Summary of action taken in the period April to September 2017

Treasury Management Strategy

New long term borrowing
No new debt was undertaken during the first 6 months.

Debt maturity
£0.481m of long-term borrowing was repaid in the first 6 months.

The council had 2 loans with Lender Options due in the 6 month period but no option was exercised. Lender options are 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 (LOBO).

Debt restructuring
Opportunities to restructure the debt portfolio are severely restricted under changes introduced by the Public Works Loan Board in October 2007. No restructuring was undertaken in the first 6 months.

RBS market debt of £30.0m was restructured in October 2018 as detailed in the main report at paragraph 3.18.

Weighted average maturity profile
The weighted average maturity period of the portfolio has decreased from 29.3 years to 28.9 years. This is the result of a combination of a natural decrease in the maturity by 6 months and a small repayment of annuity debt.

Capital financing requirement
The prudential code introduces a number of indicators that compare borrowing with the capital financing requirement (CFR) – the CFR being 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	30 Sept 2018	Movement in period
Capital financing requirement (CFR) Less PFI element	£356.3m (£49.5m)		
Net CFR	£306.8m	(*)£312.5m	+£5.7m
Long-term debt	£262.6m	(**)£262.1m	- £0.5m
O/s debt to CFR (%)	85.6%	83.9%	- 1.7%

(*) projected 31 March 2019

(**) As at 30 Sept 2017

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 of keeping borrowing at much lower levels (as investments are used to repay debt). Currently outstanding debt represents 83.9% of the projected capital financing requirement.

Cash flow debt / investments

> *The TMPS states that "The council will maintain an investment portfolio that is consistent with its long term funding requirements, spending plans and cash flow movements."*

An analysis of the cash flows reveals a net surplus for the first 6 months of £37.2m. The surplus has been used to increase investments (Table 2).

Table 2 – Cash flow April to September 2018

	Payments	Receipts	Net cash
Total for period	£456.9m	£484.0m	+£37.2m
Represented by:			
Decrease in long term borrowing			+£0.5m
Increase in investments			+£32.5m
Increase in balance at bank			+£4.2m
			+£37.2m

Prudential indicators

Budget Council approved a series of prudential indicators for 2018/19 at its meeting on 22 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.

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 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 first half of year	£262.6m	£262.6m
Variance	(*)£123.4m	£110.4m

(*) can not be less than zero

Performance

The series of charts in Appendix 2 provide a summary of the performance for both the debt and investment portfolios.