

Summary Sheet

Council Report

Audit Committee – 20 July 2016

Title

Annual Treasury Management Report and Actual Prudential Indicators 2015/16

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

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Ward(s) Affected

All

Summary

The Council received an annual treasury strategy in advance of the 2015/16 financial year and also received a mid-year report representing a mid-year review of treasury activity during 2015/16.

The annual treasury management report is the final treasury report for 2015/16. Its purpose is to review the treasury activity for 2015/16 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2015/16 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.

Recommendation

Audit Committee is asked to note the Annual Treasury Management Report for 2015/16.

List of Appendices Included

Appendix A – Summary Prudential Indicators for Rotherham MBC

Appendix B – Summary Prudential Indicators for the Former South Yorkshire County Council

Background Papers

Cabinet and Commissioner's Decision Making meeting – 11 July 2016

CIPFA – Code of Practice for Treasury Management in the Public Services Local Government Act 2003 (as updated)

CIPFA – Prudential Code (as updated)

Consideration by any other Council Committee, Scrutiny or Advisory Panel

The summary treasury activity and actual prudential indicators for 2015/16 were also reported as part of the Council's Outturn report to the Cabinet and Commissioner's Decision Making meeting held on 11 July 2016.

Council Approval Required

No

Exempt from the Press and Public

No

Annual Treasury Management Report and Actual Prudential Indicators 2015/16

1. Recommendation

- 1.1 Audit Committee is asked to note the Annual Treasury Management Report for 2015/16.

2. Background

- 2.1 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 2015/16);
- 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 8th November 2007.

- 2.2 The Council 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.

3. Key Issues

3.1 OVERVIEW

- 3.1.1 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, mean that actual indicators for the year may vary from the projections made prior to the start of the financial year.

However, by regularly monitoring and reporting revisions to 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 2015/16, with comparators, are shown in the attached Appendix A. Background to these is provided in the following paragraphs.

3.1.2 Impact of the Council's Capital Expenditure and Financing 2015/16 - 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.

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.

3.1.3 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 2015/16 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. 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.

The Non-HRA element of the CFR (excluding PFI schemes and finance lease assets) is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The 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

At the end of the financial year the closing CFR is broadly in line with that approved as the revised indicator for the year.

3.1.4 Treasury Position at 31 March 2016 - whilst the Council's gauge of its underlying need to borrow is the CFR, the Strategic Director of Finance and Customer 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).

For 2015/16 it had been expected that borrowing would have been in line with the estimated borrowing need for the year whilst partly reducing the Council's 31 March 2015 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.

Thus at 31 March 2016, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

Council's Treasury Position 2015/2016

Net Borrowing	As At 31 March 2016 £m	As At 31 March 2015 £m
<u>External Borrowing</u>		
Public Works Loans Board (PWLB)	233.598	255.884
Market (e.g. Banks, Other Local Authorities)	243.000	213.000
	476.598	468.884
<u>External Investments</u>		
Debt Management Office	2.680	17.820
Banks	1.500	0.854
	4.180	18.674
Net Borrowing	472.418	450.210

Against the Council's Capital Financing Requirement (£649.505m excluding PFI and similar arrangements), the Council's outstanding net debt (£472.418m) is lower than this Requirement by approximately £177m due to the Council's prudent and sensible approach to utilise temporary cash flow funds rather than take out additional borrowings.

3.2 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

Some of the prudential indicators provide either an overview or specific limits on Treasury activity:

- 3.2.1 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 used for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2015/16 plus the expected changes to the CFR over 2016/17 and 2017/18. The Council complied with this prudential indicator throughout 2015/16.

3.2.2 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 Council 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.

3.2.3 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 Council maintained its borrowing position around its Operational Boundary.

3.2.4 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.

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. In addition the General Fund indicator also reflects, when compared to the original estimate, the reduced MRP charge for 2015/16 which arose as a result of the MRP Accounting and Technical Adjustment made at the end of the 2014/15 financial year.

3.2.5 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

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 2015/16 is consistent with the revised forecast. None of the HRA capital investment was financed by borrowing in 2015/16 and therefore there was no incremental impact of capital investment on HRA rent levels.

3.3 TREASURY MANAGEMENT INDICATORS

3.3.1 Limits on Activity

Upper limits on fixed and variable interest rates as at 31 March 2016 – 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 Council remained within the limits set throughout 2015/16.

Maturity structure of fixed rate borrowing during 2015/16 – 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 Council remained within the limits set throughout 2015/16.

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.

3.3.2 Borrowing

New Borrowing - Three new long term loans amounting to £30m in total were drawn by Rotherham MBC during the year, all with Sheffield Combined Authority. £10m was borrowed over 3 years at an interest rate of 1.25%, £15m over 6 years at 2.20% and £5m over 9 years at 2.54%, with an overall average rate of 1.94%. The total borrowed was in line with the budget assumption for new & replacement borrowing in the financial year.

During the year temporary borrowing (maximum 2 months) was taken up on three occasions to manage the Council's cash flow position. All these short-term loans were fully repaid.

Rescheduling – No rescheduling took place in 2015/16 due to the continuing unfavourable market conditions.

Debt Repayment – One loan of £20m 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.

Debt Repayments 2015/16

Lender	Principal £m	Type	Interest Rate	Average rate of interest
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB	20.000	Fixed rate	9.625%	
PWLB Annuity	0.286	Annual repayments	Various	
Total:	£22.286			8.99%

The overall debt activity resulted in a decrease in the average interest rate on the Council's debt portfolio of 0.37%, from 4.57% to 4.20%. This principally arose due to the maturity of the high cost fixed rate loan shown in the table above.

3.3.3 Investments

The Council's investment policy is governed by DCLG Guidance, which was implemented in the annual investment strategy approved by Council on 4 March 2015. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £21.3m and received an average return of 0.29%. When compared to the local measure of performance the average return was slightly below the average 7 day LIBID rate for 2015/16 of 0.36%.

3.4 FORMER SOUTH YORKSHIRE COUNTY COUNCIL

No new borrowing or rescheduling took place during 2015/16, whilst one loan of £9.412m matured during the year. Thus at 31 March 2016, external debt, all with the PWLB, totalled £86.709m. The average interest rate on the debt is 5.53%

The Former South Yorkshire County Council had no investments at 31 March 2016, the same as at 31 March 2015.

The actual prudential indicators for the Former South Yorkshire County Council are shown in the attached Appendix B.

4. Options considered and recommended proposal

4.1 No options considered as the report outlines actual Treasury Management activity during 2015/16

5. Consultation

5.1 None required

6. Timetable and Accountability for Implementing this Decision

6.1 None

7. Financial and Procurement Implications

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

8. Legal Implications

8.1 None, other than ensuring compliance with the Code of Practice for Treasury Management in the Public Services Local Government Act 2003 (as updated) and the Prudential Code (as updated).

9. Human Resources Implications

9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

12.1 There are no implications arising from this report for Partners and other Directorates.

13. Risks and Mitigation

13.1 Regular monitoring of treasury management activity throughout the financial year ensures that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

14. Accountable Officer

Judith Badger – Strategic Director of Finance & Customer Services

Approvals Obtained from:-

Strategic Director of Finance and Corporate Services:- Judith Badger

This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

APPENDIX A

Summary Prudential Indicators: Rotherham MBC

		Actual	Revised Estimate	Original Estimate
		£m	£m	£m
1	Capital Expenditure (excluding PFI & Finance lease liabilities)	68.210	76.026	70.024
2	Capital Financing Requirement (CFR) including PFI & similar liabilities:			
	General Fund	483.122	483.637	463.098
	HRA	<u>304.125</u>	<u>304.125</u>	<u>306.445</u>
	Total	787.247	787.762	769.543
3	Net Borrowing compared to CFR excluding PFI & similar liabilities:			
	Total Borrowing	476.598	481.017	481.656
	Total Investments	<u>4.180</u>	<u>20.000</u>	<u>25.000</u>
	Net Borrowing	472.418	461.017	456.656
	CFR	<u>649.505</u>	<u>650.174</u>	<u>631.941</u>
	Under-borrowing	177.087	189.157	175.285
4	Net Borrowing compared to CFR including PFI & similar liabilities:			
	Borrowing (from above)	476.598	481.017	481.656
	Borrowing (PFI etc)	<u>137.742</u>	<u>137.588</u>	<u>137.602</u>
	Total Borrowing	614.340	618.605	619.258
	Total Investments	<u>4.180</u>	<u>20.000</u>	<u>25.000</u>
	Net Borrowing	610.160	598.605	594.258
	CFR	<u>787.247</u>	<u>787.762</u>	<u>769.543</u>
	Under-borrowing	177.087	189.157	175.285
5	Authorised Limit for external debt			
	Assumed Borrowing	683.391	683.391	648.657
	PFI & similar liabilities	<u>139.267</u>	<u>139.267</u>	<u>139.267</u>
	Authorised Limit	822.648	822.648	787.924
	Total Borrowing	<u>614.340</u>	<u>618.605</u>	<u>619.258</u>
	Borrowing Below Limit	208.308	204.043	168.666
6	Operational boundary for external debt			
	Assumed Borrowing	481.017	481.017	481.656
	PFI & similar liabilities	<u>139.267</u>	<u>139.267</u>	<u>139.267</u>
	Operational Boundary	620.284	620.284	620.923
	Total Borrowing	<u>614.340</u>	<u>618.605</u>	<u>619.258</u>
	Borrowing Below Boundary	5.944	1.679	1.665
7	Maximum Funds invested > 364 days	0.000	10.000	10.000

		Actual	Revised Estimate	Original Estimate
		%	%	%
8	Ratio of financing costs to net revenue stream – Non HRA	6.41	6.30	8.24
9	Ratio of financing costs to net revenue stream – HRA	15.99	15.94	16.07
		£	£	£
10	Incremental impact of capital expenditure plans on the Band D Council Tax	11.65	12.29	7.55
11	Incremental impact of capital expenditure plans on housing rents levels	0.00	0.00	0.04

12	Maturity Structure of Fixed Rate Borrowing	Actual %	Revised Upper Limit %	Original Upper Limit %
	Under 12 Months	1.94	35	35
	12 months to 2 years	16.59	35	35
	2 years to 5 years	21.82	40	40
	5 years to 10 years	24.25	40	40
	10 years to 20 years	3.44	45	45
	20 years to 30 years	8.99	50	50
	30 years to 40 years	15.00	50	50
	40 years to 50 years	7.97	55	55
	50 years and above	0.00	60	60

13	Upper Limit on fixed interest rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		79.61	100	100

14	Upper Limit on variable rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		25.33	30	30

APPENDIX B

Summary Prudential Indicators: Former South Yorkshire County Council

		Actual	Revised Estimate	Original Estimate
		£m	£m	£m
1	Authorised Limit for external debt			
	Authorised Limit	96.121	96.121	96.121
	Total Borrowing	<u>96.121</u>	<u>96.121</u>	<u>96.121</u>
	Borrowing Below Limit	0.000	0.000	0.000
2	Operational boundary for external debt			
	Operational Boundary	96.121	96.121	96.121
	Total Borrowing	<u>96.121</u>	<u>96.121</u>	<u>96.121</u>
	Borrowing Below Boundary	0.000	0.000	0.000

3	Maturity Structure of Fixed Rate Borrowing	Actual %	Revised Upper Limit %	Original Upper Limit %
	Under 12 Months	11.53	50	50
	12 months to 2 years	45.80	70	70
	2 years to 5 years	42.67	100	100

4	Upper Limit on fixed interest rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		100.00	100	100

5	Upper Limit on variable rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		0.00	30	30