South Somerset
District Council

2020/21 Treasury Management Performance Outturn Report

Executive Portfolio Holder:	Peter Seib, Finance and Legal Services
Director:	Nicola Hix, Support Services & Strategy
Section 151 Officer:	Karen Watling, Interim Section 151 Officer
Lead Officer:	Paul Matravers, Lead Specialist - Finance
Contact Details:	Paul.matravers@southsomerset.gov.uk or 01935 462275

Purpose of the Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2020/21 financial year as prescribed by the CIPFA Code of Practice and in accordance with the Council's Treasury Strategy, Annual Investment Policy and Treasury Management Practices.

Public Interest

2. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve an annual Treasury Management Strategy and, report treasury performance mid-year and at the year end.

Recommendations

3. Council is recommended to:
   - Note the Treasury Management Activity for the 2020/21 financial year;
   - Note the position of the individual prudential indicators for the 2020/21 financial year;
   - Note the outlook for the investment performance in 2020/21;
   - Note the Council operated within all of the Prudential Indicators during 2020/21;

Background

4. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.

5. Full Council approved the Council's 2020/21 Treasury Management Strategy on 6 February 2020. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

6. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 6 February 2020.

7. Overall responsibility for treasury management remains with the Council. The day to day treasury management operation is delegated to the S151 Officer and is undertaken by the Finance function which is part of the Support Services directorate. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

8. This report provides information on the performance of the Council's Treasury Investments in 2020/21. The performance of the Council's Commercial Investments, which are part of the Commercial Strategy, are not included in this report.

Treasury Management Position - Summary

9. The treasury management position at 31st March 2021 and the change during the year is shown in the table below.

	31/03/2020 Balance £000's	Net Movement £000's	31/03/2021 Balance £000's
Long-term borrowing	-	-	-
Short-term borrowing	(79,500)	(18,500)	(98,000)
Total Borrowing	**(79,500)**	**(18,500)**	**(98,000)**
Long-term Investments	2,000	-	2,000
Short-term Investments	8,000	(8,000)	-
Cash and Cash Equivalents	22,430	1,550	23,980
Total Investment	**32,430**	**(6,450)**	**25,980**
Net Position	**(47,070)**	**(24,950)**	**(72,020)**

10. External borrowing has increased during the year, reflecting the financing of planned capital expenditure, particularly in respect of investment property acquisition. In line with treasury advice, the Council continues to utilise short term borrowing, which is flexible and keeps our borrowing costs low. The projected

value of borrowing as at 31 March 2021 was reported to Audit Committee in January 2021 in the Annual Treasury Management Strategy report.

11. The amount of external borrowing is partially dependent on the commercial property purchases that are made in the financial year, with cash flow requirements also dictating the level of borrowing. Short term borrowing continues to be the best option to meet the financing requirement.

12. The S151 Officer has requested a piece of work be carried out by the Council's treasury advisors on alternative borrowing options. This is required in light of the revision to the lending criteria for HM Treasury's PWLB lending facility, which has historically been seen as the preferred option for local authority borrowing. The lending criteria which came into place in November 2020 has meant that the PWLB may not be available as a financing option in the future.

13. The work on alternative borrowing options is in its infancy, with a report detailing the options anticipated to be completed by the end of the May. The report will be presented to this committee at a future date once the report has been reviewed by senior officers.

14. An amendment to the 2021/22 borrowing strategy, which was approved by Full Council in February 2021, may be required if the Treasury advisors report recommends alternative borrowing options which are not currently included in the approved borrowing strategy. If needed, the revised borrowing strategy will be brought to this committee for scrutiny and approval.

15. As well as the request to report on the borrowing options available, ongoing dialogue is held with the Council's Treasury advisors on the best options for borrowing at present. The current advice being to continue to borrow short term at present. However, the Council may utilise long term borrowing (as part of the current strategy) in 2021/22 if it is deemed the best option, which will also remove an element of interest rate risk.

Investment Activity

16. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21, the Council's investment balance ranged between £26 million and £86 million. The balance of £86m was due to the funding received from Central Government in respect of the Business Grants in early April 2020.

17. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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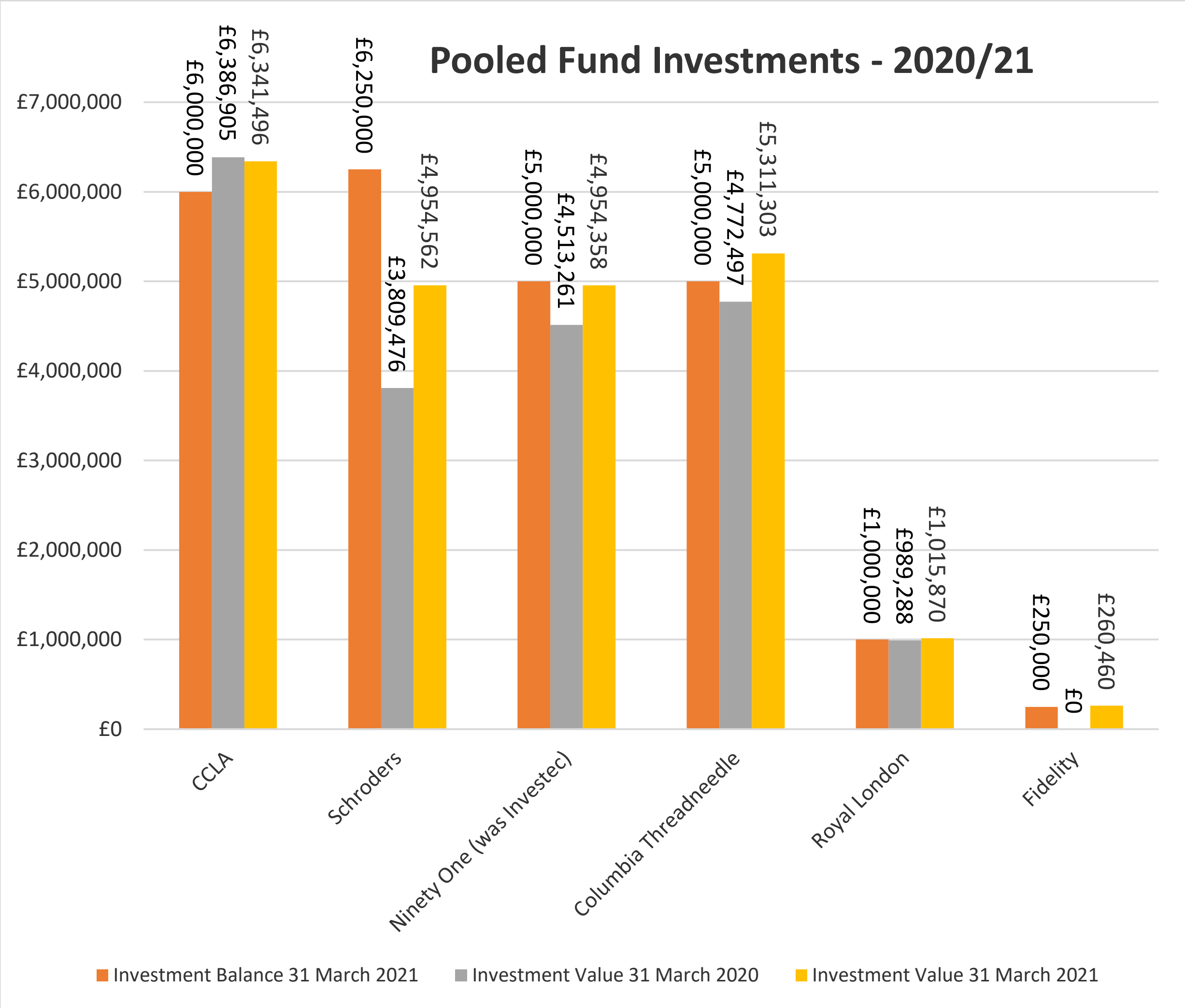
18. The Council's best performing investments continue to be the investments in the Pooled Funds (Strategic Investments). Details of the investment balance as at 31 March 2021 and the value of each investment at the same date is detailed in the chart below.



Note: Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment; the third bar in the graph signifies this value and details the investment value as at 31 March 2021. The first bar represent the investment balance in each fund at that date.

Pooled Fund Investments 2020/21

19. The table below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year end revaluation.

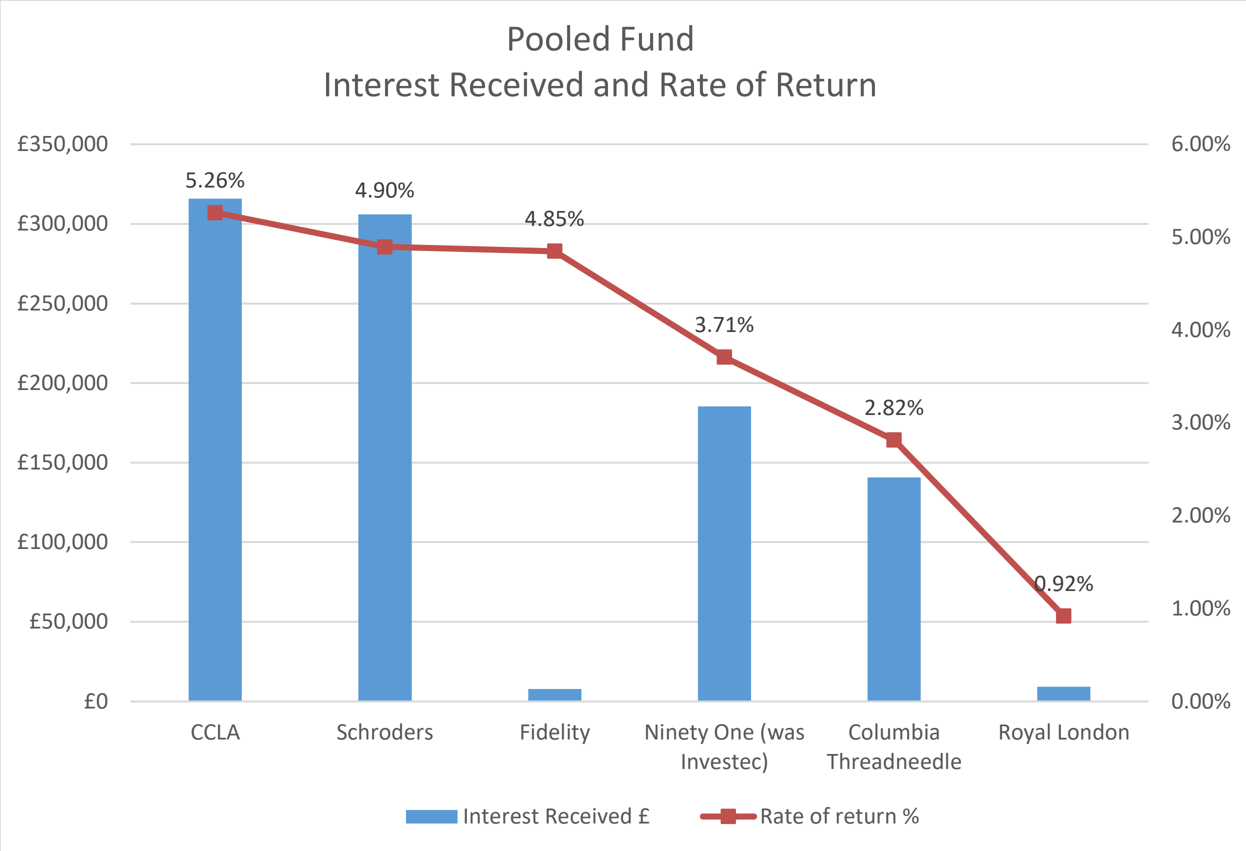
Investment Type	Investment Balance 01/04/2020 £000's	Investment Balance 31/03/2021 £000's	Investment Balance Change £000's		Investment Value 01/04/2020 £000's	Investment Value 31/03/2021 £000's	Investment Value Change £000's
CCLA	£6,000	£6,000	£0		£6,387	£6,341	(£46)
Schroders	£6,250	£6,250	£0		£3,809	£4,955	£1,146
Investec	£5,000	£5,000	£0		£4,513	£4,954	£441
Colombia Threadneedle	£5,000	£5,000	£0		£4,772	£5,311	£539
Royal London	£1,000	£1,000	£0		£989	£1,016	£27
Fidelity	£0	£250	£250		£0	£260	£260
Total	**£23,250**	**£23,500**	**£250**		**£20,470**	**£22,837**	**£2,367**

20. The Council increased it investments in pooled funds by £0.25m in 2020/21 making the investments £23.5m as at 31 March 2021. An investment of £250k was made in the Fidelity Global Enhanced Income Fund, this investment is seen as an initial investment and it is anticipated that further amounts (£250k) will be invested in the fund if it continues to provide positive capital growth and income returns.

21. The Council has investments in bond, equity, multi-asset and property funds. During the initial phase of the pandemic in March 2020, the sharp falls corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with most funds registering negative capital returns over a 12-month period. Since March 2020 there here has been improvement in market sentiment which is reflected in an increase in the capital values in five of the six funds, as demonstrated in the final column of the above table.

22. It should be noted that the £2.37m increase in the capital value of the investments will not have an impact on the General Fund as the Council is using the alternative fair value through profit and loss (FVPL) accounting and defers the funds' fair value losses (and gains) to the Pooled Investment Fund Adjustment Account until 2023/24.

23. The income generated from these investments in 2020/21 and the rate of return is detailed in graph and table below.



Fund	Interest Received £	Rate of return %
CCLA	£315,824	5.26%
Schroders	£305,962	4.90%
Fidelity	£7,870	4.85%
Ninety One (was Investec)	£185,393	3.71%
Columbia Threadneedle	£140,772	2.82%
Royal London	£9,187	0.92%
Total	**£965,009**	**4.12%**

24. Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

25. Pooled funds have no defined maturity date, but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but

with the confidence that over a three to five-year period total returns will exceed cash interest rates.

26. In light of their strong performance and the Council's latest cash flow forecasts, there was a small increase in the investment in these funds. The investment (Fidelity) has proved to be successful with the income return being above 4.50% in year. A good return on other pooled fund investments was also achieved in the 2020/21 financial year. The capital value of the investments has increased and there are positive signs that the capital value of the investments has been maintained in the first month of 2021/22.

27. The investment strategy approved in the 2021/22 Treasury Management Strategy Statement recommended that the Council maintains its investments in the secure and higher yielding asset classes given the increasing risk and very low returns from short-term unsecured bank investments.

28. The graph above and table detailing interest received, and the rate of return on investments demonstrates that the approved policy has met the objectives of the investment strategy. It is anticipated that the level of strategic (long-term) investments will remain in the region of £24m in 2021/22, with the possibility of increasing these investments, if cash flow permits, in line with the Council's overall Financial Strategy and income generation targets.

29. The diversification into strategic investments represents a continuation of the strategy adopted in 2017/18. The Council's Treasury advisors have indicated that a maximum exposure to this investment type should be limited to £30m.

30. The revised Financial Strategy and Medium Term Financial Plan reflects the current economic situation as a result of Covid-19, revisions to the income target for Treasury Management investments will be incorporated if required. Any potential changes to the Treasury Management Strategy and policy due to the revised Financial Strategy and MTFP will be brought to Audit Committee.

Interest Rates 2020/21

31. As detailed in the Arlingclose external context provided in Appendix A, the start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures. Rates were held at 0.1% throughout the year but the bank extended its Quantitive Easing programme by £150 billion to £895 billion at its November 2020 Meeting.

32. The Arlingclose central case assumes the bank rate will remain at 0.10% until at least June 2024. The latest economic and interest rate forecast (March 2021) from Arlingclose states that whilst the central case assumes no change to the base rate for a significant period. It also states that the risks of a Bank Rate cut over the medium term have reduced further.

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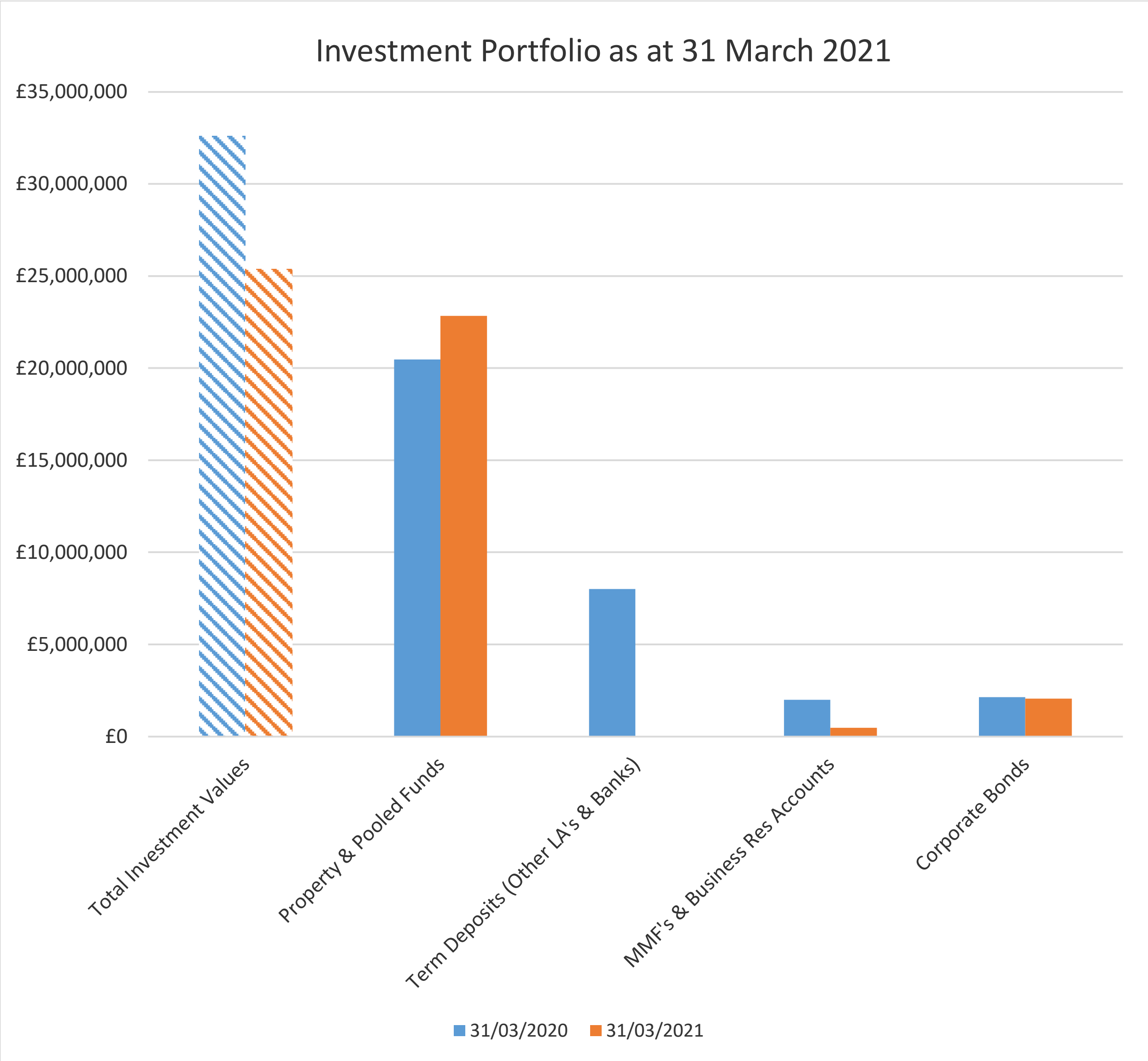
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Average
Official Bank Rate														
Upside risk	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.10	-0.15	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.18

Investment Portfolio – Values and Returns

33. The graph below provides a snapshot of the Council’s portfolio of investments at the end of the 2020/21 financial year, in comparison to the previous year end position.



34. The table below provides additional information on the actual value of investments at the start and end of the 2020/21 financial year:

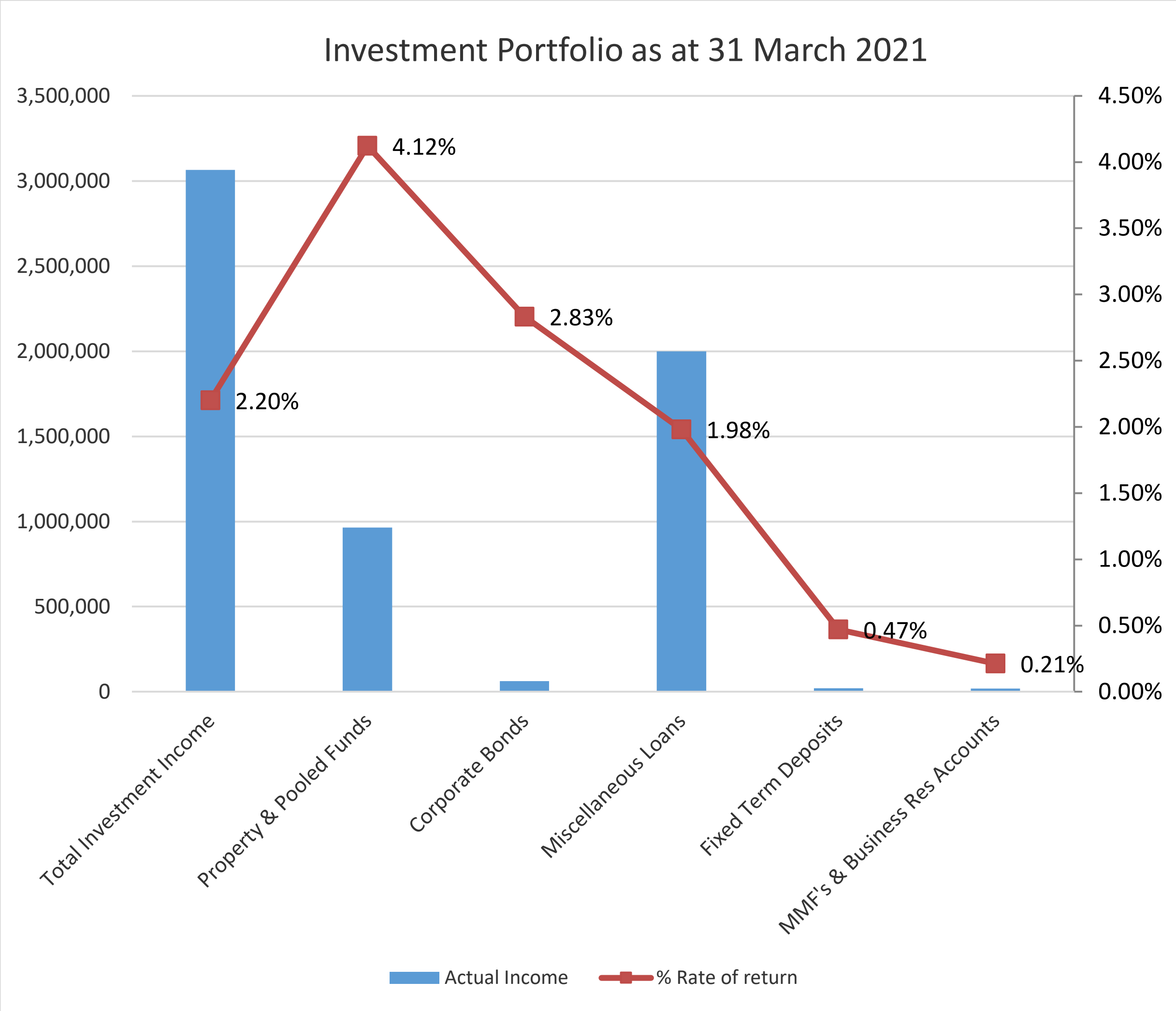
Investment type	Investment Value as at 31/03/2020	Investment Value as at 31/03/2021	Actual Income	% Rate of return
Property & Pooled Funds	20,471,426	22,838,048	965,009	4.12%
Money Market Funds & Business Reserve Accounts	2,000,000	480,000	18,126	0.21%
Term Deposits (Other LAs & Banks)	8,000,000	0	20,116	0.47%
Corporate Bonds	2,129,992	2,060,491	62,658	2.83%
Total Investment Values	**32,601,418**	**25,378,539**	**1,065,909**	**2.77%**

35. The types of investment that the Council held at the 31 March 2020 and 31 March 2021 has changed. The policy of investing in higher yielding, long term strategic investments have resulted in a large portion of the Council's investment being concentrated in the pooled and property fund investment type. Pooled and property fund investments amounted to 90% of the investment portfolio as at 31 March 2021 (66% as at 31 March 2020). The reduction in the term deposits was due to the low rates of return associated with this investment that were seen for a significant period of the financial year. The cashflow fluctuations that were experienced during the year also resulted in less cash being available for term deposit investments.

36. The Council continues to work closely with Arlingclose on the investment diversification and portfolio mix, Arlingclose are comfortable with the percentage of investment that the Council holds in pooled and property funds but has suggested a maximum exposure of £30m. The Council continually monitors the performance of the property and pooled funds and is able to withdraw funds at short notice if the fund performance were to deteriorate. Equally, the Council may borrow short term to manage cash flow variations if necessary.

Returns achieved in 2020/21

37. The returns are shown in the graph and table below:



Investment type	Actual Income £	Rate of return %
Property & Pooled Funds	965,009	4.12%
Miscellaneous Loans	1,999,490	1.98%
Fixed Term Deposits	20,116	0.47%
Corporate Bonds	62,658	2.83%
Money Market Funds & Business Reserve Accounts	18,126	0.21%
2020/21 Treasury Investment Income	**3,065,399**	**2.20%**
2020/21 Treasury Income Budget	**1,947,510**	
Surplus /(Deficit)	**1,117,889**	

38. The table above shows investment income for the year compared to the budget. The figures show a significant surplus over budget of £1,117,889. The original

treasury management budget of £1,947,510 was derived by forecasting an average rate of return of 1.86% based on an average investment portfolio of £50m.

39. The surplus over budget is as a result of a number of factors, the main factors being:
    a. Additional interest received due to additional investment into long term strategic investments.
    b. A new loan for service purposes has been made in year resulting in additional interest.
    c. Additional interest received from commercial investments purchased in year that are not included in the 2020/21 budget

40. The outturn position is also affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of revenue and capital income and expenditure, and the collection and distribution of council tax and business rates income.

Treasury Investments

41. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21. The table below lists the investments held on 31 March 2021.

Breakdown of investments as at 31 March 2021

Date Invested	Counterparty	Nominal Amount £'000	Rate %	Maturity Date
	Corporate Bonds			
20/10/2016	Santander UK Plc	1,000	1.04	14/04/2021
10/11/2016	National Australia Bank	1,000	1.10	10/11/2021
	Business Reserve Accounts			
	Santander Business Reserve	480	0.18	
	Property& Pooled Funds			
	Fidelity Global Enhanced Income	250	4.85	
	Ninety One Diversified Income	5,000	3.71	
	Royal London Enhanced Cash Plus Fund	1,000	0.92	
	Schroders Income Maximiser	6,250	4.90	
	Columbia Threadneedle Strategic Bond	5,000	2.82	
	CCLA Property Fund	6,000	5.26	
	Total	**25,980**		

Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate

Non-Treasury Investments

42. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council also held £125.93m of such investments in

- Directly Owned Property - £88.28m
- Loan to Community Organisation - £0.14m
- Loan to Local Authority Partnership - £4.34m
- Loan for Commercial Activities - £33.17m

Borrowing

43. The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

44. The table below summarises the external borrowing position for 2020/21. It details the opening position in respect of external loans, loans repaid, new loans, the average interest rate and the year-end position.

	Amount £'000	**Average Interest Rate %**
External Loans as at 1 April 2020	**79,500**	**0.86**
New Loans	160,000	0.31
Loans Repaid	(141,500)	
Total External Loans as at 31 March 2021	**98,000**	

45. In keeping with these objectives, new borrowing was kept to a minimum, however external borrowing increased from £79.5m to £98m. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

46. Details of the borrowing are included in the table below.

Lender	Date Borrowed	Repayment Date	No of Days	Interest Rate	Amount	2020/21 Interest	Total Interest
Tendring District Council	19/03/2021	21/06/2021	94	0.10%	1,000,000	36	258
Cornwall Council	17/04/2020	16/04/2021	364	1.75%	10,000,000	167,329	9,973
Wychavon District Council	20/04/2020	19/04/2021	364	1.75%	5,000,000	82,945	4,986
Ryedale District Council	11/05/2020	10/05/2021	364	1.75%	1,000,000	15,582	997
London Borough of Wandsworth	19/03/2021	19/01/2022	306	0.45%	10,000,000	1,603	8,384
Great Yarmouth Borough Council	20/10/2020	20/07/2021	273	0.20%	2,000,000	1,786	1,496
Runnymede Borough Council	20/10/2020	20/08/2021	304	0.23%	3,000,000	3,081	2,499
Mid Devon District Council	20/10/2020	20/07/2021	273	0.20%	3,000,000	2,679	2,244
Police & Crime Commissioner For Gloucestershire	20/10/2020	20/04/2021	182	0.15%	3,000,000	2,010	1,496
Northern Ireland Housing Executive	20/10/2020	20/07/2021	273	0.20%	5,000,000	4,466	1,496
Derbyshire Fire and Rescue Service	29/03/2021	29/06/2021	92	0.10%	4,000,000	33	403
Cherwell District Council	22/03/2021	19/04/2021	28	0.08%	2,000,000	44	46
Lancaster City Council	17/03/2021	19/04/2021	33	0.10%	5,000,000	205	452
West Berkshire Council	12/03/2021	21/04/2021	40	0.06%	1,000,000	33	33
Kent County Council	17/03/2021	17/05/2021	61	0.08%	5,000,000	164	836
Wokingham Borough Council	19/03/2021	21/06/2021	94	0.08%	5,000,000	142	1,288
East London Waste Authority	22/03/2021	22/04/2021	31	0.08%	2,000,000	44	68
Nottingham City Council	22/03/2021	22/04/2021	31	0.09%	4,000,000	99	136
Derry City and Strabane District Council	24/03/2021	30/04/2021	37	0.08%	2,000,000	35	61
Nottingham City Council	29/03/2021	29/06/2021	92	0.08%	6,000,000	39	1,512
Cambridge City Council	29/03/2021	29/06/2021	92	0.08%	5,000,000	33	1,260
Blaenau Gwent County Borough Council	26/03/2021	28/04/2021	33	0.08%	5,000,000	66	181
Flintshire County Council	26/03/2021	19/04/2021	24	0.08%	2,000,000	26	53
Solihull Metropolitan Borough Council	26/03/2021	30/04/2021	35	0.08%	1,000,000	13	38
West Midlands Combined Authority	31/03/2021	25/05/2021	55	0.06%	6,000,000	10	271
				Total	**98,000,000**	**282,504**	**40,465**

47. With short-term interest rates remaining much lower than long-term rates, the Council considered it cost effective in the near term to use internal resources in parallel with short-term loans.

48. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £95.5m million at the beginning of 2020/21. Capital expenditure during 2020/21 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £130.7 million. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as "internal borrowing" – as short term investment returns foregone are currently lower than longer term borrowing rates.

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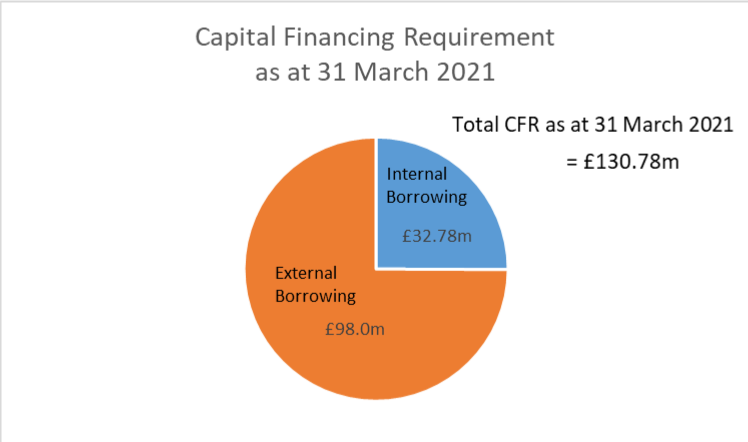
Borrowing Type	£'000	%
Internal Borrowing	£32,777	25.06%
External Borrowing	£98,000	74.94%
Total Capital Financing Requirement as at 31 March 2021	**£130,777**	



Treasury Management Indicators

49. The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2020/21 Target	2020/21 Actual
Portfolio average credit rating	5.0	3.2

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

	2020/21 Target	2020/21 Actual
Total cash available within 3 months	£10m	£25m

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	2020/21 Limit	2020/21 Actual
Upper limit on one-year revenue impact of a 1% change in interest rates	£200,000	£33,300

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	2020/21 Upper Limit %	2020/21 Lower Limit %	2020/21 Actual %
Under 12 months	100%	100%	100%
12 months and within 24 months	100%	100%	0%
24 months and within 5 years	100%	100%	0%
5 years and within 10 years	100%	100%	0%
10 years and above	100%	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Upper and lower limits are set at 100% providing full flexibility to optimise borrowing arrangements.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Price risk indicator	2020/21
Actual principal invested beyond year end	£2m
Limit on principal invested beyond year end	£30m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Other

CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

Prudential Indicators – 2020/21

50. In February 2020, through approval of the Treasury Management Strategy Full Council approved the Prudential Indicators for 2020/21, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local Council complies with the Code.

Capital Expenditure: The actual capital expenditure incurred for 2020/21 compared to the revised estimate was:

	2019/20 Outturn £'000	**2020/21 Revised Estimate £'000**	**2020/21 Outturn £'000**	**2020/21 Variance £'000**	**Reason for Variance**
Approved capital schemes	65,483	31,524	41,780	10,256	Spend on Energy Projects
Total Expenditure	**65,483**	**31,524**	**41,780**	**10,256**	

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Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2019/20 Outturn £'000	2020/21 Revised Estimate £'000	2020/21 Outturn £'000	2020/21 Variance £'000	Reason for Variance
Financing Costs	(966)	(77)	1,269	1,345	Additional interest on borrowing
Net Revenue Stream	15,636	15,207	15,150	(58)	
%	**-6.2%**	**-0.5%**	**7.8%**		

*figures in brackets denote income through receipts and reserves

The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for the Council but is relevant since it shows the extent to which the Council is dependent on investment income.

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

	2019/20 Outturn £'000	2020/21 Revised Estimate £'000	2020/21 Outturn £'000	2020/21 Variance £'000
Opening CFR	39,320	95,581	95,581	-
Capital Expenditure	65,482	53,752	41,781	(11,971)
Capital Receipts*	(6,820)	(8,992)	(3,274)	5,718
Grants/Contributions*	(1,881)	(231)	(2,360)	(2,129)
Minimum Revenue Provision (MRP)	(520)	(747)	(951)	(204)
Additional Leases taken on during the year	-	-	-	-
Closing CFR	**95,581**	**139,363**	**130,777**	**(8,586)**

*Figures in brackets denote income through receipts or use of revenue resources.
Total figures are rounded

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose. The Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	2019/20 Outturn £'000	2020/21 Revised Estimate £'000	2020/21 Outturn £'000	2020/21 Variance £'000
Borrowing	79,500	126,600	98,000	(28,600)
Finance Leases	51	51	20	(31)
Total Debt	**79,551**	**126,651**	**98,020**	**(28,631)**
Capital Financing Requirement	95,581	139,363	130,777	(8,586)

Total debt is expected to remain below the CFR for the near future.

Credit Risk: The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Actual External Debt: This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2021	**£'000**
Borrowing	98,000
Other Long-term Liabilities (Finance Leases)	
- Vehicles	20
- Photocopiers	-
Total	98,020

Authorised Limit for External Debt: This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties.

	2019/20 Actual £'000	2020/21 Original Estimate £'000	2020/21 Actual £'000
Borrowing	79,500	140,000	98,000
Other Long-term Liabilities	51	20	20
Total	79,551	140,020	98,020

Operational Boundary for External Debt: The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2019/20 Actual £'000	2020/21 Original Estimate £'000	2020/21 Actual £'000
Borrowing	79,500	120,000	98,000
Other Long-term Liabilities	51	15	20
Total	79,551	120,015	98,020

For information the 2021/22 operational boundary has been set at £135m and the authorised limit £165m. This was approved by full Council in February 2021 as part of the Annual Capital, Investment and Treasury Management Strategy report.

Compliance

51. The Council operated within all of the Prudential Indicators during 2020/21.

Financial Implications

52. There are no additional financial implications in reviewing the attached Treasury Management Strategy.

Council Plan Implications

53. The performance of the Council's investment portfolio and the associated investment and borrowing strategies are closely linked to the Council Plan. The funds invested and those that are externally borrowed exposes the Council to financial risks. The approved strategies ensure the risks are identified, monitored and controlled therefore ensuring the investments are secure whilst maximising the return on investments.

54. The return on investments, and ensuring borrowing costs are minimised, is a key element of the Medium Term Financial Plan which is aligned to the Council Plan and contributes to enabling the delivery of the Council's priorities for the local community.

Carbon Emissions and Climate Change Implications

55. There are no implications in approving this report.

Equality and Diversity Implications

56. There are no implications in approving this report.

Privacy Impact Assessment

57. There is no personal information included in this report.

Background Papers

58. Treasury Management Strategy 2020/21 (Full Council February 2020)
    Prudential Indicators and MRP Statement 2020/21
    Capital Outturn 2020/21