Summary of action taken in the period April to September 2014

Treasury Management Strategy

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

Debt maturity
No long-term borrowing was repaid 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 three 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
With no movement in the long-term debt portfolio the weighted average maturity period of the portfolio has decreased naturally by 6 months, from 31.3 years to 30.8 years.

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 2014	30 Sept 2014	Movement in period
Capital financing requirement (CFR)	£336.5m		
Less PFI element	-£58.0m		
Net CFR	£278.5m	(*)£277.8m	-£0.7m
Long-term debt	£207.8m	£207.8m	-
O/s debt to CFR (%)	74.6%	74.8%	-0.2%

(*) projected 31 March 2015

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 74.6% 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 £11.3m. The surplus has been used to increase investments (Table 2).

Table 2 – Cash flow April to September 2014

	Payments	Receipts	Net cash
Total for period	£471.6m	£482.9m	+£11.3m
Increase in investments			+£11.3m

Prudential indicators

Budget Council approved a series of prudential indicators for 2014/15 at its meeting in February 2014. 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 2014/15

	Authorised limit	Operational boundary
Indicator set	£381.0m	£370.0m
Less PFI element	-£58.0m	-£58.0m
Indicator less PFI element	£323.0m	£312.0m
Maximum amount o/s in first half of year	£207.8m	£207.8m
Variance	(*)£115.2m	£104.2m

(*) 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.