



ADUR & WORTHING  
COUNCILS

Joint Governance Committee  
Date: 28th November, 2017  
Agenda Item 6

Joint Strategic Committee  
Date: 5th December, 2017  
Agenda Item xx  
Key Decision : No  
Ward(s) Affected:

## MID YEAR REVIEW OF TREASURY MANAGEMENT 2017-18, ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

### REPORT BY THE DIRECTOR FOR DIGITAL AND RESOURCES

#### EXECUTIVE SUMMARY

##### 1. PURPOSE

- 1.1 This report asks Members to note the Treasury Management mid-year performance for Adur and Worthing Councils at the 30 September 2017, as required by regulations issued under the Local Government Act 2003.

##### 2. RECOMMENDATIONS

###### 2.1 Recommendation One

The Joint Governance Committee is recommended to note this report and refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 5<sup>th</sup> December 2017.

###### 2.2 Recommendation Two

The Joint Strategic Committee is recommended to note this report.

###### 2.3 Recommendation Three

The Joint Strategic Committee is recommended to recommend to Council to approve increases in the Prudential Indicator limits for the Operational Boundaries and the Authorised Limits for borrowing, due to the approved strategies for additional expenditure on the purchase of strategic property.

### **3. CONTEXT**

- 3.1 This report summarises the treasury management activities and portfolio for both Adur and Worthing Councils for the half year to 30 September 2017.
- 3.2 This is one of 3 treasury management reports that are required to be presented during the financial year (see Para. 4.1.3).
- 3.3 The Councils operate balanced budgets, which broadly means cash raised during the year will meet cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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 the Councils can meet their capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined 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.”

- 3.4 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Council priorities set out in Platforms for our Places.

### **4. ISSUES FOR CONSIDERATION**

- 4.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) is adopted by the Councils.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Councils' treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Councils will seek to achieve those policies and objectives.
3. Receipt by the full Councils of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Councils of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Councils of the role of scrutiny of treasury management strategy and policies to a specific named body. For these Councils the delegated bodies are the Joint Governance Committee and the Joint Strategic Committee.

## 4. ISSUES FOR CONSIDERATION

4.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2017/18 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Councils' capital expenditure (prudential indicators);
- A review of the Councils' investment portfolios for 2017/18;
- A review of the Councils' borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

## 5. THE ECONOMY AND INTEREST RATES

*The following commentary has been supplied by **Capita Asset Services Ltd**, the professional consultants for the Councils' shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

### 5.1 Economics update

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two year's time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation.

## 5. THE ECONOMY AND INTEREST RATES

### 5.1 Economics update

This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

## 5. THE ECONOMY AND INTEREST RATES

### 5.2 Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
<b>BANK RATE</b>	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
<b>3 month LIBID</b>	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
<b>6 month LIBID</b>	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
<b>12 month LIBID</b>	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
<b>5 yr PWLB</b>	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
<b>10 yr PWLB</b>	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
<b>25 yr PWLB</b>	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
<b>50 yr PWLB</b>	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

At the November MPC meeting Bank Rate was increased by 0.25% to 0.50%. The MPC also gave forward guidance that they expected to increase Bank Rate only twice more in the next two years to reach 1.0% by 2020. As this was the first increase in Bank Rate for a decade, the MPC was right to avoid alarming consumers and financial markets and to be very reassuring about the pace of future increases.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- 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.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

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

- 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.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## 6. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Joint Strategic Committee on 2<sup>nd</sup> February 2017. Some revision is required in the light of subsequent strategic decisions: both Councils have approved increases in the strategic property investment funds (£15m for each Council). Consequently the projected borrowing and Capital Financing Requirements have increased and the Prudential Indicators for the Operational Boundaries and Authorised Limits for borrowing also need to be increased as shown in the following tables.

## 7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Councils' capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

### 7.1 Prudential Indicator for Capital Expenditure

These tables show the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

#### Adur District Council

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
HRA	6.496	1.617	7.910
Non HRA	19.390	15.230	35.821
Total capital expenditure	25.886	16.847	45.731

The increase in the Adur revised capital expenditure estimate is due mainly to:

- JSC approval to commit an additional £15m to strategic property investment, which has not yet been spent;
- the approval to spend £1.2m on the provision of affordable housing, to be funded from capital receipts;
- re-profiling of other budgets from 2016/17

#### Worthing Borough Council

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
Total capital expenditure	23.709	18.171	50.869

## 7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

### 7.1 Prudential Indicator for Capital Expenditure

The increase in the Worthing revised capital expenditure estimate is due mainly to:

- JSC approval to increase the strategic property investment fund by an additional £16.5m, plus re-profiled budget from 2016/17 of £3.5m (£21m of the fund is still available);
- the re-profiling of the first £5m tranche of the loan to Worthing Homes from 2016/17; the second tranche of £5m is expected to be drawn down in December 2017;
- re-profiling of other budgets from 2016/17

### 7.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Councils by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

#### Adur District Council

	2017/18 Original Estimate	2017/18 Revised Estimate
	£m	£m
Total Capital Expenditure	25.886	43.731
Financed by:		
Capital receipts	0.740	2.087
Grants & contributions	4.047	2.223
Reserves and revenue	5.967	5.972
Total financing	10.754	10.282
Borrowing requirement	15.132	33.449

#### Worthing Borough Council

	2017/18 Original Estimate	2017/18 Revised Estimate
	£m	£m
Total Capital Expenditure	23.709	50.869
Financed by:		
Capital receipts	6.140	5.859
Grants & contributions	0.941	1.415
Reserves & revenue	0.233	0.433
Total financing	7.314	7.707
Borrowing requirement	16.395	43.162

The Worthing capital receipt relates mainly to the sale of the Aquarena site.

## 7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

### 7.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. Due to the increased strategic property investment funds the CFRs will be higher than forecast in the TMSS.

The table also shows the expected debt position over the period, which is termed the Operational Boundary. "Other long term liabilities" includes finance leases.

#### Adur District Council

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
<b>Prudential Indicator Capital Financing Requirement</b>			
CFR - HRA	60.103	60.103	61.537
CFR – non HRA	30.231	29.909	46.212
Total CFR	90.334	90.012	107.749
Net movement in CFR	14.313	15.000	32.737
<b>Prudential Indicator The Operational Boundary for external debt</b>			
	<b>Op Boundary</b>	<b>Actual Debt</b>	<b>Op Boundary</b>
Borrowing	93.00	86.81	110.00
Other long term liabilities	1.00	0.000	1.00
Total debt (year-end position)	94.00	86.81	111.00

#### Worthing Borough Council

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
<b>Prudential Indicator Capital Financing Requirement</b>			
CFR – non housing	49.143	34.696	64.737
Net movement in CFR	15.322	12.312	42.353
<b>Prudential Indicator The Operational Boundary for external debt</b>			
	<b>Op Boundary</b>	<b>Actual Debt</b>	<b>Op Boundary</b>
Borrowing re Worthing Homes	10.00	5.00	10.00
Other Borrowing	41.00	29.63	56.00
Other long term liabilities	1.00	0.00	1.00
Total debt (year-end position)	52.00	34.63	67.00



## 7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

### 7.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Councils have approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

#### Adur District Council

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
Borrowing	83.975	86.814	107.289
Other long term liabilities	0.000	0.000	0.000
Total debt	83.975	86.814	107.289
CFR (year end position)	90.334	90.012	107.749

#### Worthing Borough Council

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
Borrowing	40.531	34.630	64.662
Other long term liabilities	0.000	0.000	0.000
Total debt	40.531	34.630	64.662
CFR (year end position)	49.143	34.696	64.737

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

#### Adur District Council

	2017/18 Original Indicator	Actual at 30 Sept 2017	2017/18 Revised Indicator
	£m	£m	£m
<b>Authorised Limit for external debt</b>			
Borrowing	99.00	86.81	120.00
Other long term liabilities	1.00	0.00	1.00
Total	100.00	86.81	121.00

## 7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

### 7.4 Limits to Borrowing Activity

#### Worthing Borough Council

	2017/18 Original Indicator	Actual at 30 Sept 2017	2017/18 Revised Indicator
Authorised Limit for external debt	£m	£m	£m
Borrowing re Worthing Homes	10.00	5.00	10.00
Other Borrowing	49.00	29.63	64.00
Other long term liabilities	1.00	0.00	1.00
Total	60.00	34.63	75.00

## 8 INVESTMENT PORTFOLIO 2017/18

### 8.1 Investment performance

In accordance with the Code, it is the Councils' priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Councils' risk appetite. As shown by forecasts in section 5.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

Adur District Council held £16.8m of investments as at 30 September 2017, (£15.4m at 31 March 2017) and the investment portfolio yield for the first 6 months of the year is 0.97% p.a. against a benchmark rate of 0.53% for 12 month deposits (supplied by Capita Asset Services). The portfolio is shown in Appendix 1.

The Head of Financial Services confirms that the approved limits for Adur District Council within the Annual Investment Strategy were not breached during the first 6 months of 2017/18.

Adur District Council's budgeted investment return for 2017/18 is £143k and performance for the year to date is marginally above budget.

Worthing Borough Council held £20.5m of investments with banks and building societies as at 30 September 2017, (£11.5m at 31 March 2017). The investment portfolio yield for the first 6 months of the year is 0.60% p.a. against a benchmark rate of 0.53% for 12 month deposits (supplied by Capita Asset Services). The Council has also made a loan of £5m to Worthing Homes at 2.53% (0.7% above the rate at which the funds were borrowed). Worthing's investment portfolio yield is lower than Adur's because Adur has been able to place longer term investments, for example Adur took out a 5 year deal for £2m in 2013 at 1.9% - a far higher rate than has been available over the last 2 years. Worthing needs to retain more of its cash in short term investments, including Money Market Funds, where rates have been very low. The portfolio is shown in Appendix 2.

It was reported to JSC on 10 October 2017 that the Worthing investment counterparty limit with Lloyds Bank had been breached over the weekend of 1 to 4 September 2017, due to the receipt late on Friday afternoon of the sales proceeds of the Aquarena site. The Head of Financial Services confirms that no other approved limits for Worthing Borough Council within the Annual Investment Strategy were breached during the first 6 months of 2017/18.

## 8 INVESTMENT PORTFOLIO 2017/18

### 8.1 Investment performance

Worthing Borough Council's budgeted investment return for 2017/18, excluding for the Worthing Homes loan, is £61k and performance for the year to date is above budget.

### 8.2 Investment counterparty criteria

The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirements of the Adur and Worthing treasury management function.

## 9 BORROWING

9.1 The Capital Financing Requirement (CFR) denotes the Councils' underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. For both Adur and Worthing Councils capital expenditure in 2017/18 is funded from grants, capital receipts, contributions, reserves and revenue contributions as well as borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring.

9.2 Adur District Council's revised CFR for 2017/18 is £107.7m. The relevant table in 7.4 shows the Council has borrowings of £86.8m at 30 September 2017.

Worthing Borough Council's revised CFR for 2017/18 is £64.7m. The relevant table in 7.4 shows the Council has borrowings of £34.6m at 30 September 2017.

9.3 Due to the overall financial position and the underlying need to borrow for capital purposes, new external borrowing was undertaken as shown in the tables below. It is anticipated that further borrowing will be undertaken by both Councils during this financial year to fund capital expenditure, including the purchase of properties.

### Adur District Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£11.47m	Fixed interest rate	1.85%	22/06/2037
PWLB	£1.6m	Fixed interest rate	1.25%	27/06/2026
Lancing Parish Council	£0.3m	Variable interest rate		On request

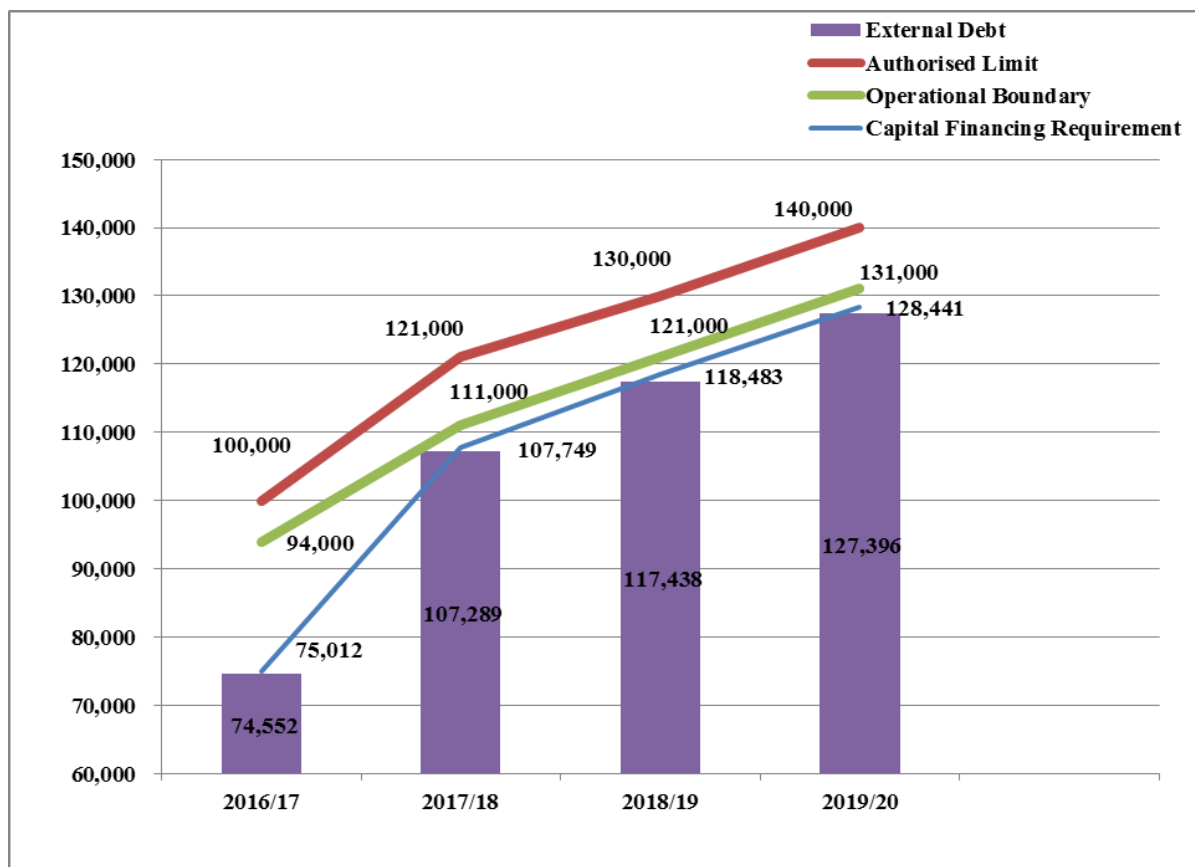
## 9 BORROWING

### Worthing Borough Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£2m	Fixed interest rate	1.25%	13/04/2027
PWLB (Worthing Homes)	£5m	Fixed interest rate	1.83%	20/04/2027
PWLB	£6m	Fixed interest rate	1.94%	04/05/2037
PWLB	£3.45m	Fixed interest rate	1.89%	30/05/2037
PWLB	£2.5m	Fixed interest rate	1.25%	27/06/2026
Harlow District Council	£2m	Fixed interest rate	0.40%	17/07/2018
Wealden District Council	£3m	Fixed interest rate	0.45%	21/06/2018

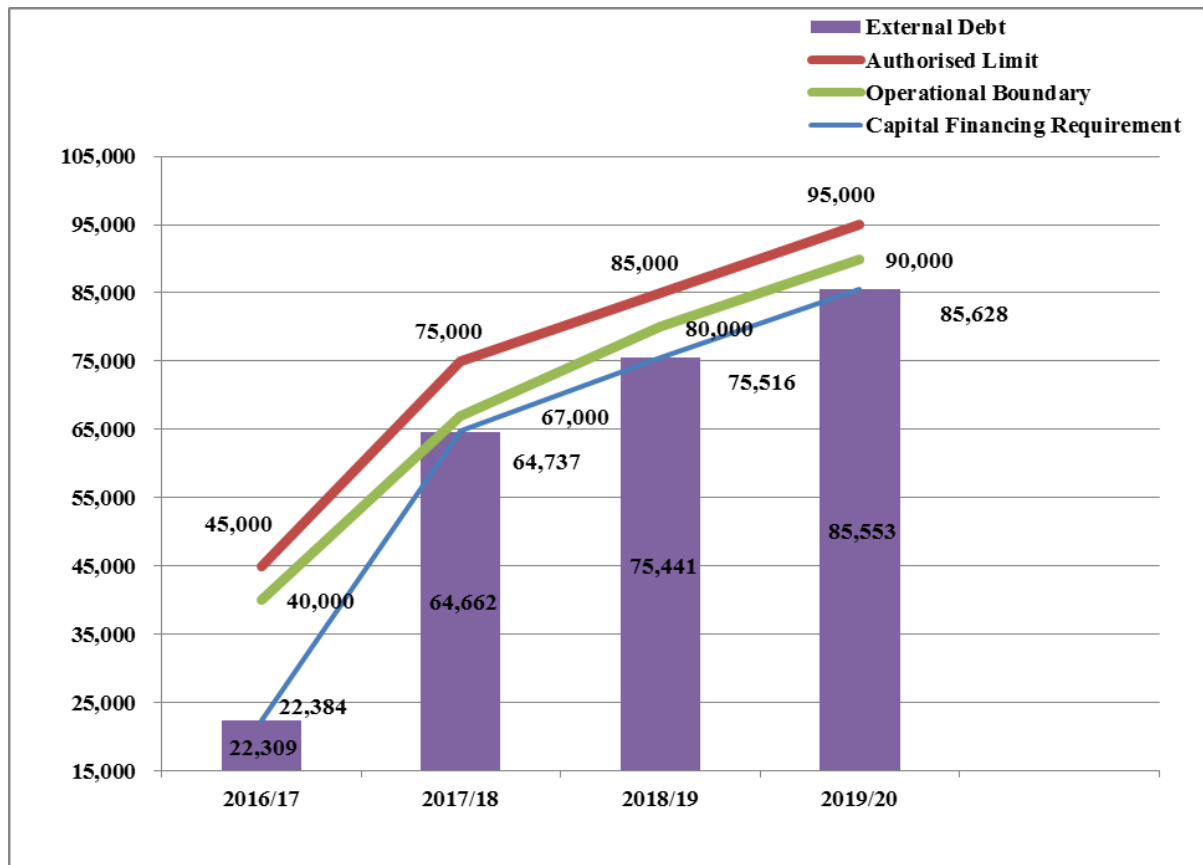
9.4 The graphs below show the relationship between the Capital Financing Requirement, actual external debt, the Operational Boundary and the Authorised Limit for borrowing.

### Adur District Council



## 9 BORROWING

### Worthing Borough Council



## 10 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year for either Council.

## 11 OTHER

### 11.1 Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on these authorities.

## **11 OTHER**

### **11.2 MIFID II**

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on these authorities apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

## **12. ENGAGEMENT AND COMMUNICATION**

12.1 The Adur and Worthing Councils' treasury management team provides treasury services to Mid Sussex District Council through a shared services arrangement (SSA). The SSA is provided under a Service Level Agreement that was renewed from 18th October 2016, and which defines the respective roles of the client and provider authorities for a period of three years.

12.2 Information and advice is supplied throughout the year by Capita Asset Services Ltd, the professional consultants for the Councils' shared treasury management service.

## **13. FINANCIAL IMPLICATIONS**

13.1 This report has no quantifiable additional financial implications to those outlined above. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget.

**Finance Officer:** Sarah Gobey

**Date:** 16<sup>th</sup> November 2017

## **14. LEGAL IMPLICATIONS**

14.1 The presentation of the Half Year Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2017/18.

**Legal Officer:** Richard Burraston

**Date:** 16<sup>th</sup> November 2017

## **Background Papers**

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2017/18 to 2019/20 – Joint Strategic Committee 2 February 2017, and Joint Governance Committee, 28 March 2017

Annual Joint In-House Treasury Management Operations Report 1 April 2016 – 31 March 2017 for Adur District Council and Worthing Borough Council – Joint Governance Committee, 26 September 2017 and Joint Strategic Committee, 10 October 2017

Capita Asset Services Ltd Half Year Report Template 2017/18

Capita Benchmarking Club Reports

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

The Prudential Code for Capital Finance in Local Authorities (CIPFA, May 2013)

**Officer Contact Details:-**

Pamela Coppelman

Group Accountant (Strategic Finance)

Telephone: 01903 221236

Email: [pamela.coppelman@adur-worthing.gov.uk](mailto:pamela.coppelman@adur-worthing.gov.uk)

## **SUSTAINABILITY & RISK ASSESSMENT**

### **1. ECONOMIC**

The treasury management function ensures that the Councils have sufficient liquidity to finance their day to day operations. Borrowing is arranged as required to fund the capital programmes. Available funds are invested according to the specified criteria to ensure security of the funds, liquidity and, after these considerations, to maximise the rate of return.

### **2. SOCIAL**

#### **2.1 Social Value**

Matter considered and no issues identified.

#### **2.2 Equality Issues**

Matter considered and no issues identified.

#### **2.3 Community Safety Issues (Section 17)**

Matter considered and no issues identified.

#### **2.4 Human Rights Issues**

Matter considered and no issues identified.

### **3. ENVIRONMENTAL**

Matter considered and no issues identified.

### **4. GOVERNANCE**

4.1 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Council priorities contained in Platforms for our Places.

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2016/17 - 2018/19, submitted and approved before the commencement of the 2016/17 financial year.

4.3 In the current economic climate the security of investments is paramount, the management of which includes regular monitoring of the credit ratings and other incidental information relating to credit worthiness of the Councils' investment counterparties.



## ADUR DISTRICT COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS

## INVESTMENTS AT 31ST MARCH 2017

Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Days)	Principal (£)	Interest Rate %
6049	BARCLAYS TREASURY DEPOSIT	13-Sep-16	12-Sep-17	364	1,000,000	0.69
6054	BARCLAYS TREASURY DEPOSIT	24-Nov-16	23-Nov-17	364	1,000,000	0.74
6056	BARCLAYS TREASURY DEPOSIT	06-Dec-16	05-Dec-17	364	1,000,000	0.74
6051	LLOYDS BANK	18-Oct-16	17-Oct-17	364	1,000,000	1.00
6052	LLOYDS BANK	01-Nov-16	31-Oct-17	364	1,000,000	1.00
6059	LLOYDS BANK	10-Jan-17	09-Jan-18	364	1,000,000	0.90
6044	NATIONWIDE BLDG SOCIETY	28-Jul-16	27-Jul-17	364	1,000,000	0.70
6045	SKIPTON	02-Aug-16	01-Aug-17	364	1,000,000	0.75
6061	CCLA	15-Mar-17	n/a	n/a	1,720,000	variable
6057	FEDERATED STERLING MMF	01-Mar-17	n/a	n/a	2,950,000	variable
6062	HANDELSBANKEN	20-Mar-17	n/a	n/a	680,000	0.20
50781	KINGSTON UPON HULL COUNCIL	02-Dec-13	30-Nov-18	1824	2,000,000	1.90
50782	LOCAL CAPITAL FINANCE	30-Sep-14	Unspecified		50,000	Unspecified
50783	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 31ST MARCH, 2017</b>					<b>15,425,000</b>	

**ADUR DISTRICT COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS**

**INVESTMENTS AT 30TH SEPTEMBER 2017**

<b>Deal Ref.</b>	<b>Counterparty</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Term (Days)</b>	<b>Principal (£)</b>	<b>Interest Rate %</b>
6054	BARCLAYS TREASURY DEPOSIT	24-Nov-16	23-Nov-17	364	1,000,000	0.74
6056	BARCLAYS TREASURY DEPOSIT	06-Dec-16	05-Dec-17	364	1,000,000	0.74
6071	GOLDMAN SACHS INT BANK	12-Sep-17	12-Mar-18	181	1,000,000	0.60
6051	LLOYDS BANK	18-Oct-16	17-Oct-17	364	1,000,000	1.00
6052	LLOYDS BANK	01-Nov-16	31-Oct-17	364	1,000,000	1.00
6059	LLOYDS BANK	10-Jan-17	09-Jan-18	364	1,000,000	0.90
6063	SANTANDER UK	11-Apr-17	10-Apr-18	364	2,000,000	0.85
6064	SANTANDER UK	04-May-17	03-May-18	364	1,000,000	0.85
6067	SANTANDER UK	13-Jul-17	12-Jul-18	364	1,000,000	0.85
6068	SKIPTON BUILDING SOCIETY	13-Jul-17	12-Jul-18	364	1,000,000	0.76
6070	SKIPTON BUILDING SOCIETY	05-Sep-17	04-Sep-18	364	1,000,000	0.75
6061	CCLA MMF	n/a	n/a	n/a	10,000	n/a
6057	FEDERATED STERLING MMF	n/a	n/a	n/a	1,265,000	n/a
6066	HANDELSBANKEN	n/a	n/a	n/a	455,000	0.20
50781	KINGSTON UPON HULL CITY	02-Dec-13	30-Nov-18	1824	2,000,000	1.90
50783	LOCAL AUTHORITY PROPERTY FUND	25-Apr-17	Unspecified		1,000,000	variable (c 4%)
50782	LOCAL CAPITAL FINANCE CO. LTD.	30-Sep-14	Unspecified		50,000	Unspecified
	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 30TH SEPTEMBER 2017</b>					<b>16,805,000</b>	

## ADUR DISTRICT COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS: BORROWING 2017/18

Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Yrs)	Principal (£) at 31.03.17	Interest Rate %	Principal (£) at 30.09.17
1388	BARCLAYS CAPITAL	22-Aug-05	24-Aug-65	60	3,563,270	5.150	3,563,270
1389	BARCLAYS CAPITAL	22-Aug-05	24-Aug-65	60	3,563,270	5.150	3,563,270
1390	BARCLAYS CAPITAL	22-Aug-05	24-Aug-65	60	3,563,270	5.150	3,563,270
1391	DEPFA BANK PLC	30-Mar-07	30-Mar-67	60	3,250,000	6.660	3,250,000
1392	DEPFA BANK PLC	30-Mar-07	30-Mar-67	60	4,000,000	4.035	4,000,000
476087	PUBLIC WORKS LOAN BOARD	13-Jun-95	21-Dec-54	59	1,000,000	8.375	1,000,000
476088	PUBLIC WORKS LOAN BOARD	13-Jun-95	21-Dec-53	58	1,000,000	8.375	1,000,000
476089	PUBLIC WORKS LOAN BOARD	13-Jun-95	21-Dec-52	57	1,000,000	8.375	1,000,000
478322	PUBLIC WORKS LOAN BOARD	17-Oct-96	07-May-56	60	1,000,000	8.000	1,000,000
479540	PUBLIC WORKS LOAN BOARD	28-May-97	21-Dec-56	59	1,000,000	7.375	1,000,000
479868	PUBLIC WORKS LOAN BOARD	24-Sep-97	12-Apr-57	60	1,000,000	7.125	1,000,000
479888	PUBLIC WORKS LOAN BOARD	24-Sep-97	12-Apr-57	60	1,000,000	6.750	1,000,000
481007	PUBLIC WORKS LOAN BOARD	09-Jun-98	11-Jan-58	60	1,000,000	5.750	1,000,000
481320	PUBLIC WORKS LOAN BOARD	17-Sep-98	11-Apr-55	57	455,795	5.250	455,795
482485	PUBLIC WORKS LOAN BOARD	22-Apr-99	11-Apr-59	60	1,000,000	4.750	1,000,000
483648	PUBLIC WORKS LOAN BOARD	25-Nov-99	02-Aug-59	60	726,000	4.500	726,000
483649	PUBLIC WORKS LOAN BOARD	25-Nov-99	02-Aug-59	60	273,531	4.500	273,531
484177	PUBLIC WORKS LOAN BOARD	20-Apr-00	07-Nov-24	24	1,000,000	5.125	1,000,000
485172	PUBLIC WORKS LOAN BOARD	18-Jan-01	15-Sep-25	24	335,133	4.625	335,133
485173	PUBLIC WORKS LOAN BOARD	18-Feb-01	15-Sep-25	24	164,867	4.875	164,867
499487	PUBLIC WORKS LOAN BOARD	28-Mar-12	28-Mar-42	30	42,654,167	3.030	41,801,084
21	SALIX FINANCE	12-Feb-14	01-Sep-17	3-4 years	3,000	0.000	0
505888	PUBLIC WORKS LOAN BOARD	20-Mar-17	20-Mar-22	5	2,000,000	0.960	1,800,000
506146	PUBLIC WORKS LOAN BOARD	22-Jun-17	22-Jun-37	20	0	1.850	11,466,000
506158	PUBLIC WORKS LOAN BOARD	27-Jun-17	27-Jun-26	9	0	1.250	1,600,000
22	LANCING PARISH COUNCIL	01-Apr-16	On Call	1	0	VARIABLE	252,200
<b>TOTAL BORROWING</b>					<b>74,552,303</b>		<b>86,814,420</b>
<b>NET BORROWING</b>					<b>59,127,303</b>		<b>70,009,420</b>

**WORTHING BOROUGH COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS**

**INVESTMENTS AT 31ST MARCH 2017**

Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Days)	Principal (£)	Interest Rate %
1158	FEDERATED INVESTORS MMF	01-Mar-17	N/A	N/A	2,635,000	VARIABLE
1203	BLACKROCK	01-Mar-17	N/A	N/A	1,265,000	VARIABLE
1209	CCLA	01-Mar-17	N/A	N/A	1,100,000	VARIABLE
1208	HANDELSBANKEN	01-Mar-17	N/A	N/A	450,000	0.20
1204	BARCLAYS BANK	29-Nov-16	28-Nov-17	364	1,000,000	0.74
1200	LLOYDS BANK	18-Oct-16	17-Oct-17	364	1,000,000	1.00
1207	LLOYDS BANK	04-Jan-17	03-Jan-18	364	1,000,000	0.90
1201	NATIONWIDE	01-Nov-16	31-Oct-17	364	1,000,000	0.63
1210	SKIPTON	17-Jan-17	16-Jan-18	364	1,000,000	0.75
1211	SKIPTON	31-Jan-17	30-Jan-18	364	1,000,000	0.75
9001	LOCAL CAPITAL FINANCE	30-Sep-14	Unspecified		50,000	Unspecified
9002	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 31ST MARCH 2017</b>					<b>11,525,000</b>	

**INVESTMENTS AT 30TH SEPTEMBER, 2017**

Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Days)	Principal (£)	Interest Rate %
1204	BARCLAYS BANK	29-Nov-16	28-Nov-17	364	1,000,000	0.74
1221	BARCLAYS BANK	12-Sep-17	29-May-18	259	2,000,000	0.44
1225	BARCLAYS BANK	19-Sep-17	19-Feb-18	153	1,000,000	0.33
1222	CLOSE BROTHERS LTD	15-Sep-17	15-Mar-18	181	1,000,000	0.40
1220	GOLDMAN SACHS INT BANK	05-Sep-17	04-Sep-18	364	2,000,000	0.78
1223	GOLDMAN SACHS INT BANK	15-Sep-17	15-Jun-18	273	1,000,000	0.79
1217	LEEDS BUILDING SOCIETY	16-Aug-17	12-Apr-18	239	1,000,000	0.36
1200	LLOYDS BANK	18-Oct-16	17-Oct-17	364	1,000,000	1.00
1207	LLOYDS BANK	04-Jan-17	03-Jan-18	364	1,000,000	0.90
1219	LLOYDS BANK	05-Sep-17	04-Sep-18	364	1,000,000	0.65
1201	NATIONWIDE	01-Nov-16	31-Oct-17	364	1,000,000	0.63
1210	SKIPTON	17-Jan-17	16-Jan-18	364	1,000,000	0.75
1211	SKIPTON	31-Jan-17	30-Jan-18	364	1,000,000	0.75
9004	LOCAL AUTHORITY PROPERTY FUND	27-Apr-17	Unspecified		500,000	Variable (c 4%)
1214	BLACK ROCK MMF	n/a	n/a	n/a	25,000	VARIABLE
1209	CCLA MMF	n/a	n/a	n/a	245,000	VARIABLE
1213	FEDERATED INVESTORS PRIME	n/a	n/a	n/a	3,000,000	VARIABLE
1208	HANDELSBANKEN	n/a	n/a	n/a	1,460,000	0.20
1224	INVESCO MMF	n/a	n/a	n/a	190,000	VARIABLE
9003	WORTHING HOMES	20-Apr-17	20-Apr-27	10 yrs	5,000,000	2.53
9001	LOCAL CAPITAL FINANCE	03-Sep-14	Unspecified		50,000	Unspecified
	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 30TH SEPTEMBER 2017</b>					<b>25,495,000</b>	

WORTHING BOROUGH COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS							
BORROWING FOR 2017							
Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Yrs)	Principal (£) at 31.03.17	Interest Rate %	Principal (£) at 30.09.17
35/37	SALIX FINANCE	23-Dec-13	01-Sep-17	3.69	9,467	0.00	0
56	WEALDEN DC	22-Jun-17	21-Jun-18	1.00	0	0.45	3,000,000
57	HARLOW DC	18-Jul-17	17-Jul-18	1.00	0	0.40	2,000,000
50	GLOUCESTERSHIRE COUNTY	30-Jul-15	30-Jul-20	5.01	2,000,000	1.90	2,000,000
51	MID SUSSEX DISTRICT COUNCIL	03-May-16	02-May-17	1.00	2,000,000	0.60	0
52	BARNSELY DONCASTER	03-Jun-16	03-Apr-17	0.83	2,000,000	0.60	0
53	LONDON BOROUGH OF EALING	06-Jun-16	05-Jun-17	1.00	2,000,000	0.62	0
54	HERTFORDSHIRE COUNTY C	11-Jul-16	10-Jul-17	1.00	5,000,000	0.55	0
503406	PUBLIC WORKS LOAN BOARD	22-Oct-14	22-Oct-24	10.00	1,600,000	2.32	1,500,000
503538	PUBLIC WORKS LOAN BOARD	12-Dec-14	12-Dec-19	5.00	600,000	1.62	500,000
504511	PUBLIC WORKS LOAN BOARD	02-Dec-15	02-Dec-25	10.00	3,150,000	2.07	2,975,000
505047	PUBLIC WORKS LOAN BOARD	13-Jun-16	13-Jun-36	20.00	1,950,000	2.16	1,900,000
505889	PUBLIC WORKS LOAN BOARD	20-Mar-17	20-Mar-22	5.00	2,000,000	0.96	1,800,000
505993	PUBLIC WORKS LOAN BOARD	13-Apr-17	13-Apr-27	10.00	0	1.25	2,000,000
506005	PUBLIC WORKS LOAN BOARD	20-Apr-17	20-Apr-27	10.00	0	1.83	5,000,000
506044	PUBLIC WORKS LOAN BOARD	04-May-17	04-May-37	20.00	0	1.94	6,000,000
506095	PUBLIC WORKS LOAN BOARD	30-May-17	30-May-37	20.00	0	1.89	3,454,500
506159	PUBLIC WORKS LOAN BOARD	27-Jun-17	27-Jun-26	9.00	0	1.25	2,500,000
<b>TOTAL BORROWING</b>					<b>22,309,467</b>		<b>34,629,500</b>
<b>NET BORROWING</b>					<b>10,784,467</b>		<b>9,134,500</b>