## REVIEW OF TREASURY MANAGEMENT ACTIVITY 2019/20


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| **REPORT OF:** | Peter Stuart, Head of Corporate Resources |
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| **Wards Affected:** | All |
| **Key Decision** | No |

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### PURPOSE OF REPORT

1. The report sets out the Council's treasury management activity for the year ended 31 March 2020.

### SUMMARY

2. All transactions are in order and the performance of the service has been in keeping with the requirements of the Service Level Agreement (SLA) with our shared services provider.

### RECOMMENDATIONS

3. The Committee is requested to note the contents of the report.

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### BACKGROUND

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2019.

5. The 2019-20 Treasury Management Annual Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

   For those Members seeking a summary, paragraph 11.2 of Appendix 1 sets out the key points:

   "The actual outturn performance for investment income was a shortfall of £22k against the budget, due to the lower than forecast interest rates available in the market. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met and all Prudential Limits were adhered to."

6. The Group Accountant would welcome questions and queries from Members using the contact details above.

## POLICY CONTEXT

7. The presentation of this report has been delayed beyond the requirements under the Council's treasury management policy to produce an annual report by 31st August 2020 after the year end. This is due to the cancellation of the July Audit Committee meeting because of the Covid-19 virus issues. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

## OTHER OPTIONS CONSIDERED

8. None – this report is statutorily required by regulations issued under the Local Government Act 2003.

## FINANCIAL IMPLICATIONS

9. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

## RISK MANAGEMENT IMPLICATIONS

10. This report has no specific implications for the risk profile of the Council.

## EQUALITY & CUSTOMER SERVICE IMPLICATIONS

11. None

## BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2019/20 to 2021/22 (Council on 27th March 2019), and Review of Treasury Management Activity 1 April – 30 September 2019 (Audit Committee 12th November 2019).

- The CIPFA code of Practice on Treasury Management (the code).

- CIPFA Prudential code for Capital Finance in Local Authorities (the Prudential Code)

- Link Asset Services report template (April 2020)

**APPENDIX 1**

## 1. SUMMARY

1.1 This report summarises the operation of the treasury management service for the financial year 2019/20. The presentation of this report fulfils the requirements under the Council's treasury management policy.

## 2. INTRODUCTION AND BACKGROUND

2.1 Treasury management is defined as:

"The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

2.2 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report therefore provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.4 For 2019/20 the minimum reporting requirements were that the Council should receive the following reports, which incorporate a variety of policies, estimates and actuals:

- The Annual Treasury Management Strategy Statement and Annual Investment Strategy approved by full Council in advance of the year (Council – 27th March 2019)
- The mid-year treasury management operations update report (Audit Committee – 12th November 2019)
- An annual review (this report) to be presented to the Audit Committee following the end of the year, describing the activity compared to the strategy.

2.5 The Council confirms that it has complied with the requirement under the code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 2nd July 2019 in order to support members' scrutiny role.

## 3. THE COUNCIL'S CAPITAL FINANCING AND EXPENDITURE

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, because the Council must ensure that capital expenditure is affordable, approved and monitored. The table below shows the actual capital expenditure and how this was financed.

| £m | 2018/19 Actual | 2019/20 Strategy | 2019/20 Actual |
|---|---|---|---|
| **Capital expenditure** | **24.626** | **2.426** | **9.492** |
| **Financed in year** | **22.035** | **2.426** | **9.492** |
| **Unfinanced capital expenditure** | **2.591** | **0.000** | **0.000** |

## 4. THE COUNCIL'S OVERALL BORROWING NEED

4.1 Some of the Council's capital expenditure is funded immediately by, for example, capital grants, capital receipts from the sale of assets, or from contributions from the revenue budget (capital funded by revenue as approved by statute). Capital expenditure that is not funded by any of these means is described as "the underlying need to borrow" and is termed the Capital Financing Requirement (CFR). The Council decides whether or not to borrow these amounts externally, or alternatively to use cash that would otherwise be invested (internal borrowing). This decision is based on a number of factors, including the prevailing interest rates for borrowing compared to those for investing, the likelihood of a capital receipt in the near future or a forecast of additional capital grants.

4.2 **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 (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs to take advantage of, say, low interest rates.

The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

| | 31 March 2019 Actual | 31 March 2020 Strategy | 31 March 2020 Actual |
|---|---|---|---|
| **CFR (£m)** | **27.948** | **7.437** | **27.438** |
| **External Debt** | **(13.571)** | **(7.437)** | **(7.437)** |
| **Finance Lease *** | **(2.818)** | **(2.541)** | **(2.541)** |
| **Total Borrowing** | **(16.389)** | **(9.978)** | **(9.978)** |
| **(Over)/under borrowing** | **11.559** | **(2.541)** | **17.460** |

The difference between the forecast CFR and the actual CFR at 31 March 2020 is due to a delayed capital receipt.

*The Authority has a contract with SERCO for the provision of waste collection. The new fleet of vehicles used to provide the service are shown as Property, Plant and Equipment in the Balance Sheet, with a vehicle life of 10 years 4 months which ends 30 July 2028. Accordingly this is recognised as a Finance Lease.

The difference between the CFR and the gross borrowing position is termed under or over borrowing. If a Council is under borrowed, it is using some of its internal cash that could otherwise be invested. It can therefore choose to borrow externally up to the CFR so as to take advantage of favourable interest rates. If a Council is over borrowed, it needs to ensure that this position is remedied over a two year period.

**4.3** **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 2019/20 the Council has maintained gross borrowing within its authorised limit.

**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. The Council did not breach the operational boundary during the year.

**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. The costs incurred through capital expenditure are the interest payable on money borrowed and the Minimum Revenue Provision (MRP see section 8), which is a statutory annual revenue charge to reduce the indebtedness of a Council, based on the amount of unfunded capital expenditure.

Investment income is deducted from the costs and the net figure is then compared to the Council's net revenue stream – the income received from grants and taxation as shown in the Statement of Accounts. Consequently if only the costs of the capital programme increase, so will the proportion of financing costs to net revenue stream. If only the net revenue stream increases, then the proportion will reduce. Usually there will be a combination of both factors.

| | 2019/20 |
|---|---|
| Authorised limit | £34.000m |
| Maximum gross borrowing position during the year | £16.389m |
| Operational boundary | £32.000m |
| Financing costs as a proportion of net revenue stream | 0.32% |

The maximum gross borrowing position occurred on the 1st April 2019 prior to the repayment of the £6m temporary loan.

## 5. THE COUNCIL'S TREASURY POSITION AT 31 MARCH 2020

5.1 The Council's treasury position at the beginning and end of the year was as follows:-

| | Principal at 31.03.19 £m | Average Interest Rate | Average Life in Years | Principal at 31.03.20 £m | Average Interest Rate | Average Life in Years |
|---|---|---|---|---|---|---|
| Borrowing | | | | | | |
| PWLB | (0.571) | 4.55% | 3.92 | (0.437) | 4.55% | 2.92 |
| Other Borrowing | (13.000) | 1.00% | 1.27 | (7.000) | 1.14% | 1.36 |
| Finance lease | (2.818) | | | (2.541) | | |
| **TOTAL BORROWING** | **(16.389)** | | | **(9.978)** | | |
| **CFR** | **27.948** | | | **27.438** | | |
| **(Over)/under borrowing** | **11.559** | | | **17.460** | | |
| Investments: | | | | | | |
| Local Authority Property Fund | 5.942 | 4.30% | n/a | 5.730 | 4.05% | n/a |
| In-house: | | | | | | |
| Long Term | 0.025 | n/a | n/a | 0.025 | n/a | n/a |
| Short Term | 25.210 | 0.99% | < 1 year | 28.465 | 0.95% | < 1 year |
| **TOTAL INVESTMENTS** | **31.177** | | | **34.220** | | |
| **NET INVESTMENTS** | **14.788** | | | **24.242** | | |

5.2 The maturity structure of debt table that follows demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

| | 31 March 19 actual | 2019/20 original limits | 31 March 2020 actual |
|---|---|---|---|
| Under 12 months | 6.410 | 50% | 2.422 |
| 12 months and within 24 months | 2.422 | 70% | 5.434 |
| 2 year to 5 years | 6.029 | 80% | 1.054 |
| Over 5 Years | 1.528 | 60% | 1.068 |

5.3 **Investments held at 31 March 2020 (excluding the Local Authority Property Fund):**

| Counterparty | Issue Date | Maturity Date | Principal | Interest Rate | Long Term Rating |
|---|---|---|---|---|---|
| Cambridge Building Society | 26/06/2019 | 25/06/2020 | £2,000,000 | 1.2500 | * |
| Cambridge Building Society | 10/07/2019 | 10/07/2020 | £1,000,000 | 1.2000 | * |
| Close Brothers Bank | 05/09/2019 | 07/09/2020 | £2,000,000 | 1.1000 | A |
| Lloyds Bank | 10/05/2019 | 11/05/2020 | £1,000,000 | 1.2500 | A+ |
| Lloyds Bank | 05/06/2019 | 05/06/2020 | £1,000,000 | 1.2500 | A+ |
| Lloyds Bank | 27/06/2019 | 29/06/2020 | £1,000,000 | 1.2500 | A+ |
| Monmouthshire BS | 07/11/2019 | 05/11/2020 | £1,000,000 | 1.0800 | * |
| National Counties BS | 11/04/2019 | 14/04/2020 | £2,000,000 | 1.2600 | * |
| National Counties BS | 16/05/2019 | 18/05/2020 | £1,000,000 | 1.2600 | * |
| Newcastle Build Soc | 17/04/2019 | 17/04/2020 | £1,000,000 | 1.2500 | * |
| Newcastle Build Soc | 23/05/2019 | 22/05/2020 | £1,000,000 | 1.3000 | * |
| Newcastle Build Soc | 07/11/2019 | 05/11/2020 | £1,000,000 | 1.1700 | * |
| Nottingham Build Soc | 13/06/2019 | 12/06/2020 | £1,000,000 | 1.1500 | BBB+ |
| Progressive BS | 09/10/2019 | 09/10/2020 | £1,000,000 | 1.1000 | * |
| Progressive BS | 23/10/2019 | 23/10/2020 | £1,000,000 | 1.1000 | * |
| Saffron BS | 30/05/2019 | 29/05/2020 | £1,000,000 | 1.2500 | * |
| Blackrock MMF | 01/07/2019 | n/a | £460,000 | 0.3643 | AAA |
| CCLA MMF | 06/02/2020 | n/a | £3,000,000 | 0.4688 | AAA |
| Federated MMF | 01/05/2019 | n/a | £3,000,000 | 0.4251 | AAA |
| Handelsbanken call a/c | 15/06/2018 | n/a | £5,000 | 0.5000 | AA- |
| Invesco MMF | 10/06/2019 | n/a | £3,000,000 | 0.4070 | AAA |
| **TOTAL** | | | **£28,465,000** | | |

***** - Not on credit list

All investments listed are due to mature within 12 months.

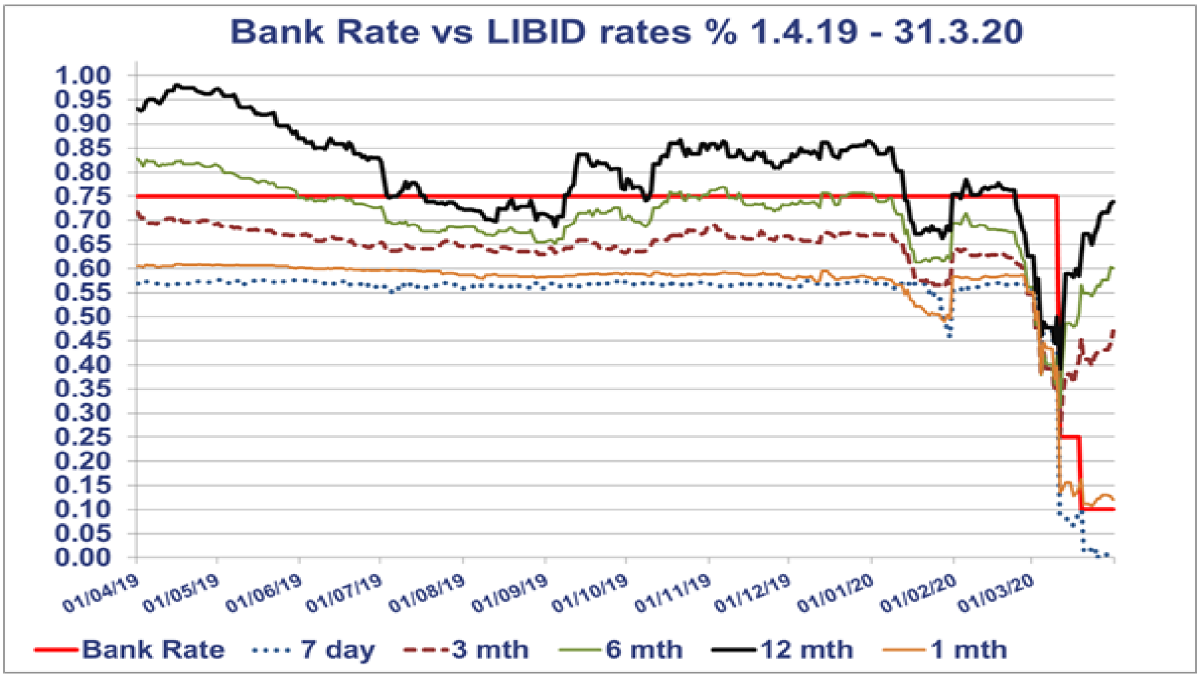
**Local Authority Property Fund** – the Council has also invested £6m with the Local Authorities' Property Fund.

## 6. THE STRATEGY FOR 2019/20

Some of the information and tables in the following paragraphs are supplied by the Council's treasury advisors, Link Asset Services and consist of detailed economic and market information which informed the Council's treasury management decisions throughout the year.

### 6.1 Investment strategy and control of interest rate risk

(LIBID - London Interbank Bid Rate - the rate bid by banks on deposits)




Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU.

When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

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.

6.2 **Borrowing strategy and control of interest rate risk**

During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing requirements (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 investment returns were low in relation to the cost of borrowing and minimising counterparty risk on placing investments also needed to be considered. All capital expenditure in 2019/20 was funded through grants or other contributions, so no new borrowing was required.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Corporate Resources 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 any necessary 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.

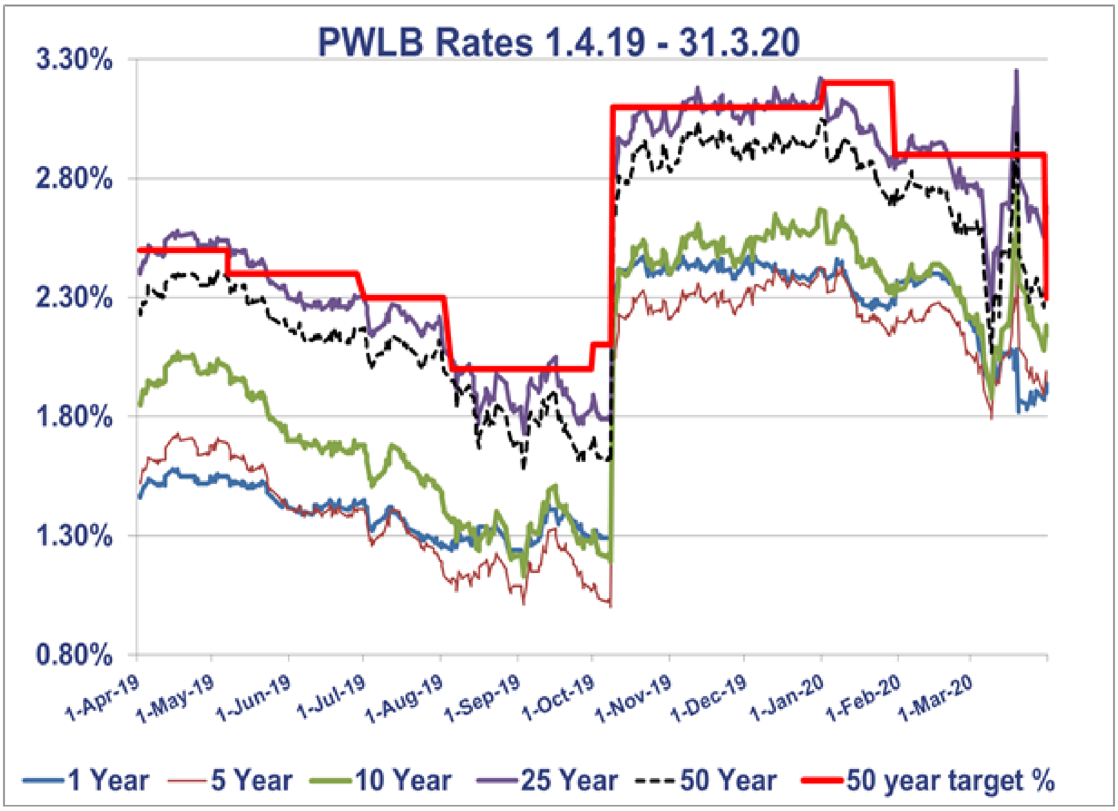
6.3 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

| Link Asset Services Interest Rate View 5.8.19 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 |
| 6 Month LIBID | 0.80 | 0.80 | 0.80 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.30 | 1.40 |
| 12 Month LIBID | 1.00 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.40 | 1.50 | 1.60 |
| 5yr PWLB Rate | 1.20 | 1.30 | 1.50 | 1.60 | 1.70 | 1.70 | 1.80 | 1.90 | 2.00 | 2.00 | 2.10 |
| 10yr PWLB Rate | 1.50 | 1.60 | 1.80 | 1.90 | 2.00 | 2.00 | 2.10 | 2.20 | 2.30 | 2.30 | 2.40 |
| 25yr PWLB Rate | 2.10 | 2.30 | 2.40 | 2.50 | 2.60 | 2.70 | 2.70 | 2.80 | 2.90 | 3.00 | 3.00 |
| 50yr PWLB Rate | 2.00 | 2.20 | 2.30 | 2.40 | 2.50 | 2.60 | 2.60 | 2.70 | 2.80 | 2.90 | 2.90 |

PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.

While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years.

We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.




Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds.

However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

However, HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020 (including borrowing for the HRA), at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure.

It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

## 7 BORROWING OUTTURN for 2019/20

7.1 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. All the capital expenditure was funded and no new borrowing was required.

7.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.3 The Council repaid the £6m temporary loan on 1 April 2019. The Council's debt comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023 and loans with other local authorities, totalling £7m, repayable in November 2020 (£2m) and November 2021 (£5m). The local authority loans will be repaid using capital receipts and maturing investments.

## 8 INVESTMENT OUTTURN FOR 2019/20

8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on **27th March 2019**. 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.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.2 **Investments held by the Council** - the Council maintained an average balance of **£31.329m** of internally managed funds, which earned an average rate of return of **1.064%**. The comparable performance indicator is the average 6 month London Interbank Bid Rate (the rate bid by banks on depositis), which was **0.705**%. The actual figures compare with a budget assumption of **£31.064m** of investment balances earning an average rate of **1.150%**. The Treasury investment returns (excluding returns from the Local Authority Property Fund) included in the reported income of the Council for 2019/20 amount to **£335k, £22k below** the budgeted investment estimate. This was due to the lower than projected interest rates available for investments.

8.3 **Local Authority Property Fund** – the Council has invested £6m with the Local Authority Property Fund and earned **£257k** in dividend interest in 2019/20.

8.4 **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 | 31 March 2019 £'000s | 31 March 2020 £'000s |
|---|---|---|
| **Balances and Collection Fund Adjustment Account** | **2.845** | **6.240** |
| **Earmarked Reserves** | **16.840** | **15.709** |
| **Provisions excl accumulating absences** | **2.226** | **1.431** |
| **Usable Capital Receipts** | **1.061** | **1.145** |
| **Capital Grants Unapplied** | **5.674** | **5.669** |
| **Amount available for investment** | **28.646** | **30.194** |

The cash backed reserves and balances have increased by £1.548m. The working capital surplus was £24.3m (primarily because of a combination of creditors, £17m, and grants/receipts in advance, £9.1m). This strong end of year working capital position ensured that, even though the Council was significantly under borrowed, it had greater investments than the cash backed reserves and balances. This is a strong balance sheet position.

## 9. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

9.1 The Council, in accordance with legislation, makes a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. MRP is set aside each year at an amount equivalent to the value of debt repaid in the year.

9.2 For 2019/20 an amount of **£510k** has been set aside in the annual accounts as the MRP for repayment of debt.

## 10. OTHER ISSUES AND MATTERS

### Shared Services Arrangements

10.1 The Council's treasury management services are provided under a shared services arrangement (SSA) performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three Councils' treasury management operations from this location utilising similar banking arrangements. The SSA is provided under a Service Level Agreement that was renewed from 18th October 2019, and which defines the respective roles of the client and provider authorities for a period of three years.

10.2 **Statutory override**

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

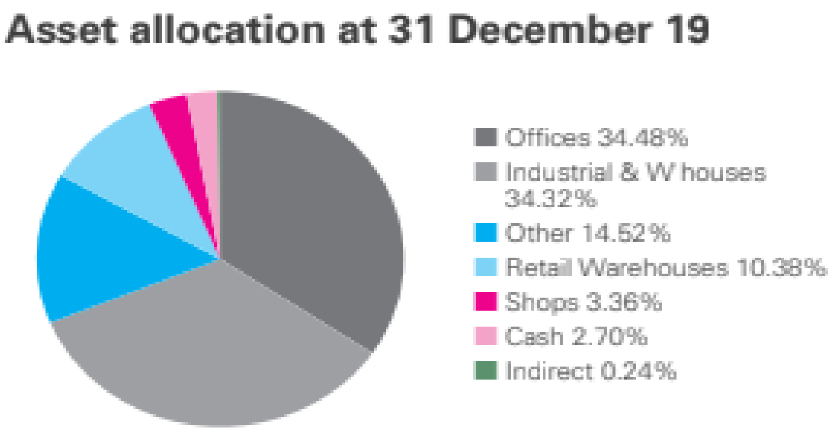
10.3 **Covid-19**

Due to the Covid-19 virus, the government made a payment of nearly £26.9m to the Council on the 1st April 2020 to distribute as business grants to local businesses. Additional funding has been received subsequently to provide relief to the local community, support the additional costs that the Council is incurring and to compensate for loss of income.

The Council has been very successful in distributing the grants. However it was not possible to accept the grant funding and also adhere to the counterparty investment limits set out in the Treasury Management Strategy Statement, whilst managing these short term funds. Consequently the counterparty investment limits have been exceeded on a regular basis. The service has mitigated the risk by spreading the additional funds across the counterparties, using the usual criteria of "security, liquidity then yield." Now that the Council has distributed the majority of the grants it should be possible to adhere to the treasury limits again, although this will depend on future government funding streams. The Council has not incurred any loss due to this action.

The Covid-19 virus has not affected the fixed term deposits already held by the Council. However the rates on money market funds and new fixed term deposits are now much lower than in February and are continuing to drop. This will affect the ability to meet the 2020/21 treasury income budgets. The Council does not invest in stocks and shares so is not exposed to those market fluctuations.

The investment in the Local Authorities' Property Fund has reduced in value by 5.7% between February and June, however, as explained in 9.2, this will not impact on the General Fund in the short term due to the Council's statutory position. The dividend is still holding up well and the June dividend was 85% of the March one. The Fund is widely diversified in terms of its investment sectors and is actively managed.




## 11. CONCLUSION

11.1 This report fulfils the requirements of the CIPFA Codes as well as the Council's own treasury management practices to present an annual outturn report on treasury management activity.

11.2 The actual outturn performance for investment income was a shortfall of £22k against the budget, due to the lower than forecast interest rates available in the market. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met and all Prudential Limits were adhered to.