

# County Council

7 December 2022

**Mid-Year Review Report on Treasury Management for the period to 30 September 2022**



## 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 provides information on the treasury management mid-year position for 2022/23. It provides a summary of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators as at 30 September 2022.

### Executive Summary

- 2 The Council held £468 million in borrowing and had £418 million cash balances invested at 30 September 2022. During the half year period additional borrowing of £50 million was arranged, one loan of £25 million for a period of 15 years, and a second loan of £25 million for a period of 20 years. Both loans were 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 2022, 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 2022/23.

## 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 23 February 2022 for the 2022/23 financial year);
  - (b) an annual review following the end of the year describing the activity compared to the strategy (reported to County Council on 21 September 2022 in respect of the 2021/22 financial year);
  - (c) a mid-year Treasury Management Review report, covering the first six months of this financial year, to 30 September 2022 (this report);
- 10 This mid-year report provides a summary of the following:
  - (a) summary treasury position – position as at 30 September 2022 and comparator information for the position as at 31 March 2022;

- (b) borrowing activity during the first six months of the current financial year and an overview of the position as at 30 September 2022;
- (c) other debt activity/long term liabilities at 30 September 2022;
- (d) investment activity and details of investments held at 30 September 2022;
- (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 2022/23 the Council's treasury position (excluding borrowing by finance leases) was as follows:

|                          | <b>31.03.22</b>  | <b>Rate /Return</b> | <b>30.09.22</b>  | <b>Rate /Return</b> |
|--------------------------|------------------|---------------------|------------------|---------------------|
|                          | <b>£ million</b> | <b>%</b>            | <b>£ million</b> | <b>%</b>            |
| <b>Total Debt</b>        | 418              | 3.25                | 468              | 3.17                |
| <b>Total Investments</b> | 342              | 0.48                | 418              | 2.04                |
| <b>Net Debt</b>          | <b>76</b>        |                     | <b>50</b>        |                     |

- 13 As at 30 September 2022, the Council had £468 million of external borrowing and £418 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 2022, the Council held £467.672 million of external loans, a net increase of £49.687 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:

|                         | <b>31.3.22</b>   | <b>In-year</b>   | <b>30.9.22</b>   | <b>Average</b> |
|-------------------------|------------------|------------------|------------------|----------------|
|                         | <b>Balance</b>   | <b>Movement</b>  | <b>Balance</b>   | <b>Rate</b>    |
|                         | <b>£ million</b> | <b>£ million</b> | <b>£ million</b> | <b>%</b>       |
| Public Works Loan Board | 308.969          | 49.998           | 358.967          | 3.07%          |
| Private Sector          | 108.865          | (0.297)          | 108.568          | 3.47%          |
| Pension Fund            | 0.151            | (0.014)          | 0.137            | 8.22%          |
| <b>Total borrowing</b>  | <b>417.985</b>   | <b>49.687</b>    | <b>467.672</b>   | <b>3.17%</b>   |

- 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 As long term interest rates on new borrowing have taken a sharp rise since the start of the financial year, the Council has begun the process of looking into opportunities to potentially achieve savings from either the repayment or rescheduling of market loans. Options are currently being considered.

### **Other Debt Activity / Long Term Liabilities**

- 17 Although not classed as borrowing, the Council has also raised £0.705 million of capital finance for replacement fleet vehicles and equipment via finance leases during the first half year to 30 September 2022. It is expected that a further £13.926 million will be raised during the remainder of the year, giving total expected additional lease finance of £14.631 million.
- 18 Total debt other than borrowing stood at £82.465 million at 30 September 2022 (£82.739 million on 31 March 2022), taking total debt to £550.137 million (£500.724 million on 31 March 2022).

### **Investment Activity**

- 19 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 2022, investment balances ranged between £381 million and £467 million.
- 20 As at 30 September 2022 the Council held investments totalling £418.570 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     | 6-9 months    | 9-12 months   | Total          |
|-------------------------|------------------|----------------|---------------|---------------|----------------|
|                         | <b>£ million</b> |                |               |               |                |
| Banks                   | 149.570          | 107.000        | 70.000        | 52.000        | 378.570        |
| Building Societies      | 0                | 10.000         | 0             | 0             | 10.000         |
| Other Local Authorities | 5.000            | 0              | 15.000        | 0             | 20.000         |
| Money Market Funds      | 10.000           | 0              | 0             | 0             | 10.000         |
| <b>Total</b>            | <b>164.570</b>   | <b>117.000</b> | <b>85.000</b> | <b>52.000</b> | <b>418.570</b> |
| <b>% of total</b>       | <b>39%</b>       | <b>28%</b>     | <b>20%</b>    | <b>13%</b>    |                |

- 21 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 23 February 2022.
- 22 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

- 23 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:

|   | 30.9.22<br>Actual | 30.9.22<br>Actual | 2022/23<br>Limit | Complied |
|---|-------------------|-------------------|------------------|----------|
| Upper limit on fixed interest rate exposure | £418.272m         | 89%               | 100%             | ✓        |

|  |          |     |     |   |
|--|----------|-----|-----|---|
| Upper limit on variable interest rate exposure | £49.400m | 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 | 30.9.22 Actual | Complied |
|----------------------|-------------|-------------|----------------|----------|
| Under 12 months      | 0%          | 20%         | 4%             | ✓        |
| 12 months to 2 years | 0%          | 40%         | 2%             | ✓        |
| 2 years to 5 years   | 0%          | 60%         | 10%            | ✓        |
| 5 years to 10 years  | 0%          | 80%         | 17%            | ✓        |
| 10 years and above   | 0%          | 100%        | 67%            | ✓        |

**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 30.9.22 | Complied |
|---|-------|---------------|----------|
| Actual principal invested beyond one year | £75m  | £0m           | ✓        |

## Prudential Code Indicators

- 24** 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.
- 25** 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 2022/23 budget was set in

February 2022 and compares it to the estimated full year outturn position as at 30 September 2022:

|  | <b>2022/23<br/>Original<br/>Estimate<br/>£ Million</b> | <b>2022/23<br/>Estimate<br/>at 30.9.22<br/>£ Million</b> | <b>Difference<br/>£ Million</b> |
|--|--|--|---------------------------------|
| <b>Capital Programme</b>                             | <b>255.538</b>   | <b>228.452</b>   | <b>(27.086)</b>                 |
| <b>Financed by:</b>                                  |  |  |                                 |
| Capital receipts                                     | 9.058  | 9.758  | <b>0.700</b>                    |
| Capital grants                                       | 93.730   | 97.093   | <b>3.363</b>                    |
| Revenue and reserves                                 | 8.512  | 9.992  | <b>1.480</b>                    |
| <b>Net borrowing financing need<br/>for the year</b> | <b>144.239</b>   | <b>111.610</b>   | <b>(32,629)</b>                 |

**Actual Debt:** The Council's actual debt at 30 September 2022, with comparator information as at 31 March 2022 is as follows:

|                   | <b>31.03.22<br/>Actual<br/>£ million</b> | <b>2022/23<br/>Actual at<br/>30.9.22<br/>£ million</b> | <b>Difference<br/>£ million</b> |
|-------------------|--|--|---------------------------------|
| Borrowing         | 417.985                                  | 467.672  | <b>49.687</b>                   |
| Finance leases    | 47.069                                   | 46.795   | <b>(0.274)</b>                  |
| PFI liabilities   | 35.670                                   | 35.670   | <b>0.000</b>                    |
| <b>Total Debt</b> | <b>500.724</b>                           | <b>550.137</b>   | <b>49.413</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>2022/23<br/>Estimate<br/>£ million</b> | <b>2022/23<br/>Actual at<br/>30.9.22<br/>£ million</b> | <b>Complied</b> |
|-----------|---|--|-----------------|
| Borrowing | 553.000                                   | 467.672  | ✓               |



|                             |                |                |   |
|-----------------------------|----------------|----------------|---|
| Other long term liabilities | 89.000         | 82.465         | ✓ |
| <b>Total</b>                | <b>642.000</b> | <b>550.137</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>2022/23<br/>Estimate<br/>£ Million</b> | <b>2022/23<br/>Actual at<br/>30.9.22<br/>£ million</b> | <b>Complied</b> |
|-----------------------------|---|--|-----------------|
| Borrowing                   | 603.000                                   | 467.672  | ✓               |
| Other long term liabilities | 94.000                                    | 82.465   | ✓               |
| <b>Total</b>                | <b>697.000</b>                            | <b>550.137</b>   |                 |

## Conclusion

- 26 The Council has complied with its Treasury Management Strategy 2022/23 for its half-yearly activity covering the period to 30 September 2022.

## Background Papers

- County Council - 23 February 2022 – Medium Term Financial Plan, 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23 – Appendix 12: Durham County Council Treasury Management Strategy 2022/23
- County Council – 21 September 2022 – Treasury Management Outturn 2021/22

## Author(s)

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## **Appendix 1: Implications**

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### **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 23 February 2022.

### **Finance**

The report details the Council's cash management, loans and investment activity during 2022/23 in the first half year to 30 September 2022. 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