

## Summary of action taken in the period April 2019 to September 2019

### ***New borrowing***

The council undertook £10.0 of new long term debt in the first half of 2019/20 to reduce the council's under-borrowing position, taking advantage of low long term interest rates.

Of this new borrowing, £2.5m was undertaken to support the HRA Capital Financing Requirement (CFR) (part replacing an internal loan between the General Fund & the HRA), and £7.5m was undertaken to support the General fund CFR.

### ***Debt maturity***

PWLB Annuity repayments of £0.495m were made on 30 June 2019. Additionally, £0.682m of PWLB fixed maturity debt matured on 30 September 2019.

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 two 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 from 27.6 years to 27.8 years. This is the result of a combination of a natural decrease of the maturity by six months and undertaking £10.0m of new long term PWLB loans during the period.

### ***Debt rescheduling***

Opportunities to restructure PWLB debt are severely restricted under changes introduced by the Public Works Loan Board in October 2007.

### ***Capital financing requirement***

The prudential code introduces a number of indicators that compare borrowing with the capital financing requirement (CFR) – the CFR being the 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 2019	30 Sept 2019	Movement in period
Capital financing requirement (CFR)	£357.2m		
Less PFI element	(£47.0m)		
Net CFR	£310.2m	£328.8m	+£18.6m
Long-term debt	£255.9m	£264.7m	+£8.8m
O/s debt to CFR (%)	82.5%	80.5%	-2.0%

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).

Currently, outstanding debt represents 80.5% of the capital financing requirement.

### **Cash flow debt / investments**

The TMSS 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 first half of the year of £5.3 million.

**Table 2 – Cash flow April to September 2019**

April 19 to Sept 19			
	Payments	Receipts	Net cash
Total cash for period	-£478.2m	£472.9m	-£5.3m
Represented by:			
(Increase)/Decrease in investments			£5.8m
Increase in long-term borrowing*			£8.1m
Decrease in Short term borrowing (including SDNPA <sup>1</sup> )			-£8.0m
Movement in balance at bank			-£0.6m
			£5.3m

\*Includes debt of £0.682m due to be repaid on 31/03/19, but actually repaid on 02/04/19 per PWLB non-business day timing conventions. This has been treated as a 2018/19 maturity elsewhere in this report.

### **Prudential indicators**

Budget Council approved a series of prudential indicators for 2019/20 at its meeting in February 2019. 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.

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 2019/20**

	Authorised limit	Operational boundary
Indicator set	£420.0m	£406.0m
Less PFI element	-£47.0m	-£47.0m
Indicator less PFI element	£373.0m	£359.0m
Maximum amount o/s in first half of year	£265.4m	£265.4m
Variance	<sup>(*)</sup> £107.6m	£93.6m

<sup>1</sup> SDNPA (South Downs National Park Authority) cash/investments are managed on their behalf under contract with Brighton & Hove City Council.

(\*) cannot be less than zero

## **Performance**

Details of the performance of both the in-house and the Aberdeen short term fund are shown in graphs 4a and 4b in Appendix 2. The actual investment rates achieved have exceeded the benchmark rates.

## **Approved organisations – investments**

No new organisations were added to the list approved in the Annual Investment Strategy (AIS) 2019/20.

## **Debt Portfolio as at 30 September 2019**

Table 4 shows the debt portfolio as at 30 September 2019, analysed by fund.

**Table 4 – Debt External Portfolio as at 30 September 2019 by fund**

Fund	Debt Outstanding
General Fund – General	£110.089m
General Fund – i360	£30.188m
Total General Fund	£140.277m
HRA	£124.427m
<b>Total Debt</b>	<b>£264.704m</b>

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 30 September 2019.

**Table 5 – amount outstanding as at 30 September 2019 and average rate by loan type**

Lender	Loan Type	Amount Outstanding at 31 March 2019	Average rate
PWLB	Fixed Maturity	£189.516m	3.95%
PWLB	Annuity	£30.188m	2.78%
Market Lenders	LOBOs	£25.000m	4.43%
Market Lenders	Fixed Maturity	£20.000m	4.49%
<b>Total Borrowing</b>		<b>£264.704m</b>	<b>3.89%</b>

The debt outstanding to market lenders is made up of LOBO instruments (Lender Option Borrower Option) of £25.0m, and fixed market loans of £20.0m. The interest rates of these loans vary between 3.90% and 4.88%.

