County Council

8 December 2021

Mid-Year Review Report on Treasury Management for the period to 30 September 2021

Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

Councillor Richard Bell, Cabinet Portfolio Holder for Finance

Electoral division(s) affected:

None.

Purpose of the Report

1 This report provide information on the treasury management mid-year position for 2021/22. It provides a summary of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators as at 30 September 2021.

Executive Summary

2 The Council held £408 million in borrowing and had £372 million cash balances invested at 30 September 2021. During the half year period additional borrowing of £45 million was arranged, £15 million under a forward borrowing agreement made in 2017/18 and £30 million from new loans taken out with the Public Works Loans Board (PWLB), to take advantage of low interest rates available for the period over which the council will need to borrow to fund its capital programme.

3 All 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.

4 During the half year period to 30 September 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 complied with Prudential Code Indicators which relate to the capital programme and how much the Council can afford to borrow.

Recommendation(s)

5 Council is asked to note progress with the Treasury Management Strategy 2021/22.

Background

6 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’.

7 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.

8 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.

9 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 and adopted by County Council on 24 February 2021 for the 2021/22 financial year);

(b) an annual review following the end of the year describing the activity compared to the strategy (reported to County Council on 20 October 2021 in respect of the 2020/21 financial year);

(c) a mid-year Treasury Management Review report, covering the first six months of this financial year, to 30 September 2021 (this report);

10 This mid-year report provides a summary of the following:

(a) summary treasury position – position as at 30 September 2021 and comparator information for the position as at 31 March 2021;

(b) borrowing activity during the first six months of the curremt financial year and an overview of the position as at 30 September 2021;

(c) other debt activity/long term liabilities at 30 September 2021;

(d) investment activity and details of investments held at 30 September 2021;

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

(f) prudential code indicators – performance against the key indicators adopted;

Summary Treasury Position

11 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.

12 At the beginning and mid-year point of 2021/22 the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.21	Rate /Return	Average Life	30.09.21	Rate /Return	Average Life
	£ million	%	years	£ million	%	years
Total Debt	363	3.43	22.44	408	3.26	23.54
Total Investments	272	0.34	0.33	372	0.29	0.52
Net Debt	**91**			**36**		

13 As at 30 September 2021, the Council had £408 million of external borrowing and £372 million of cash balances invested. The main factor in the increase in cash balances over the period has been the long term borrowing that has been undertaken in year, to take advantage of low interest rates available, and the front loading of Government grants received.

Borrowing Activity

14 At 30 September 2021, the Council held £408.233 million of external loans, a net increase of £44.813 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:

	31.3.21	In-year	30.9.21	Average	30.9.20
	Balance	Movement	Balance	Rate	Average Life
	£ million	£ million	£ million	%	years
Public Works Loan Board	278.972	29.998	308.970	3.17%	19.07
Private Sector	84.278	14.824	99.102	3.53%	37.49
Pension Fund	0.169	(0.008)	0.161	8.13%	6.74
Total borrowing	**363.419**	**44.814**	**408.233**		

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

16 During 2018/19 to Council sought cost certainty by agreeing to a schedule of forward borrowing, with £15 million of this agreed as being received during the first half of 2021/22. To secure historically low rates of interest available during the first half of 2021/22, the council also took out new borrowing of £30 million with the PWLB. Details of all loans taken out are included in the following table.

Lender	Principal £ million	Interest Rate %	Start Date	Length Years
Phoenix	15.00	2.793	13/08/2021	50
PWLB	20.00	1.650	31/08/2021	13
PWLB	10.00	1.860	31/08/2021	23
Total	**45.00**			

17 In terms of the Phoenix loan, which was arranged during 2018/19, at that time the Councils treasury management advisors (Link Asset Services), identified that there was a strong possibility that interest rates would have increased by the time the Council next needed to undertake significant borrowing to support the capital programme. An options appraisal was undertaken to compare the potential borrowing alternatives that were identified:

(a) to secure future borrowing at fixed, historically low, rates with no cost of carry anticipated

(b) taking out PWLB loans at current rates and incurring costs of carry until they were needed.

18 The conclusion was that securing future borrowing at the following fixed rates was the preferred option:

Loan Number	Deferred Period	Rate	Amount	Start Date	Maturity Date
Loan 1	1.5 years	2.733%	£20m	13/02/2020	13/02/2070
Loan 2	2.5 years	2.773%	£15m	15/02/2021	15/02/2071
Loan 3	3 years	2.793%	£15m	13/08/2021	13/08/2071
Loan 4	3.5 years	2.807%	£10m	15/02/2022	15/02/2072

19 This enabled the Council to make savings against the cost of carrying the loans if they had been taken out immediately at the prevailing PWLB rates. From the table above, Loan 3 is the £15 million that has been taken out so far in 2021/22.

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 £0.493 million of capital finance for replacement fleet vehicles and equipment via finance leases during the first half year to 30 September 2021. It is expected that a further £1.936 million will be raised during the remainder of the year, giving total expected additional lease finance of £2.429 million.

22 Total debt other than borrowing stood at £80.493 million at 30 September (£80.999 million on 31 March 2021), taking total debt to £488.726 million (£444.818 million on 31 March 2021).

Investment Activity

23 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 2021, investment balances ranged between £283.6 million and £396.1 million.

24 As at 30 September 2021 the Council held investments totalling £372.186 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	36.874	72.680	96.600	-	206.154
Building Societies	32.200	4.600	13.800	-	50.600
Other Local Authorities	32.200	13.800	27.600	9.200	82.800
Money Market Funds	32.632	-	-	-	32.632
Total	**133.906**	**91.080**	**138.000**	**9.200**	**372.186**
% of total	**36%**	**24%**	**37%**	**2%**	

25 The Council's investment policy is governed by Department of Levelling Up, Housing and Communities (DLUHC) guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 2021.

26 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

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.

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:

	30.9.21 Actual	30.9.21 Actual	2021/22 Limit	Complied
Upper limit on fixed interest rate exposure	£368.7m	90%	100%	✔
Upper limit on variable interest rate exposure	£39.5m	10%	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	30.9.21 Actual	Complied
Under 12 months	0%	20%	0%	✔
12 months to 2 years	0%	40%	5%	✔
2 years to 5 years	0%	60%	10%	✔
5 years to 10 years	0%	80%	22%	✔
10 years and above	0%	100%	63%	✔

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 30.9.21	Complied
Actual principal invested beyond one year	£75m	£9.2m	✔

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.

Capital Expenditure: The table below summarises planned capital expenditure and financing when the 2021/22 budget was set in February 2021 and compares it to the estimated full year outturn position as at 30 September:

	2021/22 Original Estimate £ Million	**2021/22 Estimate at 30.9.21 £ Million**	**Difference £ Million**
Capital Programme	**183.470**	**199.419**	**15.949**
Financed by:			
Capital receipts	15.166	11.432	**(3.734)**
Capital grants	49.580	74.867	**25.287**
Revenue and reserves	9.535	19.489	**9.954**
Net borrowing financing need for the year	**109.189**	**93.631**	**(15.558)**

Actual Debt: The Council's actual debt at 30 September 2021, with comparator information as at 31 March 2021 is as follows:

	31.03.21 Actual £ million	**2021/22 Actual at 30.9.21 £ million**	**Difference £ million**
Borrowing	363.419	408.233	**44.814**
Finance leases	44.888	44.382	**(0.506)**
PFI liabilities	36.111	36.111	**0.000**
Total Debt	**444.418**	**488.726**	**44.308**

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.

	2021/22 Original Estimate £ Million	2021/22 Actual at 30.9.21 £ million	Complied
Borrowing	537.000	408.233	✔
Other long term liabilities	84.000	80.493	✔
Total	**621.000**	**488.726**	

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.

	2021/22 Estimate £ Million	2021/22 Actual at 30.9.21 £ million	Complied
Borrowing	587.000	408.233	✔
Other long term liabilities	89.000	80.493	✔
Total	**676.000**	**488.726**	

Conclusion

30 The Council has complied with its Treasury Management Strategy 2021/22 for its half-yearly activity covering the period to 30 September 2021.

Background Papers

- County Council - 24 February 2021 – Medium Term Financial Plan, 2021/22 to 2024/25 and Revenue and Capital Budget 2021/22 – Appendix 12: Durham County Council Treasury Management Strategy 2021/22
- County Council – 20 October 2021 – Treasury Management Outturn 2020/21

Author(s)

Jeff Garfoot	Tel:	03000 261946
Azhar Rafiq	Tel:	03000 263480

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).

The Council's investment policy is governed by Department of Levelling Up, Housing and Communities (DLUHC) guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 2021.

Finance

The report details the Council's cash management, loans and investment activity during 2021/22 in the first half year to 30 September 2021. 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

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

Procurement

None