REVIEW OF TREASURY MANAGEMENT ACTIVITY 2020/21

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

PURPOSE OF REPORT

1. The report sets out the Council's treasury management activity for the year ended 31 March 2021.

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, except as noted here. As previously reported, due to the receipt of significant Government grants to be distributed to support local business during Covid-19 restrictions, counterparty investment limits were breached temporarily (section 10.3).

RECOMMENDATIONS

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

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 2020-21 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 £186k 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 except as detailed here and previously reported, 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 fulfils the requirements under the Council's treasury management policy to produce an annual report by 31st August 2021 after the year end. 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 2020/21 to 2022/23 (Council on 22nd July 2020), and Review of Treasury Management Activity 1 April – 30 September 2020.
- 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 2021)

APPENDIX 1

1. SUMMARY

This report summarises the operation of the treasury management service for the financial year 2020/21. 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 2020/21. 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 is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.4 For 2020/21 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 – 22 July 2020, delayed due to the cancellation of meetings because of Covid-19 restrictions)
- The mid-year treasury management operations update report
- 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. Due to Covid-19 restrictions training for members has been delayed, but will be organised as soon as possible.

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	2019/20 Actual	2020/21 Strategy	2020/21 Actual
Capital expenditure	**9.492**	**2.232**	**11.419**
Financed in year	**9.492**	**2.232**	**11.419**
Unfinanced capital expenditure	**0.000**	**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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) 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.

	31 March 2020 Actual	31 March 2021 Strategy	31 March 2021 Actual
CFR (£m)	**27.438**	**16.916**	**7.195**
External Debt	**(7.437)**	**(5.298)**	**(5.298)**
Finance Lease *	**(2.541)**	**(2.258)**	**(2.258)**
Total Borrowing	**(9.978)**	**(7.556)**	**(7.556)**
(Over)/under borrowing	**17.460**	**9.360**	**(0.361)**

The difference between the forecast CFR and the actual CFR at 31 March 2021 is due to the receipt in full of the proceeds from the sale of Hurst Farm. The forecast assumed a partial receipt in 2020/21.

*The Authority has a contract with SERCO for the provision of waste collection. The new fleet of vehicles used to provide the service is 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. The Council was over borrowed by £361k at the 31st March 2021, but will repay over £5m of debt in November 2021 and will comply with this prudential indicator.

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 2020/21 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 9), 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 or the investment income decreases, the proportion of financing costs to net revenue stream will increase. If only the net revenue stream increases, then the proportion will reduce. Usually there will be a combination of both factors.

	2020/21
Authorised limit	£34.000m
Maximum gross borrowing position during the year	£9.978m
Operational boundary	£32.000m
Average gross borrowing position	£9.068m
Financing costs as a proportion of net revenue stream	0.73%

5. THE COUNCIL'S TREASURY POSITION AT 31 MARCH 2021

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

	Principal at 31.03.20 £m	Average Interest Rate	Average Life in Years	Principal at 31.03.21 £m	Average Interest Rate	Average Life in Years
Borrowing PWLB Other Borrowing	 (0.437) (7.000)	 4.55% 1.14%	 2.92 1.36	 (0.298) (5.000)	 4.55% 1.3%	 1.92 0.64
Finance lease	(2.541)			(2.258)		
TOTAL BORROWING	**(9.978)**			**(7.556)**		
CFR	**27.438**			**7.195**		
(Over)/under borrowing	**17.460**			**(0.361)**		
Investments: Local Authority Property Fund In-house: Long Term Short Term	 5.730 0.025 28.465	 4.05% n/a 0.95%	 n/a n/a < 1 year	 5.689 0.025 57.010	 4.14% n/a 0.26%	 n/a n/a < 1 year
TOTAL INVESTMENTS	**34.220**			**62.724**		
NET INVESTMENTS	**24.242**			**55.168**		

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 20 actual	2021/22 original limits	31 March 2021 actual
Under 12 months	2.422	80%	5.434
12 months and within 24 months	5.434	70%	0.447
2 year to 5 years	1.054	80%	0.920
Over 5 Years	1.068	80%	0.755

5.3 **Investments held at 31 March 2021 (excluding the Local Authority Property Fund):**

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
Cambridge Building Society	10/07/2020	09/07/2021	£1,000,000	0.5000	*
Cambridge Building Society	25/06/2020	05/07/2021	£2,000,000	0.5200	*
Close Brothers Bank	07/09/2020	07/09/2021	£2,000,000	0.8000	A-
Close Brothers Bank	31/03/2021	30/03/2022	£2,000,000	0.4500	A-
Cumberland BS	12/02/2021	07/02/2022	£1,000,000	0.1300	*
Goldman Sachs Int Bank	24/02/2021	24/02/2022	£1,000,000	0.3150	A+
Goldman Sachs Int Bank	03/03/2021	07/03/2022	£1,000,000	0.3400	A+
Goldman Sachs Int Bank	31/03/2021	30/09/2021	£1,000,000	0.2350	A+
Lancashire County Council	08/07/2020	05/07/2021	£2,000,000	0.4000	AA-
Lloyds Bank 95 day notice	22/07/2020	n/a	£10,000	0.0500	A+
Monmouthshire BS	13/11/2020	13/05/2021	£3,000,000	0.3700	*
National Counties BS	18/01/2021	05/05/2021	£1,000,000	0.2300	*
National Counties BS	22/03/2021	22/03/2022	£2,000,000	0.3400	*
Principality Build Soc	31/03/2021	30/04/2021	£3,000,000	0.0600	BBB
Progressive BS	01/12/2020	01/12/2021	£2,000,000	0.4000	*
Progressive BS	19/06/2020	05/07/2021	£1,000,000	0.5500	*
Saffron BS	20/11/2020	19/11/2021	£3,000,000	0.4000	*
Santander 95 day notice	10/11/2020	n/a	£4,000,000	0.4500	A
Standard Chartered Bank	31/03/2021	31/03/2022	£3,000,000	0.1800	A
West Bromwich BS	01/07/2020	01/07/2021	£1,000,000	0.4000	BB-
West Bromwich BS	19/06/2020	05/07/2021	£2,000,000	0.5000	BB-
Blackrock MMF	01/10/2020	n/a	£3,000,000	0.0000	AAA
CCLA MMF	06/02/2020	n/a	£3,000,000	0.0391	AAA
Federated MMF	01/05/2019	n/a	£3,000,000	0.0100	AAA
Goldman Sachs MMF	20/11/2020	n/a	£3,000,000	0.0068	AAA
Handelsbanken call a/c	15/06/2018	n/a	£4,000,000	0.0150	AA-
Invesco MMF	10/06/2019	n/a	£3,000,000	0.0099	AAA
TOTAL			**£57,010,000**		

***** - Not on credit list

All investments listed are due to mature within 12 months.

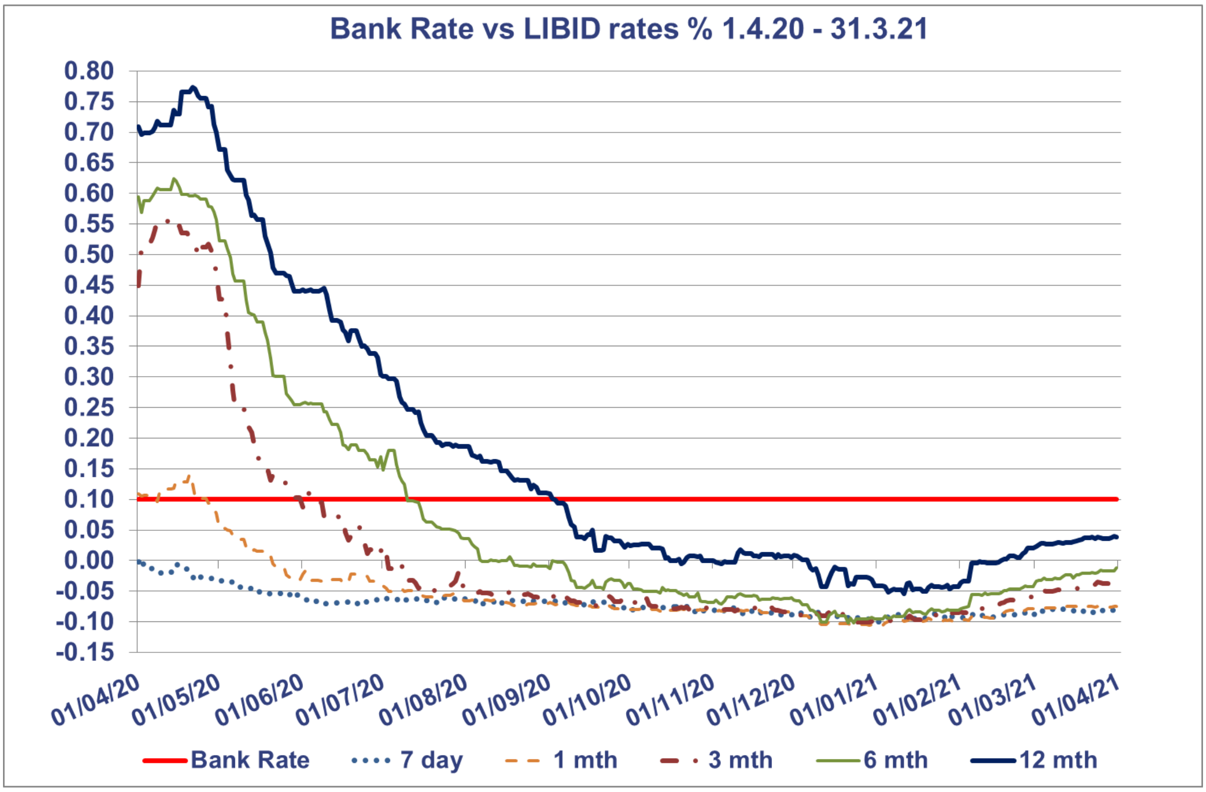
Local Authority Property Fund – the Council has also invested £6m with the Local Authorities' Property Fund.

6. THE STRATEGY FOR 2020/21

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 which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

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**

Until 31st March 2021, when the Capital Financing Requirement was reduced through a large capital receipt, the Council maintained an under-borrowed position in 2020/21. 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 2020/21 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

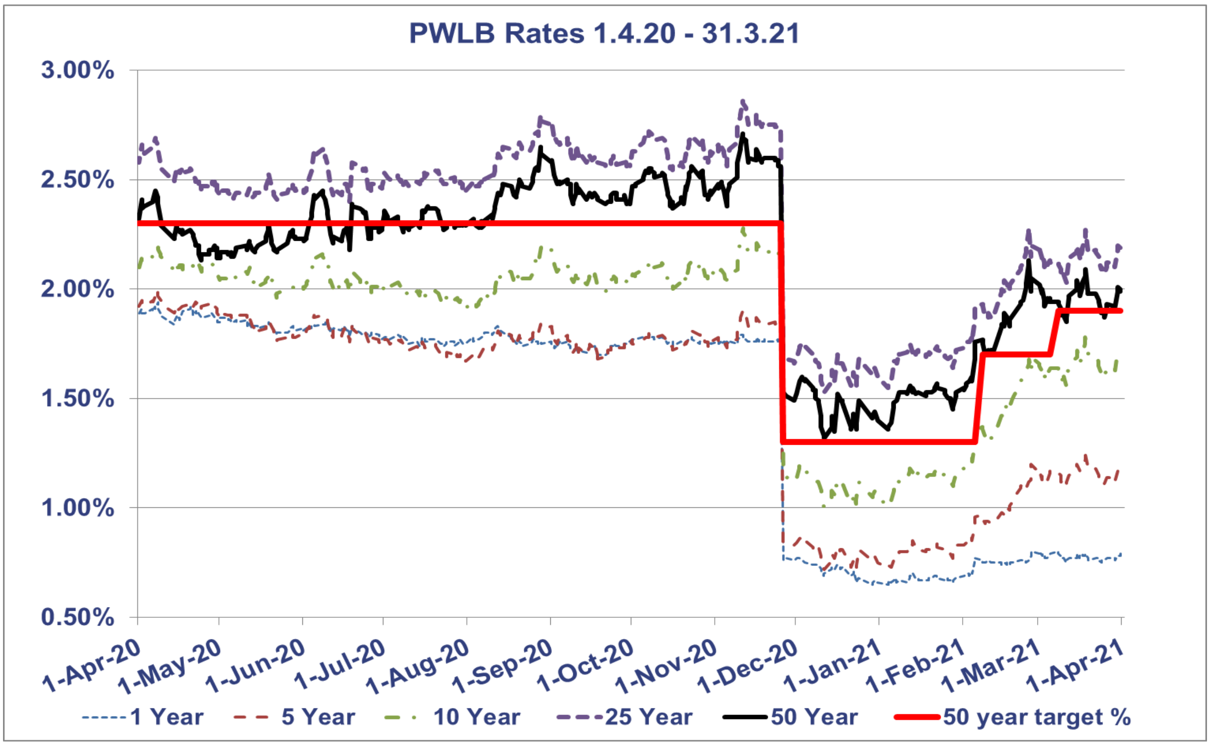
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any necessary long term borrowings would have been postponed, and potential rescheduling from fixed 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, if required, 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 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. The following table shows the interest rate forecast as at 31 January 2020.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

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. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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 seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. 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.



Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- 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 only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

7 BORROWING OUTTURN for 2020/21

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.

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's debt at 31 March 2021 comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023 and one loan from another local authority for £5m, repayable in November 2021. The local authority loan will be repaid using maturing investments.

8 INVESTMENT OUTTURN FOR 2020/21

8.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 22nd July 2020. 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 receipt on 1 April 2020 of significant funds from the Government to be used quickly to support local business necessitated the breach of the counterparty investment limits on a temporary basis. This was reported to the Council and no losses were incurred. The Council had no liquidity difficulties.

8.2 **Local Authorities' Property Fund –** the Council has invested £6m with the Local Authorities' Property Fund and earned £249k in dividend income in 2020/21.

8.3 **Investments held by the Council (excluding the Local Authorities' Property Fund)**

- The Council maintained an average balance of £42.433m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.40%
- The comparable performance indicator for 12 month investments was 0.17% (rate supplied by Link Asset Services).
- This compares with a budget assumption of £35.448m investment balance earning an average rate of 1%.
- Total investment income was £168k compared to a budget of £354k.

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 2020 £'000s	31 March 2021 £'000s
Balances	**6.240**	**7.811**
Earmarked Reserves	**15.709**	**23.816**
Provisions	**1.431**	**3.401**
Usable Capital Receipts	**1.145**	**5.641**
Capital Grants Unapplied	**5.669**	**5.635**
Amount available for investment	**30.194**	**46.304**

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 2020/21 an amount of £522k 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 were exceeded over several months and this was reported to the Council. 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, which has been reported to the Council previously.

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. The Council does not invest in stocks and shares so is not exposed to those market fluctuations.

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 £186k 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.