



Summary Sheet

Council Report

Cabinet and Commissioners' Decision Making Meeting – 10 July 2017

Title

Annual Treasury Management Report and Actual Prudential Indicators 2016/17

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

Report Author(s)

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Ward(s) Affected

All

Summary

Council approved the treasury management strategy for 2016/17 at its meeting on 2 March 2016. Council also received a mid-year report at its meeting on 25 January 2017, representing a mid-year review of treasury activity during 2016/17.

The annual treasury management report is the final treasury report for 2016/17. Its purpose is to review the treasury activity for 2016/17 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2016/17 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

That Cabinet

- 1.1 Note the Treasury Management Prudential Indicators out-turn position as set out in section 3 and Appendices A and B of the Annual Treasury Management Report for 2016/17.
- 1.2 Agree that the report is forwarded to Audit Committee for information

List of Appendices Included

Appendix A – Summary Prudential Indicators for Rotherham MBC

Appendix B – Summary Prudential Indicators for the Former South Yorkshire County Council

Background Papers

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

The report will also be presented to the Audit Committee on 19 July 2017.

Council Approval Required

No

Exempt from the Press and Public

No

Annual Treasury Management Report and Actual Prudential Indicators 2016/17

1. Recommendations

That Cabinet

- 1.1 Note the Treasury Management Prudential Indicators out-turn position as set out in section 3 and Appendices A and B of the Annual Treasury Management Report for 2016/17.
- 1.2 Agree that the report is forwarded to Audit Committee for information

2. Background

- 2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:
 - The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2016/17);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
 - The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
 - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 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.
- 2.2 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.

3. Key Issues

3.1 OVERVIEW

- 3.1.1 Indicators are set prior to the start of the financial year and reflect the known position at that time. Approved changes to the capital programme and its funding throughout the financial year, together with variations in treasury management activity, mean that actual indicators for the year may vary from the projections made prior to the start of the financial year. However, by regularly monitoring and reporting revisions to 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 2016/17 for Rotherham MBC, with comparators, are shown in the attached Appendix A. Background to these is provided in the following paragraphs.

3.1.2 Impact of the Council's Capital Expenditure and Financing 2016/17

The Council incurs capital expenditure on long term assets. This may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available the expenditure will give rise to a borrowing need.

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, the impact of 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.

- 3.1.3 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 2016/17 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. Following changes to accounting rules in 2009/10, the CFR also includes other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets.

The Non-HRA element of the CFR (excluding PFI schemes and finance lease assets) is reduced each year by a statutory revenue charge (the Minimum Revenue Provision - MRP). The CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

At the end of the financial year the closing CFR is broadly in line with that approved as the revised indicator for the year.

3.1.4 Treasury Position at 31 March 2017

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Strategic Director of Finance and Customer Services can manage the Council's actual borrowing position by either:

- borrowing up to the limit of 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 2016/17 it had been expected that borrowing would have been in line with the estimated borrowing need for the year whilst partly reducing the Council's 31 March 2016 under-borrowed position. The continued uncertainties driving the financial markets was such that the most prudent and cost effective approach was to continue to utilise temporary cash flow funds instead of borrowing.

Thus at 31 March 2017, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

Council's Treasury Position 2016/2017

Net Borrowing	As At 31 March 2017 £m	As At 31 March 2016 £m
External Borrowing		
Public Works Loans Board (PWLb)	226.306	233.598
Market (e.g. Banks, Other Local Authorities)	243.000	243.000
Temporary Borrowing	30.000	0
	499.306	476.598
External Investments		
Debt Management Office	0	2.680
Banks	0	1.500
	0	4.180
Net Borrowing	499.306	472.418

Against the Council's Capital Financing Requirement of £657.987m (excluding PFI and similar arrangements totalling £135.551m), the Council's outstanding net debt of £499.306m is lower than this Requirement by approximately £158m due to the Council's prudent and cost effective approach of utilising temporary cash flow funds rather than taking out additional borrowings.

3.2 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

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

3.2.1 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 2016/17 plus the expected changes to the CFR for 2017/18 and 2018/19. The Council complied with this prudential indicator throughout 2016/17.

3.2.2 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.

3.2.3 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.

3.2.4 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.

Both indicators show a reduction in the actual financing costs as a proportion of net revenue stream. The General Fund ratio reduced from 6.46 (original budget) to 5.76 (actual out-turn). This was as a result of a combination of the actual net revenue stream for the year being higher than originally forecast and the actual MRP charge being lower than the original budget. The HRA ratio reduced from 16.43 (original budget) to 15.68 (actual out-turn). This was due to both the actual net revenue stream for the year being higher than originally forecast and the actual borrowing costs being lower than originally forecast.

3.2.5 Incremental impact of Capital Investment Decisions

These two indicators are used to highlight the trend in cost arising from changes to the Council's capital investment plans:

- the impact on Council Tax Band D levels as already budgeted for within the Council's MTFs of changes to the General Fund capital programme, and
- the impact on weekly rent levels arising from changes in the housing capital programme

The incremental impact of capital investment decisions on the Band D Council Tax has reduced significantly from the original budget of £17.06 to £11.88. This is due to the actual borrowing required in the year being substantially lower than anticipated. More capital grants have been available and these have been applied in funding the capital programme, thus replacing the need to borrow. None of the HRA capital investment was financed by borrowing in 2016/17 and therefore there was no incremental impact of capital investment on HRA rent levels.

3.3 TREASURY MANAGEMENT INDICATORS

3.3.1 Limits on Activity

Upper limits on fixed and variable interest rates as at 31 March 2017 – 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 2016/17.

Maturity structure of fixed rate borrowing during 2016/17 – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council remained within the limits set throughout 2016/17.

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.

3.3.2 Borrowing

New and Replacement Borrowing - Three new long term loans of £10m each were drawn by Rotherham MBC during the year,

- one loan was with the PWLB borrowed over 5 years at an interest rate of 1.05%, (replacing a maturing loan)
- the second loan was with Siemens taken over 15 years at 2.66% (replacing a maturing loan)
- and the third loan was a new loan with the London Borough of Wandsworth taken over 2 years at 0.70%

This has given an overall average rate of 1.47%. The total long term borrowing taken was lower than the budget assumption for new & replacement borrowing in the financial year.

During the year temporary borrowing (maximum 3 months) was taken up on seven occasions to manage the Council's cash flow position. Of these short-term loans, three have been fully repaid in the year; one loan has been rolled over at the end of its 3 month term twice. It remains outstanding at the year-end, along with 3 other temporary loans.

Rescheduling – No rescheduling took place in 2016/17 due to the continuing market conditions which are unfavourable to debt rescheduling.

Debt Repayment – Four loans totalling £35m matured during the year as shown in the table below. Part repayments of principal (£2.278m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

Debt Repayments 2016/17

Lender	Principal £m	Type	Interest Rate	Average rate of interest
PWLB	5.000	Fixed rate	2.18%	
PWLB	10.000	Fixed rate	0.69%	
Siemens	10.000	Fixed rate	3.22%	
Siemens	10.000	Fixed rate	3.14%	
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.148	Annual repayments	Various	
Total:	£37.278	2.37%		

The overall debt activity resulted in a slight decrease in the average interest rate on the Council's debt portfolio of 0.03%, from 4.20% to 4.17%. This has arisen as loans have matured (shown in the table above) and have been replaced with loans with lower interest rates.

3.3.3 Investments

The Council's investment policy is governed by DCLG Guidance, which was implemented in the annual investment strategy approved by Council on 2 March 2016. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of funds on deposit of £16.2m and received an average return of 0.23%. When compared to the local measure of performance the average return was slightly higher the average 7 day LIBID rate for 2016/17 of 0.20%.

3.4 FORMER SOUTH YORKSHIRE COUNTY COUNCIL

No new borrowing or rescheduling took place during 2016/17, whilst one loan of £10m matured during the year. Thus at 31 March 2017, external debt, all with the PWLB, totalled £76.709m. The average interest rate on the debt is 5.42%.

The Former South Yorkshire County Council had no investments at 31 March 2017, the same position as at 31 March 2016.

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

4. Options considered and recommended proposal

- 4.1 No options considered as the report outlines actual Treasury Management activity during 2016/17

5. Consultation

- 5.1 None required

6. Timetable and Accountability for Implementing this Decision

- 6.1 None

7. Financial and Procurement Implications

- 7.1 Treasury Management forms an integral part of the Council's overall financial arrangements.

8. Legal Implications

- 8.1 The report demonstrates 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).

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

- 12.1 There are no implications arising from this report for Partners and other Directorates.

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 Officer

Approvals Obtained from:-

Strategic Director of Finance and Customer Services:- Judith Badger

This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

APPENDIX A

Summary Prudential Indicators: Rotherham MBC

		Actual £m	Revised Estimate £m	Original Estimate £m
1	Capital Expenditure (excluding PFI & Finance lease liabilities)	56.490	58.396	68.304
2	Capital Financing Requirement (CFR) including PFI & similar liabilities:			
	General Fund	488.413	492.654	463.098
	HRA	304.125	304.125	306.445
	Total	792.538	797.150	803.088
3	Net Borrowing compared to CFR excluding PFI & similar liabilities:			
	Total Borrowing	499.306	483.132	490.805
	Total Investments	0.000	20.000	20.000
	Net Borrowing	499.306	463.132	470.805
	CFR	656.987	661.555	667.654
	Under-borrowing	157.681	192.908	193.353
4	Net Borrowing compared to CFR including PFI & similar liabilities:			
	Borrowing (from above)	499.306	483.132	490.805
	Borrowing (PFI etc.)	135.551	135.555	135.434
	Total Borrowing	634.857	618.687	626.239
	Total Investments	0.000	20.000	20.000
	Net Borrowing	634.857	598.687	606.239
	CFR	792.538	797.150	803.088
	Under-borrowing	157.681	198.463	196.849
5	Authorised Limit for external debt			
	Assumed Borrowing	700.700	700.700	698.201
	PFI & similar liabilities	137.588	137.588	137.588
	Authorised Limit	838.288	838.288	835.789
	Total Borrowing	634.857	618.687	626.239
	Borrowing Below Limit	203.431	219.601	209.550
6	Operational boundary for external debt			
	Assumed Borrowing	482.761	482.761	490.805
	PFI & similar liabilities	137.588	137.588	137.588
	Operational Boundary	620.349	620.349	628.393
	Total Borrowing	634.857	618.687	626.239
	Borrowing Below/(Above) Boundary	-14.508	1.662	2.154
7	Maximum Funds invested > 364 days	0.000	10.000	10.000

		Actual	Revised Estimate	Original Estimate
		%	%	%
8	Ratio of financing costs to net revenue stream – Non HRA	5.76	5.93	6.46
9	Ratio of financing costs to net revenue stream – HRA	15.68	15.98	16.43
		£	£	£
10	Incremental impact of capital expenditure plans on the Band D Council Tax	11.88	17.00	17.06
11	Incremental impact of capital expenditure plans on housing rents levels	0.00	0.00	0.00

12	Maturity Structure of Fixed Rate Borrowing	Actual %	Revised Upper Limit %	Original Upper Limit %
	Under 12 Months	4.26	35	35
	12 months to 2 years	5.33	35	35
	2 years to 5 years	11.29	40	40
	5 years to 10 years	7.35	40	40
	10 years to 20 years	6.43	45	45
	20 years to 30 years	6.03	50	50
	30 years to 40 years	12.00	50	50
	40 years to 50 years	26.00	55	55
	50 years and above	21.31	60	60

13	Upper Limit on fixed interest rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		73.76	100	100

14	Upper Limit on variable rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		26.24	30	30

APPENDIX B

Summary Prudential Indicators: Former South Yorkshire County Council

		Actual £m	Revised Estimate £m	Original Estimate £m
1	Authorised Limit for external debt			
	Authorised Limit	86.709	86.709	86.709
	Total Borrowing	76.709	86.709	86.709
	Borrowing Below Limit	10.0	0	0
2	Operational boundary for external debt			
	Operational Boundary	86.709	86.709	86.709
	Total Borrowing	76.709	86.709	86.709
	Borrowing Below Boundary	10.0	0	0

3	Maturity Structure of Fixed Rate Borrowing	Actual %	Revised Upper Limit %	Original Upper Limit %
	Under 12 Months	51.76	25	25
	12 months to 2 years	1.06	50	50
	2 years to 5 years	47.18	100	100

4	Upper Limit on fixed interest rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		100.00	100	100

5	Upper Limit on variable rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		0.00	30	30