

**Agenda Item No 7(c)**

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**24 November 2015**

**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 2015-2016.

**2 Information and Analysis**

**Economic Background**

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

Mark Carney the Governor of the Bank of England (B of E) reiterated that any increases in interest rates would be gradual and limited. In October the MPC agreed to maintain Bank Rate at 0.50% by 8 votes to 1. An initial rate rise in Q2 2016 was signaled by Mark Carney.

Growth (Quarterly) slowed in Q1 to 0.4% before recovering in Q2 to 0.7%. Growth (year on year) continued to slow to 2.7% in Q1 and 2.4% in Q2 respectively. Gross Domestic Product (GDP) has increased for 10 consecutive quarters, fueled by strong domestic growth in a weakening global environment.

Consumer Price Inflation (CPI) was -0.1% for the year to 1 September. CPI inflation has fluctuated between -0.1% and +0.1% since April 2015. The B of E's August Inflation Report forecasts that inflation will gradually increase to its 2% target over the next 18 months as the decreases in the prices of oil, energy and food fall out of the index.

The International Labour Organisation unemployment rate for the quarter to August 2015 has fallen to 5.4%, which is well below Mark Carney's 7% forward guidance threshold. The Office for National Statistics quarterly average earnings increase figure to August 2015 was 2.8% year-on-year (excluding bonuses)

In the UK, the continuing removal of the structural deficit and a referendum on European Union membership are key political and economic drivers.

**Eurozone** - An €86 billion bailout package to Greece was finally agreed by the European Commission, European Central Bank and International Monetary Fund. A snap Greek election and the resignation of Prime Minister Tsipras created a period of considerable uncertainty although a Greek exit from the European Union was avoided.

**US - Q1** (year-on-year) growth of 0.6% was disappointing partially due to adverse weather, however recovered to 3.9% in Q2. With this strong growth and labour data, it was a surprise that the Federal Reserve didn't increase interest rates in September. Janet Yellen, the Chair of the Federal Reserve, signaled that interest rates would rise before the end of the year.

**Rest of World** - The Chinese 'bubble' burst in August causing the authorities to devalue the yuan against the US dollar. This sent jitters throughout the world, with an 8% overnight fall in the FTSE. China is the second largest world economy after the USA and has led global growth since the 2009 financial crisis. China is a significant importer of oil and commodities.

Geopolitical risks continue in the Middle East, with tension between the US and Russia increasing over air strikes in Syria. .

## **Interest Rates**

Money-market rates (as at 30 September 2015) with eligible counterparties ranged from 0.35% for overnight to 1.05% for 364 days. Local authority rates ranged from 0.25% 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.

The 20 Year Public Works Loan Board (PWLB) interest rates rose from 3.21% on 1 April 2015 to 3.65% on 30 June 2015 before falling to 3.42% on 30 September 2015. The 10 Year PWLB rates have increased from 2.66% at 1 April 2015 to 3.13% on 30 June 2015 before falling to 2.79% at 30 September 2015. The Council is eligible for the Certainty Rate discount of 20 basis points on all new PWLB borrowing.

## **Borrowing**

The Council repaid £5m of long term borrowing on 14 April 2015 as scheduled. Short term callable borrowing of £25m from the D2N2 LEP was taken on 10 April 2015.

The Capital Financing Requirement at 31 March 2015 was £492.016m (£488.236m at 31 March 2014). Long-term borrowing (excluding PFI and Finance Leases) stands at £360.357m of which £10m is due for repayment on

31 March 2016. The average interest rate paid is 4.79% on long term debt and 0.75% on short term debt.

Internal borrowing (use of the Council's available reserves) is being used to fund any shortfall. The interest saved by not borrowing each £1m externally is £0.026m. This figure is calculated by ascertaining the net saving on each £1m not borrowed at the current 20 year PWLB rate of 3.41% (£0.034m) less the interest not received on each £1m at the Council's average investment rate of 0.79% (£0.008m). This saving makes internal borrowing an attractive option at current interest rates.

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 of borrowing in advance of need. Similarly the Council must also assess any savings generated by repaying borrowing now compared 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 2015 to 30 September 2015 was 0.79% (compared to 0.61% in 2014-15). As a Bank Rate increase in this financial year is unlikely, an average interest rate estimate of 0.75% to 31 March 2016 would be prudent.

The average level of Council investments for the half year to 30 September 2015 is £362m (2014-15: £401m). 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.

All three credit rating agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

## **Prudential Indicators**

A summary of the Prudential Indicators set for 2015-2016 as shown in the Cabinet report dated 27 January 2015 is attached as Appendix One. 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 Other Considerations**

In preparing this report the relevance of the following factors has been considered:- financial, human resources, Legal and Human Rights, equality of opportunity, health, environmental, transport, property and crime and disorder considerations.

### **4 Background Papers**

Papers held in Technical Section, Corporate Finance, Room 137

### **5 Key Decision**

No

### **6 Is it necessary to waive the call-in period?**

No

### **7 Officer's Recommendations**

That Cabinet notes:

- (i) the interim report on Treasury Management for 2015-16.
- (ii) compliance with the prudential indicators as shown in Appendix One.

PETER HANDFORD

Director of Finance

**APPENDIX ONE**

<b>Prudential Indicators Monitoring 2015-16</b>	<b>Estimate or Limit</b>	<b>Actual at 30-09-15</b>
Ratio of financing costs to net revenue stream	5.10%	No change
Incremental impact on Council Tax of capital programme	£9.56	No change
Capital expenditure – estimate	£185.09m	£41.90 m

<b>Gross Borrowing Capital Financing Requirement</b>	<b>£m</b>	<b>£m</b>
Gross Borrowing (including PFI, Leases, excluding net Transferred debt) + Temporary (D2N2) debt	417	442 (£25m D2N2)
Capital Financing Requirement – estimate	558.61	To Be Confirmed
Gross Borrowing < Capital Financing Requirement	Yes	Yes

<b>External Debt</b>	<b>£m</b>	<b>£m</b>
Authorised limit	587	No change
Operational boundary	537	No change
External debt – actual (including PFI, Leases, D2N2)	82 (PFI)	107 (£25m D2N2)

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

<b>Interest rate exposures</b> (LOBO's classified as Fixed)	<b>Limit %</b>	<b>Actual %</b>
<b>Borrowing</b>		
Fixed – upper limit	100	90.9
Variable – upper limit	40	9.1
<b>Investment</b>		
Fixed – upper limit	25	5.6
Variable – upper limit	100	94.4

<b>Maturity Structure – Borrowing (years)</b>	<b>Limit %</b>	<b>Actual %</b>
Temporary (D2N2)	0 – 15	6.49
<1	0 – 15	2.59
>1 – 2	0 – 15	3.24
>2 – 5	0 – 40	5.97
>5 – 10	0 – 40	5.97
>10 – 20	10 – 40	25.95
>20 – 30	10 – 40	28.81
>30	10 – 40	20.98
Average maturity of external borrowing (not PFI/Leases)	10 – 35 years	20.22 years

<b>Investments (County Fund)</b>		
<b>Security:</b>		
Average Credit Rating	A- (Minimum)	AA-
<b>Liquidity:</b>		
Cash available within 1 month	£50m (Minimum)	£107m
Long Term Investments > 1 year	£100m (Maximum)	£20m
<b>Yield:</b>		
Avg Base Rate v Actual Return	0.50%	0.79%