Summary of action taken in the period April to September 2009

Treasury Management Strategy

New long term borrowing
No new long-term borrowing raised in the first 6 months.

Debt maturity
Debt totalling £30.150 million was repaid early at a net premium of £381k (Table 1). The average rate of debt repaid was 4.5%

Table 1 – Debt repaid prematurely April to September 2009

Date repaid	Amount	Premium / (discount)
15 April 2009 – 2 PWLB loans	£13.150m	£0.005m
15 June 2009 – 2 PWLB loans	£16.000m	£0.000m
14 August 2009 – 1 market loan	£1.000m	£0.376m
	£30.150m	£0.381m

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.

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.

Weighted average maturity profile
The maturity period of debt repaid in the first six months averaged circa 43.2 years. This has had the effect of reducing the weighted average maturity period of the debt portfolio from 36.3 years to 34.5 years.

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 2 compares the CFR with net borrowing and actual borrowing.

Table 2 – Capital financing requirement compared to debt outstanding

	1 April 2009	30 Sept 2009	Movement in period
Capital financing requirement (CFR)	£255.9m	£258.4m[(*)]	+£2.5m
Long-term debt	£195.9m	£165.7m	-£30.2m
Short-term debt	£0.0m	£6.1m	+£6.1m
Investments	£56.5m	£40.6m	+£15.9m
Net debt	£139.4m	£131.2m	-£8.2m
O/s debt to CFR (%)	76.6%	66.5%	-10.1%
Net debt to CFR (%)	54.5%	50.8%	-3.7%

[(*)] projected 31 March 2010

Advice received from the council's external advisors suggests that borrowing should be 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). This strategy has been changed in light of the continuing problems within the financial markets. Currently outstanding debt represents 67% of the 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 six-months of £7.5m (Table 3). A surplus in the first six months is not unusual as the profile of receipts against payments is heavily weighted towards this period. The surplus is used to meet cash shortfalls in the second half year as receipts fall away and payments accelerate.

Table 3 – Cash flow April to September 2009

	Payments	Receipts	Net cash
Total for period	£436.3m	£443.8m	+£7.5m

After adjusting for the increase in the value of the funds invested by the cash manager (+£0.5m) the net movement is increased to £8.0m. This surplus has been used to part repay long-term borrowing.

Short-term borrowing during the half-year totalled £42.5m, of which £6.1m remained outstanding as at 30 September 2009.

Prudential indicators

Budget Council approved a series of prudential indicators for 2009/10 at its meeting in February 2009. 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 4 compares both indicators with the maximum debt outstanding in the first half year.

Table 4 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2009/10

	Authorised limit	Operational boundary
Indicator set	£317.0m	£294.0m
Maximum amount o/s in first half of year	£195.9m	£195.9m
Variance	£121.1m(*)	£98.1m

(*) 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 has increased to 4.9%, a direct result of repaying debt with an average rate of 4.5%;

- 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 the substantial decrease in investments as debt was repaid.

- 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 September 2009:
    - 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 2009/10.

No changes were made to the investment parameters set out in the AIS 2009/10. However a number of institutions continue to be ‘suspended’ following concerns about future performance or proposed mergers with other institutions.

The decision taken in the second half of 2008/09 to limit new lending and maturing investments to a maximum investment period of one month has continued throughout the first half of 2009/10.