County Council

19 September 2018

Treasury Management Outturn 2017/18

Report of Corporate Management Team
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Purpose of the Report

1 To provide information on the Treasury Management outturn position for the year ended 31 March 2018.

Background

2 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’.

3 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.

4 The second main function of treasury management is to secure 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.

5 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 the County Council on 22 February 2017 for the 2017/18 financial year);

(b) a mid-year Treasury Management Review report, covering the first six months of the financial year, to 30 September 2017 (reported to Council on 6 December 2017);

(a) an annual review following the end of the year describing the activity compared to the strategy for the 2017/18 financial year (this report).

6 This report provides a summary of the following:

(a) summary treasury position;

(b) borrowing activity;

(c) investment activity;

(d) treasury management indicators;

(e) prudential indicators.

Summary Treasury Position

7 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.

8 At the beginning and end of 2017/18 the Council's treasury position (excluding borrowing by finance leases) was as follows:

	31.03.17 £ million	Rate / Return %	Average Life Years	31.03.18 £ million	Rate / Return %	Average Life Years
Total Debt	256	3.96		291	3.88	
Total Investments	175	0.52	0.23	172	0.56	0.30
Net Debt	81			119		

9 As at 31 March 2018, the Council had £291 million of borrowing and £172 million of investments.

Borrowing Activity

10 At 31 March 2018, the Council held £290.613 million of loans, an increase of £34.98 million on the previous year. The year-end borrowing position and the year-on-year change is shown in the table below.

	31.3.17 Balance £ million	2017/18 Movement £ million	31.3.18 Balance £ million	Average Rate %	31.3.18 Average Life Years
Public Works Loan Board	203.981	34.999	238.980	3.62%	15.3
Private Sector	51.424	(0.005)	51.419	4.41%	28.2
County Pension Fund	0.227	(0.013)	0.214	8.01%	9.9
Total Borrowing	**255.632**	**34.981**	**290.613**		

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

12 To take advantage of historically low rates of interest, new borrowing of £35 million was raised in 2017/18 with details in the following table. There were no significant loans maturing during the year.

Lender	Principal £ million	Interest Rate %	Start Date	Length
PWLB	15.00	2.44	23.11.17	40.5 years
PWLB	10.00	2.36	19.12.17	40.5 years
PWLB	10.00	2.34	26.03.18	40.5 years
Total	**35.00**			

13 Affordability and the "cost of carry", the gap between the interest rates on borrowings and the interest rates achieved on investments, remained important influences on the Council's borrowing strategy. There was no value in borrowing in advance for future years' planned expenditure and therefore none was taken.

14 No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Other Debt Activity / Long Term Liabilities

15 Although not classed as borrowing, the Council also raised £5.743 million of capital finance for replacement fleet vehicles and equipment via finance leases during the 2017/18 financial year. Debt other than borrowing stood at £48.719 million on 31 March 2018, taking total debt to £339.332 million. The largest element of this is finance lease in respect of PFI leases.

Investment Activity

16 The Council has held cash investments representing funds received in advance of expenditure plus balances and reserves held. During 2017/18, investment balances ranged between £122.9 million and £233.6 million.

17 As at 31 March 2018, the Council held investments totalling £172.031 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	Total
	£ million			
Banks	4.687	28.906	33.035	66.628
Building Societies	-	-	-	-
Central Government	0.826	-	-	0.826
Other Local Authorities	24.776	41.294	8.259	74.329
Money Market Funds	30.248	-	-	30.248
TOTAL	**60.537**	**70.200**	**41.294**	**172.031**
% of TOTAL	**35%**	**41%**	**24%**	

18 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 22 February 2017. 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.

19 All of the Council's investment activity has remained within the benchmarks for managing investment risk which were included in the Annual Treasury Management Strategy. The following table compares the actual position for 2017/18 against the previously agreed benchmarks.

Investment Risk	Measured by	Benchmark	Actual position 31.3.2018
Security	% of historic risk of default	0.08%	0.012%
Liquidity	Weighted average life to maturity	6 months (183 days) average 9 months (274 days) maximum	220 days average
Yield	Internal returns above the 7 day LIBID rate	0.362%	0.74%

Treasury Management Indicators

20 There are three debt related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested was:

	31.3.18 Actual	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	£251.1m	86.4%	100%	✓
Upper limit on variable interest rate exposure	£39.5m	15.5%	70%	✓

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Lower Limit	Upper Limit	31.3.18 Actual	Complied
Under 12 months	0%	20%	0.6%	✓
12 months to 2 years	0%	40%	0.9%	✓
2 years to 5 years	0%	60%	5.3%	✓
5 years to 10 years	0%	80%	13.9%	✓
10 years and above	0%	100%	79.3%	✓

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:

	2017/18	Complied
Actual principal invested beyond one year	£0m	✓

Prudential Code Indicators

21 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.

22 The objectives 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 capital expenditure incurred and how the expenditure was financed:

	2017/18 Estimate £ million	2017/18 Actual £ million	Difference £ million
Capital Expenditure	**111.383**	**97.752**	**(13.631)**
Financed by:			
Capital receipts	17.591	15.136	(2.455)
Capital grants and contributions	53.697	54.124	0.427
Revenue and reserves	5.320	28.492	23.172
Net financing need for the year	**34.775**	**0**	**(34.775)**

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).

Capital Financing Requirement	31.03.18 Estimate £ million	31.03.18 Actual £ million	Difference £ million
General Fund	**459.706**	**425.182**	**(34.524)**
Total CFR	**459.706**	**425.182**	**(34.524)**

Actual Debt: The Council's actual debt at 31 March 2018 was as follows:

Debt	31.03.18 Estimate £ million	31.03.18 Actual £ million	Difference £ million
Borrowing	280.613	290.613	**10.000**
Finance leases	11.867	9.545	**(2.322)**
PFI liabilities	39.173	39.174	**0.001**
Total Debt	**331.653**	**339.332**	**7.679**

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 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 table below shows the position as at 31 March 2018:

Debt and CFR	31.03.18 Estimate £ million	31.03.18 Actual £ million	Difference £ million
Total debt	331.653	339.332	**7.679**
Capital financing requirement	459.706	425.182	**(34.524)**
Headroom (Under Borrowed)	**(128.053)**	**(85.850)**	**(26.845)**

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.

Operational Boundary	2017/18 Estimate £ million	2017/18 Actual £ million	Complied
Borrowing	448.000	290.613	✓
Other long term liabilities	54.000	48.719	✓
Total	**502.000**	**339.332**	✓

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.

Authorised Limit	2017/18 Estimate £ million	2017/18 Actual £ million	Complied
Borrowing	498.000	290.613	✓
Other long term liabilities	57.000	48.719	✓
Total	**555.000**	**339.332**	✓

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.

	2017/18 Estimate %	2017/18 Actual %	Difference %
Ratio of financing costs to net revenue stream	6.89	5.93	(0.96)

Estimates of the incremental impact of capital investment decisions on council tax: This indicator identifies the revenue costs associated with the capital programme.

	2017/18 Estimate	2017/18 Actual	Difference
Council Tax Band D	£0.00	£0.00	£0.00

Recommendations and Reasons

23 It is recommended that Council note the treasury management outturn position for 2017/18.

Background Papers

(a) 22 February 2017 – County Council – Appendix 12: Durham County Council Annual Treasury Management Strategy of the Medium Term Financial Plan, 2017/18 – 2019/20 and Revenue and Capital Budget 2017/18.

(b) County Council – 20 September 2017 – Treasury Management Outturn 2016/17.

(c) 21 February 2018 – County Council – Appendix 11: Durham County Council Annual Treasury Management Strategy of the Medium Term Financial Plan, 2018/19 – 2021/22 and Revenue and Capital Budget 2018/19.

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Appendix 1: Implications

Finance

The report details the Council's cash management, loans and investment activity during 2017/18. The report also provides the overall financing of the Council's capital expenditure, along with borrowing and investment income returns.

Staffing

None.

Risk

None.

Equality and Diversity / Public Sector Equality Duty

None.

Accommodation

None.

Crime and Disorder

None.

Human Rights

None.

Consultation

None.

Procurement

None.

Disability Issues

None.

Legal Implications

None.