RAPC 456/21

NEW FOREST NATIONAL PARK AUTHORITY

RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 7 JUNE 2021

FINANCIAL OUTTURN AND TREASURY REPORT 2020/21

Report by: Nigel Stone, Head of Resources (Chief Finance Officer)

Purpose:

This report sets out the detailed projected outturn position for the Authority for the 2020/21 financial year. This information will latterly be formed into the annual Financial Report (Accounts), which will then be audited and presented for consideration and approval by the Authority in August. This report also includes the annual report on the Treasury Service and Prudential Indicators for 2020/21.

Executive Summary:

The original budget for 2020/21, approved as NFNPA 596/20 and set within the context of the Medium-Term Financial Plan, estimated a £18,000 contribution would be required from the Revenue Support Reserve to balance the budget. The latest Budgetary Control Report (which came to this Committee in February 2021) estimated that the potential savings and pressures would net off and lead to no significant net variances. The impact of the Covid-19 pandemic on the overall 2020/21 financial outturn position has been minimal.

The draft outturn figures (correct as at writing of this report in mid-May) indicate a small saving of £16,000 which equates to a 0.36% variance to the original budget. As a result, a figure of around £2,000 will be taken from the Revenue Support Reserve.

1 General Fund Revenue Budget Outturn 2020/21

1.1 The draft year-end position is set out in the standard management reporting format in **Annex 1**. Further breakdowns, including within the standard accounting format, is shown in **Annex 2**. Detailed outturn for the Programme Fund and Partnership Projects can be found in **Annexes 3 and 4** respectively. The projected impact on the Reserves (general and earmarked) is shown in **Annex 5**. A report on the Treasury Management Stewardship for the year is shown in **Annex 6**.

1.2 The overall original income and expenditure budgets for 2020/21 were £4.44m, as shown in Annex 1. This included £0.6m from Authority-led partnership projects (externally-funded). These original budgets, and the outturn figures, have not been significantly impacted by the Covid-19 pandemic.

1.3 The overall expenditure position at year-end shows £4.37m spend (98% of budget). Without the partnership projects, spend was £3.77m from a budget of £3.86m (98%).

1.4 The overall income position shows £4.38m received (99% of budget). Without the partnership projects, income was £3.78m from a budget of £3.86m (98%).

1.5 The original budget required a contribution from the Revenue Support Reserve of £18,000 – as a result of the outturn position this has fallen to £2,000. The variance is broken down in sections 2 to 4 below.

2 Expenditure – Key Variances (from tables in Annex 1)

2.1 Employee Costs (+£23,000)

The Authority had slightly lower than forecast vacancy savings during this financial year (+£5k), alongside some additional costs for temporary additional posts (+£30k), partially netted off by some savings on travel expenses (-£12k).

2.2 Sustainable Communities Fund (-£20,000)

The SCF budget for 2021/22 was £30,000 – of this only £10,000 was claimed during the year and the remainder will be added to the SCF Reserve to be utilised when claimed by the successful applicants.

2.3 Central Costs (-£63,000)

As expected, some small savings have occurred across the budgets within central costs, largely derived from the changed ways of working during the pandemic (less use of the office, more virtual meetings/training etc). The savings will be transferred to Earmarked Reserves for climate and nature recovery work in 2021/22.

3 Income – Key Variances (from table in Annex 1)

3.1 Planning Fees (-£41,000)

Planning fee income was £41,000 lower than originally forecast (total fees received was £339,000 compared to an original budget of £380,000 – 89%). Given the economic circumstances as a result of the pandemic, this is still considered a strong outcome. It should be noted that the planning fees still only cover, on average, under 50% of the cost of determining an application.

3.2 Income Generation (+£37,000)

The Authority successfully applied for several small grants and contributions to its work this year from National Grid, Defra and other Forest organisations. Some of this funding has been spent and the remainder will be moved into Earmarked Reserves for use in 2021/22.

3.3 Investment & Interest Income (-£5,000)

A full report on the Treasury function during 2020/21 is attached to this report as **Annex 6**. The Authority received a final repayment of £5,000 from the failed Heritable Bank investment. The interest received on investments and holdings for the year was just £2,000; this equates to a 0.09% return compared to the benchmarked return of 0%.

3.4 Contribution to Earmarked Reserves

The original budget projected that we would utilise £44,000 from our earmarked reserves during the 2020/21 financial year, the outturn position shows that in fact we will add a total of £205,000 this year. The variance largely related to the £200,000 grant from Health Education England for Health & Wellbeing studies in the Forest over the next five years.

3.5 Contribution from Revenue Support Reserve

The overall financial position requires £2,000 from the Revenue Support Reserve this year, £16,000 (0.36%) less than originally budgeted.

4 Programme Fund – Key Variances (from table in Annex 3)

4.1 Narrative has been added to the table in Annex 3 where significant variances occurred, most of which have some link to the pandemic impacts. The overall total is £220,000 spent compared to an original budget estimate of £260,000 (85%).

4.2 The variance corresponds with the figures anticipated during the budget monitoring reports throughout the year. The underspend will be used to net off the overspend on salaries from increasing our staffing resources within the year.

5 Partnership Projects (from table in Annex 4)

5.1 The Authority spent a total of £600,000 during 2020/21 on Authority-led Partnership Projects as set out in the table in Annex 4. Of this funding, just £33,000 was put in by the Authority; once the project funds are fully spent/claimed, on average for every £1 we put in, a further £18 was generated.

5.2 The variance from the original budgeted spend of £580,000 is largely down to additional funding being secured in-year for the further continuation of the Pedall scheme.

5.3 The remaining partnership project budgets/income will be carried forward to 2021/22 through earmarked reserves.

6 Reserves (from table in Annex 5)

6.1 The projected position of the Reserves is shown in Annex 5. The key changes in-year have already been detailed in 3.4 / 3.5 above. The largest single movement is the £200,000 from Health Education England put into the ringfenced Health & Wellbeing Reserve; all other movements in and out of the reserves roughly net to zero.

6.2 Various transfers to and from earmarked reserves are listed in the table in Annex 5. These generally constitute either spending from existing reserves or ring-fenced funding being added to a reserve, as categorised below:

Spending – Transport, Capital/Major Projects, Pedall, OPOF Landscape Partnership, Land Advice Service, Access and Planning Grants.

Ring-fenced – Health & Wellbeing, Nature Recovery, Sustainable Communities Fund, Affordable Housing (Bransgore Rental Income), ICT replacement, Pay, Planning/Risk, Land Management, Communications, Climate Change, Vehicle Replacement and LEI Scheme.

6.3 This gives draft ‘key’ reserve balances of:

Minimum Reserve	£300,000
Revenue Support Reserve	£16,000
Planning / Risk Reserve	£138,000
Capital / Major Projects Reserve	£557,000

7 Developer Contributions (from table in Annex 5)

7.1 The first table of Annex 5 shows a summary of the Developer Contributions held by the Authority at year-end. A total of £117,000 was received during the year and £56,000 released.

7.2 As Members are aware, a very significant proportion of the remaining Affordable Housing contributions will likely be utilised to fund a pair of homes at the site in Burley.

8 Procurement Waivers

8.1 There were no procurement waivers granted in 2020/21.

9 Accounts and Accounting Policies 2020/21

9.1 At this time it is not expected that any significant changes will be required to the Authority’s existing Accounting Policies in order to produce the Financial Report (Statement of Accounts) for 2020/21. Should any changes latterly be required, this will be reported to the Authority alongside the final Financial Report in August.

9.2 The actuarial valuation of the HCC pension fund for the year-end has been completed and shows that the overall net future liability, which will show on our balance sheet, has increased from £7.3m to £10.9m. The increase is largely due to changes made in the financial assumptions about these future cashflows and does not immediately affect the amount we are required to put into the scheme over the coming years.

10 Summary

10.1 The current projection indicates an decreased call of £16,000 from the Revenue Support Reserve for 2020/21 (£2,000 rather than £18,000). This equates to a positive variance of around 0.36% on the overall original budget.

10.2 In addition to the movement on the Revenue Support Reserve, a further net £205,000 has been added to the other Earmarked Reserves.

11. Recommendations

It is recommended that Members:

1 note the provisional outturn position;
2 note the Treasury Management Stewardship Report and Prudential Indicators 2020/21 in Annex 6; and
3 approve the *indicative* transfers to/(from) Reserves in 2020/21 as set out in section 6 and detailed in Annex 5.

Papers:

RAPC 456/21	Budgetary Control Report
RAPC 456/21 Annex 1	Budget Monitoring
RAPC 456/21 Annex 2	2020/21 Budget Formats
RAPC 456/21 Annex 3	Programme Fund
RAPC 456/21 Annex 4	Authority-led Partnership Projects
RAPC 456/21 Annex 5	Projected Developer Contributions and Reserve Balances
RAPC 456/21 Annex 6	Treasury Management Stewardship - Report & Prudential Indicators

Equality and Diversity Implications:
There are no specific equality or diversity implications arising out of this report.

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Annex 1

Budget Monitoring 2020/21
Summary Accounts for the period 1 April 2020 – 31 March 2021

	Original Budget	Payments / Income	% of Budget Spent
	£000	**£000**	
Expenditure:			
Employee Costs (Salary, Travel, Pensions etc)	2,727	2,750	101%
Programme Fund	260	220	85%
Sustainable Communities Fund	30	10	33%
Strategy & Planning	47	53	113%
Central Costs (split below)	802	739	92%
Subtotal	**3,866**	**3,772**	**98%**
Authority-led Partnership Projects	578	600	104%
Total Expenditure	**4,444**	**4,372**	**98%**

Income:			
Defra National Park Grant (95%)	-3,088	-3,088	100%
Defra Biodiversity Grant (5%)	-163	-163	100%
Planning Income	-380	-339	89%
Shared Services	-134	-164	122%
Income Generation (inc Affordable Housing)	-27	-64	237%
Investment & Interest Income	-12	-7	58%
Contribution from Other Earmarked Reserves	-62	53	-185%
Subtotal	**-3,866**	**-3,772**	**98%**
Authority-led Partnership Projects	-578	-756	130%
Net contributions from Partnership Projects Reserves	0	156	100%
Total Income	**-4,444**	**-4,372**	**98%**

Central Costs Split

	Latest Budget £000	Payments £000	% of Budget Spent
Secretariat	45	45	100%
Human Resources	62	61	98%
ICT Services	190	181	95%
ICT R&R Fund	90	74	82%
Member Services	62	51	82%
Finance & Audit Services	51	44	86%
Accommodation	217	208	96%
Business Support (e.g. insurance, printing, stationery)	85	75	88%
TOTAL	**802**	**739**	**92%**

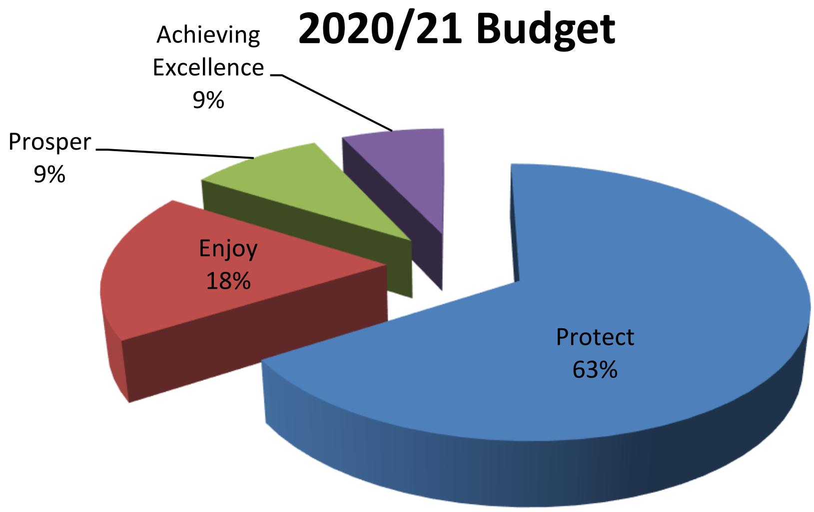
Annex 2

2020/21 Original Budget (£3.87m – not including partnership projects) shown as

	Protect*	Enjoy	Prosper	Achieving Excellence
	£000	**£000**	**£000**	**£000**
Employee Costs (allocated)	1,802	428	229	268
Programme Fund	77	133	50	-
Sustainable Communities Fund (approximation)	21	6	3	-
Strategy & Planning	47	-	-	-
Central Costs (allocated)	501	145	77	79
TOTAL	**2,448***	**712**	**359**	**347**

‘Protect, Enjoy, Prosper & Achieving Excellence’

*Includes up to £0.75m of costs directly related to the Planning Service


2020/21 Budget
Achieving Excellence 9%
Prosper 9%
Enjoy 18%
Protect 63%

2020/21 Budget outturn in Authority's formal reporting format

	Budgeted Net Cost of Services 2020/21		Projected Final Expenditure	Projected Final Income	Projected Net Position
	£000		**£000**	**£000**	**£000**
Conservation of the Natural Environment	548		1,045	-530	515
Conservation of Cultural Heritage	328		350	-16	334
Recreation Management and Transport	313		506	-204	302
Promoting Understanding	376		551	-228	323
Rangers, Estates and Volunteers	119		187	-87	100
Development Control	582		1,113	-338	675
Forward Planning and Communities	524		476	0	476
Corporate and Democratic Core	485		555	-20	535
SUBTOTAL	**3,325**		**4,683**	**-1,423**	**3,260**
Remove Accounting Adjustments (e.g. pension, depreciation, capital)	0				-205
National Park Grant	-3,251				-3,251
Investment & Interest Income	-12				-7
Use of Reserves	-62				203
TOTAL	**0**				**0**

Annex 3

Programme Fund 2020/21	**Original Project Budget**	**Payments**	**% of Budget Spent**	**Notes on significant variations**
PROTECT*	**£000**	**£000**		
Ecology and Catchment Co-ordination	14	12	86%	Work with Freshwater Habitats Trust
Woodland Management Projects (NFLAS)	5	5	100%	
Natural Environment Evidence Base (HBIC / WRC)	9	9	100%	
Our Past, Our Future (Landscape Partnership)	28	28	100%	
Archaeology Projects and SLAs	10	13	130%	
Green Halo Partnership	5	9	180%	
OTHER (Projects less than £5,000)	6	13	217%	Additional funding from National Grid
PROTECT SUBTOTAL	**77**	**89**	**116%**	
ENJOY*	**£000**	**£000**		
Access Improvements	15	14	93%	
Health and Wellbeing	5	2	40%	
Education (Travel Grants and Resources)	8	3	38%	
Recreation Management	13	19	146%	Additional funding received from Partners
Interpretation & Information	8	4	50%	
New Forest Show	6	0	0%	Did not take place in 2020
Media and Promotion	23	18	78%	
Publications	32	30	94%	
Contact Management System	8	0	0%	Contract Agreed – rolled over into 21/22
Ranger Projects	7	4	57%	Saving funded additional staffing
People and Wildlife Ranger Projects	5	0	0%	Saving funded additional staffing
OTHER (Projects less than £5,000)	3	2	67%	
ENJOY SUBTOTAL	**133**	**96**	**72%**	

	Original Project Budget	Payments	% of Budget Spent	Notes on significant variations
PROSPER*	**£000**	**£000**		
New Forest Marque	25	25	100%	
Sustainability Projects	5	3	60%	
Sustainable Transport	12	3	25%	
OTHER (Projects less than £5,000)	8	4	50%	
PROSPER SUBTOTAL	**50**	**35**	**70%**	
TOTAL EXPENDITURE	**260**	**220**	**85%**	

*The designation of projects to 'Protect, Enjoy & Prosper' are for illustrative purposes only and do not constitute the total funding allocated to each area by the Authority (see Annex 1).

Annex 4

Authority-led Partnership Projects 2020/21

	Authority Direct Financial Contributions	Partner Financial Contributions	Total Project Budget	Total Payments	Payments as % of budget	Notes on significant variations
	£000	**£000**	**£000**	**£000**		
Our Past, Our Future (HLF)	28	400	428	428	100%	Programme complete
New Forest Remembers	0	18	18	0	0%	Remaining legacy funding did not have to be spent this year
Pedall (Big Lottery)	0	30	30	50	167%	Further 3 years funding confirmed
Higher Level Stewardship	0	60	60	45	75%	
Land Advice Service	5	70	75	77	103%	
TOTAL	**33**	**578**	**611**	**600**	**98%**	

On average, for every £1 the Authority contributes it generates a further £18 from partner organisations.

Annex 5

Developer Contributions:

	Affordable Housing	Open Space	Ecological Mitigation
	£000	**£000**	**£000**
Starting Balance	556	31	109
Funds Received	28	49	40
Funds Spent / Released	0	(20)	(36)
Current Balance	**584**	**60**	**113**

Current Reserve Balances:

	Starting Balance	Projected Movement	Closing Balance
	£000	**£000**	**£000**
General Fund Reserve	300	0	300
Earmarked Reserves:			
Revenue Support Reserve	18	(2)	16
Capital / Major Projects Reserve	597	(40)	557
Planning / Risk Reserve	108	30	138
Other	629	215	844
TOTAL	**1,652**	**203**	**1,855**

All movements are the *net* overall position for each heading but may incorporate a number of individual movements both to and from those reserves.

Annex 6

ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2020/21

1. Introduction

1.1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2020/21. The report also covers the actual Prudential Indicators for 2020/21 in accordance with the requirements of the Prudential Code.

2. Background

2.1 The Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act, HMCLG has issued Investment Guidance to structure and regulate the Authority's investment activities.

2.2 This Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that any activities are undertaken in a prudent, affordable and sustainable basis.

2.3 The Code requires, as a minimum, the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and

- At least two reports on activity and performance one of which will be the annual report (this report).

2.4 This report sets out the information in the following appendices: -

Appendix 1

- A summary of the treasury strategy agreed for 2020/21;
- A summary of the economic factors affecting the strategy over 2020/21;
- The decisions taken and performance of the treasury service and their revenue effects;
- The Authority's treasury position at 31 March 2021.

Appendix 2

- The main Prudential Indicators and compliance with limits;
- Performance indicators set for 2020/21;
- Risk and performance.

APPENDIX 1

TREASURY MANAGEMENT STEWARDSHIP REPORT – 2020/21

1. Introduction

This appendix sets out the performance for the Authority's treasury management activities.

2. Treasury strategy for 2020/21

The Authority approved the Treasury Management Strategy for 2020/21 in March 2020 (NFNPA 596/20).

The main principles of the investment strategy cover: -

- The security of investments;
- The liquidity of investments;
- Monitoring investment categories and counterparties;
- The use of money brokers;
- Performance indicators.

3. The Economy and Interest Rates

3.1 UK and Global Economic Background & Outlook

Prior to the Covid-19 pandemic, UK GDP growth was low but stable/steady, as was most of continental Europe and the US. Following a sharp initial decline in GDP and other economic output figures globally, there has recently been clear signs of recovery in most of the major world economies.

Interest rates are still at historic lows and are generally not projected to rise significantly quickly for some considerable time yet.

Date	**Bank Base Rate**
At 1 April 2020	0.10%
31 March 2021	0.10%

3.2 UK Interest Rate Forecast(s)

Given the current economic conditions, it is not possible or practical to give further insight or estimates of future interest rate positioning at this time, other than to say that they are unlikely to rise significantly within the next couple of years.

4. Investment strategy

4.1 During the year, no investments were made for 1 year; all were for shorter periods or in deposits with instant access. All investments during the year have allowed for anticipated cash flow movements both on a daily and annual basis.

4.2 Short-term temporary investments in 2020/21 have been on average for a period of 30-60 days; this does not include the instant access accounts where the Authority invests.

5. Investments / Holdings

5.1 Temporary Investments are deposits which are capable of being repaid within one year. The term of the loans are negotiated from overnight to 364 days.

5.2 The interest rate earned on temporary investments for the year was 0.09%.

5.3 For 2020/21, the interest receivable on temporary money market investments is £2,000; this is well below the estimated £12,000 which was originally budgeted.

5.4 A list of investments/holdings at 31 March 2021 is shown below:-

Borrower	**Amount £**	**Interest Rate %**	**Maturity Date**
Temporary Investments/Holdings			
Debt Mmgt Office (Govt)	1,250,000	0	Instant access
Standard Life Money Market Fund	500,000	0.01	Instant access
Lloyds Current Account	785,000	0	Instant access
Total	**2,535,000**		

5.5 All temporary investments have been invested according to the parameters set within the Authority's Treasury Policy Statement.

6. Investment benchmark

6.1 The temporary investment interest earnings are measured against a target benchmark. It is expected that earnings will at least equal the benchmark.

6.2 The benchmark is equivalent to the average 7 day LIBID rate available through the money markets and is measured over the financial year.

6.3 The 1 year LIBID benchmark is also included at 6.5 below for comparison purposes as there were two deposits that were invested over a one year term. Funds were invested in deposits with a variety of maturity dates and this has moderated the overall interest earnings achieved.

6.4 The table below shows the performance of the Authority's investments compared to the benchmark.

6.5 Results to 31 March 2021 are summarised as follows:

	7 day LIBID %	**1 year LIBID %**
Benchmark Return	0.00	0.00
Actual Return	0.09	0.09
Return above/(below) Benchmark	**0.09**	**0.09**

6.6 As at 31 March 2021 temporary investment interest earnings was above of the 7-day benchmark by 0.09%; this equates to around £2,200.

7. Investment instruments

7.1 All of the investments are made in money market deposits other than balances held in the Money Market Fund and Heritable bank in default.

7.2 All of these deposits earn a yield that is made up entirely of interest earnings. There is no capital appreciation/depreciation. No Gilts or Certificates of Deposits are used.

8. Borrowing Strategy

8.1 It was envisaged that no borrowing, other than the bank overdraft facility, would be required in 2020/21 and no loans were raised during the year.

8.2 The Authority's overdraft facility with the bank was not used at all during the year and therefore no interest was charged.

9. Compliance with the CIPFA code of practice

9.1 All treasury functions and debt management procedures, which were undertaken during the period, complied with the existing CIPFA Code of Practice on Treasury Management, as set out in the Authority's Treasury Policy Statement, and the Treasury Management Strategy for 2020/21.

10. Treasury Position at 31 March 2021

10.1 The following table shows the treasury position at the 31 March 2021 compared with the previous year. All investments have interest payable at a fixed coupon rate for the period of the investment other than the Instant Access account and the Money Market Fund which are variable: -

	31 March 2020		31 March 2021	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Temporary Cash-flow Investments				
Bank, Building Society & Gov't Instant Access - Variable Deposit	£1.91m	0.67%	£2.04m	0%
Money Market Fund	£0.50m	0.70%	£0.50m	0.01%
Total Investments	**£2.41m**	**0.68%**	**£2.54m**	**0%**

APPENDIX 2

PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES TO 31 MARCH 2021

1. Introduction

1.1 The Authority is required by the Prudential Code to report the actual prudential indicators after the year-end.

1.2 The following table, at Paragraph 2.2, provides a schedule of all the mandatory prudential indicators applicable to the Authority. However only the Authorised Borrowing Limit is statutory and must not be breached; the other prudential indicators are for guidance only.

1.3 Certain of these indicators must be compared to others and are detailed later in this appendix.

2. Estimated and actual treasury position and prudential indicators

2.1 The following table compares the actual figure for 2020/21 with the original indicator for 2020/21 and the actual figure for 2019/20.

2.2 The original indicator for 2020/21 is the same as was included in the Treasury Management Policy and Strategy Report 2020/21 (NFNPA 596/20).

		2019/20 Actual £000	**2020/21 Original Indicator £000**	**2020/21 Actual £000**
1	Capital Expenditure (note: assumed Burley development in 2020/21)	225	750	231
2	Treasury Position at 31 March - Investments	1,750	1,750	1,750
3	Authorised Borrowing Limit (against maximum position)	0	0	0
4	Operational Borrowing Limit (against average position)	0	0	0
5	Investments - Upper limits on fixed interest rates (against maximum position)	Maximum N/A	Maximum 100%	Maximum N/A
6	Investments - Upper limits on variable interest rates (against maximum position)	Maximum 100%	Maximum 100%	Maximum 100%
7	Interest on Net Investments	16	12	2
8	Maximum principal funds invested (against maximum position)	Maximum 3,217	Maximum 4,000	Maximum 3,050
9	Ratio of capital financing costs to net revenue stream	13%	43%	13%

2.3 There were no reportable breaches of any statutory limits during the year.

2.4 The Authorised Limit must not be breached. The table demonstrates that during 2020/21 the Authority has maintained gross borrowing within its Authorised Limit.

	2020/21
Authorised Limit	£2.00m
Operational Boundary	£0.00m
Maximum gross borrowing position during the year	£0.00m
Minimum gross borrowing position during the year	£0.00m

The Operational Boundary is the expected average borrowing position of the Authority during the year, and periods where the actual position is over the Boundary is acceptable subject to the Authorised Limit not being breached.

2.5 In addition to the above the Authority has adopted the CIPFA Code of Practice which is required as a Prudential Indicator.

3. Treasury service performance indicators for 2020/21

3.1 The treasury service has set the following performance indicator:

- For money market investments, the benchmark for return should be set above the average 7 day LIBID rate.

3.2 The performance indicator was 0% for the year; the performance was 0.09% as explained in paragraph 6.5 in appendix 1 above.

4. Risk and performance

4.1 The Authority has complied with all of the relevant statutory and regulatory requirements that limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and that its treasury practices demonstrate a cautious approach.

4.2 The Authority is aware of the risks of passive management of the treasury portfolio and has proactively managed the investments over the year subject to both counterparty and cash flow constraints but tempered by the uncertain market conditions.

4.3 Shorter-term market rates and likely future movements of interest rates predominantly determine the Authority's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised (though never totally negated) through the annual investment strategy, accurately forecasting future returns can be difficult.

4.4 The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of default applies to all of the Authority's deposits, even more so within the current pandemic situation, but there was no evidence at 31 March 2021 that this was likely to crystallise.

4.5 Section 5 of appendix 1 shows the returns for 2020/21.