A summary of the action taken in the period October 2009 to March 2010

Treasury Management Strategy

New borrowing

A mixture of short-term and long-term debt (with a maturity of one year) was raised in the second half of the year to fund cash flow shortages that in previous years would have been met from reducing investments. Details of these loans are set out in Table 1. The use of the short-term borrowing is consistent with the strategy to reduce investment risk.

Table 1 – New borrowing October 2009 to March 2010

Date raised	Amount	Rate	Period
Long-term			
PWLB – 1 March 2010	*£15.0m*	*0.84%*	1 yr
Short-term			
Amount raised	£138.0m	0.41%	-
Amount repaid	£119.4m	0.40%	-
Net amount raised	*£18.6m*	*0.41%*	-

Debt maturity

There was no long-term debt maturing in the second half of the year. The suspension of the debt repayment programme (to reduce investment risk) meant no further long-term loans were prematurely repaid in the six months to March 2010.

Weighted average maturity of debt portfolio

The weighted average maturity period of the debt portfolio has decreased marginally during the 2nd half-year as a consequence of the new debt raised (Table 2).

Table 2 – Weighted average maturity profile – debt portfolio

Date raised	Oct 2009	Oct 2009 balance as at Mar 2010 (*)	Mar 2010 (**)
Weighted average maturity period	34.5 yrs	34.0 yrs	31.3 yrs

(*) the *'Oct 2009 balance as at Mar 2010'* figure reflects the natural 'time elapse' reduction in the average period of the debt portfolio

(**) the weighted average maturity period as at 1 April 2009 was 36.3 years

Debt rescheduling

No debt rescheduling was taken during the 2nd half-year.

Flexible borrowing

As part of the measures to balance the risk of rising long-term interest rates and the capital risk in the investment portfolio, agreement to borrow £30 million in the future has been reached. Table 3 summarises the terms of these loans.

Table 3 – Summary of flexible borrowing October 2009 to March 2010

	Amount	Rate	Start date	Period
Loan No 1 – date agreed 15 Jan 2010	£10.0m	4.20%	Feb 2011	49 yrs
Loan No 2 – date agreed 15 Jan	£10.0m	4.22%	Feb 2011	49 yrs

2010 Loan No 3 – date agreed 16 Feb 2010	£10.0m	4.35%	Feb 2012	48 yrs
Total	£30.0m			

Under the terms of the flexible borrowing the council is able to borrow all or part of the amount prior to the "start date" at the current short-term interest rate.

Capital financing requirement

The prudential code introduces a number of indicators that compare 'net' borrowing (i.e. borrowing less investment) with the capital financing requirement (the capital financing requirement being amount of capital investment met from borrowing). Table 4 compares the capital financing requirement with net borrowing but equally as important to actual borrowing.

With effect from 1 April 2009 the council is required to include the assets and liabilities relating to PFI schemes in the calculation of the capital financing requirement. For the purposes of this report and Table 4 below the capital financing requirement is reduced for the element relating to the PFI projects to provide a comparison with outstanding debt.

Table 4 – Capital financing requirement (adjusted for PFI liability) compared to debt outstanding 2009/10

	31 Mar 2009	31 Mar 2010	Movement in year
Capital financing requirement (CFR)	£281.7m	£289.3m	+£7.6m
CFR met by PFI liability	-£25.8m	-£30.3m	-£4.5m
Adjusted CFR	£255.9m	£259.0m	+£3.1m
Outstanding debt – long-term	£195.9m	£180.7m	-£15.2m
Outstanding debt – short-term	-	£24.7m	+£24.7m
Investments	-£56.5m	-£42.9m	+£13.6m
Net debt	£139.4m	£162.5m	+£23.1m
O/s debt to adjusted CFR	76.6%	79.3%	+2.7%
Net debt to adjusted CFR	54.5%	62.7%	+8.2%

Cash flow debt / investments

The TMPS states the profile of any short-term cash flow investments will be determined by the need to balance daily cash flow surpluses with cash flow shortages. An analysis of the cash flows reveals a net shortfall for the 2nd half-year of £31.5 million (Table 5).

Table 5 – Cash flow October 2009 to March 2010

	Payments	Receipts	Net cash
Total for period	£409.1m	£377.6m	-£31.5m
Increase in investments			-£2.1m
			-£33.6m
Funded by:			
Increase in long-term borrowing			+£15.0m
Increase in short-term borrowing			+£18.6m

The above table shows the extent that the cash shortfall was funded by borrowing. The marginal increase in investments is a result of borrowing when funds were available in the market (on the terms acceptable to the council) rather than the actual day the funds were needed. Details are contained in Chart 2 of Appendix 3.

Overall the cash position for the financial year is a net deficit of some £24.0 million.

Prudential indicators

Full Council approved a series of prudential indicators for 2009/10 at its meeting in March 2008. Taken together the indicators demonstrate that the council's capital investment plans are affordable, prudent and sustainable. Full details are set out in appendix 4.

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 6 compares both indicators with the maximum debt outstanding in the 2nd half-year. As with Table 4 above the indicators have been reduced by the liability under the PFI projects to provide a comparison with outstanding debt.

Table 6 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2009/10 (adjusted for PFI liability)

	Authorised limit	Operational boundary
Indicator set	£317.0m	£294.0m
PFI liability	£30.3m	£30.3m
"Borrowing" limits	£286.7m	£263.7m
Maximum amount o/s during the year	£205.4m	£205.4m
Variance	£81.3m	£58.3m

Performance

The series of charts in Appendix 3 provide a summary of the performance for both the debt and investment portfolios.

In summary the key performance is as follows:

- Chart 1 shows the average cost of the long-term debt portfolio decreasing from 4.83% to 4.56% over the course of the year. The main driver to this reduction is the £15 million one-year loan taken out in March 2010 at a rate of 0.84%. If this loan is discounted the average rate on the long-term debt portfolio s 4.90%.
- Chart 2 shows the level of investment managed by the cash manager and the in-house treasury team.
    - The sum invested by the cash manager increases as investment income is reinvested. The increase in the amount invested in the year totals £0.8m.
    - The amount invested by the in-house treasury team is analysed between cash flow investments (that are invested to meet short-term cash commitments) and core investment (that have a longer investment profile to match the spending profile for both the revenue & capital investment programmes). The chart shows

a marginal increase of £2.2m in investments made by the in-house team but an increase in short-term borrowing of £18.6m in the second half year.

- Chart 3 compares the returns achieved on external investments with the benchmark rate of 7-day LIBID rate for the in-house treasury team and 7-day LIBID rate (compounded) for the cash manager. The chart confirms that the investment performance of both the cash manager and in-house treasury team has substantially exceeded the target rate of 7-Day LIBID (compounded) and 7-Day rate respectively.

Approved organisations – investments

There were no breaches of the investment criteria during the second half-year.

No new financial institutions were added to the list of investment counterparties approved in the AIS 2009/10.

Changes to investment criteria

No changes have been made to the investment criteria over and above that reported to Cabinet in November 2009. Risk on the investment portfolio has been managed through repaying debt early, thereby reducing the amount invested.