Summary of action taken in the period April to September 2010

Treasury Management Strategy

New long term borrowing
No new long-term borrowing raised in the first six months.

Debt maturity
No long-term debt has matured in the first six 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, on four loans were due in the 6 month period but no option was exercised.

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 debt portfolio has reduced from 31.3 years to 30.8 years.

Capital financing requirement
The prudential code introduces a number of indicators that compare 'net' borrowing (i.e. after deducting investments) with the capital financing requirement (CFR) – the CFR being amount of capital investment met from borrowing that is outstanding. Table 2 compares the CFR with net borrowing and actual borrowing.

Table 2 – Capital financing requirement compared to debt outstanding

	1 April 2010	30 Sept 2010	Movement in period
Capital financing requirement (CFR)	£289.3m		
Less PFI element	-£30.2m		
Net CFR	£259.1m	(*)£273.3m	+£14.2m
Long-term debt	£180.7m	£180.7m	-
Short-term debt	£24.7m	£0.0m	-£24.7m
Investments – in house team	-£18.8m	-£39.5m	-£20.7m
Investments – cash manager	-£24.1m	-£24.2m	-£0.1m
Net debt	£162.5m	£117.0m	-£45.5m
O/s debt to CFR (%)	79.3%	66.1%	-13.2%
Net debt to CFR (%)	62.7%	42.8%	-19.9%

(*) projected 31 March 2011

Advice received from the council's external advisors suggests that borrowing should be 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). This strategy has been changed in light of the continuing problems within the financial markets. Currently outstanding debt represents 67% of the 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 six-months of £45.4m (Table 3). A surplus in the first six months is not unusual as the profile of receipts against payments is heavily weighted towards this period.

Table 3 – Cash flow April to September 2010

	Payments	Receipts	Net cash
Total for period	£442.8m	£488.2m	+£45.4m

After adjusting for the increase in the value of the funds invested by the cash manager (+£0.1m) the net movement is increased to £45.5m. Part of this surplus (£24.7m) has been used to repay short-term borrowing, with the balance applied to increase investments (£20.8m).

Prudential indicators

Budget Council approved a series of prudential indicators for 2010/11 at its meeting in February 2010. 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 4 compares both indicators with the maximum debt outstanding in the first half year.

Table 4 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2010/11

	Authorised limit	Operational boundary
Indicator set	£302.0m	£278.0m
Less PFI element	-£40.0m	-£40.0m
Indicator less PFI element	£262.0m	£238.0m
Maximum amount o/s in first half of year	£205.4m	£205.4m
Variance	(*)£56.6m	£32.6m

(*) can not be less than zero

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 has remained unchanged at 4.56% during the half-year.

- Chart 2 shows that the level of investment managed by the cash managers and the in-house treasury team. The sum invested via the cash manager increases as investment income is reinvested, whereas investment by the in-house team includes cash flow investments and therefore fluctuates throughout each month. The chart reflects the increase in investments due to the cash surpluses in the first six months.

- Chart 3 compares the returns achieved on external investments with the benchmark rate of 7-day LIBID (London Inter-bank Bid Rate) rate for the in-house treasury team and 7-day LIBID rate (compounded) for the cash manager. The chart confirms that during the six months to September 2010:
  - the investment performance of the in-house treasury team has exceeded the target rate (which is 105% of the benchmark rate), and
  - the investment performance of the cash manager has exceeded the target rate (which is 115% of the benchmark rate).

Approved organisations – investments

No new organisations have been added to the list approved in the AIS 2010/11 and no changes were made to the investment parameters.