

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**1 October 2013**

**Report of the Director of Finance**

**TREASURY MANAGEMENT**  
(COUNCIL SERVICES)

**1 Purpose of the Report**

To report on Treasury Management activities during the last financial year 2012-2013 and to indicate the Council's compliance with the prudential indicators set by the Cabinet at its meeting of 24 January 2012, in accordance with the terms of the Prudential Code for Capital Finance in Local Authorities.

**2 Information and Analysis**

**(i) Treasury Management Activities 2012-2013**

The Financial Regulations of the Council require an annual report to be presented to members. This is in accordance with the recommendations of the CIPFA Code of Practice on Treasury Management. Under the terms of the Prudential Code the Council is also required to set a series of prudential indicators each year to ensure that any capital expenditure and related borrowing undertaken is prudent, affordable and sustainable. This report compares the outcomes for the year against the prudential indicator levels approved by the Cabinet in January 2012.

**(ii) Interest Rates**

The Bank of England Base Rate has remained unchanged at 0.5% since March 2009.

The Bank of England's policy of asset purchases (Quantitative Easing) increased by £50 billion (July 2012) to £375 billion.

Consumer Price Inflation (CPI) continues to remain above the MPC's target of 2% (2.8% in July 2013).

Growth of 0.3% in Q1 was followed by 0.7% in Q2. The IMF commented that the UK has moved from a 'rescue' to a 'recovery' position.

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Short-term interest rates affect the level of the Council's interest receipts, while longer-term rates impact on the Council's borrowing costs.

Longer-term interest rates fluctuated during the financial year. The 25 year Public Works Loans Board (PWLB) new loans rate averaged 4.09% (minimum 3.81%, maximum 4.44%).

At 28/03/2013 PWLB interest rates were:

5 Year PWLB	1.75%
10 Year PWLB	2.84%
25 Year PWLB	4.07%
50 Year PWLB	4.22%

Derbyshire County Council successfully applied for a further reduction in PWLB rates through the Reduction Scheme discount of 0.20% off the above-mentioned PWLB rates.

### **Borrowing**

Total borrowing remained at all times within the limits approved under the terms of the Prudential Code. .

No new borrowing was taken during the 2012-13 financial year. A £3m loan was due to be repaid to the PWLB on 31/03/2013 (however, as this was a non-working day it wasn't actually repaid until 02/04/2013). Internal resources were also utilised in line with the approved strategy. At 31/03/2013, the total loans outstanding for capital expenditure were £385,623,050. Total debt charges were approximately £46.9m, comprised of interest payable of £26.5m, and principal repayments of 20.4m (22m Minimum Revenue Provision – 1.6m Principal Transferred Debt & Financial Instrument Adjustments). The Council's average borrowing rate for external debt is 5.02%, however the internal resourcing strategy makes the actual effective rate much lower at present. The average term remaining is 20.89 years.

The above figure includes debt that has been serviced on behalf of Derby City Council since Local Government Reorganisation. This accounts for approximately £32.5m of debt (at 31/03/13) and £3.2m of debt charges for the year (fully recharged to Derby City Council).

On 24/01/2012 Cabinet approved the Annual Treasury Management Strategy for 2012-13, including performance indicators against which to assess the Council's cost of new borrowing. This is compared to the average 25 year PWLB interest rate for maturity loans for the last financial year. No new loans were taken during 2012-13.

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Performance is also to be measured against the average rate of interest for County Councils for the latest financial year, taken from the CIPFA publication "Capital Expenditure and Treasury Management Statistics". The data for 2012-13 is not expected to be available until the end of the year, and the relevant statistics will be reported in due course.

<b>2012-13 (unless stated)</b>	<b>%</b>
Derbyshire County Council	5.02
All County Councils (England & Wales) – 2011/12	4.80
Average PWLB 25 Years Rate	4.09

### (iv) **Debt Rescheduling and Repayment**

There was no early repayment or rescheduling of debt in 2012-13.

### (v) **Lending**

Short term lending of revenue funds/capital receipts pending their use earned interest of £2.7m in 2012-13 at an average rate of 0.83%. Short-term deposits were placed with a number of financial institutions, from a list previously approved by the Cabinet.

For the purpose of monitoring performance, the interest rate actually achieved of 0.83% can be compared against a benchmark market rate of interest. The Local Authority seven-day rate (LA7D) is considered to be the most suitable for this purpose and for 2012-13 the weighted average rate was 0.5250%. The County Council's continuing lending policy is to place security of capital and liquidity ahead of investment return. The status of the Council's counterparties is constantly under review and changes to its lending list are made as and when required.

The Council's investments at 31 March 2013 can be analysed in the following ways:

The following table shows the split between the different types of counterparty.

<b>Type of Institution</b>	<b>£000s</b>	<b>%</b>
Banks	94,250	30
Building Societies	20,000	6
Money Market Funds	30,000	10
Other local authorities	166,500	54

The Council's access to liquidity is shown in the following table which analyses the term remaining on Council loans until maturity date:

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<b>Duration</b>	<b>£000s</b>	<b>%</b>
Less than 1 month	116,000	37
1 to 3 months	21,000	7
3 to 6 months	51,000	16
6 months to 1 year	123,000	40

The following table shows investments split according to the Counterparties' credit ratings. Whilst losses from the Council's counterparties are not expected, the table also shows the historic market level of defaults for each credit rating category and an estimate of the Council's maximum exposure to default based on that experience:

<b>Credit Rating</b>	<b>£000s</b>	<b>Historic market level of default</b>	<b>Estimated maximum exposure to default £000</b>
AAA	30,000	0.00%	0
AA	176,500	0.03%	53
A	95,000	0.08%	76
Baa / BBB+	9,250	0.24%	22

### **(vi) Activity in 2013-14 to date**

There has been no new borrowing in 2013-14 to date.

### **(vii) Prudential Code for Capital Finance & Treasury Management**

On 24 January 2012 the Cabinet approved the Capital Programme, borrowing limits and other prudential indicators for 2012-13. The levels set by Cabinet and the outturns for the year are shown in Appendix 1. All Prudential Indicators have been complied with.

### **(viii) Training**

A series of training on financial matters has been suggested for inclusion on the Member Development Groups Training Programme. Treasury Management is included within this programme.

## **3 Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

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### **4 Key Decision**

No

### **5 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report? NO

### **6 Background Papers**

Borrowing and Loan records 2012-13  
Treasury Management Strategy 2012-13  
CIPFA Local Authority Debt Statistics

### **7 OFFICER'S RECOMMENDATION**

That the annual report on Treasury Management for 2012-2013 be noted.

PETER HANDFORD

Director of Finance

County Hall  
Matlock

5 September 2013

## Prudential Code for Capital Finance & Treasury Management

**Compliance with Prudential Indicators 2012-13, as approved by Cabinet in January 2012 and Council in February 2012.**

### Capital Expenditure and Capital Financing Requirement

These Indicators show the total capital expenditure and the Capital Financing Requirement (CFR) for the year against the initial estimates approved in January 2012. The CFR is the Council's underlying need to borrow for capital purposes and is therefore dependent on the approved level of capital expenditure.

	<b>2012-13 Estimate £m</b>	<b>2012-13 Actual £m</b>
Capital Expenditure	144.70	96.76
Capital Financing Requirement	579.54	502.50

### The Authorised Limit and the Operational Boundary

The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members, whilst the Operational Boundary is based on the probable external debt during the course of the year. It is not a limit and actual borrowing may vary around this boundary during the year.

For this purpose, temporary deposits of £22m taken from the Derbyshire Fire Authority and the Peak District National Park Authority have been included in the borrowing figure.

<b>Authorised limit for external debt</b>	<b>Authorised Limit for external debt 2012-13 £m</b>	<b>Operational Boundary for external debt 2012-13 £m</b>	<b>Actual external debt 2012-13 £m</b>
Borrowing	513	463	406
PFI & other long term liabilities	92	92	87
Total	605	555	493

The above table shows that at the year end actual debt was comfortably within both the Authorised Limit and the Operational Boundary. At no stage during the year did external debt exceed the authorised limit.

## Net Borrowing and Capital Financing Requirements

This indicator requires that the Council's net borrowings should not exceed its capital financing requirement. Actual figures for the year ended 31 March 2013 are compared with the initial estimates approved in January 2012.

	<b>2012-13 Estimate (year end) £m</b>	<b>2012-13 Actual (year end) £m</b>
Gross Borrowing*	415.0	372.2
Investments	250.0	311.6
Net Borrowing	165.0	60.6
CFR	579.5	502.5

\* Gross borrowing includes short term debt from the Derbyshire Fire Authority & Peak District National Park Authority. Debt managed on behalf of Derby City and others is excluded.

As outlined earlier, the use of internal resources as part of the borrowing strategy reduced both external borrowing and investments.

The above total shows that the Council's net borrowings at £60.6m are significantly less than its capital financing requirement.

## Ratio of Financing Costs to Net Revenue Stream

This shows capital financing costs as a proportion of the total revenue stream and as expected was 4.4% of total revenue, including DSG, and 7.6% excluding DSG.

## Incremental Impact on Council Tax

The impact in the year of new financing costs was within the estimate.

## Fixed and Variable Rate Exposures

Recommended upper limits on the percentage of borrowing and investments held at fixed and variable rates, as required by the Code, are set out below:

	<b>2012-13 Upper</b>	<b>2012-13 Actual (year end)</b>
<b>Borrowing</b>		
Limits on fixed interest rates	100%	87%
Limits on variable interest rates	40%	13%
<b>Investments</b>		
Limits on fixed interest rates	25%	0%
Limits on variable interest rates	100%	100%

The Council remained within the approved limits.

### **Maturity Structures**

The maturity profile is the rate at which long-term loans have to be repaid to the PWLB (or other lenders). It would be imprudent to have a large proportion of repayments in any one year, thus a spread of redemptions is desirable.

The maturity structure is a prudential indicator under the Code, with lower and upper limits recommended as shown in the table below. These are set quite widely to ensure that full advantage can be taken of interest rate movements and debt rescheduling opportunities, within an acceptable degree of risk.

<b>Maturity Structure limits for borrowing</b>		<b>2012-13</b>	<b>2012-13 Actual (year end)</b>
Under 12 months	Lower - Upper	0% - 15%	3.96%
12 months - 2 years	Lower - Upper	0% - 15%	1.30%
2 years - 5 years	Lower - Upper	0% - 45%	8.43%
5 years - 10 years	Lower - Upper	0% - 40%	8.04%
10 years - 20 years	Lower - Upper	10% - 40%	21.91%
20 years - 30 years	Lower - Upper	10% - 40%	32.16%
30 years and above	Lower - Upper	10% - 40%	24.21%

The above analysis does not include PFI debt or temporary deposits from the Derbyshire Fire Authority and the Peak District National Park Authority.

The Council's debt maturity structure as at 31 March 2013 complied with the limits approved by Cabinet.

### **Longer Term Investments**

The prudential code requires councils to set limits for any investments made for more than 364 days. Whilst most of the Council's surpluses are of a temporary nature, others, for example the insurance fund reserve, could reasonably be invested for periods in excess of one year.

A limit for lending for more than one year is set out below and compared with the total amount on deposit at 31 March 2013. The total includes all loans outstanding at 31 March 2013 which, at inception, had over 1 year to maturity.



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	<b>2012-13 Limit</b>	<b>2012-13 Actual</b>
Maximum principal sums invested for more than 364 days	£75m	£0m

Longer term investments complied with the limits approved by Cabinet.