

Cabinet

13 July 2022

**Treasury Management Outturn Report
2021/22**



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

Councillor Richard Bell, Cabinet Member for Finance

Electoral division(s) affected:

All.

Purpose of the Report

- 1 To provide an overview of the Councils treasury management outturn performance for 2021/22, including:
 - (a) summary treasury position – position as at 31 March 2022 and comparator information for the position as at 31 March 2021;
 - (b) borrowing activity during the year and the position as at 31 March 2022;
 - (c) investment activity and details of investments held at 31 March 2022;
 - (d) treasury management indicators – performance against the key indicators adopted;
 - (e) prudential indicators – performance against the key indicators adopted;

Executive Summary

- 2 As at the 31 March 2022, the Council held £418 million in external borrowing and £328 million of investments. During the year additional new borrowing of £55 million was taken out. £25 million of this borrowing was with Phoenix Life, representing the final two tranches of a forward borrowing agreement of £60 million arranged in 2017/18 to

secure cost certainty (£15 million in August 2021 and £10 million in February 2022) and £30 million was with the Public Works Loan Board (PWLB), taken in August 2021 to take advantage of low interest costs.

- 3 All investments made in the year were undertaken in line with both the CIPFA Code and government guidance, which requires 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 The average rate of interest on external loans outstanding at the year-end was 3.25%, with the average rate of interest earned on investments being 0.48%, representing continued low interest rates as the bank base rate remains at historic low levels. Net debt was £90 million at 31 March 2022, which is broadly in line with the position at 31 March 2021, when net debt was £91 million.
- 5 Throughout the year ending 31 March 2022, the Council has fully complied with its Treasury Management Strategy and underpinning 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 the Prudential Code Indicators which relate to the capital programme and how much the Council can afford to borrow.
- 6 The report includes details of the Council's performance against the treasury management and prudential indicators set by County Council on 24 February 2021.

Recommendation

- 7 Cabinet is asked to note the contents of the report and performance against the Treasury Management Strategy agreed by County Council on 24 February 2021, which will be presented to County Council in September.

Background

- 8 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’.
- 9 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.
- 10 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.
- 11 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 24 February 2021 for the 2021/22 financial year);
 - (b) a mid-year Treasury Management Review report (reported to the County Council on 8 December 2021);
 - (c) an annual review following the end of the year describing the activity compared to the strategy (this report);
- 12 This report provides a summary of the following:
 - (a) summary treasury position – position as at 31 March 2022 and comparator information for the position as at 31 March 2021;

- (b) borrowing activity during the year and the position as at 31 March 2022;
- (c) investment activity and details of investments held at 31 March 2022;
- (d) treasury management indicators – performance against the key indicators adopted;
- (e) prudential indicators – performance against the key indicators adopted;

Summary Treasury Position

13 The Council's debt and investment position is managed to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

14 At the beginning and end of the 2021/22 financial year the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.21	Rate /Return	Average Life	31.03.22	Rate /Return	Average Life
	£ million	%	years	£ million	%	years
Total Debt	363	3.43	22.44	418	3.25	23.79
Total Investments	272	0.34	0.33	328	0.48	0.37
Net Debt	91			90		

15 In summary, as at 31 March 2022, the Council held £418 million in external borrowing and £328 million in cash investments a net debt position of £90 million. The cash investments held reflect the receipt of significant Central Government grant funding in year where expenditure will be defrayed in 2022/23, as well as reflecting the additional borrowing taken out by the council to fund capital commitments and lock in low interest rates.

Borrowing Activity

16 At 31 March 2022, the Council held £417.985 million of external loans (excluding borrowing by finance leases), an increase of £54.566 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:

	31.3.21 Balance £ million	In-year Movement £ million	31.3.22 Balance £ million	Average Rate %	31.3.22 Average Life years
Public Works Loan Board (PWLB)	278.972	29.997	308.969	3.17%	18.73
Private Sector	84.278	24.586	108.865	3.47%	38.15
Pension Fund	0.169	(0.017)	0.151	8.15%	6.31
Total borrowing	363.419	54.566	417.985	3.25%	23.79

- 17 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.
- 18 During the year additional new borrowing of £55 million was taken out. £25 million of this borrowing was with Phoenix Life, representing the final two tranches of a forward borrowing agreement of £60 million arranged in 2017/18 to secure cost certainty (£15 million in August 2021 and £10 million in February 2022) and £30 million was with the Public Works Loan Board (PWLB), taken in August 2021 to take advantage of low interest costs.

Lender	Principal £ million	Interest Rate %	Length Years	Type
PWLB	10.000	1.860	23.00	Maturity
PWLB	20.000	1.650	13.00	Maturity
Phoenix Life	15.000	2.793	50.00	Annuity
Phoenix Life	10.000	2.807	50.00	Annuity

- 19 No maturity loans were repaid during 2021/22. The principal repayments made were £0.447 million and relate to annuity loan repayments.
- 20 No debt 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

- 21 Although not classed as borrowing, the Council also raised £5.968 million of capital finance for replacement fleet vehicles and equipment via finance leases during the year to 31 March 2022. There was a further increase in liabilities of £2.707million, arising from a recalculation of the liability for phase two buildings at Freeman’s Reach, Durham City, following a five yearly rent review.
- 22 Total debt other than external borrowing stood at £82.739 million on 31 March 2022, taking total debt to £500.724 million. A breakdown of debt other than external borrowing is summarised below:

Lender	Position at 31 March 2021	Position at 31 March 2022	In Year Movement
	£ million	£ million	£ million
School PFI	36.562	35.670	(0.892)
Vehicle Finance Leases	11.705	11.998	0.293
Other Finance Leases	33.182	35.071	1.889
Total	81.449	82.739	1.290

Investment Activity

- 23 The Council has held significant funds that it has invested, representing funds received in advance of expenditure plus balances and reserves held. During 2021/22, cash investment balances ranged between £325 million and £478 million.
- 24 As at 31 March 2022 the Council held cash investments totalling £327.809 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	51.978	88.723	95.751	-	236.451
Building Societies	21.961	13.177	4.392	-	39.530
Central Government	-	-	-	-	-
Other Local Authorities	21.083	13.177	17.569	-	51.828
Money Market Funds	-	-	-	-	-
Total	95.021	115.076	117.712	-	327.809
% of total	29%	35%	36%	0	

- 25 The Council's investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance, which has been implemented in the annual investment strategy approved by County Council on 24 February 2021.
- 26 Both the CIPFA Code and government guidance requires 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 public 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.
- 27 The achievement of returns has continued to be challenging during 2021/22. As a result, the budget for investment income from cash balances was underachieved by circa £0.500 million. This shortfall was however made up through additional dividend income received in year.
- 28 Bank rate rises during the final months of the 2021/22 financial year have seen investment rates rise steadily in the last quarter. The bank base rate rose from 0.10% in December 2021 to 0.75% in March 2022. A further rise to 1% occurred in May 2022 and forecasts anticipate further rises to between 2.00% and 2.50% by the end of March 2023.
- 29 Whilst bank rate increases have seen returns offered by financial institutions steadily rise, there remains significant liquidity within the markets, slowing these rate rises translating into investment returns. Rates offered on the peer to peer market among local authorities have been significantly lower than many rates available through banks and building societies.

Treasury Management Indicators

30 There are three treasury management 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 when borrowing. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of total borrowed was:

	31.3.22 Actual	31.3.22 Actual	2021/22 Limit	Complied
Upper limit on fixed interest rate exposure	£378.5m	80.5%	100%	✓
Upper limit on variable interest rate exposure	£39.5m	9.5	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	31.3.22 Actual	Complied
Under 12 months	0%	20%	3%	✓
12 months to 2 years	0%	40%	5%	✓
2 years to 5 years	0%	60%	8%	✓
5 years to 10 years	0%	80%	22%	✓
10 years and above	0%	100%	62%	✓

- (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 31.3.22	Complied
Actual principal invested beyond one year	£75m	£0m	✓

Prudential Code Indicators

- 31 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.
- 32 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:

	2021/22 Forecast £ Million	2021/22 Actual £ Million	Difference £ Million
Capital Programme	158.979	143.068	(15.911)
Financed by:			
Capital receipts	7.713	7.364	(0.349)
Capital grants	73.129	60.010	(13.119)
Revenue and reserves	18.286	26.279	7.993
Net borrowing financing need for the year	59.851	49.415	(10.436)

- (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 updated estimate reported to Council in February 2022 is set out in the following table:

	2021/22 Estimate £ Million	2021/22 Actual £ Million	Difference £ Million
Capital Financing Requirement	545,723	534.013	(11.710)

- (c) **Actual Debt:** The Council's actual debt at 31 March 2022 compared to the estimate in February 2022 is as follows:

	2021/22 Estimate £ Million	2021/22 Actual £ Million	Difference £ Million
Borrowing	417,974	417.985	0.011
Finance leases	48.341	47.069	(1.272)
PFI liabilities	35.670	35.670	(0.000)
Total Debt	501.985	500.724	(1.261)

- (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 updated estimate reported to Council in February 2022 is set out in the following table:

	2021/22 Estimate £ Million	2021/22 Actual £ Million	Difference £ Million
Total debt	501.985	500.724	(1.261)
Capital financing requirement	545.723	534.013	(11.710)
Headroom (Internal borrowing)	43.738	33.289	(10.449)

- (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.

	2021/22 Estimate £ Million	2021/22 Actual £ Million	Complied
Borrowing	537.000	417.985	✓
Other long term liabilities	84.000	82.739	✓
Total	621.000	500.724	✓

- (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.

	2021/22 Estimate £ Million	2021/22 Actual £ Million	Complied
Borrowing	587.000	417.985	✓
Other long term liabilities	89.000	82.739	✓
Total	676.000	500.724	✓

- (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.

	2021/22 Estimate %	2021/22 Actual %	Difference %
Ratio of financing costs to net revenue stream	8.49	7.33	(1.16)

Conclusion

- 33 The Council has fully complied with its Treasury Management Strategy 2021/22 for its full year activity covering the period to 31 March 2022.

Background Papers

- 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.
- 8 December 2021 – County Council – Mid Year Treasury Management Review 2021/22.
- 23 February 2022 – County Council – Appendix 12: Durham County Council 2022/23 Annual Treasury Management Strategy as part of the Medium Term Financial Plan, 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23.

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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).

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. 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

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. Steps are taken to appoint individuals who are both capable and experienced and training is provided to staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills to undertake treasury management activity.

Accommodation

None

Risk

The management of risk is intrinsic to the Councils approach to Treasury Management.

The key objective of the Councils treasury management activities is the security of the principal sums it invests. All investments made in the year were undertaken in line with both the CIPFA Code and government guidance, which requires 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.

Our counterparty lists and limits on investments with counterparties reflect a prudent attitude towards organisations with whom funds may be deposited. Investment activities are limited to the instruments, methods and techniques referred to in TMP4 : Approved Instruments, Methods and Techniques.

A formal counterparty policy is in place which identifies those organisations from which it may borrow, or with whom it may enter other financing or derivative arrangements.

Procurement

The Council has appointed Treasury Management advisors to support staff involved treasury management activities and to support decision making.