

County Council

17 July 2024

**Treasury Management Outturn Report
2023/24**



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 treasury management outturn performance for 2023/24, including:
 - (a) summary treasury position – position as at 31 March 2024 and comparator information for the position as at 31 March 2023;
 - (b) details of borrowing activity during the year and the position as at 31 March 2024;
 - (c) an overview of investment activity and details of investments held at 31 March 2024;
 - (d) treasury management indicators – performance against the key indicators adopted by Council in February 2023;
 - (e) prudential indicators – performance against the key indicators adopted by Council in February 2023;

Executive Summary

- 2 As at the 31 March 2024, the council held £412 million of external borrowing and £217 million in cash investments. Net Debt was therefore £195 million at 31 March 2024, which is higher than the position at 31 March 2023, when Net Debt was £89 million. This increase is largely a result of year-on-year reductions in the value of cash investments held.

- 3 No new borrowing was taken out during 2023/24. The level of cash balances held throughout the year has allowed the council to manage cash flow requirements without the need for additional borrowing, delaying actual borrowing whilst interest rates have remained high.
- 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 2024 was 3.12%, which is broadly in line with the position at 31 March 2023 when the average rate being paid was 3.11%. The average rate of interest earned on investments during 2023/24 was 5.65% compared to 4.01% in 2022/23, reflecting the rise in bank base rate from 4.75% in April 2023 to 5.25% by the end of March 2024.
- 6 Throughout 2023/24 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 This report includes details of the council's performance against the treasury management and prudential indicators set by County Council on 22 February 2023 for the financial year 2023/24.
- 8 Throughout the year, 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.
- 9 The Audit Committee, who following the review of the constitution and in line with its revised Terms of Reference which were agreed by Council on 22 May 2024 now have responsibility for scrutiny of the council's treasury management performance, considered the contents of this report at its meeting on 28 June 2024.

Recommendation

- 10 County Council is asked to note the contents of the report and performance against the treasury management strategy agreed by County Council on 22 February 2023.

Background

- 11 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.
- 12 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.
- 13 An important role of the treasury management function is to arrange funding for 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.
- 14 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 22 February 2023 for the 2023/24 financial year);
 - (b) a mid-year treasury management review report (reported to the County Council on 6 December 2023);
 - (c) an annual review following the end of the year describing the activity compared to the strategy (this report);
- 15 This report provides a summary of the following:
 - (a) summary treasury position – position as at 31 March 2024 and comparator information for the position as at 31 March 2023;
 - (b) borrowing activity during the year and the position as at 31 March 2024;

- (c) investment activity and details of investments held at 31 March 2024;
 - (d) treasury management indicators – performance against the key indicators updated and approved by County Council in February 2024;
 - (e) prudential indicators – performance against the key indicators updated and approved by County Council in February 2024;
- 16 Throughout the year, 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

- 17 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.
- 18 At the beginning and end of the 2023/24 financial year the council’s treasury position (excluding borrowing via finance leases) was as follows:

	31.03.23 £ Million	Rate /Return %	31.03.24 £ Million	Rate /Return %
Total Debt	440	3.11	412	3.12
Total Investments	351	4.01	217	5.65
Net Debt	89		195	

- 19 In summary, as at 31 March 2024, the council held £412 million of external borrowing and £217 million in cash investments, a net debt position of £195 million. The increase in the net debt position largely reflects the reduction in cash balances driven by the 2023/24 level of capital expenditure outturn, which was the highest this council has ever invested. The cash investments held represent the strength of the council’s balance sheet and include receipts of Central Government grant funding in year where expenditure will be defrayed in 2024/25.

Borrowing Activity

- 20 At 31 March 2024, the council held £411.632 million of external loans (excluding borrowing via finance leases), a decrease of £28.020 million from the start of the year. The outturn borrowing position and the change since the start of the year is shown in the following table:

	31.03.23 Balance £ Million	In-year Movement £ Million	31.03.24 Balance £ Million	Average Rate %
Public Works Loan Board (PWLB)	347.785	(22.407)	325.379	3.10%
Private Sector	91.867	(5.613)	86.253	3.20%
Total Borrowing	439.652	28.020	411.632	3.12%

- 21 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.
- 22 No new borrowing has been taken out during 2023/24. The difference between the council's borrowing requirement and the actual borrowing undertaken has been met by internal borrowing. The level of cash balances held throughout the year, has allowed the council to use these funds to delay the date at which loans are taken out. This has been the most cost-effective option whilst borrowing rates have remained high.
- 23 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 council's higher rate and longer-term Lender Option Borrower Option (LOBO) loans. The council has repaid £5 million of LOBO loans during 2023/24, with a Net Present Value (NPV) saving of £0.680 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 the premium payments that were triggered by the early redemption of the loans.
- 24 In addition to these LOBO loans, £20 million of maturity loans were repaid during 2023/24, and £3.020 million of principal repayments on annuity loans were made during the year.
- 25 The table below provides a detailed breakdown of the movement in borrowing during 2023/24:

Lender	Principal Repaid £ Million	Interest Rate %	Date Repaid	Repayment Type
PWLB	10.000	2.690	May 2023	Maturity
Dexia Credit Local	3.000	4.190	Sep 2023	Early Repayment
Dexia Credit Local	2.000	4.080	Sep 2023	Early Repayment
PWLB	10.000	2.890	Dec 2023	Maturity
PWLB & Market	3.020	Various	2023/24	Annuity
Total	28.020			

Other Debt Activity / Long Term Liabilities

- 26 The council raised £6.619 million of capital finance via finance leases during 2023/24, £4.112 million of which related to the replacement of fleet vehicles and equipment, and £2.507 million of which related to property.
- 27 Total debt other than external borrowing stood at £82.647 million on 31 March 2024, taking the total overall debt position to £494.279 million. A breakdown of debt other than external borrowing is summarised below:

	31.03.23 Balance £ Million	31.03.24 Balance £ Million	In-Year Movement £ Million
School PFI	34.232	33.887	(0.345)
Vehicle/Equipment Finance Leases	14.537	12.885	(1.652)
Other Finance Leases	34.779	35.875	1.096
Total	83.548	82.647	(0.901)

- 28 Members were advised of a new accounting standard - International Financial Reporting Standard (IFRS) 16 – Leases, in a report to the Audit Committee on 29 September 2023 and as part of the treasury management mid-year report to County Council on 6 December 2023. The implementation of this new accounting standard is effective from 1 April 2024.
- 29 The main impact of IFRS16 is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance

leases have historically been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired shown in long term liabilities). In contrast, operating leases have been treated as 'pay as you go' arrangements similar to renting an item, with rentals charged to revenue in the year they are paid and no requirement to reflect this in the balance sheet. IFRS16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

- 30 The application of IFRS16 will impact on statutory reporting requirements and lead to an increase in liabilities (debt) on the council's balance sheet. This increase in liabilities will be treated as capital expenditure, which will in turn increase the council's capital financing requirement (CFR).
- 31 As the council is already making lease payments for these 'right of use' 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.
- 32 Work is progressing on the identification of all current arrangements covered by the Codes new definition of a lease. This analysis will be completed over the coming months and the detailed impact on the council's balance sheet, CFR and Prudential Indicators will be reported to Audit Committee and County Council in the treasury management mid-year report 2024/25, later this year.

Investment Activity

- 33 The council held significant cash balances across the year and these funds have been invested in line with the treasury management policies agreed by County Council. These sums are funds received in advance of expenditure being defrayed plus balances and reserves held. During 2023/24, cash investment balances ranged between £217 million and £447 million.
- 34 As at 31 March 2024, the council held cash investments totalling £217.049 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	85.226	63.275	52.730	-	201.231
Building Societies	-	-	-	-	-
Central Government	-	-	-	-	-
Other Local Authorities	7.030	-	8.788	-	15.818
Money Market Funds	-	-	-	-	-
Total	92.256	63.275	61.518	-	217.049
% of total	43%	29%	28%	-	

- 35 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 22 February 2023.
- 36 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.
- 37 Bank rate rises during the 2023/24 financial year have seen investment rates rise throughout the period. The bank base rate rose from 4.25% in April 2023 to 5.25% in August 2023 and remained at 5.25% until 31 March 2024. The Bank of England made the decision, at its May 2024 Monetary Policy Committee meeting, to maintain base rate at its current level, with the markets currently predicting a first cut in base rate for August 2024.
- 38 The rise in bank base rate in 2023/24 resulted in the budget for investment income from cash balances being overachieved by circa £7 million, which helped offset the significant budgetary pressures the council faced in its expenditure budgets in 2023/24, particularly from Children Looked After Placements.

Treasury Management Indicators

39 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:

	31.03.24 Actual	31.03.24 Actual	Limit	Complied
Upper limit on fixed interest rate exposure	£384.0m	93%	100%	✓
Upper limit on variable interest rate exposure	£28.0m	7%	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	31.03.24 Actual	Complied
Under 12 months	0%	20%	9%	✓
12 months to 2 years	0%	40%	1%	✓
2 years to 5 years	0%	60%	12%	✓
5 years to 10 years	0%	80%	17%	✓
10 years and above	0%	100%	61%	✓

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

Prudential Code Indicators

- 40 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.
- 41 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:

	2023/24 Estimate £ Million	2023/24 Actual £ Million	2023/24 Variance £ Million
Capital Programme	259.187	223.010	(36.177)
Financed by:			
Capital receipts	34.608	34.608	0.000
Capital grants	117.007	103.164	(13.843)
Revenue and reserves	7.072	14.296	7.224
Net borrowing financing need for the year	100.500	70.942	(29.558)

- (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 position reported to County Council in February 2024 is set out in the table below. The variance between the estimated and actual outturn position largely reflects the reprofiling of capital expenditure, to be financed through borrowing, into future years.

	2023/24 Estimate £ Million	2023/24 Actual £ Million	2023/24 Variance £ Million
Capital Financing Requirement	618.392	586.318	(32.074)

- (c) **Actual Debt:** The council's actual debt at 31 March 2024 compared to the estimate in February 2024 is shown in the table below. The variance between the estimated and actual outturn position reflects a reduction in finance lease drawdowns during 2023/24. These drawdowns have been deferred to 2024/25 due to delays in the delivery of leased assets.

	2023/24 Estimate £ Million	2023/24 Actual £ Million	2023/24 Difference £ Million
Borrowing	411.632	411.632	(0.000)
Finance leases	51.276	48.760	(2.516)
PFI liabilities	33.887	33.887	0.000
Total Debt	496.795	494.279	(2.516)

- (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 2024 is set out in the table below:

	2023/24 Estimate £ Million	2023/24 Actual £ Million
Total debt	496.795	494.279
Capital financing requirement	618.392	586.318
Headroom (Internal borrowing)	121.597	92.039

- (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.

	2023/24 Limit £ Million	31.03.24 Debt £ Million	Complied
Borrowing	533.000	411.632	✓
Other long-term liabilities	86.000	82.647	✓
Total	619.000	494.279	✓

- (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.

	2023/24 Limit £ Million	31.03.24 Debt £ Million	Complied
Borrowing	583.000	411.632	✓
Other long-term liabilities	91.000	82.647	✓
Total	674.000	494.279	✓

- (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.

	2023/24 Estimate %	2023/24 Actual %	2023/24 Variance %
Ratio of financing costs to net revenue stream	6.5	6.7	0.2

- (h) **Actual and estimates of 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.

	2023/24 Estimate %	2023/24 Actual %	2023/24 Variance %
Treasury Management Income	1.7	3.0	1.3
Commercial & Service Income	0.8	0.8	0.0

Audit Committee

- 42 In February 2024, the Audit Committee held a workshop to review their effectiveness and consider their role and responsibilities as set out in the CIPFA guidance 'Guiding the Audit Committee: Supplement to the Audit Committee Member Guidance'. Following this review, the terms of reference for this committee were updated to be consistent with best practice and better reflect the CIPFA guidance. These revised terms of reference for the Audit Committee were approved by County Council at its meeting on the 22 May 2024, and now include responsibility for the scrutiny of the council's treasury management strategy, policies, practices and performance.
- 43 All members of the Audit Committee have been undertaking training to support them in their understanding of the functions of treasury management and its purpose, the regulatory framework in which it operates and governance arrangements in place. This understanding is essential to ensure effective scrutiny that will support treasury management policy, improve decision making, improve accountability and transparency and develop knowledge and understanding of treasury matters amongst Members.
- 44 The Audit Committee considered the contents of this report at its meeting on 28 June 2024 and members of the Committee were satisfied that officers had complied with the councils agreed treasury management strategy and associated treasury management policies.

Conclusion

- 45 The council has fully complied with its treasury management strategy 2023/24 for its full year activity covering the period to 31 March 2024.

Background Papers

- 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.
- 6 December 2023 – County Council – 2023/24 Treasury Management Mid- Year Update.

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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 22 February 2023.

Finance

The report details the council's cash management, loans and investment activity during 2023/24. 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 council's approach to treasury management.

The key objective of the council's 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 in treasury management activities and to support effective decision making.