

**Committee Name and Date of Committee Meeting**

Cabinet – 29 July 2024

**Report Title**

Annual Treasury Management Report and Actual Prudential Indicators 2023/24

**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 2023/24. Its purpose is to review the treasury activity for 2023/24 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2023/24 in accordance with the requirements of the Prudential Code.

The Council received an annual treasury strategy report in advance of the 2023/24 financial year at its meeting on 1 March 2023 and Audit Committee received a mid-year report at its meeting on 28 November 2023, representing a mid-year review of treasury activity during 2023/24.

This 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 1 March 2023

Mid-Year Treasury Management and Prudential Indicators Monitoring report to Audit Committee on 28 November 2023

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 2023/24**

### **1. Background**

- 1.1 The Council's treasury management activities are regulated by the Local Government Act 2003, supplemented by a number of codes of practice and statutory 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 an individual Council or on all local authorities or any of them restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2023/24);
  - Statutory Instrument (SI) 3146 2003, as amended from time to time, gives effect to 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 Section 15(1)a of the Act the Department for Levelling Up, Housing and Communities (DLUHC) has issued Statutory Guidance on Local Government Investments 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 has carried out its functions in accordance with the Act, SI 3146 2003 and all associated guidance and professional codes, 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 underlying economic and financial environment remains difficult for the Council to predict. Whilst inflation is reducing, the Bank of England Base Rate is being held, keeping borrowing and investment rates high. On investments the main challenge relates to concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with low risk counterparties.
- 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.

- 1.5 The Council's use of long term Public Works Loans Board (PWLB) borrowing during 2021/22 (£227m) resulted in the level of short term borrowing gradually falling as existing short term borrowing matured as the Council then held large cash balances. In 2023/24 the Council continued its strategy of utilising this cash balance to minimise the requirement for additional borrowing in the current interest rate environment. As a result there was no requirement for the Council to borrow until December 2023. In 2023-24 the Council borrowed an additional £55m from South Yorkshire Mayoral Combined Authority (SYMCA) and PWLB. In addition, the Council repaid £31.2m of principal on a mix of PWLB and Lender Option Borrower Option (LOBO) loans on which the lender exercised its option to increase interest rates to above market rates.
- 1.6 The Bank of England Base Rate increased from 4.25% to 5.25% during 2023/24 as the Bank of England increased interest rates to control inflation. As at 31 May 2024 the base rate remains at 5.25%. This has resulted in increased rates of investment returns during 2023/24.
- 1.7 These factors have had a beneficial outcome to the Council's treasury strategy and enabled additional interest income to be generated during 2023/24. 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 £11.3m to support the Council's Budget and to support the Council's Medium Term Financial Strategy to 2026/27 as approved within the Council's Budget and Council Tax Report 2024/25.

## **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.
- 2.2 The actual prudential indicators for 2023/24 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 2023/24** - 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.
- 2.4 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.
- 2.5 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 2023/24 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, Private Finance Initiative (PFI) schemes and finance lease assets.
- 2.6 The Non-HRA (Housing Revenue Account) element of the CFR (excluding PFI schemes and finance lease assets) is reduced each year by a statutory revenue charge (the Minimum Revenue Provision or 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).
- 2.7 At the end of the financial year 2023/24 the closing CFR is £30.3m 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 2024/25 as planned interest payments and minimum revenue provision payments are reduced.
- 2.8 Treasury Position at 31 March 2024 - 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).

2.9 During 2023/24 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.

2.10 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 but are forecast to fall during 2024/25. 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 but currently is utilising short term borrowing to cover immediate borrowing need in anticipation of lower rates in the future.

2.11 At 31 March 2024, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

2.12 **Table 1 Council's Treasury Position 2023/2024**

<b>Net Borrowing</b>	<b>As At 31 March 2023 £m</b>	<b>As At 31 March 2024 £m</b>
<b>Long Term Borrowing</b>		
Public Works Loans Board (PWLB)	365.456	390.233
Market (e.g. Banks, Other Local Authorities) > 1 year	232.000	217.000
<b>Short Term Borrowing</b>		
Public Works Loans Board (PWLB)	10.214	5.223
Market (e.g. Banks, Other Local Authorities) < 1 year	46.000	25.000
	<b>653.670</b>	<b>637.456</b>
<b>External Investments</b>		
Debt Management Office	0.000	0.000
Other Local Authorities	40.000	0.000
Money Market Funds	47.000	24.790
	<b>87.000</b>	<b>24.790</b>
<b>Net Borrowing</b>	<b>566.670</b>	<b>612.666</b>
<b>Net Borrowing - Excluding Short Term Borrowing</b>	<b>510.456</b>	<b>582.443</b>

<b>Capital Financing Requirement (exc. Other Long Term Liabilities)</b>	<b>765.790</b>	<b>814.638</b>
<b>Net Under-Borrowed</b>	<b>255.334</b>	<b>232.195</b>

2.13 Against the Council's Capital Financing Requirement of £814.638m, when PFI and similar arrangements totalling £112.803m are excluded, the Council's outstanding net borrowing of £582.443m (excluding short term borrowing), is lower than this requirement by £232.195m. Investments have matured in 2023/24 which have been used to repay borrowing as it has matured and £55m of additional borrowing has been taken out through PLWB Loans and a Local Authority market loan via SYMCA. This has resulted in reduced investment balances compared with 2022/23.

2.14 Total savings in the Treasury Management budget for 2023/24, arising from all treasury activity including cash-flow management, were over £11.3m and as per the Council's Budget and Council Tax report 2024/25 these have been used to support the Budget and Medium Term Financial Strategy. 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 2024/25. These decisions generate in excess of £2.1m 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.

## 2.15 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

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

2.16 **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 2023/24 plus the expected changes to the CFR for 2024/25 and 2025/26. The Council complied with this prudential indicator throughout 2023/24.

2.17 **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.

2.18 **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.

2.19 **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.

2.20 The General Fund shows a reduction in the actual financing costs as a proportion of net revenue stream. The General Fund ratio decreased from 10.32% (original budget) to 3.95% (actual out-turn). This was mainly as a result of reduced borrowing costs for the year as the Council undertook lower than expected additional borrowing during the year. The increased interest received on investments also contributed to this reduction. The HRA ratio decreased from 15.35% (original budget) to 13.68% (actual out-turn). This decrease is due to the increased investment income due to the HRA during the year.

## 2.21 **TREASURY MANAGEMENT INDICATORS**

### **Limits on Activity**

Upper limits on fixed and variable interest rates as at 31 March 2024 - 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 2023/24.

2.22 Maturity structure of fixed rate borrowing during 2023/24 - 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 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 - During the year a total of £31.2m of principal on existing loans has been repaid. This has been refinanced by £55m of new loans detailed in the table below.

### 2.25 **Table 3 Borrowing taken in 2023/24**



Lender	Start Date	Principal	Type	Term	Interest Rate %
SYMCA	19/12/2023	£25,000,000	Temp	24 months	4.96
PWLB	19/02/2024	£20,000,000	Maturity	24 months	4.93
PWLB	01/03/2024	£10,000,000	Maturity	24 months	4.96

2.26 Debt Repayment – long term loans totalling £31.214m matured during the year as shown in the table below. Part repayments of principal (£0.214m) continued on the Annuity loans taken up in prior years.

### 2.27 Table 3 Debt Repayments 2023/24

Lender	Principal £m	Type	Interest Rate	Weighted Average rate of interest
Commerzbank AG	10.000	LOBO	4.78%	
Commerzbank AG	5.000	LOBO	4.72%	
Commerzbank AG	1.000	LOBO	5.50%	
Bayerische LB	5.000	LOBO	5.23%	
PWLB	10.000	Fixed rate	7.88%	
PWLB Annuity	0.214	Annual repayments	Various	
<b>Total:</b>	<b>£31.214</b>			<b>5.85%</b>

### 2.28 Investments

The Council's investment policy is governed by DLUHC Guidance, which was implemented in the annual investment strategy approved by Council on 1st March 2023. The investment activity during the year conformed to the approved strategy.

2.29 The Council maintained an average balance of £54.6m and received an average return of 4.83%. 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 4.25% to 5.25% during 2023/24.

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

3.1 No options considered as the report outlines actual Treasury Management activity during 2023/24.

### **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 2023/24 against the prudential indicators as outline in the Treasury Management Strategy for 2023/24. 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 Compliance with legislation and guidance included in section 1 of this report ensures that the Council operates compliantly and within the requirements for local authority treasury management.

7.2 The Council has complied with the Prudential Indicators as detailed in Section 2.

7.3 The amount of borrowing detailed in Section 2 together with managing that borrowing in a manner compliant with the Prudential Indicators demonstrates that the amount of borrowing and the means of managing that borrowing is within the parameters set by the Act and the Prudential Code.

### **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 2023/24. 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

Natalia Govorukhina, Head of Corporate Finance

Approvals obtained on behalf of Statutory Officers:-

	<b>Named Officer</b>	<b>Date</b>
Chief Executive	Sharon Kemp	20-06-24
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	14-06-24
Assistant Director, Legal Services (Monitoring Officer)	Phil Horsfield	17-06-24

*Report Author: Tom Soulby, Principal Finance Officer (Treasury)*

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