

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**21 October 2014**

**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 2013-2014 and to indicate the Council's compliance with the prudential indicators set by the Council at its meeting of 6 February 2013, in accordance with the terms of the Prudential Code for Capital Finance in Local Authorities.

**2 Information and Analysis**

**(i) Treasury Management Activities 2013-2014**

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 Council in February 2013.

**(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) remained at £375 billion.

Consumer Price Inflation (CPI) is now below the Monetary Policy Committee's target of 2% (1.6% year to March 2014).

Growth was 0.8% in Q1 2014 (Jan-Mar 14) and 3% Year on Year (Apr 13-Mar 14).

Unemployment fell below the Bank of England's threshold level of 7% in the Dec 13-Feb 14 quarter, with a further reduction to 6.5% in the Mar-May 2014 quarter.

Short-term interest rates affect the amount of interest receipts received by the Council.

Longer-term rates impact on the Council's future borrowing costs, therefore the amount of interest paid by the Council.

Prevailing Public Works Loan Board (PWLB) rates will vary with changes in the gilt market, but are usually fixed once a loan has been agreed.

At 31/03/2014 PWLB interest rates were:

5 Year PWLB	2.85%
10 Year PWLB	3.81%
25 Year PWLB	4.49%
50 Year PWLB	4.47%

Derbyshire County Council is eligible for the "Certainty Rate" discount of 0.20% off the above rates.

## **Borrowing**

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

Loans totalling £15.266m were repaid to the PWLB on 31/03/2014. No new borrowing was taken as the Council utilised its internal resources, to fund new borrowing, in line with its approved strategy. At 31/03/2014 the total value of loans outstanding relating to previous capital expenditure was £370,356,650. Total debt charges, to finance historic capital expenditure, were approximately £45.7m, comprising interest payable of £25.9m, and principal repayments of £19.8m (£21m Minimum Revenue Provision less £1.2m Principal Transferred Debt). The Council's average borrowing rate for external debt is 4.53%. The average cost of internal debt is the interest foregone at the marginal rate of return on investments, which was 0.58% for 2013-14. The average term remaining on debt at 31/03/2014 was 20.73 years.

Derby City Council debt of £31.2m incurred prior to Local Government Reorganisation is included in the total loans of £370.4m. Debt charges of £1.7m are fully recharged to Derby City Council for servicing this debt.

On 29/01/2013 Cabinet approved the Annual Treasury Management Strategy for 2013-14. This included performance indicators to compare the Council's cost of new borrowing against the average 25 year PWLB interest rate for maturity loans during the 2013-14 financial year. However, no new loans were taken during this period.

Performance is also measured against the average rate of interest paid by County Councils for the latest financial year. This figure is taken from the CIPFA publication "Capital Expenditure and Treasury Management Statistics". Unfortunately, the data for 2013-14 is not yet available, however will be reported to Cabinet in due course. Arlingclose, the Council's Treasury Management advisers, have provided a benchmark for their County Council clients (approximately 50% of all County Councils).

<b>2013-14 (unless stated)</b>	<b>%</b>
Derbyshire County Council	4.53
County Councils (Arlingclose clients only)	4.23
Average PWLB 25 Years Rate	4.22

The table shows that Derbyshire County Council currently pays 0.31% above the 25 year PWLB rate and 0.30% above the County Council average. This figure is above the average due to historic borrowing taken when interest rates were higher, much of which will mature in the next few years.

In the last 5 years, £22.5m of loans have been drawn down/re-scheduled at an average rate of 2.89%.

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

There was no early repayment or rescheduling of debt in 2013-14. Frequent consideration is given to replacing expensive debt taken some years ago with cheaper rates available today. However, penalties for early repayment tend to limit such opportunities.

#### **(v) Lending**

Short term lending of revenue funds/capital receipts, pending their use, earned interest of £2.2m in 2013-14 at an average rate of 0.58%. Short-term deposits were placed with a number of financial institutions, from a counterparty list approved by Council.

For the purpose of monitoring performance, the interest rate actually achieved of 0.58% can be compared against a benchmark market rate of interest. The 3 month LIBID (London Inter-Bank Deposit) rate is considered to be the most suitable for this purpose. The average 3 month LIBID rate for 2013-14 was 0.39%.

The County Council's lending policy is to place security of capital and liquidity ahead of investment return.

Counterparties are constantly monitored and withdrawn from the approved list if they no longer satisfy the Council's criteria.

The Council's investments at 31 March 2014 can be analysed in the following ways:

## i) Counterparty Type

Type of Institution	Investment	
	£m	%
Banks	105.0	33
Building Societies	35.0	11
Money Market Funds	40.0	13
Other Local Authorities	133.4	43
<b>Total</b>	<b>313</b>	<b>100</b>

## ii) Liquidity

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

Duration	Investment	
	£m	%
Less than 1 month	145.4	46
1 to 3 months	11.0	4
3 to 6 months	38.0	12
6 months to 1 year	119.0	38
<b>Total</b>	<b>313.4</b>	<b>100</b>

## iii) Credit Rating

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:

Credit Rating	Investment £m	Historic market level of default	Estimated maximum exposure to default
		%	£m
AAA	40.00	0.00	0.000
AA	206.25	0.02	4.125
A	67.15	0.07	4.700
Baa/BBB+	0.00	0.20	0.000
<b>Total</b>	<b>313.40</b>		<b>8.825</b>

## (vi) Activity in 2014-15 to date

There has been no new long term borrowing in 2014-15 to date.

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

On 6 February 2013 Cabinet approved the Capital 2013-14 Programme, borrowing limits and other prudential indicators. The levels set by Cabinet and the outturns for the year 2013-14 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 and is especially relevant to Audit Committee members.

## **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 Call-in**

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

## **5 Background Papers**

Borrowing and Investment records 2013-14  
Treasury Management Strategy 2013-14  
CIPFA Local Authority Debt Statistics

## **6 Officer's Recommendation**

That the annual report on Treasury Management for 2013-2014 be noted.

PETER HANDFORD

Director of Finance

25 September 2014

## APPENDIX 1

**Prudential Code for Capital Finance & Treasury Management**

**Compliance with Prudential Indicators 2013-14, as approved by Council in February 2013.**

**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 2013. 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>2013-14 Estimate</b>	<b>2013-14 Actual</b>
	<b>£m</b>	<b>£m</b>
Capital Expenditure	98.34	86.00
Capital Financing Requirement	494.24	488.24

**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 £23m 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 2013-14</b>	<b>Operational Boundary for external debt 2013-14</b>	<b>Actual external debt 2013-14</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Borrowing	497	450	393
PFI & other long term liabilities	89	89	84
<b>Total</b>	<b>586</b>	<b>539</b>	<b>477</b>

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 2014 are compared with the initial estimates approved in January 2013.

	<b>2013-14 Estimate (year end)</b>	<b>2013-14 Actual (year end)</b>
	<b>£m</b>	<b>£m</b>
Gross Borrowing*	392.6	392.5
Transferred Debt #	(34.1)	(32.7)
Investments	(308.0)	(313.4)
Net Borrowing	50.5	46.4
CFR	494.2	488.2

\* Gross borrowing includes short term debt from the Derbyshire Fire Authority & Peak District National Park Authority

# Transferred Debt is debt held by the Council on behalf of Derby City and Other Local Authorities.

PFI and Finance lease liabilities are 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 of £46.4m 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 4.6% of total revenue, including DSG, and 9.0% 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:

	2013-14 Upper %	2013-14 Actual (year end) %
<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.

Maturity Structure limits for borrowing		2013-14	2013-14 Actual (year end)
Under 12 months	Lower - Upper	0% - 15%	1.35
12 months - 2 years	Lower - Upper	0% - 15%	4.05
2 years - 5 years	Lower - Upper	0% - 45%	6.89
5 years - 10 years	Lower - Upper	0% - 40%	8.10
10 years - 20 years	Lower - Upper	10% - 40%	26.46
20 years - 30 years	Lower - Upper	10% - 40%	29.97
30 years and above	Lower - Upper	10% - 40%	23.18

The above analysis **excludes** PFI, finance lease liabilities and temporary deposits from the Derbyshire Fire Authority and the Peak District National Park Authority.

The Council's debt maturity structure as at 31 March 2014 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 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 2014. The total includes all loans outstanding at 31 March 2014 which, at inception, had over 1 year to maturity.

	<b>2013-14 Limit £m</b>	<b>2013-14 Actual £m</b>
Maximum principal sums invested for more than 364 days	75	0

Longer term investments complied with the limits approved by Cabinet.