REVIEW OF TREASURY MANAGEMENT ACTIVITY 2021/22

REPORT OF:	Stephen Fitzgerald, Interim Head of Corporate Resources
Contact Officer:	Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236
Wards Affected:	All
Key Decision:	No
Report to:	Audit Committee 26th July 2022

Purpose of Report

1. The report sets out the Council's treasury management activity for the year ended 31st March 2022.

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.

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 2021-22 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 an overachievement of £3k against the budget. Whilst interest rates were below budget average balances where far higher than predicted due to the receipt of various grants. 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 2022 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 and Customer Service Implications

11. None

Other Material Implications

12. None

Sustainability Implications

13. None

Background Papers

- Treasury Management Strategy Statement & Annual Investment Strategy 2021/22 to 2023/24 (Council on 31st March 2021), and Review of Treasury Management Activity 1 April – 30 September 2021.
- 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 2022)

APPENDIX 1

1. SUMMARY

This report summarises the operation of the treasury management service for the financial year 2021/22. 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 2021/22. 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 2021/22 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 on 31st March 2021
- 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. Training was supplied to Members by Link Asset Services on the 28th September 2021

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	2020/21 Actual	2021/22 Strategy	2021/22 Actual
Capital expenditure	**11.419**	**5.195**	**10.842**
Financed in year	**11.419**	**5.195**	**10.842**
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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator 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 2021 Actual	31 March 2022 Strategy	31 March 2022 Actual
CFR (£m)	**7.195**	**26.382**	**6.661**
External Debt	**(5.298)**	**(0.153)**	**(0.153)**
Finance Lease *	**(2.258)**	**(1.970)**	**(1.970)**
Total Borrowing	**(7.556)**	**(2.123)**	**(2.123)**
(Over)/under borrowing	**(0.361)**	**24.259**	**4.538**

The difference between the forecast CFR and the actual CFR at 31 March 2022 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 underborrowed by £4.538m at the 31st March 2022, and repaid £5m of debt in November 2021.

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 2021/22 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.

	2021/22
Authorised limit	£34.000m
Maximum gross borrowing position during the year	£7.556m
Operational boundary	£32.000m
Average gross borrowing position	£4.84m
Financing costs as a proportion of net revenue stream	0.76%

5. THE COUNCIL'S TREASURY POSITION AT 31 MARCH 2022

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

	Principal at 31.03.21 £m	Average Interest Rate	Average Life in Years	Principal at 31.03.22 £m	Average Interest Rate	Average Life in Years
Borrowing						
PWLB	(0.298)	4.55%	1.92	(0.153)	4.55%	0.92
Other Borrowing	(5.000)	1.3%	0.64	0	0	0
Finance lease	(2.258)			(1.970)		
TOTAL BORROWING	**(7.556)**			**(2.123)**		
CFR	**7.195**			**6.661**		
(Over)/under borrowing	**(0.361)**			**(4.54)**		
Investments:						
Local Authority Property Fund	5.689	4.14%	n/a	6.687	3.98%	n/a
In-house:						
Long Term	0.025	n/a	n/a	6.025	0.38%	107
Short Term	57.010	0.26%	< 1 year	63.604	0.23%	< 1 year
TOTAL INVESTMENTS	**62.724**			**76.316**		
NET INVESTMENTS	**55.168**			**74.193**		

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 21 actual	2022/23 original limits	31 March 2022 actual
Under 12 months	5.458	80%	0.447
12 months and within 24 months	0.447	70%	0.300
2 year to 5 years	0.920	80%	0.939
Over 5 Years	0.756	80%	0.436

5.3 **Investments held at 31 March 2022 (excluding the Local Authority Property Fund):**

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
CAMBRIDGE BUILDING SOCIETY	09/07/2021	05/07/2023	£1,000,000.00	0.4000	*
CAMBRIDGE BUILDING SOCIETY	05/07/2021	05/07/2023	£2,000,000.00	0.4000	*
CCLA Investment Management Limited	06/02/2020	n/a	£3,000,000.00	0.5785	AAA
CLOSE BROTHERS LIMITED	07/09/2021	05/09/2022	£2,000,000.00	0.4500	A-
CLOSE BROTHERS LIMITED	30/03/2022	30/03/2023	£2,000,000.00	1.5000	A-
Coventry Building Society	10/08/2021	10/08/2022	£1,000,000.00	0.0800	A-
Coventry Building Society	18/08/2021	18/08/2022	£1,000,000.00	0.0800	A-
Coventry Building Society	01/10/2021	30/09/2022	£1,000,000.00	0.1300	A-
Coventry Building Society	31/03/2022	31/03/2023	£1,000,000.00	1.4000	A-
GOLDMAN SACHS FUNDS plc	29/10/2021	n/a	£595,000.00	0.4821	AAA
Goldman Sachs International Bank	30/09/2021	30/09/2022	£1,000,000.00	0.3750	A+
Goldman Sachs International Bank	24/02/2022	24/02/2023	£3,000,000.00	1.4300	A+
HANDELSBANKEN	15/06/2018	n/a	£5,000.00	0.0150	AA-
LEEDS BUILDING SOCIETY	07/04/2021	05/04/2022	£3,000,000.00	0.1500	A-
Lloyds Call Account	10/05/2021	n/a	£10,000.00	0.0100	A+
Lloyds TSB Plc 95 day Notice	22/07/2020	n/a	£10,000.00	0.0500	A+
MONMOUTHSHIRE BUILDING SOCIETY	02/08/2021	07/08/2023	£3,000,000.00	0.3500	*
NATIONAL COUNTIES B SOC	05/05/2021	05/05/2022	£1,000,000.00	0.3300	*
NATIONAL COUNTIES B SOC	22/03/2022	22/03/2023	£2,000,000.00	1.2700	*
National Westminster Bank	29/06/2021	29/06/2022	£3,000,000.00	0.1700	A
National Westminster Bank	30/06/2021	30/06/2022	£1,000,000.00	0.1600	A
National Westminster Bank	27/01/2022	27/02/2023	£1,000,000.00	0.9300	A
NATIONWIDE BLDG SOCIETY	30/06/2021	30/06/2022	£1,000,000.00	0.0800	A
NATIONWIDE BLDG SOCIETY	07/02/2022	08/08/2022	£3,000,000.00	0.6100	A
Newcastle Building Soc.	08/04/2021	05/04/2022	£3,000,000.00	0.1700	*
Principality Building Soc	30/04/2021	05/05/2022	£2,000,000.00	0.1500	BBB
Principality Building Soc	26/05/2021	06/06/2022	£1,000,000.00	0.1600	BBB
Progressive Building Society	05/07/2021	05/07/2022	£1,000,000.00	0.2000	*
Progressive Building Society	31/03/2022	31/03/2023	£2,000,000.00	1.3000	*
SAFFRON BUILDING SOCIETY	07/03/2022	06/03/2023	£3,000,000.00	1.0500	*
Santander 95 day notice account	10/11/2020	n/a	£5,016,355.11	0.5000	A
STANDARD CHARTERED BANK	31/03/2022	31/03/2023	£3,000,000.00	1.9400	A+
THURROCK BOROUGH COUNCIL	26/05/2021	25/05/2022	£3,000,000.00	0.1600	AA-

U K DEBT MANAGEMENT	10/02/2022	10/08/2022	£3,500,000.00	0.6700	AA-
U K DEBT MANAGEMENT	30/03/2022	14/04/2022	£4,500,000.00	0.5500	AA-
WARRINGTON BOROUGH COUNCIL	10/06/2021	09/06/2022	£3,000,000.00	0.1000	AA-
West Bromwich Building So	05/07/2021	05/07/2022	£2,000,000.00	0.1500	BB-
West Bromwich Building So	01/07/2021	05/07/2022	£1,000,000.00	0.1600	BB-
Yorkshire Building Society	27/07/2021	26/07/2022	£3,000,000.00	0.1000	A-
Yorkshire Building Society	02/03/2022	06/03/2023	£1,000,000.00	1.0900	A-
TOTAL			£77,636,355.11		

***** - Not on credit list

All investments listed are due to mature within 12 months.

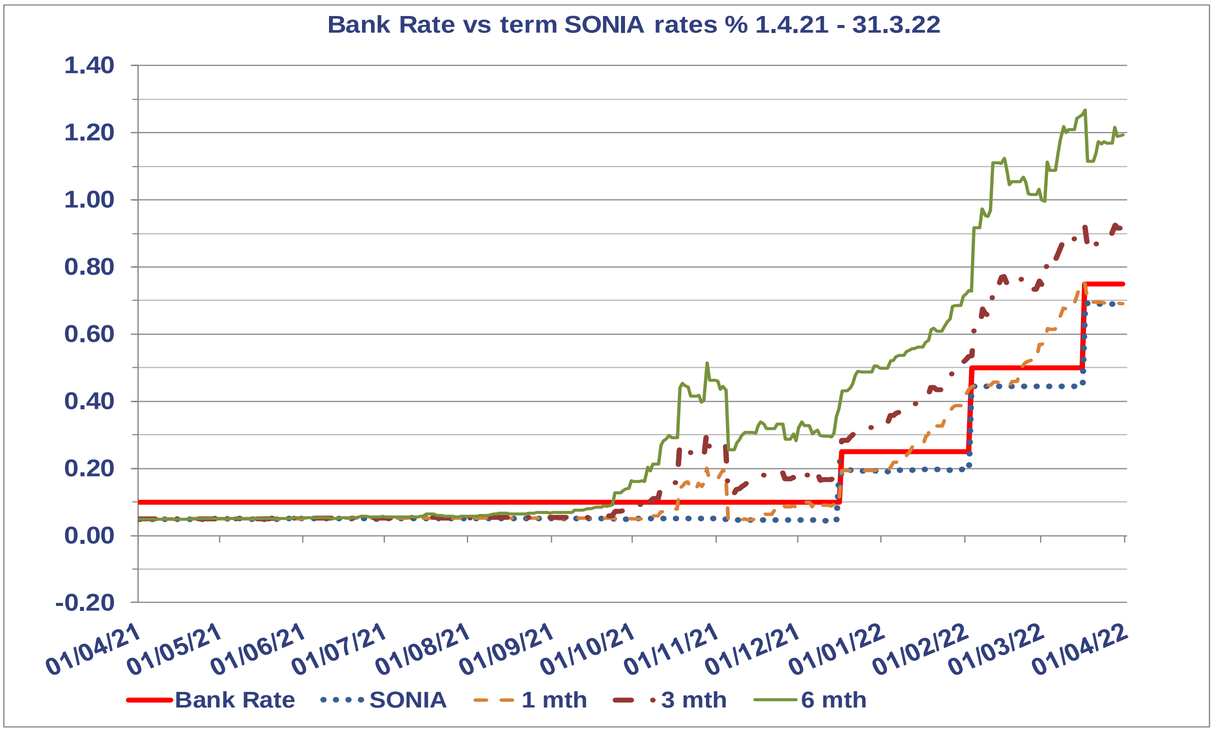
Local Authority Property Fund – the Council has also invested £6m with the Local Authorities' Property Fund.

6. THE STRATEGY FOR 2021/22

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

SONIA: the Sterling Overnight Index Average, a replacement set of indices (for LIBID)



Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. 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 remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

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.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2 Borrowing strategy and control of interest rate risk

The has Council maintained an under-borrowed position in 2021/22. 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 2021/22 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

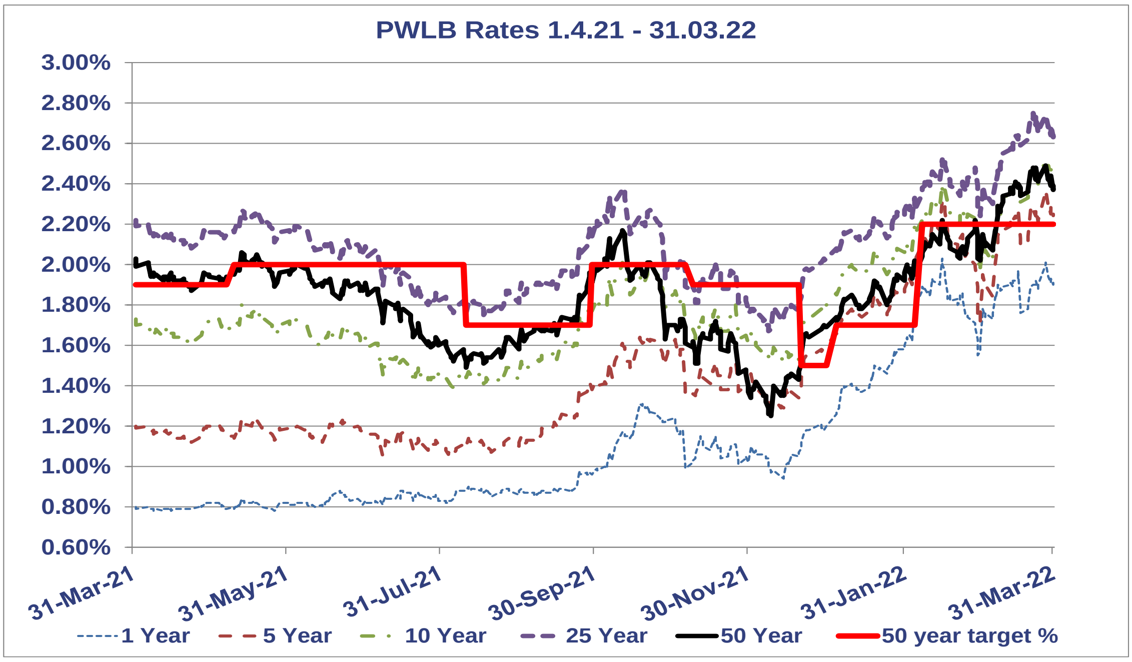
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any necessary long term borrowings would have been postponed, and potential rescheduling from fixed 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 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

Link Group Interest Rate View 8.2.21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

PWLB rates are based on 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. Recently, yields have risen since the turn of the year on the back of global inflation concerns.



Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing 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 a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

7 BORROWING OUTTURN for 2021/22

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 2022 comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023.

8 INVESTMENT OUTTURN FOR 2021/22

8.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 31sr March 2021. 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 **Local Authorities' Property Fund –** the Council has invested £6m with the Local Authorities' Property Fund and earned £221k in dividend income in 2021/22.

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

- The Council maintained an average balance of £80.404m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.23%
- The comparable performance indicator for 12 month investments was 0.14% (rate supplied by Link Asset Services).
- This compares with a budget assumption of £42.958m investment balance earning an average rate of 0.4%.
- Total investment income was £175k compared to a budget of £172k.

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 2021 £'000s	31 March 2022 £'000s
Balances	**7.811**	**9.835**
Earmarked Reserves	**23.816**	**22.333**
Provisions	**3.401**	**3.419**

Balance Sheet Resources	31 March 2021 £'000s	31 March 2022 £'000s
Usable Capital Receipts	5.641	5.731
Capital Grants Unapplied	5.635	5.185
Amount available for investment	46.304	46.503

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 2021/22 an amount of £534k 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**

The Council recorded investment income just above the budget, mainly due to Covid grants due to be repaid to the Government, but not yet reclaimed pending central reconciliations. This resulted in higher than forecast investment balances. Investment rates achievable in the market during the year also began to rise following the increases in Bank Base Rate, although it was necessary to keep the funds awaiting repayment in short term and call investments, with resulting lower rates of return.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 have been low and on only started to rise in the later part of the year.

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 an overachievement of £3k against the budget. Whilst interest rates were below budget average balances where far higher than predicted due to the receipt of various grants. The shared service will continue to monitor the market carefully for the best possible interest rates.