Summary of action taken in the period April 2020 to September 2020

New borrowing

The council no new long-term debt in the first half of 2019/20.

Debt maturity

PWLB Annuity repayments of £0.509m were made on 30 June 2020. Additionally, £0.682m of PWLB fixed maturity debt matured on 30 September 2020.

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 decreased from 28.08 years to 27.7 years. This is the result of a combination of a natural decrease of the maturity by six months and the change resulting from repayment of £1.2m of debt over the period.

Debt rescheduling

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

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 2020	30 Sept 2020	Movement in period
Capital financing requirement (CFR)	£379.4m		
Less PFI element	(£44.4m)		
Net CFR	£335.0m	£335.0m	£0.0m
Long-term debt	£271.0m	£269.8m	-£1.2m
O/s debt to CFR (%)	80.1%	80.5%	+0.4%

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 80.5% of the capital financing requirement.

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 first half of the year of £7.3 million.

Table 2 – Cash flow April to September 2020

	April 20 to Sept 20		
	Payments	Receipts	Net cash
Total cash for period	(£573.5m)	£566.2m	(£7.3m)
Represented by:			
(Increase)/Decrease in investments			£7.0m
Decrease in long-term borrowing			(£1.2m)
Increase in Short term borrowing (including SDNPA[1])			£1.5m
Movement in balance at bank			£0.0m
			£7.3m

Prudential indicators

Budget Council approved a series of prudential indicators for 2020/21 at its meeting in February 2020. 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 first half year.

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2020/21

	Authorised limit	Operational boundary
Indicator set	£465.0m	£455.0m
Less PFI & other long-term liabilities	-£54.0m	-£54.0m
Indicator re: Underlying borrowing	£411.0m	£401.0m
Maximum amount o/s in first half of year	£271.0m	£271.0m
Variance	(*)£140.0m	£130.0m

(*) Cannot be less than zero

Table 4 shows the limits set for the maturity structure of the debt portfolio along with the actual maturity profile as at 30 September 2020.

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

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Table 4 – Maturity structure of fixed interest rate borrowing as at 30 September 2020

	Lower Limit Set	**Upper Limit Set**	**Actual as at 30 September 2020**
Under 12 months	0.0%	40.0%	0.4%
12 months to 2 years	0.0%	40.0%	0.8%
2 years to 5 years	0.0%	50.0%	15.2%
5 years to 10 years	0.0%	75.0%	9.3%
Over 10 years	40.0%	100.0%	74.2%

Approved organisations – investments

No new organisations were added to the list approved in the Annual Investment Strategy (AIS) 2020/21.

Debt Portfolio as at 30 September 2020

Table 5 shows the debt portfolio as at 30 September 2020, analysed by fund.

Table 5 – Debt External Portfolio as at 30 September 2020 by fund

Fund	**Debt Outstanding**
General Fund – General	£109.456m
General Fund – i360	£29.176m
Total General Fund	£138.632m
HRA	£131.193m
Total Debt	**£269.829m**

The total debt portfolio is made up of borrowing from the Public Works Loans Board (PWLB), and market lenders. Table 6 illustrates the amount outstanding and average rate of borrowing of each of these parts of the portfolio as at 30 September 2020.

Table 6 – amount outstanding as at 30 September 2020 and average rate by loan type

Lender	**Loan Type**	**Amount Outstanding at 30 September 2020**	**Average rate**
PWLB	Fixed Maturity	£195.653m	3.81%
PWLB	Annuity	£29.176m	2.78%
Market Lenders	LOBOs	£25.000m	4.43%
Market Lenders	Fixed Maturity	£20.000m	4.49%
Total Borrowing		**£269.829m**	**3.81%**

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%.