**Audit Committee**

**29 November 2024**

# Mid-Year Review Report on Treasury Management for the period to 30 September 2024

## 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 2024/25. It provides a summary of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators as at 30 September 2024 and an overview of activity during the first six months of 2024/25.

2 The report includes a brief update on the implementation of changes in accounting for leases that came into effect from 1 April 2024, which impacts on the level of debt commitments included in the balance sheet.

3 The sets out proposals to amend the Minimum Revenue Provision Policy Statement, to change the way the Council accounts for the repayment of debt. It is proposed to amend this policy retrospectively from 1 April 2024 to allow for MTFP savings to be delivered in 2025/26 to assist with balancing the Council's budget next year.

4 The report also sets out proposals to amend the monetary limits for institutions on the Council's counterparty list, to mitigate the risk of the Council holding a relatively high proportion of its cash balances with one counterparty. The amendment to the monetary limits reflects the reduction in the overall quantum of cash balances being held currently.

## Executive Summary

5 As at 30 September 2024, the Council held £409 million in borrowing and had £157 million in cash balances invested with counter-party financial institutions. The net debt position was therefore £252 million, which is higher than the position at 31 March 2024, when Net Debt was £195 million. This increase is largely a result of in year reductions in the value of cash investments held.

6 During the six months to 30 September 2024, no new borrowing was arranged, and the Council continued to manage a significant under-borrowed position. The level of cash balances held during the period has allowed the council to use these balances to delay actual borrowing required to fund its current capital programme commitments, whilst interest rates remain high.

7 All investments made over the first half of 2024/25 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.

8 During the half year period to 30 September 2024, 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.

9 International Financial Reporting Standard (IFRS) 16 – Leases – requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. This will impact on way operating leases are accounted for. Good progress has been made in preparing for the implementation of IFRS16 (which is effective from 1 April 2024) and the Council remains on track to fully comply with the changes in accounting practice in advance of preparing the 2024/25 Statement of Accounts.

10 The County Council's existing MRP policy was approved on 28 February 2024, as part of the 2024/25 budget setting report. A review of the Council's MRP Policy has been undertaken in consultation with our Treasury Management advisors. The review has concluded some amendments can be made to the way in which the Council accounts for MRP, which can deliver MTFP savings and help balance the 2025/26 budget. The proposed changes to the MRP Policy, which will need subsequent Council approval on 11 December 2024, are set out within the report.

11 This report seeks approval to prudently reduce the counterparty monetary limits for banks to come into effect from 11 December 2024

(the date of the report to Full Council), with no change to the monetary limits for money market funds and no change to time limits for any of the counterparties. The current and proposed revised limits are set out in the report.

## Recommendation(s)

12 Audit Committee are asked to provide scrutiny and challenge to the issues set out in this report and endorse the findings and recommendations of this report in advance of 11 December 2024 when the Full County Council will be recommended to:

(a) Note the Treasury Management position as at 30 September 2024, the treasury management activity during the first half of the financial year and compliance with the Treasury Management Strategy 2024/25;

(b) Note the update on implementation of changes in accounting for leases that came into effect from 1 April 2024;

(c) Approve the changes to accounting arrangements for Minimum Revenue Provision (MRP), applicable from 1 April 2024, and note the financial implications of this policy change, which will deliver MTFP savings in 2025/26; and

(d) Approve the changes to monetary counterparty limits from 11 December 2024 (date of this report) in response to the reduction in cash investment balances held.

## Background

13 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".

14 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 counterparty financial institutions, with a main aim of providing sufficient liquidity, ahead of the achievement of the best possible investment returns.

15 The second main function of treasury management 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 the Council's risk or cost objectives.

16 The Council has adopted 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 28 February 2024 for the 2024/25 financial year);

(b) An annual review following the end of the year describing the activity compared to the strategy (reported to County Council on 17 July 2024 in respect of the 2023/24 financial year); and

(c) A mid-year Treasury Management Review report, covering the first six months of this financial year, to 30 September 2024 (this report).

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

(a) Summary treasury position – the position as at 30 September 2024 and comparator information for the position as at 31 March 2024;

(b) Borrowing activity during the first six months of the current financial year and an overview of the position as at 30 September 2024;

(c) Other debt activity/long term liabilities held as at 30 September 2024;

(d) Investment activity and details of investments held on 30 September 2024;

(e) Treasury management indicators – performance against the key indicators adopted by Council on 28 February 2024 – position as at 30 September 2024; and

(f) Prudential code indicators – performance against the key indicators adopted by Council on 28 February 2024 – position as at 30 September 2024.

## Summary Treasury Position

18 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.

19 At the beginning and mid-year point 2024/25 the Council's treasury position (excluding borrowing by finance leases) was as follows:

| | **31.03.24 Actual** | **Rate / Return** | **30.09.24 Actual** | **Rate / Return** |
|---|---|---|---|---|
| | **£ million** | **%** | **£ million** | **%** |
| Total Debt | 412 | 3.12 | 409 | 3.02 |
| Total Investments | 217 | 5.65 | 157 | 5.35 |
| **Net Debt** | **195** | | **252** | |

20 As at 30 September 2024, the Council had £409 million of external borrowing and £157 million of cash balances invested, resulting in a net debt position of £252 million.

21 The increase in the net debt position at 30 September largely reflects the reduction in cash balances driven by the level of capital expenditure, with the capital outturn for 2024/25 forecast to be the highest the council has ever invested (£350 million of capital expenditure, which in substantial part must be funded from new borrowing - approximately £205 million).

## Borrowing Activity

22 On 30 September 2024, the Council held £409.445 million of external loans, a decrease of £2.187 million from the position at the start of the year. The in year reduction relates to contractual repayments of principal in respect of annuity and EIP loans held. The mid-year borrowing position and the change since the start of the year is shown in the table below.

| | **31.03.24 Balance** | **In-year Movement** | **30.09.24 Balance** | **Average Rate** |
|---|---|---|---|---|
| | **£ million** | **£ million** | **£ million** | **%** |
| Public Works Loan Board | 325.379 | -1.226 | 324.153 | 3.10 |
| Private Sector | 86.253 | -0.961 | 85.293 | 2.75 |
| **Total Borrowing** | **411.632** | **-2.187** | **409.445** | **3.02** |

23 The Council's primary objective when externally borrowing is to strike an appropriate risk balance between achieving cost certainty over the period for which funds are required and securing low interest costs.

24 No new borrowing was taken out in the first six months of 2024/25.

25 The difference between the Council's borrowing requirement (its underlying need to borrow and on which its MRP budget provision must be based) and the actual borrowing undertaken has been met by internal borrowing – utilising cash balances. The level of cash balances held throughout the year has allowed the Council to use these internal funds to delay the date at which loans are taken out. This has been the most cost-effective option whilst borrowing rates have remained relatively high, with interest rates expected to drop during the remainder of 2024/25 and through 2025/26.

26 Working closely with the Council's external Treasury Management advisers, the Council refinanced £58 million of loans held with Phoenix Finance during the first half of the year. This secured an interest rate saving of 0.68 percentage points on the loans held at no premium refinancing costs. The refinanced loans have been converted to an equal instalment of principal (EIP) basis rather than an annuity basis and have been refinanced over a shorter period. The refinancing will save £0.383 million in interest costs in 2024/25 and £0.410 million in 2025/26, with small interest savings accruing in the last three years of the MTFP(15) planning period.

## Other Debt Activity and Long-Term Liabilities

27 Although not classed as borrowing, the Council has some long-standing school PFI contractual arrangements, and enters into financial

arrangements to hire in replacement fleet vehicles and equipment via finance leases. These financial arrangements must be classified as a form of borrowing as the Council has entered a contractual commitment to make payments over the useful economic life of these assets through a recurring payment. Accounting regulations require the Council to classify such arrangements as a form of borrowing.

28 Total debt relating to these PFI and lease arrangements stood at £85.838 million as at 30 September 2024 (split between schools PFI arrangements of £33.441 million and other lease arrangements of £52.397 million), resulting in total debt held at 30 September 2024 (including external loans) being £495.283 million (compared to £494.279 million on 31 March 2024).

29 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.

30 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 an acquisition of an asset (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 had historically 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 add the asset and an associated liability onto the balance sheet.

31 IFRS16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

32 The application of IFRS16 impacts on statutory reporting requirements and will lead to an increase in liabilities (debt) on the Council's balance sheet. This increase in liabilities is treated as capital expenditure and it increases the Council's capital financing requirement (CFR).

33 As the Council is already making lease payments for these "right of use" assets, budget adjustments are made between the services using these assets and the Council's Capital Financing Budgets to account for these costs. The adjustments are equal to the principal element of the existing lease repayments (which are included in the annual minimum revenue provision (MRP) charge), and therefore there is a net nil effect on the Council's revenue budget.

34 Good progress has been made in preparing for the implementation of IFRS16 and the Council remains on track to fully comply with the

changes in accounting practice in advance of preparing the 2024/25 Statement of Accounts. The Treasury Management Outturn report will reflect the impact of these changes in accounting practice.

## Review of Minimum Revenue Provision (MRP) Policy

### Current MRP Policy

35 The CIPFA Prudential Code for Capital Finance in Local Authorities requires Full Council to agree an annual policy for the Minimum Revenue Provision (MRP). These regulations were originally introduced in 2003, but have been updated subsequently on periodic occasions.

36 The MRP relates to the amount that is set aside each year to provide for the repayment of debt (principal repayments). The regulations require the Council to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

37 The guidance provides recommended options for the calculation of a prudent provision, but since 2008 councils have had some discretion in determining the level of MRP which they consider to be prudent. In very broad terms local authorities are statutorily required to ensure that they set aside MRP over a similar period to which the assets associated with that capital expenditure provide benefits to the local authority – this has the effect of reducing the capital financing requirement.

38 In 2018, the National Audit Office (NAO) published some updated guidance on MRP, which sought to prohibit some overtly aggressive changes in some local authorities MRP policies (i.e. some local authorities were changing their policies to significantly reduce their MRP costs as a one-off exercise or to reduce their MRP charges to unsustainably low levels). The MRP guidance was amended so that local authorities would be prevented from:

(a) Retrospectively changing MRP set aside in previous financial years to create a material credit in their current year's financial accounts;

(b) Making changes to the methodology used to calculate MRP which resulted in a nil charge in a current financial year in order to recover overpayments in previous years;

(c) Extending the assumed economic life of assets to justify the stretching of the period over which MRP is charged to a period in excess of 50 years (thus reducing the annual in-year charge to an unacceptably low level);

(d) Choosing not to provide MRP for expenditure on the basis that the eventual sale of an asset financed by borrowing would generate a capital receipt to repay that borrowing and therefore negate the need to set aside MRP in lieu of the asset eventually being sold.

39 The Council's existing MRP policy was approved on 28 February 2024, as part of the 2024/25 budget setting report. The policy has been set using the following principles:

(a) In respect of the Council's supported borrowing (taken out before 2008, with MRP payments funded by underlying general government grant), MRP is provided for on a 2.5% straight-line basis – i.e. provision for the full repayment of debt over 40 years;

(b) MRP charges for unsupported borrowing (i.e. debt taken out since 2008) are applied by using the annuity method;

(c) MRP charges for finance leases (non-PFI) are equal to the principal elements of the rental or charge that goes to write down the balance sheet liability created from such arrangements;

(d) MRP charges for Private Finance Initiative Schemes are provided using the asset life method calculated on a straight-line basis; and

(e) The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

40 When borrowing to provide an asset, the Council commences MRP in the financial year following the one in which the capital expenditure was incurred. For the purposes of borrowing to provide an asset that is currently under construction, MRP charges are not applied until the year after the asset becomes operational.

41 Regulations allow the Council to review its policy each year and set a policy which is prudent.

42 Under MRP Guidance, any changes made more than the statutory MRP can be made and are referred to as "Voluntary Revenue Provision" (VRP) payments. VRP can be reclaimed as reductions in later years MRP contributions, providing those later years MRP contributions remain prudent. For these amounts to be reclaimed in later years, the policy must disclose the cumulative overpayment made each year. Cumulative VRP payments made to date are £2.934 million.

**2024/25 Review of MRP Policy**

43 A further review of the Council's MRP Policy has been undertaken in consultation with our Treasury Management advisors. The review has concluded some amendments can be made to the way in which the

Council accounts for MRP, which can deliver MTFP savings and help balance the 2025/26 budget. None of the proposed changes contravene the updated guidance on MRP issued by National Audit Office in 2018.

44 The Council has identified options to revise its policy for MRP in relation to its Capital Financial Borrowing Requirement incurred in the following tranches:

(a) Capital Financing Borrowing Requirement incurred before 31 March 2008 – £187.7 million outstanding as of 31 March 2024;

(b) Capital Financing Borrowing Requirement incurred after 31 March 2008 - £315.9 million outstanding as of 31 March 2024;

(c) Capital Financing Borrowing Requirement incurred because of entering into a Schools' PFI Funded Asset Build programme – £33.9 million outstanding as of 31 March 2024.

45 MRP charges are calculated based on the closing Capital Financing Requirement of the Council (our underlying need to borrow) as at 31 March 2024, as opposed to the actual level of borrowing held (the difference relating to the under-borrowed position held by the Council).

46 The proposed changes to the Council's MRP Policy relates to the tranches of debt summarised in (a) to (c) as follows:

(a) Pre-2008 Borrowing: Move from a 2.5% per annum "straight-line" MRP contribution (which runs for 40 years), to a 32-year annuity repayment basis, on a projected annuity rate of 4.5%, on the basis the Council make this amendment before but not later than 31 March 2025.

(b) Post-2008 Borrowing: Move from an annuity calculation which currently uses an average asset-life assumption of 40 years at the standard PWLB annuity rate, to an annuity rate which is calculated over a shorter (34 years) projected annuity rate of 4.5%, assuming the amendment is made before but not later than 31 March 2025.

(c) PFI Education Assets: move from charging MRP on an asset life over 45 years, on an annuity basis, to an annuity basis over 38 years, using a projected annuity rate of 4.5% assuming the MRP policy change is enacted before but not later than 31 March 2025.

47 The policy change will support the achievement of proposed MTFP (15) financial savings relating to capital financing costs. Based on assumed PWLB interest rates by 31 March 2025, the policy change will result in savings in 2024/25 of £3.66 million and annual budget savings of £3.500 million in 2025/26.

48 It is proposed that the Council will make a Voluntary Revenue Provision Payment of £3.66 million from the saving that will accrue in 2024/25, to offset the impact of the required reprofiled increases in MRP budgets in later years. The Voluntary Repayment Provision proposed for 2024/25 is over and above the prudent provision of MRP already set aside for 2024/25, and this element can be released into future years to offset the increases in MRP required in later years.

49 The amount of debt held by the Council will not change because of the amendments to the MRP policy proposed in this report. However, the profile of the legally required provision set aside by the Council to reduce its Capital Financing Requirement does change. Indeed, the Council's Capital Financing Requirement will remain relatively higher for longer, as less MRP is set aside in the next few years.

50 The savings generated from the change in the policy create a base budget saving from 2025/26, however additional budget allocations for MRP will need to be added into later years' budgets and medium-term financial plans to reflect the incremental year-on-year increases in MRP required to offset this upfront re-profiled saving.

51 The Office for Local Government (OFLOG), have recently introduced measures to monitor and review levels of indebtedness and assess if local authorities are setting aside sufficient MRP in their budgets. This is determined to be at least 2%. If the Council does not provide a minimum level of MRP, this would be flagged and could trigger a regulator review and could impact on the Value for Money Assessment undertaken by our External Auditors. The proposed MRP changes are all within the guidance set out by the Government and the Council will continue to set aside enough MRP to exceed the notional 2% threshold.

52 Many other local authorities have already implemented these changes to their MRP policies, and consequently set aside lower levels of MRP compared to the Council, as a relative proportion of their capital financing requirement, so the proposed policy changes are not unique.

53 By the 2040s, there will be a substantial annual difference between the original MRP profile and proposed future profile. Therefore, each year for the next 30 years, the Council will need to increase its MRP budget by a rising amount to keep pace with the MRP reprofiling requirements. However, these increases are not inflated for future years' inflation, and are therefore dampened by the impact of the time value of money. The MTFP(15) forecasts include the impact of future years increases from 2026/27 onwards.

54 The Council will also have options to review MRP profiling in later years based on the life of assets which were funded from capital expenditure underpinned by borrowing. Another option would be for the Council to choose to make further voluntary revenue payments in later years.

## Investment Activity

55 The Council continues to temporarily invest cash balances, representing balances and reserves held and funds received in advance of expenditure being incurred. During the six months to 30 September 2024, investment balances ranged between £157 million and £260 million.

56 As at 30 September 2024, the Council held investments totalling £157.142 million. The following table provides a breakdown of these investments split by the type of financial institution and maturity period based on investments held at 30 September 2024.

| Financial Institution | 0-3 months | 3-6 months | 6-9 months | 9-12 months | Total |
|---|---|---|---|---|---|
| | £ million | £ million | £ million | £ million | £ million |
| Banks | 103,082 | 28,601 | - | - | **131,683** |
| Building Societies | - | - | - | - | **-** |
| Other Local Authorities | - | - | - | - | **-** |
| Money Market Funds | 25,459 | - | - | - | **25,459** |
| **Total** | **128,541** | **28,601** | **-** | **-** | **157,142** |
| % of Total | 82% | 18% | 0% | 0% | |

57 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the Annual Investment Strategy approved by Council on 28 February 2024.

58 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.

## Counterparty Limits

59 The time and monetary limits for institutions on the Council's counterparty list, covering specified and non-specified investments, are reviewed annually in consultation with the council's treasury management advisers and set out in the Annual Investment Strategy.

60 As the Council's cash balances are reducing, the counterparty limits have been reviewed in line with advice from our Treasury Management advisors. This report seeks approval to prudently reduce the counterparty monetary limits for banks to come into effect from 11 December 2024 (date of this report), with no change to the monetary

limits for money market funds and no change to time limits for any of the counterparties.

61 The current and revised limits are set out in the table below.

| Investment Type | Long Term Rating | Current Money Limit | Revised Money Limit | Time Limit (no change) |
|---|---|---|---|---|
| Banks / Building Societies | AA- | £70m | £60m | 2 years |
| Banks / Building Societies | A | £50m | £40m | 1 year |
| Banks / Building Societies | A- | £30m | £25m | 6 months |
| Banks – part-nationalised | N/A | £70m | £70m | 2 years |
| Banks– Council's banker | A- | £35m | £35m | 3 months |
| DMADF / Treasury Bills | AAA | unlimited | unlimited | 6 months |
| Local Authorities | N/A | £20m each | £20m each | 5 years |
| Housing Associations | A- | £15m | £15m | 6 months |
| Building Societies | +£1 billion | £20m | £20m | 6 months |
| Money Market Funds | AAA | £200m total | £200m total | liquid |
| Money Market Funds CNAV | AAA | £40m each | £40m each | liquid |
| Money Market Funds LVNAV | AAA | £40m each | £40m each | liquid |
| Money Market Funds VNAV | AAA | £40m each | £40m each | liquid |
| Ultra-Short Dated Bond Funds | AAA | £10m each | £10m each | liquid |
| Property Funds | N/A | £50m total (£25m each) | £50m total (£25m each) | Unlimited |

62 No change is proposed to the money market funds limits for the following reasons:

(a) Even though cash balances are reducing, the Council still needs scope to accommodate new borrowing when taken;

(b) Investing in money market funds gives instant access to funds, as opposed to short-term investments which are secured and unavailable for a specified time frame;

(c) The rates offered by money market funds are often the most attractive on the market, if interest rates are falling and / or are predicted to fall.

## Treasury Management Indicators

63 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 principal invested is:

| | 2024/25 Limit % | 30.09.24 Actual £ million | 30.09.24 Actual % | Complied |
|---|---|---|---|---|
| Upper limit on fixed interest rate exposure | 100 | 381.445 | 93.2 | ✓ |
| Upper limit on variable interest rate exposure | 70 | 28.000 | 6.8 | ✓ |

**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 are:

| | Lower Limit % | Upper Limit % | 30.09.24 Actual % | Complied |
|---|---|---|---|---|
| Under 12 months | 0 | 20 | 7.9 | ✓ |
| 12 months to 2 years | 0 | 40 | 0.0 | ✓ |
| 2 years to 5 years | 0 | 60 | 9.7 | ✓ |
| 5 years to 10 years | 0 | 80 | 17.1 | ✓ |
| 10 years and above | 0 | 100 | 65.2 | ✓ |

**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 | 30.09.24 Actual £ million | Complied |
|---|---|---|---|
| Actual principal invested beyond one year | 75 | 0 | ✓ |

## Prudential Code Indicators

64 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.

65 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 2024/25 budget was set in February 2024 and compares it to the updated forecast outturn position as at 30 September 2024, which includes amendments to the Capital Programme in year as reported to and approved by Cabinet in on 4 December 2024.

| | **2024/25 Original Budget £ million** | **30.09.24 Forecast £ million** | **Variance £ million** |
|---|---|---|---|
| **Capital Expenditure** | 361.901 | 348.657 | -13.244 |
| **Financed by:** | | | |
| Capital receipts | 3.446 | 3.446 | - |
| Capital grants and contributions | 125.995 | 133.366 | 7.371 |
| Revenue and reserves | 3.991 | 7.685 | 3.694 |
| **Net borrowing financing need for the year** | **228.469** | **204.160** | **-24.309** |

**Actual Debt.** The Council's actual debt on 30 September 2024, with comparator information as of 31 March 2024, is as follows:

| | **31.03.24 Actual £ million** | **30.09.24 Actual £ million** | **Variance £ million** |
|---|---|---|---|
| Borrowing | 411.632 | 409.445 | -2.187 |
| Finance leases | 48.760 | 52.397 | 3.637 |
| PFI liabilities | 33.887 | 33.441 | -0.446 |
| **Total Debt** | **494.279** | **495.283** | **1.004** |

**Operational Boundary.** This is the limit that 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.

| | 2024/25 Estimate £ million | 30.09.24 Actual £ million | Complied |
|---|---|---|---|
| Borrowing | 708.000 | 409.445 | ✓ |
| Other long-term liabilities | 89.000 | 85.838 | ✓ |
| **Total** | **797.000** | **495.283** | |

**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.

| | 2024/25 Estimate £ million | 30.09.24 Actual £ million | Complied |
|---|---|---|---|
| Borrowing | 758.000 | 409.445 | ✓ |
| Other long-term liabilities | 94.000 | 85.838 | ✓ |
| **Total** | **852.000** | **495.283** | |

## Conclusion

66 The Council has fully complied with its Treasury Management Strategy in the period to 30 September 2024.

67 The report sets out proposals to amend the monetary limits for institutions on the council's counterparty list, to mitigate the risk of the council holding a relatively high proportion of its cash balances with one counterparty. The amendment to the monetary limits reflects the reduction in the overall quantum of cash balances being held currently.

68 The report provides a brief update on the implementation of changes in accounting for leases that came into effect from 1 April 2024, which impacts on the level of debt commitments included in the balance sheet. The impact of the changes to accounting practice as a result of the implementation of IFRS16 will be factored into the 2024/25 Statement of Accounts and the figures presented in the Treasury Management Outturn report for 2024/25.

69 Proposals to amend the Minimum Revenue Provision Policy (MRP) Statement agreed by Council in February 2024 – which determines the way the Council accounts for the repayment of debt – are set out in the report. It is proposed to amend the MRP policy retrospectively from 1 April 2024, make a Voluntary Repayment Provision in 2024/25 and set this aside so that it can be released into future years to offset the increases in MRP required in later years. The proposed changes to the

MRP Policy will allow MTFP savings to be delivered in 2025/26 to assist with balancing the Councils budget next year.

## Background Papers

(a) Medium Term Financial Plan 2024/25 to 2027/28 and Revenue and Capital Budget 2024/25. Appendix 14: Durham County Council Annual Treasury Management Strategy Statement 2024/25 – report to County Council on 28 February 2024.

(b) 2023/24 Treasury Management Final Outturn – report to County Council on 17 July 2024.

(c) Implementation of Accounting Standard IFRS16 Leases – report to Audit Committee on 29 September 2023.

## Author(s)

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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 Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 28 February 2024.

### Finance

The report details the Council's cash management, loans and investment activity during the six months to and as at 30 September 2024. The report also provides the overall financing of the council's capital expenditure, along with borrowing and investment income returns.

The report sets out proposed changes to the Council's Minimum Revenue Provision (MRP) Policy, which will result in an amendment to the profile of the Council's long-term need to borrow, as measured by the Council's Capital Financing Requirement. The amendment in the Policy will generate a financial saving which contributes towards proposals to make savings as part of the Council's MTFP (15) savings proposals.

### 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

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.

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 counterparty lists and limits on investments with counterparties reflect a prudent attitude towards organisations with whom funds may be deposited. A formal counterparty policy is in place which identifies those organisations from which the council may borrow, or with whom it may enter into other financing or derivative arrangements.

The council's chief objective when externally borrowing is to strike an appropriate risk balance between achieving cost certainty over the period for which funds are required and securing low interest costs.

In terms of the proposals to amend the Council's MRP Policy, the amendments have been presented to Audit Committee, with assurance provided that the revised MRP policy is prudent and affordable, both now and in later years. However, the revised profile of future years' capital financing requirements will need to also consider the level of debt required to fund the capital programme. It is worth noting, that the capital financing requirement for capital plan borrowing is expected to rise from £504 million in 2023/24 to £970 million by March 2028.

The reprofiling of the MRP on existing and future debt must be reflected by way of additional budget allocations from 2026/27 onwards to reflect higher levels of MRP provision, as well as additional capital financing cost requirements for interest and other debt-related costs.

OFLOG, the recently formed Local Government Regulator have set measures in place to review whether local authorities are setting aside sufficient MRP in their budgets – a potential sign of a local authority being in financial distress. OFLOG's MRP Financial Health measure has cited a potential trigger point in circumstances where a Council's MRP is less than 2% of its Capital Financing Requirement. Following the impact of these amendments to the policy, it is expected that the Council will continue to stay above this OFLOG measure threshold.

The Council has received and taken on board advice from the Council's appointed Treasury Management Advisors, who have confirmed that the change in policy does not breach MRP Statutory Guidance. The Policy Change has been discussed with the Audit Committee (on 29 November 2024).

## Procurement

The council has appointed treasury management advisors to support staff involved in treasury management activities and to support effective decision making.