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JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18 TO 2019/20 ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY DIRECTOR OF DIGITAL AND RESOURCES

1.0 INTRODUCTION

1.1 Background

The Councils are required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in high quality counterparties or instruments commensurate with the Councils' low risk appetite, providing adequate liquidity initially, before considering investment return. This is consistent with national guidance which promotes security and liquidity above yield.

The second main function of the treasury management service is the funding of the Councils' capital plans. These capital plans provide a guide to the borrowing need of the Councils, essentially the longer term cash flow planning, to ensure that the Councils can meet their capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Councils' risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority'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 Reporting requirements

The Councils are 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), to be approved by the Joint Strategic Committee (JSC) - the first, and most important report covers:

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1.2 Reporting requirements

- 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.

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.

Scrutiny - The above reports are required to be scrutinised by the Joint Governance Committee (JGC) which 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.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Councils;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;

1.0 INTRODUCTION

1.3 Treasury Management Strategy for 2017/18

Treasury management issues

- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training is arranged as required.

The training needs of treasury management officers are periodically reviewed and officers attend courses provided by appropriate trainers.

1.5 Treasury management consultants

The Councils last undertook a joint re-tender for treasury management consultancy services in 2013. This culminated in the re-appointment of the Councils' incumbent consultants, Capita Treasury Solutions Limited (formerly known as Capita Asset Services Limited) on similar terms. The contract is currently being re-procured with a start date of 1 April 2017.

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

They also recognises 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.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

The Councils' capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.1 Capital expenditure

This prudential indicator is a summary of the Councils' capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

ADUR DISTRICT COUNCIL

Capital expenditure	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
Non-HRA	4.965	3.269	*19.390	*12.300	*11.291
HRA	4.651	4.340	6.496	5.100	5.100
TOTAL	**9.616**	**7.609**	**25.886**	**17.400**	**16.391**
Financed by:					
Capital receipts	0.372	0.772	0.740	0.606	0.606
Capital grants and contributions	1.591	0.987	4.047	1.143	0.318
Revenue Reserves & contributions	4.380	4.044	5.967	4.557	4.557
Net financing need for the year	**3.273**	**1.806**	**15.132**	**11.094**	**10.910**

***The capital expenditure includes £10m allocated to the Strategic Property Fund for 2017/18 and each of the following years.**

WORTHING BOROUGH COUNCIL

Capital expenditure	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
Non-HRA	**2.373**	***13.546**	***23.709**	***13.407**	***12.794**
Financed by:					
Capital receipts	0.590	0.369	6.140	0.500	0.500
Capital grants and contributions	0.865	1.394	0.941	0.792	0.774
Revenue Reserves & contributions	0.212	0.346	0.233	0.189	0.189
Net financing needed for the year	**0.706**	**11.437**	**16.395**	**11.926**	**11.331**

***The capital expenditure includes a £10m loan to a local Registered Social Landlord (£5m to be paid in 2016/17 and £5m in 2017/18) and the amounts allocated to the Strategic Property Fund - £5m in 2016/17 and £10m in 2017/18, 2018/19 and 2019/20.**

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.2 The Councils' borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Councils' Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Councils' underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Councils' borrowing requirement, these types of scheme include a borrowing facility and so the Councils are not required to separately borrow for these schemes.

The Councils are asked to approve the CFR projections below:

ADUR DISTRICT COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
Capital Financing Requirement					
CFR – non-HRA	15.003	15.918	30.231	40.380	50.338
CFR – HRA	61.819	60.103	60.103	60.103	60.103
Total CFR	**76.822**	**76.021**	**90.334**	**100.483**	**110.441**
Movement in CFR	**0.837**	**(0.801)**	**14.313**	**10.149**	**9.958**
Movement in CFR represented by					
Net financing need for the year (above)	3.273	1.806	15.132	11.094	10.910
Less: MRP/VRP and other financing movements	(2.436)	(2.607)	(0.819)	(0.945)	(0.952)
Movement in CFR	**0.837**	**(0.801)**	**14.313**	**10.149**	**9.958**

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.2 **The Councils' borrowing need (the Capital Financing Requirement)**

WORTHING BOROUGH COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
Capital Financing Requirement					
CFR – non housing	**23.361**	**33.821**	**49.143**	**59.922**	**70.034**
Movement in CFR	**(0.225)**	**10.460**	**15.322**	**10.779**	**10.112**
Movement in CFR represented by					
Net financing need for the year (above)	0.706	11.437	16.395	11.926	11.331
Less MRP/VRP and other financing movements	(0.931)	(0.977)	(1.073)	(1.147)	(1.219)
Movement in CFR	**(0.225)**	**10.460**	**10.322**	**10.779**	**10.112**

2.3 **Minimum revenue provision (MRP) policy statement**

The Councils are required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although they are also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP). CLG regulations have been issued which require the full Councils to approve an MRP Statement in advance of each year. The 2016/17 MRP Statements were approved by Adur Council on 25th February 2016 and by Worthing Council on 23rd February 2016 and were amended at JSC on 2 June 2016.

A variety of options are provided to councils, so long as there is a prudent provision. The Councils are recommended to approve the following MRP Statements:

<u>Adur District Council</u>

For Adur District Council it was first approved by the Policy and Strategy Committee on 18th March 2008 that for capital expenditure incurred before 1st April 2008, the MRP will be calculated on 4% of the Non-Housing CFR at the closing balance of the previous financial year (ie no "Adjustment A" to negate the impact on Council Tax – the CFR Method). No such policy was required by Worthing Borough Council who had no debt at this time.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.3 Minimum revenue provision (MRP) policy statement

2.3.1 **<u>Adur District Council</u>**
<u>General Fund</u>

For non-HRA capital expenditure after 1st April 2008 the MRP will be calculated as the annual amount required to repay borrowing based on the annuity method: equal annual payments of principal and interest are calculated, with the interest element reducing and the principal element increasing as the principal is repaid. The interest is based on the rate available to the Council at the beginning of the year in which payments start and the MRP is calculated as the amount of principal, so that by the end of the asset's life the principal is fully repaid. The option remains to use additional revenue contributions or capital receipts to repay debt earlier (the Asset Life Method).

An exception was agreed in the 2015/16 Treasury Management Strategy Statement: the Chief Financial Officer has discretion to defer MRP relating to debt arising from loans to Registered Social Landlords (RSLs) to match the profile of debt repayments from the RSL. RSLs 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 is therefore cash (and revenue cost) neutral to the Council.

If concerns arise about the ability of the RSL to repay the loan, the Chief Financial Officer will use the approved discretion to make MRP as a "prudent provision" from the earliest point to ensure that sufficient funds are set aside from revenue to repay the debt at maturity if the RSL defaults.

It is proposed to use the same policy for 2017/18.

<u>Housing Revenue Account</u>

Unlike the General Fund, the HRA is not required to set aside funds to repay debt. The Adur HRA debt at the beginning of 2012/13 was close to the Government's imposed debt limit of £68.912m. The Council is not permitted to borrow in excess of this amount for HRA purposes. The Council's MRP policy to date has applied the financially prudent option of voluntary MRP for the repayment of HRA debt, to facilitate new borrowing in future for capital investment.

It is proposed to change this approach for 2017/18: in order to provide additional capital funding to address the maintenance backlog identified by the condition survey, the voluntary MRP will be suspended for a period of 9 years whilst the Council invests in its current housing stock and manages the impact of rent limitation.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.3 Minimum revenue provision (MRP) policy statement

2.3.2 **Worthing Borough Council**

Worthing's MRP policy was also amended at JSC on 2 June 2016, when the annuity method was approved. Worthing has the same discretion as Adur Council in the application of MRP in respect of loans to RSLs. It is proposed to retain this policy for 2017/18.

If any finance leases are entered into the repayments are applied as MRP.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Councils' overall finances. The Councils are asked to approve the following indicators:

2.5 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

ADUR DISTRICT COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%
Non-HRA	13.93	15.48	16.22	19.36	19.54
HRA	41.94	40.76	24.10	25.94	25.46

The HRA ratio for 2017/18 onwards is lower due to the suspension of VRP.

WORTHING BOROUGH COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%
Non-HRA	7.36	8.27	10.01	11.04	11.84

The estimates of financing costs include current commitments and the proposals in this budget report.

2.6 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Councils' existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of increase in Council Tax.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

2.6 Incremental impact of capital investment decisions on Council Tax

Incremental impact of capital investment decisions on the band D Council Tax

ADUR DISTRICT COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£	£	£	£	£
Council Tax - Band D	(5.92)	7.10	(0.33)	4.97	0.25

WORTHING BOROUGH COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£	£	£	£	£
Council Tax - Band D	(1.77)	3.74	4.13	2.65	2.69

2.7 Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the Council Tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Adur District Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels:

ADUR DISTRICT COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£	£	£	£	£
Weekly housing rent levels	(0.39)	(0.40)	(14.09)	(0.49)	(0.41)

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls. The reduction for 2017/8 is due to the suspension of VRP.

3.0 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Councils. The treasury management function ensures that the Councils' cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Councils' treasury portfolio positions at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

ADUR DISTRICT COUNCIL

The increase in debt includes £10m in 2017/18 and the following years for investment in the Strategic Property Fund.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
External Debt					
Debt at 1 April	75.986	74.268	72.549	83.975	91.363
Expected change in Debt	(1.718)	(1.719)	11.426	7.388	7.203
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Debt at 31 March	**74.268**	**72.549**	**83.975**	**91.363**	**98.566**
The Capital Financing Requirement	**76.822**	**76.021**	**90.334**	**100.483**	**110.441**
Under / (over) borrowing	**2.554**	**3.472**	**6.359**	**9.120**	**11.875**

WORTHING BOROUGH COUNCIL

The increase in debt allows for £5m in 2016/17 and £5m in 2017/18 for the Worthing loan to Worthing Homes and £5m in 2016/17 and £10m in the following years for investment in the Strategic Property Fund.

3.0 BORROWING

3.2 **Current portfolio position**

WORTHING BOROUGH COUNCIL

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m	£m
External Debt					
Debt at 1 April	18.088	19.136	26.136	40.531	50.457
Expected change in Debt	1.048	7.000	14.395	9.926	9.331
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Debt at 31 March	**19.136**	**26.136**	**40.531**	**50.457**	**59.788**
The Capital Financing Requirement	**23.361**	**33.821**	**49.143**	**59.922**	**70.034**
Under / (over) borrowing	**4.225**	**7.685**	**8.612**	**9.465**	**10.246**

Within the prudential indicators there are a number of key indicators to ensure that the Councils operate their activities within well-defined limits. One of these is that the Councils need to ensure that their gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Financial Officer reports that the Councils complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 **Treasury Indicators: limits to borrowing activity**

<u>The operational boundary</u> - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

3.0 BORROWING

3.2 Treasury Indicators: limits to borrowing activity

ADUR DISTRICT COUNCIL

Operational boundary	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	**£m**	**£m**	**£m**
Debt	93.0	93.0	103.0	113.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**94.0**	**94.0**	**104.0**	**114.0**

WORTHING BOROUGH COUNCIL

Operational boundary	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	**£m**	**£m**	**£m**
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Other Debt	29.0	41.0	51.0	61.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**40.0**	**52.0**	**62.0**	**72.0**

The authorised limit for external debt - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Councils. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Councils are asked to approve the following authorised limits:

ADUR DISTRICT COUNCIL

Authorised limit	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	**£m**	**£m**	**£m**
Debt	99.0	99.0	109.0	119.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**100.0**	**100.0**	**110.0**	**120.0**

3.0 BORROWING

3.2 Treasury Indicators: limits to borrowing activity

WORTHING BOROUGH COUNCIL

Authorised limit	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Other Debt	34.0	49.0	54.0	64.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**45.0**	**60.0**	**65.0**	**75.0**

Separately, Adur District Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	2016/17 Approved	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£m	£m	£m	£m
HRA debt cap	68.912	68.912	68.912	68.912
HRA CFR	60.103	60.103	60.103	60.103
HRA headroom	8.809	8.809	8.809	8.809

3.3 Prospects for interest rates

The Councils have appointed Capita Asset Services as their treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year.

3.0 BORROWING

3.3 Prospects for interest rates

However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

3.0 BORROWING

3.3 Prospects for interest rates

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
-
- Major national polls:

  Italian constitutional referendum 4.12.16;

  Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.

  Dutch general election 15.3.17;

  French presidential election April/May 2017;

  French National Assembly election June 2017;

  German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats

- Weak capitalisation of some European banks, especially Italian.

- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU and US.

3.0 BORROWING

3.3 Prospects for interest rates

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

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

- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;

- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns

3.4 Borrowing Strategy

The Councils are both currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Councils' reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are currently low and counterparty risk is still an issue that needs to be considered.

3.0 BORROWING

3.4 Borrowing Strategy

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *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 will be considered.
- *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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Fixed rate funding probably will be drawn whilst interest rates are still lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Both Councils will refer in the first instance to the Public Works Loan Board (PWLB) for sourcing their 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 Local Government Association Municipal Bonds Agency (see para 3.10), may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

Given the expected under borrowing position of the Councils, 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 fixed rate loans for up to 20 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**.**

3.0 BORROWING

3.6 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.

3.7 **Treasury management limits on activity**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Councils' exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Councils are asked to approve the following treasury indicators and limits:

ADUR DISTRICT COUNCIL

Interest rate exposures	2017/18	2018/19	2019/20
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates – debt only	100	100	100
Limits on fixed interest rates – Investments only	100	100	100
Limit on fixed interest rates on net debt	100	100	100
Limits on variable interest rates – debt only	25	25	25
Limits on variable interest rates - Investments only	100	100	100

3.0 BORROWING

3.7 Treasury management limits on activity

ADUR DISTRICT COUNCIL

Maturity structure of fixed interest rate borrowing		
	Lower Limit	**Upper Limit**
Under 12 months	0%	10%
12 months to 2 years	0%	15%
2 years to 5 years	0%	20%
5 years to 10 years	0%	30%
10 years to 20 years	0%	35%
20 years to 30 years	0%	30%
30 years to 40 years	0%	30%
40 years to 50 years	0%	45%

WORTHING BOROUGH COUNCIL

Interest rate exposures	2016/17	2017/18	2018/19
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates – debt only	100	100	100
Limits on fixed interest rates – Investments only	100	100	100
Limit of fixed interest rates on net debt	100	100	100
Limits on variable interest rates – debt only	25	25	25
Limits on variable interest rates - Investments only	100	100	100

Maturity structure of fixed interest rate borrowing		
	Lower Limit	**Upper Limit**
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	75%
20 years to 30 years	0%	50%

3.0 BORROWING

3.8 Policy on borrowing in advance of need

The Councils will not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Councils can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.9 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, 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 size of 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;
- enhancement of the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identifying any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

74% of Adur’s debt portfolio consists of long term loans with a duration of over 10 years left to run, and at rates above prevailing market rates for equivalent loans. The cost to redeem these loans early would incur a large debt premium, making this an unaffordable option.

By contrast, only 3% of Worthing’s existing fixed rate debt portfolio is for over 10 years, so options for early settlement do not really apply.

All rescheduling will be reported to the Councils at the earliest meeting following its action

3.10 Municipal Bond Agency

The Municipal Bond Agency intends to offer loans to local authorities in the future. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

Background - Investment Policy

4.1 The Councils' 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 Councils' investment priorities will be security first, liquidity second, then return.

4.2 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.

4.3 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 A.

4.4 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 4.5 - 4.16.

Creditworthiness Policy

4.5 The Councils use the creditworthiness service provided by Capita Treasury Solutions Limited. If a different Treasury Management Advisor is appointed from April 1, the Councils will use the new advice in the most similar way possible in order to maintain the security of the Councils' investments. The Capita 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

4.6 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.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Creditworthiness Policy

4.7 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.4.10-4.11), the categorised counterparties within the following durational bands: -

- Yellow (Y) 5 years *
- Dark pink (Pi1) 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink (Pi2) 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple (P) 2 years
- Blue (B) 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange (O) 1 year
- Red (R) 6 months
- Green (G) 100 days **
- No colour (N/C) 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.

4.8 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.

4.9 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.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

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

4.10 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.

4.11 Accordingly, the Councils may exercise discretion to deviate from Capita's 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

4.12 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 Councils 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 Limited. :

"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."

4.13 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.

Country Limits and Proposed Monitoring Arrangements

4.14 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 one). The list of countries that qualify using these credit criteria is reflected in the Counterparty Approved Lending List shown at Appendix A. No more than 25% of investments shall be placed in Non-UK financial institutions at any given time.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

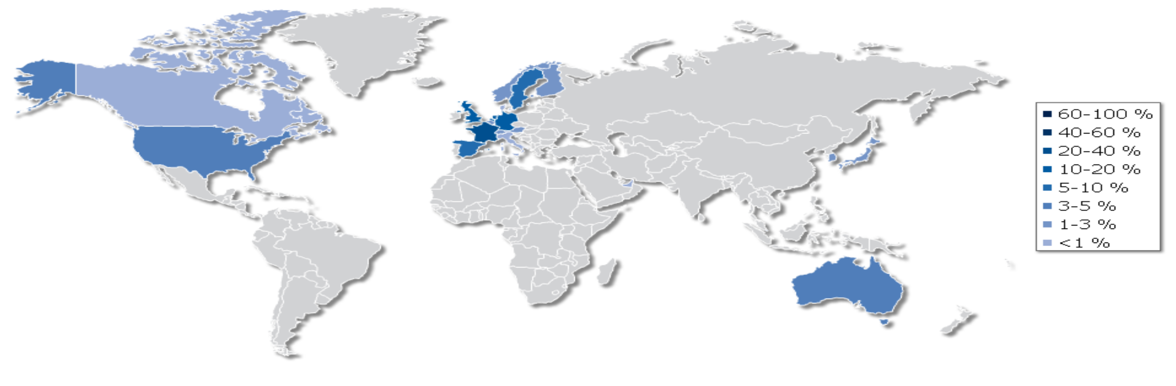
Country Limits and Proposed Monitoring Arrangements

4.15 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.

4.16 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).

4.17 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 MMFs, 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%

4.18 The Interest Rate Outlook is summarised in 3.3 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 one) which make longer term deals worthwhile and within the risk parameters set by the Councils.

4.19 <u>In-house funds</u> - 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).

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

Country Limits and Proposed Monitoring Arrangements

4.20 Investment returns expectations - Bank Rate is forecast to remain unchanged at 0.25% before starting to rise from quarter 2 of 2019. Bank Rate forecasts for financial year ends (March) are:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

Investment Outlook

4.21 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.

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

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

4.23 Within the approach described in 4.18 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 below.

Investment Outlook

ADUR DISTRICT COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 364 DAYS			
	2017/18	**2018/19**	**2019/20**
Principal sums invested > 364 days	50%	50%	50%

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

Investment Outlook

WORTHING BOROUGH COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 364 DAYS			
	2017/18	**2018/19**	**2019/20**
Principal sums invested > 364 days	50%	50%	50%

Investments managed in-house

4.24 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.

4.25 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 JGC and JSC in accordance with the reporting arrangements contained in the Treasury Management Practices Statement.

4.26 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.

4.27 The Councils' proposed investment activity for placing cash deposits in 2017/18 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.
- the top five building societies by asset size

Use of Building Societies

4.28 In recognition of the inclusion of the building society names and that they may 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

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

Impact of European Commission Proposals for Money Market Funds

4.29 The Councils use of Money Market Funds (MMFs) 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.

4.30 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 MMFs 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).

4.31 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 MMFs 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 MMFs indicate it would be impractical to continue.

4.32 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 MMFs 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.

4.33 Alongside the use of MMFs, the Councils will utilise Call or Notice Accounts offered by counterparties included within the Approved Counterparty Investment List. These accounts differ from MMFs 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 MMFs or fixed term deposits with banks and building societies meeting the Councils’ short term investment criteria.

Other Options for Longer Term Investments

4.34 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:

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

(i) <u>Multilateral development bank bonds</u> - 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 and Development Bank etc.).

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2017/18

Other Options for Longer Term Investments

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

(ii) <u>A financial institution that is guaranteed by the United Kingdom Government</u> (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 A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

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.

g) **Property Investment Funds** for example the Local Authority Property Fund. The Councils will consult the Treasury Management Advisors and undertake appropriate due diligence before investment of this type is undertaken. Some of these funds are deemed capital expenditure – the Councils will seek guidance on the status of any fund considered for investment.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

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 (h) and (i) above the Councils will seek f urther advice on the appropriateness and associated risks with investments in these categories as and when an opportunity presents itself).

4.35 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.

4.36 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.

5.0 BALANCED BUDGET REQUIREMENT

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

6.0 OTHER MATTERS

Shared Services Arrangement with Mid Sussex District Council

6.1 The Councils' in-house treasury management team provides services to Mid Sussex District Council under a Shared Services Arrangement (SSA). The contract was recently renewed for a further three years to 17th October 2019.

Worthing Leisure Trust

6.2 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%.

6.0 OTHER MATTERS

Property Funds

6.3 To offer more options for increased long term income, Property Funds have been added to the list of non-specified investments. Such investment will only be made following due diligence including advice from the Councils' Treasury Management Advisors. The Local Authorities' Property Fund is considered to be a potentially suitable investment.

7.0 LEGAL

7.1 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.

7.2 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.

8.0 RECOMMENDATIONS

8.1 The Joint Strategic Committee is recommended to:

i) approve and adopt the TMSS and AIS for 2017/18-2019/20, 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 21 February 2017, and by Adur Council at its meeting on 23 February 2017.

iii) Forward the report for noting to the meeting of the Joint Governance Committee to be held on 28 March 2017.

8.2 The Joint Governance Committee is recommended to:

i) note the TMSS and AIS report (including the Prudential Indicators and Limits, and MRP Statements) for 2017/18 - 2019/20,

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

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Background Papers:

(1) Joint Treasury Management Strategy and Annual Investment Strategy 2016/17 to 2018/19, JSC 2 Feb 2016.

(2) Overall Budget Estimates 2017/18 and Setting of 2017/18 Council Tax Report

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

(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 2013)

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 and 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 1.3 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

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 Councils' treasury advisor.*

For credit rated counterparties, the minimum criteria, excepting for the Councils' own banker and the specified building societies, (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 A- (SandP) or A- (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 Group	£4m
Term Deposits /Call / Overnight Accounts	UK – AA	Close Brothers Limited	£4m
Term Deposits/Call Accounts	Germany – AAA	Deutsche Bank AG	£3m
Term Deposits/Call Accounts	Australia – AAA	National Australia Bank	£3m
Term Deposits/Call Accounts	US – AAA	JP Morgan Chase Bank	£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%

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

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.

NB Investments in AAA rated Money Market Funds are limited to £5m or 30% of funds except that this limit may be breached for liquidity purposes for up to 1 week at any time.

APPENDIX A - ANNEX 1

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, maximum of £2m per institution	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, maximum of £3m per fund	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
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority, such as the Local Authorities' Property Fund	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 10% of funds	To be confirmed
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	Close Brothers Limited	£4m
Term Deposits/Call Accounts	UK – AA	Royal Bank of Scotland Group	£4m
Term Deposits/Call Accounts	Australia – AAA	National Australia Bank Limited	£3m
Term Deposits/Call Accounts	Germany - AAA	Deutsche Bank AG	£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 Limited	£10m
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.

NB Investments in AAA rated Money Market Funds are limited to £5m or 30% of funds except that this limit may be breached for liquidity purposes for up to 1 week at any time.

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, maximum of £2m per institution	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, maximum of £3m per fund	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
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority, such as the Local Authorities' Property Fund	√ (on advice from treasury advisor	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Tobe confirmed
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 B

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 Statement 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.

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

UK GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a ‘business as usual’ mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics’ GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do ‘whatever is needed’ i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October.The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%.

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

USA. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the bond market and bond yields rose sharply in the week after his election. Time will tell if this is a a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn.

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

EZ. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

- Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- French presidential election; first round 13 April; second round 7 May 2017.

- French National Assembly election June 2017.

- German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

Asia. Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

HRA TREASURY MANAGEMENT STRATEGY

1.0 INTRODUCTION

1.1 This Appendix sets out the HRA Treasury Management Strategy Statement for 2017-18. The requirement to produce a separate strategy specifically for HRA is a direct consequence of the introduction of the self-financing regime, as it reflects the underlying principle that borrowing and debt management decisions should operate equitably and independently from the General Fund.

1.2 The treasury management and investment strategies presented and proposed for 2017/18 are unchanged from 2016/17, as it has been accepted by the Council's external auditors as an appropriate method of apportioning debt management costs and interest accrued from balances and investments between HRA and General Fund. However, in order to provide additional capital funding to address a backlog of maintenance, the Voluntary Revenue Provision will be suspended for at least 10 years.

1.3 Underpinning all Treasury Management activity of the Council is the CIPFA Treasury Management Code of Practice, which was last revised in November 2011 to address the implications for introducing HRA Self-financing from 2012/13.

1.4 The published Code identified the need for local authorities "….to allocate existing and future borrowing costs between housing and General Fund as the current statutory method of apportioning debt charges between the General Fund and HRA will cease".

1.5 The Council has adopted the "Two-Pooled Approach". This entailed allocating historic debt at 31 March 2012 between HRA and General Fund, with any new debt acquired after this date to be assigned to the HRA or General Fund according to the purpose for which it is acquired.

1.6 Additionally, the Strategy aims to achieve borrowing outcomes that are affordable, sustainable and prudent in keeping with the requirements of the Prudential Code for Capital Finance in Local Authorities. This Code requires the Council to consider the impact of borrowing as well as address a number of other fundamental principles, being:

(i) The splitting of loans (i.e. debt) at the HRA Settlement transition date must be of no detriment to the General Fund.

(ii) The Council is required to deliver a solution that is broadly equitable between the HRA and the General Fund;

(ii) Future charges to the HRA in relation to borrowing are not influenced by General Fund decisions, giving the HRA greater freedom, independence, certainty and control;

(iv) Uninvested balance sheet resources which allow borrowing to be below the CFR are properly identified between General Fund and HRA.

HRA TREASURY MANAGEMENT STRATEGY

1.6 Points (i) – (iii) above were addressed by adopting the “Two-Pool Approach”. The last point is met in the Strategy in accordance with the CIPFA Treasury Management code recommendation that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to HRA and General Fund.

1.7 With these background principles and approaches in place the HRA Treasury Management Strategy aims to cover:

- Overall Objectives

- The Current & Future Position – Underlying Need to Borrow compared to Actual Borrowing

- The Debt Maturity Profile & Headroom for New Borrowing

- How to allocate debt and attributable financing costs between HRA and General Fund equitably

- How to recognise HRA cash balances and reserves which form part of the Council’s total investments

- How to recognise any costs or revenues generated from over/under borrowing

1.8 Accordingly, these aspects of the Strategy are approached in turn.

2.0 OVERALL OBJECTIVES OF THE HRA TREASURY MANAGEMENT STRATEGY

The central aim of the Strategy agreed for 2016/17 and unchanged for 2017/18 is:

- to provide borrowing that is affordable, sustainable and prudent, as required by The Prudential Code, and which underpins the requirements of the HRA Capital Investment Programme, 30 year Business Plan, and any other corporate plans.

- to manage the HRA investments and cash flows, its banking, money market and capital market transactions within the purview of the Council’s overall Treasury Management Strategy, and to provide effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- to support budget and service delivery objectives for the benefit of tenants at no detriment to the General Fund or council taxpayers generally.

HRA TREASURY MANAGEMENT STRATEGY

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.1 The underlying need to borrow for capital investment is called the Capital Financing Requirement (CFR) and relates to the amount of planned capital expenditure that is not financed from internal resources, which for HRA are primarily capital receipts, revenue contributions, and the Major Repairs Reserve.

3.2 Capital expenditure in any year above the amount allocated to be used from these resources must be financed from borrowing or other credit arrangements (e.g. leasing), and results in an increase to the CFR. By comparing the CFR to the amount of actual borrowing, the extent to which the Council is under or over borrowed is determined, and this provides a key prudential indicator for performance management. The HRA Debt Limit is £68.912m. The current estimates, based on the capital investment programme for the next three years, are shown in the table below:

Adur District Council	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement (CFR)					
General Fund	15.003	15.918	30.231	35.380	40.338
Housing Revenue Account	61.819	60.103	60.103	60.103	60.103
Total CFR	**76.822**	**76.021**	**90.334**	**95.483**	**100.441**
Actual Debt					
General Fund	(12.978)	(12.968)	(26.100)	(30.194)	(34.104)
Housing Revenue Account	(61.290)	(59.581)	(57.875)	(56.169)	(54.462)
Total Debt Amount	**(74.268)**	**(72.549)**	**(83.975)**	**(86.363)**	**(88.566)**
(Over)/Under Borrowing					
General Fund	2.025	2.950	4.131	5.186	6.234
Housing Revenue Account	0.529	0.522	2.228	3.934	5.641
Total	**2.554**	**3.472**	**6.359**	**9.120**	**11.875**
HRA Borrowing Headroom	**7.622**	**9.331**	**11.037**	**12.743**	**14.450**

(Note that the General Fund position is shown for comparative purposes and is extracted from the Annual Treasury Management & Annual Investment Strategy Report 2017/18-2019/20 submiited to the meeting of the Joint Strategic Committee on 2nd February 2017).

HRA TREASURY MANAGEMENT STRATEGY

3.0 THE CURRENT POSITION – UNDERLYING NEED TO BORROW COMPARED TO ACTUAL BORROWING

3.3 The comparison shows the HRA is under borrowed at the end of 2015/16 by £529k, reflecting the amount by which debt outstanding and Minimum Revenue Provision (MRP) has reduced over and above the incidence of new capital expenditure financed from borrowing since 2012/13. In the following years the amount by which actual borrowing is below CFR changes as the value of debt repaid and MRP provided for in each year exceeds the amount of new borrowing anticipated to fund capital investment.

3.4 The propensity to bring actual borrowing into line with the CFR is constrained by the requirement to stay within the HRA Debt Limit of £68.912m imposed by Central Government. This is only a constraint if the CFR based on capital investment proposals is above the debt limit. However, for all years from 2017/18 to 2019/20 the CFR is projected to be below the debt as reflected in the capital investment proposals to be approved by the meeting of the Joint Strategic Committee on 2 February 2017.

4.0 THE DEBT MATURITY PROFILE AND HEADROOM FOR NEW BORROWING

The last row of the table in the preceding section compares the existing debt profile with the Debt Ceiling Limit of £68.912m. The amount by which actual borrowing is below the limit provides “Headroom” for new borrowing to fund capital expenditure. For each of the years to 2019/20 the headroom is more than sufficient to allow new borrowing to occur to bring total indebtedness in line with the underlying need to borrow as measured by the CFR – albeit the decision to borrow will be influenced by the prevailing forecast for interest rates, alternative sources of capital funding, and the ability to meet the direct financing costs of borrowing from within the approved HRA budget.

5.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN HRA AND GENERAL FUND EQUITABLY – THE TWO POOLED APPROACH

5.1 The methodology adopted in the Strategy draws upon CIPFA guidance relating to the two pooled approach, the essence of which is:

– to disaggregate historic debt at the HRA Debt Settlement transition date by the CIPFA methodology and allocate the respective portions to the HRA and General Fund. To each share is added new debt arising after the transition date according to the purpose for which it was incurred.

HRA TREASURY MANAGEMENT STRATEGY

5.0 HOW TO ALLOCATE DEBT AND ATTRIBUTABLE FINANCING COSTS BETWEEN HRA AND GENERAL FUND EQUITABLY – THE TWO POOLED APPROACH

5.2 In adopting this methodology, the Council was mindful of its Treasury Management Consultant's comments that "The two pool approach is the preferred option by CIPFA and DCLG. It is relatively simple and allows the HRA to present a preferred funding structure to the Treasury Management team. It allocates a greater proportion of fixed rate borrowing to the HRA, which may suit its needs as it provides a greater degree of certainty over initial costs".

5.3 Another reason for adopting the two pool approach was that an assessment was made of the impact of the resultant financing costs at transition on the HRA and it was concluded that the effect was negligible.

5.4 For historic debt at the transition date, the two pooled approach assumed the HRA was fully borrowed at the level of its CFR, with the residual debt attributed to the General Fund. Thus, any over borrowing at that date was attributed to the General Fund, rather than shared with the HRA. The effect at 31 March 2012 of applying the two pooled approach was:

CFR Allocations at Transition Date		**Debt Allocations at Transition Date**	
	£000		**£000**
HRA	68,676	HRA	68,676
General Fund	11,160	General Fund	13,430
TOTAL	**79,836**	**TOTAL DEBT**	**82,106**

6.0 HOW TO RECOGNISE HRA CASH BALANCES AND RESERVES WHICH FORM PART OF THE COUNCIL'S TOTAL INVESTMENTS

6.1 Before 2012/13, the former subsidy system provided for a statutory determination – the Item 8 credit – to attribute interest on notional average HRA cash balances to the HRA Comprehensive Income and Expenditure statement.

6.2 This recognised the general principal that the HRA should benefit from its cash balances and reserves, and the introduction of the self-financing arrangements did not alter this principle.

6.3 The Strategy adopts the CIPFA recommended approach for all investments to be pooled, since it states that the "interest on cash balances calculation can be used to manage the charge between HRA and General Fund". Accordingly, to do this the Strategy retains the use of the notional average cash balance approach used within the former Statutory Item 8 calculation as the basis for crediting the HRA share of interest receivable.

HRA TREASURY MANAGEMENT STRATEGY

7.0 HOW TO RECOGNISE ANY COSTS OR REVENUES GENERATED FROM OVER/UNDER BORROWING

7.1 In practice it is recognised that there will be timing differences between the Council's underlying need to borrow (the CFR) and actual borrowing.

7.2 Where under borrowing occurs, the Council is drawing upon internal reserves and balances to fund capital expenditure, and therefore bears the cost of interest foregone on the amount of cash consumed that might otherwise be invested.

7.3 Conversely, where over borrowing occurs surplus cash to requirements is held that forms part of surplus cash available for investment. This may arise where borrowing for capital expenditure is undertaken in advance of actual expenditure to take advantage of low interest rates.

7.4 In both scenarios the CIPFA Treasury Management code states that the effect should be included in the interest on balances calculation to appropriately allocate the respective portions to HRA and General Fund.

7.5 Accordingly, the Strategy adopts the approach whereby the relevant credit or debit shall be computed with reference to the difference between the HRA and General Fund CFR and the respective actual debt during the year. Where an over-borrowing position occurs interest shall be credited at the average rate of interest on all investments prevailing for the period during which the over borrowing was sustained. For an under-borrowed position, interest shall be charged to reflect the interest foregone through consumption of internal resources and at the average rate of all investments achieved during the period of under borrowing.