

Public Meeting  
Cabinet and Commissioners' Decision Making Meeting

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**Summary Sheet**

**Council Report**

Cabinet and Commissioners' Decision Making Meeting – 9th July 2018

**Title**

Annual Treasury Management Report and Actual Prudential Indicators 2017/18

**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

**Report Author(s)**

Rob Mahon – Finance Manager (Financial Accounting)

**Ward(s) Affected**

All

**Summary**

The Council received an annual treasury strategy in advance of the 2017/18 financial year at its meeting on 8<sup>th</sup> March 2017 and Audit Committee received a mid-year report at its meeting on 21<sup>st</sup> November 2017, representing a mid-year review of treasury activity during 2017/18.

The annual treasury management report is the final treasury report for 2017/18. Its purpose is to review the treasury activity for 2017/18 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2017/18 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.

## **Recommendations**

That Cabinet :

- 1.1 Note the Treasury Management Prudential Indicators outturn position as set out in section 3 and Appendices A and B of the Annual Treasury Management Report for 2017/18.
- 1.2 Agree that the report is forwarded to Audit Committee for information

### **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**

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**

### **Council Approval Required**

No

### **Exempt from the Press and Public**

No

# **Annual Treasury Management Report and Actual Prudential Indicators 2017/18**

## **1. Recommendations**

That Cabinet :

- 1.1 Note the Treasury Management Prudential Indicators outturn position as set out in section 3 and Appendices A and B of the Annual Treasury Management Report for 2017/18.
- 1.2 Agree that the report is forwarded to Audit Committee for information

## **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 2017/18);
  - 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 revised estimates of 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 2017/18 for Rotherham MBC, 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 2017/18** - the Council expends capital expenditure on long term assets. This may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- Financed over the life of the asset by use of Prudential Borrowing

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 2017/18 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. Following changes to accounting regulations 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 (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 (VRP).

At the end of the financial year 2017/18 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 2018** - 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 2017/18 provision was made for the estimated borrowing need for the year to partly reduce the Council's 31 March 2017 under-borrowed position. However the Council has continued to take advantage of the current availability of short-term cash loans at very favourable rates and did not take out any new long-term loans in 2017/18.

There is no risk to the Council in following this strategy, as long-term loans can be taken out immediately at any point in time that the financial markets start to change and make long-term loans a more cost effective option.

Thus at 31 March 2018, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

#### **Council's Treasury Position 2017/2018**

<b>Net Borrowing</b>	<b>As At 31 March 2018 £m</b>	<b>As At 31 March 2017 £m</b>
<b>External Borrowing</b>		
Public Works Loans Board (PWLB)	204.007	226.306
Market (e.g. Banks, Other Local Authorities)	243.000	243.000
Temporary Borrowing	118.000	30.000
	<b>565.007</b>	<b>499.306</b>
<b>External Investments</b>		
Debt Management Office	0.000	0.000
Banks	0.000	0.000
	<b>0.000</b>	<b>0.000</b>
<b>External Borrowing</b>	<b>565.007</b>	<b>499.306</b>
<b>Net Borrowing - Excluding Temporary Borrowing</b>	<b>447.007</b>	<b>469.306</b>
<b>Capital Financing Requirement</b>	<b>665.219</b>	<b>656.984</b>
<b>Net Under-Borrowed</b>	<b>218.212</b>	<b>187.678</b>

Against the Council's Capital Financing Requirement of £665.219m (excluding PFI and similar arrangements totalling £132.788m), the Council's outstanding net borrowing of £447.007m (excluding temporary loans) is lower than this requirement by approximately £218m due to the Council's approach of utilising temporary cash flow funds rather than taking out additional borrowings.

Total savings in the Treasury Management budget for 2017/18, arising from all treasury activity including cash-flow management, were £2.839m.

### 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 2017/18 plus the expected changes to the CFR for 2018/19 and 2019/20. The Council complied with this prudential indicator throughout 2017/18.

**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 in the actual financing costs as a proportion of net revenue stream. The General Fund ratio reduced from 7.01 (original budget) to 6.14 (actual out-turn). This was as a result of a combination of the actual net revenue stream for the year being higher than originally forecast and the actual MRP charge being lower than the original budget. The HRA ratio reduced from 16.37 (original budget) to 15.99 (actual out-turn). This was due to the actual net revenue stream for the year being higher than originally forecast.

**3.2.5 Incremental impact of Capital Investment Decisions** – these 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 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 has reduced significantly from the original budget of £15.78 to £5.90. This is due to the actual borrowing required in the year (to fund capital expenditure) being substantially lower than anticipated. More capital grants have been available and these have been applied in funding the capital programme, thus replacing the need to borrow. Strategic capital financing decisions made at the financial year end also reduced borrowing by replacing planned prudential borrowing on short-life assets with use of capital receipts. The equivalent amount of prudential borrowing will then be utilised in later years on longer life assets. None of the HRA capital investment was financed by borrowing in 2017/18 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 2018 – 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 2017/18.

Maturity structure of fixed rate borrowing during 2017/18 – 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 2017/18.

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 and Replacement Borrowing – No new long term loans were taken up during the year as the Council continued with its strategy of utilising the temporary borrowing market to manage the cash flow position.

During the year, temporary borrowing was taken up on 23 occasions with a mix of terms (ranging from 3 months to 6 months) to manage the Council's cash flow position. Of these short-term loans, 13 have been fully repaid in the year; with 10 remaining outstanding at the year end. One of the loans is a rolling deal, with a 1 month call, i.e. where the Council or lender can provide 1 months' notice to either change the rate or end the deal.

Rescheduling – No rescheduling took place in 2017/18 due to the continuing unfavourable market conditions.

Debt Repayment – Two loans totalling £20m matured during the year as shown in the table below. Part repayments of principal (£2.292m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

### Debt Repayments 2017/18

Lender	Principal £m	Type	Interest Rate	Average rate of interest
PWLB	10.000	Fixed rate	9.38%	
PWLB	10.000	Fixed rate	3.17%	
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.162	Annual repayments	Various	
<b>Total:</b>	<b>22.292</b>			<b>5.99%</b>

The overall debt activity resulted in a decrease in the average interest rate on the Council's debt portfolio of 0.09%, from 4.17% to 4.08%. This has arisen as loans have matured (shown in the table above) and have been replaced with temporary borrowing.

### 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 8<sup>th</sup> March 2017. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £22.8m and received an average return of 0.14%. When compared to the local measure of performance the average return was marginally lower than the average 7 day LIBID rate for 2017/18 of 0.21%. For the period up until November 3<sup>rd</sup> 2017 this was due to the Council's main investment vehicle, the Government's Debt Management Office (DMO) dropping their rates to just 0.10%. Since this period the Council has generated returns on its investments in excess of the average 7 day LIBID rate. The Council has now set up access to a number of Money Market Funds to utilise for short-term deposits. These Funds are AAA rated securities which pay a better rate of interest than the DMO.

From December 2017 the Council ceased holding an investment balance with Handelsbanken following an announcement they would drop their interest rate below that of the DMO. Since then the Council has invested solely with the DMO at 0.25%.



### **3.4 FORMER SOUTH YORKSHIRE COUNTY COUNCIL**

No new borrowing or rescheduling took place during 2017/18, whilst one loan of £39.709m matured during the year. Thus at 31 March 2018, external debt, all with the PWLB, totalled £37.000m. The average interest rate on the debt is 5.16%.

The Former South Yorkshire County Council had no investments at 31 March 2017, the same as at 31 March 2016.

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 2017/18

## **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://modern.gov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

# APPENDIX A

## Summary Prudential Indicators: Rotherham MBC

		Actual £m	Revised Estimate £m	Original Estimate £m
1	<b>Capital Expenditure (excluding PFI &amp; Finance lease liabilities)</b>	<b>52.705</b>	<b>81.785</b>	<b>69.638</b>
2	<b>Capital Financing Requirement (CFR) including PFI &amp; similar liabilities:</b>			
	General Fund	493.882	505.363	506.890
	HRA	304.125	304.125	304.125
	<b>Total</b>	<b>798.007</b>	<b>809.488</b>	<b>811.015</b>
3	<b>Net Borrowing compared to CFR excluding PFI &amp; similar liabilities:</b>			
	Total Borrowing	447.007	523.776	523.776
	Total Investments	0.000	20.000	20.000
	Net Borrowing	447.007	503.776	503.776
	CFR	665.219	676.700	678.226
	<b>Under-borrowing</b>	<b>218.212</b>	<b>172.924</b>	<b>174.450</b>
4	<b>Net Borrowing compared to CFR including PFI &amp; similar liabilities:</b>			
	Borrowing (from above)	447.007	523.776	523.776
	Borrowing (PFI etc.)	132.789	132.789	132.789
	Total Borrowing	579.796	656.565	656.565
	Total Investments	0.000	20.000	20.000
	Net Borrowing	579.796	636.565	636.565
	CFR	798.007	809.488	811.015
	<b>Under-borrowing</b>	<b>218.211</b>	<b>172.923</b>	<b>174.450</b>
5	<b>Authorised Limit for external debt</b>			
	Assumed Borrowing	709.184	709.184	709.184
	PFI & similar liabilities	135.555	135.555	135.555
	Authorised Limit	844.739	844.739	844.739
	Total Borrowing	579.796	656.565	656.565
	<b>Borrowing Below Limit</b>	<b>264.943</b>	<b>188.174</b>	<b>188.174</b>
6	<b>Operational boundary for external debt</b>			
	Assumed Borrowing	523.776	523.776	523.776
	PFI & similar liabilities	132.789	132.789	135.555
	Operational Boundary	656.565	656.565	659.331
	Total Borrowing	579.796	656.565	656.565
	<b>Borrowing Below/(Above) Boundary</b>	<b>76.769</b>	<b>0.000</b>	<b>2.766</b>
7	<b>Maximum Funds invested &gt; 364 days</b>	<b>0.000</b>	<b>10.000</b>	<b>10.000</b>

			<b>Revised</b>	<b>Original</b>
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		<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
		<b>%</b>	<b>%</b>	<b>%</b>
<b>8</b>	<b>Ratio of financing costs to net revenue stream – Non HRA</b>	6.14	6.02	7.01
<b>9</b>	<b>Ratio of financing costs to net revenue stream – HRA</b>	15.99	15.57	16.37
		<b>£</b>	<b>£</b>	<b>£</b>
<b>10</b>	<b>Incremental impact of capital expenditure plans on the Band D Council Tax</b>	5.90	15.78	15.78
<b>11</b>	<b>Incremental impact of capital expenditure plans on housing rents levels</b>	0	0	0

<b>12</b>	<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Actual</b>	<b>Revised Upper Limit</b>	<b>Original Upper Limit</b>
		<b>%</b>	<b>%</b>	<b>%</b>
	Under 12 Months	6.11	35	35
	12 months to 2 years	2.75	35	35
	2 years to 5 years	11.35	45	45
	5 years to 10 years	4.96	45	45
	10 years to 20 years	10.12	45	45
	20 years to 30 years	2.44	50	50
	30 years to 40 years	17.08	50	50
	40 years to 50 years	22.81	55	55
	50 years and above	22.38	60	60

<b>13</b>	<b>Upper Limit on fixed interest rates based on fixed net debt</b>	<b>Actual</b>	<b>Revised Upper Limit</b>	<b>Original Upper Limit</b>
		<b>%</b>	<b>%</b>	<b>%</b>
		79.64	100	100

<b>14</b>	<b>Upper Limit on variable rates based on fixed net debt</b>	<b>Actual</b>	<b>Revised Upper Limit</b>	<b>Original Upper Limit</b>
		<b>%</b>	<b>%</b>	<b>%</b>
		20.36	30	30

## **APPENDIX B**

## Summary Prudential Indicators: Former South Yorkshire County Council

		<b>Actual £m</b>	<b>Revised Estimate £m</b>	<b>Original Estimate £m</b>
<b>1</b>	<b>Authorised Limit for external debt</b>			
	Authorised Limit	86.709	86.709	86.709
	Total Borrowing	76.709	86.709	86.709
	<b>Borrowing Below Limit</b>	<b>10.000</b>	<b>0.000</b>	<b>0.000</b>
<b>2</b>	<b>Operational boundary for external debt</b>			
	Operational Boundary	86.709	86.709	86.709
	Total Borrowing	76.709	86.709	86.709
	<b>Borrowing Below Boundary</b>	<b>10.000</b>	<b>0.000</b>	<b>0.000</b>

<b>3</b>	<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Actual %</b>	<b>Revised Upper Limit %</b>	<b>Original Upper Limit %</b>
	Under 12 Months	2.19	25	25
	12 months to 2 years	44.59	50	50
	2 years to 5 years	53.21	100	100

<b>4</b>	<b>Upper Limit on fixed interest rates based on fixed net debt</b>	<b>Actual %</b>	<b>Revised Upper Limit %</b>	<b>Original Upper Limit %</b>
		100	100	100

<b>5</b>	<b>Upper Limit on variable rates based on fixed net debt</b>	<b>Actual %</b>	<b>Revised Upper Limit %</b>	<b>Original Upper Limit %</b>
		0	30	30