

Annual Treasury Outturn Report 2011/12

1 Summary

- 1.1 This annual report sets out the performance of the treasury management function during 2011/12, 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 2011/12, and all relevant statute, guidance and accounting standards.
- 2.5 The prudential and treasury management indicators which are all covered in this report are:
- actual capital financing requirement
 - actual external debt
 - 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 The County Council's treasury advisers, Arlingclose, provide support to the Hampshire Fire & Rescue Authority in undertaking treasury management activities.

3 The borrowing requirement and debt management

	Balance on 31/03/2011 £m	Net new Borrowing £m	Balance on 31/03/2012 £m	Average Rate % / Average Life (yrs)
Capital Financing Requirement	16,854		15,879	
Long Term Borrowing	8.350	0.025	8.375	4.71% / 18 yrs
Total Borrowing	8.350	0.025	8.375	4.71% / 18 yrs
Long Term Liabilities - Finance Leases	0.862	-0.341	0.521	5.73% / 2 yrs
Total External Debt	9.212	-0.316	8.896	4.76% / 17 yrs

3.1 Whilst the Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31 March 2012 is £15.879m, 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 with no new borrowing taken out during 2011/12, aside from a £28,500 interest-free SALIX loan. Internal resources in lieu of external borrowing have been used in order to maintain overall treasury risk by neither increasing external debt or temporary investments.

4 Actual external debt

4.1 This indicator is obtained directly from the Authority's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the operational boundary and authorised limit.

Actual External Debt as at 31 March 2012	£m
Long Term Borrowing	8.375
Long Term Liabilities - Finance Leases	0.521
Total	8.896

5 Investment activity

- 5.1 The Authority has invested according to a low risk, high quality lending list as outlined in the Investment Strategy for 2011/12. Other surplus funds remain with the County Council, earning interest based on the prevailing Base Rate (currently 0.50%). When the position is overdrawn, the interest rate payable has been similarly based on the Base Rate.

	Balance on 31/03/2011 £m	Balance on 31/03/2012 £m	Average Rate % / Average Life (yrs)
Call account (same day access funds)	0	4.000	1.0%/0.0 yrs
Call account (same day access funds placed with Hampshire County Council)	3.433	2.068	0.5%/0.0 yrs
Short Term Investments	0	5.000	1.2%/0.2 yrs
Long Term Investments	0	1.250	1.3%/1.7 yrs
Total Investments	3.433	12.318	1.0%/0.3 yrs

- 5.2 Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2011/12. Investments during the year included:

- Deposits with UK local authorities
- Call accounts and deposits with banks and building societies systemically important to the UK's banking system.

- 5.3 Counterparty credit quality was assessed and monitored with reference to:

- credit ratings
- credit default swaps
- any potential support mechanisms
- share prices.

- 5.4 The minimum long-term counterparty credit rating determined for the 2011/12 treasury strategy was A+/A1 across rating agencies Fitch, S&P and Moody's.

- 5.5 This particular criterion was amended by the Authority on 9 February 2012 to A-/A3 in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system. The downgrades were driven principally by the agencies' view of the extent of future government support (flowing from the recommendations to the government from the Independent Commission on Banking) rather than a deterioration in the institutions' creditworthiness.
- 5.6 The Authority maintained a sufficient level of liquidity through the use of call accounts with UK banks and monies placed with Hampshire County Council.
- 5.7 The Authority sought to optimise returns commensurate with its objectives of security and liquidity. The UK base rate was maintained at 0.5% through the year.
- 5.8 The Authority considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates remained at very low levels which had a significant impact on cash investment income – see table below.

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2011	0.50	0.40	0.54	0.54	0.69	1.12	1.59	1.89	2.36	3.00
30/04/2011	0.50	0.50	0.40	0.49	0.69	1.05	1.52	1.62	2.07	2.74
31/05/2011	0.50	0.40	0.40	0.52	0.69	1.08	1.56	1.53	1.89	2.54
30/06/2011	0.50	0.50	0.40	0.50	0.77	1.06	1.54	1.44	1.82	1.50
31/07/2011	0.50	0.40	0.40	0.50	0.78	1.07	1.55	1.29	1.53	2.09
31/08/2011	0.50	0.40	0.40	0.56	0.86	1.15	1.63	1.27	1.43	1.92
30/09/2011	0.50	0.60	0.60	0.54	0.92	1.21	1.69	1.25	1.38	1.75
31/10/2011	0.50	0.63	0.55	0.56	0.96	1.25	1.74	1.30	1.42	1.81
30/11/2011	0.50	0.65	0.58	0.64	1.01	1.31	1.80	1.41	1.49	1.76
31/12/2011	0.50	0.50	0.65	0.67	1.05	1.35	1.84	1.31	1.34	1.54
31/01/2012	0.50	0.50	0.70	0.68	1.06	1.38	1.87	1.20	1.23	1.46
29/02/2012	0.50	0.50	0.75	0.67	1.05	1.37	1.87	1.22	1.29	1.54
31/03/2012	0.50	0.55	0.55	0.61	1.00	1.33	1.84	1.22	1.30	1.59
Minimum	0.50	0.10	0.35	0.49	0.68	1.01	1.40	1.08	1.23	1.46
Average	0.50	0.47	0.52	0.58	0.89	1.21	1.69	1.36	1.55	1.98
Maximum	0.50	0.65	0.95	0.68	1.06	1.38	1.87	1.95	2.42	3.07
Spread	--	0.55	0.60	0.19	0.38	0.37	0.47	0.87	1.19	1.60

- 5.9 A small number of longer term cash investments for periods of up to two years were made in order to access higher investment returns in the current low interest rate environment.
- 5.10 Cash investments with longer than 364 days to maturity were restricted to a maximum of £2m, with a maximum investment being placed with one institution of £1m.

6 Compliance with Prudential Indicators

- 6.1 The Authority can confirm that it has complied with its Prudential Indicators for 2011/12, which were set in February 2011 as part of the Authority's Treasury Management Strategy Statement.
- 6.2 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 2011/12. 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

- 6.3 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 £27.9m for 2011/12.
- 6.4 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.
- 6.5 During 2011/12, the gross borrowing reached a maximum of £9.2m which is within the authorised limit of £27.9m.
- 6.6 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 2011/12 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 2011/12 of £22.7m.
- 6.7 During 2011/12, the gross borrowing reached a maximum of £9.2m which is within the operational boundary of £22.7m.

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

- 6.8 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.

- 6.9 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 2011/12 of £22.7m, which is based on the operational boundary and has been set to give the Authority maximum policy flexibility. The limit enables the potential for a refinancing from, e.g., variable to fixed rate borrowing.
- 6.10 During 2011/12, the long-term fixed-rate principal sums outstanding reached a maximum of £9.2m which is within the upper limit on fixed interest rate exposure of £22.7m.
- 6.11 The Authority also has to set an upper limit on its variable interest rate exposure. The Authority approved an upper limit on variable interest rate exposure for 2011/12 of £22.7m, which is based on the operational boundary and has been set to give the Authority maximum policy flexibility. The limit enables the potential for a refinancing from, e.g., fixed to variable rate borrowing.
- 6.12 During 2011/12, the variable interest rate borrowing from Hampshire County Council reached a maximum of £1.9m which is within the upper limit of £22.7m.

Maturity structure of fixed rate borrowing

- 6.13 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 2011/12. 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	50	0	0
12 to 24 months	50	0	0
24 months to 5 years	50	0	0
5 years to 10 years	75	0	20
10 years to 20 years	75	0	25
20 years to 30 years	75	0	55
30 years and above	100	70	0

- 6.14 The Authority's long-term fixed rate borrowing during 2011/12 has not breached these set limits.

Total principal sums invested for periods longer than 364 days

- 6.15 For 2011/12, the Authority set an upper limit of £2m on investments for periods over 364 days up to a maximum of two years, although the maximum investment being placed with one institution is restricted to £1m.
- 6.16 This indicator allows the Authority to manage the risk inherent with longer term investments, and lending for longer than 364 days and up to a maximum of two years is currently restricted to UK local authorities only (including police and fire authorities).
- 6.17 The Authority's long-term investments during 2011/12 have not breached this set limit.

7 Recommendation

- 7.1 That the annual treasury outturn report for 2011/12 be approved for submission to the Hampshire Fire & Rescue Authority.