

Cabinet

18 November 2020

**Mid-Year Review Report on Treasury
Management for the period to
30 September 2020**



**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 2020/21.

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 £348 million in borrowing and had £263 million cash balances invested at 30 September 2020. During the half year period no additional borrowing was taken out as the council held sufficient cash balances to fund its expenditure.
- 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 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(s)

6 Cabinet is asked to:

- (a) note progress with the Treasury Management Strategy 2020/21;
- (b) agree that the overall counterparty limit for Money Market Funds is increased to £125m, with the maximum exposure to a single Money Market Fund increased to £25m.

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 26 February 2020 for the 2020/21 financial year);
 - (b) an annual review following the end of the year describing the activity compared to the strategy (reported to Full Council on 21 October 2020 in respect of the 2019/20 financial year);
 - (c) a mid-year Treasury Management Review report, covering the first six months of this financial year, to 30 September 2020 (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 code 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 2020/21 the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.20	Rate /Return	Average Life	30.09.20	Rate /Return	Average Life
	£ million	%	years	£ million	%	years
Total Debt	359	3.42	22.93	348	3.43	22.94
Total Investments	232	1.05	0.53	263	0.57	0.42
Net Debt	127			85		

- 14 As at 30 September 2020, the Council had £348 million of borrowing and £263 million of cash balances invested. The main factor in the increase in cash balances over the period has been the receipt of COVID-19 related grants and the front loading of other Government grants.

Borrowing Activity

- 15 At 30 September 2020, the Council held £348.472 million of loans, a net decrease of £10.108 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:

	31.3.20	In-year	30.9.20	Average	30.9.20
	Balance	Movement	Balance	Rate	Average
	£ million	£ million	£ million	%	Life
					years
Public Works Loan Board	288.975	(10.002)	278.973	3.31%	20.3
Private Sector	69.420	(0.098)	69.322	4.41%	26.2
Pension Fund	0.185	(0.008)	0.177	8.05%	8.1
Total borrowing	358.580	(10.108)	348.472		

- 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 During the half year period no additional borrowing was taken out as the council held sufficient cash balances to fund its expenditure.
- 18 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

- 19 Although not classed as borrowing, the Council also raised £0.160 million of capital finance for replacement fleet vehicles and equipment via finance leases during the first half year to 30 September 2020. It is expected that a further £12.382 million will be raised during the remainder of the year, giving total expected additional lease finance of £12.542 million.

Investment Activity

- 20 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 2020, investment balances ranged between £240.9 million and £346.1 million.
- 21 As at 30 September 2020 the Council held investments totalling £263.349 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	82.604	27.839	34.799	-	145.242
Building Societies	-	8.700	-	-	8.700
Central Government	0.870	-	-	-	0.870
Other Local Authorities	10.875	17.399	-	21.749	50.023
Money Market Funds	58.514	-	-	-	58.514
Total	152.863	53.938	34.799	21.749	263.349
% of total	58%	21%	13%	8%	

- 22 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 26 February 2020. 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.
- 23 To provide increased flexibility by allowing increased levels of cash to be kept liquid, and to achieve improved returns on our liquid cash balances, it is proposed that the counterparty limits for Money Market Funds are increased. The identified levels are a total maximum exposure of £125m, from the existing £100m, with the maximum exposure to a single Money Market Fund increased to £25m from the existing £20m.

Treasury Management Indicators

- 24 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:

	30.9.20 Actual	30.9.20 Actual	2020/21 Limit	Complied
Upper limit on fixed interest rate exposure	£309.0m	89%	100%	✓
Upper limit on variable interest rate exposure	£39.5m	11%	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	30.9.20 Actual	Complied
Under 12 months	0%	20%	0%	✓
12 months to 2 years	0%	40%	0%	✓
2 years to 5 years	0%	60%	18%	✓
5 years to 10 years	0%	80%	11%	✓
10 years and above	0%	100%	71%	✓

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 30.9.20	Complied
Actual principal invested beyond one year	£75m	£40m	✓

Prudential Code Indicators

- 25 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.
- 26 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 2020/21 budget was set in February 2020 and compares it to the estimated full year outturn position as at 30 September:

	2020/21 Original Estimate £ Million	2020/21 Estimate at 30.9.20 £ Million	Difference £ Million
Capital Programme	199.043	145.755	(53.288)
Financed by:			
Capital receipts	9.913	7.866	(2.047)
Capital grants	48.435	45.357	(3.078)
Revenue and reserves	34.451	37.344	2.893
Net borrowing financing need for the year	106.244	55.188	(51.056)

Actual Debt: The Council's actual debt at 30 September 2020 is as follows:

	31.03.20 Actual £ million	2020/21 Actual at 30.9.20 £ million	Difference £ million
Borrowing	358.580	348.472	(10.108)
Finance leases	42.665	42.293	(0.372)
PFI liabilities	37.170	37.170	0.000
Total Debt	438.415	427.935	(10.480)

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.

	2020/21 Original Estimate £ Million	2020/21 Actual at 30.9.20 £ million	Complied
Borrowing	513.000	348.472	✓
Other long term liabilities	85.000	79.463	✓
Total	598.000	427.935	✓

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.

	2020/21 Estimate £ Million	2020/21 Actual at 30.9.20 £ million	Complied
Borrowing	563.000	348.472	✓
Other long term liabilities	90.000	79.463	✓
Total	653.000	427.935	✓

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

- 27 The Council has complied with its Treasury Management Strategy 2020/21 for its half-yearly activity covering the period to 30 September 2020.

Background Papers

- County Council - 26 February 2020 – Medium Term Financial Plan, 2020/21 to 2023/24 and Revenue and Capital Budget 2020/21 – Appendix 15: Durham County Council Treasury Management Strategy 2020/21
- County Council – 21 October 2020 – Treasury Management Outturn 2019/20.

Author(s)

Jeff Garfoot

Tel: 03000 261946

Azhar Rafiq

Tel: 03000 263480

Appendix 1: Implications

Legal Implications

None

Finance

The report details the Council's cash management, loans and investment activity during 2020/21 in the first half year to 30 September 2020. 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