Summary of action taken in the period October 2018 to March 2019

New borrowing

The council undertook £26.0 of new long term debt in the second half of 2018/19 to replace borrowing repaid in October 2018 as detailed below. Of this new borrowing, £16.0m was undertaken to replace HRA element of the repaid debt and £10.0m was undertaken to replace the General fund element.

Debt maturity

PWLB Annuity repayments of £0.488m and PWLB Maturity repayments of £1.023m were repaid on 31 December 2018, and PWLB Maturity repayment of £0.682m was moved to short term creditors on 29 March 2019 (due for repayment 31 March 2019, repaid on 1 April 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 reduced from 28.9 years to 27.6 years. This is the result of a combination of a natural decrease of the maturity by six months and the replacement of RBS loans (41.4 year maturity), with the new PWLB loans which have an average maturity of 31.0 years.

Debt rescheduling

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

LOBO debt of £30.000m held with the Royal Bank of Scotland was repaid early on 28 October 2018 (original repayment date for this debt was 16th and 28th February 2060). This was repaid with a premium of £9.127m. This repayment was replaced by £26.000m of PWLB debt undertaken on 27 March 2019. Paragraph 3.18 in the main report details the revenue savings achieved by this restructure.

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 2018	31 March 2019	Movement in period
Capital financing requirement (CFR) Less PFI element	£356.3m (£49.5m)		
Net CFR	£306.8m	£310.2m	+£3.4m
Long-term debt	£262.6m	£255.9m	-£6.7m
O/s debt to CFR (%)	85.6%	82.5%	-3.1%

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 82.5% of the capital financing requirement. The reduction from 85.6% on the previous year is a result of the combination of the net increase in the CFR resulting from using borrowing to fund parts of the capital programme, and the reduction in debt.

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 2nd half of the year of £20.3 million. Usually, the annual standard pattern of cash flow shows higher levels of income in the earlier part of the year and higher levels of spending in the latter. The cash flow deficit was increased as a result of the £9.1m premium payable on the RBS loans.

Table 2 – Cash flow October 2018 to March 2019

	October 18 to March 19			Apr 18 to Mar 19
	Payments	Receipts	Net cash	Net cash
Total cash for period	-£467.2m	£447.0m	-£20.3m	£16.9m
Represented by:				
(Increase)/Decrease in in-house investments			£15.5m	-£17.0m
Decrease in long-term borrowing			-£5.5m	-£6.0m
Increase in Short term borrowing (including SDNPA[1])			£6.0m	£6.0m
Movement in balance at bank			£4.3m	£0.1m
			£20.3m	£16.9m

Overall, the cash position for the financial year is therefore a net surplus of £16.9 million.

Prudential indicators

Budget Council approved a series of prudential indicators for 2018/19 at its meeting in February 2018. 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 second half year.

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

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2018/19

	Authorised limit	Operational boundary
Indicator set	£436.0m	£423.0m
Less PFI element	-£50.0m	-£50.0m
Indicator less PFI element	£386.0m	£373.0m
Maximum amount o/s in second half of year	£262.1m	£262.1m
Variance	(*)£123.9m	£110.9m

(*) 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) 2018/19.

Debt Portfolio as at 31 March 2019

Table 4 shows the debt portfolio as at 31 March 2019, analysed by fund.

Table 4 – Debt External Portfolio as at 31 March 2019 by fund

Fund	Debt Outstanding
General Fund – General	£102.905m
General Fund – i360	£30.683m
Total General Fund	£133.589m
HRA	£122.293m
Total Debt	**£255.881m**

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 2019.

Table 5 – amount outstanding as at 31 March 2019 and average rate by loan type

Lender	Loan Type	Amount Outstanding at 31 March 2019	Average rate
PWLB	Fixed Maturity	£180.198m	4.09%
PWLB	Annuity	£30.683m	2.78%
Market Lenders	LOBOs	£25.000m	4.43%
Market Lenders	Fixed Maturity	£20.000m	4.49%
Total Borrowing		**£255.881m**	**4.00%**

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%.