

Audit & Standards Committee: Treasury Management Overview

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Stephen Bottomley
Treasury Manager

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Sheffield City Council



Agenda Item 7

Overview Agenda:



What is Treasury Management



Regulatory Environment



Borrowing and Debt



Investing

Treasury Management (TM)

CIPFA Treasury Management Code defined TM as

Cash flows

Banking

Money market and capital market transactions

The effective control of the risks associated with those activities

And the pursuit of optimum performance consistent with those risks

Regulatory Environment



- **Regulation affecting Treasury Management is a mix of the Law, Codes & Accounting Standards**

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- Statute – primarily the Local Government Act 2003
- The Prudential Code
- The CIPFA Treasury Management Code
- Other guidance – MRP/Investments



Key Reports

1

- **Treasury Management Strategy Statement (TMSS)**
- Overall strategy for borrowing and investing for the year ahead

2

- **Annual Minimum Revenue Provision Statement**
- How we will provide money for repaying debt

3

- **Annual Investment Strategy**
- Determination of where we can invest safely and for how long

4

- **Annual Outturn Report**
- Review of the outturn for previous financial year

Debt Composition - 1

- As at 31st March 2019, the Council's debt position is

	Principal £m	Average Life (Yrs)
Fixed rate funding:		
- PWLB	472	22
- Market	188	45
- Local Authorities	33	1
Variable rate funding:		
- PWLB	0	-
- Market	110	45
Credit Liabilities:		
- PFI Liabilities	401	19
Total debt	1,204	26
Total investments	114	<1
Net debt	1,090	

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- Total Debt of 1.2bn compares to c£3bn worth of Non-Current Asset (with some assets valued at historic cost)

LOBOs

- **Lender Option Borrower Option Loans**

- Where the lender has the *option* to change the interest rate on the loan at certain intervals
- When the lender exercises this option, the borrower then has the option to repay the loan with no penalty

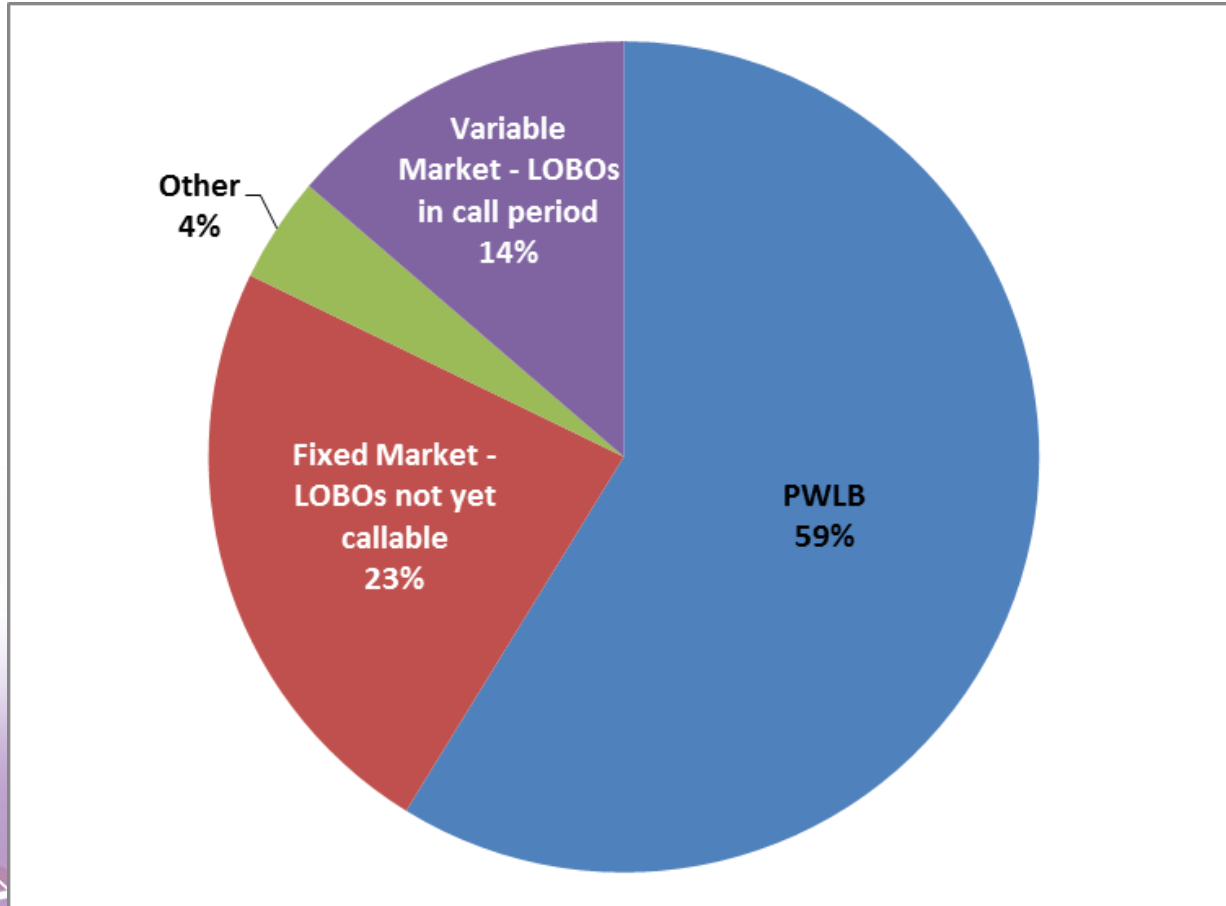
No lenders have exercised this option to date.

When LOBOs were taken out the rates on offer were attractive and were good value for money compared to alternatives like PWLB.

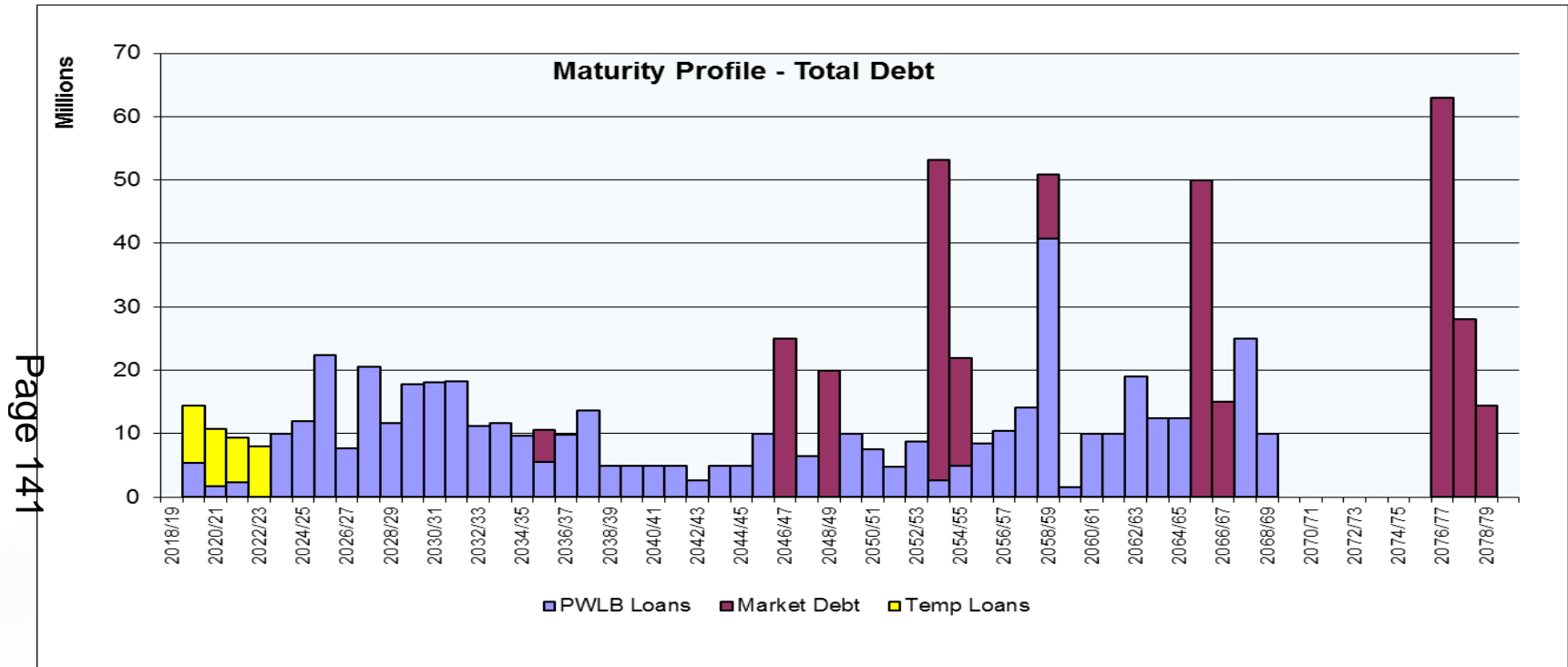
- Like all fixed rate borrowing taken in that period, the rates are above current market rates but not overly so
- LOBO objection received relating to the 2016/17 Statement of Accounts – KPMG gave us a clean bill of health

Our Debt Composition - 2

Composition of Councils debt (excluding PFI liabilities) as at 31 March 2019



Our Maturity Profile (Both GF & HRA)



Relatively smooth repayment profile but characterised by long term bank loans (taken when government borrowing was more restrictive) that distort the overall profile

Repaying Debt: MRP

- **Under statute we are required to make a Minimum Revenue Provision (MRP) each year.**
- MRP is a mandatory charge to Council Tax to set aside funds to repay our loans. We have some flexibility over its calculation.

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MRP Methodology

- Supported Borrowing = 2% straight line repaying outstanding amount over 50 years
- Prudential Borrowing = Asset life methodology (straight line repaying outstanding amount over the expected useful economic life of the asset)

Investing - Key Considerations

- **Security**

- Do the counterparties meet our investment criteria?
- Are we overly exposed to any one counterparty or investment type? (diversification)

- **Liquidity**

- Does the investment period meet our cash management requirements?
- Also consider where we see rates moving?

- **Yield**

- Finally - what level of return do we receive



Any Questions?

