Rotherham Metropolitan Borough Council

Public Report
Cabinet

Committee Name and Date of Committee Meeting
Cabinet – 10 July 2023

Report Title
Treasury Management Outturn 2022-23

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 annual treasury management report is the final treasury report for 2022/23. It's purpose is to review the treasury activity for 2022/23 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2022/23 in accordance with the requirements of the Prudential Code.

The Council received an annual treasury strategy report in advance of the 2022/23 financial year at it's meeting on 2 March 2022 and Audit Committee received a mid-year report at it's meeting on 29 November 2022, representing a mid-year review of treasury activity during 2022/23.

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 – 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 2 March 2022
Mid-Year Treasury Management and Prudential Indicators Monitoring report to Audit Committee on 29 November 2022
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 2022/23);
- 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 it's 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 impact of the conflict in Ukraine has been an additional driver of uncertainty in the financial markets, along with rising inflation and energy prices and the turmoil in the bond market following the Government's mini budget on 23 September 2022. This led to a significant rise in interest rates during 2022/23 as the Bank of England raised rates in an attempt to reduce inflation.

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 it's cashflow on a daily basis to take account of income received from grants, fees and charges, local taxation and borrowing alongside it's 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 it's 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.

1.5 During 2022/23 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 at historically low rates, less than 1.8%. This was to take advantage of low interest rates to replace short term borrowing and reduce the Council's interest rate risk. This cash has been invested during 2022/23 in short term investments up to 1 year enabling the Council to increase its return on investments and take advantage of the high interest rate market conditions. The overall investment return has been less than the current prevailing rate as the rate of return has increased significantly during the year and a number of investments were made during 2021/22 when investment returns were much lower.

1.6 The Bank Of England Base Rate increased from 0.75% to 4.25% during 2022/23 as the Bank of England increased interest rates to control inflation. As at 31 May 2023 the base rate was 4.5% with further increases forecast. This has resulted in a significant increase in investment returns during 2022/23. In addition, the Council's short term borrowing costs have significantly reduced during 2022/23 as the Council has not needed to borrow (due to PWB borrowing detailed above) and not needed to borrow in the high interest rate market.

1.7 This has had a beneficial outcome to the Council's treasury strategy and enabled significant interest savings to be generated during 2022/23. Taken together the additional return on investments, reduced borrowing need and further slippage on the Council's Capital programme have enabled the Council to transfer £8.3m into the Treasury Management Reserve to support the Council's Budget and to support the Council's Medium Term Financial Strategy to 2025/26 as approved within the Council's Budget and Council Tax Report 2023/24.

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 it's 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.

2.2 The actual prudential indicators for 2022/23 for Rotherham MBC, with comparators, are shown in the attached Appendix 1. Background to these is provided in the following paragraphs.

2.3 **Impact of the Council's Capital Expenditure and Financing 2022/23** - 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, it's 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 2022/23 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.

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 2022/23 the closing CFR is £22.029m 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 2023/24 as planned interest payments and minimum revenue provision payments are reduced.

2.7 Treasury Position at 31 March 2023 - 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).

2.8 During 2022/23 investment balances have been used to pay off short term borrowing as it has matured but more significantly these balances have been used to push back the Council's need to borrow whilst interest rates are high. This has resulted in a significant increase in the net under borrowed position.

2.9 The borrowing of long term funds during 2021/22 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 in the short term before falling during 2024/25. The Council will continue to monitor the interest position with a view to taking 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. As such this presents a longer term financial challenge for the Council, as the Council will eventually need to re-enter the borrowing market.

2.10 At 31 March 2023, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

2.11 **Table 1 Council's Treasury Position 2022/2023**

Net Borrowing	**As At 31 March 2022 £m**	**As At 31 March 2023 £m**
Long Term Borrowing		
Public Works Loans Board (PWLB)	375.670	365.456
Market (e.g. Banks, Other Local Authorities) > 1 year	248.000	232.000
Short Term Borrowing		
Public Works Loans Board (PWLB)	13.071	10.214
Market (e.g. Banks, Other Local Authorities) < 1 year	130.500	46.000
	767.241	**653.670**
External Investments		
Debt Management Office	48.500	0.000
Other Local Authorities	137.000	40.000
Money Market Funds	39.350	30.300
	224.850	**70.300**
Net Borrowing	**542.391**	**583.370**
Net Borrowing - Excluding Short Term Borrowing	**411.891**	**537.370**
Capital Financing Requirement (exc Other Long Term Liabilities)	**736.433**	**765.790**
Net Under-Borrowed	**324.542**	**228.420**

2.12 Against the Council's Capital Financing Requirement of £765.790m (excluding PFI and similar arrangements totalling £116.883m), the Council's outstanding net borrowing of £583.370m (excluding short term borrowing) is lower than this requirement by £228.420m. Investments have matured in 2022/23 which have been used to repay borrowing as it has matured and £20m of long term borrowing has been taken out. This has resulted in reduced balances of borrowing and investments compared with 2021/22.

2.13 Total savings in the Treasury Management budget for 2022/23, arising from all treasury activity including cash-flow management, were over £8.3m, as per the Council's Budget and Council Tax report 2023/24 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 further savings in 2023/24. These decisions generate in excess of £1.3m to be contributed towards the treasury management budget, although it should be noted that some of this saving is as a result of slippage in the Capital Programme. Given the current inflationary conditions this saving is anticipated to help support the Council's Treasury Management function operate to budget.

2.14 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

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

2.15 **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 2022/23 plus the expected changes to the CFR for 2023/24 and 2024/25. The Council complied with this prudential indicator throughout 2022/23.

2.16 **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.

2.17 **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.

2.18 **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.

2.19 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 4.52% (actual out-turn). This was mainly as a result of reduced borrowing costs for the year as no long term borrowing was taken during the year. The increased interest received on investments also contribute to this reduction. The HRA ratio decreased from 16.8% (original budget) to 15.52% (actual outturn). This decrease is due to the increased investment income due to the HRA during the year.

2.20 **TREASURY MANAGEMENT INDICATORS**

2.21 **Limits on Activity (as shown in Appendix 1)**

Upper limits on fixed and variable interest rates as at 31 March 2023. 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 2022/23.

2.22 Maturity structure of fixed rate borrowing during 2022/23. These gross limits are set in order 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 was 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.

2.23 Maximum funds invested for more than 365 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.

2.24 **Borrowing**

New and Replacement Borrowing – There has not been a need to borrow during the year as there were still funds available from the £227m of PWLB loans taken in 2021/22. These funds have been invested and used to repay short term borrowing as it has matured.

2.25 Despite this there has been one loan taken out during the year. This was taken at an advantageous interest rate from SYMCA to mitigate against increases in short and long term borrowing rates.

2.26 **Table 3 Borrowing taken in 2022/23**

Lender	Start Date	Principal	Type	Term	Interest Rate %
SYMCA	27/02/2023	£20,000,000	Temp	36 months	3.66

2.27 Debt Repayment – long term loans totalling £13.071m matured during the year as shown in the table below. Part repayments of principal (£0.206m) continued on the Annuity loans taken up in prior years.

2.28 **Table 3 Debt Repayments 2022/23**

Lender	Principal £m	Type	Interest Rate	Weighted Average rate of interest
PWLB	10.000	Fixed rate	3.37%	
PWLB	2.800	Fixed rate	3.22%	
PWLB EIP	0.065	Fixed rate	1.89%	
PWLB Annuity	0.206	Annual repayments	Various	
Total:	**£13.071**			**3.33%**

2.29 **Investments**

The Council's investment policy is governed by DLUHC Guidance, which was implemented in the annual investment strategy approved by Council on 2 March 2022. The investment activity during the year conformed to the approved strategy.

2.30 The Council maintained an average balance of £166.7m and received an average return of 1.33%. 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 than the Debt Management Office. The Bank of England base rate increased from 0.75% to 4.25% during 2022/23. The average rate of return was reduced by investments placed at the low rates available when the PWLB borrowing was taken out in 2021/22. These investments have now matured and more recent investments have been placed at the higher rates now available.

3. Options considered and recommended proposal

3.1 No options considered as the report outlines actual Treasury Management activity during 2022/23.

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 2022/23 against the prudential indicators as outline in the Treasury Management Strategy for 2022/23. There were no breaches of prudential indicators to report and savings were generated from the Treasury

Management Strategy adopted that played a 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 2022/23. 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

Owen Campbell, Head of Corporate Finance

Approvals obtained on behalf of Statutory Officers:-

	Named Officer	**Date**
Chief Executive	Sharon Kemp	26/06/23
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	22/06/23
Assistant Director, Legal Services (Monitoring Officer)	Phil Horsfield	21/06/23

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This report is published on the Council's website.