

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	15 December 2014
Title:	Budget Setting and Provisional Cash Limits 2015/16
Reference:	6270
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Rob Carr

Tel: 01962 847508

Email: Rob.carr@hants.gov.uk

1. Executive Summary

- 1.1. The purpose of this report is to update Cabinet on the financial position in respect of the current financial year together with the first half year performance for Treasury Management. It also sets out the process and framework for the setting of the 2015/16 budget and sets provisional targets for Departments as part of the Transformation to 2017 Programme.
- 1.2. The budget for the current financial year was set on the basis that a draw from the Grant Equalisation Reserve of around £25m would be required to balance the budget in order to give the time and capacity to achieve the savings targets set for 2015/16.
- 1.3. Furthermore, as part of this strategy, the savings proposals as part of the Transformation to 2015 Programme were agreed by Cabinet and Full Council as part of the 2014/15 budget setting process. This was necessary to provide sufficient time for implementation given the scale of the Transformation and the lead in times for achieving the savings themselves.
- 1.4. Given this position, no new savings proposals will be presented as part of the 2015/16 budget setting process, but an update on the progress of the Transformation to 2015 Programme is presented elsewhere on today's agenda.
- 1.5. At this stage a planning assumption of a further freeze in council tax for 2015/16 has been used in the forward forecasts and an assumed draw from the Grant Equalisation Reserve of £5.6m is still anticipated in order to balance the budget.
- 1.6. This report sets the framework for developing the detailed revenue budgets and capital programme that will be presented to Executive Members, Cabinet and County Council during January and February next year.

2. Contextual information

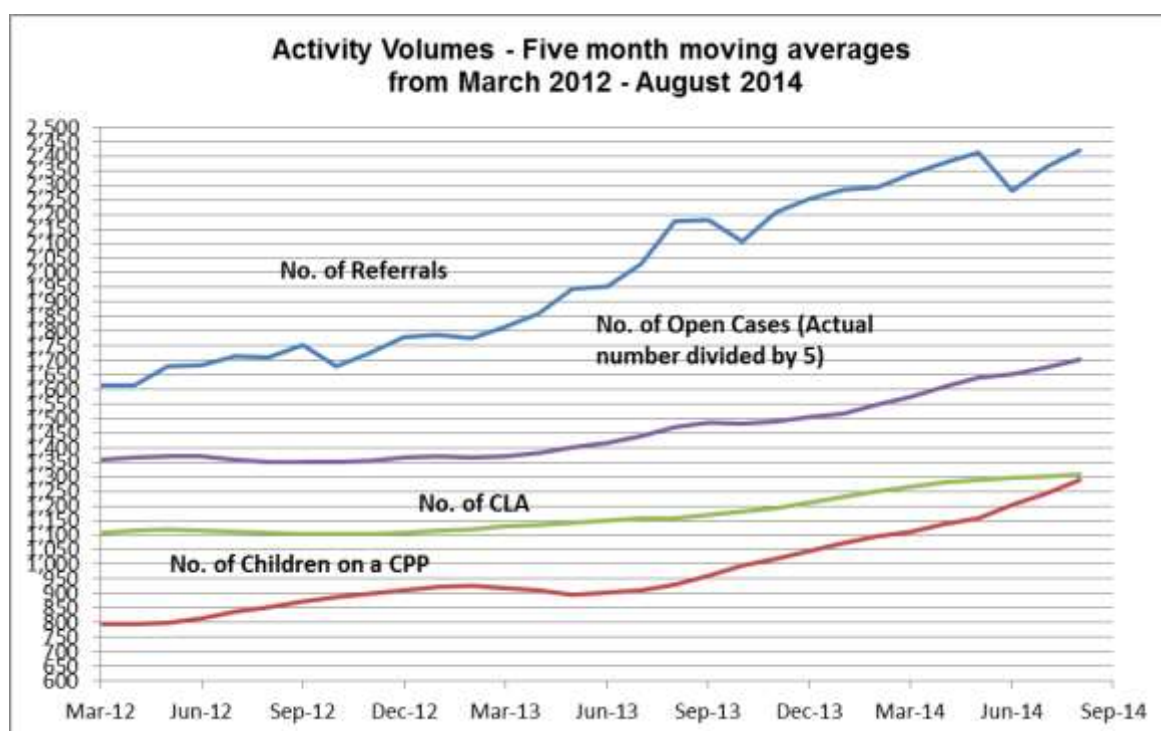
- 2.1. Previous financial updates around this time of the year have been heavily influenced by the timetable of release of information from the Government either around Comprehensive Spending Review figures or specific grant figures for the next financial year.
- 2.2. For 2015/16, the County Council has already been given an indication of its provisional grant figures and these figures are not expected to change significantly when the local government finance settlement is announced in December, although it is still possible that there will be variations that need to be taken into account when setting the budget in February.
- 2.3. Savings proposals for 2015/16 have already been agreed and the focus now is on implementation and delivery. In October the Transformation to 2017 Programme was formally launched, following Cabinet approval, in order to start developing plans for meeting the expected budget gap in 2017/18.
- 2.4. Given this position, the main focus for budget setting in 2015/16 is the production of the detailed revenue and capital budgets and this report sets out the framework for the detailed budget preparation process for next year.

3. Quarter 2 Financial Monitoring

- 3.1. Cabinet will be aware that the County Council went live with the new suite of IBC systems and services from April this year. This also included a new budget management and monitoring module called Budget Planning and Consolidation (BPC).
- 3.2. The aim of the system is to have an improved integrated approach to budget planning and monitoring and a key feature of the monitoring process is that system generated forecasts are produced based on profiles and forecast drivers entered into the system. It was always anticipated that the forecasting process in the first year would be different due to the absence of a 'baseline year' on which to run the profiles and forecasts and due to the fact that the system was part of major changes being implemented across the County Council.
- 3.3. This prediction has proved to be accurate, not only for the reasons outlined above, but also due to restructures and other changes across the Council and further issues associated with initial challenges relating to the significant business change regarding the purchase to pay system and the subsequent disruption to the invoice payment process as new business processes are introduced to the IBC.
- 3.4. Finance staff have therefore been working with Departments to ensure that forecasts to the end of the year are accurate, and given the risks associated with the new system, higher level overviews of the figures have been undertaken to 'sense check' the results.
- 3.5. The forecast outturn position for the overall revenue account is shown in Appendix 1 and measures the forecast position at the end of the year

against the current working budget that has been adjusted for changes during the year. Net Departmental spending is expected to be around £17.8 million below the 2014/15 working budget.

- 3.6. However, this amount needs to be considered in the context that early delivery of Departmental savings was expected to achieve £17.2 million for the year and is therefore broadly in line with that forecast position, although the distribution between Departments is somewhat different given the social care pressures within Adults and Children's Services.
- 3.7. The pressures within these Departments around increasing demand and costs for the provision of social care services is well documented and strong management grip continues to be applied to manage demand to suppress the additional costs. The position in Adult Services is similar to that experienced in previous years and is being managed through measures put in place at the end of last financial year, early delivery of savings, together with previously agreed corporate support and resources contained within the Department itself. The position on delayed discharges is becoming an issue for acute providers. Resources to support activity in this area have already been set aside within the provision for the Better Care Fund.
- 3.8. For Children's Services, the increase in the number of Children Looked After has continued during 2014/15. Whilst the number of children has not increased as dramatically as anticipated, the average cost of placements has seen a significant increase, given the demand within the market and the limited supply that is available. The graph below shows the increasing pressure within the system. On top of this, average package costs for some care types are now 10% above previous levels and 'top end' single placements for purchased residential care can now reach up to £290,000.



- 3.9. Despite these pressures, current projections of the additional cost in 2014/15 and the knock-on impact to the 2015/16 budget are still in line with what was anticipated when the budget was set in February, but could be subject to further variation if the rate of children being admitted to care or placement costs increases further during the rest of the year.
- 3.10. It was agreed as part of the Budget Strategy, that Children's Services would absorb the first £6.3 million of the anticipated pressure in the current year, with anything over that being met from corporate budgets. Some of this £6.3 million has already been met during the year through other savings within the Department, but it is anticipated that Children's Services will need to meet the remainder by drawing down on their cost of change reserves, which is reflected in the forecast as a balanced position for the Department.
- 3.11. At the present time, the full year impact of the increases is still estimated to be around £12.5 million as set out in the MTFs presented to Cabinet over the Summer, for which separate provision has been made in the budget on an ongoing basis.
- 3.12. The biggest underspend relates to Corporate Services, which was already predicting £5.6 million of early delivery of savings, which has been increased during the year to £8 million both as a result of an improvement in the levels of savings and a continued focus on reducing spend within the Department in readiness for Transformation to 2017.
- 3.13. Most other non-Departmental items are not expected to vary significantly from the current working budget, although an underspend of £2.5 million has been predicted for capital financing costs due to the continued low levels of interest rates and the fact that the County Council is avoiding taking out any significant new long term borrowing due to the 'cost of carry' which compares short term to long term interest rates. This combination of limited new borrowing costs and cheap short term money means that savings continue to be made on capital financing costs.
- 3.14. After allowing for the transfer to (or from) cost of change reserves of the Departmental underspends, the only overall variation relates to the £2.5 million saving in capital financing costs. A more detailed review of contingencies and other central budgets will be undertaken as part of the 3rd quarter monitoring and in considering the Revised 2014/15 budget position.

4. Treasury Management

- 4.1. Hampshire County Council fully complies with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services (2009).
- 4.2. The Code recommends the reporting of Treasury Management activity twice a year and therefore, to ensure that the County Council is following best practice in accordance with CIPFA's recommendations, this report includes an update on treasury management activities to the end of October 2014, which is contained in Appendix 3.

5. 2015/16 Budget Setting

- 5.1. The County Council has been following a deliberate strategy for dealing with grant reductions during the period of austerity, which involves planning ahead of time, making savings in advance of need and then using those savings to help fund transformational change to generate the next round of savings.
- 5.2. This strategy has continued for 2015/16 in that the Transformation to 2015 programme has been in place for some time in order to develop and deliver over £100 million of savings required to balance the budget for that year.
- 5.3. In order to give Departments the maximum time and capacity for the implementation of the Transformations 2015 savings, detailed savings proposals for each Department were presented as part of the 2014/15 budget setting process and were approved by Cabinet and County Council in February this year.
- 5.4. It has always been acknowledged that the implementation of some proposals will be more challenging than others and may be subject to separate consultation exercises to fully understand the impacts of the proposals that are being made. Taking the time to get this right is very important for service users and the County Council and as such some savings may not be achieved in 2015/16 and will need to be supported on a one off basis.
- 5.5. The County Council is currently consulting on changes to the Youth Service and Short Breaks for Children with Disabilities, which will not finish until early next year and may therefore affect Children's Services ability to make these savings during 2015/16. Normal County Council policy would expect the Department to utilise their cost of change reserves to meet this one off gap, but given the additional pressures in Children Looked After detailed in this report, Children's Services ability to do this in 2015/16 is likely to be minimal and therefore exceptionally it is proposed to provide some central support to to 'cashflow' the one-off financial implications to manage this position during the next financial year. This cashflow support will be repaid from the future Childrens Services cost of change reserve as part of their Transformation to 2017 Programme..
- 5.6. A separate report updating the Cabinet on the progress of the Transformation to 2015 programme is presented elsewhere on this agenda and highlights positive progress on the achievement of savings against the targets set for the next financial year.
- 5.7. Since this programme is already in place, there are no new savings proposals to be considered as part of the 2015/16 budget setting process. However, it is still necessary for the County Council to go through the normal process of setting provisional cash limits for Departments, asking them to prepare detailed budgets within those cash limits and then getting those approved through Executive Members, Cabinet and finally County Council.
- 5.8. The next section of this report sets out the details of provisional cash limits for Departments for 2015/16, which take account of the savings targets that

were previously approved, together with other base budget changes and the impact of inflation.

- 5.9. The medium-term financial strategy approved over the Summer assumed that there would be a further freeze in council tax, for which a 1% council tax freeze grant would be given by the Government. Based on this position, together with inflationary increases and savings as set out in Appendix 2, it is still anticipated that a draw of £5.6 million will be required from the grant equalisation reserve in order to balance the budget for next year.
- 5.10. Final details of the grant settlement for next year, plus information from district councils on collection fund surpluses and estimates of retained business rates will not be available until later this month and will be taken into account in setting the final budget in February next year.

6. Provisional Cash Limits

- 6.1. Provisional cash limits are set for Departments to enable them to prepare their detailed budgets for the next financial year. These take account of changes in the base budget as a result of grant changes or transfers between Departments, approved growth, inflation and savings targets that have been set for the year. For 2015/16 it also includes (as a technical adjustment) adding back the assumed early delivery of savings that was taken into account for 2014/15.
- 6.2. Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation. Allowances for pay award are usually held centrally until any awards are agreed.
- 6.3. A two year deal for local government employees was agreed during November, which is based primarily on a flat rate of 2.2% applied from January 2015 and covering the 2014/15 and 2015/16 financial years. Within the agreed award, there are higher value increases for those staff who earn less than around £14,000 as well as some variable lump sum payments that will be made to staff in 2014/15.
- 6.4. Given the complications of the weightings for low paid staff and the variable lump sum payments, it is necessary to carry out more detailed calculations to assess the impact on individual Departments in each of the years. As a result, no cash limit changes have been included in this report, but the full impact in both years will be included in the detailed budget for Departments and the setting of the final cash limits that will be reported during the budget setting process in January and February. In overall terms, the full year cost of the pay award from 2015/16 is expected to cost marginally more than was allowed for within the budget forecast.
- 6.5. For 2015/16, the only allowance for growth is the £12.5 million that has been set aside to provide for a budget adjustment within Children's Services for the continuing increase in the number of Children Looked After, following a significant increase in the last six months of 2013/14 which has continued into 2014/15 as outlined in section 3. Detailed monitoring will continue to be undertaken throughout the rest of the year in order for a final assessment of

the likely impact in 2015/16 to be carried out as part of the final budget setting process in February. For the time being therefore, this sum has not been added to the Children's Services cash limit.

- 6.6. The calculation of the provisional cash limits is shown in detail in Appendix 2. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2014/15 position has been updated taking into account budget transfers to Academies and increases in respect of the pupil premium and other grant related changes.
- 6.7. Chief Officers, with Executive Members are asked to develop their detailed budgets within the guidelines that have been set so that the Leader and Cabinet can make the final budget recommendations for 2015/16 at the meeting in February 2015.

7. Transformation to 2017

- 7.1. The Transformation to 2015 Programme has been in place for some time and following approval of the detailed savings proposals in February this year Departments have been undertaking detailed work in order to implement the savings, with the aim that they are fully in place by April 2015
- 7.2. Two separate peer review processes have been undertaken in order to review the implementation of savings across all Departments and to provide a robust challenge on the levels of progress in the context of the key risks and issues inherent within the Programme.
- 7.3. A key element within the review undertaken in September was to assess the likely delivery of cash savings both recurring and one off during 2015/16. This was an important benchmark in considering whether or not the County Council had sufficient confidence in the 2015 programme before potentially switching focus to the Transformation to 2017 programme.
- 7.4. It was estimated that £96.4 million of the £102.5 million savings target was likely to be delivered in cash terms in 2015/16 and that based on this position and an assessment of other risk factors, it was concluded that the time was right to launch the Transformation to 2017 programme.
- 7.5. The early stages of the new programme are based on an initial opportunity assessment that will be undertaken in collaboration with our private sector partners and will involve a fundamental examination of each Departments spending and activities to explore where opportunities may exist for further savings. This will include key workstream areas already identified such as the continuing focus on external spend and the digital strategy.
- 7.6. The aim is for this process to be completed in early spring next year to allow Departments to develop their detailed savings proposals for Transformation to 2017 for approval by Executive Members, Cabinet and County Council in Summer next year. This once again will provide the maximum time and capacity for Departments to implement those savings in order for them to be fully in place by April 2017.
- 7.7. A total savings target of £98 million was proposed as part of the medium-term financial strategy reported over the Summer and this consists of £8

million of housekeeping savings and £90 million of savings within Departments.

- 7.8. Using the cash limit analysis contained in Appendix 2 to this report and adjusting for expenditure that is met entirely by specific grant gives a baseline spend figure for each Department. In order to reach a saving of £90 million a percentage reduction of 14.5% is required and gives the provisional targets for each Department as set out in the table below:

	2015/16 Cash Limit £'000	Deduct Specific Grants £'000	Baseline Spend £'000	2017/18 Savings Target £'000
Adults	297,073	(339)	296,734	43,100
Children's - Schools	731,704	(731,704)	0	0
Children's - Non Schools	142,103	(955)	141,148	20,502
ETE	101,876	(694)	101,182	14,697
P&R	123,939	(43,384)	80,555	11,701
Total	1,396,695	(777,201)	619,619	90,000

- 7.9. Cabinet is asked to approve these provisional savings targets so that Departments can formulate their savings plans in line with the Transformation to 2017 Programme.

8. Capital Investment

- 8.1. The County Council's capital programme has been maintained and expanded over recent years, continuing the trend of ensuring that we invest wisely in maintaining our existing assets and delivering a programme of new ones. A fundamental review of the Capital Programme over the Summer this year ensured that spending continues to be aligned with priorities and re-allocated some funding to key areas such as flood mitigation measures and a review of secondary school place requirements.
- 8.2. The timeframe for capital planning moves on each year and for the 2015/16 budget process, the programme will be extended into 2017/18. The table below shows the provisional capital guidelines that are being allocated to each Department. The allocations for 2017/18 reflect the 'base' level of funding following significant additions to the programme in recent years, funded from early revenue savings :

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Adult Services	14,481	481	481
Children Services	11,275	190	190
ETE	14,561	12,811	2,634
Policy and Resources	14,316	11,536	8,536
	54,633	25,018	11,841

- 8.3. Cabinet is requested to approve these provisional guidelines to allow Departments to prepare their detailed capital programmes for approval as part of the budget setting process in January and February next year.

9. Recommendations

It is recommended that Cabinet :

- 9.1. Notes the forecast outturn position for 2014/15 as detailed in Appendix 1
- 9.2. Approves the provisional cash limits for 2015/16 set out in Appendix 2.
- 9.3. Confirms that the 2015/16 budget should initially be prepared on the basis of no council tax increase and acceptance of the Council Tax Freeze Grant.
- 9.4. Approves the provisional Departmental savings targets outlined in paragraph 7.8
- 9.5. Approves the capital guideline amounts for the next three years as set out in paragraph 8.2.
- 9.6. Notes the mid-year review of Treasury Management activities as set out in Appendix 3.

Revenue Budget Summary 2014/15 - Quarter 2 Monitoring

	Original Budget 2014/15 £'000	Adjustment £'000	Current Budget 2014/15 £'000	Outturn Forecast £'000	Forecast Variance £'000
<u>Departmental Expenditure</u>					
Adults	332,134	691	332,825	332,825	0
Children's - Schools	725,617	11,461	737,078	734,553	(2,525)
Children's - Non schools	162,365	4,034	166,399	166,399	0
Economy, Transport and Environment	113,794	(165)	113,629	110,050	(3,579)
Policy and Resources (exc. Public Health)	92,378	3,423	95,801	87,733	(8,068)
TOTAL	1,426,288	19,444	1,445,732	1,431,560	(14,172)
Public Health	40,428	452	40,880	37,207	(3,673)
<u>Capital Financing Costs</u>					
Interest on Balances	(5,750)	0	(5,750)	(5,750)	0
Capital Financing Costs	69,353	0	69,353	66,853	(2,500)
RCCO	47,313	9,632	56,945	56,945	0
	110,916	9,632	120,548	118,048	(2,500)
<u>Pension and IAS 19 Costs</u>					
Pensions & IAS 19 costs	56,191	0	56,191	56,191	0
Contribution from Pension Reserve	(42,859)	0	(42,859)	(42,859)	0
	13,332	0	13,332	13,332	0
<u>Other Revenue Costs</u>					
Contingency	21,381	35	21,416	21,416	0
Dedicated Schools Grant	(691,612)	(2,144)	(693,756)	(693,756)	0
Specific Grants	(126,234)	(12,459)	(138,693)	(138,693)	0
Flood Protection Levy	606	0	606	606	0
Coroners Expenditure	1,331	0	1,331	1,331	0
Business Units	(604)	0	(604)	(623)	(19)
	(795,132)	(14,568)	(809,700)	(809,719)	(19)
<u>Contributions from Earmarked Reserves</u>					
Use of Earmarked Reserves	(22,504)	(12,973)	(35,477)	(15,132)	20,345
Trading Units Transfer to Reserves	713	0	713	732	19
RCCO From Reserves	(18,729)	(1,987)	(20,716)	(20,716)	0
	(40,520)	(14,960)	(55,480)	(35,116)	20,364
Total net spending	755,312	0	755,312	755,312	0
Contribution to/from general balances	(7,100)	0	(7,100)	(7,100)	0
BUDGET REQUIREMENT	748,212	0	748,212	748,212	0

PROVISIONAL CASH LIMITS – 2015/16

	2014/15 Cash Limit £'000	Add Back Cost of Change £'000	Base Changes & Inflation	Savings Target £'000	2015/16 Cash Limit £'000
Adults	324,571	7,563	2,587	(37,648)	297,073
Children's - Schools	725,617		6,087		731,704
Children's - Non Schools	162,365		(952)	(19,310)	142,103
ETE	109,732	4,062	1,276	(13,194)	101,876
P&R	127,212	5,594	7,642	(16,509)	123,939
Total	1,449,497	17,219	16,640	(86,661)	1,396,695

TREASURY MANAGEMENT MONITORING REPORT 2014/15

1 Purpose

- 1.1 This report outlines the treasury management activities during the year to 31 October 2014.

2 Contextual information

- 2.1 Hampshire County Council fully complies with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services (2009). This report continues to ensure that the County Council is following best practice in accordance with CIPFA's recommendations to report on treasury management activities.
- 2.2 Treasury management in the context of this report is defined as:
- 2.3 "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).

3 Economic background

- 3.1 The following paragraphs outline major macro economic themes in the domestic and global economy, which explain the background against which treasury management decisions have been made.
- 3.2 Growth - The recent strong performance of the UK economy has continued with output growing at a preliminary estimate of 0.7% in Quarter 3 of 2014, following on from figures of 0.7% and 0.9% in the first two quarters of the year. This made the economy 3.4% larger than the pre-crisis peak in the first quarter of 2008.
- 3.3 Unemployment - The labour market has continued to improve, with strong employment gains and the headline unemployment rate falling to 6.0% at the end of August 2014 (the lowest figure since late 2008). However, real earnings remain negative and employment growth trends have masked under employment, such as the large number of zero-hour contracts and people working part-time involuntarily.
- 3.4 Inflation: CPI inflation for September fell to 1.2% year-on-year from 1.5% in August. Expectations remain that inflation is likely to remain close to, but a little below, the Monetary Policy Committee's (MPC) 2% target for the next couple of years. In August the Bank of England's latest Inflation Report was published. CPI inflation projections were revised downwards over the two year horizon and expectations for wage growth, the estimate of spare capacity and equilibrium unemployment also fell.
- 3.5 UK Monetary Policy: The MPC made no change to the Bank Base Rate of

0.5%. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion House speech in June 2014 Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. Following some mixed messages from Governor Carney later in the summer, the minutes of the August and September MPC meetings revealed a split vote on the Bank Rate, with two of the nine votes to increase the Bank Rate by 0.25%.

- 3.6 The MPC emphasised that when the Bank Rate does begin to rise, it is expected to do so only gradually and to remain below average historical levels for some time to come. The County Council's treasury management advisors, Arlingclose, estimate the first rise in interest rates will be in the third quarter of 2015, later than some economic commentators.

4 Investments

- 4.1 The County Council has an investment portfolio consisting of reserves and short-term cash flows. The authority is currently investing according to a low risk, high quality lending list as outlined in its Treasury Management Strategy. In compliance with this Strategy, lending is restricted to approved banks and building societies, highly rated bonds, AAA-rated money market funds and other suitable pooled investment vehicles, other local authorities and the Government's Debt Management Office.
- 4.2 The County Council's investment holding was £576.3m at 31 October 2014, which was placed with the following types of investments:

	£m	£m
Standard investments		
Bank call accounts	38.8	
Bank & building society fixed deposits	230.0	
Bank certificates of deposit	109.0	
Local authority fixed deposits (under 5 years)	158.5	
Sub-total		536.3
Investments targeting higher returns		
Local authority fixed deposits (over 5 years)	20.0	
Transport for London bonds	10.0	
Pooled property fund	10.0	
Sub-total		40.0
Total		576.3

4.3

4.4 The level of cash balances has increased from £521m at the beginning of the financial year, but is expected to return to nearer the starting amount by the end of the financial year due to the profile of the County Council's income. A large proportion of the County Council's Central Government funding is received at the beginning of the financial year, in particular the Revenue Support Grant, which is paid in April.

4.5 The average interest rate earned on these investments at 31 October 2014 was 1.29%, which should be considered within the context of an unchanged UK Base Rate of 0.5% since March 2009 and similarly low short-term money market rates.

4.6 The Guidance on Local Government Investments in England gives priority to security and liquidity and the County Council's aim is to achieve a yield commensurate with these principles. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy for 2014/15.

4.7 Counterparty credit quality is assessed and monitored with reference to a range of factors, including but not limited to, the ratings of the major ratings agencies. During the seven months to October 2014 investment counterparties and the duration of new investments have been monitored and amended where necessary based on this assessment.

4.8 As part of the 2014/15 Strategy it was agreed to set aside £90m for longer term investments targeting higher returns to contribute to the County Council's revenue streams, which was in addition to the £15m of long-term investments already made in relation to the Street Lighting PFI. Some progress has been made investing £25m with other local authorities and a pooled property fund. The fall in Gilt yields in recent months has made it difficult to find investments that can achieve the target set in the strategy of a 4% return. Further work is continuing with the County Council's advisors,

Arlingclose, to identify suitable options and invest the amount that has been targeted.

5 Borrowing

- 5.1 The County Council's underlying need to borrow is measured by the Capital Financing Requirement (CFR) which was £771m at 31 March 2014. Affordability and the "cost of carry" remained important influences on the County Council's borrowing strategy meaning that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.
- 5.2 For the County Council the use of internal resources in lieu of borrowing has therefore continued to be the most cost effective means of funding capital expenditure. No new long-term borrowing has taken place in the seven months to October 2014, or is planned for the remainder of the financial year. This has lowered overall treasury risk by reducing both external debt and temporary investments.
- 5.3 As at 31 October 2014 the County Council had £356.3m of outstanding long-term loans, from either the Public Works Loan Board (PWLB) or Lender Option Borrower Option (LOBO) loans from banks, at an average interest rate of 4.83% and an average outstanding term remaining of over 16 years. These loans were taken out between 1989 and 2010, when the County Council's cash balances were considerably lower than they are today.
- 5.4 There is no financial benefit to the County Council in using any of its current reserves to repay loans. The premium that is added by the PWLB to any loans that are repaid is still relatively expensive for the loans in the County Council's portfolio, in comparison to the returns available from continuing to invest reserves. As a consequence no rescheduling activity has taken place. However, consideration will continue to be given to any advantageous opportunity for the County Council to reduce or restructure its debt portfolio in the future.

6 Compliance with prudential indicators

- 6.1 During the first seven months of 2014/15, the County Council operated within the treasury management indicators set out in the Treasury Management Strategy.

Authorised limit for external debt

- 6.2 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. The annual strategy report agreed by the County Council on 20 February 2014 set an authorised limit for external debt of £870m.
- 6.3 This limit is based on the estimated CFR in order to enable it to be financed entirely from external borrowing should the County Council'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.

- 6.4 During the period to 31 October 2014 borrowing remained well within the authorised limit of £870m and no new long term borrowing has been taken out. Total external debt in the financial year to date peaked in June 2014 at £576m, which is below the limit that has been set.

Operational boundary for external debt

- 6.5 The County Council has set an operational boundary for external debt. This should reflect the most likely scenario and be consistent with the County Council's capital plans and Treasury Management Strategy. Temporary breaches of the operational boundary can take place for cash flow reasons, but any sustained breach will lead to further investigation. The County Council approved an operational boundary for 2014/15 of £810m.
- 6.6 As outlined above the County Council's maximum total external debt of £576m in the period to 31 October 2014, was within the operational boundary.

Upper limit on fixed and variable interest rate exposure

- 6.7 The County Council has to set an upper limit on its fixed interest rate exposure for both total investments and total external debt. The County Council approved an upper limit on fixed and variable interest rate exposure for external debt for 2014/15 of £810m, which is based on the operational boundary and has been set to give the County Council maximum policy flexibility. The limit enables the potential for refinancing e.g. from variable to fixed rate borrowing.
- 6.8 In the period to 31 October 2014 the maximum value of the County Council's borrowing at fixed rates was £454m, which is made up of PWLB loans and the County Council's PFI liabilities. The maximum exposure to variable rate debt was £122m in the same period, which was made up mostly of LOBO loans. Both of these amounts are within the limit for fixed and variable interest rate exposure.
- 6.9 The County Council also has to set upper limits on its interest rate exposure for fixed and variable rate investments, which are £250m and £750m respectively. In the period from April to October 2014 The County Council had a maximum of £178m of investments at fixed rates (investments fixed for more than one year) and £570m at variable rates, both within the limits that were set.

Upper and lower percentage limits on the maturity structure of long-term fixed-rate borrowing outstanding in 2014/15

6.10 The Code also requires the County Council to set upper and lower percentage limits on the maturity structure of its long-term borrowing during 2014/15. The following table shows the limits approved by the County Council. These have been set in order to allow maximum flexibility in managing the debt portfolio and are consistent with the existing portfolio.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Actual Long Term Borrowing at 31/10/2014		Compliance with Set Limits?
			£m	%	
under 12 months	0	50	3.5	1.0	Yes
12 months and within 24 months	0	50	11.6	3.2	Yes
24 months and within 5 years	0	50	33.1	9.3	Yes
5 years and within 10 years	0	75	45.1	12.7	Yes
10 years and within 20 years	0	75	144.0	40.4	Yes
20 years and within 30 years	0	75	103.0	28.9	Yes
30 years and within 40 years	0	100	10.0	2.8	Yes
40 years and above	0	100	6.0	1.7	Yes

Upper limits on investments with maturities longer than one year

6.11 Investments for periods in excess of a year are limited to £250m. At 31 October 2014 the County Council had £178m of investments over 364 days.

7 Recommendation

7.1 That the mid-year review of treasury management activities be noted.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report but the Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, but the County Council through the services that it provides through the revenue budget and capital programme ensures that prevention of crime and disorder is a key factor in shaping the delivery of a service / project.

3. Climate Change:

- 3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

The revenue budget and capital programme contain measures that will assist in reducing our carbon footprint and changes to services are designed in such a way to also achieve this objective.

- 3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts

The County Council in designing and transforming its services will ensure that climate change issues are taken into account.