

## ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

|    |                     |   |
|----|---------------------|---|
| 1. | <b>Meeting:</b>     | <b>Audit Committee</b>  |
| 2. | <b>Date:</b>        | <b>22 July 2015</b>   |
| 3. | <b>Title:</b>       | <b>Annual Treasury Management Report and Actual Prudential Indicators 2014/15</b> |
| 4. | <b>Directorate:</b> | <b>Finance &amp; Corporate Services</b>   |

### 5. Summary

The Council received an annual treasury strategy in advance of the 2014/15 financial year and also received a mid year report representing a mid year review of treasury activity during 2014/15.

The annual treasury management report is the final treasury report for 2014/15. Its purpose is to review the treasury activity for 2014/15 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2014/15 in accordance with the requirements of the Prudential Code.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

The treasury activity and actual prudential indicators for 2014/15 were reported as part of the Council's Outturn report to Commissioner Manzie's meeting held on 9<sup>th</sup> July 2015. At that meeting Commissioner Manzie was minded to Grant Decision to approve the indicators.

### 6. Recommendation

**Audit Committee is asked to note the Annual Treasury Management Report for 2014/15.**

## **7. Proposals and Details**

The Interim Strategic Director of Finance and Corporate Services has delegated authority to carry out treasury management activities on behalf of the Council and this report is produced in order to comply with the CIPFA Code of Practice in respect of Treasury Management in Local Authorities and the “Prudential Code”.

## **8. Finance**

Treasury Management forms an integral part of the Council’s overall financial arrangements.

## **9. Risks and Uncertainties**

Regular monitoring will ensure that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

## **10. Policy and Performance Agenda Implications**

Effective treasury management will assist in delivering the Council’s policy and performance agenda.

## **11. Background Papers and Consultation**

Commissioner Manzie’s Meeting – 9<sup>th</sup> July 2015  
CIPFA – Code of Practice for Treasury Management in the Public Services  
Local Government Act 2003 (as updated)  
CIPFA – Prudential Code (as updated)

### **Contact Names:**

Derek Gaffney, Chief Accountant, ext 7422005 or 22005.  
[derek.gaffney@rotherham.gov.uk](mailto:derek.gaffney@rotherham.gov.uk)

Simon Tompkins, Finance Manager (Accountancy Services), ext 54513,  
[simon.tompkins@rotherham.gov.uk](mailto:simon.tompkins@rotherham.gov.uk)

# Annual Report on the Treasury Management Service and Actual Prudential Indicators 2014/15

## Executive Summary

During 2014/15 the Council complied with its legislative and regulatory requirements in terms of setting, monitoring and reporting on its prudential indicators for the year.

Indicators are set prior to the start of the financial year and reflect the known position at that time. Approved changes to the capital programme and its funding throughout the financial year, together with variations in treasury management activity, does mean that actual indicators for the year may vary from the initial projections made prior to the start of the financial year. However by regularly monitoring these indicators the Council is able to ensure the impact is known and managed through the Medium Term Financial Strategy.

The actual prudential indicators for 2014/15, with comparators, are as follows:

|  | <b>2014/15<br/>Actual<br/>£m</b> | <b>2014/15<br/>Revised<br/>Indicator<br/>£m</b> | <b>2014/15<br/>Original<br/>Indicator<br/>£m</b> | <b>2013/14<br/>Actual<br/>£m</b> |
|--|----------------------------------|---|--|----------------------------------|
| Capital Expenditure                                    | 73.002                           | 78.894  | 59.348   | 71.769                           |
| Capital Financing Requirement:<br>- Non-HRA            | 351.795                          | 316.339   | 316.593  | 317.758                          |
| Capital Financing Requirement:<br>- HRA                | 304.125                          | 305.583   | 307.646  | 304.125                          |
| Total excluding PFI and similar arrangements           | 655.920                          | 621.922   | 624.239  | 621.883                          |
| Cumulative adjustment for PFI and similar arrangements | 125.694                          | 125.749   | 125.617  | 127.567                          |
| Total including PFI schemes and similar arrangements   | 781.614                          | 747.671   | 749.856  | 749.450                          |
|  | %                                | %   | %  | %                                |
| Financing Costs as a proportion of Net Revenue Stream: |                                  |   |  |                                  |
| Non-HRA  | 8.45                             | 8.67  | 9.14   | 8.16                             |
| HRA  | 17.22                            | 17.28   | 17.52  | 17.74                            |

The main reasons for the change in the actual indicators, from those originally set in March 2014 and subsequently revised in March 2015 are as follows:

- The final level of capital expenditure for 2014/15 varied against the revised indicator principally due to slippage on schemes. The main areas of slippage were Housing initiatives and Highways Projects.

Included within the outturn capital expenditure is £1.741m of spending in respect of the capitalisation of schools' PFI lifecycle works and this Accounting Adjustment generated an equivalent amount of revenue benefit in 2014/15.

- At the end of the financial year the closing Capital Financing Requirement (CFR) is higher than that approved as the revised indicator for the year. Whilst capital expenditure funded by borrowing and the MRP charge for the year were broadly in line with the estimates, the CFR increased as a result of the following MRP Accounting Adjustments

In common with a number of local authorities the Council examined various options for reviewing the calculation of its annual MRP charge. This is a complex area involving Government Regulations and some options were consequently dismissed. However it was felt that a more equitable and fair approach for council tax payers could be achieved by adopting the following approaches:

- Retrospectively re-profiling the Council's MRP charge for debt repayment on pre-2007/08 capital expenditure which was funded from borrowing.
- Replacing existing borrowing of the capital programme with funding through readily available capital receipts and unapplied capital grants.

Papers setting out the above proposals were submitted to the Council's External Auditor, KPMG, seeking their view and they are not minded to challenge the proposed changes regarding MRP.

Lead Commissioner Sir Derek Myers considered a report on these options at his meeting on 11<sup>th</sup> June and Council approved the changes at the meeting held on 8<sup>th</sup> July.

The proposals have led to a reduction in the MRP charged to date and led to an increase in the Council's underlying need to borrow as measured by the CFR.

The Interim Strategic Director of Finance & Corporate Services also confirms that borrowing was only undertaken for a capital purpose and the Statutory Borrowing Limit, the Authorised Limit, was not breached.

At 31 March 2015, the Council's external debt totalled £468.884m (£476.164m at 31 March 2014) and investments totalled £18.674m (£19.749m at 31 March 2014).

At 31 March 2015, the Former South Yorkshire County Council external debt totalled £96.121m (£96.121m at 31 March 2014). The Former SYCC had no investments at that date (nil at 31 March 2014).

## 1. Introduction

1.1 This report summarises:

- the capital activity for the year;
- how this activity was financed;
- the impact on the Council's indebtedness for capital purposes;
- the Council's overall treasury position;
- the reporting of the required prudential indicators;
- debt activity; and
- investment activity.

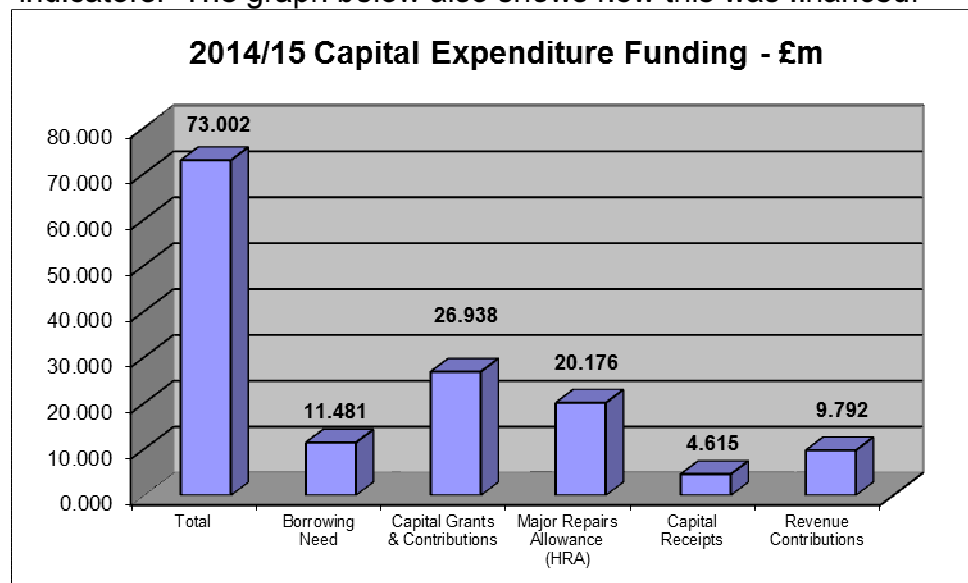
## 2. The Council's Capital Expenditure and Financing 2014/15

2.1 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available the expenditure will give rise to a borrowing need.

2.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. The primary objective is security ahead of liquidity and then yield or return. Wider information on the regulatory requirements is shown in Section 8.

2.3 The actual capital expenditure forms one of the required prudential indicators. The graph below also shows how this was financed.



### **3. The Council's Overall Borrowing Need**

- 3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. It represents 2014/15 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.
- 3.2 The Non-HRA element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:
- the application of additional capital resources (such as unapplied capital receipts); or
  - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

CLG Regulations require Full Council to approve an MRP Statement and detailed rules have been replaced by a single duty to charge an amount of MRP which the Council considers 'prudent'. The Council approved the following MRP policy in relation to the charges for 2014/15:

- (a) The MRP charge in relation to capital expenditure incurred prior to 2007/08 where the expenditure was funded by either supported or unsupported borrowing will be calculated using the expected useful life of the asset and the calculation of the provision will be by the annuity method;
  - (b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by both supported and unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate; and
  - (c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a 'capitalisation directive' (e.g. equal pay) will be calculated on the basis of the specified period(s) set down within the regulations. The calculation of the provision will be either the annuity method or the equal instalments method depending on which is most appropriate.
- 3.3 In addition to showing the Council's underlying borrowing need, following changes to accounting rules in 2009/10, the CFR also includes other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets.

| CFR (£m)   | 31 March<br>2015<br>Actual<br>£m | 31 March<br>2015<br>Revised<br>Indicator<br>£m | 31 March<br>2015<br>Original<br>Indicator<br>£m | 31 March<br>2014<br>Actual<br>£m |
|--|----------------------------------|--|---|----------------------------------|
| Opening balance<br>(excluding on-balance<br>sheet PFI and similar<br>arrangements)           | 621.883                          | 621.883  | 627.042   | 625.698                          |
| Plus increase in<br>borrowing need   | 11.481                           | 10.262   | 7.599   | 7.310                            |
| Less MRP/VRP/Met<br>Debt Principal<br>Repayment  | -9.696                           | -10.223  | -10.402   | -9.865                           |
| Other net changes in<br>borrowing need   | 32.252                           | 0.000  | 0.000   | -1.260                           |
| Closing balance<br>(excluding on-balance<br>sheet PFI and similar<br>arrangements)           | 655.920                          | 621.922  | 624.239   | 621.883                          |
|  |                                  |  |   |                                  |
| <b>Closing balance<br/>(excluding on-balance<br/>sheet PFI and similar<br/>arrangements)</b> | <b>655.920</b>                   | <b>621.922</b>                                 | <b>624.239</b>                                  | <b>621.883</b>                   |
| Plus cumulative PFI<br>adjustments   | 125.694                          | 125.749  | 125.617   | 127.567                          |
| <b>Closing balance<br/>(including on-balance<br/>sheet PFI and similar<br/>arrangements)</b> | <b>781.614</b>                   | <b>747.671</b>                                 | <b>749.856</b>                                  | <b>749.450</b>                   |

- 3.4 Actual capital expenditure in 2014/15 which was funded by borrowing was higher than had been estimated, however the actual MRP charge for the year (i.e. excluding the MRP Accounting Adjustment) was less than estimated. The net change of £1.785m also contributed to the increased in closing CFR when compared to the revised indicator for the year.

#### 4. Treasury Position at 31 March 2015

- 4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Director of Financial Services and the treasury function can manage the Council's actual borrowing position by either:
- borrowing to the CFR (excluding the impact of PFI and similar contracts); or
  - choosing to utilise some temporary internal cash flow funds instead of borrowing (under-borrowing); or



- borrowing for future increases in the CFR (borrowing in advance of need).

- 4.2 It should be noted that accounting practice defined by the Code of Practice requires financial instruments in the accounts (debt and investments etc.) to be measured in a method compliant with International Financial Reporting Standards. The figures in this report are based on the amounts borrowed and invested and so may differ from those shown in the final accounts by items such as accrued interest.
- 4.3 The expectation for 2014/15 had been that borrowing would have been mainly in line with the estimated borrowing need for the year whilst partly reducing the Council's 31 March 2014 under-borrowed position. The continued volatility in the financial markets was such that the most prudent approach was to continue to utilise temporary cash flow funds instead of borrowing. The Council's treasury position at the 31 March 2015 compared with the previous year was:

| RMBC<br>Treasury position  | 31 March 2015   |                   | 31 March 2014   |                   |
|--|-----------------|-------------------|-----------------|-------------------|
|  | Principal<br>£m | Average<br>Rate % | Principal<br>£m | Average<br>Rate % |
| Fixed Interest Rate Debt *   | 372.884         | 4.56              | 370.164         | 4.85              |
| Variable Interest Rate Debt **   | 96.000          | 4.61              | 106.000         | 4.41              |
| Total Debt   | 468.884         | 4.57              | 476.164         | 4.75              |
| Fixed Interest Investments   | 18.674          | *** 0.26          | 19.749          | *** 0.25          |
| Variable Interest Investments  | 0               | 0.00              | 0               | 0.00              |
| Total Investments  | 18.674          | 0.25              | 19.749          | 0.25              |
| <b>Net borrowing position</b>  | <b>450.210</b>  |                   | <b>456.415</b>  |                   |
| * Includes all debt where the interest rate is fixed for the whole of the following financial year<br>** Includes all debt where the interest rate may be subject to interest rate variation on specified dates during the following financial year<br>*** The investments shown include the principal outstanding on the Council's Icelandic investments (£0.104m at 31/03/15, £0.104m at 31/03/14), with an assumed average rate of zero |                 |                   |                 |                   |

- 4.4 Compared to the Council's CFR (£655.920m), the outstanding debt levels (£468.884m) are lower than this Requirement by approximately £187m due to the Council's prudent and sensible approach to utilise temporary cash flow funds rather than take out additional borrowings. A Council is generally allowed to borrow up to its CFR.

4.5 The Council's net borrowing position reflects the capital spend that is yet to be financed from revenue or other resources as it is to be repaid over a prudent and affordable period in line with the Council's Minimum Revenue Provision Policy.

4.6 The **Former South Yorkshire County Council's** treasury position at the 31 March 2015 compared with the previous year was:

| Former SYCC<br>Treasury position  | 31 March 2015   |                   | 31 March 2014   |                   |
|---|-----------------|-------------------|-----------------|-------------------|
|   | Principal<br>£m | Average<br>Rate % | Principal<br>£m | Average<br>Rate % |
| Fixed Interest Rate Debt *  | 96.121          | 5.92              | 96.121          | 5.92              |
| Variable Interest Rate Debt **  | 0               | 0.00              | 0               | 0.00              |
| Total Debt  | 96.121          | 5.92              | 96.121          | 5.92              |
| Fixed Interest Investments  | 0               | 0.00              | 0               | 0.00              |
| Variable Interest Investments   | 0               | 0.00              | 0               | 0.00              |
| Total Investments   | 0               | 0.00              | 0               | 0.00              |
| <b>Net borrowing position</b>   | <b>96.121</b>   |                   | <b>96.121</b>   |                   |
| * Includes all debt where the interest rate is fixed for the whole of the following financial year  |                 |                   |                 |                   |
| ** Includes all debt where the interest rate may be subject to interest rate variation on specified dates during the following financial year |                 |                   |                 |                   |

## 5. Prudential Indicators and Compliance Issues

5.1 Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

5.2 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, exceed the CFR for 2014/15 plus the expected changes to the CFR over 2015/16 and 2016/17. The table below highlights the Council's net borrowing position against the CFR and demonstrates that the Council has complied with this prudential indicator, i.e., the Council's net borrowings are lower than its CFR.

| <b>RMBC<br/>Treasury Position</b>      | <b>31 March<br/>2015<br/>Actual<br/>£m</b> | <b>31 March<br/>2015<br/>Revised<br/>Indicator<br/>£m</b> | <b>31 March<br/>2015<br/>Original<br/>Indicator<br/>£m</b> | <b>31 March<br/>2014<br/>Actual<br/>£m</b> |
|--|--|---|--|--|
| Excluding PFI and similar arrangements |  |   |  |  |
| Net borrowing position                 | 450.210                                    | 448.922   | 472.424  | 456.415                                    |
| CFR                                    | 655.920                                    | 621.922   | 624.239  | 621.883                                    |
| Including PFI and similar arrangements |  |   |  |  |
| Net borrowing position                 | 575.904                                    | 574.671   | 598.041  | 583.982                                    |
| CFR                                    | 781.614                                    | 747.671   | 749.856  | 749.450                                    |

**5.3 The Authorised Limit** - The Authorised Limit is the “Affordable Borrowing Limit” required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its Authorised Limit, both excluding and including the impact of bringing PFI and similar arrangements on to the Council’s Balance Sheet.

| <b>Authorised Limit</b>   | <b>RMBC<br/>£m</b> | <b>Former<br/>SYCC<br/>£m</b> |
|---|--------------------|-------------------------------|
| Original Indicator – Authorised Limit   | 765.376            | 96.121                        |
| Revised Indicator – Authorised Limit  | 774.798            | 96.121                        |
| Actual indicator – Maximum gross borrowing position – External Debt only                              | 481.738            | 96.121                        |
| Actual indicator - Maximum gross borrowing position – External Debt plus PFI and similar arrangements | 609.305            | 96.121                        |

**5.4 The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The table below demonstrates that during 2014/15 the Council has maintained its borrowing position around its Operational Boundary, both excluding and including the impact of bringing PFI and similar arrangements on to the Council’s Balance Sheet.

| <b>Operational Boundary for External Debt</b>   | <b>RMBC<br/>£m</b> | <b>Former<br/>SYCC<br/>£m</b> |
|---|--------------------|-------------------------------|
| Original Indicator - Operational Boundary   | 614.912            | 96.121                        |
| Revised Indicator - Operational Boundary  | 601.489            | 96.121                        |
| Actual indicator - Average gross borrowing position - External Debt only                              | 476.490            | 96.121                        |
| Actual indicator - Average gross borrowing position - External Debt plus PFI and similar arrangements | 603.120            | 96.121                        |

**5.5 Actual financing costs as a proportion of net revenue stream -**

This indicator identifies the trend in the cost of capital (borrowing and the cost of other long term obligations but net of investment income) against the Council's Budget Requirement (net revenue stream) for the General Fund and budgeted income for the HRA.

5.6 Both indicators show a reduction reflecting an overall fall in borrowing costs. Whilst the share of these costs is approximately equal (as reflected by the respective CFRs) the HRA has a lower net revenue stream and therefore the impact on the indicator is greater.

| <b>Rotherham MBC</b>                                   | <b>2014/15<br/>Actual</b> | <b>2014/15<br/>Revised<br/>Indicator</b> | <b>2014/15<br/>Original<br/>Indicator</b> |
|--|---------------------------|--|---|
| Financing costs as a proportion of net revenue stream: |                           |  |   |
| Non HRA  | 8.45%                     | 8.67%                                    | 9.14%                                     |
| HRA  | 17.22%                    | 17.28%                                   | 18.17%                                    |

**5.7 Incremental impact of Capital Investment Decisions –** Two indicators are used to highlight the trend in cost arising from changes to the Council's capital investment plans:

- the impact on Council Tax Band D levels as already budgeted for within the Council's MTFS of changes to the General Fund capital programme, and
- the impact on weekly rent levels arising from changes in the housing capital programme

| <b>Rotherham MBC</b>  | <b>2014/15 Actual</b> | <b>2014/15 Revised Indicator</b> | <b>2014/15 Original Indicator</b> |
|---|-----------------------|----------------------------------|-----------------------------------|
| Incremental impact of capital investment decisions on the Band D council tax  | £7.29                 | £7.10                            | £6.69                             |
| Incremental impact of capital investment decisions on the Housing Rent Levels | £0.00                 | £0.06                            | £0.13                             |

The incremental impact of capital investment decisions on the Band D council tax is broadly in line with the revised indicator. This reflects the fact that the actual borrowing need in 2014/15 is consistent with the revised forecast. None of the HRA capital investment was financed by borrowing in 2014/15 and as such there was no incremental impact of capital investment on HRA rent levels.

## **5.8 Treasury Management Indicators and Limits on Activity**

**5.8.1 Upper limits on fixed and variable interest rates as at 31 March 2015** – These indicators identify the maximum limits for fixed interest rate gross debt and for variable interest rates based upon the debt position, net of investments. The table confirms the Council remained within the limits set.

| <b>Rotherham MBC</b>  | <b>2014/15 Actual</b> | <b>2014/15 Revised Indicator</b> | <b>2014/15 Original Indicator</b> | <b>2013/14 Actual</b> |
|---|-----------------------|----------------------------------|-----------------------------------|-----------------------|
| Upper limit on fixed interest rates based on fixed net debt       | 83.16%                | 100%                             | 100%                              | 76.85%                |
| Upper limit on variable interest rates based on variable net debt | 22.26%                | 30%                              | 30%                               | 28.87%                |

| <b>Former SYCC</b>                                       | <b>2014/15 Actual</b> | <b>2014/15 Revised Indicator</b> | <b>2014/15 Original Indicator</b> | <b>2013/14 Actual</b> |
|--|-----------------------|----------------------------------|-----------------------------------|-----------------------|
| Upper limit on fixed interest rates                      | 100%                  | 100%                             | 100%                              | 100%                  |
| Upper limit on variable interest rates based on net debt | 0%                    | 30%                              | 30%                               | 0%                    |

**5.8.2 Maturity structure of fixed rate borrowing during 2014/15** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The position as at 31 March 2015 is shown in the table below.

|                      | RMBC                 |       |                     |       |          |
|----------------------|----------------------|-------|---------------------|-------|----------|
|                      | Original Indicator % |       | Revised Indicator % |       | Actual % |
|                      | Lower                | Upper | Lower               | Upper |          |
| Under 12 months      | 0                    | 35    | 0                   | 35    | 5.98     |
| 12 months to 2 years | 0                    | 35    | 0                   | 35    | 8.66     |
| 2 years to 5 years   | 0                    | 40    | 0                   | 40    | 24.64    |
| 5 years to 10 years  | 0                    | 40    | 0                   | 40    | 19.62    |
| 10 years to 20 years | 0                    | 45    | 0                   | 45    | 8.80     |
| 20 years to 30 years | 0                    | 50    | 0                   | 50    | 9.14     |
| 30 years to 40 years | 0                    | 50    | 0                   | 50    | 15.11    |
| 40 years to 50 years | 0                    | 55    | 0                   | 55    | 8.05     |
| 50 years and above   | 0                    | 60    | 0                   | 60    | 0.00     |

|                      | Former SYCC          |       |                     |       |          |
|----------------------|----------------------|-------|---------------------|-------|----------|
|                      | Original Indicator % |       | Revised Indicator % |       | Actual % |
|                      | Lower                | Upper | Lower               | Upper |          |
| Under 12 months      | 0                    | 50    | 0                   | 50    | 9.79     |
| 12 months to 2 years | 0                    | 70    | 0                   | 70    | 10.40    |
| 2 years to 5 years   | 0                    | 100   | 0                   | 100   | 59.32    |
| 5 years to 10 years  | 0                    | 100   | 0                   | 100   | 20.49    |

**5.8.3 Maximum funds invested for more than 364 days** – This limit is set to reduce the need for early sale of an investment and is based on the availability of funds after each year end. The position as at 31 March 2015 for the Council is shown in the table below. The Former SYCC had no investments at that date.

| Rotherham MBC                                   | 2014/15 Actual £m | 2014/15 Revised Indicator £m | 2014/15 Original Indicator £m |
|---|-------------------|------------------------------|-------------------------------|
| Maximum funds invested for longer than 364 days |                   |                              |                               |
| Cash Deposits                                   | 0                 | 10                           | 10                            |

## 6. Actual debt management activity during 2014/15

- 6.1 **Borrowing** - One new loan was drawn by Rotherham MBC during the year, £20m from BAE Systems over 44 years at an interest rate of 4.05%.

- 6.2 This compares with a budget assumption of new & replacement borrowing of £22.2m but as explained earlier (para. 4.4) the most prudent approach in 2014/15 was to continue to utilise temporary cash flow funds instead of borrowing.
- 6.3 **Rescheduling** – No rescheduling took place in 2014/15 due to the continuing unfavourable market conditions.
- 6.4 **Repayment** – Two loans, one of £20m and one of £5m, matured during the year as shown in the table below. Part repayments of principal continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years. £20m of the maturing debt was replaced in the year (6.1 above refers).

| Lender       | Principal   | Type              | Interest Rate | Average rate |
|--------------|-------------|-------------------|---------------|--------------|
| PWLB         | £2,000,000  | Fixed rate        | 3.46%         |              |
| PWLB         | £20,000,000 | Fixed rate        | 9.50%         |              |
| PWLB         | £5,000,000  | Variable rate     | 0.58%         |              |
| PWLB Annuity | £279,639    | Annual repayments | Various       |              |
|              |             |                   |               |              |
| Total:       | £27,279,639 |                   |               | 7.36%        |

- 6.5 **Summary of Debt Transactions** – The debt activity resulted in a decrease in the average interest rate of 0.18%, from 4.75% to 4.57%. This principally arose due to the maturity of the high cost fixed rate loan shown above.
- 6.6 **Former South Yorkshire County Council** – No new borrowing or rescheduling took place during 2014/15 and no debt was repaid during the year.

## 7. Investment Position

- 7.1 **Investment Policy** – The Council's investment policy is governed by DCLG Guidance, which was implemented in the annual investment strategy approved by Council on 5 March 2014. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £42.0m and received an average return of 0.27%. When compared to the local measure of performance the average return was below the average 7 day LIBID rate for 2014/15 of 0.35%.

## **8. Regulatory Framework, Risk and Performance**

8.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8<sup>th</sup> November 2007.

8.2 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular, the adoption and implementation of the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable. Treasury investment practices are governed by the primary objectives of security ahead of liquidity and then yield. Revised operational guidelines enhanced the weighting towards security still further at the expense of yield or return.