County Council

19 July 2023

Treasury Management Outturn Report 2022/23

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 2022/23, including:

(a) summary treasury position – position as at 31 March 2023 and comparator information for the position as at 31 March 2022;

(b) details of borrowing activity during the year and the position as at 31 March 2023;

(c) an overview of investment activity and details of investments held at 31 March 2023;

(d) treasury management indicators – performance against the key indicators adopted by Council in February 2022;

(e) prudential indicators – performance against the key indicators adopted by Council in February 2022;

Executive Summary

2 As at the 31 March 2023, the council held £440 million in external borrowing and £351 million of cash investments. Net debt was therefore £89 million at 31 March 2023, which is higher than the position at 31 March 2022, when net debt was £76 million.

3 During the year additional new borrowing of £50 million was taken out with the Public Works Loan Board (PWLB) and debt repayments totalled £28 million. The new additional borrowing was taken out in April 2022 to take advantage of low interest costs at that time and in recognition of the councils under-borrowed position.

4 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.

5 The average rate of interest being paid on external loans outstanding at 31 March 2023 was 3.11% compared to 3.25% at 31 March 2022. The average rate of interest earned on investments during 2022/23 was 4.01% compared to 0.48% in 2021/22, highlighting the rise in bank base rate from 0.75% in April 2022 to 4.25% by the end of March 2023.

6 Throughout the year ending 31 March 2023, 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.

7 The report includes details of the councils performance against the treasury management and prudential indicators set by County Council on 23 February 2022.

8 From quarter two, in line with best practice, the quarterly budgetary control reports considered by Cabinet and Corporate Overview and Scrutiny Management Boards have included performance against various prudential indicators to demonstrate that the council continues to operate within the boundaries agreed.

Recommendation

9 County Council is asked to note the contents of the report and performance against the Treasury Management Strategy agreed by County Council on 23 February 2022.

Background

10 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’.

11 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.

12 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.

13 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 23 February 2022 for the 2022/23 financial year);

(b) a mid-year Treasury Management Review report (reported to the County Council on 7 December 2022);

(c) an annual review following the end of the year describing the activity compared to the strategy (this report);

14 This report provides a summary of the following:

(a) summary treasury position – position as at 31 March 2023 and comparator information for the position as at 31 March 2022;

(b) borrowing activity during the year and the position as at 31 March 2023;

(c) investment activity and details of investments held at 31 March 2023;

(d) treasury management indicators – performance against the key indicators adopted by Council in February 2022;

(e) prudential indicators – performance against the key indicators adopted by Council in February 2022;

15 From quarter two, in line with best practice, the quarterly budgetary control reports considered by Cabinet and Corporate Overview and Scrutiny Management Boards have included performance against various prudential indicators to demonstrate that the council continues to operate within the boundaries agreed.

Summary Treasury Position

16 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.

17 At the beginning and end of the 2022/23 financial year the council's treasury position (excluding borrowing via finance leases) was as follows:

	31.03.22 £ million	**Rate /Return %**	**31.03.23 £ million**	**Rate /Return %**
Total Debt	418	3.25	440	3.11
Total Investments	342	0.48	351	4.01
Net Debt	76		89	

18 In summary, as at 31 March 2023, the council held £440 million in external borrowing and £351 million in cash investments, a net debt position of £89 million. The cash investments held reflect the receipt of Central Government grant funding in year where expenditure will be defrayed in 2023/24, unspent capital receipt relating to the sale of The Sands, as well as additional borrowing taken out by the council to fund capital commitments to lock in low interest rates.

Borrowing Activity

19 At 31 March 2023, the council held £439.652 million of external loans (excluding borrowing via finance leases), an increase of £21.667 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:

	31.3.22 Balance £ million	**In-year Movement £ million**	**31.3.23 Balance £ million**	**Average Rate %**
Public Works Loan Board (PWLB)	308.969	38.816	347.785	3.03%
Private Sector	108.865	(16.998)	91.867	4.10%
Pension Fund	0.151	(0.151)	0	0%
Total borrowing	**417.985**	**21.667**	**439.652**	**3.11%**

20 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.

21 During the year additional new borrowing of £50 million was taken out with the Public Works Loan Board (PWLB). This additional borrowing was taken in April 2022 to take advantage of low interest costs.

Lender	**Principal £ million**	**Interest Rate %**	**Length Years**	**Type**
PWLB	25.000	2.42	15	Annuity
PWLB	25.000	2.54	20	Annuity

22 For several years, the rescheduling and early repayment of debt has not been a financially viable option due to consistently low borrowing rates and the high premiums applied in options to repay debt. With interest rates having risen over the last twelve months, the council was able to negotiate premiums and options for repaying some of the councils higher rate and longer term Lender Option Borrower Option (LOBO) loans. The council has repaid £16.400 million of LOBO loans during 2022/23, with a Net Present Value (NPV) saving of £3.050 million over the remaining term of these loans. The business case to redeem the loans early considered interest saved, interest lost on investing funds used to repay the loans and premium payments. The table below provides a detailed breakdown of loans repaid early:

Lender	Principal Outstanding £ million	Interest Rate %	Years Remaining	NPV Saving £ million	Date Repaid
Commerzbank	6.500	4.70	31.56	1.720	Aug 2022
Barclays	9.900	4.77	56.00	1.330	Nov 2022
Total	**16.400**			**3.050**	

23 In addition, £10 million of maturity loans were repaid during 2022/23, as well as £1.933 million of principal repayments on annuity loans.

Other Debt Activity / Long Term Liabilities

24 Although not classed as borrowing, the council also raised £8.801 million of capital finance for replacement of fleet vehicles and equipment via finance leases during the year to 31 March 2023.

25 Total debt other than external borrowing stood at £83.548 million on 31 March 2023, taking total overall debt to £523.200 million. A breakdown of debt other than external borrowing is summarised below:

Lender	Position 31.03.22 £ million	Position 31.03.23 £ million	In Year Movement £ million
School PFI	35.671	34.232	(1.439)
Vehicle Finance Leases	11.999	14.537	2.538
Other Finance Leases	35.071	34.779	(0.292)
Total	**82.741**	**83.548**	**0.807**

Investment Activity

26 The council has held significant cash balances across the year and these funds have been invested. These sums are funds received in advance of expenditure being defrayed plus balances and reserves held. During 2022/23, cash investment balances ranged between £331 million and £418 million at any one time.

27 As at 31 March 2023 the council held cash investments totalling £351.164 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	128.080	68.710	145.450	-	342.240
Building Societies	-	-	-	-	-
Central Government	-	-	-	-	-
Other Local Authorities	4.462	4.462	-	-	8.924
Money Market Funds	-	-	-	-	-
Total	**132.542**	**73.172**	**145.450**	**-**	**351.164**
% of total	**38%**	**21%**	**41%**	**0**	

28 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 23 February 2022.

29 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.

30 Bank rate rises during the 2022/23 financial year have seen investment rates rise quickly throughout the period. The bank base rate rose from 0.75% in April 2022 to 4.25% by 31 March 2023. A further rise to 4.50% occurred in May 2023 and forecasts anticipate further rises to a peak of 5.50% by September 2023 reducing to 4.50% by the end of March 2024.

31 Rates offered on the peer to peer market among local authorities have been significantly lower than many rates available through banks and building societies.

32 These significant rises in bank base rate throughout the 2022/23 financial year resulted in the budget for investment income from cash balances being overachieved by circa £7.300 million, which helped offset but not eradicate the significant budgetary pressures the council faced in its expenditure budgets last year.

33 Members will recall that a review was undertaken in year to inform the Treasury Management Strategy from 2023/24. This impacted on the council's counterparty money limits, which were increased in consultation with the council's treasury management advisers. The following increases were factored into the counterparty limits included in the Treasury Management Strategy for 2023/24 agreed by County Council in February 2023:

Banks/Building Societies AA-	Increase of £5 million
Banks/Building Societies A	Increase of £5 million
Banks part nationalised	Increase of £5 million
Money Market Funds (Total)	Increase of £25 million
Money Market Funds CNAV, LVNAV, VNAV	Increase of £5 million

Treasury Management Indicators

34 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:

	31.3.23 Actual	**31.3.23 Actual**	**Limit**	**Complied**
Upper limit on fixed interest rate exposure	£407.0m	92.5%	100%	✔
Upper limit on variable interest rate exposure	£33.0m	7.5%	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	31.3.23 Actual	Complied
Under 12 months	0%	20%	5%	✔
12 months to 2 years	0%	40%	8%	✔
2 years to 5 years	0%	60%	3%	✔
5 years to 10 years	0%	80%	17%	✔
10 years and above	0%	100%	67%	✔

(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	31.3.23 Actual	Complied
Actual principal invested beyond one year	£75m	£0m	✔

Prudential Code Indicators

35 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.

36 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:

	Estimate 2022/23 £ Million	Actual 2022/23 £ Million	Difference £ Million
Capital Programme	**165.073**	**143.050**	**(22.023)**
Financed by:			
Capital receipts	74.563	52.469	(22.094)
Capital grants	82.518	78.494	(4.024)
Revenue and reserves	7.992	12.087	4.095
Net borrowing financing need for the year	**0**	**0**	**0**

(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 County Council in February 2023 is set out in the following table:

	Estimate 2022/23 £ Million	Actual 2022/23 £ Million	Difference £ Million
Capital Financing Requirement	529.344	525.618	(3.726)

(c) **Actual Debt:** The council's actual debt at 31 March 2023 compared to the estimate in February 2023 is as follows:

	Estimate 2022/23 £ Million	Actual 2022/23 £ Million	Difference £ Million
Borrowing	439.652	439.652	0.000
Finance leases	52.495	48.769	(3.726)
PFI liabilities	34.779	34.779	0.000
Total Debt	**526.926**	**523.200**	**(3.726)**

(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 2023 is set out in the table below:

	Estimate 2022/23 £ Million	Actual 2022/23 £ Million
Total debt	526.926	523.200
Capital financing requirement	529.344	525.618
Headroom (Internal borrowing)	**2.418**	**2.418**

(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.

	Estimate 2022/23 £ Million	Actual 2022/23 £ Million	Complied
Borrowing	442.000	439.652	✔
Other long term liabilities	88.000	83.548	✔
Total	**530.000**	**523.200**	✔

(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.

	Estimate 2022/23 £ Million	Actual 2022/23 £ Million	Complied
Borrowing	492.000	439.652	✔
Other long term liabilities	93.000	88.548	✔
Total	**585.000**	**523.200**	✔

(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.

	Estimate 2022/23 %	Actual 2022/23 %	Difference %
Ratio of financing costs to net revenue stream	6.3	7.8	1.5

(h) **Actual and estimates of the the ratio of investment income to net revenue stream**: This indicator identifies the trend in the reliance of the council on income from treasury management and service and commercial investments against net revenue stream.

	Estimate 2022/23 %	Actual 2022/23 %	Difference %
Treasury Management Income	1.3	1.7	0.4
Commercial & Service Income	1.0	1.1	0.1

Conclusion

37 The council has fully complied with its Treasury Management Strategy 2022/23 for its full year activity covering the period to 31 March 2023.

Background Papers

- 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.

- 7 December 2022 – County Council – 2022/23 Treasury Management Half Year Update.

- 22 February 2023 – County Council – Appendix 12: Durham County Council 2022/23 Annual Treasury Management Strategy as part of the Medium Term Financial Plan, 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24.

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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 County Council on 23 February 2022.

Finance

The report details the council's cash management, loans and investment activity during 2022/23. 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.