury Management Code of Practice. It is a requirement of the Code for this to be reported on to Council once Corporate Committee has considered it.

**2. Cabinet Member Introduction**

- 2.1 Not applicable.

**3. Recommendations**

- 3.1 That Members note the treasury management activity and performance during the first half of 2013/14.

**4. Other options considered**

- 4.1 None.

## **5. Background information**

- 5.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 5.2 The Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives reports quarterly.
- 5.3 However, overall responsibility for treasury management remains with the Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2013/14 on 27<sup>th</sup> February 2013.
- 5.4 This report is a requirement of the Code and it summarises the activity during the first half of 2013/14.
- 5.5 With regard to investments, 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. However, no treasury management activity is without risk and the effective identification and management of this risk are integral to the Council's treasury management activities.

## **6. Comments of the Chief Financial Officer and financial implications**

- 6.1 Since interest rates remain low the treasury management strategy in the first half of 2013/14 is to continue to maximise internal borrowing and, therefore, to minimise cash balances. This policy not only reduces credit risk but also the cost of borrowing. In addition, the policy of taking short term borrowing from other local authorities instead of long term also saved interest costs.

- 6.2 Officers continue to monitor interest rates closely with the Council's treasury management advisers to ensure that 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 with the Treasury Management Strategy and consistent with the legislation governing the financial affairs of the Council

## **8. Equalities and Community Cohesion Comments**

- 8.1 Not applicable.

## **9. Head of Procurement Comments**

- 9.1 Not applicable.

## **10. Policy Implications**

- 10.1 None.

## **11. Use of Appendices**

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

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

- 12.1 Not applicable.

## **13. 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 Since the start of the financial year £30m of local authority debt and £9m of PWLB debt has matured and been repaid. So far, no additional borrowing has been necessary.

#### 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. In the light of this uncertainty, further downgrades of banks and countries have been taking place since April 2013. 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 below shows the Council's deposits on 6<sup>th</sup> September 2013:

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Debt Management Office	AAA*	26.36	56.03
BlackRock MMF	AAA	4.00	8.50
Deutsche MMF	AAA	4.00	8.50
Goldman Sachs MMF	AAA	4.10	8.71
Invesco MMF	AAA	0.89	1.89
JP Morgan MMF	AAA	1.49	3.17
RBS MMF	AAA	2.21	4.70
NatWest SIBA	A	4.00	8.50
Total		47.05	100.00

*\* 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:

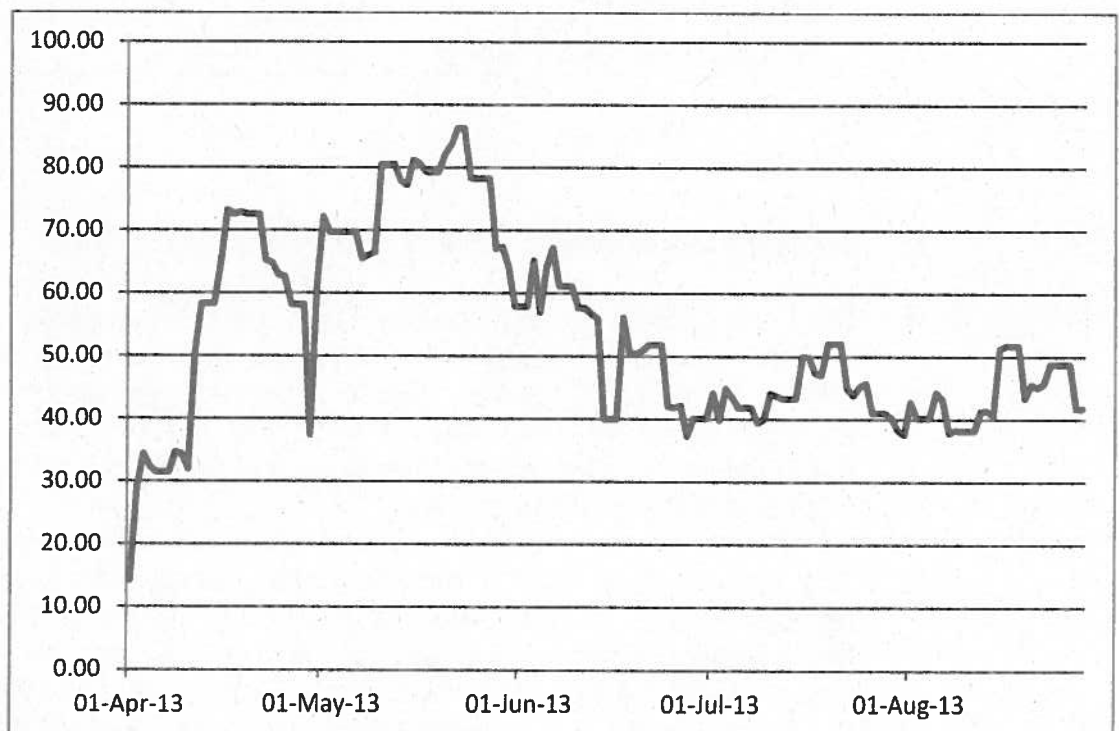
	Quarter 2 2012/13	Quarter 3 2012/13	Quarter 4 2012/13	Quarter 1 2013/14
Value weighted	1.0	2.4	2.5	3.3
Time weighted	1.0	1.9	2.9	1.9

The significant changes during the year have arisen from a change in the methodology for valuing money market funds

#### 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 1<sup>st</sup> April 2013.



15.3 The graph also shows liquidity has been maintained throughout the quarter mainly due to the large inflow of funds from Government grants and local taxation at the beginning of the year. 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 6<sup>th</sup> September 2013, 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	24	9.60
Debt Management Office	22	5.76
Debt Management Office	23	6.00
Debt Management Office	32	5.00
BlackRock MMF	1	4.00
Deutsche MMF	1	4.00
Goldman Sachs MMF	1	4.10
Invesco MMF	1	0.89
JP Morgan MMF	1	1.49
RBS MMF	1	2.21
NatWest SIBA	1	4.00
Weighted Average Maturity	14.36	

## 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 for the next three years.

16.2 The interest rates which money market funds are paying have reduced in the last few months to 0.24% - 0.41%. 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 approximately 0.32%.

16.3 The interest payable on borrowing during the first half of the year was £9.4m. The average rate payable on the borrowing portfolio is currently 5.83%.

## 17. Icelandic Banks Update

17.1 The distributions received from the Icelandic banks now total £27.8m out of the original £36.9m invested which is 75%. Final recovery rates of 100% for Glitnir, 98% for Landsbanki and 95% for Heritable are expected.

## 18. Prudential Indicators

18.1 The Council set prudential indicators for 2013/14 in February 2013. 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.

## 19. Recommendation

19.1 That members note the Treasury Management activity undertaken during the first half of 2013/14 and the performance achieved.

## Appendix 1: Summary of Treasury Management Activity and Performance

### 1. Treasury Portfolio

	Position at Q1 2013/14 £000	Position at Q4 2012/13 £000	Position at Q3 2012/13 £000	Position at Q2 2012/13 £000
Long Term Borrowing PWLB	196,683	206,702	208,155	205,901
Long Term Borrowing Market	125,000	125,000	125,000	125,000
Short Term Borrowing		30,000	20,000	23,000
<b>Total Borrowing</b>	<b>321,683</b>	<b>361,702</b>	<b>353,155</b>	<b>353,901</b>
Investments: Council	40,085	14,195	20,950	15,580
Investments: Icelandic deposits in default	12,455	12,455	12,995	13,918
<b>Total Investments</b>	<b>52,540</b>	<b>26,650</b>	<b>33,945</b>	<b>29,498</b>
<b>Net Borrowing position</b>	<b>269,143</b>	<b>335,052</b>	<b>319,210</b>	<b>324,403</b>

### 2. Security measure

	Quarter 1 2013/14	Quarter 4 2012/13	Quarter 3 2012/13	Quarter 2 2012/13
Credit score – Value weighted	3.3	2.5	2.4	1.0
Credit score – Time weighted	1.9	2.9	1.9	1.0

### 3. Liquidity measure

	Quarter 1 2013/14	Quarter 4 2012/13	Quarter 3 2012/13	Quarter 2 2012/13
Weighted average maturity: deposits (days)	14.4	4.00	8.36	4.21
Weighted average maturity: borrowing (years)	12.6	27.74	27.20	28.50



4. Yield measure

	Quarter 1 2013/14	Quarter 4 2012/13	Quarter 3 2012/13	Quarter 2 2012/13
Interest rate earned	0.32%	0.31%	0.36%	0.33%
Interest rate payable	5.83%	5.38%	5.46%	5.47%

## Appendix 2: Prudential Indicators

	Prudential Indicator	2013/14 Original Indicator	2013/14 Position/Forecast at Quarter 2
<b>CAPITAL INDICATORS</b>			
1	Capital Expenditure	£k	£k
	General Fund	47,811	46,000
	HRA	34,202	32,000
	TOTAL	82,013	78,000
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.62	2.62
	HRA	12.94	12.94
3	Capital Financing Requirement	£k	£k
	General Fund	251,066	250,000
	HRA	271,714	270,000
	TOTAL	522,780	520,000
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	8.77	8.77
	Weekly Housing rents	0.13	0.13

	Prudential Indicator	2013/14 Original Indicator	2013/14 Position/Forecast at Quarter 2	
<b>TREASURY MANAGEMENT LIMITS</b>				
5	Borrowing Limits	£k	£k	
	Authorised Limit	671,293	671,293	
	Operational Boundary	537,280	537,280	
6	HRA Debt Cap	£k	£k	
	Headroom	55,824	55,848	
7	Net debt to gross debt	£k	£k	
	Limit on proportion of net debt to gross debt			
8	Upper limit – fixed rate exposure	100%	98.0%	
	Upper limit – variable rate exposure	40%	2.0%	
9	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	55%	19%
	12 months & within 2 years	0%	40%	11%
	2 years & within 5 years	0%	40%	27%
	5 years & within 10 years	0%	35%	14%
	10 yrs & within 20 yrs	0%	35%	6%
	20 yrs & within 30 yrs	0%	35%	4%
	30 yrs & within 40 yrs	0%	35%	2%
	40 yrs & within 50 yrs	0%	50%	17%
	50 yrs & above	0%	50%	
10	Sums invested for more than 364 days	£0	£0	
11	Adoption of CIPFA Treasury Management Code of Practice	√	√	

**NB Maturity structure amended by Council on 15 July 2013**

