



ADUR & WORTHING
COUNCILS

Joint Governance Committee
31 July 2018
Agenda Item 10

Joint Strategic Committee
11 September 2018
Agenda Item XX

Key Decision : No
Ward(s) Affected: All

ANNUAL TREASURY MANAGEMENT REPORT 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 performance for Adur and Worthing Councils for 2017/18 as required by regulations issued under the Local Government Act 2003.
- 1.2 Several of the main British banks have split their business into “ring-fenced” and “non ring-fenced” entities, as explained in 4.5 below. This report asks Members to approve the amendment to the Councils’ specified investments counterparties lists to include only the “ring-fenced” banks for 2018-19 onwards.

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 11th September 2018.

2.2 Recommendation Two

The Joint Strategic Committee is recommended to note this report.

2.3 Recommendation Three

Both Joint Governance Committee and Joint Strategic Committee are asked to approve the amendment to the Councils’ specified investments counterparties lists to include only the “ring-fenced” entities of those banks which have divided their operations.

3. CONTEXT

- 3.1 This report presents the treasury management activities and portfolio positions for the 2017/18 financial year for Adur District Council and Worthing Borough Council.
- 3.2 This is one of three treasury management reports that are required to be presented during the financial year (see Para. 4.1).
- 3.3 The presentation of the Annual Report is required through 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 (Appendix 1). This report also meets the requirements of both the Treasury Management Code of Practice (The Code) and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), both of which are issued by The Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.4 To put the report in context, Treasury Management is defined by CIPFA 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”.
- 3.5 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 For 2017/18 the minimum reporting requirements specified within the treasury management policy is that the Councils should receive the following:

The Annual Treasury Management Strategy (TMSS) in advance of the financial year – this was submitted to the meeting of the Joint Strategic Committee (JSC) on 2nd February 2017 and to the Joint Governance Committee (JGC) on 28th March 2017.

A mid-year treasury update report – a joint in-house operations report for both Councils was submitted to the meeting of JSC on the 5th December 2017 and JGC on 28th November 2017.

The Annual Report (this report) - to be submitted by 30th September after the year end, which compares the actual activity with the planned strategy.

- 4.2 The regulatory environment places a significant onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury management activities and highlights compliance with the Councils’ policies previously approved by members.

4. ISSUES FOR CONSIDERATION

4.3 The Annual Report also confirms that the Councils have complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Joint Governance Committee. Member training on treasury management issues was undertaken during the year on 15th June 2017.

4.4 This report summarises for both Councils the:

- Capital activity during the year and the impact on the Councils' underlying indebtedness (the Capital Financing Requirement)
- Overall treasury position (Section 7) identifying how the Councils have borrowed in relation to this indebtedness (Section 10), and the Councils' investment activity
- Reporting of the required prudential and treasury management indicators (Appendix 1)
- The treasury management strategy compared to the economic and interest rate environment (Section 6)

4.5 The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". There are currently five UK banks that hold retail/SME deposits over £25bn. These are: Barclays, The Royal Bank of Scotland, Lloyds, HSBC and Santander. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank will be focussed on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed into a separate entity – a non-ring-fenced bank. This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group. The Councils will only invest with the ring-fenced entities, which requires the amendment of the specified investments lists.

5. THE ECONOMY AND INTEREST RATES

*The following commentary has been supplied by **Link Asset Services Ltd**, the professional consultants for the Council's 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.*

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for

5. THE ECONOMY AND INTEREST RATES

this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy.

This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, the market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

6. THE STRATEGY FOR 2017/2018

- 6.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.
- 6.2 Against this background and the risks within the economic forecast, the strategy adopted by the Councils at JSC on 2 February 2017 was to be cautious with the 2017/18 treasury operations. The Chief Financial Officer would monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. When borrowing, rates available from the PWLB would be reviewed, but advantage should be taken of very low short term borrowing rates in the market, to reduce the amount of interest payable.
- 6.3 This strategy was followed during the year and no amendments were required for either Adur District Council or Worthing Borough Council.

7. OVERALL TREASURY POSITION AS AT 31 MARCH 2018

7.1 Adur District Council's position at the beginning and end of year was as follows:-

	Principal at 31.03.17 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.18 £m	Average Rate of Return	Average Life in Years
<u>Borrowing</u>						
PWLB	(56.609)	3.7%	26.4	(67.198)	3.4%	24.2
Other Borrowing	(17.943)	5.2%	49.0	(17.940)	5.2%	48.0
TOTAL BORROWING	(74.552)			(85.138)		
CFR	75.012			88.603		
(Over)/under borrowing	0.460			3.465		
<u>Investments:</u>						
Bonds	0.075	n/a	n/a	0.080	n/a	n/a
Property Fund	0.000	n/a	n/a	0.968	4.54%	n/a
Long Term	2.000	1.90%	1.67	0.000	n/a	n/a
Short Term	13.350	0.59%	< 1 year	9.800	1.04%	< 1 year
TOTAL INVESTMENTS	15.425			10.848		
NET DEBT	(59.127)			(74.290)		

7.2 Worthing Borough Council's position at the beginning and end of year was as follows:-

	Principal at 31.03.17 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.18 £m	Average Rate of Return	Average Life in Years
<u>Borrowing</u>						
PWLB	(9.300)	1.86%	9.47	(31.536)	1.90%	12.02
Other Borrowing	(13.009)	0.78%	0.63	(10.028)	0.87%	1.05
TOTAL BORROWING	(22.309)			(41.564)		
CFR	22.384			39.150		
(Over)/under borrowing	0.075			(2.414)		
<u>Investments:</u>						
Bonds	0.075	n/a	n/a	0.075	n/a	n/a
Property Fund	-	-	-	0.484	4.54%	n/a
Long Term	-	-	-	-	-	-
Short Term	11.450	0.54%	< 1 year	11.000	0.54%	< 1 year
TOTAL INVESTMENTS	11.525			11.559		
NET DEBT	(10.784)			(30.005)		

8. THE BORROWING REQUIREMENT and DEBT

8.1 The Councils undertake capital expenditure on long-term assets. These activities may be financed in one of two ways:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Councils' borrowing need; or
- if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

8.2 The Councils' underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The tables below compare the gross debt against the underlying need to borrow, thereby highlighting any over or under borrowing. This comparison is one of the Prudential Indicators of affordability under the Prudential Code to show that borrowing levels are prudent over the medium term, and sustained for capital investment purposes – i.e that the Councils are not borrowing to support revenue expenditure.

8.3 Accordingly, the amount of gross debt should not exceed the CFR for 2017/18 (plus any expected changes to the CFR over 2018/19 and 2019/20) except in the short term.

8.4 Adur District Council

The introduction of HRA self-financing resulted in a revision to the CIPFA Code of Practice, recommending the inclusion of a separate HRA Treasury Management Strategy for the HRA. This recommendation was adopted and reported as part of the overall Treasury Management Strategy to the JSC in 2011, and is updated each year as part of the HRA Budget Report. The relative borrowing and CFR position at the end of the year is analysed between General Fund and HRA as follows:

CFR v Long Term Debt Position at 31 March 2018	ADUR DISTRICT COUNCIL		
	General Fund £000s	HRA £000s	Total £000s
Capital Financing Requirement	28,500	60,103	88,603
Actual Long Term Debt 1/4/18	27,263	57,875	85,138
(Over)/Under Borrowing	1,237	2,228	3,465
HRA Debt Limit	N/A	68,912	68,912
HRA Borrowing Headroom (Debt Limit – Actual Debt)	N/A	11,037	N/A

For Adur District Council, the HRA is under borrowed by £2.228m. The General Fund is under borrowed by £1.237m due to the use of internal borrowing to support capital expenditure.

8. THE BORROWING REQUIREMENT and DEBT

8.5 Worthing Borough Council

CFR v Long Term Debt Position at 31 March 2018	WORTHING BOROUGH COUNCIL
	General Fund £000s
Capital Financing Requirement	39,150
Actual Long Term Debt 1/4/18	35,564
(Over)/Under Borrowing	3,586

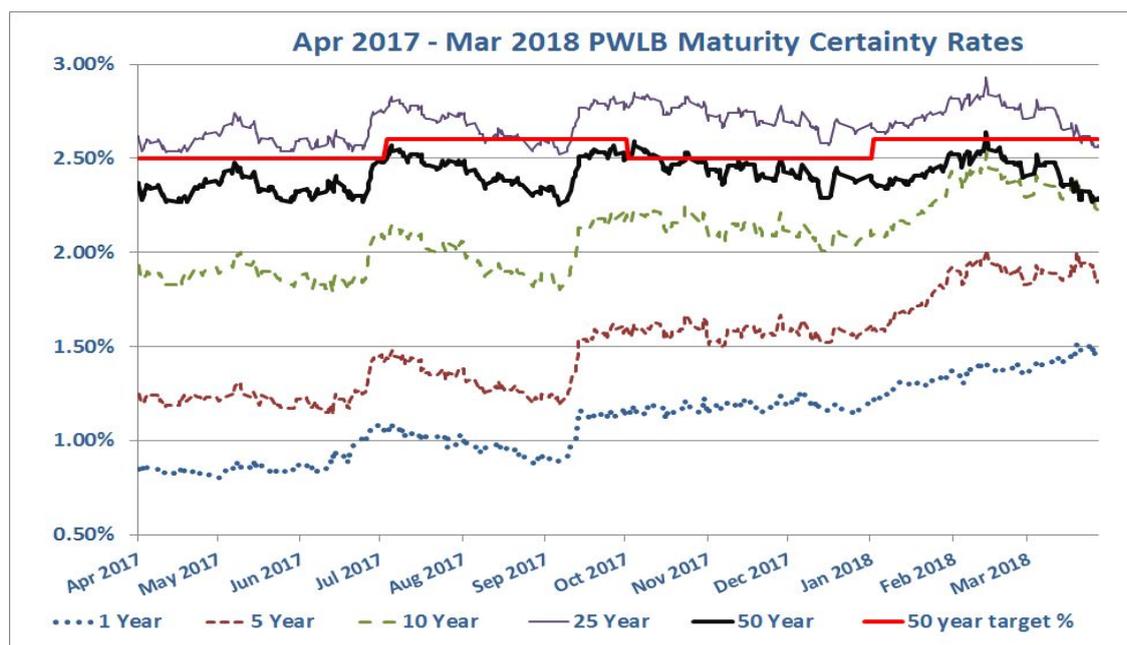
Worthing Borough Council was under-borrowed based on long term debt by £3.586m at 31 March 2018. The Council also had temporary borrowing of £6m at this time, £5m of which will mature fully by 17th July 2018 and will be supported by grants due in respect of major development projects in Worthing.

9. BORROWING RATES IN 2017/18

PWLB certainty maturity borrowing rates

As depicted in the graph below PWLB, 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



10. BORROWING OUTTURN for 2017/18

The following loans were taken during the year:

10.1 Adur General Fund (no borrowing was undertaken for the HRA)

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£11.466m	Fixed interest rate	1.85%	22/06/2037
PWLB	£1.6m	Fixed interest rate	1.25%	27/06/2026

£11.466m was borrowed to purchase commercial property, as approved in the Council's capital budget. £1.6m was borrowed for the replacement Waste and Recycling vehicles. Adur also held precepts of up to £302k on behalf of Lancing Parish Council for most of the year, as temporary borrowing.

10.2 Worthing Borough Council

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£2m	Fixed interest rate	1.25%	13/04/2027
PWLB	£5m	Fixed interest rate	1.83%	20/04/2027
PWLB	£6m	Fixed interest rate	1.94%	04/05/2037
PWLB	£3.455m	Fixed interest rate	1.89%	30/05/2037
PWLB	£2.5m	Fixed interest rate	1.25%	27/06/2026
PWLB	£5m	Fixed interest rate	2.51%	19/02/2028
Wealden District Council	£3m	Fixed interest rate	0.45%	21/06/2018
Harlow District Council	£2m	Fixed interest rate	0.40%	17/07/2018
Yorkshire Purchasing Org	£1m	Fixed interest rate	0.70%	07/02/2019
Hampshire CC	£2m	Fixed interest rate	1.00%	13/02/2020

10. BORROWING OUTTURN for 2017/18

10.2 Worthing Borough Council

Some short term borrowing was used due to the low interest rates available in the market and the anticipated grant receipts in respect of major projects in Worthing. The two £5m loans relate to loans made by the Council to Worthing Homes at a rate 0.7% above the PWLB rate payable by the Council. Long term PWLB borrowing was also used to fund commercial property purchases and other capital expenditure, as approved in the capital budget.

10.3 No debt was rescheduled during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

10.4 Adur District Council's debt repayments were as follows:-

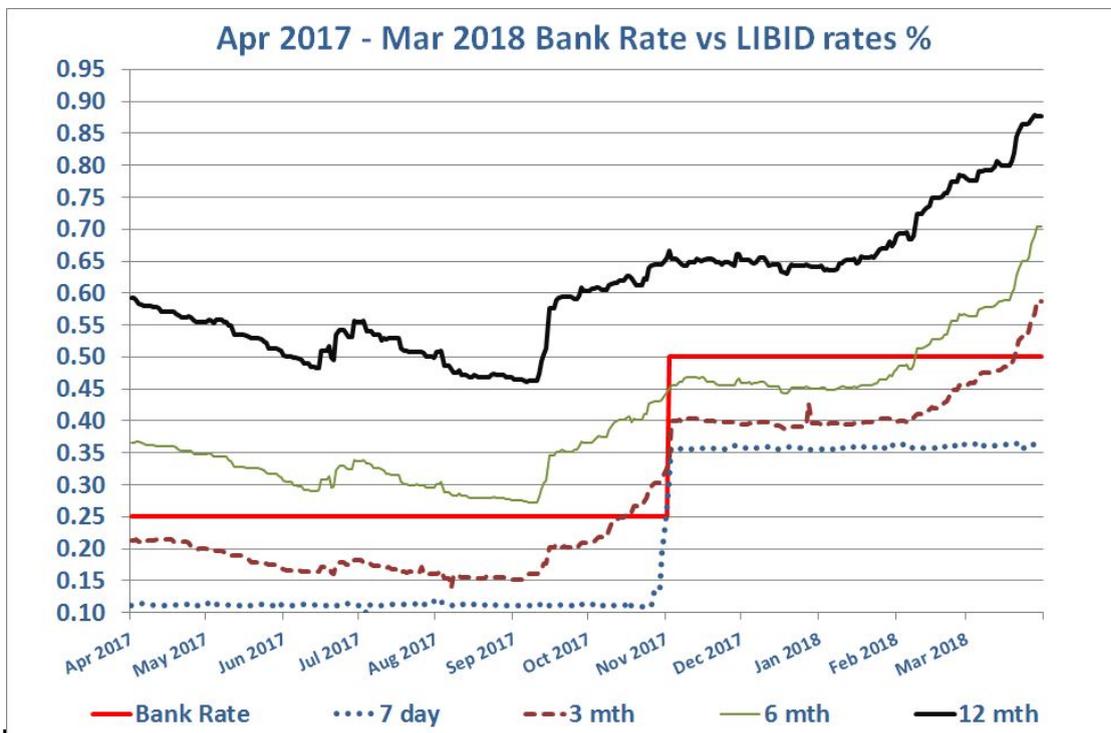
Lender	Principal £000s	Type	Interest Rate %	Period Lent	Duration
Lancing PC	302	Variable	Variable	Apr 2017 - Mar 2018	Variable
PWLB - HRA	1,711	Fixed Principal and Interest	3.03%	March '12 – March'42	30 Years
PWLB - GF	770	Fixed Principal and interest	1.7%	Various	Various

10.5 Worthing Borough Council's debt repayments were as follows:-

Lender	Principal £000	Type	Interest Rate	Period Lent	Duration
Barnsley Doncaster Council	2,000	Fixed Principal & Interest	0.60%	April 2016 - April 2017	< 1 year
London Borough of Ealing	2,000	Fixed Principal & Interest	0.62%	June 2016 - June 2017	< 1 year
Herts County Council	5,000	Fixed Principal & Interest	0.55%	July 2016 - July 2017	< 1 year
Mid Sussex District Council	2,000	Fixed Principal & Interest	0.60%	May 2016 - May 2017	< 1 year
PWLB	1,727	Fixed Principal & Interest	0.96%-2.32%	Oct 2014 – May 2037	various

11. INVESTMENT RATES IN 2017/18

Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.



12. INVESTMENT OUTTURN FOR 2017/18

12.1 **Investment Policy** – the Councils’ investment policy is governed by MHCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Joint Strategic Committee on 2 February 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Councils had no liquidity difficulties.

12.2 Investments held by Adur District Council:

Adur District Council maintained an average balance of £16.988m of internally managed funds, which earned an average rate of return of 0.99%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.286%. This compares with a budget assumption of £24.084m investment balance earning an average rate of 0.75%. Adur benefited from a long term £2m investment taken out in 2013 at 1.9%. The interest and dividends earned in 2017/18 totalled £170k, which exceeded the budget by £30k due to the Property Fund investment.

12. INVESTMENT OUTTURN FOR 2017/18

12.2 Investments held by Adur District Council at 31 March 2018:

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Santander Corporate Bank	11/04/2017	10/04/2018	£2,000,000	0.85%	A
Santander Corporate Bank	04/05/2017	03/05/2018	£1,000,000	0.85%	A
Santander Corporate Bank	13/07/2017	12/07/2018	£1,000,000	0.85%	A
Close Brothers Limited	29/03/2018	29/03/2019	£1,000,000	1.10%	A
Federated Investors (MMF)	n/a	n/a	£800,000	Variable	AAA
Skipton Building Soc.	13/07/2017	12/07/2018	£1,000,000	0.76%	A-
Skipton Building Soc.	05/09/2017	04/09/2018	£1,000,000	0.75%	A-
Kingston Upon Hull Council	02/12/2013	30/11/2018	£2,000,000	1.90%	n/a
CCLA Local Auth Property Fund	25/04/2017	n/a	£967,901	Variable	n/a
Local Auth Cap Finance Co	30/09/2014	n/a	£50,000	n/a	n/a
Boom Credit Union & War Bond	06/03/2015	n/a	£29,630	n/a	n/a
TOTAL			£10,847,531		

12.3 Investments held by Worthing Borough Council at 31 March 2018:

Worthing Borough Council maintained an average balance of £15.079m of internally managed funds, which earned an average rate of return of 0.62%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.286%. This compares with a budget assumption of £12.598m investment balance earning an average rate of 0.50%. The Treasury investment returns included in the reported income of the Council for 2017/18 amount to £100,515, £40k over budget due to the rise in Base Rate, the higher than forecast average balance and the Property Fund. The loan to Worthing Homes earned an additional net £37k.

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Federated Investors (MMF)	n/a	n/a	£3,000,000	Variable	AAA
Leeds Building Society	16/08/2017	12/04/2018	£1,000,000	0.36%	A-
Lloyds Bank	05/09/2017	04/09/2018	£1,000,000	0.65%	A+
Goldman Sachs Intern'l Bank	05/09/2017	04/09/2018	£2,000,000	0.78%	A
Barclays Bank	12/09/2017	29/05/2018	£2,000,000	0.44%	A
Goldman Sach Intern'l Bank	15/09/2017	15/06/2018	£1,000,000	0.79%	A
Lloyds Bank	17/10/2017	21/06/2018	£1,000,000	0.41%	A+
CCLA Local Auth Property Fund	27/04/2017	n/a	£483,952	variable	n/a
Local Auth Cap Finance Co	30/09/2014	n/a	£50,000	n/a	n/a
Boom Credit Union	06/03/2015	n/a	£25,000	n/a	n/a
TOTAL			£11,558,952		

13. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

- 13.1 The Councils, in accordance with legislation, make a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year.
- 13.2 For 2017/18 an amount of £712k has been provided in the Adur District Council General Fund. No voluntary amount has been set aside for the HRA.
- 13.3 For 2017/18 an amount of £809k has been provided in the Worthing Borough Council revenue accounts.

14. CURRENT PERIOD TREASURY MATTERS

14.1 Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was 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 was 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. The Capital Strategy submitted to the Joint Strategic Committee on 10th July 2018 incorporates these requirements.

14.2 Markets in Financial Instruments Directive II (MiFID II)

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority 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 most building societies.

15. ENGAGEMENT AND COMMUNICATION

- 15.1 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.
- 15.2 Information and advice is supplied throughout the year by Link Asset Services Ltd, the professional consultants for the Councils' shared treasury management service.

16. FINANCIAL IMPLICATIONS

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.

17. LEGAL IMPLICATIONS

The presentation of the Annual 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.

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

Joint Half-Year In-House Treasury Management Operations Report 1 April – 30 September 2017 for Adur District Council and Worthing Borough Council – Joint Strategic Committee, 5 December 2017 and Joint Governance Committee, 28 November 2017

Link Asset Services Annual Report Template 2017/18

Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

The Prudential Code for Capital Finance in Local Authorities

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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 2017/18 - 2019/20, submitted and approved before the commencement of the 2017/18 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.

APPENDIX 1

COMPLIANCE WITH PRUDENTIAL INDICATORS 2017/18 – Adur District Council

1. PRUDENTIAL INDICATORS	2016/17	2017/18	2017/18
Extract from budget and rent setting report	actual	original	actual
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	2,203	19,390	17,364
HRA	2,826	6,496	2,936
TOTAL	5,029	25,886	20,300
Ratio of financing costs to net revenue stream *			
Non - HRA	15.44%	16.22%	17.68%
HRA	40.80%	24.10%	25.43%
Gross borrowing General Fund			

brought forward 1 April	12,978	12,968	14,971
carried forward 31 March	14,971	26,100	27,263
in year borrowing requirement	1,993	13,132	12,292
Gross borrowing HRA			
brought forward 1 April	61,290	59,581	59,581
carried forward 31 March	59,581	57,875	57,875
in year borrowing requirement	(1,709)	(1,706)	(1,706)
Gross debt	74,552	83,975	85,138
CFR			
Non – HRA	14,909	30,231	28,500
HRA	60,103	60,103	60,103
TOTAL	75,012	90,334	88,603
Annual change in Cap. Financing Requirement			
Non – HRA	(94)	14,313	13,591
HRA	(1,716)	0	0
TOTAL	(1,810)	14,313	13,591

***Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

APPENDIX 1

COMPLIANCE WITH PRUDENTIAL INDICATORS 2017/18 – Adur District Council

2. Maturity structure of fixed rate borrowing during 2017/18 – Adur District Council	lower limit	upper limit	actual 31 March
under 12 months	0%	10%	4%
12 months and within 24 months	0%	15%	3%
24 months and within 5 years	0%	20%	10%
5 years and within 10 years	0%	30%	16%
10 years and within 20 years	0%	35%	26%
20 years and within 30 years	0%	30%	8%
Over 30 years	0%	45%	33%

3. TREASURY MANAGEMENT INDICATORS (see definitions below)	2016/17 Actual £'000	2017/18 Original £'000	2017/18 Actual £'000
Authorised Limit for external debt			
Borrowing	99,000	99,000	99,000
Other long term liabilities	1,000	1,000	1,000
Total Authorised Limit for external debt	100,000	100,000	100,000
Operational Boundary for external debt			
Borrowing	93,000	93,000	93,000
Other long term liabilities	1,000	1,000	1,000
Total Operational Boundary for external debt	94,000	94,000	94,000
	Actuals at 31.03.17	2017/18 Limit	Actuals at 31.03.18
Upper limit for fixed interest rate exposure			
Debt only	100%	100%	100%
Investments only	69%	100%	83%
Upper limit for variable rate exposure			
Debt only	0%	25%	0%
Investments only	31%	100%	17%
Upper limit for total principal sums invested for over 364 days	13%	50%	0%

COMPLIANCE WITH PRUDENTIAL INDICATORS 2017/18 Worthing Borough Council

1. PRUDENTIAL INDICATORS	2016/17	2017/18	2017/18
Extract from budget	actual	original	actual
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	5,637	23,709	29,550
Ratio of financing costs to net revenue stream *			
Non – HRA	8.26%	10.01%	8.78%
Gross borrowing General Fund			
brought forward 1 April	19,136	26,136	22,309
carried forward 31 March	22,309	40,531	41,564
in year borrowing requirement	3,173	14,395	19,255
Gross debt	22,309	40,531	41,564
CFR			
Non – HRA	22,384	49,143	39,150
Annual change in Cap. Financing Requirement			
Non – HRA	(977)	15,322	16,766

The capital expenditure was higher than forecast due to the conclusion of the loan to Worthing Homes occurring in 2017/18 instead of 2016/17 as planned. The re-profiling of the purchase of properties from 2016/17 resulted in a lower than forecast 2017/18 year end CFR, because the forecast was prepared before the 2016/17 year end.

2.Maturity structure of fixed rate borrowing during 2017/18 – Worthing Borough Council	lower limit	upper limit	actual 31 March
under 12 months	0%	75%	20%
12 months and within 24 months	0%	75%	10%
24 months and within 5 years	0%	75%	18%
5 years and within 10 years	0%	75%	39%
10 years and within 20 years	0%	75%	13%
20 years and within 30 years	0%	50%	0%

***Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

COMPLIANCE WITH PRUDENTIAL INDICATORS 2017/18 Worthing Borough Council

3. TREASURY MANAGEMENT INDICATORS (see definitions below)	2016/17 Actual £'000	2017/18 Original £'000	2017/18 Actual £'000
Authorised Limit for external debt -			
Debt re Worthing Homes	10,000	10,000	10,000
Other Debt	34,000	49,000	49,000
Other long term liabilities	1,000	1,000	1,000
Total Authorised Limit for external debt	45,000	60,000	60,000
Operational Boundary for external debt			
Debt re Worthing Homes	10,000	10,000	10,000
Other Debt	29,000	41,000	41,000
Other long term liabilities	1,000	1,000	1,000
Total Operational Boundary for external debt	40,000	52,000	52,000
	Actuals at 31.03.17	2017/18 Limit	Actuals at 31.03.18
Upper limit for fixed interest rate exposure			
Debt only	100%	100%	100%
Investments only	56%	100%	69%
Upper limit for variable rate exposure			
Debt only	0%	25%	0%
Investments only	44%	100%	31%
Upper limit for total principal sums invested for over 364 days	0%	50%	0%

The **Authorised Limit** is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Councils do not have the power to borrow above this level. The Councils did not breach the Authorised Limit during the year.

The **Operational Boundary** is the expected borrowing position of the Councils during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the Authorised Limit not being breached. The Councils did not breach the Operational Boundary during the year.

Gross borrowing and the Capital Financing Requirement - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Councils should ensure that the gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year (2017/18) plus the estimates of any additional Capital Financing Requirement for the current (2018/19) and next two financial years. This essentially means that the Councils are not borrowing to support revenue expenditure. This indicator allows the Councils some flexibility to borrow in advance of its immediate capital needs in 2017/18.