

REPORT OF THE
Cabinet
PART I

318. TREASURY MANAGEMENT MONITORING 2012/13

1. At a meeting on 29 October, the Cabinet approved the Treasury Management monitoring report for 2012/13 for submission to County Council. The Cabinet heard that the overall economic outlook for the UK is flat and showed that the climate of uncertainty is continuing, with investment yields continuing to be very low and the County Council needing to maintain a very cautious approach to manage the security of its investments.

2. The County Council's investment holding was £444.7 as at 30 September 2012. The average interest rate earned on these investments was 1.01%, which should be considered within the context of an unchanged UK Base Rate of 0.5% since March 2009 and very low short-term money market rates. The size of cash balances will decline from their current relatively high levels between now and the end of the financial year, as the incidence of Government grant income is skewed towards the earlier part of the financial year.

3. The County Council's Treasury Management Strategy for 2012/13 set a maximum investment limit of £60m per counterparty for UK banks and building societies. The effect of suspending investing with some counterparties combined with the County Council's current high cash balances has resulted in it being very close to all of the investment limits it has for the remaining banks and building societies. In order to maintain the County Council's capacity to invest its cash balances whilst reviewing the security of investments with all counterparties, the Director of Corporate Resources has increased the maximum investment limit per counterparty for UK banks and building societies from £60m to £75m, under the scheme of delegation for Treasury Management. The Director of Corporate Resources will continue to monitor the security offered by the various counterparties and ensure that investments are spread between a suitable number of counterparties to minimise the risks to the security of capital.

4. As at 30 September 2012 the County Council's overall outstanding long-term borrowing was £383.4m, at an average interest rate of 5.01% and an average maturity of just under 19 years. The total long-term debt portfolio is made up of loans from the Public Works Loan Board (PWLB) and market loans. Although the average interest rate payable is above rates currently being offered for a similar timescale, when viewed against historic interest rates the debt portfolio represents good mitigation against the long-term risk of exposure to interest rate fluctuations, which could increase the cost of borrowing. However, consideration continues to be given to any advantageous opportunity for the County Council to reduce or restructure its debt portfolio.

5. No new long-term borrowing has been taken out during the first six months of 2012/13 and no new long-term borrowing is planned during the remainder of the year. Instead of external borrowing, a limited amount of internal resources are being used to meet any borrowing needs arising in 2012/13, including from the Capital

Programme agreed in February 2012, in order to lower overall treasury risk by reducing both external debt and temporary investments.

6. During the first six months of 2012/13, the County Council operated within the treasury management indicators set out in the County Council's Treasury Management Strategy.

7. CIPFA's Code of Practice requires authorities to set various limits, as set out below:

- The authorised limit for external debt was set as part of the annual strategy report presented to County Council on 23 February 2012 at a limit of £820m. During the 6-month period to 30 September 2012, the gross borrowing reached a maximum of £520m which is within the authorised limit of £820m.
- The operational boundary for external debt was approved by the County Council for 2012/13 at £740m. The maximum gross borrowing of £520m in the six month period to the end of September 2012 is within the operational boundary of £740m.
- The Council approved the same upper limit for fixed and variable interest rate exposure for 2012/13 of £740m each. During the 6-month period to 30 September 2012, the principal sums outstanding reached a maximum of £418m for long-term fixed-rate exposure and £102m for long-term variable rate exposure. Both figures are within the upper limits for fixed and variable interest rate exposure of £740m.
- The County Council set upper and lower percentage limits on the maturity structure of its long-term fixed-rate borrowing during 2012/13. The following table shows the approved limits. 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 – as at 30 Sep 2012 (%)
Under 12 months	50	0	1
12 to 24 months	50	0	2
24 months to 5 years	50	0	9
5 years to 10 years	75	0	20
10 years to 20 years	75	0	27
20 years to 30 years	75	0	37
30 years to 40 years	100	0	4
40 years to 50 years	100	0	0
50 years and above	100	0	0

- The County Council set an upper limit of £120m on investments for periods longer than one year. Investments for periods of greater than one year are restricted to investments with other Local Authorities, not banks or building societies. The County Council adhered to this prudential limit throughout the 6-month period to 30 September 2012, and at this date had investments with maturities longer than one year of £83m.

The full Cabinet report can be found at www.hants.gov.uk/councilmeetings.htm by typing in the relevant reference number:

- Treasury Management Monitoring Report 2012/13 (search item reference 4274)

RECOMMENDATION

That the County Council:

- (a) Approves the mid-year review of treasury management activities, noting and confirming the action of the Director of Corporate Resources under delegated powers in increasing the maximum investment limit per counterparty for UK Banks and Building Societies from £60m to £75m.

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