PUBLIC

Agenda Item No 7(f)

DERBYSHIRE COUNTY COUNCIL

CABINET

21 January 2014

Report of the Director of Finance

TREASURY MANAGEMENT
(COUNCIL SERVICES)

1 Purpose of the Report

In accordance with agreed procedures, to present an interim report on Treasury Management activities for 2013-2014.

2 Information and Analysis

Interest Rates

The Bank of England has maintained the base rate at 0.5%. The base rate has been at this level since March 2009.

The Bank of England has also maintained its level of asset purchases (quantitative easing) at £375 billion. This policy was announced by the Monetary Policy Committee (MPC) in March 2009, to give a further monetary stimulus to the economy. The last increase of £50 billion occurred in July 2012.

In July 2013, Mark Carney replaced Mervyn King as Governor of the Bank of England. He announced through the policy of forward guidance that the MPC does not intend to raise the base rate, nor reduce the stock of asset purchases (QE), at least until the Labour Force Survey headline measure of the unemployment has fallen to a threshold of 7%. The MPC forecasts this event to occur in Q3 2016, although the financial markets are pricing in an interest rate increase prior to this date.

Growth increased to 0.7% in Q2 from 0.4% in Q1, with expected year on year growth now at 1.3%. Improved confidence is fueling growth in the short term although falling real earnings will make this difficult to sustain. The UK was expecting to have experienced a ‘triple dip’ recession as recently as January 2013 and even the previous ‘double dip’ recession officially no longer occurred after re-stated figures were produced in August 2013.

Unemployment has also fallen to 7.7% in Q2 from 7.8% in Q1. Under forward guidance, the 7% threshold is now the key measure of monetary policy. Q2 earnings rose at 0.8% comprising of 1.1% in private sector and -0.1% in public sector. Surplus capacity will allow for increased productivity on existing staffing levels.

The Office for National Statistics reported that retail sales were up by 2.2% in September 2013 (year on year).

The Land Registry House Price Index increased by 1.3% in England & Wales in August 2013 (year on year). The average house price is now £164,654. The government's 'Help to Buy' scheme is stimulating demand, although a lack of supply may create a housing 'bubble'.

Inflation continues to remain above the MPC's 2% target. CPI inflation fell to 2.7% in September 2013 after peaking at 2.9% in June 2013. The MPC is currently trading off price stability for economic growth, although inflation is expected to return to within the 2% target in the medium term unless any major shocks such as an energy or oil price crisis occur.

Current money-market rates (at 30 September 2013) with eligible counterparties ranged from 0.35% for overnight to 1.00% for 364 days. Local authority rates ranged from 0.30% for up to 1 month to 0.50% for 364 days. The government's Debt Management Office (DMO) pays 0.25% on all deposits irrespective of duration.

On 13 July 2012 the Bank of England & HM Treasury launched the Funding for Lending Scheme (FLS) to boost their lending to the UK real economy. This FLS reduced the funding costs for eligible banks and building societies, which subsequently reduced their funding costs in the financial markets. In fact, 3 Month Libor rates fell from approximately 1% to 0.5% within 3 months of the scheme's introduction which in turn has halved the Council's investment returns from our bank and building society counterparties.

25 Year Public Works Loan Board (PWLB) interest rates have risen from 4.07% on 31 March 2013 to 4.48% on 27/09/2013. 10 Year PWLB rates have increased even more markedly having moved from around 2.84% at 31 March 2013 to 3.69% at 27 September 2013. In November 2012, the PWLB introduced a Certainty Rate discount to all eligible applicants. The Council has successfully applied for this 20 basis point discount on any PWLB borrowing, if required.

Borrowing

The Council has neither borrowed nor repaid any loans during the first half of 2013/14.

The projected Capital Financing Requirement (Jan 2013) at 31/03/13 was £502.5m (£413.3m excluding PFI projects and Finance Leases). Long-term borrowing stands at £385.6m of which £15.3m is due for repayment on 31/03/2014. The average interest rate paid is 5.02%. Short term borrowing (ie borrowing of less than 12 months duration) from the Derbyshire Fire & Peak Park was 31.6m at 30/09/2013 (21.7m at 31/03/13) at an interest rate of 0.25%. Internal borrowing (use of the Council's available reserves) is being used to fund any shortfall. The only cost is the loss of interest at the Council's marginal rate of return (currently 0.6%). On £10m this is a net saving of £440k (£10m x 5% = 500k saved less 10m x 0.6% = £ 60k unearned). The relative position of short term and long term interest rates are being constantly monitored with the view to switching to long term borrowing when market conditions are advantageous.

Lending

The average return on investments for the period 1/4/13 to 30/9/13 was 0.6%. The rate of interest the Council receives on bank call and notice accounts have fallen significantly to around Base Rate (0.5%). The banks' improved financial stability & the Funding for Lending Scheme has reduced their funding costs. An average interest rate of 0.5% would be a prudent expectation for the half year to 31/03/13.

The average level of Council investments for the half year is £405m (2012: £333m). The availability of temporary funds for lending arises from a combination of front-ended government grants, working capital and the Council's available reserves.

Prudential Indicators

A summary of the Prudential Indicators set for 2013-2014 as shown in the Cabinet report dated 29 January 2013 is attached as Appendix 1. It compares the original limits set by the Cabinet and the actual position at the half-year stage. This shows that all Prudential Indicators are currently being complied with.

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.

4 Background Papers

Borrowing - PWLB 2013-14
Investments - Loan Records 2013-14

5 Call in

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

6 Key Decision

No.

7 OFFICER'S RECOMMENDATION

That the interim report on Treasury Management for 2013-14 be noted.

That compliance with prudential indicators as shown in Appendix 1 be noted.

PETER HANDFORD

Director of Finance

County Hall
MATLOCK

4 November 2013

APPENDIX 1

DERBYSHIRE COUNTY COUNCIL
Prudential Indicators Monitoring 2013-14

	2013/14 Estimate or Limit	At 30/09/13
Ratio of financing costs to net revenue stream	4.70%	no change
Incremental Impact on Council Tax of capital programme	£1.85	no change
Capital Expenditure - estimate	£151.90m	no change
Capital Expenditure - actual to 30/9/12		£36.213m
Gross Borrowing/Capital Financing Requirement		
Gross Borrowing (incl PFI, excl Derby City debt)	522m	474.586m
Capital Financing Requirement - estimate	£560.5m	no change
Gross Borrowing<Capital Financing Requirement		yes
External debt		
Authorised limit	£586m	no change
Operational boundary	£539m	no change
External debt - actual (incl PFI, DFA & PDNPA)		£504.268m
Treasury management		
Adoption of CIPFA code of practice	Confirmed	Confirmed
Interest rate exposures		
Borrowing		
Fixed - upper limit	100%	86%
Variable - upper limit	40%	14%
Investment		
Fixed - upper limit	25%	0%
Variable - upper limit	100%	100%
Maturity Structure - Borrowing		
Under 12m (incl DFA & PDNPA)	0 - 15%	11.24%
12m - 2 yrs	0 - 15%	1.20%
>2 - 5 yrs	0 - 45%	7.79%
>5 - 10yrs	0 - 40%	7.43%
>10 - 20yrs	10 - 40%	20.25%
>20 - 30yrs	10 - 40%	29.72%
Over 30 yrs	10 - 40%	22.37%
Average maturity of external borrowing (incl DFA & PDNPA)	10 - 35yrs	20.32 yrs
Investment		
Specified investments - minimum limit	£150m	£329.885m
Non-specified investments - maximum limit		
a i) short-term P2/A2/F2 credit rating	£70m	£45m
a ii) Co-operative Bank		0.5m
b) 364 days at inception (max - 2 years)	£75m	£0m