Haringey Council

Report for:	Corporate Committee 25th November 2014	**Item number**	

Title:	Treasury Management September 2014 Mid-Year Activity & Performance Update

Report authorised by :	Assistant Director – Finance (CFO)

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 six months to 30th September 2014 in accordance with the CIPFA Treasury Management Code of Practice. It is a requirement of the Code for the report also to be considered by Council.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That members note the Treasury Management activity undertaken during the six months to 30th September 2014 and the performance achieved.

4. Other options considered

4.1 None.

5. Background information

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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 2014/15 on 26th February 2014. 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 2014/15.

5.4 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 activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

5.5 The quarterly reports during 2014/15 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 earned on investments remain low and significantly less than the cost of new borrowing and therefore the strategy of minimising cash balances is continuing in 2014-15. Borrowing will be taken only when required for liquidity purposes with the preference being short

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term local authorities loans 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. 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. Debt to the value of £10.2 million will mature during the year. There has been no new borrowing in the year to date.

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13.3 The cashflow forecast (see 15.2 below) is showing periodic and temporary shortfalls in Q1, 2015 of up to £20 million. In order to address this, the current intention is to fund via short term local authority borrowing for maturities between overnight and three months. The rates payable should be around 0.5%.

13.4 The current approach to borrowing was recently discussed with Arlingclose using their projections of interest rate movements. The conclusion was that short term borrowing remained appropriate to fund temporary funding gaps. However, rates remain attractive from a longer term perspective and if long term borrowing is required in the next 12-24 months to fund the capital programme then consideration should be given to locking in current rates, even if this did incur a short term cost. Uncertainty around the timing of capital expenditure has to date caused reluctance to commit to longer term borrowing.

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 to diversify 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 and overnight balances with Barclays. The only longer term investment is a two month deposit with Nationwide that matures in December 2014.

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 2014. These exclude pension fund balances of £1,247,000 and Icelandic balances, see paragraph 17. Pension fund balances are invested with Barclays Bank (£332,000) and money market funds (£915,000).

Institution	Long Term Credit Rating	Amount (£'000)	% of total deposits
BlackRock MMF	AAA	3,350	9.5
Deutsche MMF	AAA	2,990	8.5

Goldman Sachs MMF	AAA	3,200	9.1
JP Morgan MMF	AAA	710	2.0
Invesco MMF	AAA	3,000	8.5
Barclays Treasury	A	4,630	13.1
Nationwide Building Soc	A	5,000	14.2
Debt Management Office	AAA	12,400	35.1
Total		**35,280**	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:

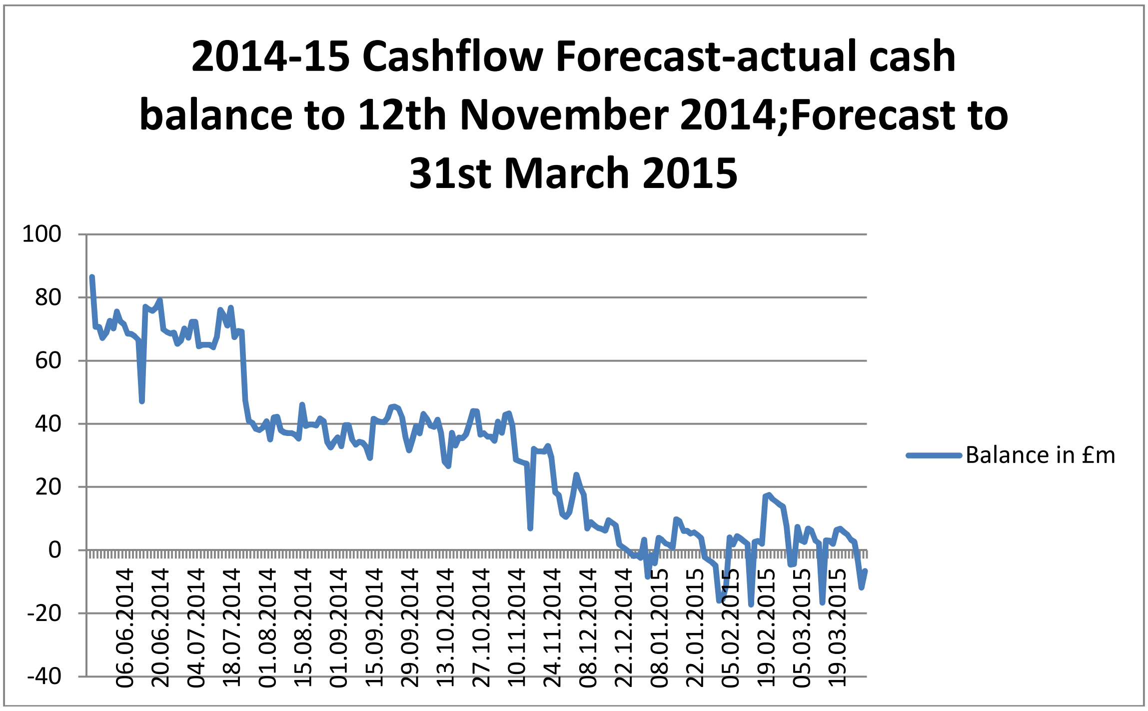
	March 2014	June 2014	Sept 2014
Value weighted	6.0	4.42	3.73
Time weighted	6.0	4.92	4.23

14.6 The scores have improved this quarter due to a greater proportion of the balances being invested with the DMO. The score represents an average credit rating of 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 The graph below is of the actual cash balances from April to November 2014 and projections for the 5 months to March 2015. The pattern is typical with balances highest in the early months and declining as the year progresses. The forecast predicts temporary borrowing needs of up to £20 million in Q1, 2015.



15.3 Based on the above projections, investments have been kept short term. The DMO deposits have a maturity of 13 and 17 days and the Nationwide deposit matures on 1st December 2014.

15.4 The weighted average maturity of the portfolio is 14 days (June – 16 days).

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 Q3, 2015.

16.2 The interest rates which money market funds are paying is between 0.35% and 0.43%. The Debt Management Office continues to pay 0.25% on all deposits regardless of the period of investment. The Barclays call account earns an initial rate of 0.25%. This rate is supplemented at year end by an additional 0.25% based on the average balance held on the account over the year. Longer maturities are paying rates that in absolute terms are not significantly higher e.g. 0.75% to 1% for 12 months deposits. The 2 month deposit with

Nationwide earns 0.46% p.a. Quarterly earnings on the portfolio are approximately £40,000 at an average rate of 0.34%.

16.3 The interest payable on borrowing for 2014-15 is currently projected at £16.7 million (HRA £11.3 million and General Fund £5.4 million). The projections prior to the start of the year were total interest of £18.0 million (HRA £11.8 million and General Fund £6.2 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 5.34%.

17. Icelandic Banks Update

17.1 The distributions received from the Icelandic banks now total £34.8m out of the original £36.9m invested, which is a 94%. Further recoveries of at least £0.9 million are anticipated with a possible final distribution from Heritable this year. That will only leave the Glitnir escow account (£0.4 million), which is locked in an Icelandic Krona account due to exchange control restrictions. The Glitnir Winding up Board has reported that earlier distributions of £37,000 were overpaid through using the wrong exchange rate and is seeking recovery. Settlement has been offered from the ISK escrow account.

18. Prudential Indicators

18.1 The Council set prudential indicators for 2014/15 in February 2014. 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.

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Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at March 2014 £000	Position at September 2014 £000
Long Term Borrowing PWLB Long Term Borrowing Market Short Term Borrowing	182,159 125,000	181,675 125,000 0
Total Borrowing	307,159	306,675
Investments: Council Investments: Icelandic deposits in default	9,570 2,177	35,280 2,177
Total Investments	11,747	37,457
Net Borrowing position	295,412	269,218

2. Security measure

	March 2014	September 2014
Credit score – Value weighted	6.0	3.73
Credit score – Time weighted	6.0	4.23

3. Liquidity measure

	March 2014	September 2014
Weighted average maturity – deposits (days)	1.0	14
Weighted average maturity – borrowing (years)	29.8	29.4

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

4. Yield measure

	March 2014	September 2014
Interest rate earned	0.32%	0.34%
Interest rate payable	5.45%	5.41%

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Appendix 2: Prudential Indicators

No.	Prudential Indicator	2014/15 Original Indicator	2014/15 Position/Forecast Sept 2014
CAPITAL INDICATORS			
1	Capital Expenditure	£k	£k
	General Fund	46,563	77,430
	HRA	63,310	52,995
	TOTAL	109,873	130,425
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.16	2.05
	HRA	11.13	10.90
3	Capital Financing Requirement	£k	£k
	General Fund	281,727	292,157
	HRA	271,096	271,096
	TOTAL	552,823	563,253
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	17.19	24.34
	Weekly Housing rents	0.17	0.10

No.	Prudential Indicator	2014/15 Original Indicator		Position / forecast Sept 2014
5	Borrowing Limits	£k		£k
	Authorised Limit / actual debt	561,079		413,715
	Operational Boundary/actual debt	425,844		413,715
NB: includes leases £66.7m				
6	HRA Debt Cap	£k		£k
	Headroom	54,442		54,442
7	Gross debt compared to CFR	£k		£k
	Gross debt	425,844		413,715
	CFR	552,823		563,253
NB: Gross debt includes leases.				
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%	2.7%
	12 months & within 2 years	0%	35%	5.2%
	2 years & within 5 years	0%	35%	12.2%
	5 years & within 10 years	0%	35%	13.0%
	10 yrs & within 20 yrs	0%	35%	0.0%
	20 yrs & within 30 yrs	0%	35%	7.4%
	30 yrs & within 40 yrs	0%	35%	21.6%
	40 yrs & within 50 yrs	0%	50%	12.6%
	50 yrs & above	0%	50%	25.3%
10	Sums invested for > 364 days	£0		£0
11	Adoption of CIPFA Treasury Management Code of Practice	√		√