

Annual Report on the Treasury Management Service 2019/20 (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 2019/20

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.

	2018/19 Actual £m	2019/20 Estimate £m	2019/20 Actual £m
Non-HRA capital expenditure	5.031	6.439	4.579
HRA capital expenditure	Nil	Nil	Nil
Total capital expenditure	5.031	6.439	4.579
Resourced by:			
• Capital reserves	0.481		1.260
• Revenue Funding	2.227		1.130
• PFI scheme	0.722		0.139
• Capital grants	1.601		2.050
• Other reserves	-		-
Total capital resourced	5.031	6.439	4.579

3.0 The Council's overall borrowing need

3.1 The Council's 2019/20 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 2019/20 on 15th February 2019 (Council 14th March 2019).

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 2019	31 March 2020	31 March 2020
	Actual £m	Original Indicator £m	Actual £m
Investment balance	(23.406)	(18.764)	(23.828)
Net borrowing position	(23.406)	(18.764)	(23.828)
CFR	0	0	0

3.5 Net borrowing represents the total Investment balance at 31st March 2020. Delays in the capital programme and the timing of income and payments (debtors and creditors) increased the anticipated cash held at 31st March 2020. £2.195m of capital spend has been carried over from 2019/20 to 2020/21.

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 2019/20 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.

	2019/20
Authorised limit	£8.285m
Maximum gross borrowing position	£0
Operational boundary	£0
Average gross borrowing position	£0
Financing costs as a proportion of net revenue stream	(2.28%)

4.0. Treasury Position as at 31 March 2020

- 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 2019/20 the Council's treasury position was as follows:

Actual borrowing position	31 March 2019		31 March 2020	
	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 2020	
	Principal £m	Average Rate	Principal £m	Average Rate
Fixed Interest Investments	(20.079)		(20.076)	
Variable Interest Investments	(3.289)		(3.752)	
Total Investments	(23.379)	0.891%	(23.828)	0.892%
Icelandic Balances	(0.027)		0	
Net borrowing position	(23.406)		(23.828)	
Loans to Breckland Bridge*	0		0.763	

* 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 0.892% includes the return from the total loan amount.

4.2 During 2019/20 the Executive Director, Commercialisation managed the debt position at nil. All investments were for less than 1 year.

5.0 The Strategy for 2019/20

5.1 On 11th March 2020 the base rate changed from 0.75% to 0.25%, reducing to 0.1% on 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 2019/20 that have not previously been reported.

6.0 Investment Rates in 2019/20 (Link Asset Services narrative as at 30/3/2020)

6.1 Based on the time delay since 31st March 2020, the Link Services narrative as at 30th March 2020 is included at Appendix A which was the update at that time. However, the mid year report also being presented to this committee contains more up to date information on the latest forecast from Link. 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 2019/20

7.1 The Council did not undertake any borrowing in 2019/20 therefore there was no specific debt management required

8.0 Investment Outturn for 2019/20

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 15th February 2019 (Council 14th March 2019). updated in mid- year report 16th January 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 2019	31 March 2020
Balances	2.500	2.500
Earmarked reserves	15.753	14.696
Provisions	(2.046)	(2.011)
Usable capital receipts	(0.001)	0
	16.206	15.185

- 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 0.892%. The comparable performance indicator is the average 3 Month LIBID rate, which was 0.634%. This compares with a budget assumption of £18.764m investment balances earning an average rate of 0.952%.

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