Appendix A

Mid-Year Treasury Management Report (Incorporating Prudential Indicators)

April to December 2022/23

Breckland Council
January 2023

1 Introduction and Background

1.1 This report summarises the following:-

- Capital activity during the first nine months of the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- 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 The Council's Capital Expenditure and Financing

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.

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

£m General Fund	31.3.22 Actual	2022/23 Budget	31.12.22 Actual
Service Investments	6.530	11.118	5.534
Capital Loans	0.083	0.074	0
Commercial Investments	0	0	0
Total Capital expenditure	**6.613**	**11.192**	**5.534**
Financed in year: Capital reserves and receipts Revenue Funding and MRP PFI Scheme Capital Grants and S106 Agreements	 1.674 1.175 0.152 2.917	 2.709 0.964 0.000 4.630	 0.690 0.056 0.000 4.009
Total Financing	**5.918**	**8.303**	**4.755**
Unfinanced capital expenditure	**0.695**	**2.889**	**0.779**

3 The Council’s Overall Borrowing Need and Related Prudential Indicators

3.1 The Council’s underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council’s indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents current unfinanced capital expenditure (see above table), and prior years’ net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Council’s treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council’s cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council. The Council has a positive CFR in 2022/23 and so has an underlying need to borrow for a capital purpose.

3.3 Reducing the CFR – the Council’s underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the General Revenue Account borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. In accordance with regulations, MRP does not have to be charged in a year when the CFR was negative at the end of the previous financial year.

3.4 The total CFR can also be reduced by:

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

3.5 The Council’s 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved by Full Council as part of the Treasury Management Strategy Report for 2022/23 on 20th January 2022.

3.6 The Council’s CFR for the year to end December is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council’s borrowing need. 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. The year end position is expected to also show a positive CFR.

CFR (£000s): General Fund	31.3.22 Actual	2022/23 Budget	31.12.22 Actual
Opening balance	(223)	202	202
Add unfinanced capital expenditure (as above)	695	2,889	779
Less MRP and other financing movements	(270)	(909)	(32)
Closing balance	**202**	**1,980**	**949**

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow the Council some flexibility to borrow in advance of its immediate capital needs if required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31.3.22 Actual	2022/23 Budget	30.12.22 Actual
Gross borrowing position	£0.00m	£0.00m	£0.00m
CFR	£0.202m	£1.980m	£0.949m
Under / (over) funding of CFR	£0.202m	£1.980m	£0.949m

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

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 are acceptable subject to the authorised limit not being breached.

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. Financing costs to net revenue stream are negative for 2022/23, this is because the Council is earning interest on its balances as opposed to paying interest on its borrowing.

Ratio of net income from commercial and service investments to net revenue stream - This indicator shows the proportion of net income from commercial and service investments compared to the net revenue stream from taxation and government grants. For this Council, the net income figure consists of the surplus generated by commercial property. This indicator is intended to show the financial exposure of the authority to the loss of income.

	2022/23
Authorised limit	£9.227m
Maximum gross borrowing position during the year	£0.0m
Operational boundary	£7.227m
Average gross borrowing position	£0.0m
Financing costs as a proportion of net revenue stream	(3.27%)
Net income from commercial/service investments as a proportion of net revenue stream	19.20%

4 Treasury Position as at 31st December 2022

4.1 The Council's treasury management debt and investment position is organised by the treasury management service in order 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 end of December 2022 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31.3.22 Principal	Rate/ Return	31.12.22 Principal	Rate/ Return
Fixed rate funding:				
-PWLB	£0.00m	N.a.	£0.00m	N.a.
-Market	£0.00m	N.a.	£0.00m	N.a.
Variable rate funding:				
-PWLB	£0.00m	N.a.	£0.00m	N.a.
-Market	£0.00m	N.a.	£0.00m	N.a.
Total debt	**£0.00m**	**N.a.**	**£0.00m**	**N.a.**
CFR	**£0.202m**		**£0.949m**	
Over / (under) borrowing	**(£0.202m)**		**(£0.949m)**	
Total investments	**£40.562m**	**0.29%**	**£34.262m**	**1.812%**

INVESTMENT PORTFOLIO	31.3.22 Actual £000	31.3.22 Actual %	31.12.22 Actual £000	31.12.22 Actual %
Treasury investments				
Banks	23,562	58.09%	27,993	81.70%
Building Societies - rated	15,000	36.98%	0	0%
Local authorities	0		0	
DMADF (H M Treasury)	2,000	4.93%	6,269	18.30%
Total managed in house	40,562	100%	34,262	100%
Bond funds	0		0	
Property funds	0		0	
Cash fund managers	0		0	
Total managed externally	0		0	
TOTAL TREASURY INVESTMENTS	40,562	100%	34,262	100%

Non Treasury investments				
Loans to Breckland Bridge	270		404	
TOTAL NON TREASURY INVESTMENTS	270	100%	404	100%

Treasury investments	40,562	99.34%	34,262	98.83%
Non Treasury investments	270	0.66%	404	1.17%
TOTAL OF ALL INVESTMENTS	40,832	100%	34,666	100%

The maturity structure of the investment portfolio was as follows:

	31.3.22 Actual £000	**31.12.22 Actual £000**
Investments		
Longer than 1 year	270	404
Up to 1 year	40,562	34,262
Total	40,832	34,666

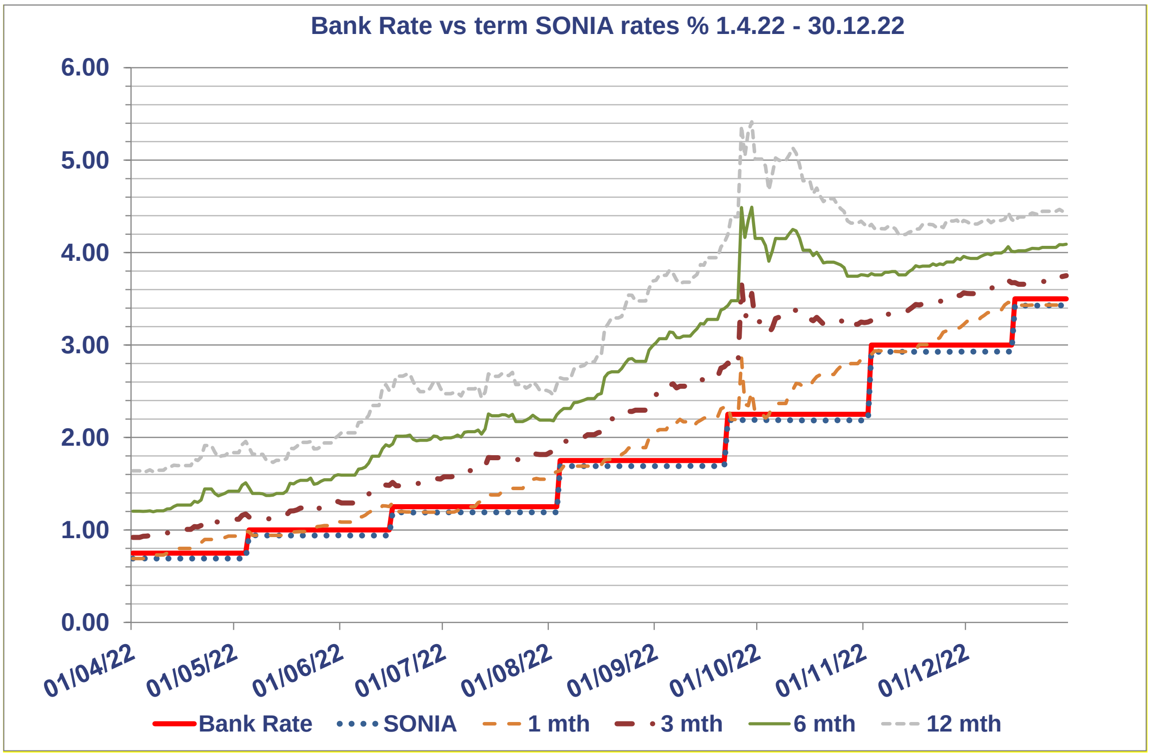
5.1 Investment strategy and control of interest rate risk

5.1.1 The Strategy was revised in July 2022 to reflect new guidance from CIPFA and DLUHC. Investment returns have increased month on month during 2022/23. The Bank of England has been raising the Bank Rate consistently at its monthly meetings to address high inflation and this is reflected in higher returns on our investments.

5.1.2 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.1.3 Actual changes in interest rates and in the SONIA benchmark rate are shown in the graph and table below.

Investment Benchmarking Data – Sterling Overnight Index Average 2022/23



FINANCIAL YEAR TO QUARTER ENDED 31/12/2022

	Bank Rate	SONIA	1 mth	3 mth	6 mth
High	3.50	3.43	3.46	3.75	4.49
High Date	15/12/2022	28/12/2022	15/12/2022	30/12/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022
Average	1.79	1.73	1.92	2.28	2.73
Spread	2.75	2.74	2.77	2.83	3.29

5.2 Borrowing strategy and control of interest rate risk

5.2.1 During the first nine months of 2022/23, the Council has maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as borrowing costs have risen and are still higher than cash investment returns. Minimising counterparty risk on placing investments also needed to be considered.

5.2.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

5.2.3 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure.

5.2.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Assistant Director Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.2.5 Interest rates have increased sharply compared to the historic lows of the past decade. However, forecasts anticipate rates peaking towards the end of 2023/24 and it would be prudent to delay any external borrowing until after this peak has been passed. Internal, variable, or short-term rates, are expected to be the cheaper form of borrowing.

5.2.6 Forecasts at the time of approval of the revised treasury management strategy report for 2022/23 were as follows (as at June 2022): -

Interest Rate Forecasts								
Bank Rate	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Link	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%
Cap Econ	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%
10Y PWLB RATE								
Link	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%
Cap Econ	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%
Cap Econ	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%

5.2.7 No external borrowing has been undertaken in 2022/23.

6 Investment Outturn

6.1 Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the revised annual investment strategy approved by the Council on 1st September 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

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

6.3 Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£m)	31.3.22	31.12.22
Balances	2.824	2.811
Earmarked reserves	18.812	17.157
Provisions	(2.272)	(2.272)
Usable capital receipts	0	0
Total	**19.364**	**17.696**

Earmarked reserves have reduced over the year as the Revenues and Benefits reserve has been used to smooth the impact of the NNDR Collection Fund deficit from previous years.

6.4 **Investments held by the Council –** The Council managed all its investments internally.

- The Council maintained an average balance of £37.571m of internally managed funds, owing to one-off grants received for expenditure later in the year.
- The internally managed funds (including loans to Breckland Bridge companies) earned an average rate of return of 1.865% (0.2884% for 2021/22)
- The comparable performance indicator is the SONIA overnight rate, which was 1.735%.
- This compares with a budget assumption of £11.5m investment balances earning an average rate of 2.61%.

- Total investment income was £339,722 compared to a budget of £143,045. This was due to the rapid increase in interest rates during the course of the year and being able to invest the one-off energy rebate grant that was not anticipated when this budget was set.

7 Performance Measurement

7.1 One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities. The Council's performance indicators were set out in the annual Treasury Management Strategy Statement.

7.2 This service has set the following performance indicators and operated within the boundaries set as detailed in the December performance report attached as Appendix B:

- **Security**
  Risk of default

- **Liquidity**
  Liquid short term deposits – The Council requires at least of £5m to be available with a week's notice.
  Weighted Average Life
  Bank Overdraft – The Council's approved overdraft facility is £2m

- **Yield**
  The SONIA overnight rate is used as a benchmark.
  Actual interest earned against budget

Investment Portfolio

Treasury Investments held as at 31st December 2022:

Investment Type	Counterparty	Principal (£)	Start date	Maturity Date	Lowest Long Term Credit Rating
Call account	Barclays	£4,928,000	Call	Call	A
Fixed Term Deposit	DMADF	£6,269,000	30 December 2022	03 January 2023	AA-
Fixed Term Deposit	Sumitomo MBC Bank International Plc (SMBC)	£1,000,000	04 November 2022	04 January 2023	A-
Fixed Term Deposit	Bayerische Landesbank	£5,000,000	05 October 2022	05 January 2023	A-
Fixed Term Deposit	Lloyds Bank Corporate Markets	£5,000,000	05 October 2022	07 February 2023	A
Fixed Term Deposit	Qatar National Bank	£2,000,000	09 November 2022	09 February 2023	A
Fixed Term Deposit	Qatar National Bank	£1,000,000	05 October 2022	06 March 2023	A
Fixed Term Deposit	National Bank of Kuwait (International)	£2,065,000	07 December 2022	07 March 2023	A
Fixed Term Deposit	Qatar National Bank	£2,000,000	14 November 2022	14 March 2023	A
Fixed Term Deposit	Goldman Sachs	£5,000,000	26 September 2022	27 March 2023	A+
	Total Investments	**£34,262,000**			