Summary of action taken in the period April to September 2012

Treasury Management Strategy

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

Debt maturity
No long-term borrowing was repaid in the first six months.

Lender options: this is 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. Options on three 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
With no movement in the long-term debt portfolio the weighted average maturity period of the portfolio has decreased naturally by 6 months, from 33.3 years to 32.8 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 the amount of capital investment met from borrowing that is outstanding. Table 1 compares the CFR with net borrowing and actual borrowing.

Table 1 – Capital financing requirement compared to debt outstanding

	1 April 2012	30 Sept 2012	Movement in period
Capital financing requirement (CFR)	£344.4m		
Less PFI element	-£61.3m		
Net CFR	£283.1m	(*)£285.4m	+£2.3m
Long-term debt	£207.8m	£207.8m	-
Investments – in house team	-£28.1m	-£67.9m	-£39.8m
Investments – cash manager	-£24.7m	-£24.9m	-£0.2m
Net debt	£155.0m	£115.0m	-£40.0m
O/s debt to CFR (%)	73.4%	72.8%	-0.6%
Net debt to CFR (%)	54.8%	40.3%	-14.5%

(*) projected 31 March 2013

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 to keep borrowing at much lower levels (as investments are used to repay debt). Currently outstanding debt represents 73% 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 £39.8m. The surplus has been to increase investments (Table 2).

Table 2 – Cash flow April to September 2012

	Payments	Receipts	Net cash
Total for period	£404.2m	£444.0m	+£39.8m
Increase in investments			-£39.8m

Prudential indicators
Budget Council approved a series of prudential indicators for 2012/13 at its meeting in February 2012. 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 2012/13

	Authorised limit	Operational boundary
Indicator set	£383.0m	£371.0m
Less PFI element	-£62.0m	-£62.0m
Indicator less PFI element	£321.0m	£309.0m
Maximum amount o/s in first half of year	£207.8m	£207.8m
Variance	(*)£113.2m	£101.2m

(*) 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 remained unchanged during the half-year at 4.58%.

- 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 increase in investments due to the positive cash flow in the first six months.

- 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 2012:
    - 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
At the July 2012 meeting of Policy & Resources Committee Members recommended the inclusion of a number of new institutions to the council's list of approved investment counterparties. This recommendation was approved by Council on 19 July 2012. These institutions were included following a revision to the investment parameters agreed in March 2012. Details of these changes are set out in paragraph 4 and Appendix 5 to the July report.

Following the approval by full Council to extend the list of investment counterparties the following new institutions have been used since that date.

Table 4 - Investments made in new institutions since 19 July 2012

Counterparty	No of loans	Total value	Average rate	Average maturity period
Bank of Butterfield	3	£7,500,000	0.53%	41 days
Clydesdale Bank	1	£3,400,000	0.43%	30 days
Close Brothers	3	£7,650,000	0.76%	44 days
CCLA Public Sec tor Deposit Fund	2	£1,600,000	0.49%	25 days

Table 5 - Investments made where maximum amount increased since 19 July 2012

Counterparty	Previous maximum	Revised maximum	Maximum amount invested	Amount invested as at 30 Sept

				2012
Lloyds Bank	£5,000,000	£10,000,000	£10,000,000	£9,850,000

There have been no further revisions to the list approved by P&R.

Prior to the change approved by Council the investment limit with the Co-operative Bank was breached on two separate occasions in the half year for operational reasons:

- Occasion No 1 - The limit was exceeded by £5.5 million for a period of 1 day. The breach was rectified and there was no loss incurred by the council.
- Occasion No 2 - The limit was exceeded by £1.7m for one day. The breach was rectified and there was no loss to the council.