

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Cabinet
Date:	29 October 2012
Title:	Treasury Management Monitoring Report 2012/13
Reference:	4274
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

1.1. This report sets out the mid-year review of treasury management activities during 2012/13 for Cabinet's approval.

2. Contextual information

2.1. Hampshire County Council fully complies with the requirements of the revised CIPFA Code of Practice for Treasury Management in the Public Services (2009).

2.2. In 2008 following the Icelandic banking crisis CIPFA amended the Treasury Management Code introducing a requirement for a mid-year review. This report continues to ensure that the County Council is adopting best practice in accordance with CIPFA's recommendations.

2.3. 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).

3. Economic background

3.1. The overall economic outlook for the UK is flat as indicated by the following headlines. This shows 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.

- Year-on-year UK economic growth was -0.4% at the end of Quarter 2 of 2012, which includes reductions in growth in the last three quarters of the year.
- The official Bank of England Base Rate currently 0.5% is not expected to rise for the foreseeable future and some analysts are forecasting a further cut.
- Inflation in August 2012, as measured by the Government's preferred Consumer Price Index, fell by 0.1% from the previous month to 2.5%. Inflation remains above the Bank of England's 2% target rate, as it has done since the end of 2009.
- The number of people unemployed in the UK fell by 13,000 to 2.564 million in June, continuing a gradual downward trend that began in December 2011.

4. Investments

- 4.1. The County Council has an investment portfolio consisting of reserves and short-term cash flows. Investments are made according to a low risk, high quality lending list as outlined in its Annual Investment Strategy that was approved by the County Council on 22 February 2012. In compliance with this Strategy, lending is restricted to UK clearing banks, the larger UK building societies, AAA-rated money market funds, other local authorities and the Government's Debt Management Office.
- 4.2. The County Council's investment holding was £444.7 as at 30 September 2012. The average interest rate earned on these investments as at 30 September 2012 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.
- 4.3. 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.
- 4.4. Following the ongoing financial problems in the Eurozone that have affected the UK banking sector the duration of new investments with UK banks and building societies has been kept under review. At times based on current information, temporary limits below the maximum 364 days allowed for investments in the Treasury Management Strategy have been set and new investments with some counterparties suspended. These policies are in place to maintain a high level of capital security but this will suppress the County Council's investment return which is anticipated to fall below 1% for 2012/13.
- 4.5. 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.

4.6. 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.

5. Borrowing

5.1. 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.

5.2. 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. Compliance with treasury management indicators

6.1. 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.

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. This includes the Waste Management contract finance lease and the Street Lighting PFI liability. The annual strategy report presented to County Council on 23 February 2012 set an authorised limit of £820m.

6.3. 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.

Operational boundary for external debt

- 6.4. The County Council also needs to 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 2012/13 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 2012/13 of £740m.
- 6.5. The maximum gross borrowing of £520m in the six month period to the end of September 2012 is within the operational boundary of £740m.

Upper limit on fixed and variable interest rate exposure

- 6.6. The County Council has to set an upper limit on its fixed and variable interest rate exposure, which is expressed in terms of the maximum long-term principal sums which can be outstanding on any day in each year. The Council approved the same upper limit for fixed and variable interest rate exposure for 2012/13 of £740m each. This is based on the operational boundary and has been set to give the Council maximum policy flexibility, with the potential to refinance and switch from fixed to variable interest rate exposure or visa versa.
- 6.7. 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.

Upper and lower percentage limits on the maturity structure of long-term fixed-rate borrowing outstanding in 2012/13

- 6.8. The Code also requires the County Council to 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 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 – 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

Upper limits on investments with maturities longer than one year

6.9. For 2012/13, 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.

7. Recommendation

7.1. That the mid-year review of treasury management activities be approved for submission to the County Council, 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.

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

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision for Cabinet to note the mid-year review of treasury management activities for submission to the County Council.	

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.

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.

3. Climate Change:

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

No specific impact.

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

No specific impact.