

A summary of the action taken in the period October 2010 to March 2011

Treasury Management Strategy

New borrowing

In early 2010 three flexible loan facilities totalling £30m were agreed to protect the council from increases in long-term funding rates. Two of these loans became active in February 2011. Details of these loans are set out in Table 1.

Table 1 – New borrowing October 2010 to March 2011

<u>Date raised</u>	Amount	Rate	Period (years)
Royal Bank of Scotland – 28 February 2011	£10.0m	4.20%	49
Royal Bank of Scotland – 28 February 2011	£10.0m	4.22%	49
	£20.0m	4.21%	49

The remaining flexible loan is due to become active in February 2012.

Debt maturity

One PWLB loan, borrowed in March 2010 and totalling £15m, matured during the second half of the year.

Weighted average maturity of debt portfolio

The weighted average maturity period of the debt portfolio has increased during the 2nd half-year as a consequence of the repayment of the one year loan and the new debt raised (Table 2).

Table 2 – Weighted average maturity profile – debt portfolio

<u>Date raised</u>	Oct 2010	Oct 2010 balance as at Mar 2011 (*)	Mar 2011 (**)
Weighted average maturity period	30.8 yrs	29.8 yrs	34.7 yrs
(*) the 'Oct 2010 balance as at Mar 2011' figure reflects the natural 'time elapse' reduction in the average period of the debt portfolio			
(**) the weighted average maturity period as at 1 April 2010 was 31.3 years			

Debt rescheduling

No debt rescheduling was undertaken during the 2nd half-year.

Capital financing requirement

The prudential code introduces a number of indicators that compare 'net' borrowing (i.e. borrowing less investment) with the capital financing requirement (the capital financing requirement being amount of capital investment met from borrowing). Table 4 compares the capital financing requirement with net borrowing and actual borrowing.

With effect from 1 April 2009 the council is required to include the assets and liabilities relating to PFI schemes in the calculation of the capital financing requirement. For the purposes of this report and Table 4 below the capital financing requirement is reduced for the element relating to the PFI projects to provide a comparison with outstanding debt.

Table 4 – Capital financing requirement (adjusted for PFI liability) compared to debt outstanding 2010/11

	31 Mar 2010	31 Mar 2011	Movement in year
Capital financing requirement (CFR)	£289.3m	£294.5m	+£5.2m
CFR met by PFI liability	-£30.3m	-£29.4m	+£0.9m
Adjusted CFR	£259.0m	£265.1m	+£6.1m
Outstanding debt – long-term	£180.7m	£185.7m	+£5.0m
Outstanding debt – short-term	£24.7m	-	-£24.7m
Investments – in-house team	-£18.8m	-£32.6m	-£13.8m
Investments – cash manager	-£24.1m	-£24.4m	-£0.3m
Net debt	£162.5m	£128.7m	-£33.8m
O/s debt to adjusted CFR	79.3%	70.0%	-9.3%
Net debt to adjusted CFR	62.7%	48.5%	-14.2%

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 shortfall for the 2nd half-year of £11.9 million (Table 5).

Table 5 – Cash flow October 2010 to March 2011

	October 10 to March 11			Apr 10 to Mar 11
	Payments	Receipts	Net cash	Net cash
Total cash for period	£422.5m	£410.6m	-£11.9m	+£33.5m
Represented by:				
Decrease in short-term debt			-	-£24.7m
Movement in in-house investments			+£6.9m	-£13.8m
Increase in long-term borrowing			+£5.0m	+£5.0m
			+£11.7m	-£33.5m

Overall the cash position for the financial year is a net surplus of some £33.5 million.

Prudential indicators

Full 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. Full details are set out in appendix 4.

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 6 compares both indicators with the maximum debt outstanding in the 2nd half-

year. As with Table 4 above the indicators have been reduced by the liability under the PFI projects to provide a comparison with outstanding debt.

Table 6 – Comparison of outstanding debt with Authorised Limit and Operational Boundary – October 2010 to March 2011
(adjusted for PFI liability)

	Authorised limit	Operational boundary
Indicator set	£302.0m	£278.0m
PFI liability	£40.0m	£40.0m
“Borrowing” limits	£262.0m	£238.0m
Maximum amount o/s during the period October 2010 to March 2011	£185.7m	£185.7m
Variance	£76.3m	£52.3m

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 increasing from 4.56% to 4.82% over the course of the year. The main reason for the increase is the repayment of the £15 million one-year loan taken out in March 2010 at a rate of 0.84% and the new loans totalling £20 million at an average rate of 4.21%.
- Chart 2 shows the level of investment managed by the cash manager and the in-house treasury team.
 - The sum invested by the cash manager increases as investment income is reinvested. The increase in the amount invested in the year totals £0.3m.
 - The sum invested by the in-house treasury team has increased over the year by some £13.8 million. Short-term debt has been fully repaid during the year.
- Chart 3 compares the returns achieved on external investments with the benchmark rate of 7-day LIBID rate for the in-house treasury team and 7-day LIBID rate (compounded) for the cash manager. The chart confirms that the investment performance of both the cash manager and in-house treasury team has substantially exceeded the target rate of 7-Day LIBID (compounded) and 7-Day rate respectively.

Approved organisations – investments

There have been three breaches in the investment criteria during the second half-year:

- The limit with Skipton Building Society was exceeded by £950k for a period of 28 days. The breach was rectified and there was no loss incurred by the council.
- The limit with the Co-operative Bank was exceeded by £5.075m for one day in December. The limit was exceeded for operational reasons and there was no loss to the council.
- The limit with Goldman Sachs was exceeded by £158k. The breach was rectified the following day and there was no loss to the council.

No new financial institutions were added to the list of investment counterparties approved in the AIS 2009/10.

Changes to investment criteria

No changes have been made to the investment criteria.