Summary of action taken in the period October 2017 to March 2018

New borrowing

The council undertook £4.0 of new long term debt in the second half of 2017/18 to support the HRA Capital Programme.

Debt maturity

PWLB Annuity repayments of £0.475m and PWLB Maturity repayments of £1.023m were repaid on 2 January 2018.

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.

Weighted average maturity of debt portfolio

The weighted average maturity period of the portfolio is unchanged at 29.3 years. This is the result of a combination of a natural decrease of the maturity by six months repayment of £1.498m debt and entering into £4.000m of new debt in the period.

Debt rescheduling

No debt rescheduling was undertaken during the second half-year.

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 2017	31 March 2018	Movement in period
Capital financing requirement (CFR)	£358.4m		
Less PFI element	(£51.7m)		
Net CFR	£306.7m	£306.8m	+£0.1m
Long-term debt	£260.5m	£262.6m	+£2.1m
O/s debt to CFR (%)	84.9%	85.6%	+0.7%

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 85.6% of the capital financing requirement.

Cash flow debt / investments

The TMPS states that 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 surplus for the 2nd half-year of £12.1 million. Usually, the annual standard pattern of cash flow shows higher levels of income in the earlier part of the year and higher levels of spending in the latter. However, high levels of capital receipts in the second half of the year has contributed to a net cash surplus.

Table 2 – Cash flow October 2017 to March 2018

	October 17 to March 18			Apr 17 to Mar 18
	Payments	Receipts	Net cash	Net cash
Total cash for period	-£442.6m	£454.7m	£12.1m	£42.7m
Represented by:				
Increase in in-house investments			£14.8m	£44.9m
Increase in long-term borrowing			-£2.5m	-£2.0m
Decrease in Short term borrowing (SDNPA[1])			-£0.5m	-£0.5m
Movement in balance at bank			£0.3m	£0.3m
			£12.1m	£42.7m

Overall, the cash position for the financial year is therefore a net surplus of £42.7million.

Prudential indicators

Budget Council approved a series of prudential indicators for 2017/18 at its meeting in February 2017. 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 second half year.

Table 3 – Comparison of outstanding debt with Authorised Limit and Operational Boundary 2017/18

	Authorised limit	Operational boundary
Indicator set	£419.0m	£406.0m
Less PFI element	-£52.0m	-£52.0m
Indicator less PFI element	£367.0m	£354.0m
Maximum amount o/s in second half of year	£262.6m	£262.6m
Variance	(*)£104.4m	£91.4m

(*) cannot be less than zero

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

Performance

Details of the performance of both the in-house and external cash managers are shown in graphs 4a and 4b in Appendix 2. The actual investment rates achieved have exceeded the benchmark rates.

Approved organisations – investments

No new organisations were added to the list approved in the Annual Investment Strategy (AIS) 2017/18.

Debt Portfolio as at 31 March 2018

Table 4 shows the debt portfolio as at 31 March 2018, analysed by fund.

Table 4 – Debt External Portfolio as at 31 March 2018 by fund

Fund	Debt Outstanding
General Fund – General	£107.627m
General Fund – i360	£31.653m
Total General Fund	£139.280m
HRA	£123.277m
Total Debt	**£262.557m**

The total debt portfolio is made up of borrowing from the Public Works Loans Board (PWLB), and market lenders. Table 5 illustrates the amount outstanding and average rate of borrowing of each of these parts of the portfolio as at 31 March 2018.

Table 5 – amount outstanding as at 31 March 2018 and average rate by loan type

Lender	Loan Type	Amount Outstanding at 31 March 2018	Average rate
PWLB	Fixed Maturity	£155.904m	4.45%
PWLB	Annuity	£31.653m	2.78%
Market Lenders	LOBOs	£55.000m	4.33%
Market Lenders	Fixed Maturity	£20.000m	4.49%
Total Borrowing		**£262.557m**	**4.23%**

The debt outstanding to market lenders is made up of LOBO instruments (Lender Option Borrower Option) of £55.0m, and fixed market loans of £20.0m. The interest rates of these loans vary between 3.90% and 4.88%.