County Council

6 December 2023

Mid-Year Review Report on Treasury Management for the period to 30 September 2023

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 2023/24. It provides a summary of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators as at 30 September 2023 and an overview of activity during the first six months of 2023/24.

2 The report also includes an update on the preparation for changes in accounting for leases that are being brought in from April 2024. This will impact on the level of debt commitments included in the balance sheet from next year.

Executive Summary

3 The Council held £423 million in borrowing and had £343 million cash balances invested at 30 September 2023. During the half year period no new borrowing was arranged. The current level of cash balances held has allowed the Council to use these funds to delay actual borrowing, required to fund its capital programme, whilst interest rates remain high.

4 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.

5 During the half year period to 30 September 2023, the Council has fully complied with its Treasury Management Strategy and the 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(s)

6 Council is asked to:

(a) note the position as at 30 September and progress and compliance with the Treasury Management Strategy 2023/24;

(b) note the changes to accounting arrangements for leases from next year.

Background

7 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.’

8 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.

9 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.

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 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 22 February 2023 for the 2023/24 financial year);

(b) an annual review following the end of the year describing the activity compared to the strategy (reported to County Council on 19 July 2023 in respect of the 2022/23 financial year);

(c) a mid-year Treasury Management Review report, covering the first six months of this financial year, to 30 September 2023 (this report);

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

(a) summary treasury position – position as at 30 September 2023 and comparator information for the position as at 31 March 2023;

(b) borrowing activity during the first six months of the current financial year and an overview of the position as at 30 September 2023;

(c) other debt activity/long term liabilities at 30 September 2023;

(d) investment activity and details of investments held at 30 September 2023;

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

(f) prudential code 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 mid-year point of 2023/24 the Council’s treasury position (excluding borrowing by finance leases) was as follows:

	31.03.23 Actual	**Rate /Return**	**30.09.23 Actual**	**Rate /Return**
	£ million	**%**	**£ million**	**%**
Total Debt	440	3.11	423	3.11
Total Investments	351	4.01	343	5.21
Net Debt	**89**		**80**	

14 As at 30 September 2023, the Council had £423 million of external borrowing and £343 million of cash balances invested.

Borrowing Activity

15 At 30 September 2023, the Council held £423.151 million of external loans, a net decrease of £16.501 million from the start of the year. This decrease represents the repayment of a matured £10 million PWLB maturity loan in May 2023, and the early repayment of two Lender Option Borrower Option (LOBO) maturity loans totalling £5 million in September 2023, the balance of £1.5 million relates to regular principal repayments on annuity loans. The mid-year borrowing position and the change since the start of the year is shown in the following table:

	31.03.23	In-year	30.09.23	Average
	Balance	**Movement**	**Balance**	**Rate**
	£ million	**£ million**	**£ million**	**%**
Public Works Loan Board	347.785	(11.195)	336.590	3.09
Private Sector	91.867	(5.306)	86.561	3.20
Total Borrowing	**439.652**	**(16.501)**	**423.151**	**3.11**

16 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.

17 As long term interest rates on new borrowing have remained high, the Council has continued to identify opportunities for repaying some of the Council's higher rate and longer term LOBO loans. On the 4 September 2023, the Council repaid £5 million of LOBO loans, with a Net Present Value (NPV) saving of £0.680 million. 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
Dexia Credit Local	3.000	4.19	53.80
Dexia Credit Local	2.000	4.08	54.99
Total	**5.000**	**4.15**	**54.27**

Other Debt Activity / Long Term Liabilities

18 Although not classed as borrowing, the Council has also raised £0.610 million of capital finance for replacement fleet vehicles and equipment via finance leases during the first half year to 30 September 2023. It is expected that a further £14.587 million will be raised during the remainder of the year, giving total expected additional lease finance of £15.197 million.

19 Total debt other than borrowing stood at £84.158 million at 30 September 2023 (£83.548 million on 31 March 2023), taking total debt to £507.309 million (£523.200 million on 31 March 2023).

Investment Activity

20 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 2023, investment balances ranged between £343 million and £367 million.

21 As at 30 September 2023 the Council held investments totalling £342.978 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**
	£ million				
Banks	122.157	106.183	37.587	53.561	319.488
Building Societies	0	0	0	0	0
Other Local Authorities	0	0	0	0	0
Money Market Funds	23.490	0	0	0	23.490
Total	**145.647**	**106.183**	**37.587**	**53.561**	**342.978**
% of total	**42%**	**31%**	**11%**	**16%**	

22 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 22 February 2023.

23 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

24 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 when borrowing. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested was:

	2023/24 Limit %	**30.09.23 Actual £ million**	**30.09.23 Actual %**	**Complied**
Upper limit on fixed interest rate exposure	100	395.151	93.4	✔
Upper limit on variable interest rate exposure	70	28.000	6.6	✔

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 %**	**30.09.23 Actual %**	**Complied**
Under 12 months	0	20	2.4	✔
12 months to 2 years	0	40	7.7	✔
2 years to 5 years	0	60	9.4	✔
5 years to 10 years	0	80	11.8	✔
10 years and above	0	100	68.7	✔

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 £ million	**30.09.23 Actual £ million**	**Complied**
Actual principal invested beyond one year	75	0	✔

Prudential Code Indicators

25 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.

26 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 2023/24 budget was set in February 2023 and compares it to the estimated full year outturn position as at 30 September 2023, which includes amendments to the Capital Programme in year as reported to and approved by Cabinet in October:

	2023/24 Original Estimate £ million	**30.09.23 Estimate £ million**	**Difference £ million**
Capital Programme	**290.871**	**312.979**	**22.108**
Financed by:			
Capital receipts	10.890	34.223	**23.333**
Capital grants	89.514	116.781	**27.267**
Revenue and reserves	1.879	4.520	**2.641**
Net borrowing financing need for the year	**188.588**	**157.455**	**(31.133)**

Actual Debt: The Council's actual debt at 30 September 2023, with comparator information as at 31 March 2023 is as follows:

	31.03.23 Actual £ million	30.09.23 Actual £ million	Difference £ million
Borrowing	439.652	423.151	**(16.501)**
Finance leases	48.769	49.379	**0.610**
PFI liabilities	34.779	34.779	**0.000**
Total Debt	**523.200**	**507.309**	**(15.891)**

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.

	2023/24 Estimate £ million	30.09.23 Actual £ million	Complied
Borrowing	621.000	423.151	✓
Other long term liabilities	88.000	84.158	✓
Total	**709.000**	**507.309**	

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.

	2023/24 Estimate £ million	30.09.23 Actual £ million	Complied
Borrowing	671.000	423.151	✓
Other long term liabilities	93.000	84.158	✓
Total	**764.000**	**507.309**	

Introduction of Accounting Standard IFRS16 Leases

27 Accounting standard IFRS16 (Leases) was issued in January 2016 by the International Accounting Standards Board, following concerns raised by users of financial statements that where leases were classified as operating leases, they were not reflected on an entities balance sheet. It was felt there was a perceived lack of transparency about the assets being used under leases classified as operating leases, and the exposure to risk from the future liabilities payable under these operating lease arrangements were not being shown.

28 This new accounting standard was developed to enhance transparency in relation to leased assets and related liabilities in the balance sheet. It was accepted that the lessor accounting model worked without fundamental flaws, therefore accounting requirements for lessors are not significantly changed. The focus of IFRS16 is mainly on lessee accounting, especially for leases currently not reflected in the balance sheet.

29 The standard was originally scheduled to be implemented by local authorities in April 2022, but due to issues in local audit, the CIPFA LASAAC Local Authority Accounting Code Board decided to defer mandatory implementation until 1 April 2024.

30 From the 1 April 2024, the council will adopt this new standard and its application will impact on statutory reporting and capital finance requirements for leased assets which refer to finance leases.

31 On transition to IFRS16, any existing and new operating leases (including property rentals) that meet the Code of Practice on Local Authority Accounting definition of a lease, may need to be accounted for in line with the requirements of this accounting standard, recognising a ‘right of use’ asset on the council’s balance sheet, and an associated liability payable for its use.

32 The recognition of this ‘right of use’ asset will bring leases into the scope of the Prudential Code. Any increase in liabilities is increasing the council’s debt position, which in turn will increase the council’s capital financing requirement (CFR).

33 As the council is already making lease payments for these leased assets, budget adjustments will be made to avoid funds being set aside twice. The adjustments will be equal to the principal element of the existing lease repayments, which will be included in the annual minimum revenue provision (MRP) charge, and therefore there will be a net nil effect on the council’s revenue budget.

34 In consultation with the council's leasing and IFRS16 consultants, a detailed action plan has been developed and has been considered by the Audit Committee. Work is progressing well against this plan and the council is on track to be compliant with the standard by the effective date.

Conclusion

35 The Council has complied with its Treasury Management Strategy 2023/24 for its half-yearly activity covering the period to 30 September 2023 and plans are progressing well in terms of compliance with the new IRFS16 accounting arrangements for leases which will impact on the councils reported debt position in future years but not on its underlying revenue budgets or Capital Financing Requirement.

Background Papers

- County Council - 22 February 2023 – Medium Term Financial Plan, 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24 – Appendix 12: Durham County Council Treasury Management Strategy 2023/24

- County Council – 19 July 2023 – Treasury Management Outturn 2022/23

- Audit Committee – 29 September 2023 – Implementation of Accounting Standard IFRS16 Leases

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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 22 February 2023.

Finance

The report details the Council’s cash management, loans and investment activity during 2023/24 in the first half year to 30 September 2023. 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

The Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring environmental, social and governance (ESG) factors into the decision making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way.

The Council uses ratings from Fitch, Moody’s and Standard & Poor’s to support its assessment of suitable counterparties for investments. Each of the rating agencies is a signatory to the ESG in credit risk and ratings statement and as such include an analysis of ESG factors when assigning ratings.

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