Cabinet

15 September 2021

Treasury Management Outturn 2020/21

Report of Corporate Management Team

Paul Darby, Corporate Director of Resources (Interim)

Councillor Richard Bell, Cabinet Member for Finance

Electoral division(s) affected:

All.

Purpose of the Report

1 To provide information on the treasury management outturn position for 2020/21.

Executive Summary

2 This report provides a summary for 2020/21 of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators.

3 The Council held £363 million in external borrowing and £272 million of investments at 31 March 2021. During 2020/21 additional borrowing of £15 million was taken out with Phoenix Life, the second tranche of a forward borrowing agreement of £60 million.

4 All investments made in the year were 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 Throughout the year ending 31 March 2021 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 fully 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, which will be presented to County Council in October.

Background

7 Treasury management is defined as ‘the management of a 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 should result in cash raised during the year meeting 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 An important 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 in setting its Prudential Indicators (PIs). This requires that Members agree and note 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) a mid-year Treasury Management Review report (reported to the County Council on 16 December 2020);

(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 – position as at 31 March 2021 and comparator information for the position as at 31 March 2020;

(b) borrowing activity during the year;

(c) investment activity and details of investments held at 31 March 2021 detailing ;

(d) treasury management indicators – performance against the key indicators adopted;

(e) prudential indicators – performance against the key indicators adopted;

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 2020/21 the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.20 £ million	Rate /Return %	Average Life years	31.03.21 £ million	Rate /Return %	Average Life years
Total Debt	359	3.42	22.93	363	3.43	22.44
Total Investments	232	1.05	0.53	272	0.34	0.33
Net Debt	127			91		

14 As at 31 March 2021, the Council held £363 million in external borrowing and £272 million in cash investments. The cash investments held reflect the receipt of significant covid-19 related grant funding in year where expenditure will be defrayed in 2021-22.

Borrowing Activity

15 At 31 March 2021, the Council held £363.419 million of loans, an increase of £4.839 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:

	31.3.20 Balance £ million	In-year Movement £ million	31.3.21 Balance £ million	Average Rate %	31.3.21 Average Life years
Public Works Loan Board (PWLB)	288.975	(10.003)	278.972	3.32%	19.87
Private Sector	69.420	14.858	84.278	3.86%	32.79
Pension Fund	0.185	(0.016)	0.169	8.09%	7.14
Total borrowing	**358.580**	**4.839**	**363.419**	**3.43%**	**22.44**

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

17 This was the purpose of the £15 million that was borrowed at a rate of 2.773% from Phoenix Life on 15 February 2021 under a forward borrowing arrangement.

18 The key maturity during the year was a £10 million PWLB loan at 3.00% that was taken out in November 2011 and which matured in April 2020.

19 No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable due to the premiums that would apply on early redemption.

Other Debt Activity / Long Term Liabilities

20 Although not classed as borrowing, the Council also raised £6.577 million of capital finance for replacement fleet vehicles and equipment via finance leases during the year to 31 March 2021. There was a further increase in liabilities of £1.618 million, arising from a recalculation of the liability for the National Savings and Investments Wearside House building at Freeman's Reach, Durham City, following a five yearly rent review.

21 Total debt other than borrowing stood at £80.999 million on 31 March 2021, taking total debt to £444.818 million.

Investment Activity

22 The Council has held significant funds that it has invested, representing funds received in advance of expenditure plus balances and reserves held. During 2020/21, investment balances ranged between £243 million and £350 million.

23 As at 31 March 2021 the Council held investments totalling £272.402 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	47.394	60.347	48.278	-	156.019
Building Societies	25.863	17.242	8.621	-	51.726
Central Government	-	-	-	-	-
Other Local Authorities	4.310	-	43.105	17.242	64.657
Money Market Funds	-	-	-	-	-
Total	**77.567**	**77.589**	**100.004**	**17.242**	**272.402**
% of total	**28%**	**29%**	**37%**	**6%**	

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 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.

25 The achievement of returns became more challenging during 2020/21, following Bank of England base rate changes in March 2020 that saw it reduce from 0.75% to 0.10%, where it has remained since. This had had the effect of reducing the rates offered by financial institution counterparties and has had a knock on effect on the peer to peer market among local authorities.

26 The budget for investment income from cash balances was slightly overachieved by £0.052 million. This was possible as older and longer terms investments still generated a higher rate of interest and cash balances were higher than forecast throughout the year mainly as a result of advance government COViD funding payments. For 2021/22 and into

the future this position will be kept under review to determine if budgeted returns can be achieved.

Treasury Management Indicators

27 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.

(a) **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:

	31.3.21 Actual	**31.3.21 Actual**	**2020/21 Limit**	**Complied**
Upper limit on fixed interest rate exposure	£323.9m	89.1%	100%	✔
Upper limit on variable interest rate exposure	£39.5m	10.9%	70%	✔

(b) **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**	**31.3.21 Actual**	**Complied**
Under 12 months	0%	20%	0%	✔
12 months to 2 years	0%	40%	0%	✔
2 years to 5 years	0%	60%	17%	✔
5 years to 10 years	0%	80%	25%	✔
10 years and above	0%	100%	58%	✔

(c) **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 31.3.21	Complied
Actual principal invested beyond one year	£75m	£17.242m	✔

Prudential Code Indicators

28 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.

29 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.

(a) **Capital Expenditure:** The table below summarises capital expenditure incurred and how the expenditure was financed:

	2020/21 Estimate £ Million	2020/21 Actual £ Million	Difference £ Million
Capital Programme	**139.511**	**119.084**	**(20.427)**
Financed by:			
Capital receipts	6.645	3.988	(2.657)
Capital grants	55.022	53.420	(1.602)
Revenue and reserves	29.901	39.424	9.523
Net borrowing financing need for the year	**47.943**	**22.252**	**(25.691)**

(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 2021 is set out in the following table:

	2020/21 Estimate £ Million	2020/21 Actual £ Million	Difference £ Million
Capital Financing Requirement	520.456	491.718	**(28.738)**

(c) **Actual Debt:** The Council's actual debt at 31 March 2021 compared to the estimate in February 2021 is as follows:

	Revised Estimate £ Million	31.03.21 Actual £ Million	Difference £ Million
Borrowing	363.412	363.419	0.007
Finance leases	47.936	44.888	(3.048)
PFI liabilities	36.562	36.111	(0.451)
Total Debt	**447.910**	**444.418**	**(3.492)**

(d) **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:

	2020/21 Estimate £ Million	2020/21 Actual £ Million	Difference £ Million
Total debt	447.910	444.418	(3.492)
Capital financing requirement	520.456	491.718	(28.738)
Headroom (Under borrowed)	**72.546**	**47.300**	**(25.246)**

(e) **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 Estimate £ Million	2020/21 Actual £ Million	Complied
Borrowing	436.000	363.419	✔
Other long term liabilities*	83.000	80.999	✔
Total	**519.000**	**444.418**	✔

(f) **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 £ Million	Complied
Borrowing	486.000	363.419	✔
Other long term liabilities	90.000	80.999	✔
Total	**576.000**	**444.418**	✔

(g) **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.

	2020/21 Estimate %	2020/21 Actual %	Difference %
Ratio of financing costs to net revenue stream	7.56	6.89	(0.67)

Conclusion

30 The Council has complied with its Treasury Management Strategy 2020/21 for its full year activity covering the period to 31 March 2021.

Background Papers

a) 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.

b) 16 December 2020 – County Council – Mid Year Treasury Management Review 2020/21.

c) 24 February 2021 – County Council – Appendix 12: Durham County Council 2021/22 Annual Treasury Management Strategy as part of the Medium Term Financial Plan, 2021/22 to 2024/25 and Revenue and Capital Budget 2021/22.

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Appendix 1: Implications

Legal Implications
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 in setting its Prudential Indicators (PIs).

Finance
The report details the Council's cash management, loans and investment activity during 2020/21. 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