

**Committee Name and Date of Committee Meeting**

Cabinet – 11 July 2022

**Report Title**

Annual Treasury Management Report and Actual Prudential Indicators 2021/22

**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 2021/22 financial year at its meeting on 3<sup>rd</sup> March 2021 and Audit Committee received a mid-year report at its meeting on 30<sup>th</sup> November 2021, representing a mid-year review of treasury activity during 2021/22.

The annual treasury management report is the final treasury report for 2021/22. Its purpose is to review the treasury activity for 2021/22 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2021/22 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 3<sup>rd</sup> March 2021

Mid-Year Treasury Management and Prudential Indicators Monitoring report to Audit Committee on 30<sup>th</sup> November 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 2021/22);
- Statutory Instrument (SI) 3146 2003, as amended, defines 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 DLUHC 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. More recently the impact of the conflict in Ukraine has been an additional driver of uncertainty in the financial markets, along with rising inflation and energy prices.

1.4 On a daily basis money flows into and out of the Council's bank accounts and this has to be managed carefully. The Council manages its cashflow on a daily basis to take account of income received from grants, fees and charges, local taxation and borrowing alongside its outgoings due to the expenditure the Council incurs, such as salaries and supplier payments. The cashflow process is about ensuring the Council has sufficient funds available in its bank accounts to meet the payments that it plans to make each day. This process is separate from the Council's financial monitoring that tracks planned and actual expenditure

against planned budgets. 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 how to invest additional cash balances for a reasonable investment return when interest rates have been low. The Council has held additional cash, as a result of taking out £227m of PWLB borrowing over a 48-50 year period in 2021/22 to take advantage of low interest rates to replace short term borrowing and reduce the Council's interest rate risk. In addition, Government has also provided significant grants for the management of Covid-19 and support to businesses which has also resulted in temporary additional cash balances.

- 1.5 The Bank Of England Base Rate remained at 0.1% for most of 2021/22 which has had a beneficial outcome to the Council's treasury strategy as the cost of short term borrowing has remained low, 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 allowing the Council to transfer £5.6m of treasury savings into the Treasury Management reserve, as set out and approved within the Council's Budget and Council Tax Report 2022/23, to be used to support the Council's Medium Term Financial Strategy to 2025/26.

## **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 2021/22 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 2021/22** - 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 2021/22 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 2021/22 the closing CFR is £52.336m 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 and additional grant funding gained, 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 2022/23 as planned interest payments and minimum revenue provision payments are reduced.

2.4 Treasury Position at 31 March 2022 - whilst the Council's gauge of it's 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).

During 2021/22 a decision was made to borrow long term funds from the PWLB to take advantage of the cheap interest rates available. This has reduced the Council's 31 March 2022 under-borrowed position. The PWLB borrowing will replace short term loans so as these short term loans mature the level of under borrowing will increase.

The borrowing of long term funds has provided certainty of interest payments over a long period of time (48-50 years) and has removed some of the risk of rising interest rates. Since these loans were taken out both short and long term borrowing rates have risen significantly and are forecast to rise further. The Council will continue to monitor the interest position with a view to take out further long term borrowing if there are dips in the long term borrowing rates although the general movement of interest rates is forecast to be upwards over the short to medium term.

Thus at 31 March 2022, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

2.5 **Table 1 Council's Treasury Position 2021/2022**

<b>Net Borrowing</b>	<b>As At 31 March 2021 £m</b>	<b>As At 31 March 2022 £m</b>
<b>External Borrowing</b>		
Public Works Loans Board (PWLB)	172.069	388.741
Market (e.g. Banks, Other Local Authorities)	213.000	198.000
Temporary Borrowing	302.500	180.500
	<b>687.569</b>	<b>767.241</b>
<b>External Investments</b>		
Debt Management Office	0.000	48.500
Other Local Authorities	0.000	137.000
Money Market Funds	47.830	39.350
	<b>47.830</b>	<b>224.850</b>
<b>Net Borrowing</b>	<b>639.739</b>	<b>542.391</b>
<b>Net Borrowing - Excluding Temporary Borrowing</b>	<b>337.239</b>	<b>361.891</b>
<b>Capital Financing Requirement (exc Other Long Term Liabilities)</b>	<b>726.178</b>	<b>736.433</b>
<b>Net Under-Borrowed</b>	<b>388.939</b>	<b>374.542</b>

2.6 Against the Council's Capital Financing Requirement of £736.433m (excluding PFI and similar arrangements totalling £120.503m), the Council's outstanding net borrowing of £361.891m (excluding temporary loans) is lower than this requirement by £374.542m. Long term borrowing has been taken out in 2021/22 which has mostly been invested resulting in a fall in the net under-borrowed position. As the Council has taken the opportunity to access long term PWLB borrowing ahead of need to secure the advantageous rates and security, there has been additional cash in year that in turn have been invested into the Local Authority lending market or through banks and MMF's.

2.7 Total savings in the Treasury Management budget for 2021/22, arising from all treasury activity including cash-flow management, were over £5.6m, as per the Council's Budget and Council Tax report 2022/23 these have been transferred to reserves. In addition, 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 2022/23 treasury management budget, although it should be noted that some of this saving is as a result of slippage in the capital programme.

## 2.8 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 2021/22 plus the expected changes to the CFR for 2022/23 and 2023/24. The Council complied with this prudential indicator throughout 2021/22.

2.9 **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 it's Authorised Limit, both excluding and including the impact of bringing PFI and similar arrangements on to the Council's Balance Sheet.

2.10 **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 it's borrowing position around it's Operational Boundary.

2.11 **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 decreased from 5.31% (original budget) to 5.03% (actual out-turn). This was mainly as a result of reduced borrowing costs for the year due to use of short term loans and long term borrowing only being taken later in the year. The HRA ratio increased from 16.8% (original budget) to 17.50% (actual out-turn). This increase is due to the HRA picking up a greater proportion of the borrowing cost than in the original budget.

## 2.12 TREASURY MANAGEMENT INDICATORS

### 2.13 Limits on Activity

Upper limits on fixed and variable interest rates as at 31 March 2022 – 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 2021/22.

Maturity structure of fixed rate borrowing during 2021/22 – 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. During 2021/22 long term

borrowing has been taken to replace short term borrowing. This has reduced the level of funds maturing in the short term and the short term borrowing falls comfortably within the limits set. Short term borrowing will continue to mature and repayments funded by the Council's investment balance. Therefore the Council will remain comfortably within the limits but still have the option to borrow short term if this is required.

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, long term PWLB loans totalling £227m were taken during 2021/22 in order to take advantage of low long term interest rates and provide long term certainty of interest payments. These loans have replaced short term borrowing with the excess balance invested in the short term. This investment balance will cover the repayment of remaining short term loans as they mature.

## 2.15 Table 2 PWLB Borrowing taken out in 2021/22

Lender	Start Date	Principal	Type	Term	Interest Rate %
PWLB	09/07/2021	£10,000,000	Long Term	50 years	1.81
PWLB	23/07/2021	£10,000,000	Long Term	50 Years	1.66
PWLB	13/08/2021	£100,000,000	Long Term	50 Years	1.54
PWLB	29/11/2021	£57,000,000	Long Term	50 Years	1.57
PWLB	08/12/2021	£50,000,000	Long Term	48.5 Years	1.36

During the year, temporary borrowing was taken up on 14 occasions with a mix of terms (ranging from 9 months to 36 months) to manage the Council's cash flow position. Of these short-term loans none have been fully repaid in the year so all 14 remain outstanding at the year end.

## 2.16 Table 3 Short Term Borrowing as at 31st March 2022

Lender	Start Date	Principal	Type	Term	Interest Rate %
PCC of Nottinghamshire	06/07/2021	£8,000,000	Temp	12 Months	0.25
West Midlands CA	16/07/2021	£10,000,000	Temp	12 Months	0.25
West of England CA	30/07/2021	£10,000,000	Temp	12 Months	0.25

West Yorkshire Fire & Rescue	30/07/2021	£5,000,000	Temp	12 Months	0.20
North of Tyne CA	18/08/2021	£10,000,000	Temp	9 Months	0.10
Oxfordshire County Council	26/04/2021	£5,000,000	Temp	36 Months	0.48
East Sussex County Council	09/04/2021	£5,000,000	Temp	24 Months	0.40
East Sussex County Council	17/05/2021	£5,000,000	Temp	24 Months	0.45
Crawley Borough Council	18/06/2021	£5,000,000	Temp	24 Months	0.45
Gloucestershire County Council	18/05/2021	£5,000,000	Temp	12 Months	0.30
Vale of White Horse District Council	25/06/2021	£5,000,000	Temp	12 Months	0.30
Oxfordshire County Council	26/04/2021	£5,000,000	Temp	36 Months	0.55
West Yorkshire CA	30/04/2021	£15,000,000	Temp	23 Months	0.45
Oxfordshire County Council	30/09/2021	£5,000,000	Temp	36 Months	0.48

2.17 Debt Repayment – long term loans totalling £25m matured during the year as shown in the table below. Part repayments of principal (£0.328m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

#### 2.18 Table 3 Debt Repayments 2021/22

Lender	Principal £m	Type	Interest Rate	Weighted Average rate of interest
Sheffield City Region	15.000	Fixed rate	2.20%	
PWLB	10.000	Fixed rate	1.05%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.198	Annual repayments	Various	
<b>Total:</b>	<b>£25.328</b>			<b>1.74%</b>

#### 2.19 Investments

The Council's investment policy is governed by DHULC Guidance, which was implemented in the annual investment strategy approved by Council on 15<sup>th</sup>

February 2021. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £166.6m and received an average return of 0.06%. Although this seems low the Bank of England rate has been 0.1% throughout most of the year and the Government's Debt Management Office offered very low rates throughout the year and at some points during the year the rate 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. The Bank of England rate had risen to 0.5% by the end of the financial year so those deposits placed towards the end of the year attracted a higher interest rate.

### **3. Options considered and recommended proposal**

No options considered as the report outlines actual Treasury Management activity during 2021/22.

### **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 2021/22 against the prudential indicators as outline in the Treasury Management Strategy for 2021/22. 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 legislation and guidance is set out in the body of the report. This report described how the Council complies with the legislation and guidance, in particular 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 This is a finance update report, providing a review of the Council's Treasury Management outturn position for 2021/22. Any equalities and human rights impacts from service delivery have been or are detailed as capital projects are pulled together for inclusion within the Council's capital programme.

## 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

Rob Mahon, Head of Corporate Finance

Approvals obtained on behalf of Statutory Officers:-

	<b>Named Officer</b>	<b>Date</b>
Chief Executive	Sharon Kemp	27/06/22
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	23/06/22
Assistant Director, Legal Services (Monitoring Officer)	Phil Horsfield	23/06/22

*Report Author: Rob Mahon, Assistant Director Financial Services*

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