

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**23 December 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 2014-2015.

**2 Information and Analysis**

**Economic Background**

The MPC (Monetary Policy Committee) voted to keep the Bank Rate unchanged at 0.5% and maintain asset purchases (QE) at £375 billion.

Mark Carney the Governor of the Bank of England (B of E) emphasised that any increases in interest rates would be gradual and below historical levels for some time to come. A 7-2 vote of the MPC in August, September and October saw 2 members voting for a 0.25% increase in the Bank Rate.

Growth increased to 0.8% in Q1 and 0.9% in Q2. The B of E's August Inflation Report forecast annual growth of around 3.5%.

Inflation (CPI) fell to 1.5% year on year in August. The B of E's November Inflation Report forecasts that inflation may fall below 1% within the next 6 months before rising back towards 2% in the next 2 years.

Unemployment has fallen to 6.2% (which is significantly below the 7% threshold stated by Mark Carney under forward guidance), and may continue to fall to pre-crisis levels of around 5%. Slack in the economy (estimated at 1% of GDP) and low productivity is holding back earnings growth, which remains weak in real terms.

Scotland - The Scottish referendum was a fairly close No vote. It demonstrated the sensitivity of Sterling to political uncertainty with a General Election no more than 6 months away.

Eurozone - The weakness in the Euro area has seen the continuing deflationary pressures and high unemployment. Even Germany registered negative growth. Quantitative Easing (QE) by the European Central Bank now seems inevitable.

US - After monthly reductions of US\$ 10 billion (tapering), the Federal Reserve has ceased its policy of asset purchases (October).

Rest of World - Geopolitical risks in the Middle East and Ukraine continue.

## **Interest Rates**

Money-market rates (at 30 September 2014) with eligible counterparties ranged from 0.40% for overnight to 1.00% for 364 days. Local authority rates ranged from 0.30% for up to 1 month to 0.60% for 364 days. The government's Debt Management Office (DMO) pays 0.25% on all deposits irrespective of duration.

Various legislative changes including the 2013 Banking Reform Act, together with 2 EU directives (Banking Resolution & Recovery Directive and Deposit Guarantee Schemes Directive), will adversely affect the impact on the Council of a banking 'bail in' in the event of a counterparty default. It is likely that the credit rating agencies will downgrade the credit ratings of various banks now that the implied level of sovereign support 'bail out' has been removed. The ECB published the results of their Asset Quality Review and all the Council's counterparties which were subject to assessment passed their 'stress tests'.

25 Year PWLB interest rates have fallen from 4.49% on 31 March 2014 to 4.05% on 30 September 2014. 10 Year PWLB rates have also fallen from 3.81% at 31 March 2014 to 3.46% at 30 September 2014. The Council is eligible for the Certainty Rate discount of 20 basis points on all new PWLB borrowing.

## **Borrowing**

The Council has neither borrowed nor repaid any long term loans during the first half of 2014-15. However, short term borrowing of £4.5m from Peak Park was repaid on 30 June 2014 and £18.5m from Derbyshire Fire was repaid on 3 October 2014.

The Capital Financing Requirement at 31 March 2014 was £488.24m (£403.9m excluding PFI projects and Finance Leases). Long-term borrowing stands at £370.4m of which £5m is due for repayment on 31 March 2015. The average interest rate paid is 4.81%. All Short term borrowing has now been repaid.

Internal borrowing (use of the Council's available reserves) is being used to fund any shortfall. This saves £35.8k on every £1m internally borrowed

(based upon the current 20 year rate PWLB maturity rate of 3.58%), at a cost of £5.4k on every £1m not invested).

The relative position of short term and long term interest rates are being constantly monitored. The Council has to assess the savings of locking into long term borrowing when market conditions are advantageous against the cost of carry by borrowing in advance of need to spend. Similarly the Council must also assess any savings generated by repaying borrowing now, against the anticipated costs of borrowing in the future when interest rates are forecast to be higher.

## **Lending**

The average return on investments for the period 1 April 2014 to 30 September 2014 was 0.54%. Since the introduction of the Funding for Lending Scheme, the interest rates offered by the banking sector have fallen significantly. With an imminent increase in Bank Rate less likely, and banking counterparty duration limits reducing, an average interest rate of 0.50% would be a prudent estimate for the half year to 31 March 2015.

The average level of Council investments for the half year to 30 September 2014 is £401m (2013-14: £405m). The availability of funds for short term lending arises from a combination of front-ended government grants and, working capital, with longer term lending funded from the Council's available reserves.

## **Prudential Indicators**

A summary of the Prudential Indicators set for 2014-2015 as agreed by Council in February 2014 is attached as Appendix 1. It compares the original limits set by the Council 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 2014-15  
Investments - Loan 2014-15 (County)

**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 Recommendations**

- (a) That the interim report on Treasury Management for 2014-15 be noted.
- (b) That compliance with prudential indicators as shown in Appendix 1 be noted.

PETER HANDFORD

Director of Finance

27 November 2014

## APPENDIX 1

<b>Prudential Indicators Monitoring 2014-15</b>	<b>2014-15 Estimate or Limit</b>	<b>Actual at 30 September 2014</b>
Ratio of financing costs to net revenue stream	4.70%	4.60%
Incremental impact on Council Tax of capital programme	£4.43	No change
Capital expenditure – estimate	£152.74m	No change
Capital expenditure – actual to 30 September 2014		To Be Confirmed

<b>Gross Borrowing Capital Financing Requirement</b>	£m	
Gross Borrowing (including PFI, excluding Derby City debt)	453	
Capital Financing Requirement - estimate	546.13m	To Be Confirmed
Gross Borrowing < Capital Financing Requirement	Yes	Yes

<b>External Debt</b>	£m	£m
Authorised limit	573	No change
Operational boundary	523	No change
External debt – actual (including PFI, DFA & PDNPA)	n/a	462

<b>Treasury Management</b>		
Adoption of CIPFA code of practice	Confirmed	Confirmed

<b>Interest rate exposures</b>	Limit %	Actual %
<b>Borrowing</b>		
Fixed – upper limit	100	90
Variable – upper limit	40	10
<b>Investment</b>		
Fixed – upper limit	25	3
Variable – upper limit	100	97

<b>Maturity Structure – Borrowing (years)</b>	<b>Limit %</b>	<b>Actual %</b>
<1 (including Fire & PDNPA)	0 - 15	3.87
>1 – 2	0 - 15	3.95
>2 - 5	0 - 45	6.71
>5 - 10	0 - 40	7.89
>10 - 20	10 - 40	25.79
>20 - 30	10 - 40	29.21
>30	10 - 40	22.58
Average maturity of external borrowing (including Fire & PDNPA)	10 – 35 years	20.32 years

<b>Investments</b>	<b>Limits £m</b>	<b>Actuals £m</b>
Specified investments - minimum	150	326
Non-specified investments - maximum		
a i) P2/F2/A2 short term credit rating	50	0
a ii) Co-op Bank	10	0
b) > 364 days – maximum 5 years	100	10