

**Report for:** Corporate Committee 15<sup>th</sup> Sept 2016

**Item number:** 7

**Title:** Treasury Management Update Report

**Report authorised by:** Tracie Evans, Chief Operating Officer (COO)

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**Ward(s) affected:** N/A

**Report for Key/  
Non Key Decision:** 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 30<sup>th</sup> June 2016 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 30<sup>th</sup> June 2016 and the performance achieved.

**4. Reason for Decision**

4.1. None.

**5. Other options considered**

5.1. None.

**6. Background information**

6.1. 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.”

- 6.2. 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.
- 6.3. 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 2016/17 on 22<sup>nd</sup> February 2016. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 1<sup>st</sup> quarterly monitoring report for 2016/17.
- 6.4. 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.

- 6.5. The quarterly reports during 2016/17 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

## **7. Contribution to Strategic Outcomes**

- 7.1. None.

## **8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)**

### Finance and Procurement

- 8.1. 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 2016-17. 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 advantage of low interest rates in this way has resulted in anticipated savings on the treasury management budget.

## Legal

- 8.2. 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.

## Equalities

- 8.3. There are no equalities issues arising from this report.

## **9. Use of Appendices**

- 9.1. Appendix 1 – Summary of Treasury Management Activity/Performance  
Appendix 2 – Prudential and Treasury Indicators

## **10. Local Government (Access to Information) Act 1985**

- 10.1. Not applicable.

## **11. Treasury Management Activity and Performance – Borrowing**

- 11.1. 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.
- 11.2. 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 £9.7 million matured in May and was repaid from cash balances. The loan carried a coupon of 9.4%. There has been no new borrowing in the year to date and we have, therefore, realised a further saving in the interest payments budget.
- 11.3. Following discussions with Arlingclose, it was concluded that the use of short term borrowing to fund temporary funding gaps is the appropriate course to follow for now. 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.

## 12. Treasury Management Activity and Performance – Security

12.1. 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.

12.2. 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).

12.3. 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 30<sup>th</sup> June 2016.

	Long Term Credit Rating	Principal £'000	% of Total Deposits
Insight Liquidity Fund	AAAm	5,000	45%
BlackRock	AAAm	1,220	11%
Deutsche	AAAm	930	8%
Goldman Sachs	AAAm	1,200	11%
Invesco	AAAm	2,750	25%
JP Morgan	AAAm	100	1%
<b>Total</b>		<b>11,200</b>	<b>100%</b>

12.4. 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

12.5. The scores for the latest quarter are shown below alongside the previous quarter for comparison:

	Sep 2015	Dec 2015	Mar 2016	Jun 2016
Value weighted	4.02	3.33	2.61	3.71
Time weighted	3.55	3.22	2.33	3.71

### **13. Treasury Management Activity and Performance: Liquidity**

13.1. 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.

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

13.3. The weighted average maturity of the portfolio at 30<sup>th</sup> June 2016 is 1 days.

### **14. Treasury Management Activity and Performance: Yield**

14.1. 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.

14.2. 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 30<sup>th</sup> June 2015 is £79,000 at an average rate of 0.41%.

14.3. The interest payable on borrowing for 2016-17 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.

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

### **15. Icelandic Banks Update**

15.1. The Glitnir escrow account had a balance of approximately £0.4m locked in an Icelandic Krona (ISK) account due to exchange control restrictions by Iceland. This government of Iceland agreed to a final auction of ISK held in escrow in June 2016, which led to the Council receiving £0.4m.

### **16. Prudential Indicators**

16.1. The Council set prudential indicators for 2016/17 in February 2016. 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.

16.2. 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.

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

### Treasury Portfolio

	Prudential Indicator	2016/17 Original Indicator	Forecast as at 30 Jun 2016
<b>CAPITAL INDICATORS</b>			
1	Capital Expenditure	£'000	£'000
	General Fund	50,682	50,682
	HRA	64,307	64,307
	<b>TOTAL</b>	<b>114,989</b>	<b>114,989</b>

2	Ratio of financing costs to net revenue stream	2016/17 Original Indicator	Forecast as at 30 Jun 2016
	General Fund	1.93%	1.93%
	HRA	8.88%	8.88%

3	Capital Financing Requirement	2016/17 Original Indicator £'000	Forecast as at 30 Jun 2016 £'000
	General Fund	290,670	290,670
	HRA	293,002	293,002
	<b>TOTAL</b>	<b>583,672</b>	<b>583,672</b>

4	Incremental impact of capital investment decisions	2016/17 Original Indicator £	Forecast as at 30 Jun 2016 £
	Band D Council Tax	32.04	32.04
	Weekly Housing rents	1.51	1.51

## Appendix 2: Treasury & Prudential Indicators

No.	Prudential Indicator	2016/17 Original Indicator	2016/17 Position/Forecast September 2015
<b>CAPITAL INDICATORS</b>			
1	Capital Expenditure	£'000	£'000
	General Fund	50,682	50,682
	HRA	64,307	64,307
	TOTAL	114,989	114,989
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	1.93	1.93
	HRA	8.88	8.88
3	Capital Financing Requirement	£'000	£'000
	General Fund	290,670	290,670
	HRA	293,002	293,002
	TOTAL	583,672	583,672
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	32.04	32.04
	Weekly Housing rents	1.51	1.51



No.	Prudential Indicator	2016/17 Original Indicator	Forecast 30 Jun 2016	
5	Borrowing Limits	£'000	£'000	
	Authorised Limit / actual debt	528,231	308,551	
	Operational Boundary/actual debt	472,772	308,551	
6	HRA Debt Cap	£'000	£'000	
	Headroom	44,235	44,235	
7	Gross debt compared to CFR	£'000	£'000	
	Gross debt	312,233	308,551	
	CFR	583,672	583,672	
8	Upper limit – fixed rate exposure	100%	99%	
	Upper limit – variable rate	40%	1%	
9	Maturity structure of borrowing (U: upper, L: lower)	<b>L</b>	<b>U</b>	<b>Forecast 30 Jun 2016</b>
	under 12 months	0%	40%	0.7%
	12 months & within 2 years	0%	35%	8.4%
	2 years & within 5 years	0%	35%	6.7%
	5 years & within 10 years	0%	35%	11.6%
	10 yrs & within 20 yrs	0%	35%	4.4%
	20 yrs & within 30 yrs	0%	35%	3.7%
	30 yrs & within 40 yrs	0%	35%	27.2%
40 yrs & within 50 yrs	0%	50%	9.9%	
50 yrs & above	0%	50%	27.4%	
10	Sums invested for > 364 days	£0	£0	
11	Adoption of CIPFA Treasury Management Code of Practice	√	√	
12	<b>LOBO Adjusted</b> Maturity structure of borrowing (U: upper, L: lower)	<b>L</b>	<b>U</b>	<b>Mar-16</b>
	under 12 months	0%	40%	46.4%
	12 months & within 2 years	0%	35%	8.4%
	2 years & within 5 years	0%	35%	6.7%
	5 years & within 10 years	0%	35%	11.6%
	10 yrs & within 20 yrs	0%	35%	4.4%
	20 yrs & within 30 yrs	0%	35%	0.0%
	30 yrs & within 40 yrs	0%	35%	12.6%
40 yrs & within 50 yrs	0%	50%	9.9%	
50 yrs & above	0%	50%	0.0%	