Item 116 Appendix 2

Summary of action taken in the period April to September 2011

Treasury Management Strategy

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

Debt maturity
Two loans totalling £6 million 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 increased (as a consequence of the two maturities notified above) from 34.7 years to 35.4 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 2011	30 Sept 2011	Movement in period
Capital financing requirement (CFR)	£294.5m		
Less PFI element	-£29.5m		
Net CFR	£265.0m	(*)£290.8m	+£25.8m
Long-term debt	£185.7m	£179.7m	-£6.0m
Investments – in house team	-£32.6m	-£31.4m	+£1.2m
Investments – cash manager	-£24.4m	-£24.5m	-£0.1m
Net debt	£128.7m	£123.8m	-£4.9m
O/s debt to CFR (%)	79.3%	61.8%	-17.5%
Net debt to CFR (%)	48.6%	42.6%	-6.0%

(*) projected 31 March 2012

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 to keep borrowing at much lower levels (as investments are used to repay debt). Currently outstanding debt represents 62% 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 £4.8m. The surplus has been applied to part fund the repayment of long-term debt (-£6.0m), with the balance funded from a reduction in investments (+£1.2m) (Table 3).

Table 3 – Cash flow April to September 2011

	Payments	Receipts	Net cash
Total for period	£440.9m	£445.7m	+£4.8m
Long-term debt repaid			-£6.0m
Reduction in investments			+£1.2m
Net movement			-£4.8m

Prudential indicators

Budget Council approved a series of prudential indicators for 2011/12 at its meeting in March 2011. 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 2011/12

	Authorised limit	Operational boundary
Indicator set	£367.0m	£355.0m
Less PFI element	-£62.0m	-£62.0m
Indicator less PFI element	£305.0m	£293.0m
Maximum amount o/s in first half of year	£185.7m	£185.7m
Variance	(*)£119.3m	£107.3m

(*) 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 increased marginally (following the maturity of two loans at 3.99%) from 4.82% to 4.85% 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 marginal decrease in investments following the maturity of long-term loans 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 2011:
    - 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 2011/12.

A number of changes to the short-term and long-term ratings have been assessed by the credit rating agencies (most notably Moodys) in response to a review of the systemic support for UK financial institutions. The following table summarises these changes (highlighted in bold) and the impact on the council's approved investment schedule.

F = Fitch M = Moodys SP = Standard & Poors	Short term			Long term			Maximum	
	F	M	SP	F	M	SP	Amt	Ped
BANKS								
Clydesdale – AIS	F1+	P-1	A-1	AA-	A1	A+	£5m	1 yr
Clydesdale – Latest	**F1**	P-1	A-1	**A+**	**A2**	A+	No change	
Cooperative – AIS	F2	P-1		A-	A2		£10m	1 mth
Cooperative – Latest	F2	**P-2**		A-	**A3**		**£5m**	1 mth
Lloyds – AIS	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 yr
Lloyds – Latest	F1+	P-1	A-1	AA-	A1	A+	No change	
RBS – AIS	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 yr
RBS – Latest	F1+	P-1	A-1	AA-	**A2**	A+	No change	
Santander – AIS	F1+	P-1	A-	AA-	Aa3	AA	£10m	2 yr

Santander – Latest	F1+	P-1	A-	AA-	**A1**	AA	£10m	**1 yr**

<u>BUILDING SOCIETIES</u>

Leeds – AIS	F1	P-1		A	A2		£5m	1 yr
Leeds – Latest	F1	**P-2**		A	**A3**		£5m	**6 mth**
Nationwide – AIS	F1+	P-1	A-1	AA-	Aa3	A+	£5m	1 yr
Nationwide – Latest	F1+	P-1	A-1	AA-	**A2**	A+	No change	
Principality – AIS	F2	P-2		BBB+	Baa2		£5m	6 mth
Principality – Latest	F2	**NP**		**BBB**	**Ba1**		No change	
Skipton – AIS	F2	P-2		A-	Baa1		£5m	6 mth
Skipton – Latest	F2	**NP**		A-	**Ba1**		No change	
West Bromwich – AIS	F3	P-3		BBB-	Baa3		£5m	6 mth
West Bromwich – Latest	F2	**NP**		BBB-	**B2**		No change	
Yorkshire – AIS	F2	P-2	A-2	A-	Baa1	A-	£5m	6 mth
Yorkshire – Latest	F2	P-2	A-2	A-	**Baa2**	A-	No change	