A summary of the action taken in the period October 2008 to March 2009

Treasury Management Strategy

New long-term borrowing

Long-term borrowing to fund capital investment was limited to £3m. This is consistent with the strategy to reduce investment levels, and hence investment risk, following the collapse of the Icelandic Banks (Table 1).

Table 1 – New long-term borrowing October 2008 to March 2009

Date raised	Amount	Rate	Period
PWLB – 8 October 2008	£3.000m	3.99%	3 yrs

Debt maturity

Debt maturing during the 2nd half-year totalled £2 million. In addition a further £45 million of PWLB loans were repaid early at a net discount of £64k (Table 2).

Table 2 – Debt maturity / repaid October 2008 to March 2009

Date repaid	Amount	Premium / (discount)
Debt maturing		
27 January 2009 – 1 Market loan	£2.000m	-
Debt prematurely repaid		
14 November 2008 – 5 PWLB loans	£17.123m	(£0.076m)
23 January 2009 – 6 PWLB loans	£27.894m	£0.012m
Sub total – Premature repayments	£45.017m	(£0.064m)
	£47.017m	(£0.064m)

Weighted average maturity of debt portfolio

The weighted average maturity period of the debt portfolio has decreased marginally during the 2nd half-year as a consequence of prematurely repaying debt (Table 3).

Table 3 – Weighted average maturity profile – debt portfolio

Date raised	Oct 2008	Oct 2008 balance as at Mar 2009 (*)	Mar 2009 (**)
Weighted average maturity period	37.8 yrs	37.6 yrs	36.3 yrs
(*) the *'Oct 2008 balance as at Mar 2009'* figure reflects the natural 'time elapse' reduction in the average period of the debt portfolio (**) the weighted average maturity period as at 1 April 2008 was 38.3 years			

Debt rescheduling

No debt rescheduling was taken 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 but equally as important to actual borrowing.

Table 4 – Capital financing requirement compared to debt outstanding

	31 Mar 2008	31 Mar 2009	Movement in year
Capital financing requirement (CFR)	£235.8m	£255.9m	+£20.1m
Outstanding debt	£239.9m(*)	£195.9m	-£44.0m
Investments	£116.7m	£56.5m	+£60.2m
Net debt	£123.2m	£139.4m	+£16.2m
O/s debt to CFR	101.7%	76.6%	-25.1%
Net debt to CFR	52.3%	54.5%	+2.2%

(*) includes £3m borrowed in advance of 2008/09 CFR requirements. 'O/s debt to CFR' reduces to 100.5% if this sum excluded.

Prior to the crisis in the financial markets, advice received from the council's external advisor suggested that borrowing should be at or near the maximum permitted in order to reduce the risk that demand for capital investment (and hence resources) will fall in years of high interest rates. However, as part of the strategy to reduce investment risk, borrowing has been prematurely repaid by using investments.

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 £46m (Table 5).

Table 5 – Cash flow October 2008 to March 2009

	Payments	Receipts	Net cash
Total for period	£386.1m	£340.1m	-£46.0m
Decrease in long-term borrowing			-£44.0m
Net movement in short term position			***-£90.0m***

Taking into account the decrease in net long-term borrowing the total cash shortfall amounted to £90m for the 2nd half-year. After adjusting for the movement on the council's bank accounts (+£0.3m) the net shortfall is reduced to £89.7m. The shortfall has been funded by reducing the level of investments (Chart 2, Appendix 3).

Short-term borrowing totalling £21.4m was raised in the second half of the year to part fund the programme of premature repayments in advance of investments being redeemed. These loans were fully repaid by 31 March 2009.

Overall the cash position for the financial year is a net deficit of £17.4m. This deficit is not unexpected following the decision by the council to make an offer to settle the equal pay issue and make payments in line with the offer.

Prudential indicators

Full Council approved a series of prudential indicators for 2008/09 at its meeting in March 2008. 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.

Table 6 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2008/09

	Authorised limit	Operational boundary
Indicator set	£276.0m	£254.0m
Maximum amount o/s during the year	£242.9m	£242.9m
Variance	£33.1m(*)	£11.1m

(*) 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 increasing to 4.83%, from the 4.75% at the beginning of the year. The increase is a direct consequence of repaying debt early.
- 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 £0.6m.
  - The amount invested by the in-house treasury team is analysed between cash flow investments (that are invested to meet short-term cash commitments) and core investment (that have a longer investment profile to match the spending profile for both the revenue & capital investment programmes). The chart shows a fall of £89.7m in investments made by the in-house team to cover the cash flow shortage in the second half year and the programme of repaying debt early.

- 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 were no breaches of the investment criteria during the second half-year.

No new financial institutions were added to the list of investment counterparties approved in the AIS 2008/09.

Changes to investment criteria

No changes have been made to the investment criteria over and above that reported to Cabinet in November 2008. Risk on the investment portfolio has been managed through repaying debt early, thereby reducing the amount invested.