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JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2015/16 TO 2017/18 ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY DIRECTOR OF DIGITAL AND RESOURCES

1.0 BACKGROUND

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to determine before the start of the financial year the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS).Together these elements prescribe the parameters within which treasury management shall operate, which is defined by CIPFA as:

"the management of the organisation's investments and cash flows, 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."

1.2 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report). This is the most important report and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.0 BACKGROUND

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 In compiling the TMSS and AIS The Local Government Act 2003 (the Act) and supporting regulations also require the Councils to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years. This is to ensure that the Councils' capital investment plans are affordable, prudent and sustainable.

1.4 Consequently, this report fulfils the requirements under the TM Code to present the TMSS and AIS before the start of the new financial year, including the Prudential Indicators, for the next three years 2015/16-2017/18.

1.5 The report also considers the expected treasury position, the proposed strategy for borrowing, and the prospects for interest rates in the prevailing economic conditions, all of which together set the context in which treasury management decisions will be taken.

1.6 Each Council is responsible for its own treasury management decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of treasury management activities. Hence, these considerations have been incorporated within the strategies presented in this report. The main risks to the Councils' treasury management activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

1.7 In managing these risks consideration has been given to the impact of the Councils' Revenue Budget and Capital Programme on the Balance Sheet position, the current Treasury position projected forward (Appendix A), the outlook for interest rates (Section 3), and the Prudential Indicators & Limits for borrowing.

1.8 To summarise, the purpose of this TMSS and AIS report is to:

- Approve the Proposed Treasury Management Strategy for 2014/15-2016/17 (Borrowing - Section 4, and Debt Rescheduling - Section 5)
- Approve the Joint Annual Investment Policy & Strategy (Section 6)

1.0 BACKGROUND

Approve the Prudential Indicators for 2015/16-2017/18 (Appendix B).

- Approve the Minimum Revenue Provisions (MRP) Statement for 2015/16 (Section 8)
- Approve the use of Specified and Non-Specified Investments 2015/16 (Appendix C)
- Note The scheme of delegations (Appendix D)
- Note any other matters of significance (Section 11)

2.0 BALANCE SHEET AND TREASURY POSITION

2.1 The Councils' expected treasury portfolio at 31 March 2015, with forward projections, is summarised below. The Table compares the underlying need to borrow for Capital purposes (the Capital Financing Requirement, or CFR) with the projected external debt (the treasury management operations) highlighting any over or under borrowing position for capital investment purposes. For Adur, the comparison is expanded to show the General Fund and Housing Revenue Account (HRA) elements.

Adur District Council	**2014/15 Estimate £m**	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
Capital Financing Requirement (CFR)					
General Fund	15.108	14.470	14.534	14.687	14.848
Housing Revenue A/c	63.994	63.909	62.192	60.475	58.758
Total CFR	79.102	78.379	76.726	75.162	73.606
Current Actual Debt					
General Fund	(12.969)	(12.988)	(12.979)	(12.969)	(12.969)
Housing Revenue A/c	(62.993)	(62.999)	(61.290)	(59.581)	(57.875)
Actual Debt Projected Forward (Appx. A)	(75.962)	(75.987)	(74.269)	(72.550)	(70.844)
(Over)/Under Borrowing					
General Fund	2.139	1.482	1.555	1.718	1.879
Housing Revenue A/c	1.001	0.910	0.902	0.894	0.883

2.0 BALANCE SHEET AND TREASURY POSITION

Adur District Council	2014/15 Estimate £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Total (Over)/Under Borowing Based on Actual Debt projected forward	3.140	2.392	2.457	2.612	2.762
Cumulative maximum planned Borrowing per CIP	(1.916)	(4.663)	(5.567)	(6.549)	(7.530)
Projected (Over)/Under Borrowing Represented by:	1.224	(2.271)	(3.110)	(3.937)	(4.768)
General Fund	0.371	(2.809)	(3.640)	(4.459)	(5.279)
Housing Revenue A/c	0.853	0.538	0.530	0.522	0.511

2.2 For Adur Council there is an increasing under borrowed position for both General Fund and HRA based on the on actual debt at 31 March 2015 projected forward (i.e. assuming no new borrowing).

2.3 If the Council was to undertake new borrowing at the level indicated by the Capital Investment Programme (CIP) then the Council would be over borrowed by approximately £2.3m by 31 March 2015 (some £300k more than at the same point the previous year), increasing to £5.2m by the end of 2017/18. Note the over borrowing is General Fund related, the HRA is under borrowed at a consistent level.

2.4 Despite the propensity for slippage to occur within the CIP, and in order to manage the overall debt position as close to the CFR as practically possible (given the long dated historic composition of the portfolio) the strategy assumes that any borrowing need arising to fund capital expenditure will be met from internal cash surpluses (i.e. Internal Borrowing) which will ensure that the Council's overall debt remains in line with the CFR. Hence, the investment balances contained in this report have been adjusted accordingly.

2.5 Worthing Council does not have a Housing Revenue Account, and so the figures below relate entirely to the General Fund. The cumulative planned borrowing for capital investment includes £5m in respect of a prospective loan in 2015/16 to Worthing Homes Ltd, which is treated as capital expenditure and increases the CFR. Nevertheless, for all years Worthing is under borrowed, albeit by diminishing amounts from 2016/17 onwards as MRP is assumed from this point to increase at a higher rate proportionally to the incidence of new debt.

2.0 BALANCE SHEET AND TREASURY POSITION

Worthing Borough Council	2014/15 Estimate £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund Capital Financing Requirement (CFR)	27.880	25.982	31.172	31.007	30.726
Actual Debt Projected Forward (Appx A)	(0.079)	(18.088)	(3.036)	(3.009)	(3.000)
Total (Over)/Under Borowing Based on Actual Debt projected forward	27.801	7.894	28.136	27.998	27.726
Cumulative maximum planned Borrowing per CIP	(3.848)	-	(6.500)	(7.945)	(9.352)
Refinancing of Existing Debt	(6.549)	-	(4.800)	(4.800)	(4.800)
Projected (Over)/Under Borrowing	17.404	7.894	16.836	15.253	13.574

2.6 In practice, for both Councils the actual need to borrow is determined by the relative CFR components and usable balances and reserves shown in the Balance Sheet. The usable balances and reserves underpin the cash resources available for investment, and therefore the Councils' net indebtedness, that alongside consideration of interest rates will influence any decision to borrow. The expected net indebtedness (i.e. gross borrowing less gross investments) of both Councils for 2015-2018, based on the current portfolio projected forward, is shown at Appendix A.

2.7 The Councils aim to ensure that the net indebtedness does not exceed the CFR for the current year and following two years, in keeping with the requirements of the Prudential Code for Local Authority Borrowing. Additionally, it is not the Councils' policy to hold gross debt above the level of CFR unless for temporary purposes (e.g. for borrowing in advance of need to take advantage of low interest rates which is permitted under the Code).

3.0 OUTLOOK FOR INTEREST RATES AND THE ECONOMY

Capita Asset Services' Revised Interest Rate Forecast

3.1 The Councils have appointed Capita Treasury Solutions Ltd (formerly Capita Asset Services Ltd.) as its treasury management consultants, and part of the service is to assist the Councils to formulate a view on interest rates. A detailed analysis of the economic prospects is contained at Appendix E, which expands on the summary provided below.

3.0 OUTLOOK FOR INTEREST RATES AND THE ECONOMY

THE UK ECONOMY

Annual Average	Bank Rate	PWLB Borrowing Rates % (including certainty rate adjustment		
%	%	5 Year	25 Year	50 Year
Dec. 2014	0.50	2.50	3.90	3.90
Mar. 2015	0.50	2.70	4.00	4.00
Jun. 2015	0.75	2.70	4.10	4.10
Sep. 2015	0.75	2.80	4.30	4.30
Dec. 2015	1.00	2.90	4.40	4.40
Mar. 2016	1.00	3.00	4.50	4.50
Jun. 2016	1.25	3.10	4.60	4.60
Sep. 2016	1.25	3.20	4.70	4.70
Dec. 2016	1.50	3.30	4.70	4.70
Mar. 2017	1.50	3.40	4.80	4.80
Jun. 2017	1.75	3.50	4.80	4.80
Sep. 2017	2.00	3.50	4.90	4.90
Dec. 2017	2.25	3.50	4.90	4.90
Mar. 2017	2.50	3.50	5.00	5.00

3.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone.

3.3 There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent.

3.4 This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

3.0 OUTLOOK FOR INTEREST RATES AND THE ECONOMY

THE UK ECONOMY

3.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Eurozone concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine, the Middle East region and the Ebola virus, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods.

- Investment returns are likely to remain relatively low during 2015/16 and beyond.

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

4.0 BORROWING STRATEGY

4.1 The financing of the capital programme for both Councils forms part of the Prudential Indicators presented at Appendix B, and includes proposed prudential borrowing in 2015/16 of £0.90m for Adur, and £1.5m for Worthing.

4.2 Both Councils will refer in the first instance to the Public Works Loan Board (PWLB) for sourcing its borrowing needs, given that they are eligible to access the PWLB "Certainty" rate of interest, being 20 basis points below the normal prevailing PWLB rates. However, borrowing from other sources, including other Councils and the proposed Local Government Association Municipal Bonds Agency (See Para 11.3), may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

4.0 BORROWING STRATEGY

4.3 It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred.

4.4 Therefore, in managing the borrowing requirements of both Councils, they may legitimately be over or under borrowed for a variety of reasons:

(i) There may be timing differences between when funds are borrowed to fund the capital programme and when the funds are spent.

(ii) When interest rates are low on investments and high on loans, the councils may choose to use internal resources to fund the capital programme.

(iii) The Councils may take an opportunity to borrow at an especially low interest rate ahead of the need to fund the capital programme.

4.5 Given the expected over/under positions of the Councils reported at sections 2.1 (Adur) and 2.4 (Worthing) the borrowing strategy will give consideration to new borrowing in the following order of priority:-

i) Internal borrowing, by running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing;

ii) Weighing the short term advantage of internal borrowing against potential long term borrowing costs, in view of the overall forecast for long term borrowing rates to increase over the next few years;

iii) PWLB variable rate loans for up to 10 years;

iv) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB, market debt and loans from other councils in the debt portfolio;

v) PWLB borrowing for periods under 5 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

4.6 In exercising this order of priority:-

- *if it was 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 long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing may be considered if beneficial.

4.0 BORROWING STRATEGY

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast (*perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks) then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

4.7 Preference will be given to PWLB borrowing by annuity and EIP loans instead of maturity loans, as this may result in lower interest payments over the life of the loans.

5.0 DEBT RESCHEDULING

5.1 As short term borrowing rates will be cheaper than longer term fixed interest rates (Para 3.1 refers), there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.2 Some 75% of Adur's debt portfolio consists of long term loans with an average maturity of 40 years left to run, and at rates above prevailing market rates for equivalent loans. The cost to redeem these loans early would incur a debt premium (at current estimates) of some £10m, and is unaffordable.

5.4 By contrast, all (except £3m PWLB) debt within Worthing's existing fixed rate debt portfolio will mature by 21 September 2015, so options for early settlement do not really apply. The PWLB debt consists of £2m acquired on 2 October 2014 for 10 years at 2.32%, and £1m acquired on 12 December 2014 for 5 years at 1.62%. These loans are ineligible for re-financing within the first year, and would most likely incurr a premium cost to do so thereafter.

5.5 In view of the risks within the economic forecast outlined in Secton 3, caution will be adopted within the 2015/16 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Background - Investment Policy

6.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

6.2 The CLG's revised Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

6.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Councils' use within its investment strategy are contained in Appendix C Annex 1(Adur) and Annex 2 (Worthing).

6.4 The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Councils will continue to maintain a counterparty list based on the approved criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraphs 6.5 - 6.16.

Creditworthiness Policy

6.5 The Councils use the creditworthiness service provided by Capita Treasury Solutions Ltd. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

6.6 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is combined with an overlay of CDS spreads. The result is a series of colour code bands for counterparties indicating the relative creditworthiness of each as they are categorised by durational bands. These bands are used by the Councils to form a view of the duration for investments by each counterparty. The Councils are satisfied that this service gives a robust level of analysis for determining the security of its investments. It is also a service which the Councils would not be able to replicate using its own in-house resources.

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Creditworthiness Policy

6.7 The selection of counterparties with a high level of creditworthiness will be achieved by reference to the minimum durational band proposed by Capita's weekly credit list of worldwide potential counterparties. The Councils will consider, but not necessarily adhere rigidly to (see paras.6.10-6.11), the categorised counterparties within the following durational bands*:* -

- Yellow5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days **
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	8	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

* The yellow colour category is for UK Government debt, or its equivalent, Constant Net Asset Value money market funds and collateralised deposits where the collateral is UK Government debt.

** The green limit was formerly for 3 months but in July 2013 the Financial Conduct Authority set a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.

6.8 Although the Capita creditworthiness service does use ratings from all three agencies, the practice of using a risk weighted scoring system eliminates any tendency to give undue preponderance to just one agency's ratings.

6.9 Using Capita's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. The effect of a change in ratings may prompt the following responses:

- If a downgrade results in the counterparty/investment scheme no longer meeting the Councils' minimum criteria, its further use as a new investment will be withdrawn immediately.

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Creditworthiness Policy

- In addition to the use of Credit Ratings the Councils will be advised by Capita of movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils' lending list.

6.10 The Councils' officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, the government support for banks, and the credit ratings of that government support.

6.11 Accordingly, the Councils may exercise discretion to deviate from Capita's Asset Services suggested durational bands for counterparties where sudden changes in financial markets, the banking sector, or other circumstances warrant a more flexible approach being taken.

The Councils' Minimum Investment Creditworthiness Criteria

6.12 The minimum credit ratings criteria the Councils use will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. The Council will no longer rely, as in previous years, on viability and support ratings of counterparties. The reason for this reflects the withdrawal of these ratings by the rating agencies as explained by Capita Treasury Solutions Ltd. in a recent circular :

"Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes."

6.13 There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term A- Long term (or equivalent). Where this arises, the Counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Country Limits & Proposed Monitoring Arrangements

6.14 The Councils have determined that they will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch Ratings (or equivalent from other agencies (if Fitch does not provide). The list of countries that qualify using these credit criteria is reflected in the Counterparty Approved Lending List shown at Appendix C. No more than 25% of investments shall be placed in Non-UK financial institutions.

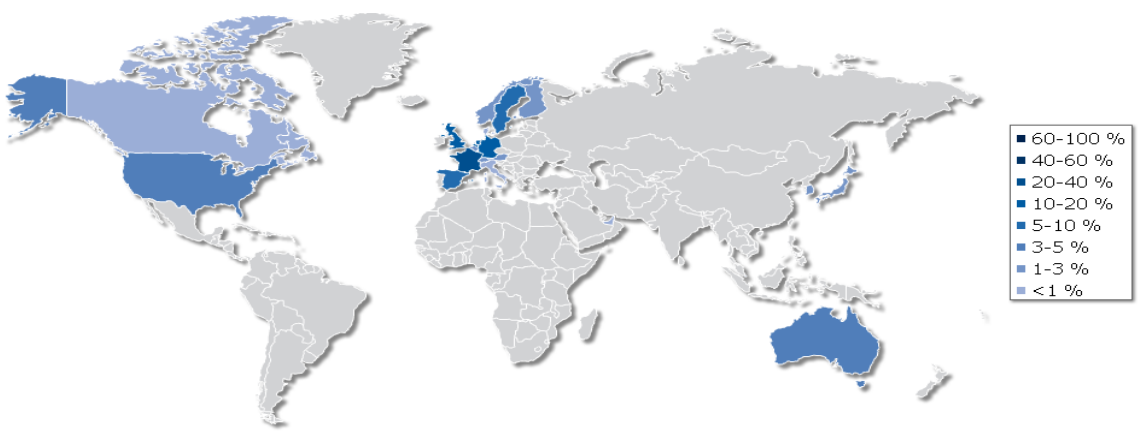
6.15 The monitoring of the Councils' exposure to non-UK institutions is especially important in the present climate, particularly in respect of sovereign debt issues within Eurozone countries.

6.16 Although the Councils can control the foreign exposure for fixed term deposits via the choice of counterparties, the ability to do this for instant access Money Market Funds (MMFs) is more difficult, as the assets which comprise the funds generally consist of loans to other financial institutions (UK and worldwide).

Country Limits & Proposed Monitoring Arrangements

6.17 Recognising the present financial climate, and that any investment is only as good as the underlying assets, the Councils shall use a Money Market Fund Portal for placing and redeeming transactions. This will allow access to information on the underlying composition of the MMF's, including the geographic spread of the underlying assets. A sample report showing underlying assets by Country is shown below:

Country Distribution



FR	France	25.41%	US	United States	3.64%	BE	Belgium	1.33%
GB	United Kingdom	14.70%	SG	Singapore	2.43%	NO	Norway	1.07%
DE	Germany	13.00%	CH	Switzerland	2.09%	JP	Japan	1.06%
NL	Netherlands	10.60%	KR	Korea, Republic Of (South)	2.00%	CA	Canada	0.51%
SE	Sweden	7.05%	FI	Finland	1.59%	IT	Italy	0.31%
ES	Spain	5.48%	LU	Luxembourg	1.55%	DK	Denmark	0.27%

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Country Limits & Proposed Monitoring Arrangements

6.18 The Interest Rate Outlook is summarised in 3.1 above. The Councils will avoid locking into longer term investments beyond 1 year duration while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness (i.e. other Councils or approved counterparties with a minimum credit rating of *AA-* from Fitch Ratings, or equivalent from other agencies if Fitch does not provide) which make longer term deals worthwhile and within the risk parameters set by the Councils.

Investments managed in-house

6.19 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

6.20 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

2015/16	1.00%
2016/17	1.50%
2017/18	2.50%

Investment Outlook

6.21 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

6.22 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

2015/16	0.90%
2016/17	1.50%
2017/18	2.00%

6.23 Within the approach described in 6.18 above, total principal funds invested for greater than 364 days will be determined with regard to the Councils' liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds. The amounts invested greater than 364 days shall remain within the limit set for this purpose within the Treasury Management Prudential Indicator at the start of the financial year (Appendix B Indicator 12).

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Investments managed in-house

6.24 For its cash flow generated balances, the Councils will seek to utilise business reserve accounts and notice accounts, money market funds, and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

6.25 The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the meetings of the JGAC and JSC in accordance with the reporting arrangements contained in the Treasury Management Practices Statement and outlined in Section 10 of this report.

6.26 In any sustained period of significant stress in the financial markets, the default position is for investments to be placed with The Debt Management Account Deposit Facility of the Debt Management Office (DMO) of the UK central government. The rates of interest are below equivalent money market rates, however, the returns are an acceptable trade-off for the guarantee that the Councils' capital is secure.

6.27 The Councils' proposed investment activity for placing cash deposits in 2015/16 is unchanged from the previous year and will be to use:

- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV).
- other local authorities.
- business reserve accounts and term deposits. These are primarily restricted to UK institutions that are rated at least A- long term.
- institutions with a very high likelihood of support, including Royal Bank of Scotland, Lloyds, HSBC and Barclays.
- institutions with a moderate or high likelihood of support, including Santander UK and Clydesdale Bank.
- the top five building societies by asset size

Use of Building Societies

6.28 In recognition of the inclusion of the building society names and that they carry a lower credit rating than the Councils' other counterparties, the lending limits for the building societies shall be £2m each, excepting that for Nationwide (the top building Society) the lending limit shall be £4m – as it is also an institution with a moderate likelihood of support.

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Impact of European Commission Proposals for Money Market Funds

6.29 The Councils use of Money Market Funds (MMF's) for short term investments of surplus cash provides instant liquidity with high quality counterparties at a return comparable to (if not better than) other fixed deposits of short term duration.

6.30 The funds used are "triple A" rated because of their sheer size, liquidity, and constant net asset value (CNAV), the latter of which means that typically for every pound of principal invested the Councils are assured of receiving one pound back. This is not guaranteed, but offers indications of better protection than using alternative MMF's which are based on a Variable Net Asset Value (VNAV). On this basis the underlying assets are priced on a daily market rate that is subject to change, and could result in a loss of principal (where say one pound invested one day is priced at less than one pound on another day).

6.31 While the Councils avoid the use of VNAV MMFs to mitigate the risk of exposure to incurring a capital loss, legislative changes proposed by the European Commission could result in the closure or withdrawal of CNAV MMF's in future. Among the proposals are the withdrawal of formal credit ratings (but not an opinion of credit worthiness) from the ratings agencies, and changing the valuation basis of the underlying funds such that existing CNAV MMF's indicate it would be impractical to continue.

6.32 Given that the Councils' overriding investment priority is "security of principal", in the event that the proposed changes are implemented, the Councils will desist from using MMF's if it is the case that they do not retain the CNAV basis of valuation, or that the triple A rating is withdrawn or replaced with a measure below the Councils' minimum criteria for short term investment.

Use of Notice Accounts

6.33 Alongside the use of MMF's, the Councils will utilise Call or Notice Accounts offered by Counterparties included within the Approved Counterparty Investment List. These accounts differ from MMF's in that deposits must reside in the accounts for a minimum duration, typically 60 or 95 days, although other durations or conditions may apply. Consideration will be given to the use of such accounts where they provide extra return over MMF's or fixed term deposits with banks and building societies meeting the Councils' short term investment criteria.

Other Options for Longer term Investments

6.34 To provide the Councils with options to enhance returns above those available for short term durations, it is proposed to retain the option to use the following forms for longer-term investments, as an alternative to cash deposits:

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Other Options for Longer term Investments

a) **Supranational bonds greater than 1 year to maturity**

(i) **Multilateral development bank bonds -** These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction & Development Bank etc.).

(ii) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, The Guaranteed Export Finance Company {GEFCO})

The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

b) **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

c) **Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use the top five building societies by asset size up to £2m, (£4m Nationwide).

d) Any **bank or building society** that has a minimum long term credit rating of AA- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

Other Options for Longer term Investments

e) Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to *a* guarantee from the parent company, and exposure up to the limit applicable to the parent.

f) **Registered Social Landlords** (Housing Associations) **-** subject to confirming the Councils have appropriate powers, consideration will be given to lending to Registered Social Landlords. Such lending may either be as an investment for treasury management purposes, or for the provision of "social policy or service investment", that would not normally feature within the Treasury Management Strategy.

6.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2015/16

Accounting treatment of investments

g) **Share capital** *in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.*

h) **Loan capital** in a body corporate.

(Note: For (g) and (h) above the Councils will seek further advice on the appropriateness and associated risks with investments in these categories).

6.35 The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Councils. To ensure that the Councils are protected from any adverse revenue impact, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

6.36 The Councils will not transact in any investment that may be deemed to constitute capital expenditure (e.g. Share Capital, or pooled investment funds other than Money Market Funds), without the resource implications being approved as part of the consideration of the Capital Programme or other appropriate Committee report.

7.0 BALANCED BUDGET REQUIREMENT

7.1 The Councils comply with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8.0 MINIMUM REVENUE PROVISIONS (MRP) STATEMENT

8.1 The MRP Statement for 2014/15 financial year was approved by both Councils before the start of the financial year. One change is proposed for 2015/16 onwards to take account of the impact of potential loans to Registered Social Landlords RSL's (Paras. 8.9-8.11 refer).

8.2 By way of background, The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

8.3 The four options cited by the Guidance for making prudent MRP are:

Option 1: Regulatory Method
The MRP calculation set in regulations since 2004/05 based on 4% of the Non-Housing Capital Financing Requirement, including an adjustment (Adjustment A) to align the CFR to the credit ceiling (under former regulations) to negate the impact on Council Tax.

8.0 MINIMUM REVENUE PROVISIONS (MRP) STATEMENT

Option 2: CFR Method
The MRP calculated solely on 4% of the Non-Housing CFR at the closing balance of the previous financial year (i.e. No "Adjustment A" to negate the impact on Council Tax).

Option 3: Asset Life Method
MRP is calculated as the annual amount required to repay borrowing in equal instalments over the life of the assets acquired, although the option remains to use additional revenue contributions or capital receipts to repay debt earlier.

Option 4: Depreciation Method
MRP is an amount equal to the depreciation of assets acquired by borrowing, as calculated in line with accounting Statements of Recommended Practice (the SORP). MRP continues until the provision is equal to the original amount of the debt even if the assets acquired by borrowing are disposed of before the end of their useful life.

(NB: The MRP guidance does not preclude other prudent methods - should the Councils wish to consider these.)

8.4 Under the guidance, it is a requirement to submit to the respective full Council, and before the start of the 2015/16 financial year, an MRP Statement confirming the approach to be adopted for the coming financial year. Any variation to this during the year requires a revised statement to be put to Council at that time.

8.5 For Adur Council it was approved by the Policy and Strategy Committee on 18 March 2008 that Option 2 be applied in respect of all capital expenditure funded by borrowing up to 31 March 2007, and that Option 3 be applied for new capital expenditure after this date. This approach was endorsed by full Council for 2014/15 at its meeting of 20 February 2014.

8.6 The MRP Statement approved for 2014/15 includes provision for voluntary MRP for repayment of HRA debt, as it is not mandatory. This was considered financially prudent given that the Council commenced 2012/13 close to the Government's imposed HRA debt limit of £68.912m. Adur Council is not permitted to borrow in excess of this amount for HRA purposes, and therefore is required to repay debt to facilitate new borrowing in future for capital investment.

8.7 It is proposed to continue with this approach for 2015/16, and to make annual MRP for a period over 40 years on all HRA debt, being the estimated life of the Council Housing Stock (and in accordance with Option 3). Usually, MRP is applied in the financial year following the drawdown of debt. For HRA purposes, as the MRP is voluntary it is proposed that where debt is obtained to fund new house building, MRP be applied from the year in which the housing provided is brought into service. This will align the period in which the income streams arising from the new homes are generated with the period when MRP commences.

8.0 MINIMUM REVENUE PROVISIONS (MRP) STATEMENT

8.8 MRP will be provided by a transfer from the HRA to the Major Repairs Reserve, which can be used to fund either the repayment of debt or new capital expenditure. It is intended to transfer an amount equivalent to the previous HRA subsidy regime Major Repair Allowance (£2m) into the Major Repairs Reserve which will be sufficient to cover this requirement.

8.9 For Adur Council the General Fund approach to MRP is also proposed to remain the same in 2015/16 as for 2014/15 (as per Para 8.5 above) with one exception. The proposed exception is that discretion be given to the Chief Financial Officer to defer MRP relating to debt arising from Loans to RSL's to match the profile of debt repayments from the RSL.

8.10 RSL's would normally prefer a maturity type loan as it matches the onset of income streams emanating from capital investment with the timing of the principal debt repayment. The deferral of MRP to the maturity date would therefore mean that MRP is matched at the same point as the debt is repaid, and therefore cash (and revenue cost) neutral to the Council.

8.11 Alternatively, under the councils' former practices, MRP would normally be made the year after the loan is advanced, incurring a revenue charge sooner than otherwise proposed by the change in MRP policy. Under the discretion afforded the Chief Financial Officer, the decision to make MRP earlier would instead rest on whether there were concerns about the ability of the RSL to ultimately repay the loan. In this case, the decision to make a "prudent provision" from the earliest point would be cautionary to ensure that sufficient funds had been set aside from revenue to repay the debt at maturity if the RSL defaulted.

8.12 For Worthing the MRP Policy for 2014/15 was approved by full Council on 18 February, 2014. It was agreed that Option 3 would be applied in respect of all new supported and unsupported borrowing. It is proposed that this methodology remains in place for 2015/16, but amended to reflect the same discretion as for Adur Council in the application of MRP in respect of loans to RSL's.

8.13 The implementation from 2010/11 of International Financial Reporting Standards (IFRS) may result in PFI schemes and leases being brought on balance sheet. Where this is the case the CFR will increase, which will lead to an increase in the MRP charge to revenue. MRP for these items will match the annual principal necessary to pay off the capital cost of the assets acquired over the term of the lease period.

9.0 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

9.1 The Councils last undertook a joint re-tender for Treasury Management consultancy services in the autumn of 2013. This culminated in the re-appointment of the Councils' incumbent consultants, Capita Treasury Solutions Ltd (formerly known as Capita Asset Services Ltd) on similar terms and for a three year period ending 31 October 2016.

9.0 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

9.2 The Councils recognise that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the external service providers.

9.3 The Councils also recognise that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Councils will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

10.0 REPORTING ON THE TREASURY OUTTURN

10.1 Whilst the approval of the Treasury Management Strategy and Annual Investment Strategy is the function of the Joint Strategic Committee (JSC), the Chief Financial Officer shall also report to the Joint Governance Committee (JGC) on treasury management activity performance as follows:

10.2 Actual performance shall be compared against the strategy approved for the year in six monthly intervals by way of:

(a) a half yearly in-house treasury management operations report for the current financial year submitted as soon after 30 September as practically possible;

(b) and an annual outturn report for the previous financial year on the Councils' treasury activity to be submitted no later than 30 September after the financial year end.

10.3 The JGC shall be responsible for the scrutiny of treasury management activity and practices, and may make recommendations to the JSC regarding any aspects of Treasury Management policy and practices it considers appropriate in fulfilment of its scrutiny role. Such recommendations, as may be made, shall be incorporated within the above named reports and submitted to meetings of the JSC for consideration as soon after the meetings of the JGC as practically possible.

10.4 The Councils' Scheme of Delegations is set out in Appendix D.

11.0 OTHER MATTERS

Member Training

11.1 CIPFA's revised Code requires "the responsible officer" to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Accordingly, the Chief Financial Officer shall arrange appropriate training, and at intervals, commensurate with the requirements of Members.

11.0 OTHER MATTERS

Shared Services Arrangement with Mid Sussex District Council

11.2 The Councils' in-house treasury management team provide services to Mid Sussex DC under a Shared Services Arrangement (SSA). The initial three year term for this arrangement expired on 17th October 2013, and has been renewed on similar terms for a further three years to 17th October 2016.

The Local Government Association (LGA) Municipal Bonds Agency (MBA)

11.3 The meeting of the Joint Governance Committee on 24 November 2014 received the Joint Half-Year In-House Treasury Management Operations report for the period 1 April to 30 September 2014 in which an update was provided regarding the Councils' commitments to invest in the LGA Municipal Bonds Agency. The maximum investment committed by both Councils is £50,000 per council, to facilitate which the "Local Capital Finance Company" (under the name of which the MBA is constituted) has been added to the approved investment counterparty list for both Councils.

Loans To Registered Social Landlords

11.4 The Joint Strategic Committee received and approved a report at its meeting of 2 September 2014 for Worthing Borough Council to advance a loan of £5m to Worthing Homes Ltd for housing investment purposes, subject to further due diligence work being undertaken.

11.5 This loan sits outside the Treasury Management Strategy Statement & Annual Investment Strategy, and a separate report finalising the loan proposals and seeking approval to proceed shall be forthcoming in due course. Nevertheless Worthing Homes has been added to the Council's approved investment counterparty list for this purpose.

Corporate Membership of West Sussex Credit Union

11.6 The Joint Strategic Committee received and approved a report at its meeting of 4 November 2014 for both Councils to become Corporate members of the West Sussex Credit Union.

11.7 The proposed membership entailed both Adur & Worthing councils subscribing £25,000 each to become shareholders. It was further proposed and agreed that Adur District Council provides WSCU with a subordinated loan of £25,000 from the Housing Revenue Account.

11.8 Accordingly, the West Sussex Credit Union has been added to the Councils' approved investment counterparty list for these purposes.

11.0 OTHER MATTERS

Worthing Leisure Trust

11.9 The arrangements for establishing The Worthing Leisure Trust include provision for Worthing Council to provide the Trust with temporary cash flow advances (if required) up to a maximum of £500k to assist it in the early start-up years. Such advances as may be made shall be repayable as soon as practical and attract a rate of interest for the loan term of Bank Base Rate plus 5%. The Leisure Trust is added to Worthing Council's approved lending list for this purpose.

Re-tender of Banking Services

11.10 Both Councils have retendered their banking services and Lloyds Bank have been awarded the new contract.

Members are required to formally authorise that:-

- Lloyds Bank be instructed to carry out all of the normal functions for the Councils' Bank accounts provided that in all cases the instructions are given in accordance with the authority provided by the Councils to the Bank: and

- the signatories named by the Councils are authorised to act on behalf of the Councils in providing instructions to the Bank.

12.0 LEGAL

12.1 Part 1 of the Local Government Act 2003 provides a legal framework of powers for and duties upon Local Authorities in relation to the borrowing of money and capital finance.

12.2 The Local Authorities (Capital Finance and Accounting) (England) Regulation 2003 provide additional legislative guidance, including, the duty to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA, as amended or reissued from time to time.

13.0 RECOMMENDATIONS

13.1 The Joint Strategic Committee is recommended to:

i) approve and adopt the TMSS and AIS for 2015/16-2017/18, incorporating the Prudential Indicators and Limits, and MRP Statements

ii) forward the Prudential Indicators and Limits, and MRP Statements of the report for approval by Worthing Council at its meeting on 17 February 2015, and by Adur Council at its meeting on 19 February 2015.

iii) Forward the report for noting to the meeting of the Joint Governance Committee to be held on 24 March 2015.

13.0 RECOMMENDATIONS

13.2 The Joint Governance Committee is recommended to:

i) note the TMSS and AIS report (including the Prudential Indicators and Limits, and MRP Statements) for 2015/16 - 2017/18,

ii) refer any comments on or amendment to the TMSS & AIS to the next meeting of the Joint Strategic Committee.

13.3 The Joint Strategic Committee is asked to authorise the new banking arrangements:-

i) Lloyds Bank be instructed to carry out all of the normal functions for the Councils' Bank accounts provided that in all cases the instructions are given in accordance with the authority provided by the Councils to the Bank: and

ii) the signatories named by the Councils are authorised to act on behalf of the Councils in providing instructions to LLoyds Bank.

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Background Papers:

(1) Joint Treasury Management Strategy and Annual Investment Strategy 2014/15 to 2016/17, JSC 6 Feb 2014.

(2) Overall Budget Estimates 2014/15 and Setting of 2014/15 Council Tax Report, Adur Cabinet 4 February, 2014, Worthing Cabinet 3 February, 2014.

(3) TMSS and AIS Template Report – Capita Treasury Solutions Ltd.

(4) Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA 2011).

(5) CLG Investment Guidance (Revised April 2010).

(6) The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011)

SCHEDULE OF OTHER MATTERS

1.0 COUNCIL PRIORITY

1.1 Matters considered and no issues identified.

2.0 SPECIFIC ACTION PLANS

2.1 Those matters considered and contained within the TMSS & AIS reported here-in.

3.0 SUSTAINABILITY ISSUES

3.1 Matter considered and no issues identified

4.0 EQUALITY ISSUES

4.1 Matter considered and no issues identified

5.0 COMMUNITY SAFETY ISSUES (SECTION 17)

5.1 Matter considered and no issues identified

6.0 HUMAN RIGHTS ISSUES

6.1 Matter considered and no issues identified

7.0 REPUTATION

7.1 Matter considered and no issues identified

8.0 CONSULTATIONS

8.1 Matters considered in conjunction with the Councils' Treasury Management consultants.

9.0 RISK ASSESSMENT

9.1 Matter considered within Para 1.6 – 1.7 of the report.

10.0 HEALTH AND SAFETY ISSUES

10.1 Matter considered and no issues identified

11.0 PROCUREMENT STRATEGY

11.1 Matter considered and no issues identified

12.0 PARTNERSHIP WORKING

12.1 Matter considered and no issues identified

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD						
Adur District Council	**Portfolio at 12.12.14 £m**	**Portfolio at 12.12.14 %**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
External Borrowing:						
Fixed Rate - PWLB	(58.875)	76.61	(58.023)	(56.317)	(54.610)	(52.904)
Fixed Rate - Market	(7.250)	9.43	(7.250)	(7.250)	(7.250)	(7.250)
Variable Rate - PWLB	-	-	-	-	-	-
Variable Rate - Market	(10.690)	13.91	(10.690)	(10.690)	(10.690)	(10.690)
Other	(0.031)	0.04	(0.024)	(0.012)	-	-
Total External Debt	(76.846)	100.00	(75.987)	(74.269)	(72.550)	(70.844)
Investments:						
Managed in-house						
Deposits and monies on call and in Money Market Funds	19.860	99.90	16.820	16.366	15.834	15.304
Managed externally	0.020	0.10	0.050	0.050	0.050	0.050
Total Investments	19.880	100.00	16.870	16.416	15.884	15.354
NET BORROWING POSITION	(56.966)	-	(59.117)	(57.853)	(56.666)	(55.490)

The investments indicated above exclude the impact of the proceeds from the proposed sale of Shoreham Civic Centre, due to the uncertainty of the timing.

Worthing Borough Council

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD						
Worthing Borough Council	**Portfolio at 16.12.14 £m**	**Portfolio at 01.01.15 %**	**31.03.15 Estimate £m**	**31.03.16 Estimate £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**
External Borrowing:						
Fixed Rate - PWLB	(3.000)	16.55%	(3.000)	(3.000)	(3.000)	(3.000)
Fixed Rate - Market	(15.000)	82.76%	(15.000)	-	-	-
Variable Rate - PWLB						
Variable Rate - Market						
Other	(0.124)	0.69%	(0.088)	(0.036)	(0.009)	-
Total External Debt	(18.124)	100%	(18.088)	(3.036)	(3.009)	(3.000)
Investments:						
Managed in-house						
Deposits and monies on call and in Money Market Funds	12.090	99.83%	2.000	1.871	1.472	1.073
Managed externally	0.020	0.17%	0.050	0.050	0.050	0.050
Total Investments	12.110	100%	2.050	1.921	1.522	1.123
NET (INDEBTEDNESS)/ INVESTMENTS	(6.014)		(16.038)	(1.115)	(1.487)	(1.877)

Note that the value of investments has been depleted since 2012/13 following the application of capital receipts to fund the Splashpoint Leisure facilities in this year, and the position is unlikely to reverse as it assumption that some £7m capital receipts due in 2015/16 for the disposal of the former Aquarena site will be applied to repay temporary debt.

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

1 BACKGROUND

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Under the prudential system, individual authorities are responsible for deciding their own level of borrowing, having regard to CIPFA's Code. The essence of the code is that borrowing for capital investment purposes should be affordable, sustainable and prudent.

2. NET BORROWING AND THE CAPITAL FINANCING REQUIREMENT

2.1 This is a key indicator of prudence. Net external borrowing is the difference between gross investments and borrowing. The capital financing requirement (CFR) is a separate estimate of the underlying need to borrow, and is shown at Paragraph 5 below.

2.2 In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional (CFR) for the current and next two financial years.

2.3 The Chief Financial Officer reports that both Councils had no difficulty meeting this requirement in 2013/14, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. ESTIMATES OF CAPITAL EXPENDITURE

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax - and in the case of the Housing Revenue Account (HRA), housing rent levels.

No. 1	Worthing Bor. Council Capital Expenditure	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Non-HRA	6.186	4.435	8.319	4.452	2.843

***** Worthing does not have a Housing Revenue Account (HRA) and is, therefore, not required to produce an indicator for housing rent levels.

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

3. ESTIMATES OF CAPITAL EXPENDITURE

No. 1	Adur District Council Capital Expenditure	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Non-HRA	6.495	6.016	1.218	2.405	1.576
	HRA	4.176	4.754	3.605	3.685	3.770
	TOTAL	10.671	10.770	4.823	6.090	5.346

3.2 Capital expenditure will be financed as follows:

Worthing B.C. Capital Financing	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Receipts	0.332	0.012	0.225	0.000	0.000
Capital Grants & Contributions	0.705	0.887	1.244	2.957	1.386
Revenue Reserves & Contributions	0.411	0.403	0.350	0.050	0.050
Unsupported Borrowing	4.738	3.133	6.500	1.445	1.407
TOTAL	**6.186**	**4.435**	**8.319**	**4.452**	**2.843**

Adur District Council Capital Financing	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Receipts	0.373	0.123	0.400	0.400	0.400
Major Repairs Reserve	2.861	3.915	2.805	2.885	2.970
Capital Grants & Contributions	1.499	1.399	0.293	0.293	0.293
Revenue Reserves & Contributions	1.032	0.670	0.021	1.129	0.302
Unsupported Borrowing	4.906	4.663	0.904	0.983	0.981
HRA Development & Refurbishment Reserve	0.00	0.00	0.400	0.400	0.400
TOTAL	**10.671**	**10.770**	**4.823**	**6.090**	**5.346**

Note: the element to be financed from unsupported borrowing impacts on the movement in the Capital Financing Requirement (CFR).

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

4. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the Councils' net revenue streams required to meet borrowing costs. The definition of financing costs is set out at paragraph 69 of the Prudential Code (2011) and mainly comprises interest payable and revenue provisions for repayment of debt.

4.2 The ratio is based on costs net of investment income.

No. 2	Worthing Borough C'ncil Ratio of Financing Costs to Net Revenue Stream	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
	TOTAL	**7.08**	**7.00**	**8.5**	**9.9**	**10.0**

For Worthing, the ratio is positive as the cost of borrowing exceeds interest receipts from investment income.

No. 2	Adur District Council Ratio of Financing Costs to Net Revenue Stream	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
	Non-HRA	12.47	14.42	13.03	11.41	10.36
	HRA	40.88	42.93	40.93	37.44	35.64
	TOTAL	**53.35**	**57.35**	**53.96**	**48.85**	**46.00**

4.3 For Adur the General Fund ratio is relatively constant due to the financing costs of long term debt being at fixed rates of interest. Also the movement reflects in year changes to borrowing costs relative to the interest receivable from investments. For the HRA the ratio is reducing as the element of total debt relating to Self-Financing is being repaid on an equal instalments of principal basis resulting in an annual reduction of interest costs.

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

5. CAPITAL FINANCING REQUIREMENT

5.1 The Capital Financing Requirement (CFR) measures the Councils' underlying need to borrow for capital purposes. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing. It is an aggregation of the amounts shown for non-Current Assets, Long-term debtors for capital transactions, the Revaluation Reserve, the Capital Adjustment Account, Donated Assets Reserve and any other balances treated as capital expenditure.

No. 3	Worthing Borough Council Capital Financing Requirement	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	TOTAL CFR	**27.880**	**25.982**	**31.172**	**31.007**	**30.726**

No. 3	Adur District Council Capital Financing Requirement	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Non-HRA	15.108	14.470	14.534	14.687	14.848
	HRA	63.994	63.909	62.192	60.475	58.758
	TOTAL CFR	**79.102**	**78.379**	**76.726**	**75.162**	**73.606**

5.2 The year–on-year change in the CFR is due to the following:

No.3 Worthing B.C. Capital Financing	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
BALANCE B/FORWARD	25.216	23.759	25.982	31.172	31.007
Capital Expenditure financed from unsupported borrowing (per 3.2)	3.848	3.133	6.500	1.445	1.407
Revenue provision for debt redemption.	(1.184)	(0.910)	(1.310)	(1.610)	(1.688)
BALANCE C/FORWARD	**27.880**	**25.982**	**31.172**	**31.007**	**30.726**

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

5. CAPITAL FINANCING REQUIREMENT

No.3 Adur District Council Capital Financing	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
BALANCE B/FORWARD	79.638	76.283	78.378	76.725	75.162
Capital Expenditure financed from unsupported borrowing (per 3.2)	1.916	4.663	0.904	0.983	0.981
Revenue provision for debt redemption.	(2.452)	(2.568)	(2.557)	(2.546)	(2.537)
BALANCE C/FORWARD	**79.102**	**78.378**	**76.725**	**75.162**	**73.606**

6. ACTUAL EXTERNAL DEBT

6.1 This indicator is obtained directly from the Councils' balance sheets. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

No. 4	Worthing Borough Council Actual Worthing External Debt as at 31/03/2014	£m
	Borrowing	14.798
	Other Long-term Liabilities	-
	TOTAL DEBT	**14.798**

No. 4	Adur District Council Actual Adur External Debt as at 31/03/2014	£m
	Borrowing	
	Borrowing	79.001
	Other Long-term Liabilities	-
	TOTAL DEBT	**79.001**

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

7. INCREMENTAL IMPACT OF CAPITAL INVESTMENT DECISIONS

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No. 5	WBC Incremental Impact of Capital Investment Decisions	2014/15 Approved £	2014/15 Revised £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
	Increase/ (Decrease) in Band D Council Tax	5.23	1.00	13.30	10.00	3.54

The increase in 2015/16 reflects the impact of additional interest payable on £5m PWLB debt acquired to fund a proposed loan to Worthing Homes Ltd. The reduction in 2017/18 reflects the proposed reduction in the capital programme overall.

No. 5	ADC Incremental Impact of Capital Investment Decisions	2014/15 Approved £	2014/15 Revised £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
	Increase in Band D Council Tax	1.21	2.07	2.65	0.05	-1.17
	Increase in Average Weekly Housing Rents	-0.69	0.12	-1.05	-0.35	-0.31

7.2 The relative movement in values reflects the changes in capital programme and incidental borrowing costs from year to year.

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

8. AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

8.1 The Councils have an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Councils and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Councils. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Councils' existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No. 6	**Worthing Borough Council Authorised Limit for External Debt**	**2014/15 Approved £m**	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
	Borrowing	24.0	24.0	34.0	34.0	34.0
	Other Long-term Liabilities	1.0	1.0	1.0	1.0	1.0
	TOTAL	**25.0**	**25.0**	**35.0**	**35.0**	**35.0**

No. 6	**Adur District Council Authorised Limit for External Debt**	**2014/15 Approved £m**	**2014/15 Revised £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**
	Borrowing	99.0	99.0	99.0	99.0	99.0
	Other Long-term Liabilities	1.0	1.0	1.0	1.0	1.0
	TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

8. AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

The **Operational Boundary** links directly to the Councils' estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

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

No. 7	Worthing Borough Council Operational Boundary for External Debt	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Borrowing	19.0	19.0	29.0	29.0	29.0
	Other Long-term Liabilities	1.0	1.0	1.0	1.0	1.0
	TOTAL	**20.0**	**20.0**	**30.0**	**30.0**	**30.0**

No. 7	Adur District Council Operational Boundary for External Debt	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Borrowing	93.0	93.0	93.0	93.0	93.0
	Other Long-term Liabilities	1.0	1.0	1.0	1.0	1.0
	TOTAL	**94.0**	**94.0**	**94.0**	**94.0**	**94.0**

8.7 Both the Authorised Limit and Operational Boundary for External Debt for Worthing Council has been increased from 2015/16 by £10m to reflect the impact of changes to the capital programme (most notably new borrowing for a proposed loan of £5m to Worthing Homes) and the position that the Council has for some years been under borrowed, for which correction may be required if interest rates are expected to increase or the option is taken to borrow in advance of need.

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

9. ADOPTION OF THE CIPFA TREASURY MANAGEMENT CODE

9.1 This indicator demonstrates that the Councils have adopted the principles of best practice.

No. 8	Worthing Borough Council Adoption of the CIPFA Code of Practice in Treasury Management
	Worthing Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 20 March 2003.

No. 8	Adur District Council Adoption of the CIPFA Code of Practice in Treasury Management
	Adur Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 21 March 2002.

10. UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

10.1 These indicators allow the Councils to manage the extent to which there is exposure to changes in interest rates. The Councils calculate these limits on net principal outstanding sums, (i.e. total debt net of total investments).

10.2 The upper limit for variable rate exposure has been set to ensure that the Councils are not exposed to interest rate rises which could adversely impact on the revenue budget.

No. 9	Worthing Council Council Upper Limit for Fixed Interest Rate Exposure:	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
	Investments only	-100	-100	-100	-100	-100
	Borrowing only	100	100	100	100	100
	Limit Based on Net Debt	82	100	100	100	100

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

10. UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

No. 9	Adur District Council Upper Limit for Fixed Interest Rate Exposure:	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
	Investments only	-100	-100	-100	-100	-100
	Borrowing only	100	100	100	100	100
	Limit Based on Net Debt	82	82	82	81	81

No. 10	Worthing Borough Council Upper Limit for Variable Interest Rate Exposure:	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
	Investments only	-100	-100	-100	-100	-100
	Borrowing only	25	25	25	25	25
	Limit Based on Net Debt	-100	-100	-100	-100	-100

No. 10	Adur District Council Upper Limit for Variable Interest Rate Exposure:	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
	Investments only	-100	100	100	100	100
	Borrowing only	50	50	50	50	50
	Limit Based on Net Debt	18	18	19	19	19

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

10. UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Councils' treasury management strategy.

11. MATURITY STRUCTURE OF FIXED RATE BORROWING

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No. 11	Worthing Borough Council Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %
	under 12 months	83	100
	12 months and within 24 months	1	100
	24 months and within 5 years	5	100
	5 years and within 10 years	11	100
	10 years and within 20 years	0	100
	20 years and within 30 years	0	100
	30 years and within 40 years	0	100
	40 years and within 50 years	0	100
	50 years and above	0	100

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

No. 11	Adur District Council Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %
	under 12 months	2	16
	12 months and within 24 months	2	16
	24 months and within 5 years	7	21
	5 years and within 10 years	13	27
	10 years and within 20 years	23	37
	20 years and within 30 years	16	30
	30 years and within 40 years	4	18
	40 years and within 50 years	24	38
	50 years and above	10	24

12. **UPPER LIMIT FOR TOTAL PRINCIPAL SUMS INVESTED OVER 364 DAYS**

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Councils having to seek early repayment of the sums invested.

No. 12	Worthing Borough Council Upper Limit for Total Principal Sums Invested over 364 days	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
		50.0	50.0	50.0	50.0	50.0

No. 12	Adur District Council Upper Limit for Total Principal Sums Invested over 364 days	2014/15 Approved %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
		50.0	50.0	50.0	50.0	50.0

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

13. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT(CFR)

13.1 This indicator was introduced by CIPFA in December 2012. It requires the comparison of actual Gross Debt with CFR (the underlying need to borrow), as it is a requirement to keep Gross Debt below CFR, except for short term variations. For this purpose CFR is taken as the amount in the preceding year, plus estimates of any additional CFR for the current and next two financial years.

No. 13	Worthing Borough Council Gross Debt and the Capital Financing Requirement	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Actual Gross Debt CFR	(18.088) 25.982	(14.336) 31.172	(15.754) 31.007	(17.152) 30.726
	Under Borrowing	**7.894**	**16.836**	**15.253**	**13.574**

No. 13	Adur District Council Gross Debt and the Capital Financing Requirement	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
	Actual Gross Debt CFR	(75.987) 73.716	(74.269) 71.159	(72.550) 68.613	(70.844) 66.076
	Under/(over) Borrowing	**(2.271)**	**(3.110)**	**(3.937)**	**(4.768)**

13.2 This comparison is a key indicator of prudence, and is aimed to ensure that debt is only entered into for capital expenditure. Where the comparison highlights variations, the reasons are to be explained.

13.3 For all years Worthing is under borrowed. This is due to the debt being of short-term durations of 1-5 years, while the CFR takes longer to write down as the MRP is provided for over a longer duration and in the case of borrowing for the Swimming pool is over 60 years.

13.4 The table above shows the overall position for Adur combining the General Fund and HRA (the respective positions are analysed in Para 2.1 of the main report). Overall, the Council is over borrowed up to 2017/18, when it would be approximately £4.7m over borrowed if all the council's borrowing plans to finance the capital program in the intervening years are realised. However, in accordance with the approved Treasury Management Strategy, the council will manage the position (utilising internal borrowing from surplus cash resources) to ensure that actual gross debt does not exceed CFR other than temporarily for the short term.

PRUDENTIAL INDICATORS – ESTIMATES 2015/16 TO 2017/2018

14. HRA SELF-FINANCING SETTLEMENT

14.1 This indicator arises from the revision to the CIPFA Treasury Management Code of Practice in November 2011. It requires the Housing Authority to report the limit imposed on indebtedness by the Department for Communities and Local Government (DCLG) in regard to the HRA Self-financing arrangements, and to compare this limit with the HRA Capital Financing Requirement.

No. 14	Adur District Council HRA Debt Limit Compared to the Capital Financing Requirement	2014/15 Estimate £m	2015/16 Estimate £m	2016/176 Estimate £m	2017/18 Estimate £m
	HRA Debt Limit HRA CFR	68.912 63.909	68.912 62.192	68.912 60.475	68.912 58.758
	CFR Below Debt Limit by:	**5.003**	**6.720**	**8.437**	**10.154**

SPECIFIED AND NON SPECIFIED INVESTMENTS

SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Councils
Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Councils or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

"Specified" Investments identified for the Councils' use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

** Investments in these instruments will be on advice from the Council's treasury advisor.*

For credit rated counterparties, the minimum criteria, excepting for the Councils' own banker, (see below) will be the short-term / long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard and Poor's, Fitch Ratings, being:

Long-term investments (365 days or more) : minimum: Aa3 (Moody's) or AA- (SandP) or AA- (Fitch)
Or
Short-term investments (364 days or less) : minimum P-1 (Moody's) or A-1 (SandP) or F1 (Fitch).

For all investments the Councils will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

ADUR DISTRICT COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK – AA+	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK – AA+	Santander (UK)	£4m
Term Deposits/Call Accounts	UK – AA+	Bank of Scotland/Lloyds	£4m
Term Deposits/Call Accounts	UK – AA+	Barclays	£4m
Term Deposits/Call Accounts	UK – AA+	Clydesdale	£4m
Term Deposits/Call Accounts	Sweden – AAA	Svenska Handelsbanken AB	£3m
Term Deposits/Call Accounts	UK – AA+	HSBC	£4m
Term Deposits/Call Accounts	UK – AA+	Royal Bank of Scotland	£4m
Term Deposits /Call / Overnight Accounts	UK – AA+	Cooperative Bank	£4m or 25% of funds
Term Deposits/Call Accounts	Germany – AAA	Deutsche Bank AG	£3m
Term Deposits/Call Accounts	Australia – AAA	National Australia Bank	£3m
Term Deposits/Call Accounts	Spain – BBB	Banco Santander SA	£3m
Term Deposits/Call Accounts	US - AAA	JP Morgan	£3m
Term Deposits/Call Accounts	UK – AA+	Goldman Sachs International Bank	£3m
Gilts	UK – AA+	Debt Management office (DMO)	£3m or 25% of funds
Bonds	EU	European Investment Bank/Council of Europe	£3m or 25% of funds
AAA Rated Money Market Funds	UK/Ireland incorporated	Constant Net Asset Value MMFs	£5m or 30% of funds
Other MMFs and CIS	UK – AAA	Collective Investment Schemes	25%

ADUR DISTRICT COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	Nationwide BS	£4m
Term Deposits	UK – AA+	Yorkshire BS	£2m
Term Deposits	UK – AA+	Coventry BS	£2m
Term Deposits	UK – AA+	Skipton BS	£2m
Term Deposits	UK – AA+	Leeds BS	£2m
Share Capital	n/a	Local Capital Finance Company.	£0.05m
Share Capital/Loans	n/a	West Sussex Credit Union	£0.025k Share Capital £0.025k Loans

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, call accounts or Money Market Funds, or any combination thereof.

ADUR DISTRICT COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies	√ √	 √	5 years	The higher of £8m or 50% of funds	No
Gilts and Bonds: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £5m or 30% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes

SPECIFIED AND NON SPECIFIED INVESTMENTS

ADUR DISTRICT COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council’s fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

WORTHING BOROUGH COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK – AA+	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK – AA+	Santander UK	£4m
Term Deposits/Call Accounts	UK – AA+	Bank of Scotland/Lloyds	£4m
Term Deposits/Call Accounts	UK – AA+	Barclays	£4m
Term Deposits/Call Accounts	UK – AA+	Clydesdale	£4m
Term Deposits/Call Accounts	UK – AA+	HSBC	£4m
Term Deposits /Call / Overnight Accounts	UK – AA+	Cooperative Bank	£4m or 25% of funds
Term Deposits/Call Accounts	UK – AA+	Royal Bank of Scotland	£4m
Term Deposits/Call Accounts	Australia – AAA	National Australia Bank Ltd	£3m
Term Deposits/Call Accounts	Germany - AAA	Deutsche Bank AG	£3m
Term Deposits/Call Accounts	Spain – BBB	Banco Santander SA	£3m
Term Deposits/Call Accounts	Sweden – AAA	Svenska Handelsbanken AB	£3m
Term Deposits/Call Accounts	US - AAA	JP Morgan	£3m
Term Deposits/Call Accounts	UK – AA+	Goldman Sachs International Bank	£3m
Gilts	UK – AA+	Debt Management Office (DMO)	£3m or 25% of funds
Bonds	EU	European Investment Bank/Council of Europe	£3m or 25% of funds
AAA Rated Money Market Funds	UK/Ireland incorporated	Constant Net Asset Value MMFs	£5m or 30% of funds
Other MMFs and CIS	UK – AA+	Collective Investment Schemes	25%
Term Deposits	UK – AA+	Nationwide BS	£4m

WORTHING BOROUGH COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	Yorkshire BS	£2m
Term Deposits	UK – AA+	Coventry BS	£2m
Term Deposits	UK – AA+	Skipton BS	£2m
Term Deposits	UK – AA+	Leeds BS	£2m
Share Capital	n/a	Local Capital Finance Company.	£0.05m
Share Capital	n/a	West Sussex Credit Union	£0.025m Share Capital
Term Deposits	n/a	Worthing Homes Ltd	£5m
Temporary Loans	n/a	Worthing Leisure Trust	£0.5m

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, call accounts or Money market Funds, or any combination thereof.

SPECIFIED AND NON SPECIFIED INVESTMENTS

WORTHING BOROUGH COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies*	√ √	 √	5 years	The higher of £10m or 50% of funds	No
Gilts and Bonds*: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	 √ √ √ √ (on advice from treasury advisor)	 √ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £5m or 30% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £5m or 20% of funds	Yes

SPECIFIED AND NON SPECIFIED INVESTMENTS

WORTHING BOROUGH COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes issued by Corporate Bodies)	√ (on advice from treasury advisor	√	5 years	The higher of £2m or 10% of funds	Yes
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

APPENDIX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual treasury management strategy and Annual Investment Strategy
- approval of MRP Statement

(ii) Joint Strategic Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Joint Governance Committee

Receiving and reviewing the following, and making recommendations to the Cabinet

- regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

(iv) The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

Economic Background

UK. Strong UK GDP quarterly **growth** of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), means that the UK will have the strongest rate of growth of any G7 country in 2014. It also appears very likely that strong growth will continue through the second half of 2014 and into 2015 as forward surveys for the services and construction sectors are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though recent figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

This overall strong growth has resulted in **unemployment** falling much faster through the initial threshold of 7%, set by the **Monetary Policy Committee (MPC)** last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in **inflation** (CPI) during 2014 after being consistently above the MPC's 2% target between December 2009 and December 2013. Inflation fell to 1.2% in September, a five year low. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1% and then to remain near to, or under, the 2% target level over the MPC's two year ahead time horizon. Overall, markets are expecting that the MPC will be cautious in raising **Bank Rate** as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

The return to strong growth has also helped lower forecasts for the increase in **Government debt** by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

The Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB’s pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable but has made good progress in reducing its annual budget deficit and in returning, at last, to marginal economic growth. Whilst a Greek exit from the Euro is now improbable in the short term, some commentators still view the inevitable end game as either being another major right off of debt or an eventual exit.

There are also particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 24% and unemployment among younger people of over 50 – 60%. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. Any loss of market confidence in the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

APPENDIX E

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

USA. The Federal Reserve started to reduce its monthly asset purchases of $85bn in December 2013 by $10bn per month; these ended in October 2014, signalling confidence the US economic recovery would remain on track. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised). The first estimate of Q3 showed growth of 3.5% (annualised). Annual growth during 2014 is likely to be just over 2%.

The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions. It is currently expected that the Fed. will start increasing rates in mid 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has been mixed. There are also concerns that the Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Over time, an increase in investor confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

APPENDIX E

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

CAPITA ASSET SERVICES FORWARD VIEW

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.

- Fears generated by the potential impact of Ebola around the world

- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.

- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.

- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.

- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- Recapitalisation of European banks requiring considerable government financial support.

APPENDIX E

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

CAPITA ASSET SERVICES FORWARD VIEW

- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.