

REPORT OF
THE CABINET
PART I

TREASURY MANAGEMENT MONITORING REPORT 2010/11

At a meeting on 25 October 2010, the Cabinet considered and approved the mid-year review of treasury management activities during 2010/11 and the proposed approach to developing the 2011/12 Treasury Strategy. As outlined in the Council's Treasury Management Strategy for 2010/11, CIPFA's recently revised 'Treasury Management in the Public Services: Code of Practice' (2009) introduces a new requirement for a mid-year review of treasury management activities to be reported to Members for approval and submission to the Council. The Cabinet agreed that to enable the Council to explore the potential for achieving long term interest savings, without any significant change in the Council's risk exposure, specialist Treasury Advisers should be engaged.

The Cabinet heard that the Council has an investment portfolio consisting of reserves and short-term cash flows, which was £218.5m as at 31 August 2010. The Council is currently investing according to a low risk, high quality lending list as outlined in its Annual Investment Strategy.

The Treasury Management Outturn Report for 2009/10 gave an overall outstanding Public Works Loan Board (PWLB) borrowing figure of £276m at an average interest rate of 5.33% and outstanding term remaining of 18 years at 31 March 2010. Following maturity of a £2m loan, the Council has taken additional loans from the PWLB totalling £16m at an average interest rate of 4.44% and 24-year term. As a result, the Council currently has a total of £290m PWLB loans at interest rates ranging between 3.39% and 9.875% and an average overall rate of 5.29%, and outstanding term remaining of 18 years. In addition, the Council currently has a total of £73m lender's option / borrower' option loans (LOBOs) at interest rates ranging between 3.89% and 5.00% and an average overall rate of 4.45%, and outstanding term remaining of 28 years.

Actual external debt at 31 March 2010 was £512m, which comprised £276m PWLB loans, £73m LOBO bank loans, £85m finance lease associated with Waste Management contract, and £78m temporary loans from the Hampshire Pension Fund and Hampshire Police Authority.

CIPFA's Code of Practice requires authorities to set authorised limits and operational boundaries for external debt and upper limits on fixed and variable rate interest exposure. These limits were set in the annual strategy report presented to Cabinet on 4 February 2010. Further to the re-classification of a Waste Management contract as a finance lease, some authorised limits were subsequently increased by £90m as outlined in the Treasury Management Outturn Report for 2009/10. The limits and current total borrowing are summarised in the table below.

Initial limit	Revised limit	Maximum actual
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		(following re-classification of waste management contract)	level during the period from 1 April to 31 August 2010
Limit for external debt	£690m	£780m	£564m gross borrowing
Operational boundary for external debt	£570m	£660m	£564m gross borrowing
Upper limit on fixed interest rate exposure	£330m	£420m	£372m exposure
Upper limit on variable interest rate exposure	£420m	£420m (no increase)	£194m exposure

The Code also requires the Council to set upper and lower percentage limits on the maturity structure of its long-term fixed-rate borrowing during 2010/11. The following table shows the limits approved by Council. These have been set in order to allow maximum flexibility in managing the debt portfolio and are consistent with the existing portfolio.

	Upper limit (%)	Lower limit (%)	Actual (%)
Under 12 months	10	0	3
12 to 24 months	10	0	2
24 months to 5 years	20	0	9
5 years to 10 years	30	10	14
10 years and beyond	90	70	72

Preparatory work is due to commence to produce the 2011/12 Treasury Management Strategy which is due to be considered in February 2011, in line with CIPFA Guidance. The preparation of a robust Treasury Management Strategy which allows a risk aware approach to be taken in managing the Council's debt and investment portfolios requires a high level of professional expertise coupled with a specialist knowledge of the markets in which the Council operates. Therefore, the Cabinet agreed that the Council should seek the services of Treasury Advisers by inviting tenders for a two-year appointment. This approach will enable the Council to explore the potential for achieving long term interest savings, without any significant change in the County Council's risk exposure, taking full account of professional, expert and specialist knowledge in this field.

The Cabinet acknowledged that this is a very specialised market and whilst an appropriate level of expertise exists within the Council to operationally manage the portfolio, it would not be appropriate to look to attract individuals with the level

of expert knowledge required to support the strategy development, as this would be an extremely expensive approach. The Council would be unlikely to attract such individuals and/or retain them and indeed the specialist knowledge they have would immediately decline when they were no longer operating within their field.

RECOMMENDATION

That the County Council endorses the mid-year review of treasury management activities, along with the approach to developing the Treasury Strategy for 2011/12.