

Committee Name and Date of Committee Meeting

Cabinet – 20 July 2020

Report Title

Annual Treasury Management Report and Actual Prudential Indicators 2019/20

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)

Rob Mahon, Head of Corporate Finance
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Ward(s) Affected

Borough-Wide

Report Summary

The Council received an annual treasury strategy report in advance of the 2019/20 financial year at its meeting on 27th February 2019 and Audit Committee received a mid-year report at its meeting on 26th November 2019, representing a mid-year review of treasury activity during 2019/20.

The annual treasury management report is the final treasury report for 2019/20. Its purpose is to review the treasury activity for 2019/20 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2019/20 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

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 2019/20 be noted.

2. That the report be forwarded to Audit Committee for information.

List of Appendices Included

Appendix 1 Summary Prudential Indicators for Rotherham MBC

Appendix 2 Summary Prudential Indicators for the Former South Yorkshire County Council

Background Papers

Treasury Management Strategy and Prudential Indicators report to cabinet on 17th February 2019

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

No.

Council Approval Required

No

Exempt from the Press and Public

No.

Annual Treasury Management Report and Actual Prudential Indicators 2019/20

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 2019/20);
 - 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 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.
- 1.3 The Council's treasury management functions have been operating within unprecedented times of uncertainty, this uncertainty impacts forecasts on borrowing and lending rates, availability of borrowing and investment options and capital programme projections. The uncertainty was initially from the outcome of EU exit but this has now transitioned to the pressures and uncertainty brought about by the UK's reaction to the Covid-19 outbreak.
- 1.4 At present the Council has been able to manage cashflow levels for the majority of the lockdown period without much difficulty. This has been due to government providing significant grants for the management of covid-19 and support to businesses, providing the Council with significant cash balances, limiting the Council's need to borrow during this period. The downturn in the UK economy and the cutting of the Bank Of England Base Rate to 0.1% actually has a beneficial outcome to the Council's treasury strategy as it reduces the cost of our short term borrowing, thus enabling interest savings to be generated against plan.

However, due to the significant level of cash balances that the Council held at various points during the lockdown period, the Council's Natwest reserve account was utilised to deposit funds rather than establish new Money Market Fund accounts, which there was no time to do. This was not felt to be a significant breach of the Council's annual investment strategy (investments with banks are limited to £5m per bank for a period not exceeding 6 months), due to the low risk involved and circumstances that lead to the need to temporarily deposit funds above this amount with the Council's own bankers.

2. Key Issues

- 2.1 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 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 2019/20 for Rotherham MBC, with comparators, are shown in the attached Appendix 1. Background to these is provided in the following paragraphs.

- 2.2 **Impact of the Council's Capital Expenditure and Financing 2019/20** - 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.

- 2.3 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 2019/20 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 2019/20 the closing CFR is £16.470m less than that approved in the revised indicator, via the Mid-Year report. 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 and has the knock on effect of generating savings against the treasury budget for 2020/21 as planned interest payments and minimum revenue provision payments will reduce.

2.4 Treasury Position at 31 March 2020 - 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 2019/20 provision was made for the estimated borrowing need for the year to partly reduce the Council's 31 March 2019 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 2019/20.

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 and make long-term loans a more cost-effective option. Due to the current economic downturn the long-term borrowing rates have significantly dropped, whilst this does mean that long-term borrowing is cheaper at present, it also means the Council is able to continue to make use of short term loan benefits before moving some of its debt portfolio to longer term deals, as the longer term rates will likely stay low for some time.

Thus, at 31 March 2020, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

2.5 Table 1 Council's Treasury Position 2019/2020

Net Borrowing	As At 31 March 2019 £m	As At 31 March 2020 £m
External Borrowing		
Public Works Loans Board (PWLB)	196.702	184.389
Market (e.g. Banks, Other Local Authorities)	223.000	213.000
Temporary Borrowing	167.000	239.000
	586.702	636.389
External Investments		
Debt Management Office	0.000	0.000
Money Market Funds	27.530	39.675
	27.530	39.675
Net Borrowing	559.172	596.714
Net Borrowing - Excluding Temporary Borrowing	392.172	357.714
Capital Financing Requirement (exc Other Long Term Liabilities)	695.914	715.685
Net Under-Borrowed	303.742	357.971

- 2.6 Against the Council's Capital Financing Requirement of £715.685m (excluding PFI and similar arrangements totalling £126.518m), the Council's outstanding net borrowing of £357.714m (excluding temporary loans) is lower than this requirement by £357.971m 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.

Total savings in the Treasury Management budget for 2019/20, arising from all treasury activity including cash-flow management, were £3.3m. The treasury management and capital financing decisions taken at the year end will also enable a re-profiling of MRP and interest forecasts to allow for a further £0.7m saving to be contributed towards the 2020/21 treasury management budget in addition to the £3.15m saving included as part of setting the 2020/21 budget.

2.7 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

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

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 2019/20 plus the expected changes to the CFR for 2019/20 and 2020/21. The Council complied with this prudential indicator throughout 2019/20.

- 2.8 **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.
- 2.9 **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.
- 2.10 **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.

The General Fund shows a reduction in the actual financing costs as a proportion of net revenue stream. The General Fund ratio reduced from 6.85% (original budget) to 5.26% (actual out-turn). This was as a result of a combination of reduced borrowing costs for the year due to use of short term loans and the actual MRP charge being lower than the original budget. The HRA ratio increased from 15.75% (original budget) to 15.95% (actual out-turn). This was due increased interest costs charged to the HRA against the budgeted plan, the increase related to the spike during the year in PWLB rates.

- 2.11 **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 £51.47 to £19.51. 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 2019/20 and therefore there was no incremental impact of capital investment on HRA rent levels.

2.12 TREASURY MANAGEMENT INDICATORS

2.13 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 2019/20.

Maturity structure of fixed rate borrowing during 2019/20 – 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 breached the limit set for short term borrowing (less than 12 months), this was a necessary breach to allow the Council to continue to maximise savings being generated through this strategy that were vital to the Councils revenue outturn position. The treasury management strategy has increased this limit for 2020/21, though given the current economic climate it may be beneficial to review that position further.

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.

2.14 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 54 occasions with a mix of terms (ranging from 3 months to 12 months) to manage the Council's cash flow position. Of these short-term loans, 22 have been fully repaid in the year; with 32 remaining outstanding at the year end. Included within these are four rolling deals, where the Council or lender can provide 1 months' notice, 14 days notice or 2 days notice to either change the rate or end the deal. The Councils level of short term borrowing, loans less than 365 days, has exceeded the prudential indicator, as shown in appendix 1, PI 12. The breach has enabled the Council to generate significant savings through its strategy of utilising short term borrowing rather than entering into long term loans, these savings were a crucial element of managing the Councils outturn position for 2019/20. The indicator has been increased for 2020/21 to allow the continued benefit from use of short term loans to be generated.

2.15 Table 2 Short Term Borrowing as at 31st March 2020

Start Date	Principal	Type	Term	Interest Rate %
29/09/2017	£20,000,000	Temp	1 month Notice	0.80
22/08/2018	£10,000,000	Temp	14 day Notice	0.55
18/01/2019	£10,000,000	Temp	14 day Notice	0.55
11/12/2019	£10,000,000	Temp	2 day Notice	0.75
29/11/2019	£2,000,000	Temp	5 Months	0.75
23/10/2019	£10,000,000	Temp	6 Months	0.78
02/12/2019	£5,000,000	Temp	6 Months	0.90
04/12/2019	£5,000,000	Temp	6 Months	0.90
16/12/2019	£5,000,000	Temp	6 Months	0.90
20/12/2019	£10,000,000	Temp	6 Months	0.87
12/12/2019	£5,000,000	Temp	6 Months	0.87
12/12/2019	£5,000,000	Temp	6 Months	0.85
24/01/2020	£5,000,000	Temp	6 Months	0.90
31/01/2020	£5,000,000	Temp	6 Months	0.90
20/03/2020	£5,000,000	Temp	6 Months	0.92
27/03/2020	£5,000,000	Temp	6 Months	0.90
23/08/2019	£15,000,000	Temp	8 Months	0.90
20/01/2020	£5,000,000	Temp	8 Months	0.90
05/07/2019	£8,000,000	Temp	9 Months	0.90
01/08/2019	£5,000,000	Temp	9 Months	0.90
20/08/2019	£5,000,000	Temp	9 Months	0.89
25/09/2019	£14,000,000	Temp	9 Months	0.85
23/09/2019	£5,000,000	Temp	9 Months	0.90
23/09/2019	£5,000,000	Temp	9 Months	0.90
01/10/2019	£5,000,000	Temp	9 Months	0.85
16/01/2020	£5,000,000	Temp	9 Months	0.89
20/03/2020	£5,000,000	Temp	9 Months	0.95
10/06/2019	£15,000,000	Temp	10 Months	0.90
19/07/2019	£10,000,000	Temp	10 Months	0.90
01/05/2019	£5,000,000	Temp	11 Months	1.00
01/11/2019	£5,000,000	Temp	11 Months	0.90
26/04/2019	£10,000,000	Temp	13 Months	1.10
Total Loans	£239,000,000			

2.16 Rescheduling – During 2019/20 the Council was offered an opportunity to repay early a bond held with Siemens, £10m. This opportunity was analysed in detail to ensure that the savings the Council could make from re-financing the debt with short term borrowing would outweigh the repayment premium charged. Officers worked with the Council's treasury management advisors Link to arrange the repayment terms.

Debt Repayment – Including the repayment above, loans totalling £20m matured during the year as shown in the table below. Part repayments of principal (£2.305m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

2.17 Table 3 Debt Repayments 2019/20

Lender	Principal £m	Type	Interest Rate	Weighted Average rate of interest
Siemens	10.000	Fixed rate	2.66%	
PWLB	10.000	Fixed rate	3.01%	
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.175	Annual repayment	Various	
Total:	£22.305			2.89%

2.18 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 2019. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £27.1m and received an average return of 0.69%. When compared to the local measure of performance the average return was higher than the average seven day LIBID rate for 2019/20 of 0.51%. This is due to the Council 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's Debt Management Office.

2.19 FORMER SOUTH YORKSHIRE COUNTY COUNCIL

No new borrowing or rescheduling took place during 2019/20, whilst one loan of £16.5m matured during the year. Thus, at 31 March 2020, external debt, all with the PWLB, totalled £19.7m. The average interest rate on the debt is now 5.10%.

The Former South Yorkshire County Council had no investments at 31 March 2020, the same as at 31 March 2019.

The actual prudential indicators for the Former South Yorkshire County Council are shown in the attached Appendix 2.

3. Options considered and recommended proposal

- 3.1 No options considered as the report outlines actual Treasury Management activity during 2019/20

4. Consultation on proposal

4.1 None required

5. Timetable and Accountability for Implementing this Decision

5.1 None required

6. Financial and Procurement Advice and Implications

6.1 Treasury Management forms an integral part of the Council's overall financial arrangements. This report provides an update on the performance of the treasury management functions for 2019/20 against the prudential indicators as outline in the Treasury Management Strategy for 2019/20. There were not significant breaches of prudential indicators to report and savings were generated from the treasury management strategy adopted that played vital role in enabling the Council to operate a balanced budget.

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

7. Legal Advice and 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 Advice and Implications

8.1 No direct implications.

9. Implications for Children and Young People and Vulnerable Adults

9.1 The report includes reference to the cost pressures on both Children's and Adult Social care budget.

10. Equalities and Human Rights Advice and Implications

10.1 No direct implications.

11. Implications for Partners

11.1 No direct implications.

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 Officers

Graham Saxton, Assistant Director – Financial Services

Rob Mahon, Head of Corporate Finance

Approvals obtained on behalf of Statutory Officers:-

	Named Officer	Date
Chief Executive	Sharon Kemp	26/06/20
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	25/06/20
Head of Legal Services (Monitoring Officer)	Stuart Fletcher	25/06/20

Report Author: Rob Mahon, Head of Corporate Finance

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

APPENDIX 1

Summary Prudential Indicators: Rotherham MBC

		Actual £m	Revised Estimate £m	Original Estimate £m
1	Capital Expenditure (excluding PFI & Finance lease liabilities)	96.985	123.729	110.902
2	Capital Financing Requirement (CFR) including PFI & similar liabilities:			
	General Fund	536.332	553.597	546.017
	HRA	305.870	305.075	304.125
	Total	842.202	858.672	850.142
3	Net Borrowing compared to CFR excluding PFI & similar liabilities:			
	Total Borrowing	636.389	676.290	681.524
	Total Investments	39.675	20.000	20.000
	Net Borrowing	596.714	656.290	661.524
	CFR (excluding PFI & Similar liabilities)	715.684	732.236	723.366
	Under-borrowing	118.970	75.946	61.842
4	Net Borrowing compared to CFR including PFI & similar liabilities:			
	Borrowing (from above)	636.389	676.290	681.524
	Borrowing (PFI etc.)	126.518	126.436	126.776
	Total Borrowing	762.907	802.726	808.300
	Total Investments	39.675	20.000	20.000
	Net Borrowing	723.232	782.726	788.300
	CFR	842.202	858.672	850.142
	Under-borrowing	118.970	75.946	61.842
5	Authorised Limit for external debt			
	Assumed Borrowing	759.534	759.534	759.534
	PFI & similar liabilities	126.518	126.436	126.776
	Authorised Limit	886.052	885.970	886.310
	Total Borrowing	762.907	802.726	808.300
	Borrowing Below Limit	123.145	83.244	78.010
6	Operational boundary for external debt			
	Assumed Borrowing	743.366	743.366	743.366
	PFI & similar liabilities	126.776	126.776	126.776
	Operational Boundary	870.142	870.142	870.142
	Total Borrowing	762.907	802.726	808.300
	Borrowing Below/(Above) Boundary	107.235	67.416	61.842
7	Maximum Funds invested > 364 days	10.000	10.000	10.000
		Actual	Revised Estimate	Original Estimate

		%	%	%
8	Ratio of financing costs to net revenue stream – Non HRA	5.26	5.79	6.85
9	Ratio of financing costs to net revenue stream – HRA	15.92	15.98	15.75
		£	£	£
10	Incremental impact of capital expenditure plans on the Band D Council Tax	19.51	51.47	51.47
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	47.27	35	35
	12 months to 2 years	4.54	45	45
	2 years to 5 years	6.01	45	45
	5 years to 10 years	0.23	45	45
	10 years to 20 years	7.29	45	45
	20 years to 30 years	0.90	50	50
	30 years to 40 years	19.07	50	50
	40 years to 50 years	5.74	55	55
	50 years and above	8.97	60	60

13	Upper Limit on fixed interest rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		85.97	100	100

14	Upper Limit on variable rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		14.03	30	30

APPENDIX 2

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