

Annual Report on the Treasury Management Service 2020/21 (Incorporating Outturn Prudential Indicators)

1.0 Introduction and background

1.1 This report 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 2020/21

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.

	2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
Non-HRA capital expenditure	4.579	14.516	7.246
HRA capital expenditure	Nil	Nil	Nil
Total capital expenditure	4.579	14.516	7.246
Resourced by:			
• Capital reserves	1.260		3.605
• Revenue Funding	1.130		0.219
• PFI scheme	0.139		0.628
• Capital grants	2.050		2.794
Total capital resourced	4.579	14.516	7.246

3.0 The Council's overall borrowing need

3.1 The Council's 2020/21 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 2020/21 on 16th January 2020 (Council 27th February 2020).

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 2020	31 March 2021	31 March 2021
	Actual £m	Original Indicator £m	Actual £m
Investment balance	(23.828)	(21.170)	(27.398)
Net borrowing position	(23.828)	(21.170)	(27.398)
CFR	0	0	0

3.5 Net borrowing represents the total Investment balance at 31st March 2021. Delays in the capital programme and the timing of income and payments (debtors and creditors and grant income) increased the anticipated cash held at 31st March 2021. £7.2m of capital spend has been carried over from 2020/21 to 2021/22 (this mainly relates to grant funded power projects, new waste contract vehicles and Disabled Facilities Grants).

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 2020/21 the Council has maintained gross borrowing within its authorised limit. For Breckland, this contains the PFI scheme plus a £2m 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.

	2020/21
Authorised limit	£9.780m
Maximum gross borrowing position	£0
Operational boundary	£0
Average gross borrowing position	£0
Financing costs as a proportion of net revenue stream	(1.09%)

4.0. Treasury Position as at 31 March 2021

- 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 2020/21 the Council's treasury position was as follows:

Actual borrowing position	31 March 2020		31 March 2021	
	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 2019		31 March 2021	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Investments	(20.076)		(20.001)	
Variable Interest Investments	(3.752)		(7.397)	
Total Investments	(23.828)	0.892%	(27.398)	0.473%
Net borrowing position	(23.828)		(27.398)	
Loans to Breckland Bridge*	0.763		0.290	

* This includes treasury and Capital loans. Capital loans 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 0.473% includes the return from the total loan amount.

4.2 During 2020/21 the Assistant Director Finance managed the debt position at nil. All investments were for less than 1 year.

5.0 The Strategy for 20/21

5.1 The base rate remains at 0.1% since 19th March 2020. Investment returns therefore remain low. See section 6.

5.2 Change in strategy during the year -
There are no changes to Strategy during 2020/21 that have not previously been reported.

6.0 Investment Rates in 2020/21 (Link Asset Services narrative as at March 2021)

6.1 Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments but interest rates are expected to remain low.

7.0 Actual debt management activity during 2020/21

7.1 The Council did not undertake any borrowing in 2020/21 therefore there was no specific debt management required

8.0 Investment Outturn for 2020/21

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 January 2020 (Council 27th February 2020). updated in mid-year report 17th December 2020. 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 (£m)	31 March 2020	31 March 2021
Balances	2.500	2.850
Earmarked reserves	14.696	25.234
Provisions	(2.011)	(2.462)
Usable capital receipts	0	0
	15.185	25.622

Earmarked reserves are significantly higher than usual at 31 March 2021. This is due to holding Government grant funding relating to Covid-19 NNDR reliefs which was paid to Breckland at 100% during the year to cover lost NNDR income, but only 40% is retained by Breckland, so the remainder is held in reserve to cover the repayment of these grants in future years.

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 £25m of internally managed funds. The internally managed funds earned an average rate of return of 0.473%. The comparable performance indicator is the average 3 Month LIBID rate, which was 0.015%. This compares with a budget assumption of £21.170m investment balances earning an average rate of 0.85%

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 £2m
- Yield
3 month LIBID
Actual interest earned against budget