

Annual Treasury Outturn Report 2010/11

1 Summary

- 1.1 This report sets out the performance of the treasury management function during 2010/11, to include the effects of the decisions taken and the transactions executed in the past year.

2 Contextual information

- 2.1 The Hampshire Fire & Rescue Authority adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year.
- 2.2 Treasury management in the context of this report is defined as:
“The management of the organisation’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.” (CIPFA Code of Practice).
- 2.3 Whilst scrutiny of treasury policy, strategy and activity is delegated to the Finance & General Purposes Committee, the Authority retains overall responsibility for its treasury decisions and activity. No treasury management activity is without risk; the effective identification and management of risk are integral to the Authority’s treasury management objectives.
- 2.4 All treasury activity has complied with the Authority’s Treasury Management Strategy Statement and Investment Strategy for 2010/11, and all relevant statute, guidance and accounting standards.
- 2.5 The prudential indicators which are all covered in this report are:
- authorised limit and operational boundary for external debt
 - upper limits for fixed interest rate exposure and variable interest rate exposure
 - maturity structure of fixed rate borrowing
 - total principal sums invested for periods longer than 364 days.

- 2.6 A major change in treasury management in 2010/11 was the County Council's appointment of Arlingclose as advisers in December 2010, whose services also cover the Hampshire Fire & Rescue Authority.

3 The borrowing requirement and debt management

	Balance on 31/03/2010 £m	New Borrowing £m	Balance on 31/03/2011 £m	Average Rate % / Average Life (yrs)
Capital Financing Requirement	15,189		16,854	
Long Term Borrowing	7.450	0.900	8.350	4.71% / 19 yrs

- 3.1 On 20 October 2010, the Comprehensive Spending Review (CSR) increased the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing. Premature repayment rates did not benefit from the increase in the margin which potentially makes future rescheduling of PWLB loans more challenging.
- 3.2 The Authority funded £0.9m of its capital expenditure through new borrowing from the PWLB, taken out during the first half of the year prior to the above increase. The PWLB remained the Authority's preferred source of borrowing, given the transparency and control that its facilities continue to provide.

Loans borrowed during 2010/11	Principal £m	Average rate %	Average Maturity (years)
PWLB Fixed Rate Maturity Loans	0.900	4.54	23.7

- 3.3 Whilst the Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31 March 2011 is £16.854m, a cautious approach has been applied in terms of take-up of new borrowing to minimise debt interest payments without compromising the long-term stability of the portfolio. Internal resources in lieu of external borrowing have been used in order to lower overall treasury risk by reducing both external debt and temporary investments.

4 Investment activity

- 4.1 The Authority's cash flow requirements have meant that there has been no scope for any direct long-term investment on the money markets. Therefore, the Authority has invested all its surplus funds with the County Council, earning interest based on the seven-day notice rate of 0.32%. When the position is overdrawn, the interest rate payable has been similarly based on the seven-day notice rate.

	Balance on 31/03/2010 £m	Balance on 31/03/2011 £m	Average Rate % / Average Life (yrs)
Instant access monies lent to / (borrowed from) Hampshire County Council	-2.355	3.433	0.3%/0 yrs

- 4.2 The Authority's average cash investment balance was £3.5m during 2010/11, and interest earned was £11,000, leading to an average yield of 0.3%.
- 4.3 The Authority's Treasury Management Strategy Statement and Investment Strategy for 2011/12 has changed the interest rate that will be applied such that with effect from 1 April 2011 surplus funds invested with the County Council will attract the Bank of England's base rate, with any overdrawn position charged at minus base rate.

5 Compliance with Prudential Indicators

- 5.1 The Authority can confirm that it has complied with its Prudential Indicators for 2010/11, which were set in February 2010 as part of the Authority's Treasury Management Strategy Statement.
- 5.2 In compliance with the requirements of the CIPFA Code of Practice, this report provides Members with a summary report of the treasury management activity during 2010/11. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Authorised limit and operational boundary for external debt

- 5.3 CIPFA's Code of Practice requires authorities to set an authorised limit for external debt, defined as the sum of external borrowing and other long-term liabilities. This is a statutory limit which should not be breached. The Authority's authorised limit was set at £25.6m for 2010/11.
- 5.4 This limit is based on the estimated Capital Financing Requirement (CFR) in order to enable it to be financed entirely from external borrowing should the Authority's internal reserves become depleted. The limit also includes an allowance for temporary borrowing to cover normal revenue cash flow requirements and unexpected outflows or delays in receiving cash.
- 5.5 During 2010/11, the gross borrowing reached a maximum of £13.2m which is within the authorised limit of £25.6m.
- 5.6 The Authority also needs to set an operational boundary for external debt. This should reflect the most likely scenario and be consistent with the Authority's capital plans and Treasury Management Strategy. Temporary breaches of the 2010/11 operational boundary can take place for cash flow reasons, but any sustained breach will lead to further investigation. The Authority approved an operational boundary for 2010/11 of £20.1m.
- 5.7 During 2010/11, the gross borrowing reached a maximum of £13.2m which is within the operational boundary of £20.1m.

Upper limits for fixed interest rate exposure and variable interest rate exposure

- 5.8 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- 5.9 The Authority has to set an upper limit on its fixed interest rate exposure, which is expressed in terms of the maximum long-term fixed-rate principal sums which can be outstanding on any day in each year. The Authority approved an upper limit on fixed interest rate exposure for 2010/11 of £10.1m.
- 5.10 During 2010/11, the long-term fixed-rate principal sums outstanding reached a maximum of £8.4m which is within the upper limit on fixed interest rate exposure of £10.1m.

- 5.11 The Authority also has to set an upper limit on its variable interest rate exposure. This is calculated simply as the difference between the approved authorised borrowing limit and the fixed-rate borrowing outstanding at the end of each year if no further such borrowing is undertaken. The Authority approved an upper limit on variable interest rate exposure for 2010/11 of £15.5m.
- 5.12 During 2010/11, the variable interest rate borrowing from Hampshire County Council reached a maximum of £5.7m which is within the upper limit on no variable interest rate exposure which is within the upper limit of £15.5m.

Maturity structure of fixed rate borrowing

- 5.13 The Code also requires the Authority 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 the Authority. 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	0	0	0
12 to 24 months	30	0	0
24 months to 5 years	30	0	0
5 years to 10 years	30	0	15
10 years and beyond	100	70	85

- 5.14 The Authority's long-term fixed rate borrowing during 2010/11 has not breached these set limits.

Total principal sums invested for periods longer than 364 days

- 5.15 For 2010/11, the Authority set an upper limit of nil on investments for periods longer than one year. During 2010/11, the Authority did not make any investments for periods exceeding a year and has therefore adhered to this limit.

6 Recommendation

- 6.1 That the annual treasury outturn report for 2010/11 be approved for submission to the Hampshire Fire & Rescue Authority.