

Haringey Council

Report for:	Corporate Committee 26 th November 2013	Item number	
--------------------	---	------------------------	--

Title:	Treasury Management September 2013 quarterly Activity & Performance update
---------------	---

Report authorised by :	<i>J. Paine 15/11/13.</i> Director of Corporate Resources
-----------------------------------	--

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@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 quarter to 30th September 2013.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

- 3.1 That members note the Treasury Management activity undertaken during the quarter to 30th September 2013 and the performance achieved.

4. Other options considered

- 4.1 None.



5. Background information

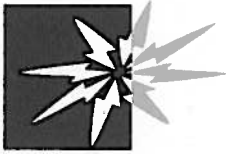
- 5.1 The Council approved the Treasury Management Strategy Statement for 2013/14 on 27th February 2013. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 2nd quarterly monitoring report for 2013/14.
- 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 2013/14 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 2013-14. 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. The ability to take advantage of low interest rates in this way has resulted in anticipated saving on the treasury management budget.

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. Members should note the shortfall mentioned in paragraph 13.3. 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.



Haringey 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. Since 1st April no new loans have been taken and debt of £41.0 million repaid, of which £30 million is short term local authority loans and £11 million is maturing PWLB debt.

13.3 The cashflow forecast is showing a likely shortfall in Q1, 2014 of the order of £20 million. In order to address this, the current intention is to fund via short term local authority borrowing for around six months. The rates payable should be around 0.4%.

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 majority of the remainder of the Council's investments are with the government guaranteed Debt Management Office, with a small balance at NatWest.

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 30th September 2013. These include pension fund balances of £2.5 million, but exclude Icelandic balances, see paragraph 17.

Institution	Long Term Credit Rating	Amount (£m)	% of total deposits
Debt Management Office	AA+*	15.74	36.3
BlackRock MMF	AAA	5.13	11.8
Deutsche MMF	AAA	4.04	9.3
Goldman Sachs MMF	AAA	4.37	10.1
Invesco MMF	AAA	2.06	4.7
JP Morgan MMF	AAA	3.17	7.3
RBS MMF	AAA	4.10	9.4
NatWest SIBA	A-	4.80	11.1
Total		43.41	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, has 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:



Haringey Council

	December 2013	March 2013	June 2013	September 2013
Value weighted	2.4	2.5	3.3	3.50
Time weighted	1.9	2.9	1.9	2.11

14.6 The scores have increased this quarter due to a higher proportion invested in money market funds. This represents an average credit rating of between AA and AA-.

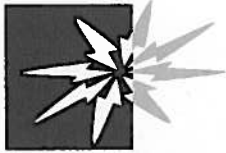
15. Treasury Management Activity and Performance: Liquidity

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 With cash balances relatively low and projected to turn negative in Q1, 2014, investments have been kept short term with only DMO trades being longer than overnight as can be seen from the table below.

15.3 The table below shows the Council's deposits at 30th September 2013, 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)
Deutsche	1	4,035,000
Goldman Sachs	1	4,370,000
JP Morgan	1	3,165,000
RBS	1	4,105,000
BlackRock – sterling	1	4,390,000
BlackRock – Gov	1	740,000
Invesco	1	2,060,000
DMO	7	5,000,000
DMO	14	7,240,000
DMO	14	1,850,000
DMO	2	1,650,000
NatWest SIBA	1	4,800,000
Average maturity (days)/Total Value	4.45	43,405,000



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 end of 2016.
- 16.2 The interest rates which money market funds are paying have reduced 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. The call account with NatWest earns 0.5% p.a. Longer maturities are paying rates that in absolute terms are not significantly higher e.g. 0.75% to 1% for 12 months deposits. Quarterly earnings on the portfolio are averaging approximately £40,000 at an average rate of 0.32%.
- 16.3 The interest payable on borrowing for 2013-14 is currently projected at £18.0 million (HRA £12.0 million and General Fund £6.0 million). The projections prior to the start of the year were total interest of £19.7 million (HRA £13.2 million and General Fund £6.5 million). The savings arise from less borrowing being required than was originally anticipated and prior year borrowing being of short maturities.
- 16.4 The average rate payable on the borrowing portfolio is currently 5.44%.

17. Icelandic Banks Update

- 17.1 The distributions received from the Icelandic banks now total £28.4m out of the original £36.9m invested, which is 77%. Final recovery rates of 100% for Glitnir, 98% for Landsbanki and 95% for Heritable are expected.

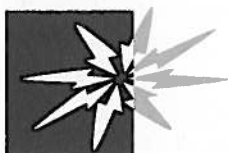
18. Prudential Indicators

- 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.



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.



Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at March 2013 £000	Position at September 2013 £000
Long Term Borrowing PWLB	206,702	195,715
Long Term Borrowing Market	125,000	125,000
Short Term Borrowing	30,000	0
Total Borrowing	361,702	320,715
Investments: Council	14,195	40,960
Investments: Icelandic deposits in default	12,455	8,331
Total Investments	26,650	49,291
Net Borrowing position	335,052	271,424

2. Security measure

	March 2013	September 2013
Credit score – Value weighted	2.5	3.50
Credit score – Time weighted	2.9	2.11

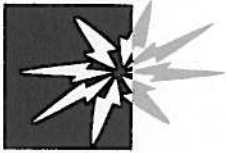
3. Liquidity measure

	March 2013	September 2013
Weighted average maturity – deposits (days)	4.0	4.5
Weighted average maturity – borrowing (years)	27.7	29.1

The repayment of short term local authority borrowing has increased the average maturity.

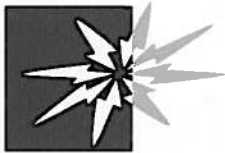
4. Yield measure

	March 2013	September 2013
Interest rate earned	0.31%	0.32%
Interest rate payable	5.38%	5.44%



Appendix 2: Prudential Indicators

No.	Prudential Indicator	2013/14 Original Indicator	2013/14 Position/Forecast Sept 2013
CAPITAL INDICATORS			
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	277,726	250,000
	HRA	271,096	270,000
	TOTAL	548,822	520,000
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	8.77	8.77
	Weekly Housing rents	0.13	0.13



No.	Prudential Indicator	2013/14 Original Indicator	Position / forecast Sept. 2013	
5	Borrowing Limits	£k	£k	
	Authorised Limit / actual debt	671,293	320,715	
	Operational Boundary/actual debt	537,280	320,715	
6	HRA Debt Cap	£k	£k	
	Headroom	55,824	55,824	
7	Gross debt compared to CFR	£k	£k	
	Gross debt	393,972	N/A	
	CFR	548,822	N/A	
8	Upper limit – fixed rate exposure	100%	98%	
	Upper limit – variable rate	40%	2%	
9	Maturity structure of borrowing (U: upper, L: lower)	L	U	
	under 12 months	0%	40%	12.6%
	12 months & within 2 years	0%	35%	3.7%
	2 years & within 5 years	0%	35%	10.7%
	5 years & within 10 years	0%	35%	11.4%
	10 yrs & within 20 yrs	0%	35%	5.3%
	20 yrs & within 30 yrs	0%	35%	3.4%
	30 yrs & within 40 yrs	0%	35%	4.5%
	40 yrs & within 50 yrs	0%	50%	27.1%
50 yrs & above	0%	50%	21.3%	
10	Sums invested for > 364 days	£0	£0	
11	Adoption of CIPFA Treasury Management Code of Practice	√	√	