

## Summary of action taken in the period April to September 2016

### Treasury Management Strategy

#### ***New long term borrowing***

£19.322 of new debt was undertaken during the first 6 months.

#### ***Debt maturity***

£3.424m of long-term borrowing was repaid in the first 6 months.

Lender options where the lender has the exclusive option to request an increase in the loan interest rate and the council has the right to reject the higher rate and repay instead (LOBO), on 4 loans were due in the 6 month period but no option was exercised.

Three of the council's LOBO loans were converted to fixed rate loans during the period by the lender.

#### ***Debt restructuring***

Opportunities to restructure the debt portfolio are severely restricted under changes introduced by the Public Works Loan Board in October 2007. No restructuring was undertaken in the first 6 months.

#### ***Weighted average maturity profile***

The weighted average maturity period of the portfolio has increased slightly from 29.5 years to 30.2 years as a result of the changes in the debt portfolio over the last 6 months.

#### ***Capital financing requirement***

The prudential code introduces a number of indicators that compare borrowing with the capital financing requirement (CFR) – the CFR being amount of capital investment met from borrowing that is outstanding. Table 1 compares the CFR with actual borrowing.

Table 1 – Capital financing requirement compared to debt outstanding

	1 April 2016	30 Sept 2016	Movement in period
Capital financing requirement (CFR)	£346.7m		
Less PFI element	(£53.9m)		
Net CFR	£292.8m	<sup>(*)</sup> £310.5m	£17.7m
Long-term debt	£245.1m	<sup>(**)</sup> £261.0m	£15.9m
O/s debt to CFR (%)	83.7%	84.1%	0.4%

<sup>(\*)</sup> projected 31 March 2017

<sup>(\*\*)</sup> As at 30 Sept 2016

Traditionally, the level of borrowing outstanding is at or near the maximum permitted in order to reduce the risk that demand for capital investment (and hence resources) falls in years when long-term interest rates are high (i.e. interest rate risk). However given the continued volatility and uncertainty within the financial markets, the council has maintained the strategy of keeping borrowing at much lower levels (as investments are used to repay debt). Currently outstanding debt represents 84.1% of the projected

capital financing requirement.

**Cash flow debt / investments**

The TMPS states that “The council will maintain an investment portfolio that is consistent with its long term funding requirements, spending plans and cash flow movements.”

An analysis of the cash flows reveals a net surplus for the first 6 months of £7.2m. The surplus has been used to increase investments (Table 2).

Table 2 – Cash flow April to September 2016

	Payments	Receipts	Net cash
Total for period	£457.8m	£465.0m	+£7.2m
Represented by:			
Increase in long term borrowing			-£15.9m
Increase in investments			+£23.5m
Decrease in balance at bank			-£0.4m
			+£7.2m

**Prudential indicators**

Budget Council approved a series of prudential indicators for 2016/17 at its meeting on 25 February 2016. Taken together, the indicators demonstrate that the council’s capital investment plans are affordable, prudent and sustainable.

In terms of treasury management the main indicators are the ‘authorised limit’ and ‘operational boundary’. The authorised limit is the maximum level of borrowing that can be outstanding at any one time. The limit is a statutory requirement as set out in the Local Government Act 2003. The limit includes ‘headroom’ for unexpected borrowing resulting from adverse cash flow.

The operational boundary represents the level of borrowing needed to meet the capital investment plans approved by the council. Effectively it is the authorised limit minus the headroom and is used as an in-year monitoring indicator to measure actual borrowing requirements against budgeted forecasts.

Table 3 compares both indicators with the maximum debt outstanding in the first half year.

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2016/17

	Authorised limit	Operational boundary
Indicator set	£404.0m	£392.0m
Less PFI element	-£54.0m	-£54.0m
Indicator less PFI element	£350.0m	£338.0m
Maximum amount o/s in first half of year	£264.0m	£264.0m
Variance	<sup>(*)</sup> £86.0m	£74.0m

<sup>(\*)</sup> can not be less than zero

**Performance**

The series of charts in Appendix 2 provide a summary of the performance for both the debt and investment portfolios.

