

County Council

4 December 2019

**Mid-Year Review Report on Treasury
Management for the period to
30 September 2019**



Report of Corporate Management Team

John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Electoral division(s) affected:

None.

Purpose of the Report

- 1 The purpose of this report is to provide information on the treasury management mid-year position for 2019/20.

Executive Summary

- 2 This report provides a summary of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators.
- 3 The Council held £341 million in borrowing and with £287 million cash balances invested at 30 September 2019. During the half year period, borrowing of £40 million was taken out from the PWLB at rates that ranged from 1.75% to 2.23%. Although the level of cash balances did not warrant borrowing at this time the historic low level of interest rates has enabled the council to borrow at very low rates,
- 4 Investments have been undertaken in line with both the CIPFA Code and government guidance which require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.
- 5 During the half year period to 30 September 2019, the Council has complied with Treasury Management Indicators relating to interest rate exposure, maturity structure of borrowing and sums invested for more than one year. The Council has also complied with Prudential Code

Indicators which relate to the capital programme and how much the Council can afford to borrow.

Recommendation(s)

- 6 Council is asked to:
- (a) note progress with the Treasury management Strategy 2019/20;
 - (b) approve a revised operational debt boundary of £556 million and authorised limit of £611 million for 2019/20 reflecting increased finance lease commitments as referred to in the report.

Background

- 7 Treasury management is defined as ‘the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks’.
- 8 The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, with a main aim of providing sufficient liquidity, ahead of the achievement of the best possible investment returns.
- 9 The second main function of the treasury management service is to arrange the funding of the Council’s capital programme. The capital programme provides a guide to the borrowing need of the Council, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer term cash may involve arranging long or short term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet Council risk or cost objectives.
- 10 The Council adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Council’s capital expenditure plans and its Prudential Indicators (PIs). This requires that Members agree the following reports, as a minimum:
 - (a) an annual Treasury Management Strategy in advance of the year (reported to the County Council on 20 February 2019 for the 2019/20 financial year);
 - (b) an annual review following the end of the year describing the activity compared to the strategy (reported to the County Council on 18 September 2019 in respect of the 2018/19 financial year);
 - (c) a mid-year Treasury Management Review report, covering the first six months of this financial year, to 30 September 2019 (this report);
- 11 This mid-year report provides a summary of the following:
 - (a) summary treasury position;
 - (b) borrowing activity;

- (c) other debt activity/long term liabilities:
- (d) investment activity;
- (e) treasury management indicators;
- (f) prudential indicators;

Summary Treasury Position

- 12 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.
- 13 At the beginning and mid-year point of 2019/20 the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.19	Rate /Return	Average Life	30.09.19	Rate /Return	Average Life
	£ million	%	years	£ million	%	years
Total Debt	310	3.75	17.99	341	3.47	19.24
Total Investments	244	0.97	0.32	287	1.01	0.51
Net Debt	66			54		

- 14 As at 30 September 2019, the Council had £341 million of borrowing and £287 million of cash balances invested. The main factor in the increase in cash balances over the period has been the increase in borrowing.

Borrowing Activity

- 15 At 30 September 2019, the Council held £340.592 million of loans, a net increase of £29.987 million from the start of the year. The mid-year borrowing position and the change since the start of the year is shown in the following table:

	31.3.19 Balance	In-year Movement	30.9.19 Balance	Average Rate	30.9.19 Average Life
	£ million	£ million	£ million	%	years
Public Works Loan Board	258.977	29.998	288.975	3.31%	15.6
Private Sector	51.428	(0.003)	51.425	4.41%	26.7
Pension Fund	0.200	(0.008)	0.192	8.05%	8.5
Total borrowing	310.605	29.987	340.592		

16 The Council's chief objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

17 To secure historically low rates of interest, new borrowing of £40 million was raised during the first half-year with details in the following table.

Lender	Principal	Interest Rate	Start Date	Length
	£ million	%		Years
PWLB	10.00	2.23	29/05/2019	40
PWLB	5.00	2.12	11/06/2019	45
PWLB	5.00	1.85	9/08/2019	46
PWLB	5.00	1.82	16/8/2019	44
PWLB	5.00	1.76	20/8/2019	30
PWLB	10.00	1.75	27/9/2019	30
Total	40.00			

18 The weighted average interest charged on the new loans is 1.94%

19 A £10 million PWLB loan at an interest rate of 2.79% matured during the period, in April.

20 No rescheduling has been done during the first half of the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Other Debt Activity / Long Term Liabilities

21 Although not classed as borrowing, the Council also raised £0.108 million of capital finance for replacement fleet vehicles and equipment via finance leases during the first half year to 30 September 2019. It is expected that a further £9.127 million will be raised during the remainder of the year, giving total expected additional lease finance of £9.235 million.

Investment Activity

22 The Council continues to temporarily invest cash balances, representing monies received in advance of expenditure plus balances and reserves held. During the half-year to 30 September 2019, investment balances ranged between £241.6 million and £309.4 million.

23 As at 30 September 2019 the Council held investments totalling £287.130 million. The following table provides a breakdown of these investments split by the type of financial institution and maturity period.

Financial Institution	0-3 months	3-6 months	6-12 months	12-24 months	Total
	£ million				
Banks	2.684	-	102.975	13.549	119.208
Building Societies	4.516	76.780	-	-	81.296
Central Government	0.903	-	-	-	0.903
Other Local Authorities	-	9.033	45.165	-	54.198
Money Market Funds	31.525	-	-	-	31.525
Total	39.628	85.813	148.140	13.549	287.130
% of total	14%	30%	51%	5%	

24 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the annual investment strategy approved by the Council on 20 February 2019. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

25 The Council's measures its investment activity by comparing the yield achieved against the internal returns above the 7 day LIBID rate. The position as at 30 September 2019 is set out below:

Investment Risk	Measured by	Benchmark	Actual position 30.9.2019
Yield	Internal returns above the 7 day LIBID rate	0.57%	1.01%

Treasury Management Indicators

- 26 There are three debt related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested was:

	30.9.19 Actual	30.9.19 Actual	2019/20 Limit	Complied
Upper limit on fixed interest rate exposure	£301.1m	88%	100%	✓
Upper limit on variable interest rate exposure	£39.5m	12%	70%	✓

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Lower Limit	Upper Limit	30.9.19 Actual	Complied
Under 12 months	0%	20%	1%	✓
12 months to 2 years	0%	40%	3%	✓
2 years to 5 years	0%	60%	9%	✓
5 years to 10 years	0%	80%	21%	✓
10 years and above	0%	100%	66%	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments:

	Limit	As at 30.9.19	Complied
Actual principal invested beyond one year	£75m	£15m	✓

Prudential Code Indicators

- 27 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

- 28 The objective of the Prudential Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Capital Expenditure: The table below summarises planned capital expenditure and financing when the 2019/20 budget was set in February 2019 and compares it to the estimated full year outturn position as at 30 September 2019:

	2019/20 Original Estimate £ million	2019/20 Estimate at 30.9.19 £ million	Difference £ million
Capital Expenditure	148.000	142.205	-5.795
<u>Financed by:</u>			
Capital grants and contributions	40.034	49.202	9.168
Revenue and reserves	29.131	17.490	-11.641
Capital receipts	9.245	13.947	4.702
Net financing need for the year	69.590	61.566	-8.024

Actual Debt: The Council's actual debt at 30 September 2019 is as follows:

	31.03.19 Actual £ million	2019/20 Actual at 30.09.19 £ million	Difference £ million
Borrowing	310.605	340.592	29.987
Finance leases	42.714	42.048	-0.666
PFI liabilities	38.346	37.454	-0.892
Total Debt	391.665	420.094	28.429

Operational Boundary: This is the limit beyond which external borrowing is not normally expected to exceed. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Operational boundary	2019/20 Original Estimate	2019/20 Revised Estimate	2019/20 Actuals as at 30.9.19	Complied
	£ million	£ million	£ million	
Borrowing	472.000	472.000	340.592	✓
Other long term liabilities	50.000	84.000	79.502	✓
TOTAL	522.000	556.000	420.094	✓

The revised estimate for other long term liabilities has been adjusted to reflect the Councils long term lease interest in properties at Freemans' Reach which are being treated as finance leases.

Authorised Limit for external borrowing: This represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised limit	2019/20 Original Estimate	2019/20 Revised Estimate	2019/20 Actuals as at 30.9.19	Complied
	£ million	£ million	£ million	
Borrowing	523.000	523.000	340.592	✓
Other long term liabilities	53.000	88.000	79.502	✓
TOTAL	576.000	611.000	420.094	✓

The revised estimate for other long term liabilities has been adjusted to reflect the Councils long term lease interest in properties at Freemans' Reach which are being treated as finance leases.

Conclusion

- 29 The Council has complied with its Treasury Management Strategy 2019/20 for its half-yearly activity covering the period to 30 September 2019.

Background Papers

- County Council - 20 February 2019 – Medium Term Financial Plan, 2019/20 to 2022/23 and Revenue and Capital Budget 2019/20 – Appendix 13: Durham County Council Treasury Management Strategy 2019/20
- County Council – 18 September 2019 – Treasury Management Outturn 2018/19.

Author(s)

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Appendix 1: Implications

Legal Implications

None

Finance

The report details the Council's cash management, loans and investment activity during 2019/20 in the first half year to 30 September 2019. The report also provides the overall financing of the Council's capital expenditure, along with borrowing and investment income returns.

Consultation

None

Equality and Diversity / Public Sector Equality Duty

None

Climate Change

None

Human Rights

None

Crime and Disorder

None

Staffing

None

Accommodation

None

Risk

None

Procurement

None