Haringey Council

Report for:	Corporate Committee 24th September 2015	**Item number**	

Title:	Treasury Management June 2015 Activity & Performance update

Report authorised by :	Assistant Director – Finance (Deputy 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 three months to 30th June 2015 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 three months to 30th June 2015 and the performance achieved.

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 full Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2015/16 on 23rd February 2015. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 1st quarterly monitoring report for 2015/16.

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 2015/16 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 2015-16. Borrowing will be taken only when required for liquidity purposes with the preference being short term local authorities' loans at very low rates. However longer term interest rates continue to be carefully monitored. The ability to take

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advantage of low interest rates in this way has resulted in anticipated savings 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. One loan of £4.1 million matured in May and was repaid from cash balances. The loan carried a coupon of 10.25%. There has been no new borrowing in the year to date and we have, therefore, realised a further saving in the interest payments budget.

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13.3 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 remainder of the Council's investments are held with the DMO (government agency) and UK banks and building societies.

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 June 2015.

Institution	Long Term Credit Rating	Amount (£'000)	% of total deposits
Debt Management Office	AA+	8,850	13.9
BlackRock MMF	AAA	6,115	9.6
Deutsche MMF	AAA	6,100	9.5
Goldman Sachs MMF	AAA	6,100	9.5
JP Morgan MMF	AAA	6,110	9.6
Invesco MMF	AAA	6,080	9.5
Barclays Treasury	A-	9,528	14.9
Nationwide Building Soc	A	10,000	15.6
Coventry Building Soc	A	5,000	7.8
Total		**63,883**	100.0

The longest maturity is the Nationwide deposit that matured on 21st August and earned an annualised 0.51%. The table above excludes pension fund balances of £175,000 and Icelandic balances, see paragraph 17. Pension fund balances are invested with Barclays Bank (£50,000) and money market funds (£125,000). During the quarter S&P reduced the Barclays long term rating by one level to A-, which is the minimum acceptable to the Council, while Moody's increased Coventry's rating by one notch.

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 quarter for comparison:

	March 2015	June 2015	Sept 2015	December 2015
Value weighted	3.57	4.39		
Time weighted	2.70	5.60		

14.6 In targeting increased income we have invested longer term with two building societies, which has reduced the average rating as has the change in Barclay's credit rating. The portfolio has been brought in line with the target during quarter 2 by switching these longer dated deposits into enhanced cash funds and DMO deposits.

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 the projection of cash balances in the twelve months to March 2016. The pattern is typical with balances highest in the early months and declining as the year progresses. As yet no requirement for short term borrowing is indicated. The graph excludes the capital programme as timing is uncertain and will be updated as information becomes available.

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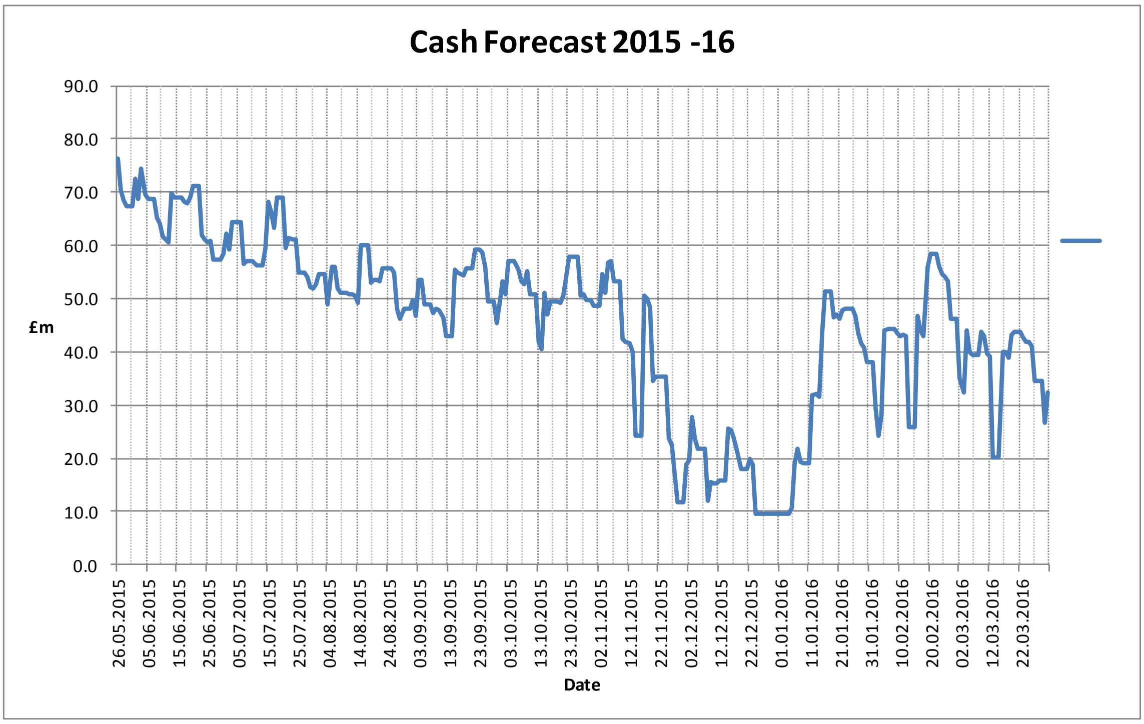

15.3 Based on the above projections, investments will mainly be kept short term.

15.4 The weighted average maturity of the portfolio at 30th June is 12 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 Q2, 2016 rising slowly thereafter to reach 1.75% in Q3, 2018.

16.2 The interest rates which money market funds are paying are 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 0.5%. Longer maturities are paying rates that in absolute terms are not significantly higher e.g. 0.75% to 1% for 12 months deposits. Income earned in the three months to 30th June 2015 is £79,000 at an average rate of 0.41%.

16.3 The interest payable on borrowing for 2015-16 is currently projected at £15.4 million (HRA £10.3 million and General Fund £5.1 million) compared with £16.3 million for the prior year.

16.4 The average rate payable on the borrowing portfolio is currently 5.27%.

17. Icelandic Banks Update

17.1 A further Heritable distribution of £792,000 was received during August, bringing total distributions received into the Council's bank account from the Icelandic banks to £35.6m out of the original £36.9m invested, which is a 96% recovery. Further recoveries from Heritable (£0.3m outstanding) remain possible. The Glitnir escrow account has a balance of approximately £0.4 million locked in an Icelandic Krona account due to exchange control restrictions.

18. Prudential Indicators

18.1 The Council set prudential indicators for 2015/16 in February 2015. 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 Currently, the capital projections are in line with the projections set at the start of the year. The prudential indicators are therefore also broadly similar to those set out in the strategy, but may change as the year progresses.

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Appendix 1: Summary of Treasury Management Activity & Performance

1. Treasury Portfolio

	Position at March 2015 £000	Position at June 2015 £000
Long Term Borrowing PWLB Long Term Borrowing Market Short Term Borrowing	169,065 125,000	165,010 125,000 0
Total Borrowing	294,065	290,010
Investments: Council Investments: Icelandic deposits in default	35,230 2,177	63,883 2,177
Total Investments	37,407	66,060
Net Borrowing position	256,658	223,950

2. Security measure

	March 2015	June 2015
Credit score – Value weighted	3.57	4.39
Credit score – Time weighted	2.70	5.60

3. Liquidity measure

	March 2015	June 2015
Weighted average maturity – deposits (days)	1.9	12.0
Weighted average maturity – borrowing (years)	30.1	29.9

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

4. Yield measure

	March 2015	June 2015
Interest rate earned	0.36	0.41
Interest rate payable	5.33	5.27

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Appendix 2: Prudential Indicators

No.	Prudential Indicator	2015/16 Original Indicator	2015/16 Position/Forecast June 2015
CAPITAL INDICATORS			
1	Capital Expenditure	£k	£k
	General Fund	54,568	54,568
	HRA	92,074	92,074
	TOTAL	146,642	146,642
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	1.90	1.88
	HRA	9.28	9.02
3	Capital Financing Requirement	£k	£k
	General Fund	297,121	290,651
	HRA	292,666	292,666
	TOTAL	589,787	583,317
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	34.03	32.99
	Weekly Housing rents	2.27	2.11

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No.	Prudential Indicator	2015/16 Original Indicator		Position / forecast June 2015
5	Borrowing Limits	£k		£k
	Authorised Limit / actual debt	503,532		343,047
	Operational Boundary/actual debt	447,867		343,047
NB: the June position includes PFI & leases of £53.0m				
6	HRA Debt Cap	£k		£k
	Headroom	44,235		44,235
7	Gross debt compared to CFR	£k		£k
	Gross debt	342,283		343,047
	CFR	549,387		549,387
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%	4.7%
	12 months & within 2 years	0%	35%	8.1%
	2 years & within 5 years	0%	35%	6.7%
	5 years & within 10 years	0%	35%	11.1%
	10 yrs & within 20 yrs	0%	35%	4.2%
	20 yrs & within 30 yrs	0%	35%	3.5%
	30 yrs & within 40 yrs	0%	35%	26.0%
	40 yrs & within 50 yrs	0%	50%	9.5%
	50 yrs & above	0%	50%	26.2%
10	Sums invested for > 364 days	£0		£0
11	Adoption of CIPFA Treasury Management Code of Practice	√		√