Appendix 2

Summary of action taken in the period October 2011 to March 2012

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. The third became active in February 2012. Details of this loan are set out in Table 1.1.

Table 1.1 – New borrowing October 2011 to March 2012

Date raised	Amount	Rate	Period (years)
Royal Bank of Scotland – 16 Feb 12	£10.000m	4.35%	48

In addition the council made a payment of £18.081m under the new HRA housing finance introduced on 1st April 2012. This payment was funded through five new loans, details of which are set out in Table 1.2

Table 1.2 – New HRA borrowing October 2011 to March 2012

Date raised	Amount	Rate	Period (years)
Public Works Loan Board – 28 Mar 12	£4.000m	2.92%	14
Public Works Loan Board – 28 Mar 12	£3.000m	1.24%	5
Public Works Loan Board – 28 Mar 12	£4.181m	3.37%	22
Public Works Loan Board – 28 Mar 12	£3.900m	0.87%	3½
Public Works Loan Board – 28 Mar 12	£3.000m	1.11%	4½
	£18.081m	2.00%	10½

Debt maturity

No debt matured during the half year.

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 debt portfolio has reduced during the 2nd half-year as a consequence of the new debt raised (Table 2).

Table 2 – Weighted average maturity profile – debt portfolio

Date raised	Oct 2011	Oct 2011 balance as at Mar 2012 (*)	Mar 2012 (**)
Weighted average maturity period	35.4 yrs	34.9 yrs	33.3 yrs

(*) the *'Oct 2011 balance as at Mar 2012'* figure reflects the natural 'time elapse' reduction in the average period of the debt portfolio

(**) the weighted average maturity period as at 1 April 2011 was 30.2 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.

after deducting investments) with the capital financing requirement (CFR) – the CFR being amount of capital investment met from borrowing that is outstanding. Table 3 compares the CFR with net borrowing and actual borrowing.

Table 3 – Capital financing requirement compared to debt outstanding

	1 April 2011	31 March 2012	Movement in period
Capital financing requirement (CFR)	£294.5m		
Less PFI element	-£29.4m		
Net CFR	£265.1m	£283.3m	+£18.2m
Long-term debt	£185.7m	£207.8m	+£22.1m
Investments – in house team	-£32.6m	-£28.1m	+£4.5m
Investments – cash manager	-£24.4m	-£24.7m	-£0.3m
Net debt	£128.7m	£155.0m	+£26.3m
O/s debt to CFR (%)	70.0%	73.3%	+3.3%
Net debt to CFR (%)	48.5%	54.7%	+6.2%

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 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 73% 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 shortfall for the 2nd half-year of £31.1 million of which £18.1m represented the payment to the Government under the new HRA housing finance regime (Table 4).

Table 4 – Cash flow October 2011 to March 2012

	October 11 to March 12			Apr 11 to Mar 12
	Payments	Receipts	Net cash	Net cash
Total cash for period	£407.3m	£394.3m	-£13.0m	-£8.3m
Payment to CLG re HRA settlement	£18.1m		-£18.1m	-£18.1m
			-£31.1m	-£26.4m
Represented by:				
Movement in in-house investments			+£3.3m	+£4.5m
Increase in long-term borrowing			+£28.1m	+£22.1m
Movement in balance at bank			-£0.3m	-£0.2m
			+£31.1m	+£26.4m

Overall the cash position for the financial year is a net deficit of some £26.4 million.

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 5 compares both indicators with the maximum debt outstanding in the first half year.

Table 5 – 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 second half of year	£207.8m	£207.8m
Variance	(*)£97.2m	£85.2m

(*) 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 reduced from 4.82% to 4.58% during the half-year. The reduction is due to new debt being borrowed at rates below the average rate.

- 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 little change in the level of investments over the half-year.

- 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 March 2012:
  - 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 but these have had no impact on the council's approved lending list or limits.