

SECTOR



Value for Money Scrutiny Committee - Treasury Management Strategy & Annual Investment Strategy 2013/14

Lincolnshire County Council - 26th February
2013

Presented by
Chris Scott, Director

Proven expertise Innovative advice

Structure of the Presentation

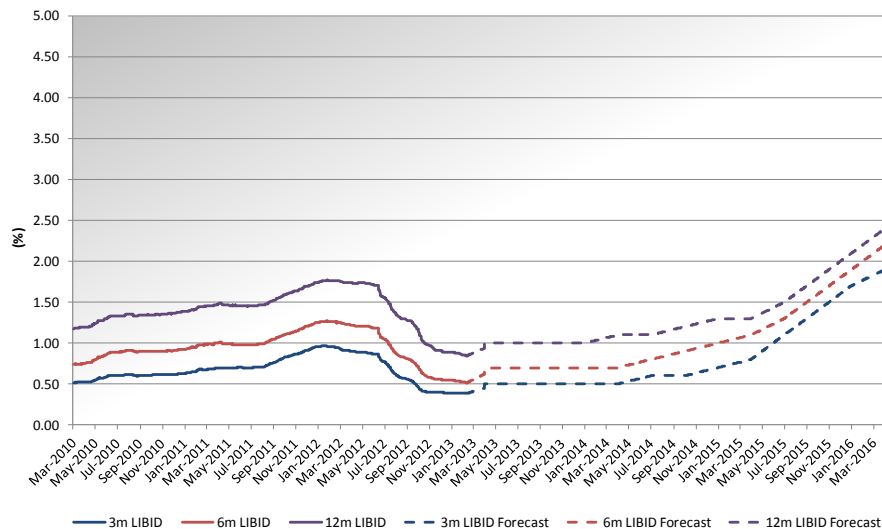
1. Market Update
2. Investment Strategy
3. Debt Management

4. Questions

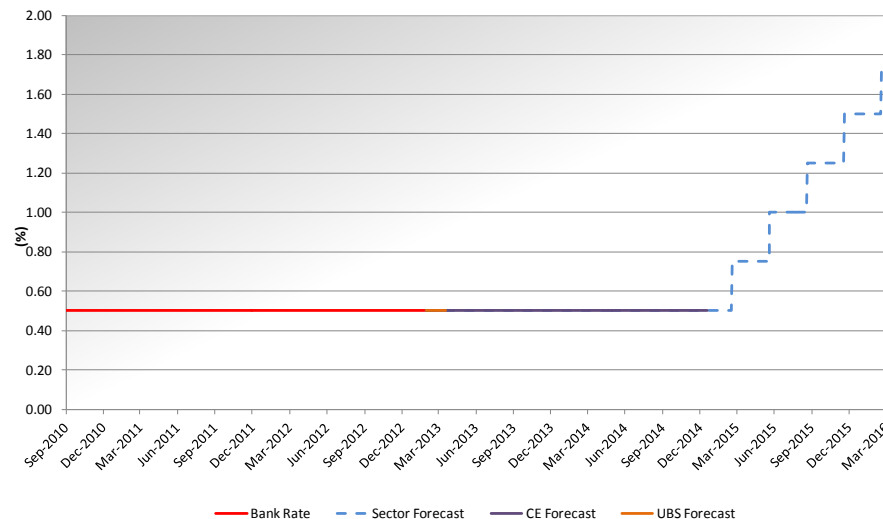
Market Update

U.K. Bank Rate Forecast

LIBID Rate Forecast

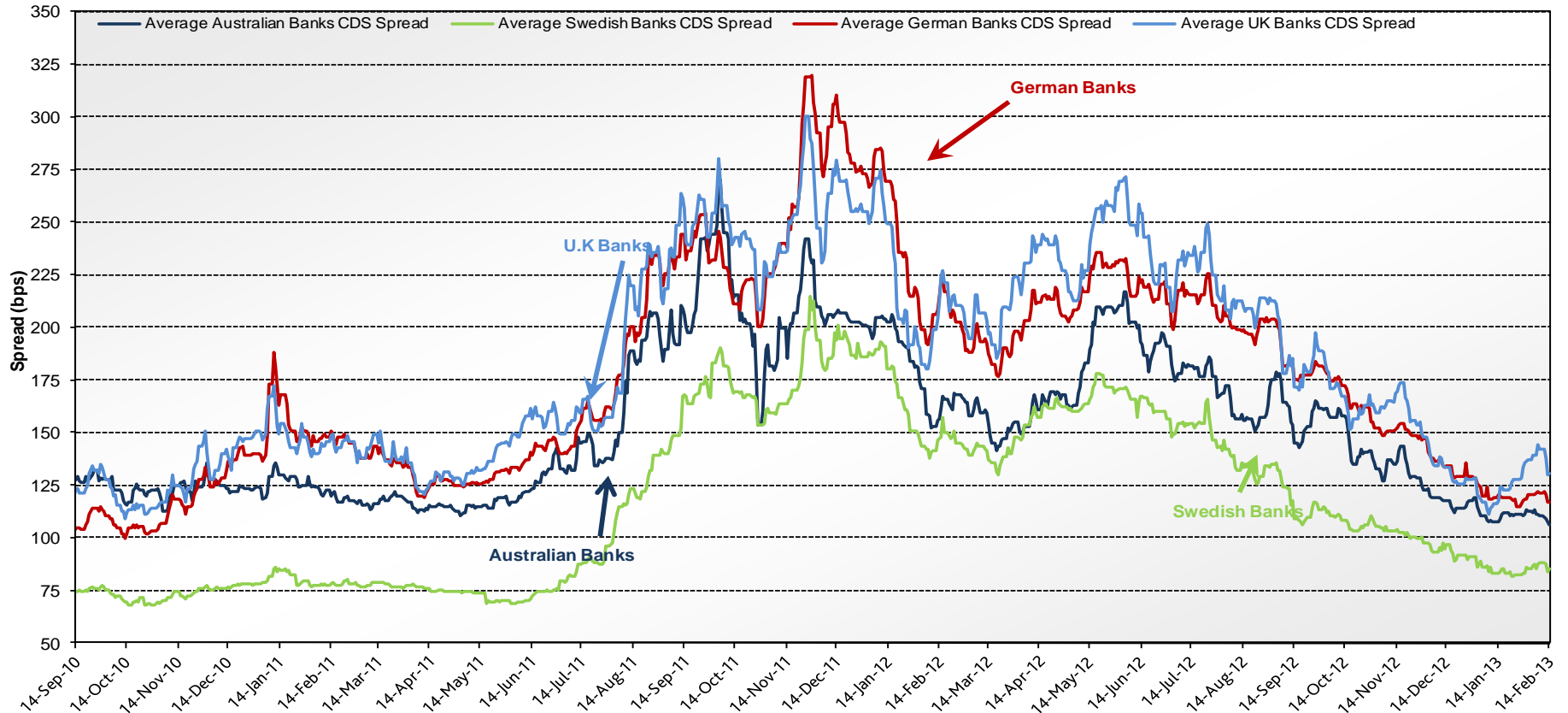


Bank Rate Forecast



Sector's Interest Rate View													
	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
3 m onth LBD	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.60%	0.70%	0.80%	1.10%	1.40%	1.70%
6 m onth LBD	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.30%	1.60%	1.90%
12 m onth LBD	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.10%	1.20%	1.30%	1.30%	1.50%	1.80%	2.10%

Credit – Countries' Banks CDS



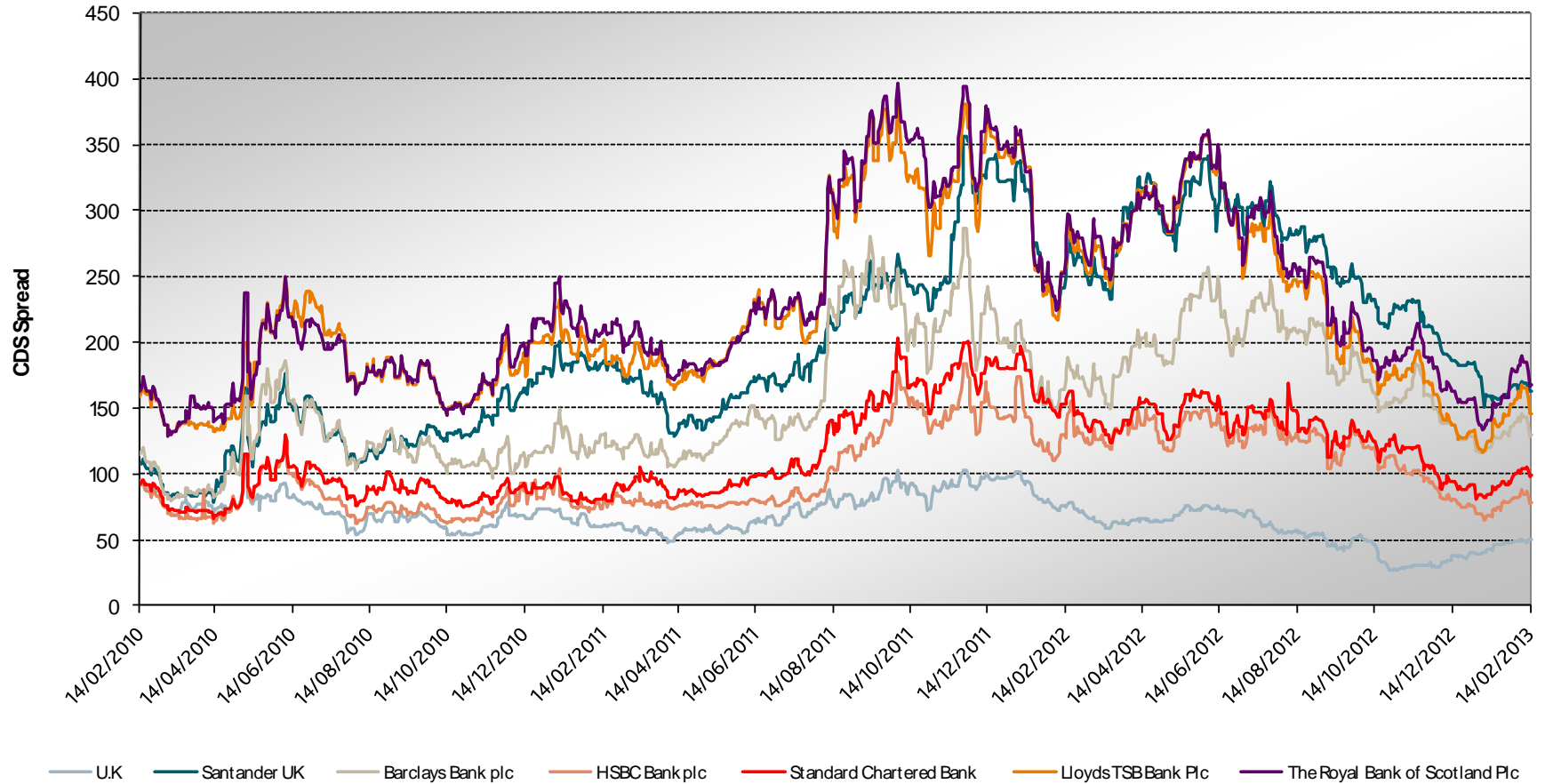
Australian banks included in average (Australia and New Zealand Banking Group Ltd, Commonwealth Bank of Australia, National Australia Bank Ltd Westpac Banking Corporation, Macquarie Bank Limited)

Swedish Banks included in average (Nordea Bank AB, Skandinaviska Enskilda Banken AB, Svenska Handelsbanken AB, Swedbank AB)

German banks included in average (UniCredit Bank AG, Deutsche Bank AG, Landesbank Baden Wuerttemberg, Commerzbank AG, Deutsche Postbank AG)

UK banks included in average (Santander UK, Barclays Bank plc, HSBC Bank plc, Standard Chartered Bank, Lloyds TSB Bank Plc, The Royal Bank of Scotland Plc)

Credit – UK Bank’s 5 year Senior Debt CDS Spreads



Investment Strategy

Investment Conditions

To summarise

- Rates to stay low and continue to be impacted upon by the Funding for Lending Scheme
- Although market conditions have improved there is still sufficient uncertainty to merit a bias towards shorter term investments
- 3 month Sector cap on investments recently removed
- Real potential for the UK to lose AAA sovereign status
- A cautious approach should continue to be maintained

Investment Strategy 2013/14

- Portfolio expected to average £100m-£150m
- Minimum AA- long term rating, except part nationalised
- Minimum AAA sovereign rating (exclude UK?)
- Specified Investments (up to 1 year, highly rated, low risk)
- Non-specified Investments – limits set but unlikely to be used
- Comparison with other Local Authorities in benchmarking group(1.10% v 1.16%) as at 31st December 2012

- More cautious parameters than Sector guidelines

Debt Management Strategy

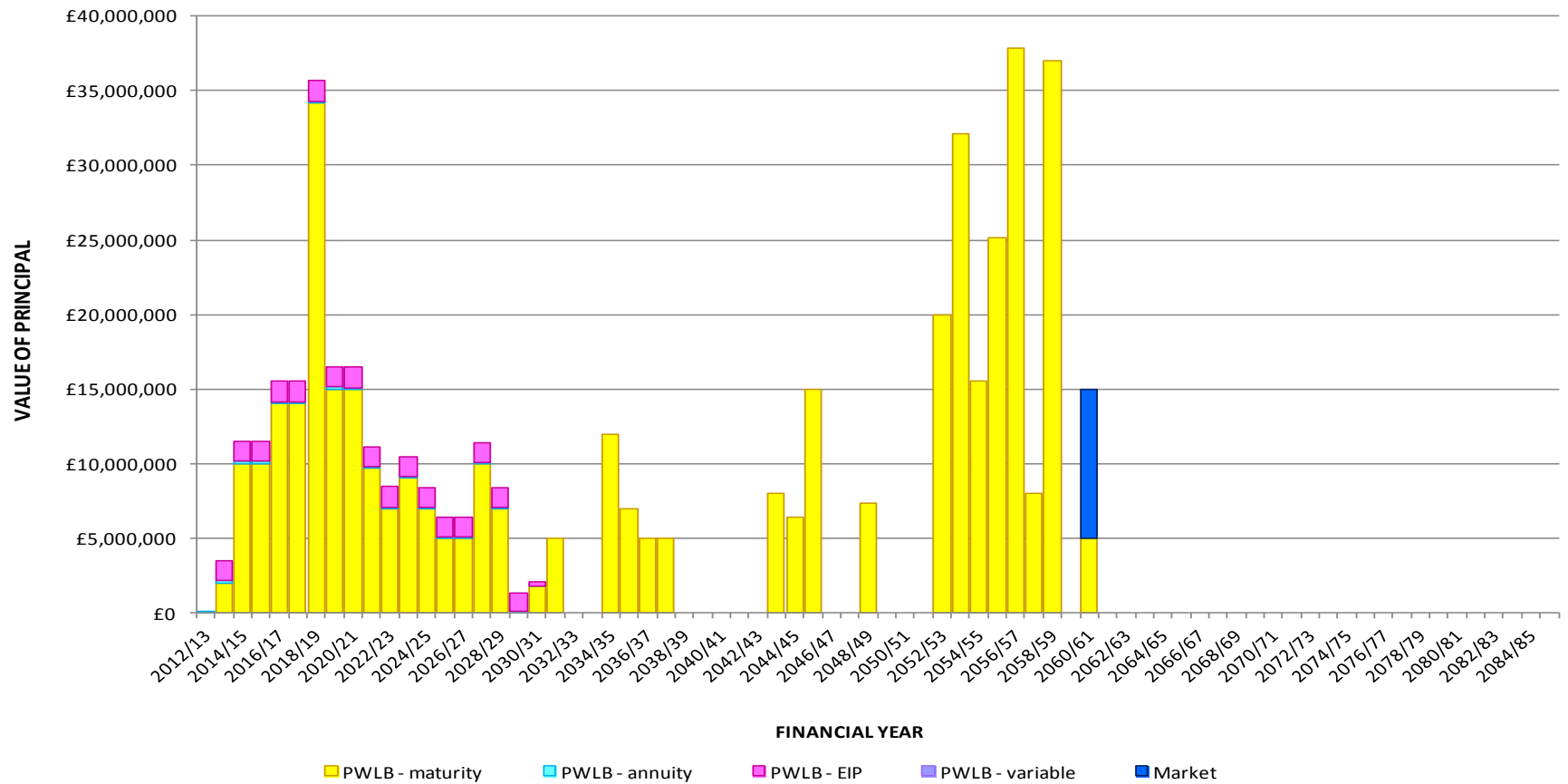
U.K. Interest Rate Forecasts

Bank Rate														
	NOW	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate														
	NOW	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	1.87%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%	2.30%	2.50%	2.70%	2.90%
UBS	1.87%	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	1.87%	1.55%	1.30%	1.30%	1.30%	1.30%	1.30%	1.50%	1.60%	-	-	-	-	-
10yr PWLB Rate														
	NOW	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	3.04%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.30%	3.50%	3.70%	3.90%
UBS	3.04%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	-	-	-	-	-
Capital Economics	3.04%	2.55%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
25yr PWLB Rate														
	NOW	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	4.19%	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%	4.40%	4.60%	4.80%	5.00%
UBS	4.19%	4.20%	4.30%	4.40%	4.50%	4.50%	4.50%	4.50%	4.50%	-	-	-	-	-
Capital Economics	4.19%	3.70%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	-	-	-	-	-
50yr PWLB Rate														
	NOW	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sector's View	4.33%	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%	4.60%	4.80%	5.00%	5.20%
UBS	4.33%	4.30%	4.40%	4.50%	4.60%	4.60%	4.60%	4.60%	4.60%	-	-	-	-	-
Capital Economics	4.33%	4.00%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Debt Portfolio Position

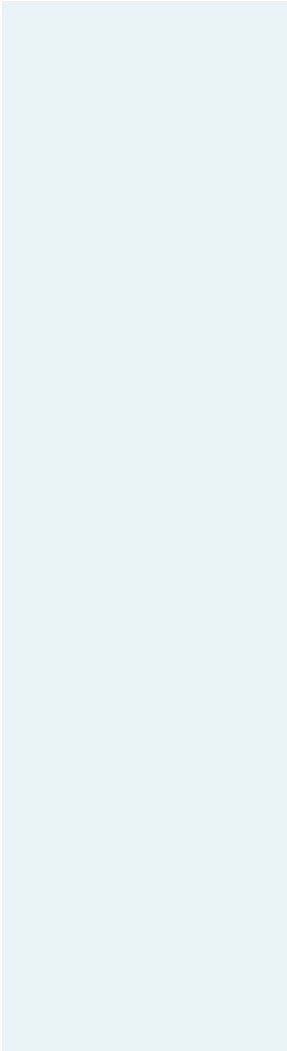
- CFR at 31/3/2013 forecast = £561m
- External debt at 31/1/2013 = £456m
- Borrowed from PWLB (£446m) and Banks (£10m)
- Average rate 4.14% all fixed rate
- Low compared to most Councils
- Therefore potential borrowing requirement of £100m at 31/3/2013 currently internally funded
- CFR rises by a further £117m by the end of 2015/16

Debt Maturity Profile



Debt Management Strategy

- **Continuing to fund internally is sensible in the expected interest rate and counterparty environment but a balance needs to be struck**
- **Medium / longer term rates need to be monitored. Sector set trigger rates for activity**
- **Flexibility to change if required**
- **£12m borrowed December 2012. Respective rates have risen by 0.5% since, although expected to fall back**
- **Use of other non PWLB options allows full range of options to be considered**
- **Overall the strategy is in line with our suggestions and allows sufficient flexibility**



Questions

