

Committee Name and Date of Committee Meeting

Cabinet – 8 July 2019

Report Title

Financial Outturn 2018/19 - Treasury Management and Prudential Indicators

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

Yes

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director of Finance and Customer Services

Report Author(s)

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Ward(s) Affected

Borough-Wide

Report Summary

The Council received an annual treasury strategy report in advance of the 2018/19 financial year at its meeting on 28th February 2018 and Audit Committee received a mid-year report at its meeting on 27th November 2018, representing a mid-year review of treasury activity during 2018/19.

This report is the final treasury report for 2018/19. Its purpose is to review the treasury activity for 2018/19 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2018/19 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 the aforementioned codes through regulations issued under the Local Government Act 2003.

Recommendations

1. That 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 2018/19 be noted.
2. That the report be 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 for Capital Finance in Local Authorities(as updated)

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Audit Committee

Council Approval Required

No

Exempt from the Press and Public

No

Financial Outturn 2018/19 - Treasury Management and Prudential Indicators

1. Background

1.1 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 2018/19);
- 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 MHCLG 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 (revised) 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.

1.2 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.

2. Key Issues

2.1 Overview

2.2 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 regular 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 2018/19 for the Council, with comparators, are shown in the attached Appendix A. Background to these is provided in the following paragraphs.

2.3 Impact of the Council's Capital Expenditure and Financing 2018/19 – capital expenditure is Council spend 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.

2.4 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 2018/19 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. The CFR also includes other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets.

2.5 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).

2.6 At the end of the financial year 2018/19, the closing CFR was £8.642m less than that approved in the revised indicator, as set out in the Mid-Year Report 2018/19. The reduction is due to slippage on a number of capital schemes, that in turn reduces the Council's need to borrow at this point in time.

2.7 Treasury Position at 31 March 2019 - whilst the Council's gauge of its underlying need to borrow is the CFR, the Strategic Director - 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).

2.8 For 2018/19 provision was made for the estimated borrowing need for the year to partly reduce the Council's 31 March 2018 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 2018/19.

2.9 There is minimal 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 when long-term loans are the more cost effective option.

2.10 Thus at 31 March 2019, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

Table 1 Council's Treasury Position 2018/2019

Net Borrowing	As At 31 March 2018 £m	As At 31 March 2019 £m
External Borrowing		
Public Works Loans Board (PWLB)	204.007	196.702
Market (e.g. Banks, Other Local Authorities)	243.000	223.000
Temporary Borrowing	118.000	167.000
	565.007	586.702
External Investments		
Debt Management Office	0.000	0.000
Money Market Funds	0.000	27.530
	0.000	27.530
Net Borrowing	565.007	559.172
Net Borrowing - Excluding Temporary Borrowing	447.007	392.172
Capital Financing Requirement	693.932	685.241
Net Under-Borrowed	246.925	293.069

2.11 Against the Council's Capital Financing Requirement of £685.241m (excluding PFI and similar arrangements totalling £129.626m), the Council's outstanding net borrowing of £392.172m (excluding temporary loans) is lower than this requirement by approximately £293.069m due to the Council's approach of utilising temporary cash flow funds and short term borrowing rather than taking out any new long term borrowing.

2.12 Total savings in the Treasury Management budget for 2018/19, arising from all treasury activity including cash-flow management, were £2.621m.

2.13 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

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

- 2.14 **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 2018/19 plus the expected changes to the CFR for 2018/19 and 2019/20. The Council complied with this prudential indicator throughout 2018/19.
- 2.15 **The Authorised Limit** - the Authorised Limit is the "Affordable Borrowing Limit" required by Section 3 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 including PFI and similar arrangements on to the Council's Balance Sheet.
- 2.16 **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.
- 2.17 **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 5.56 (original budget) to 5.26 (actual outturn). 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 15.95 (original budget) to 15.92 (actual outturn). This was due to increased notional interest achieved on HRA cash balances during the year.

- 2.18 **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 £13.26 to £7.39. 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 2018/19 and therefore there was no incremental impact of capital investment on HRA rent levels.

2.19 TREASURY MANAGEMENT INDICATORS

2.20 Limits on Activity

Upper limits on fixed and variable interest rates as at 31 March 2019 – 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 2018/19.

Maturity structure of fixed rate borrowing during 2018/19 – 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 2018/19.

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.

2.21 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 35 occasions with a mix of terms (ranging from 3 months to 11 months) to manage the Council's cash flow position. Of these short-term loans, 10 have been fully repaid in the year; with 25 remaining outstanding at the year end. Included within these are two rolling deals, where the Council or lender can provide 1 months' notice or 14 days' notice to either change the rate or end the deal.

Table 2 Short Term Borrowing as at 31st March 2019

Start Date	Principal	Type	Term	Interest Rate %
29/09/2017	£20,000,000	Temp	1 Month notice	0.80
17/08/2018	£5,000,000	Temp	9 Months	0.65
01/08/2018	£3,000,000	Temp	9 Months	0.65
01/08/2018	£4,000,000	Temp	9 Months	0.65
01/08/2018	£2,000,000	Temp	9 Months	0.65
01/08/2018	£1,000,000	Temp	9 Months	0.65
16/08/2018	£10,000,000	Temp	7 Months	0.65
22/08/2018	£10,000,000	Temp	14 Day Notice	0.80
23/10/2018	£10,000,000	Temp	6 Months	0.85
15/10/2018	£5,000,000	Temp	6 Months	0.90
15/10/2018	£5,000,000	Temp	6 Months	0.90
15/10/2018	£5,000,000	Temp	6 Months	0.90
23/10/2018	£5,000,000	Temp	6 Months	0.90
05/11/2018	£3,000,000	Temp	4 Months	0.82
20/11/2018	£3,000,000	Temp	5 Months	0.80
03/12/2018	£2,000,000	Temp	6 Months	0.95
03/12/2018	£10,000,000	Temp	5 Months	0.95
07/12/2018	£5,000,000	Temp	6 Months	0.95
04/12/2018	£3,000,000	Temp	5 Months	0.80
13/12/2018	£6,000,000	Temp	7 Months	0.95
17/12/2018	£5,000,000	Temp	4 Months	0.85
18/01/2019	£10,000,000	Temp	14 Day Notice	0.80
15/03/2019	£15,000,000	Temp	3 Months	1.00
21/03/2019	£10,000,000	Temp	8 Months	1.05
25/03/2019	£10,000,000	Temp	6 Months	1.00

Rescheduling – No rescheduling took place in 2018/19 due to the continuing unfavourable market conditions.

Debt Repayment – Three loans totalling £25m matured during the year as shown in the table below. Part repayments of principal (£2.299m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

Table 3 Debt Repayments 2018/19

Lender	Principal £m	Type	Interest Rate	Weighted Average rate of interest
Sheffield City Region	10.000	Fixed rate	1.25%	
Wandsworth Council	10.000	Fixed rate	0.70%	
PWLB	5.000	Fixed rate	2.82%	
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.169	Annual repayments	Various	
Total:	£27.299			1.50%

The overall debt activity resulted in a decrease in the average interest rate on the Council's debt portfolio of 0.08%, from 4.08% to 4.00%. This has arisen as loans have matured (shown in the table above) and have been replaced with temporary borrowing.

2.22 Investments

The Council's investment policy is governed by MHCLG Guidance, which was implemented in the annual investment strategy approved by Council on 28th February 2018. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £23.4m and received an average return of 0.70%. When compared to the local measure of performance, the average return was higher than the average 7 day London Interbank Bid Rate for 2018/19 of 0.51%. This is due to the Council's established use 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 Government Debt Management Office.

2.23 FORMER SOUTH YORKSHIRE COUNTY COUNCIL

The Council became responsible for the administration of the former SYCC debt from 1st April 1986 on behalf of the four South Yorkshire Councils. No new borrowing or rescheduling took place during 2018/19, whilst one loan of £0.811m matured during the year. Thus at 31 March 2019, external debt, all with the PWLB, totalled £36.189m. The average interest rate on the debt is 5.10%.

The Former South Yorkshire County Council had no investments at 31 March 2019, the same as at 31 March 2018.

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

3. Options considered and recommended proposal

3.1 No options considered as the report outlines actual Treasury Management activity during 2018/19.

4. Consultation

4.1 None required

5. Timetable and Accountability for Implementing this Decision

5.1 None

6. Financial and Procurement Implications

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

6.2 There are no direct procurement implications arising from the report.

7. Legal Implications

7.1 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).

8. Human Resources Implications

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

9. Implications for Children and Young People and Vulnerable Adults

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

10. Equalities and Human Rights Implications

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

11. Implications for Partners and Other Directorates

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

12. Risks and Mitigation

12.1 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.

13. Accountable Officer

Judith Badger – Strategic Director - Finance & Customer Services

Approvals obtained on behalf of:-

	Named Officer	Date
Chief Executive	Sharon Kemp	24/06/19
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	20/06/19
Assistant Director of Legal Services (Monitoring Officer)	Bal Nahal	20/06/19
Assistant Director of Human Resources (if appropriate)	N/A	N/A
Head of Procurement (if appropriate)	N/A	N/A

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This report is published on the Council's [website](#).

APPENDIX A

Summary Prudential Indicators: Rotherham MBC

		Actual	Revised Estimate	Original Estimate
		£m	£m	£m
1	Capital Expenditure (excluding PFI & Finance lease liabilities)	91.643	107.054	113.911
2	Capital Financing Requirement (CFR) including PFI & similar liabilities:			
	General Fund	509.841	519.433	505.879
	HRA	305.075	304.125	304.125
	Total	814.916	823.558	810.004
3	Net Borrowing compared to CFR excluding PFI & similar liabilities:			
	Total Borrowing	419.702	425.855	558.953
	Total Investments	27.530	8.180	20.000
	Net Borrowing	392.172	417.675	538.953
	CFR	685.241	693.932	680.378
	Under-borrowing	293.069	276.257	141.425
4	Net Borrowing compared to CFR including PFI & similar liabilities:			
	Borrowing (from above)	419.702	425.855	558.953
	Borrowing (PFI etc.)	129.626	129.626	129.626
	Total Borrowing	549.328	555.481	688.579
	Total Investments	27.530	8.180	20.000
	Net Borrowing	521.798	547.301	668.579
	CFR	814.916	823.558	810.004
	Under-borrowing	293.118	276.257	141.425
5	Authorised Limit for external debt			
	Assumed Borrowing	714.397	714.397	714.397
	PFI & similar liabilities	132.219	132.219	132.219
	Authorised Limit	846.615	846.615	846.615
	Total Borrowing	549.328	555.481	688.579
	Borrowing Below Limit	297.287	291.134	158.036
6	Operational boundary for external debt			
	Assumed Borrowing	558.953	558.953	558.953
	PFI & similar liabilities	129.626	129.626	129.626
	Operational Boundary	688.579	688.579	688.579
	Total Borrowing	549.328	555.481	688.579
	Borrowing Below/(Above) Boundary	139.251	133.098	0.000
7	Maximum Funds invested > 364 days	0.000	10.000	10.000
			Revised	Original

		Actual	Estimate	Estimate
		%	%	%
8	Ratio of financing costs to net revenue stream – Non HRA	5.26	5.46	5.56
9	Ratio of financing costs to net revenue stream – HRA	15.92	15.75	15.95
		£	£	£
10	Incremental impact of capital expenditure plans on the Band D Council Tax	7.39	13.26	13.26
11	Incremental impact of capital expenditure plans on housing rents levels	0	0	0

12	Maturity Structure of Fixed Rate Borrowing	Actual	Revised Upper Limit	Original Upper Limit
		%	%	%
	Under 12 Months	2.93	35	35
	12 months to 2 years	2.94	35	35
	2 years to 5 years	11.82	45	45
	5 years to 10 years	2.67	45	45
	10 years to 20 years	12.13	45	45
	20 years to 30 years	1.19	50	50
	30 years to 40 years	25.34	50	50
	40 years to 50 years	17.16	55	55
	50 years and above	23.83	60	60

13	Upper Limit on fixed interest rates based on fixed net debt	Actual	Revised Upper Limit	Original Upper Limit
		%	%	%
		78.32	100	100

14	Upper Limit on variable rates based on fixed net debt	Actual	Revised Upper Limit	Original Upper Limit
		%	%	%
		21.68	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	37.000	37.000	37.000
	Total Borrowing	37.000	37.000	37.000
	Borrowing Below Limit	0.000	0.000	0.000
2	Operational boundary for external debt			
	Operational Boundary	37.000	37.000	37.000
	Total Borrowing	37.000	37.000	37.000
	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	45.594	25	25
	12 months to 2 years	54.406	50	50
	2 years to 5 years	0	100	100

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

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