

## **Cabinet**

**16 September 2020**

**Treasury Management Outturn 2019/20**



### **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 To provide information on the treasury management outturn 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 £359 million in borrowing and £232 million of investments at 31 March 2020. During 2019/20 borrowing of £40 million was taken out from the PWLB at rates of between 1.75% to 2.23%. A further £20m of borrowing was taken out with Phoenix Life at a rate of 2.73%, the first tranche of a forward borrowing agreement of £60m.
- 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 year ending 31 March 2020 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**

- 6 Cabinet is asked to note the contents of 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) a mid-year Treasury Management Review report (reported to the County Council on 4 December 2019);
  - (c) an annual review following the end of the year describing the activity compared to the strategy (this report);
- 11 This report provides a summary of the following:
  - (a) summary treasury position;
  - (b) borrowing activity;
  - (c) investment activity;

- (d) treasury management indicators;
- (e) 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 end point of 2019/20 the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.19	Rate /Return	Average Life	31.03.20	Rate /Return	Average Life
	£ million	%	years	£ million	%	years
<b>Total Debt</b>	311	3.75	17.99	359	3.42	22.93
<b>Total Investments</b>	245	0.97	0.32	232	1.05	0.53
<b>Net Debt</b>	66			127		

- 14 As at 31 March 2020, the Council held £359 million in borrowing and £232 million in investments.

### Borrowing Activity

- 15 At 31 March 2020, the Council held £358.580 million of loans, an increase of £47.975 million from the start of the year. The borrowing position and the change since the start of the year is shown in the following table:

	31.3.19 Balance	In-year Movement	31.3.20 Balance	Average Rate	31.3.20 Average Life
	£ million	£ million	£ million	%	years
Public Works Loan Board (PWLB)	258.977	29.998	288.975	3.31%	20.33
Private Sector	51.428	17.992	69.420	4.41%	26.23
Pension Fund	0.200	(0.015)	0.185	8.05%	8.06
<b>Total borrowing</b>	<b>310.605</b>	<b>47.975</b>	<b>358.580</b>	<b>3.42%</b>	<b>22.93</b>

- 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 take advantage of historically low rates of interest, new borrowing of £40 million was raised with the PWLB in 2019/20 with details in the following table.

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

- 18 A further £20 million at a rate of 2.733% had been raised previously with Phoenix Life under a forward borrowing arrangement and this was received on 13 February 2020.
- 19 The key maturity during the year was a £10 million PWLB loan at 2.79% that was taken out in November 2011 and matured in April 2019.
- 20 No rescheduling was undertaken during 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 £5.639 million of capital finance for replacement fleet vehicles and equipment via finance leases during the year to 31 March 2020.
- 22 Total debt other than borrowing stood at £79.835 million on 31 March 2020, taking total debt to £438.415 million.

### **Investment Activity**

- 23 The Council has held significant funds invested representing funds received in advance of expenditure plus balances and reserves held. During 2019/20, investment balances ranged between £232 million and £326 million.
- 24 As at 31 March 2020 the Council held investments totalling £232.250 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
	<b>£ million</b>				
Banks	30.217	39.357	43.730	4.373	117.677
Building Societies	15.306	-	-	-	15.306
Central Government	0.875	-	-	-	0.875
Other Local Authorities	48.103	4.373	24.051	21.865	98.392
Money Market Funds	-	-	-	-	-
<b>Total</b>	<b>94.501</b>	<b>43.730</b>	<b>67.781</b>	<b>26.238</b>	<b>232.250</b>
<b>% of total</b>	<b>41%</b>	<b>19%</b>	<b>29%</b>	<b>11%</b>	

- 25 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.

### 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:

	31.3.20 Actual	31.3.20 Actual	2019/20 Limit	Complied
Upper limit on fixed interest rate exposure	£319.1m	89.0%	100%	✓
Upper limit on variable interest rate exposure	£39.5m	11.0%	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:

	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>31.3.20 Actual</b>	<b>Complied</b>
Under 12 months	0%	20%	3%	✓
12 months to 2 years	0%	40%	0%	✓
2 years to 5 years	0%	60%	17%	✓
5 years to 10 years	0%	80%	11%	✓
10 years and above	0%	100%	69%	✓

**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:

	<b>Limit</b>	<b>As at 31.3.20</b>	<b>Complied</b>
Actual principal invested beyond one year	£75m	£26.238m	✓

## 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 capital expenditure incurred and how the expenditure was financed:

<b>Capital Expenditure</b>	<b>2019/20 Estimate £ Million</b>	<b>2019/20 Actual £ Million</b>	<b>Difference £ Million</b>
<b>Capital Programme</b>	<b>117.574</b>	<b>110.128</b>	<b>(7.446)</b>
<b>Financed by:</b>			
Capital receipts	10.439	10.471	0.032
Capital grants	44.604	49.032	4.428
Revenue and reserves	16.021	23.745	7.724
<b>Net borrowing financing need for the year</b>	<b>46.510</b>	<b>26.880</b>	<b>(19.630)</b>

**Capital Financing Requirement (CFR):** The CFR is a measure of the Council's underlying borrowing need for a capital purpose. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). The actual outturn position compared to the estimate in February 2020 is set out in the following table:

	<b>2019/20 Estimate £ Million</b>	<b>2019/20 Actual £ Million</b>	<b>Difference £ Million</b>
<b>Capital Financing Requirement</b>	496.026	476.095	<b>(19.931)</b>

**Actual Debt:** The Council's actual debt at 31 March 2020 compared to the estimate in February 2020 is as follows:

	<b>Revised Estimate £ Million</b>	<b>Final Outturn £ Million</b>	<b>Difference £ Million</b>
Borrowing	358.580	358.580	0.000
Finance leases	42.961	42.665	(0.296)
PFI liabilities	37.454	37.170	(0.284)
<b>Total Debt</b>	<b>438.995</b>	<b>438.415</b>	<b>(0.580)</b>

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The actual outturn position compared to the estimate in February 2020 is set out in the following table:

	<b>2019/20 Estimate £ Million</b>	<b>2019/20 Actual £ Million</b>	<b>Difference £ Million</b>
Total debt	438.995	438.415	(0.580)
Capital financing requirement	496.026	476.095	(19.931)
<b>Headroom (Under borrowed)</b>	<b>57.031</b>	<b>37.680</b>	<b>(19.351)</b>

**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.

	<b>2019/20 Estimate £ Million</b>	<b>2019/20 Actual £ Million</b>	<b>Complied</b>
Borrowing	416.000	358.580	✓
Other long term liabilities*	81.000	79.835	✓
<b>Total</b>	<b>497.000</b>	<b>438.415</b>	✓

**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.

	<b>2019/20 Estimate £ Million</b>	<b>2019/20 Actual £ Million</b>	<b>Complied</b>
Borrowing	466.000	358.580	✓
Other long term liabilities	86.000	79.835	✓
<b>Total</b>	<b>552.000</b>	<b>438.415</b>	✓

**Actual and estimates of the ratio of financing costs to net revenue stream:** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	<b>2019/20 Estimate %</b>	<b>2019/20 Actual %</b>	<b>Difference %</b>
Ratio of financing costs to net revenue stream	7.62	7.29	(0.33)

## Conclusion

- 29 The Council has complied with its Treasury Management Strategy 2019/20 for its full year activity covering the period to 31 March 2020.

## Background Papers

- a) 20 February 2019 – County Council – Appendix 13: Durham County Council 2019/20 Annual Treasury Management Strategy as part of the Medium Term Financial Plan, 2019/20 to 2022/23 and Revenue and Capital Budget 2019/20
- b) 4 December 2018 – County Council – Mid Year Treasury Management Review 2019/20.



c) 26 February 2020 – County Council – Appendix 15: Durham County Council 2020/21 Annual Treasury Management Strategy as part of the Medium Term Financial Plan, 2020/21 to 2023/24 and Revenue and Capital Budget 2020/21.

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## **Appendix 1: Implications**

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### **Legal Implications**

None

### **Finance**

The report details the Council's cash management, loans and investment activity during 2019/20. 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

### **Human Rights**

None

### **Crime and Disorder**

None

### **Staffing**

None

### **Accommodation**

None

### **Risk**

None

### **Procurement**

None