Public Report
Cabinet

Committee Name and Date of Committee Meeting
Cabinet – 19 July 2021

Report Title
Annual Treasury Management Report and Actual Prudential Indicators 2020/21

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 2020/21 financial year at its meeting on 26th February 2020 and Audit Committee received a mid-year report at its meeting on 19th January 2021, representing a mid-year review of treasury activity during 2020/21.

The annual treasury management report is the final treasury report for 2020/21. Its purpose is to review the treasury activity for 2020/21 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2020/21 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. To note the Treasury Management Prudential Indicators outturn position as set out in section 3 and Appendix 1.

2. To agree that the report is forwarded to Audit Committee for information.

List of Appendices Included
Appendix 1 (included with the report) – Summary Prudential Indicators for Rotherham MBC
Appendix 2 – Initial Equality Screening Assessment
Appendix 3 – Carbon Impact Assessment

Background Papers
Treasury Management Strategy and Prudential Indicators report to Council on 26th February 2020
Mid-Year Treasury Management and Prudential Indicators Monitoring report to Audit Committee on 19th January 2021
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.

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) 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 2020/21);
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI) 3146 2003, as amended, defines the controls and powers within the Act;
- The Regulations require the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The Regulations also require 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 councils' 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 brought about initially from the outcome of EU exit but has been further compounded by the financial pressures and overall effect of the Covid-19 outbreak. The effects of which are expected to last for several years.

1.4 The Council has been able to manage cashflow levels for the majority of the financial year without significant difficulty. The greater pressure from a cashflow perspective has been the problem of having surplus cash, with limited options as to how to invest that cash for a reasonable return. This has been due partly 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 short term borrowing, thus enabling interest savings to be generated against plan. The Council's strategy with the use of short term borrowing has again generated significant short term savings for the Council's budget, in excess of £3m for 2020/21, in addition to the £3.1m of savings from treasury activity that was included within the original 2020/21 budget.

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, through 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 2020/21 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 2020/21** - 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 2020/21 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. In accordance with current accounting regulations, 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 2020/21 the closing CFR is £27.289m 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 2021/22 as planned interest payments and minimum revenue provision payments are reduced.

2.4 Treasury Position at 31 March 2021 - whilst the Council's gauge of its underlying need to borrow is the CFR, the Treasury Management function as authorised by the Strategic Director of Finance and Customer Services 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 2020/21 provision was made for the estimated borrowing need for the year should the decision be made to partly reduce the Council's 31 March 2021 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 again did not take out any new long-term loans in 2020/21.

There is minimal risk to the Council in following this strategy, as long-terms 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, caused by the Brexit uncertainty and exacerbated by the financial implications of Covid 19, the long-term borrowing rates have significantly dropped, whilst this does mean that long-term borrowing is cheaper at present, it also means that the risk to the Council of spikes in long term borrowing rates has decreased. This allows the Council to continue to make use of short term loan benefits for a longer period of time, 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 2021, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

2.5 **Table 1 Council's Treasury Position 2020/2021**

Net Borrowing	**As At 31 March 2020 £m**	**As At 31 March 2021 £m**
External Borrowing		
Public Works Loans Board (PWLB)	184.389	172.069
Market (e.g. Banks, Other Local Authorities)	213.000	213.000

Temporary Borrowing	239.000	302.500
	636.389	**687.569**
External Investments		
Debt Management Office	0.000	0.000
Money Market Funds	39.675	47.830
	39.675	**47.830**
Net Borrowing	**596.714**	**639.739**
Net Borrowing - Excluding Temporary Borrowing	**357.714**	**337.239**
Capital Financing Requirement (exc Other Long Term Liabilities)	**715.685**	**726.178**
Net Under-Borrowed	**357.971**	**388.939**

2.6 Against the Council's Capital Financing Requirement of £726.178m (excluding PFI and similar arrangements totalling £123.490m), the Council's outstanding net borrowing of £337.239m (excluding temporary loans) is lower than this requirement by £388.939m 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 2020/21, arising from all treasury activity including cash-flow management, were over £3m, in addition to the £3.1m of savings included in the original 2020/21 budget. 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 savings in excess of £1m to be contributed towards the 2021/22 treasury management budget, although it should be noted that some of this saving is as a result of significant slippage in the capital programme. This is in addition to the saving of £5m already included as part of setting the 2021/22 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 2020/21 plus the expected changes to the CFR for 2020/21 and 2021/22. The Council complied with this prudential indicator throughout 2020/21.

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 5.81% (original budget) to 5.39% (actual out-turn). This was mainly as a result of reduced borrowing costs for the year due to use of short term loans. The HRA ratio also decreased slightly from 15.9% (original budget) to 15.8% (actual out-turn). This slight decrease was again due to reduced borrowing costs.

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 notional impact on Council Tax Band D levels of changes to the General Fund capital programme, and
- the notional 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 £50.48 to £26.25. This is due to the actual borrowing required in the year (to fund capital expenditure) being substantially lower than anticipated due to slippage in the programme, predominantly, as a result of Covid 19. 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 2020/21 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 2021 – 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 2020/21.

Maturity structure of fixed rate borrowing during 2020/21 – 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 previous treasury management strategy increased the limit set for short term borrowing (less than 12 months), to allow the Council to continue to maximise savings being generated through a short term borrowing strategy as these were essential to the Councils revenue outturn position. Short term borrowing is now falling comfortably within these limits as the Council has been able to take advantage of some two-year deals, at historically low levels. These are at very competitive rates and provide more stability in the short to medium term, reducing the need for borrowing activity and securing savings into the 2021/22 and 2022/23 financial years. These deals are reflected by the current level of loans due to mature in the 12 months – 2 years category.

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 44 occasions with a mix of terms (ranging from 2 months to 30 months) to manage the Council's cash flow position. Of these short-term loans, 10 have been fully repaid in the year; with 34 remaining outstanding at the year end.

2.15 **Table 2 Short Term Borrowing as at 31st March 2021**

Lender	Start Date	Principal	Type	Term	Interest Rate %
Local Authority	07/05/2020	£5,000,000	Temp	6 Months	1.00
Local Authority	07/05/2020	£20,000,000	Temp	6 Months	0.85
Local Authority	18/05/2020	£5,000,000	Temp	11 Months	1.00
Local Authority	19/05/2020	£5,000,000	Temp	11 Months	1.00
Local Authority	20/05/2020	£5,000,000	Temp	9 Months	0.90
Local Authority	26/05/2020	£5,000,000	Temp	6 Months	1.00
Local Authority	02/06/2020	£10,000,000	Temp	11 Months	1.00
Local Authority	16/06/2020	£5,000,000	Temp	9 Months	1.00
Local Authority	22/06/2020	£5,000,000	Temp	8 Months	1.00

Local Authority	22/06/2020	£10,000,000	Temp	11 Months	0.95
Local Authority	23/06/2020	£5,000,000	Temp	11 Months	0.95
Local Authority	25/06/2020	£10,000,000	Temp	2 Months	0.30
Local Authority	09/07/2020	£5,000,000	Temp	6 Months	0.97
Local Authority	17/07/2020	£10,000,000	Temp	8 Months	0.75
Local Authority	24/07/2020	£5,000,000	Temp	6 Months	0.70
Local Authority	27/07/2020	£20,000,000	Temp	20 Months	0.30
Local Authority	31/07/2020	£10,000,000	Temp	11 Months	0.80
Local Authority	20/08/2020	£5,000,000	Temp	6 Months	0.38
Local Authority	15/09/2020	£5,000,000	Temp	6 Months	0.40
Local Authority	16/09/2020	£5,000,000	Temp	7 Months	0.41
Local Authority	18/09/2020	£5,000,000	Temp	11 Months	0.55
Local Authority	21/09/2020	£5,000,000	Temp	8 Months	0.50
Local Authority	21/09/2020	£10,000,000	Temp	18 Months	0.10
Local Authority	28/09/2020	£5,000,000	Temp	11 Months	0.55
Local Authority	28/09/2020	£10,000,000	Temp	11 Months	0.50
Local Authority	01/10/2020	£5,000,000	Temp	9 Months	0.45
Local Authority	09/10/2020	£5,000,000	Temp	24 Months	0.90
Local Authority	09/10/2020	£5,000,000	Temp	24 Months	0.90
Local Authority	09/10/2020	£7,500,000	Temp	24 Months	0.90
Local Authority	16/10/2020	£10,000,000	Temp	24 Months	0.80
Local Authority	23/10/2020	£15,000,000	Temp	11 Months	0.50
Local Authority	28/10/2020	£10,000,000	Temp	11 Months	0.58
Local Authority	29/10/2020	£10,000,000	Temp	5 Months	0.40

Local Authority	29/10/2020	£10,000,000	Temp	24 Months	0.87
Local Authority	30/10/2020	£5,000,000	Temp	7 Months	0.45
Local Authority	30/10/2020	£5,000,000	Temp	11 Months	0.50
Local Authority	30/10/2020	£20,000,000	Temp	24 Months	0.90
Local Authority	09/11/2020	£10,000,000	Temp	11 Months	0.45
Local Authority	25/01/2021	£10,000,000	Temp	11 Months	0.45
Local Authority	27/01/2021	£5,000,000	Temp	11 Months	0.45
Local Authority	08/02/2021	£10,000,000	Temp	11 Months	0.45
Local Authority	22/02/2021	£5,000,000	Temp	24 Months	0.60
Local Authority	18/03/2021	£10,000,000	Temp	30 Months	0.73
Local Authority	18/03/2021	£10,000,000	Temp	27 Months	0.73

2.16 Debt Repayment – loans totalling £10m matured during the year as shown in the table below. Part repayments of principal (£2.320m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

2.17 **Table 3 Debt Repayments 2020/21**

Lender	Principal £m	Type	Interest Rate	Weighted Average rate of interest
PWLB	10.000	Fixed rate	3.20%	
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.190	Annual repayments	Various	
Total:	**£12.320**			**3.23%**

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 26th February 2020. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £32.4m and received an average return of 0.1%. Although this seems low the Bank of England rate has been 0.1% throughout the year and the Government's Debt Management Office offered an average rate of 0.064% and at points throughout the year was negative. The Council continued to use Money Market Funds for short-term deposits, which are AAA rated securities and offer a slightly better rate of interest as shown.

2.19 **FORMER SOUTH YORKSHIRE COUNTY COUNCIL**

No new borrowing or rescheduling took place during 2020/21, whilst the remaining loans, all with the PWLB of £19.7m, matured during the year. Thus at 31 March 2021, there was no remaining debt.

The Former South Yorkshire County Council had no investments at 31 March 2020.

There is therefore no requirement to show the prudential indicators.

3. Options considered and recommended proposal

No options considered as the report outlines actual Treasury Management activity during 2020/21.

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 2020/21 against the prudential indicators as outline in the Treasury Management Strategy for 2020/21. There were no 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 The relevant legal requirements are set out in the body of the report. Further the measures and performance referred to in the report ensure 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 No direct implications

10. Equalities and Human Rights Advice and Implications

10.1 None identified

11. Implications for CO2 Emissions and Climate Change

11.1 No direct implications.

12. Implications for Partners

12.1 None identified.

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 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	01/07/21
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	28/06/21
Head of Legal Services (Monitoring Officer)	Bal Nahal	28/06/21

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)**	**80.644**	**139.100**	**118.611**
2	**Capital Financing Requirement (CFR) including PFI & similar liabilities:**			
	General Fund	543.662	571.086	549.564
	HRA	306.005	305.870	305.075
	Total	**849.667**	**876.956**	**854.639**
3	**Net Borrowing compared to CFR excluding PFI & similar liabilities:**			
	Total Borrowing	687.569	720.506	671.758
	Total Investments	47.830	20.000	27.530
	Net Borrowing	639.739	700.506	644.228
	CFR (excluding PFI & Similar liabilities)	726.178	753.467	727.724
	Under-borrowing	**86.439**	**52.961**	**83.496**
4	**Net Borrowing compared to CFR including PFI & similar liabilities:**			
	Borrowing (from above)	687.569	720.506	671.758
	Borrowing (PFI etc.)	123.490	123.489	126.915
	Total Borrowing	811.059	843.995	798.673
	Total Investments	47.830	20.000	27.530
	Net Borrowing	763.229	823.995	771.143
	CFR	849.668	876.956	854.639
	Under-borrowing	**86.439**	**52.961**	**83.496**
5	**Authorised Limit for external debt**			
	Assumed Borrowing	773.467	773.467	747.724
	PFI & similar liabilities	123.490	123.489	126.915
	Authorised Limit	896.957	896.956	874.639
	Total Borrowing	811.059	843.995	798.673
	Borrowing Below Limit	**85.898**	**52.961**	**75.966**
6	**Operational boundary for external debt**			
	Assumed Borrowing	753.467	753.467	701.758
	PFI & similar liabilities	123.490	123.489	126.915
	Operational Boundary	876.957	876.956	828.673
	Total Borrowing	811.059	843.995	798.673
	Borrowing Below/(Above) Boundary	**65.898**	**32.961**	**30.000**
7	**Maximum Funds invested > 364 days**	**20.000**	**20.000**	**20.000**

		Actual	Revised Estimate	Original Estimate
		%	%	%
8	**Ratio of financing costs to net revenue stream – Non HRA**	5.39	5.68	5.81
9	**Ratio of financing costs to net revenue stream – HRA**	15.84	16.66	15.90
		£	**£**	**£**
10	**Incremental impact of capital expenditure plans on the Band D Council Tax**	26.25	50.48	50.48
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	35.68	50	50
	12 months to 2 years	10.99	35	35
	2 years to 5 years	6.06	45	45
	5 years to 10 years	0.92	45	45
	10 years to 20 years	5.14	45	45
	20 years to 30 years	0.73	50	50
	30 years to 40 years	15.47	50	50
	40 years to 50 years	10.47	55	55
	50 years and above	14.54	60	60

13	**Upper Limit on fixed interest rates based on fixed net debt**	**Actual** **%**	**Revised Upper Limit** **%**	**Original Upper Limit** **%**
		81	100	100

14	**Upper Limit on variable rates based on fixed net debt**	**Actual** **%**	**Revised Upper Limit** **%**	**Original Upper Limit** **%**
		19	45	45