Appendix 1

Summary of action taken in the period October 2015 to March 2016

New borrowing

The council raised a total of £23.506m of long term debt in the second half of 2015/16. Of this, £8.506m was to support the construction of the i360 project as planned, and £15.000m was to reduce the General Fund under borrowing position as per the Borrowing Strategy.

Debt maturity

A Public Works Loan Board (PWLB) loan of £3.000m matured on 31 March 2016.

PWLB Annuity repayments of £0.333m were repaid on 31 December 2015.

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.

Weighted average maturity of debt portfolio

The weighted average maturity period of the portfolio has increased slightly from 29.0 years to 29.5 years as a result of the changes in the debt portfolio over the last 6 months.

Debt rescheduling

No debt rescheduling was undertaken during the second half-year.

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 2015	31 March 2016	Movement in period
Capital financing requirement (CFR)	£334.4m		
Less PFI element	(£55.8m)		
Net CFR	£278.6m	£292.8m	+£14.2m
Long-term debt	£213.1m	£245.1m	+£32.0m
O/s debt to CFR (%)	76.5%	83.7%	+7.2%

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 uncertainty within the financial markets, the council has maintained the strategy of keeping borrowing at much lower levels (as investments have been used to repay debt). The 2015/16 Treasury Management Policy Statement (TMPS) included a borrowing strategy with a view to increase borrowing levels, which has resulted in an increase in the debt outstanding compared to the Capital Financing Requirement.

Currently, outstanding debt represents 83.7% of the capital financing requirement.

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 deficit for the 2nd half-year of £27.2 million which is consistent with the normal annual pattern of higher levels of income in the earlier part of the year and higher levels of spending in the latter.

Table 2 – Cash flow October 2015 to March 2016

	October 15 to March 16			Apr 15 to Mar 16
	Payments	Receipts	Net cash	Net cash
Total cash for period	£450.3m	£423.1m	-£27.2m	-£19.2m
Represented by:				
Movement in in-house investments			-£8.8m	-£9.5m
Increase in long-term borrowing			-£20.2m	-£32.0m
Decrease in Short term borrowing (SDNPA[1])			£1.0m	£3.0m
Movement in balance at bank			£0.8m	£0.3m
			-£27.2m	-£19.2m

Overall the cash position for the financial year is a net deficit of £19.2million.

Prudential indicators

Budget Council approved a series of prudential indicators for 2015/16 at its meeting in February 2015. 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 movements.

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.

[1] South Downs National Park Authority (cash/investments are managed on their behalf under contract)

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

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2015/16

	Authorised limit	Operational boundary
Indicator set	£376.0m	£365.0m
Less PFI element	-£57.0m	-£57.0m
Indicator less PFI element	£319.0m	£308.0m
Maximum amount o/s in second half of year	£248.1m	£248.1m
Variance	(*)£70.9m	£59.9m

(*) cannot be less than zero

Performance

Details of the performance of both the in-house and external cash managers are shown in graphs 4a and 4b in Appendix 2. The actual investment rates achieved have exceeded the benchmarks set.

Approved organisations – investments

No new organisations were added to the list approved in the Annual Investment Strategy (AIS) 2015/16.

Debt Portfolio as at 31 March 2016

Table 4 shows the debt portfolio as at 31 March 2016, analysed by fund.

Table 4 – Debt Portfolio as at 31 March 2016 by fund

Fund	Debt Outstanding
General Fund – General	£104.407m
General Fund – i360	£29.179m
Total General Fund	£133,586m
HRA	£111.520m
Total Debt	**£245,106m**

The total debt portfolio is made up of borrowing from the Public Works Loans Board (PWLB), and market lenders. Table 5 illustrates the amount outstanding and average rate of borrowing of each of these parts of the portfolio as at 31 March 2016.

Table 5 – amount outstanding as at 31 March 2016 and average rate by loan type

Lender	Loan Type	Amount Outstanding at 31 March 2016	Average rate
PWLB	Fixed Maturity	£140.927m	4.70%
PWLB	Annuity	£29.179m	2.83%
Market Lenders	LOBOs	£75.000m	4.37%
Total Borrowing		**£245.106m**	**4.38%**

The debt outstanding to market lenders is made up of LOBO instruments (Lender Option Borrower Option). The interest rates of these loans vary between 3.90% and 4.88%.