Appendix B

Annual Report on the Treasury Management Service 2018/19 (Incorporating Outturn Prudential Indicators)

1.0 Introduction and background

1.1 This appendix summarises:
- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 The Council's Capital Expenditure and Financing 2018/19

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2017/18 Actual £'000	**2018/19 Estimate £'000**	**2018/19 Actual £'000**
Non-HRA capital expenditure	3,138	8,352	5,031
HRA capital expenditure	Nil	Nil	Nil
Total capital expenditure	**3,138**	**8,352**	**5.031**
Resourced by:			
• Capital reserves	1,783		481
• Revenue Funding	34		2,227
• PFI scheme	77		722
• Capital grants	1,244		1,601
Total capital resourced	**3,138**	**8,352**	**5,031**

3.0 The Council's overall borrowing need

3.1 The Council's 2018/19 Minimum Revenue Provision (MRP) Policy (as required by Ministry of Housing Communities & Local Government (MHCLG) Guidance) was approved as part of the Treasury Management Strategy Report for 2018/19 on 16th February 2018 (Council 22nd February 2018).

3.2 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's capital borrowing need. The Council does not currently have a positive CFR, and so has no underlying need to borrow for a capital purpose.

There remains limited scope for further capital investment in the existing capital programme unless additional receipts are generated, revenue reserves are used or borrowing takes place.

Prioritisation of capital projects in the future will be key to the best use of the Council's resources. Any future decision on borrowing for capital projects would only be supported if the business case for the projects does not place additional cost pressure on the tax payer through the council tax charge.

3.4 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract. The Council has complied with this prudential indicator.

	31 March 2018 Actual £'000	31 March 2019 Original Indicator £'000	31 March 2019 Actual £'000
Investment balance	**(23,973)**	**(18,000)**	**(23,406)**
Net borrowing position	**(23,973)**	**(18,000)**	**(23,406)**
CFR	**0**	**0**	**0**

3.5 Net borrowing represents the total Investment balance at 31st March 2019. Delays in the capital programme and the timing of income and payments increased the anticipated cash held at 31st March 2019. £3,325k of capital spend has been carried over from 2018/19 to 2019/20.

3.6 **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 table over the page demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit. For Breckland, this contains the PFI scheme plus a £250k overdraft limit. The PFI value is required as it is part of the Prudential Indicators, however it does not show in the gross borrowing position as the scheme is fully financed.

3.7 **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.

3.8 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2018/19
Authorised limit	£8,527k
Maximum gross borrowing position	£0k
Operational boundary	£0k
Average gross borrowing position	£0k
Financing costs as a proportion of net revenue stream	(1.68%)

4.0. Treasury Position as at 31 March 2019

4.1 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2018/19 the Council's treasury position was as follows:

Actual borrowing position	31 March 2018		31 March 2019	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	0		0	
Variable Interest Rate Debt	0		0	
Total Debt	**0**		**0**	
Capital Financing Requirement	**£0**		**£0**	
Over/(Under) borrowing	**-**		**-**	

Investment position	31 March 2018		31 March 2019	
	Principal £'000	Average Rate	Principal £'000	Average Rate
Fixed Interest Investments	(17,052)		(20,079)	
Variable Interest Investments	(6,876)		(3,290)	
Total Investments	**(23,927)**	**0.839%**	**(23,369)**	**0.891%**
Icelandic Balances	(46)		(37)	
Net borrowing position	**(23,973)**		**(23,406)**	
Capital Loans *	(464)		0	

* These loans are capital and not treasury loans. There was no balance outstanding at 31/3/2019. As capital loans, these are not required to be disclosed in this report but for completeness, they are included to show the full picture of how the Council has invested "surplus" cash and the return of 0.891% includes the return from these capital loans.

4.2 During 2018/19 the Executive Director, Commercialisation managed the debt position at nil. All investments were for less than 1 year.

5.0 The Strategy for 2018/19

5.1 In August 2018, bank rates increased from 0.50% to 0.75%. Investment returns have improved slightly in 2018/19 but remain low. See section 6 for latest update.

5.2 Change in strategy during the year -
There are no changes to Strategy during 2018/19 that have not previously been reported.

6.0 Investment Rates in 2018/19 (Link Asset Services narrative)

6.1 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. Interest rate forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments (see Appendix A for more information).

7.0 Actual debt management activity during 2018/19

7.1 The Council did not undertake any borrowing in 2018/19 therefore there was no specific debt management required.

8.0 Investment Outturn for 2018/19

8.1 Investment Policy – the Council's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Council on 16th February (Council 22nd February 2018) and updated in the mid- year report 14th December 2018. This policy sets out the approach for choosing investment counterparties, and is based on Link Asset Services colour coding methodology.

8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.3 **Resources** – the Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£'000)	**31 March 2018**	**31 March 2019**
Balances	**2,669**	**2,500**
Earmarked reserves	**14,833**	**15,753**
Provisions	**(924)**	**(2046)**
Usable capital receipts	**(25)**	**(1)**
TOTAL	**16,553**	**16,206**

8.4 **Investments held by fund managers** - The Council has no funds with Fund managers. All investments are managed internally.

8.5 **Investments held by the Council** - the Council maintained an average balance of approximately £23m of internally managed funds. The internally managed funds earned an average rate of return of 0.891%. The comparable performance indicator is the average 3 Month LIBID rate*,* which was 0.675%. This compares with a budget assumption of £18m investment balances earning an average rate of 0.775%.

9.0 Performance Measurement

9.1 This service has set the following performance indicators and operated within the boundaries set as detailed in the March performance report attached at Appendix C:

- Security
  Risk of default
  Average Weighted Life
  To measure the risk level associated with the Council’s portfolio of investments.
- Liquidity
  Instant access cash – The Council requires an average balance of £5m instant access cash to be available at any time.
  Bank Overdraft – The Council’s approved overdraft facility is £250k
- Yield
  3 month LIBID
  Actual interest earned against budget.