ADUR & WORTHING
COUNCILS

24 January 2018

Joint Strategic Committee

Date: 1 February 2018

Time: 6:30pm

Venue: QEII Room, Shoreham Centre, Shoreham-by-Sea

Adur Executive: Councillors Neil Parkin (Leader), Angus Dunn (Deputy Leader), Carson Albury, Brian Boggis, Emma Evans and David Simmons

Worthing Executive: Councillors Daniel Humphreys (Leader), Kevin Jenkins (Deputy Leader), Edward Crouch, Diane Guest, Heather Mercer and Val Turner

Agenda

Part A

1. Declarations of Interest

Members and officers must declare any disclosable pecuniary interests in relation to any business on the agenda. Declarations should also be made at any stage such an interest becomes apparent during the meeting.

If in doubt contact the Legal or Democratic Services representative for this meeting.

2. Minutes

To approve the minutes of the Joint Strategic Committee meeting held on 9 January 2017, copies of which have been previously circulated.

3. Public Question Time

To receive any questions from members of the public.

4. Items Raised Under Urgency Provisions

To consider any items the Chairman of the meeting considers to be urgent.

5. Revenue Budget Estimates for 2018/19

To consider a report from the Director for Digital & Resources, a copy is attached as item 5.

6. Joint Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 to 2020/21, Adur District Council and Worthing Borough Council

To consider a report from the Director for Digital & Resources, a copy is attached as item 6.

7. Community Infrastructure Levy - Governance Arrangements

To consider a report from the Director for the Economy, a copy is attached as item 7.

8. Costume Research Centre - Museum Proposal

To consider a report from the Director for the Economy, a copy is attached as item 8.

9. Exclusion of the Press and Public

In the opinion of the Proper Officer the press and public should be excluded from the meeting for consideration of the following item. Therefore the meeting is asked to consider passing the following resolution:

'that under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting from the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in the paragraph of Part 3 of Schedule 12A to the Act indicated against the item'

Part B - Not for Publication – Exempt Information Reports

10. Shoreham Airport

To consider an exempt report from the Director for the Economy, a copy is attached as item 10.

Recording of this meeting

The Council will be voice recording the meeting, including public question time. The recording will be available on the Council's website as soon as practicable after the meeting. The Council will not be recording any discussions in Part B of the agenda (where the press and public have been excluded).

For Democratic Services enquiries relating to this meeting please contact:

Neil Terry
Senior Democratic Services Officer
01903 221073
neil.terry@adur-worthing.gov.uk

For Legal Services enquiries relating to this meeting please contact:

Andrew Mathias
Senior Solicitor
01903 221032
andrew.mathias@adur-worthing.gov.uk

The agenda and reports are available on the Councils website, please visit www.adur-worthing.gov.uk

Joint Strategic
Date: 1st February, 2018
Agenda Item: 5
Key Decision: xx
Ward(s) Affected:

ADUR & WORTHING COUNCILS

REVENUE BUDGET ESTIMATES FOR 2018/19

REPORT BY: DIRECTOR OF DIGITAL AND RESOURCES

1. EXECUTIVE SUMMARY

1.1 This report is the final budget report of the year resulting from the culmination of the annual budgeting exercise and asks members to consider:

- The final revenue estimates for 2018/19 including any adjustments arising from settlement;
- An updated outline 5-year forecast; and

These budgets reflect the decisions taken by Members to date in relation to agreed savings proposals and any committed growth.

1.2 Members are asked to consider the proposals to invest in services outlined in Appendix 2, these are also included in the individual Councils budget reports being considered next week.

1.3 The budget is analysed by Executive Member portfolio. In addition, the draft estimates for 2018/19 have been prepared, as always, in accordance with the requirements of the Service Reporting Code of Practice for Local Authorities (except in relation to pension costs adjustments that do not impact either on the Budget Requirement or the Council Tax Requirement).

1.4 The respective Adur and Worthing 2018/19 Estimates and Council Tax setting reports are due to be considered by the Worthing Executive on Monday 5th February 2018 and the Adur Executive on Tuesday 6th February 2018. Both the Estimates for Adur District Council and Worthing Borough Council include their respective share of the cost of the Joint Strategic Committee.

1.5 The following appendices have been attached to this report:

(i) **Appendix 1** 5 year forecast for the Joint Strategic Committee

(ii) **Appendix 2** Proposals for investment in services

(iii) **Appendix 3** Summary of Executive Member Portfolio budgets for 2018/19

2. RECOMMENDATIONS

2.1 The Executive is recommended to:

(a) Consider and approve, if agreed, the proposals to invest in services outlined in Appendix 2;

(b) Agree to the proposed 2018/19 budget detailed in Appendix 3 subject to any growth proposals approved by members.

3.0 SUMMARY

3.1 The Joint Strategic Committee considered the 'Outline 5-year forecast for 2018/19 to 2022/23 and the Budget Strategy' on 11th July 2017. This report outlined the Financial Context, the Key Budget Pressures, the Options for Addressing the Budget Gap and the Budget Strategy for Adur and Worthing Councils. The report built on the strategy first proposed in 2015/16 whose strategic aim was to ensure that the Councils would become community funded by 2020 reliant, by then, only on income from trading and commercial activities, council tax and business rates.

3.2 On 5th December the *"Sustainable Councils: 5 year forecast 2018/19 – 2022/23 and savings proposals"* was approved by the Joint Strategic Committee, this report updated the members on the latest budget forecast, the options for addressing the budget shortfalls and considered any unavoidable growth. The report updated members on the work of the strategic boards who were responsible for taking key strands of work forward as follows:

- **The Major Projects Board** will lead on delivering projects to increase employment space and additional housing;

- **The Service Redesign Board** (previously the Digital Programme Board) will lead on the delivery of the Digital Strategy and ensure that the benefits are realised from this programme of work.

- **The Strategic Asset Management Board** will lead on delivering the income growth associated with the Strategic Property Fund; and

- **The Customer and Commercial Board** will lead on the delivery of the income growth from commercial services and seek to improve the customer experience.

For 2018/19 the Service Re-design Board, the Customer and Commercial Board and the Strategic Asset Management Board have been set explicit targets as part of the budget strategy.

3.0 SUMMARY

3.3 Since the meeting on 5th December, the Joint Strategic Committee budget has been finalised and the last adjustments have been included. Overall, therefore, the current financial position of the Joint Strategic Committee for 2018/19 can be summarised as:

		£'000
Original shortfall in funding		**2,022**
Changes identified in December 2017:		
Net committed growth items identified by budget holders and approved in December 2017		38
Impact of Homeless Reduction Act		125
Removal of contingency budget		-100
Budget shortfall as at 5th December 2017		2,082
Change to public convenience cleaning arrangements		43
Final adjustment to inflation calculations and pension costs including the impact of increments and regradings		100
Revised budget shortfall		2,225
Less:	Net savings identified in Adur and Worthing Council reducing the savings required within the Joint Strategic Committee	-649
Less:	Net savings approved in December	-1,565
Remaining shortfall to be addressed		-

3.4 This has been an unprecedented period of change for Local Government. The level of funding provided by Central Government has reduced by significantly over the last few years. Revenue Support Grant has now ceased to be a source of funding for either Council in line with the 4-year offer announced in 2016/17.

3.5 The Secretary of State for the Department for Communities and Local Government (DCLG) Sajid Javit delivered the provisional Local Government Finance Settlement on the 19th December 2017. Consultation on the provisional settlement closed on the 16th January 2018.

3.6 A full update on both the Autumn Statement and Settlement is included in the Budget Estimate reports for both Councils. However, the key issues which will affect the future funding for the Joint Strategic Committee include:

i) An increase to the amount which can be raised via Council Tax. The new referendum limit has been set at 3% which is in line with the current inflation rate (CPI) of 3.1%

3.0 SUMMARY

ii) The impact of 'negative Revenue Support Grant' in 2019/20 which will decrease the amount of business rates each Council can retain. However, the Secretary of State proposes to consult on this issue in 2018 recognising the controversial nature of the proposals.

iii) A proposed reform to both the Business Rate Retention Scheme and the Fairer Funding Review which will consider how much of business rates each Council should keep via the tariff and top-up system. This is likely to reduce the Councils share of Business Rate income from 2020/22.

3.7 This will have inevitable consequences for the services of the Joint Strategic Committee which will need to reduce its budget in line with the challenges faced by the constituent Councils.

4.0 DRAFT REVENUE ESTIMATES 2018/19

4.1 Detailed budgetary work for the Joint Strategic Committee is now complete (subject to any decisions arising from the Adur and Worthing Executives in February) and the estimate of the budget requirement is £22,120,240. This includes the savings agreed by Joint Strategic Committee on 5th December 2017. The budget already contains a number of spending commitments including:

- Increases to the Housing Services budget to ensure that the service is adequately resourced to meet the challenges of the new Homelessness Reduction Act and increasing demand (£125k)

- The impact of changing the cleansing arrangements for public conveniences. The toilets will now be cleaned in-house improving the quality for the benefit of the user (£43k)

- Investment in new refuse and recycling rounds to meet the demands of our growing communities retaining the current weekly refuse round and fortnightly recycling round (£255k).

Attached at Appendix 2 are some additional proposals for investment into services for member consideration.

4.2 Details of all of the main changes in the base budget from 2017/18 to 2018/19 are at Appendix 1. A breakdown of each Executive Member's summary budget is attached in Appendix 3. The changes can be summarised briefly as follows:

4.0 DRAFT REVENUE ESTIMATES 2018/19

	£'000	£'000
2017/18 Original Estimate		20.744
Budget transfers in year (revenues and benefits service)		1,756
2017/18 Adjusted budget		22,500
Add: General Pay and Price Increases		817
		23,317
Add: Committed and Unavoidable Growth:	461	
Less: Compensatory Savings	-93	
Less: Net savings identified in December	-1,565	-1,197
Net cost to be reallocated to the Councils		22,120
Allocated as follows:		
- Adur District Council		9,173
- Worthing Borough Council		12,947
Cost reallocated to both Councils		22,120

4.3 The Joint Strategic Committee budget will be reflected in both the Adur and Worthing Estimates, which will be approved by their respective Executives on 5h and 6th February 2018. The allocation of the costs of joint services under the remit of the JSC has again been reviewed this year. There is no significant swing of costs between the two Councils this year.

4.4 However, as part of the review of the allocation of support services there have been some changes to how the support services are allocated to individual services which are reflected in the detailed budgets. Support costs are now no longer allocated within the Joint Strategic Committee but allocated directly to Adur and Worthing. It is important to note that this does not change the overall cost of the support services to each Council, but that it does influence the size of the share that each service takes, and the proportion borne by the General Fund, the Housing Revenue Account and the Capital Investment Programme.

Further details can be provided by request from the Emma Thomas (Chief Accountant) or Sarah Gobey (Chief Financial Officer).

5.0 IMPACT ON FUTURE YEARS

5.1 The impact of the proposed changes on the overall revenue budget for the next 5 years is shown at Appendix 1. However, following settlement, it is clear that the Councils will continue to have budget shortfalls for at least the next 2 - 5 years. Consequently, the Joint Strategic Committee is likely to show the following shortfalls in line with that experienced by the Constituent Councils:

5.0 IMPACT ON FUTURE YEARS

	Expected shortfall (Cumulative)				
	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Cumulative budget shortfall	1,565	2,456	3,816	4,424	5,492
Less:					
Net savings agreed in December and January	-1,565	-1,565	-1,565	-1,565	-1,565
Adjusted cumulative budget shortfall	-	891	2,251	2,859	3,927
Savings required each year	-	891	1,360	608	1,068

5.2 To ensure that the Joint Strategic Committee continues to balance the budget there will need to be a continuing emphasis on efficiency and value for money in the annual savings exercise.

6.0 SIGNIFICANT RISKS

6.1 Members will be aware that there are several risks to the Joint Strategic Committee's overall budget. These can be summarised as follows:-

(i) **Income**

The Committee receives income from a number of services which will be affected by demand. Whilst known reductions in income have been built into the proposed budgets for 2018/19, income may fall further than expected.

(ii) **Withdrawal of funding by partners**

All budgets within the public sector continue to come under intense scrutiny which may lead to partners reassessing priorities and withdrawing funding for partnership schemes. Consequently, either council might lose funding for key priorities, which would leave the Joint Committee with unfunded expenditure together with the dilemma about whether to replace the funding from internal resources.

(iii) **Inflation**

A provision for 2.5% inflation has been built into non-pay budgets. Pay budgets include an inflationary allowance of 2.0%. Each 1% increase in inflation is equivalent to the following amount:

	1% increase
	£'000
Pay	216
Non-pay	54

6.0 SIGNIFICANT RISKS

6.2 To help manage these risks, both councils have working balances and other earmarked reserves although these reserves are becoming depleted.

7.0 CONSULTATION

7.1 The Council ran a consultation exercise last year which support the Council's five year budget strategy. In light of this, no consultation exercise was undertaken this year.

7.2 Officers and members have been consulted on the content of this report.

8.0 COMMENTS BY THE CHIEF FINANCIAL OFFICER

8.1 Section 25 of the Local Government Act 2003 requires an authority's Chief Financial Officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so Members will have authoritative advice available to them when they make their decisions. The Section requires Members to have regard to the report when making their decisions.

8.2 As Members are aware, the Joint Strategic Committee must set its Estimates in advance of the start of the financial year. This is because both Councils must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services. This includes a share of the cost of the Joint Strategic Committee. Because they decide on the council tax in advance of the financial year in question, and are unable to increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:

- making prudent allowance in the estimates for each of the services, and in addition;
- ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

Subject to the important reservations below, a reasonable degree of assurance can be given about the robustness of the estimates. The exceptions relate to:

(1) The provision of estimates for items outside of the direct control of the Council:

  - Income from fees and charges in volatile markets, and income from grants.

8.0 COMMENTS BY THE CHIEF FINANCIAL OFFICER

- External competition and declining markets, particularly during a recession.

(2) Cost pressures not identified at the time of setting the budget. This would include items such as excess inflation.

(3) Initiatives and risks not specifically budgeted for.

8.3 **Overall view on the robustness of the estimates**:

It will therefore be important for members to maintain a diligent budget monitoring regime during 2018/19.

8.4 The Chief Financial Officer and Section 151 Officer's overall view of the robustness of the estimates is, therefore, as follows:

The processes followed are sound and well established and identical to those that produced robust estimates in the past. The Joint Strategic Committee has also demonstrated that it has a sound system of financial management in place.

9.0 CONCLUSION

9.1 The Councils are implementing a budget strategy which plans for the eventual removal of all general government grant by 2019/20. The strategy outlines a series of proactive steps which would contribute significantly to meeting the financial challenge by increasing income or by promoting business efficiency through the use of digital technology. Overall the Committee has successfully contributed to this strategy by identifying savings of £1.6m to meet the current year's shortfall.

9.2 Looking further ahead, 2019/20 will continue to be challenging as both Councils expect further reductions in government funding, will have to address declining shares of business rate income, and have only limited opportunities to lever in New Homes Bonus. Consequently, the strategy of delivering commercial income growth and business efficiencies through the digital agenda assumes a greater importance. The Joint Strategic Committee will make a vital contribution to delivering the strategy.

9.3 However, provided we meet this challenge, the Councils will become increasingly financially resilient over the next 5 years as we become largely funded by our community through Council Tax and Business Rates and income from our commercial services.

Local Government Act 1972
Background Papers:

Report to the Joint Strategic Committee 13th July 2017 'Towards a sustainable future – Budget strategy for the 2018/19 budget'

Report to the Joint Strategic Committee 5th December 2017 'Sustainable Councils: 5 year forecast 2018/19 – 2022/23 and savings proposals'

Local Authority Finance (England) Settlement Revenue Support Grant for 2018/19 and Related Matters: DCLG Letters and associated papers of 19th December 2017.

Autumn Budget 2017 - HM Treasury

Autumn Budget 2017 – On-the-day Briefing by CIPFA Financial Advisory Service

Local Government Act 2003 and Explanatory Note

Statement of Accounts 2016/17

Report to Joint Strategic Committee 5th December 2017 – 2nd Revenue Budget Monitoring 2017/18

Contact Officer:
Sarah Gobey,
Chief Financial Officer
Town Hall, Worthing
Telephone No: (01903) 221221
Email: sarah.gobey@adur-worthing.gov.uk.

SUSTAINABILITY AND RISK ASSESSMENT

1. ECONOMIC

Matter considered and no issues identified

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

Matter considered and no issues identified

JOINT STRATEGIC COMMITTEE - APPENDIX 2
Revenue Budget Summary Statement 2017/18 - 2022/23

	2017/18 Base	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Net Spending to be Financed from Taxation						
Base budget	**24,495**	20,744	20,744	20,744	20,744	20,744
Net transfer in of budgets principally relating to revenues and benefits services		1,756	1,756	1,756	1,756	1,756
(a) **Annual Inflation**						
Estimated inflation		817	1,590	2,352	3,088	3,831
(b) **Committed Growth**						
Impact of Pension contribution increase		(93)	(95)	(97)	(99)	(101)
Impact of Homelessness Reduction Act		125	125	125	125	125
New 2020 recycling targets		-	500	1,000	1,000	1,000
Additional waste and recycling round		255	255	255	255	255
Impact of new public convienence cleaning service		43	43	43	43	43
Committed growth items identified by Heads of Service and approved in December 2017		38				
Contingency		-	100	200	300	400
Total Budget Requirements	**24,495**	**23,685**	**25,018**	**26,378**	**27,212**	**28,053**
Less: Recharges within the Joint Strategic Committee	(3,751)	-	-	-	-	-
Net cost to be reallocated to the Councils	**20,744**	**23,685**	**25,018**	**26,378**	**27,212**	**28,053**
Adur District Council	8,464	9,173	9,356	9,356	9,450	9,356
Worthing Borough Council	12,280	12,947	13,206	13,206	13,338	13,205
Total income for services provided to the constituent councils	**20,744**	**22,120**	**22,562**	**22,562**	**22,788**	**22,561**
(Surplus) / Shortfall in Resources	**-**	**1,565**	**2,456**	**3,816**	**4,424**	**5,492**
Savings identified to date:						
Commercial activities and commissioning						
Commercial and Customer Board		324	324	324	324	324
Efficiency Measures						
Digital Strategy Board		181	181	181	181	181
Restructures and service plan savings not included above		1,060	1,060	1,060	1,060	1,060
Total savings identified		**1,565**	**1,565**	**1,565**	**1,565**	**1,565**
Savings still to be found/ (surplus)		**-**	**891**	**2,251**	**2,859**	**3,927**
Savings required in each year		**1,565**	**891**	**1,360**	**608**	**1,068**

Bids for investment into services	2018/19 Joint (memo)	Adur	Worthing	Total	2019/20	2020/21	Notes
	£	£	£	£	£	£	
Additional capacity for Major Projects Team Creation of a new Head of Major Projects (Grade 10) to manage the existing team. This will also add to capacity to take major projects forward which form an important part of 'Platforms for our Places'.	68,750	3,440	65,310	68,750	68,750	68,750	This links to Commitment 1.6 'Investment in and delivery of Major Projects and key infrastructure' in the Financial Economies Platform. The majority of the work is being undertaken on Worthing sites.
Additional capacity in the Communications Team The Communications Team has significantly increased awareness of Councils' activities. It has increased internal awareness of the need for good story-telling and engagement across services. It has challenged all directorates to make communication a core of all strategic thinking. In addition it has begun to win contracts from internal and external bodies. There is considerable opportunity both enhance and improve Councils engagement and communications and bring in more revenue from other public bodies.	43,230	17,290	25,940	43,230	33,230	23,230	Net of additional income of £10k per year. This links to commitment 4.7 in the 'Services and Solutions for our Places' platform: 'Develop a communications service that champions the places, people, councils and projects of Adur. The service has a specifice commitment to 'Oversee the development of a sales and sponsorship package which will help the Councils create new revenue opportunities and open up affordable, attractive promotional packages for local businesses, with a target of £200,000 of revenue generated within 3 full years. and Worthing creatively, professionally and cost effectively (4.7.3)

Bids for investment into services	2018/19 Joint (memo)	Adur	Worthing	Total	2019/20	2020/21	APPENDIX 2 Notes
	£	£	£	£	£	£	
Investment in Digital Team							
The Councils have successfully established platform technology that allows us to design and build our own applications. This is proving to be by far the best way to redesign and transform our services, providing better solutions than those from third party suppliers, and we continue to be viewed as a national leader. Following the success of work in waste management, where response times have been reduced from days to hours through process automation, the digital team delivered several time saving internal applications in 2017 alongside significant solutions in housing options and housing repairs that are delivering large efficiencies (in contact centre and service teams) and significantly improved customer experience. With this success, high demand has followed from teams, and we have a significant project pipeline. The time is right to invest in resources to help the Councils do more, faster, now that we have a clearly proven approach. This bid for growth seeks revenue to fund one full time Project Manager and full time Senior Developer. The additional expertise in the team will assist in the delivery of the Service Redesign Programme and reduce reliance on external staff. In terms of Platforms for Our Places it will: i) Support our continued redesigning of services around individuals ii) Enable us to develop our digital capacity and capabilities and begin to support others in building the platforms on our digital foundations.	48,623	19,450	29,170	48,620	64,830	64,830	This links to the delivery of specific commitments in both the 'Social Economies' and 'Services and Solutions for our Places' platforms (commitments 2.2.7, 4.1.1 and 4.3.7)
	160,603	40,180	120,420	160,600	166,810	156,810	

JOINT SERVICE BLOCK ACTIVITY RECHARGED TO ADUR AND WORTHING COUNCILS

SERVICE BLOCKS	ESTIMATE 2017/2018	ESTIMATE 2018/2019
	£	£
Chief Executive, Organisational Development & Communications	664,740	389,380
Director for Communities	9,181,130	7,423,710
Director for Digital & Resources	10,477,650	10,957,760
Director for the Economy	4,171,790	3,349,390
TOTAL SERVICES	24,495,310	22,120,240
ALLOCATION OF COSTS		
Recharged to other joint services	(3,751,090)	-
	20,744,220	22,120,240
Adur District Council	(8,464,000)	(9,173,070)
Worthing Borough Council	(12,280,220)	(12,947,170)
TOTAL SERVICE BLOCK ALLOCATIONS	**(20,744,220)**	**(22,120,240)**

JOINT SUMMARY SERVICE BLOCK:
Chief Executive & Communications

ADUR & WORTHING COUNCILS

SERVICE	ESTIMATE 2017/2018	ESTIMATE 2018/2019
	£	£
CHIEF EXECUTIVE		
Chief Executive Office	262,910	196,290
Vacancy Provision		(16,660)
Director for Customer Services office	206,480	-
	469,390	**179,630**
Head of Communications		
Head of Communications - Office	61,140	68,980
Communications	134,210	140,770
	195,350	**209,750**
TOTAL FOR CEO AND COMMUNICATIONS	**664,740**	**389,380**

JOINT - CHIEF EXCECUTIVE AND COMMUNICATIONS DIRECTORATE - 2018/2019 - SUBJECTIVE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Staff FTE	Employees	Premises	Transport	Supplies & Services	Third Party	Income	Service Controlled Budget	Support Services	TOTAL BUDGET
		£	£	£	£	£	£	£	£	£
CHIEF EXECUTIVE										
Chief Executive Office	2	342,760	-	4,460	12,080	-	(179,670)	179,630	-	179,630
Head of Communications										
Head of Communications - Office	1	137,960	-	-	-	-	(68,980)	68,980	-	68,980
Communications	4	286,340	-	820	37,560	-	(183,950)	140,770	-	140,770
	7									
TOTAL COST		**767,060**	**0**	**5,280**	**49,640**	**0**	**(432,600)**	**389,380**	**0**	**389,380**
Percentage Direct Cost		93%	0%	1%	6%	0%				

An explanation of the changes to the budget since last year is provided on the previous page - the Variation page
Staff FTE = Number of staff based on full time equivalent

JOINT CHIEF EXECUTIVE OFFICER - 2018/2019 - VARIANCE ANALYSIS

SERVICE / ACTIVITY	Original Budget 2017/18	Inflation	One-off Items	Committed Growth	Savings	Impact of Capital Programme	Additional Income	Non Committed growth	Non-MTFP other changes	TOTAL BUDGET
	£	£	£	£	£	£	£	£	£	£
CHIEF EXECUTIVE										
Chief Executive Office	262,910	200	-	-	(61,000)	-	-	-	(22,480)	179,630
Head of Communications										
Head of Communications - Office	61,140	-	-	-	-	-	-	-	7,840	68,980
Communications	134,210	220	-	-	(12,000)	-	-	-	18,340	140,770
TOTAL COST	**458,260**	**420**	**0**	**0**	**(73,000)**	**0**	**0**	**0**	**3,700**	**389,380**

JOINT SUMMARY SERVICE BLOCK:
Communities Directorate

ADUR & WORTHING COUNCILS

SERVICE	ESTIMATE 2017/2018	ESTIMATE 2018/2019
	£	£
DIRECTOR FOR COMMUNITIES		
Director for Communities office	184,350	167,890
Directorate Vacancy Provision		(329,350)
	184,350	**(161,460)**
HEAD OF HOUSING		
Head of Housing	153,110	246,400
Housing Solutions	806,730	824,350
Housing - Environmental Health / Protection Team	322,650	305,610
Housing Strategy	326,530	197,270
	1,609,020	**1,573,630**
HEAD OF ENVIRONMENT		
Head of Environment	113,100	101,280
Parks	1,015,700	719,330
Foreshores	203,770	202,650
Dog Warden	99,660	91,150
Waste Management	306,620	290,800
Commerce Way Depot	105,700	105,200
Clinical Waste Collection	(6,750)	(8,590)
Recycling	(1,114,830)	(1,368,150)
Refuse Collection	1,573,810	1,615,390
Street Sweeping & Cleansing	1,497,210	1,478,110
Trade Refuse Collection	451,600	439,040
Vehicle Workshop	610,660	516,640
Waste Strategy	261,090	78,190
Off Street Parking	390,470	343,240
	5,507,810	**4,604,280**
Less: Vehicle Works Trading A/c - recharged to services per job	(584,540)	(516,640)
HEAD OF WELLBEING		
Head of Wellbeing	125,340	78,910
Community Wellbeing	791,050	546,940
Environmental Health - Domestic	961,640	799,710
Licensing	257,210	229,890
Democratic Services	329,250	268,450
	2,464,490	**1,923,900**
TOTAL FOR COMMUNITIES	**9,181,130**	**7,423,710**

JOINT - DIRECTOR FOR COMMUNITIES - 2018/2019 - SUBJECTIVE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Staff FTE	Employees	Premises	Transport	Supplies & Services	Third Party	Income	Service Controlled Budget	Support	TOTAL BUDGET
		£	£	£	£	£	£	£	£	£
DIRECTOR OF COMMUNITIES										
Director of Communities Office	1	(165,270)	-	-	3,810	-	-	(161,460)	-	(161,460)
Head of Housing										
Head of Housing	1	147,240	-	760	98,400	-	-	246,400	-	246,400
Housing Solutions	15.6	806,330	-	10,540	7,480	-	-	824,350	-	824,350
Housing - Environmental Health / Protection Team	7.6	291,620	-	7,380	6,610	-	-	305,610	-	305,610
Housing Strategy	1	193,140	-	2,140	1,990	-	-	197,270	-	197,270
Head of Environment										
Head of Environment	1	101,280	-	-	-	-	-	101,280	-	101,280
Parks	58	1,766,110	-	253,160	283,300	-	(1,583,240)	719,330	-	719,330
Foreshores	5.9	208,080	-	-	-	-	(5,430)	202,650	-	202,650
Environmental Health	2.4	76,390	-	3,770	15,370	-	(4,380)	91,150	-	91,150
Waste Management	6	289,130	100	3,980	17,060	-	(19,470)	290,800	-	290,800
Commerce Way Depot	0	-	154,430	50	10,910	-	(60,190)	105,200	-	105,200
Clinical Waste Collection	1	26,770	-	7,170	12,010	-	(54,540)	(8,590)	-	(8,590)
Recycling	24	766,920	-	168,710	83,960	-	(2,387,740)	(1,368,150)	-	(1,368,150)
Refuse Collection	41	1,423,280	-	291,650	21,530	-	(121,070)	1,615,390	-	1,615,390
Street Sweeping & Cleansing	47.3	1,537,500	-	223,720	122,570	-	(405,680)	1,478,110	-	1,478,110
Trade Refuse Collection	9.8	321,840	-	94,350	28,120	-	(5,270)	439,040	-	439,040
Vehicle Workshop	8.7	218,590	270	9,360	323,180	-	(34,760)	516,640	-	516,640
Waste Strategy	5.6	66,800	-	11,390	-	-	-	78,190	-	78,190
Off Street Parking	5.6	343,240	-	-	-	-	-	343,240	-	343,240
Less: Vehicle Works Trading Account - recharged to services per job		-	-	-	-	-	(516,640)	(516,640)	-	(516,640)
Head of Wellbeing										
Head of Wellbeing	3.3	62,440	-	-	16,470	-	-	78,910	-	78,910
Community Wellbeing	33.9	1,319,940	-	5,850	37,340	-	(816,190)	546,940	-	546,940
Environmental Health- Domestic	7.6	772,050	-	16,550	11,110	-	-	799,710	-	799,710
Licensing	5.8	220,310	-	4,620	4,960	-	-	229,890	-	229,890
Democratic Services	6	251,020	-	170	17,260	-	-	268,450	-	268,450
	308.7									
TOTAL COST		**11,044,750**	**154,800**	**1,115,320**	**1,123,440**	**0**	**(6,014,600)**	**7,423,710**	**0**	**7,423,710**
Percentage Direct Cost		82%	1%	8%	8%	0%				

JOINT COMMUNITIES DIRECTORATE - 2018/2019 - VARIANCE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Original Budget 2017/18	Inflation	One-off Items	Committed Growth	Savings	Impact of Capital Programme	Additional Income	Non Committed growth	Non-MTFP other changes	TOTAL BUDGET
	£	£	£	£	£	£	£	£	£	£
DIRECTOR OF COMMUNITIES										
Director of Communities Office	184,350	100	-	-	-	-	-	-	(345,910)	(161,460)
Head of Housing										
Head of Housing	153,110	480	-	-	-	-	-	-	92,810	246,400
Housing	806,730	1,190	-	54,000	-	-	-	-	(37,570)	824,350
Environmental Health - Domestic	322,650	240	-	-	-	-	-	-	(17,280)	305,610
Housing Strategy	326,530	1,970	-	-	-	-	-	-	(131,230)	197,270
Head of Environment										
Head of Environment	113,100	-	-	-	(6,520)	-	-	-	(5,300)	101,280
Parks	1,015,700	(24,240)	-	-	(203,620)	-	-	-	(68,510)	719,330
Foreshores	203,770	40	-	-	(920)	-	-	-	(240)	202,650
Environmental Health	99,660	340	-	-	(8,350)	-	-	-	(500)	91,150
Waste Management	306,620	40	-	-	2,660	-	-	-	(18,520)	290,800
Commerce Way Depot	105,700	2,500	-	-	-	-	-	-	(3,000)	105,200
Clinical Waste Collection	(6,750)	(870)	-	-	(20)	-	-	-	(950)	(8,590)
Recycling	(1,114,830)	(20,330)	-	127,500	(259,500)	-	-	-	(100,990)	(1,368,150)
Refuse Collection	1,573,810	6,060	-	127,500	(27,360)	-	-	-	(64,620)	1,615,390
Street Sweeping & Cleansing	1,504,590	5,210	-	-	(28,130)	-	-	-	(3,560)	1,478,110
Trade Refuse Collection	451,600	3,150	-	-	22,800	-	-	-	(38,510)	439,040
Vehicle Workshop	26,120	(7,340)	-	-	-	-	-	-	(18,780)	0
Waste Strategy	261,090	230	-	-	(98,570)	-	-	-	(84,560)	78,190
Off Street Parking	390,470	-	-	-	(48,780)	-	-	-	1,550	343,240
Less: Vehicle Works Trading Account - recharged to services per job	-	-	-	-	-	-	-	-	-	0
Head of Wellbeing										
Head of Wellbeing	125,340	650	-	25,000	(50,490)	-	-	-	(21,590)	78,910
Community Wellbeing	758,830	640	-	-	-	-	-	-	(212,530)	546,940
Environmental Health- Domestic	961,640	750	-	-	(15,840)	-	-	-	(146,840)	799,710
Licensing	257,210	210	-	-	-	-	-	-	(27,530)	229,890
Democratic Services	329,250	420	-	-	-	-	-	-	(61,220)	268,450
TOTAL COST	**9,156,290**	**(28,560)**	**0**	**334,000**	**(722,640)**	**0**	**0**	**0**	**(1,315,380)**	**7,423,710**

JOINT SUMMARY SERVICE BLOCK:
Digital and Resources Directorate

SERVICE	ESTIMATE 2017/2018	ESTIMATE 2018/2019
	£	£
DIRECTOR FOR DIGITAL AND RESOURCES		
Director for Digital and Resources office	185,040	(154,160)
Directorate Vacancy Provision		-
	185,040	**(154,160)**
Chief Finance Officer		
Head of Finance office	(683,900)	159,580
Management, Technical and Strategic Accounting	1,093,940	916,150
Exchequer and Fraud	687,180	423,640
Procurement	144,840	146,740
Internal Audit	490	-
	1,242,550	**1,646,110**
Head of Legal Services		
Legal Services	830,590	700,160
	830,590	**700,160**
Head of Human Resources		
Human Resources	423,300	404,460
Organisational Development	227,710	230,920
	651,010	**635,380**
Head of Business and Technical Services		
Head of Business and Technical Services	99,960	96,980
Business Services	371,420	291,240
Engineers	727,760	575,270
Surveyors and Sustainability	951,360	825,520
Facilities - Admin Buildings	675,910	521,120
Centralised Costs	354,930	363,810
	3,181,340	**2,673,940**
Head of Customer & Digital Services		
Head of Digital and Design	101,620	94,600
ICT, Systems Support and Development Team	2,121,980	1,971,120
Customer Services	1,341,160	1,249,950
Parking Services	254,770	155,260
Business Support	254,070	124,130
Elections	217,150	167,670
	4,290,750	**3,762,730**
Head of Revenues & Benefits		
Revenues & Benefits	96,370	1,693,600
	96,370	**1,693,600**
TOTAL for DIGITAL AND RESOURCES	**10,477,650**	**10,957,760**

JOINT - DIGITAL AND RESCOURCES DIRECTORATE - 2018/2019 - SUBJECTIVE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Staff FTE	Employees	Premises	Transport	Supplies & Services	Third Party	Income	Service Controlled Budget	TOTAL BUDGET
		£	£	£	£	£	£	£	£
DIRECTOR FOR DIGITAL& RESOURCES									
Director Office	2	(168,600)	-	680	13,770	-	(10)	(154,160)	(154,160)
Head of Finance									
Head of Finance office	2	131,680	-	560	27,370	-	(30)	159,580	159,580
Management, Technical & Strategic Accounting	28	881,140	-	660	79,600	-	(45,250)	916,150	916,150
Exchequer and Fraud	12	434,110	-	90	78,200	-	(88,760)	423,640	423,640
Procurement	0	146,740	-	-	-	-	-	146,740	146,740
Internal Audit	0	-	-	-	-	-	-	0	0
Head of Legal Services									
Legal Services		781,830	-	1,780	50,480	-	(133,930)	700,160	700,160
Head of Human Resources									
Human Resources	5.2	384,550	-	2,490	17,420	-	-	404,460	404,460
Organisational Development	2	228,520	-	30	2,370	-	-	230,920	230,920
Head of Business & Technical Services									
Head of Business & Technical Services	1	96,980	-	-	-	-	-	96,980	96,980
Business Services	15	329,760	50	2,040	72,500	-	(113,110)	291,240	291,240
Engineers	14	607,120	-	7,960	11,100	-	(50,910)	575,270	575,270
Surveyors	18	817,340	-	5,320	21,250	-	(18,390)	825,520	825,520
Facilities - Admin Buildings	0	-	570,910	-	26,570	-	(76,360)	521,120	521,120
Centralised Costs	0	-	-	-	363,810	-	-	363,810	363,810
Head of Customer and Digital Services									
Head of Digital and Design	1	94,530	-	-	70	-	-	94,600	94,600
ICT, Systems Support and Development Team	10	1,025,820	-	1,920	882,880	60,500	-	1,971,120	1,971,120
Customer Services	30.4	1,238,670	-	50	11,230	-	-	1,249,950	1,249,950
Parking Services	18.4	155,260	-	-	-	-	-	155,260	155,260
Business Support	7.8	130,380	-	-	81,190	-	(87,440)	124,130	124,130
Elections	4.9	164,970	-	510	2,190	-	-	167,670	167,670
Head of Revenues & Benefits									
Head of Revenues & Benefits	2	1,689,590	-	4,010	-	-	-	1,693,600	1,693,600
TOTAL COST		**9,170,390**	**570,960**	**28,100**	**1,742,000**	**60,500**	**(614,190)**	**10,957,760**	**10,957,760**
Percentage Direct Cost		79%	5%	0%	15%	1%			

An explanation of the changes to the budget since last year is provided on the previous page - the Variation page

Staff FTE = Number of staff based on full time equivalent

JOINT DIGITAL AND RESOURCES DIRECTORATE - 2018/2019 - VARIANCE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Original Budget 2017/18	Inflation	One-off Items	Committed Growth	Savings	Impact of Capital Programme	Additional Income	Non Committed growth	Non-MTFP other changes	TOTAL BUDGET
	£	£	£	£	£	£	£	£	£	£
DIRECTOR FOR DIGITAL& RESOURCES										
Director Office	185,040	360	-	-	-	-	-	-	(339,560)	(154,160)
Head of Finance										
Head of Finance office	(683,900)	(170)	-	(88,810)	(2,270)	-	-	-	934,730	159,580
Management, Technical & Strategic Accounting	1,093,940	1,210	-	-	(16,290)	-	-	-	(162,710)	916,150
Exchequer and Fraud	687,180	1,180	-	-	(48,010)	-	-	-	(216,710)	423,640
Procurement	144,840	-	-	-	-	-	-	-	1,900	146,740
Internal Audit	490	-	-	-	(490)	-	-	-	-	0
Head of Legal Services										
Legal Services	830,590	(1,650)	-	9,000	(23,000)	-	-	-	(114,780)	700,160
Head of Human Resources										
Human Resources	423,300	1,870	-	-	(11,580)	-	-	-	(9,130)	404,460
Organisational Development	227,710	4,730	-	-	-	-	-	-	(1,520)	230,920
Head of Business & Technical Services										
Head of Business & Technical Services	99,960	-	-	-	-	-	-	-	(2,980)	96,980
Business Services	371,420	1,210	-	-	(7,460)	-	-	-	(73,930)	291,240
Engineers	727,760	(890)	-	-	(500)	-	-	-	(151,100)	575,270
Surveyors	951,360	530	-	-	(680)	-	-	-	(125,690)	825,520
Facilities - Admin Buildings	675,910	12,910	-	-	(1,490)	-	-	-	(166,210)	521,120
Centralised Costs	354,930	8,880	-	-	-	-	-	-	-	363,810
Head of Customer & Digital Services										
Head of Digital and Design	101,620	-	-	-	-	-	-	-	(7,020)	94,600
ICT, Systems Support and Development Team	2,121,980	39,710	-	-	(153,000)	-	-	-	(37,570)	1,971,120
Customer Services	1,341,160	360	-	-	10,600	-	-	-	(102,170)	1,249,950
Parking Services	254,770	-	-	-	(56,000)	-	-	-	(43,510)	155,260
Business Support	254,070	(160)	-	-	(32,600)	-	-	-	(97,180)	124,130
Elections	217,150	60	-	-	-	-	-	-	(49,540)	167,670
Head of Revenues & Benefits										
Head of Revenues & Benefits	96,370	-	-	-	-	-	-	-	1,597,230	1,693,600
TOTAL COST	**10,477,650**	**70,140**	**0**	**(79,810)**	**(342,770)**	**0**	**0**	**0**	**832,550**	**10,957,760**

JOINT SUMMARY SERVICE BLOCK:
Economy Directorate

ADUR & WORTHING COUNCILS

SERVICE	ESTIMATE 2017/2018	ESTIMATE 2018/2019
	£	£
DIRECTOR FOR ECONOMY		
Director of Economy Office	182,910	168,220
Directorate Vacancy Provision	-	(92,710)
Growth		
Head of Growth	107,890	98,860
Planning Policy	615,000	593,270
Estates	432,800	356,480
Development Control	1,343,550	1,015,770
Building Control	684,890	496,600
LLPG	20,970	23,350
Land Charges	144,710	108,440
	3,349,810	**2,692,770**
Place & Investment		
Head of Place & Investment	90,390	93,900
Economic Development	449,430	384,130
	539,820	**478,030**
Culture		
Head of Culture	99,250	103,080
Tourism	-	-
	99,250	**103,080**
TOTAL for ECONOMY	**4,171,790**	**3,349,390**

JOINT ECONOMY DIRECTORATE - 2018/2019 - SUBJECTIVE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Staff FTE	Employees	Direct Recharges	Premises	Transport	Supplies & Services	Third Party	Income	Service Controlled Budget	Support	TOTAL BUDGET
		£	£	£	£	£	£	£	£	£	£
DIRECTOR OF ECONOMY											
Director of Economy Office	2	73,960	-	-	100	1,450	-	-	75,510	-	75,510
Growth											
Head of Growth	1	97,580	-	-	520	760	-	-	98,860	-	98,860
Planning Policy	10.42	607,040	-	-	4,710	84,810	-	(103,290)	593,270	-	593,270
Estates	6.5	350,000	-	-	3,590	2,890	-	-	356,480	-	356,480
Development Control	24.57	945,890	-	-	5,470	64,410	-	-	1,015,770	-	1,015,770
Building Control	10.9	469,160	-	2,950	11,710	48,000	-	(35,220)	496,600	-	496,600
LLPG	1	49,370	-	-	530	16,430	-	(42,980)	23,350	-	23,350
Land Charges	3.4	104,980	-	-	-	3,460	-	-	108,440	-	108,440
Place & Investment											
Head of Place & Investment	1	93,900	-	-	-	-	-	-	93,900	-	93,900
Economic Development	6.19	355,020	-	-	4,410	36,380	-	(11,680)	384,130	-	384,130
Culture											
Head of Culture	1	103,080	-	-	-	-	-	-	103,080	-	103,080
Tourism and Events	2.81	-	-	-	-	-	-	-	0	-	0
	70.79										
TOTAL COST		**3,249,980**	**0**	**2,950**	**31,040**	**258,590**	**0**	**(193,170)**	**3,349,390**	**0**	**3,349,390**
Percentage Direct Cost		92%	0%	0%	1%	7%	0%				

JOINT ECONOMY DIRECTORATE - 2018/2019 - VARIANCE ANALYSIS

ADUR & WORTHING COUNCILS

SERVICE / ACTIVITY	Original Budget 2017/18	Inflation	Savings	Non-MTFP other changes	Virements	Payroll	Recharges	Joint transfers	TOTAL BUDGET
	£	£	£	£			£	£	£
DIRECTOR OF ECONOMY									
Director of Economy Office	182,910	30	-	(107,430)	(93,450)	3,240	(17,220)	-	75,510
Growth									
Head of Growth	107,890	30	-	(9,060)	(430)	1,900	(10,530)	-	98,860
Planning Policy	615,000	2,190	-	(23,920)	(1,970)	71,380	(93,330)	-	593,270
Estates	432,800	120	(18,460)	(57,980)	(1,660)	3,230	(59,550)	-	356,480
Development Control	1,343,550	1,620	(10,000)	(319,400)	(6,620)	(37,950)	(274,830)	-	1,015,770
Building Control	-	-	-	496,600	-	-	496,600	-	496,600
LLPG	-	-	-	23,350	-	-	23,350	-	23,350
Land Charges	-	-	-	108,440	-	-	108,440	-	108,440
Place & Investment									
Head of Place & Investment	90,390	-	-	3,510	(1,120)	5,160	(530)	-	93,900
Economic Development	449,430	690	-	(65,990)	(1,720)	15,600	(79,870)	-	384,130
Culture									
Head of Culture	99,250	-	-	3,830	(440)	4,880	(610)	-	103,080
Tourism and Events	-	-	-	-	-	-	-	-	0
TOTAL COST	**3,321,220**	**4,680**	**(28,460)**	**51,950**	**(107,410)**	**67,440**	**91,920**	**0**	**3,349,390**

Joint Governance Committee
Date: 30th January, 2018
Agenda Item 8

Joint Strategic Committee
Date: 1st February, 2018
Agenda Item 6
Key Decision : No
Ward(s) Affected:

JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19 to 2020/21, 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 approve and adopt the contents of the Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 to 2020/21 for Adur and Worthing Councils, 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 the report (including the Prudential Indicators and Limits, and MRP Statements) for 2018/19 to 2020/21.

2.2 **Recommendation Two**
The Joint Governance Committee is recommended to refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 1st February 2018.

2.3 **Recommendation Three**
The Joint Strategic Committee is recommended to approve and adopt the TMSS and AIS for 2018/19 to 2020/21, incorporating the Prudential Indicators and Limits, and MRP Statements.

2.4 **Recommendation Four**
The Joint Strategic Committee is recommended to forward the Prudential Indicators and Limits, and MRP Statements of the report for approval by Worthing Council at its meeting on 20 February 2018, and by Adur Council at its meeting on 22 February 2018.

3. CONTEXT

INTRODUCTION

3.1 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."*

3.2 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) and by the Councils - the first, and most important report covers:

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

3. CONTEXT

INTRODUCTION

3.2 Reporting requirements

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and noting 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. The reports are approved by the JSC and recommended to the Councils for approval.

Capital Strategy
In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected Members on the full councils fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy. The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

The Councils already prepare a Capital Strategy but this will need to be extended to cover the new requirements.

3.3 Treasury Management Strategy for 2018/19
The strategy for 2018/19 covers two main areas:

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

3. CONTEXT

INTRODUCTION

3.3 Treasury Management Strategy for 2018/19

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;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the 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.

3.4 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 for Members was provided by Capita Asset Services (now Link Asset Services) in June 2017 and further training will take place on 19 June 2018.

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

3.5 Treasury management consultants

The Councils last undertook a joint re-tender for treasury management consultancy services in 2017. This culminated in the re-appointment of the Councils' incumbent consultants, Link Asset Services (formerly Capita) on similar terms for 3 years from 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 recognise that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Councils will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

4. RECENT DEVELOPMENTS IN TREASURY MANAGEMENT

4.1 Markets in Financial Instruments Directive (MIFID II) Reforms

From 3 January 2018, under the EU issued MIFID II regulations, all institutions which invest in MIFID II products are required to opt up from retail investor status to professional status. Although the Councils currently do not invest in MIFID II products, many of the financial institutions that we deal with do not have authorisation to transact with retail clients. Consequently the Councils were required to opt up to professional status in order to be able to continue to invest with many of our counterparties. Appendix B lists these counterparties. The main implications are that the financial institutions are entitled to assume that the Councils have the expertise to make the relevant investments and that the information provided may not be as comprehensive as for retail clients. As the Councils currently invest only in fixed term deposits in high quality counterparties, this does not present a risk to the security of our funds.

4.2 Money Market Funds

The EU approved Money Market Fund Regulation comes into force on 21 July 2018. Only funds that invest 99.5% of their assets into government debt instruments and similar instruments will be permitted to maintain a Constant Net Asset Value (CNAV) fund. The CNAV funds that the Councils currently use will be re-classified as Low Volatility NAV (LVNAV) funds and will be permitted to maintain a constant dealing NAV provided that they meet more stringent criteria than at present. Consequently our approved investment schedules have been amended to include reference to appropriate LVNAV funds.

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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.

5.1 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 tables below summarise 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. The financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments.

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

5.1 Capital expenditure

ADUR DISTRICT COUNCIL

Capital expenditure	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	2.203	*36.541	*38.007	*30.940	*28.512
HRA	2.826	6.205	7.006	5.800	6.400
TOTAL	**5.029**	**42.746**	**45.013**	**36.740**	**34.912**
Financed by:					
Capital receipts	0.648	2.095	0.764	1.870	2.006
Capital grants and contributions	1.142	5.280	0.699	1.490	0.588
Revenue Reserves & contributions	2.443	4.569	6.187	4.482	4.482
Net financing need for the year	**0.796**	**30.802**	**37.363**	**28.898**	**27.836**

* **The capital expenditure includes £25m allocated to the Strategic Property Fund for 2017/18 and each of the following years.**

WORTHING BOROUGH COUNCIL

Capital expenditure	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	**5.637**	***54.932**	***34.565**	***32.220**	***29.929**
Financed by:					
Capital receipts	1.123	5.912	0.192	1.000	1.000
Capital grants and contributions	4.329	1.515	0.858	1.706	0.767
Revenue Reserves & contributions	0.185	0.455	0.199	0.210	0.199
Net financing needed for the year	**0.000**	**47.050**	**33.316**	**29.304**	**27.963**

* **The capital expenditure includes a £10m loan to a local Registered Social Landlord in 2017/18 and the amounts allocated to the Strategic Property Fund - £30.3m in 2017/18 and £25m in each of the following years.**

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

5.2 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 historical 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, and so charges the economic consumption of capital assets as they are used. 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 currently do not have any such schemes within the CFR.

The Councils are asked to approve the CFR projections below:

ADUR DISTRICT COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Capital Financing Requirement					
CFR – non-HRA	14.909	43.865	79.785	106.536	131.128
CFR – HRA	60.103	61.237	61.474	62.010	63.010
Total CFR	**75.012**	**105.102**	**141.259**	**168.546**	**194.138**
Movement in CFR	**(1.810)**	**30.090**	**36.157**	**27.287**	**25.592**
Movement in CFR represented by					
Net financing need for the year (above)	0.796	30.802	37.363	28.898	27.836
Less: MRP/VRP and other financing movements	(2.606)	(0.712)	(1.206)	(1.611)	(2.244)
Movement in CFR	**(1.810)**	**30.090**	**36.157**	**27.287**	**25.592**

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

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

WORTHING BOROUGH COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Capital Financing Requirement					
CFR – non housing	**22.384**	**68.625**	**100.445**	**127.692**	**153.215**
Movement in CFR	**(0.977)**	**46.241**	**31.820**	**27.247**	**25.523**
Movement in CFR represented by					
Net financing need for the year (above)	0.000	47.050	33.315	29.304	27.962
Less MRP/VRP and other financing movements	(0.977)	(0.809)	(1.495)	(2.057)	(2.439)
Movement in CFR	**(0.977)**	**46.241**	**31.820**	**27.247**	**25.523**

5.3 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 require the full Councils to approve an MRP Statement in advance of each year. The CLG intends to issue new MRP guidance which will include maximum useful economic lives for land (50 years) and other assets (40 years). The 2017/18 MRP Statements were approved by Adur Council on 23rd February 2017 and by Worthing Council on 21st February 2017.

For both Councils, MRP relating to built assets under construction will be set aside once the asset is completed.

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:

ADUR DISTRICT COUNCIL

For Adur District Council it was approved by JSC on 2 June 2016 that for capital expenditure incurred before 1st April 2008, the MRP will be set aside in equal instalments over the life of the associated debt. No such policy was required by Worthing Borough Council who had no debt as at 1 April 2008.

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

5.3 Minimum revenue provision (MRP) policy statement

ADUR DISTRICT COUNCIL

5.3.1 <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 estimated 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 2018/19.

5.3.2 <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 previously applied the financially prudent option of voluntary MRP for the repayment of HRA debt, to facilitate new borrowing in future for capital investment. However in order to provide additional capital funding to address the maintenance backlog identified by the condition survey, the payment of voluntary MRP was suspended for a period of 9 years from 2017/18 whilst the Council invests in its current housing stock and manages the impact of rent limitation.

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

5.3 Minimum revenue provision (MRP) policy statement

WORTHING BOROUGH COUNCIL

5.3.3 Worthing applies the same MRP policy as Adur for unfunded capital expenditure from 1 April 2008. 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 2018/19.

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

5.4 Affordability prudential indicators

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:

5.4.1 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. The net revenue stream is defined in the Prudential Code as "taxation and non-specific grant income." This ratio was appropriate when most of the Councils' income derived from Government funding, but as the Councils increase their income from other sources, the ratio becomes distorted. The projected financing costs (interest on borrowing and Minimum Revenue Provision) for both Councils will increase in line with the planned investment in properties. However rental income from the properties does not form part of the net revenue stream as defined. Consequently the non-HRA ratio of financing costs to net revenue stream will increase significantly, although in practise the rental income will cover both the interest and MRP costs.

The HRA ratio for Adur reduces for 2017/18 and future years due to the revised Minimum Revenue Provision policy, which suspended voluntary provision whilst the backlog of maintenance is addressed.

ADUR DISTRICT COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	%	%	%	%
Non-HRA	15.44	12.58	30.55	45.99	63.18
HRA	40.80	17.88	25.01	25.37	25.55

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

5.4.1 Ratio of financing costs to net revenue stream

WORTHING BOROUGH COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	%	**%**	**%**	**%**	**%**
Non-HRA	8.26	8.68	18.65	26.70	38.31

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

5.4.2 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. The income from strategic property purchases will generate savings in the indicator.

ADUR DISTRICT COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£	**£**	**£**	**£**	**£**
Council Tax - Band D	6.14	(13.38)	(13.16)	(17.91)	(10.93)

WORTHING BOROUGH COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£	**£**	**£**	**£**	**£**
Council Tax - Band D	3.54	(10.69)	(12.22)	(9.82)	(13.46)

5. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

5.7 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

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£	£	£	£	£
Weekly housing rent levels	(0.55)	(14.07)	0.10	(0.38)	(0.10)

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.

6. BORROWING

The capital expenditure plans set out above 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.

6.1 Current portfolio position

The Councils' treasury portfolio positions at 31 March 2017, with forward projections are summarised below. The tables show 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 £25m in 2017/18 and the following years for investment in the Strategic Property Fund.

6. BORROWING

6.1 Current portfolio position

ADUR DISTRICT COUNCIL

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
External Debt					
Debt at 1 April	74.268	74.552	102.864	136.648	159.810
Expected change in Debt	0.284	28.312	33.784	23.162	21.218
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Debt at 31 March	**74.552**	**102.864**	**136.648**	**159.810**	**181.028**
The Capital Financing Requirement	**75.012**	**105.102**	**141.259**	**168.546**	**194.137**
Under / (over) borrowing	**0.460**	**2.238**	**4.611**	**8.736**	**13.109**

WORTHING BOROUGH COUNCIL

The increase in debt allows for £10m in 2017/18 for the Worthing loan to Worthing Homes and £30m in 2017/18 and £25m in the following years for investment in the Strategic Property Fund.

	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
External Debt					
Debt at 1 April	19.136	22.309	63.624	93.585	117.868
Expected change in Debt	3.173	41.315	29.961	24.283	21.677
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Debt at 31 March	**22.309**	**63.624**	**93.585**	**117.868**	**139.545**
The Capital Financing Requirement	**22.384**	**68.625**	**100.445**	**127.692**	**153.215**
Under / (over) borrowing	**0.075**	**5.001**	**6.860**	**9.824**	**13.670**

6. BORROWING

6.1 Current portfolio position

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 2018/19 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 or speculative 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.

6.2 Treasury Indicators: limits to borrowing activity

The operational boundary - This is the limit 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 and the ability to fund under-borrowing by other cash resources.

ADUR DISTRICT COUNCIL

Operational boundary	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Debt	105.0	140.0	163.0	185.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**106.0**	**141.0**	**164.0**	**186.0**

WORTHING BOROUGH COUNCIL

Operational boundary	2017/18 Approved	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Other Debt	55.0	90.0	115.0	135.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**66.0**	**101.0**	**126.0**	**146.0**

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.

6. BORROWING

WORTHING BOROUGH COUNCIL

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

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	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Debt	110.0	145.0	170.0	190.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**111.0**	**146.0**	**171.0**	**191.0**

WORTHING BOROUGH COUNCIL

Authorised limit	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Other Debt	60.0	95.0	120.0	140.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**71.0**	**106.0**	**131.0**	**151.0**

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	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£m	**£m**	**£m**	**£m**
HRA debt cap	68.912	68.912	68.912	68.912
HRA CFR	61.237	61.474	62.010	63.010
HRA headroom	7.675	7.438	6.902	5.902

6. BORROWING

6.3 Prospects for interest rates

The Councils have appointed Link 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-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
Bank Rate	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%
5yr PWLB Rate	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%
10yr PWLB View	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%
25yr PWLB View	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%
50yr PWLB Rate	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%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

6. BORROWING

6.3 Prospects for interest rates

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 balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries
- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
  - The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

6. BORROWING

6.3 Prospects for interest rates

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

  - The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- Investment and borrowing rates:

  - Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

  - Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of 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.

6.4 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.

6. BORROWING

6.4 Borrowing Strategy

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 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.

6.5 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, 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;

6. BORROWING

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**.**

vi) Short term loans from other Councils where appropriate.

6.6 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.

6.7 **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	2018/19	2019/20	2020/21
	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

6. BORROWING

6.7 Treasury management limits on activity

ADUR DISTRICT COUNCIL

Maturity structure of fixed interest rate borrowing 2018/19		
	Lower Limit	**Upper Limit**
Under 12 months	0%	20%
12 months to 2 years	0%	25%
2 years to 5 years	0%	30%
5 years to 10 years	0%	50%
10 years to 20 years	0%	60%
20 years to 30 years	0%	60%
30 years to 40 years	0%	60%
40 years to 50 years	0%	45%

WORTHING BOROUGH COUNCIL

Interest rate exposures	2018/19	2019/20	2020/21
	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 2018/19		
	Lower Limit	**Upper Limit**
Under 12 months	0%	45%
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%	75%

6. BORROWING

6.8 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.

6.9 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.

Adur’s debt portfolio includes a large proportion 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, Worthing’s existing fixed rate debt portfolio is at or below current interest rates, so options for early settlement do not really apply.

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

6.10 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). These Authorities intends to make use of this new source of borrowing as and when appropriate.

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Background - Investment Policy

7.1 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.

7.2 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.

7.3 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.

7.4 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 below.

Creditworthiness Policy

7.5 The primary principle governing the Councils' joint treasury management service investment criteria is the security of investments, although the yield or return on the investment is also a key consideration. After this main principle, the service will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Councils' prudential indicators covering the maximum principal sums invested.

The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Councils for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the service may use, rather than defining what types of investment instruments are to be used.

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Creditworthiness Policy

7.6 The Councils use the creditworthiness service provided by Link Asset Services Limited. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's. 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

7.7 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.

7.8 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, the categorised counterparties within the following durational bands*:* -

- Yellow (Y) 5 years (UK Government debt or its equivalent)
- Dark pink (Pi1) 5 years for Ultra Short Dated Bond Funds with a credit score of 1.25
- Light pink (Pi2) 5 years for Ultra Short Dated Bond Funds 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

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Creditworthiness Policy

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

7.9 Although the Link 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.

7.10 Using Link'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.

- In addition to the use of Credit Ratings the Councils will be advised by Link 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.

7.11 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.

7.12 Accordingly, the Councils may exercise discretion to deviate from Link'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

7.13 The minimum credit ratings criteria used by the Councils generally will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. 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.

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

The Councils' Minimum Investment Creditworthiness Criteria

7.14 The Councils include the top five **building society** names in the specified investments. It is recognised that they may carry a lower credit rating than the Councils' other counterparties, therefore 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

Country Limits and Proposed Monitoring Arrangements

7.15 Due care will be taken to consider the country, group and sector exposure of the Councils' investments.

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 as at the date of this report is reflected in the counterparty approved lending list shown at Appendix A. This list will be added to, or deducted from, by officers should ratings change, in accordance with this policy. No more than 25% of investments shall be placed in non-UK financial institutions for more than 7 days.

7.16 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.

7.17 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).

7.18 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.

Investment Strategy

7.19 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 which make longer term deals worthwhile and within the risk parameters set by the Councils.

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Investment Strategy

7.20 **Investment returns expectations** - Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

2017/18	0.50%
2018/19	0.75%
2019/20	1.00%
2020/21	1.25%

7.21 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year for the current year and the next three years are as follows:

2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

7.22 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set 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 Councils are asked to approve the treasury indicators and limits:

ADUR DISTRICT COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2018/19	**2019/20**	**2020/21**
Principal sums invested > 365 days	50%	50%	50%

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Investment Strategy

WORTHING BOROUGH COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2018/19	2019/20	2020/21
Principal sums invested > 365 days	50%	50%	50%

Investments managed in-house

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

7.24 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.

7.25 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.

7.26 The Councils' proposed investment activity for placing cash deposits in 2018/19 will be amended to use:

- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV) and their replacement Low Volatility Net Asset Value (LVNAV) funds under the new money market fund regulations
- 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

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Other Options for Longer Term Investments

7.27 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 for longer term investments, as an alternative to cash deposits:

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

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

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

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

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

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

d) Any **bank or building society** that has a minimum long term credit rating of 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.

7. ANNUAL INVESTMENT POLICY AND STRATEGY 2018/19

Other Options for Longer Term Investments

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.

h) **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.*

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

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

7.28 **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.

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

7.30 **Investment risk benchmarking** – the Councils will subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

8. OTHER MATTERS

8.1 **Balanced budget requirement** - the Councils comply with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

8. OTHER MATTERS

8.2 **Worthing Leisure Trust** - 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%.

9. ENGAGEMENT AND COMMUNICATION

9.1 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.

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

10. FINANCIAL IMPLICATIONS

10.1 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**: 18th January 2018

11. LEGAL IMPLICATIONS

11.1 The approval and adoption of the Treasury Management Strategy Statement, Annual Investment Strategy, Minimum Revenue Provision Policy and Prudential Indicators is required by regulations issued under the Local Government Act 2003.

Legal Officer: Susan Sale **Date**: 18th January 2018

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

Overall Budget Estimates 2018/19 and Setting of 2018/19 Council Tax Report

Link Asset Services Ltd TMSS Template 2018/19

Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2017)

The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2017)

CLG Investment Guidance (Revised April 2010)

Officer Contact Details:-
Pamela Coppelman
Group Accountant (Strategic Finance)
Telephone: 01903 221236
Email: 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 2018/19 - 2020/21, submitted and approved before the commencement of the 2018/19 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.

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) or appropriate Low Volatility Net Asset Value (LVNAV) under the new regulations.
- 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: A- (Fitch) or equivalent
Or
Short-term investments (365 days or less): minimum F1 (Fitch) or equivalent

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

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
AAA Rated Money Market Funds	UK/Ireland incorporated	Constant Net Asset Value or appropriate replacement LVNAV MMFs	£5m or 30% of funds
Other MMFs and CIS	UK – AA	Collective Investment Schemes	25%
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, except that this limit may be breached for liquidity purposes for up to 1 week at any time.

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.

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

WORTHING BOROUGH COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
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 or appropriate replacement LVNAV MMFs	£5m or 30% of funds
Other MMFs and CIS	UK – AA	Collective Investment Schemes	25%
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	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, except that this limits may be breached for liquidity purposes for up to 1 week at any time.

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.

COUNTERPARTIES WHERE THE COUNCILS HAVE OPTED UP TO PROFESSONAL INVESTOR STATUS

(i) **Money Market Funds**

Invesco
Federated Investors
CCLA

(ii) **Building Societies**

Skipton Building Society
Coventry Building Society

(iii) **Brokers**

BGC (Sterling)
Tradition
ICAP

(iv) **Other**

ICD (Portal used for money market fund investments)
Link Asset Services

These arrangements will be regularly reviewed as appropriate.

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 Joint Strategic Committee

- 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.

TREASURY MANAGEMENT SCHEME OF DELEGATION

The revised CIPFA Treasury Management and Prudential Codes has extended the functions of the S151 role in respect of non-financial investments. Guidance notes giving specific information will follow, but additional responsibilities are likely to include:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- ensuring that the capital strategy is prudent, sustainable and affordable in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authorities
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

LINK ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, inflation prospects are generally muted and it is particularly notable that wage inflation has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the fourth industrial revolution.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities.

LINK ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let

inflation run away by taking action that was too slow and/or too weak. The potential for central banks to get this timing and strength of action wrong are now key risks.

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the low level of productivity growth, which may be the main driver for increases in wages; and decreasing consumer disposable income, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether an inflation target for central banks of 2%, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a lower inflation target of 1% to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply ‘look through’ tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.

- However, other economists would argue for a shift UP in the inflation target to 3% in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.

- In addition, there is a strong argument that central banks should target financial market stability. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.

LINK ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that other non-financial asset prices, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU 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 80% 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 while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial 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 soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.0% in both September and October so that might prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen 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 automation and globalisation. 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 this would cause additional inflationary pressure over the next few years.

LINK ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the contradiction within the Bank of England between action in 2016 and in 2017 by two of its committees. After the shock result of the EU referendum, the Monetary Policy Committee (MPC) voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was because the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the Financial Policy Committee (FPC) of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years.

APPENDIX D

LINK ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, 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 to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had 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 has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.0% y/y), 0.7% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% 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 November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and 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% and quarter 3 coming in at 3.32%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and 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 increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. 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. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However it has still been struggling to stimulate consistent significant growth and to get inflation up to its target of 2.1%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

LINK ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

ECONOMIC BACKGROUND

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50

- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.

- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.

- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU’s budget, voting allocations and policies.

ADUR & WORTHING COUNCILS

Joint Strategic Committee
1 February 2018
Agenda Item 7

Key Decision - No

Ward(s) Affected: Worthing All

Community Infrastructure Levy - Governance Arrangements

Report by the Director for the Economy

Executive Summary

1. Purpose

- Worthing Borough Council has introduced a Community Infrastructure Levy (CIL) to allow funds to be raised from developers to pay for infrastructure that is needed to support growth. The Council adopted its Charging Schedule for CIL in February 2015 and implementation of the levy commenced in October 2015. The Council now has overarching responsibility for the allocation of CIL monies and reporting the amount of money collected and spent.

- Although the issue of CIL governance has been considered at a high level in previous reports it is now the right time for the Council to establish a clear CIL Governance structure to oversee the collection, auditing and spending of CIL monies. This report proposes the key governance arrangements for the delivery of infrastructure through CIL. It then summarises some of the additional issues that will be resolved once these mechanisms are in place. The protocols proposed will ensure that CIL is managed in an open way and in accordance with the CIL regulations.

2. Recommendations

That the Committee:

1. **Agrees to the broad principles set out in the report for future CIL governance arrangements,**
2. **Agrees to establish a Joint Officer Member Board as set out in paragraph 2.6.**
3. **Agrees the timeline and process of the preparation of the Infrastructure Business Plan as set out in Appendix 2**
4. **Agrees that 5% of CIL collected should be ring fenced to pay for administering the collection and monitoring of CIL spend.**

1. Background

1.1. The Community Infrastructure Levy (CIL) is a mechanism, introduced by Government in 2010, to allow local planning authorities to raise funds from some forms of development in order to pay for the infrastructure that will be needed as a result of that new development. Worthing Borough Council adopted its Charging Schedule for CIL in February 2015 and implementation of the levy commenced in October 2015.

1.2. CIL is the main way in which the Council now collects contributions from developers for infrastructure provision to support development. It largely replaces the use of Section 106 planning obligations with the exception of affordable housing provision and some site specific matters (usually in relation to the more significant developments in the Borough).

1.3. As expected, due to the time lag in implementing development that has been granted permission since October 2015, the level of money collected through CIL has, up to now, been relatively small (CIL is only paid once development commences). This is set to change and significant sums are expected to be collected through the levy in the coming years. To date, approximately £125,000 has been collected in the Borough from CIL. However, the value of the liability notices issued (but yet to commence) is significant, although it should be noted that this does not mean that all the permitted schemes will be built out.

1.4. As the money collected through the levy is starting to build it is the right time to consider the management of CIL funding. As such, this report recommends an approach that would see clear and robust governance arrangements agreed and established during 2018/2019. This will ensure that the Council is then in a position to prioritise projects and allocate CIL money from the start of the financial year 2019/2020.

1.5. Worthing Borough Council has the responsibility for prioritising the spend of CIL. The overarching rule is that CIL must be spent on infrastructure to support the overall development of the area. Infrastructure includes things such as transport improvements, roads, pedestrian and cycle routes, sports and community facilities, libraries, schools and flood defences. CIL can be spent on both capital projects and revenue projects such as the maintenance of infrastructure. CIL can also be spent outside the Borough if it benefits development within the Borough. CIL cannot be spent on addressing current deficits in infrastructure provision unless those deficits are made worse by new development in the area.

1.6. Unlike S106 contributions, CIL does not have to directly relate to off-setting the implications of an individual development, but instead relates to the overall cumulative effect of development in the Borough. Whilst CIL funding is 'ring-fenced' to be used on infrastructure to support development, there is, in reality, a greater degree of flexibility for the spending of CIL, providing the infrastructure project is included on the Council's Regulation 123 list (see Appendix 1). Furthermore, there is no time limit for spending CIL so, if desired, funds may be pooled until there is enough 'in the pot' to deliver a priority item of infrastructure.

1.7. Under the S106 regime contributions towards certain infrastructure types, such as education and transport, were paid directly to the County Council and/or the provider of the relevant services. This is not the case with CIL, as funds will be distributed from a centralised pot held by the Borough Council. This arrangement will therefore require closer working relationships with partners, and in particular, with West Sussex County Council to agree the prioritisation and delivery of infrastructure improvements.

1.8. CIL will not generate enough funds to completely cover the cost of new infrastructure needed to fully support planned development. As such, the Council will continue to request and apply for funding from other sources to help ensure that infrastructure in the Borough can support growth.

1.9. There will be competing demands on funding from CIL from a variety of service providers. With this in mind, it is important to ensure there are robust, accountable and democratic structures in place to ensure the spending of CIL funds are prioritised in the right way.

1.10. The key principles for governance, particularly for the period 2018/19, are set out in Section 2 below and these form the main recommendations arising from this report. In addition, there are a number of other decisions which the Council needs to make with respect to the use of CIL funds. The report provides a summary of these issues in Section 3 and recommends an approach that would see most of these addressed over the next twelve months when the main governance structures are in place.

2.0 Governance - Key Principles

2.1 In general, local authorities have been quite slow to set up clear governance arrangements even those that have been collecting CIL for several years. However, there are now a variety of different governance models that have been established across the country and your Officers have reviewed these to consider what model will be the 'best fit' for Worthing.

2.2 Informed by best practice from elsewhere the next section of this report addresses the key principles that are recommended that will help to deliver a simple and transparent process for Worthing. This is then illustrated within a timeline / flowchart (Appendix 2).

Governance Structure

2.3 Whilst there are different governance options that could be adopted it should be kept in mind that Worthing Borough Council, as politically accountable for CIL's effective use, will need to retain the final say on the allocation of CIL funding raised in its Charging Area. As such, elected members must play a central role in shaping priorities.

2.4 To ensure elected members are involved throughout the process it is proposed that a Joint Officer and Member Board (JOMB) for CIL is established. It is suggested that this group will meet quarterly over 2018/19 during which time the key governance arrangements will be put in place.

2.5 Initially, this group will also be used to agree some of the more detailed matters outlined in Section 3. As explained below, a key task for the group will be to take a lead role in progressing an Infrastructure Business Plan (IBP) which will include the consideration of infrastructure projects to be prioritised for CIL funding. During 2018/19 the Group will also determine the timetable and process for the next phase of CIL Governance ('spending CIL') after April 2019.

2.6 It is proposed that this group is made up of the following Officers and Members:

- Leader of Worthing Council
- Executive Member for Regeneration
- Chair of Worthing Planning Committee
- Director for the Economy
- Head of Planning and Development
- Planning Policy Manager (Worthing)
- Investment Officer (Place and Investment)
- Capital Accountant
- Head of Legal
- WSCC Cabinet Member.
- WSCC - Senior Officer

2.7 Given that a significant proportion of development contributions previously secured through S106 relates to County infrastructure requirements, primarily education and transport, it is appropriate that a senior Member and Officer from WSCC sits on this group.

2.8 Whether the proposed JOMB is a new group or an expansion of an existing group needs to be agreed. Certainly with the exception of the County Council Member and Officer the majority of the people sit on the Major Projects Board and this Group could be expanded and hold additional meetings to address CIL issues in the future. However, it would be appropriate, in the first instance, to set up a new Board to address detailed issues of CIL Governance and agree priorities for spending CIL in the future.

<u>Infrastructure Business Plan</u>

2.9 A key role for the new JOMB will be to develop an Infrastructure Business Plan (IBP) which, when in place, will form the key document for prioritising infrastructure requiring funding through CIL. The IBP will:

- ❏ identify the projects from the Reg 123 list that will benefit from CIL over the coming year or years depending on the scale of funding required.
- ❏ set out the process and criteria for the prioritisation of infrastructure projects (short and long term).

2.10 The IBP, will establish a 3 year work programme that will be reviewed every two years. It will be prepared by the JOMB with input from relevant infrastructure providers. Although a number of Councils services will be involved in this process, it is proposed that the main responsibility for co-ordinating this document will be the Place and Investment team. This team is well placed to oversee the work as it currently deals with inward investment and works closely with WSCC in connection with public realm projects and other sections of the Council securing external funding for a wide range of projects.

2.11 The IBP will prioritise the infrastructure identified in the Council's Infrastructure Delivery Plan (IDP) as needed to support anticipated growth in the current Core Strategy and emerging Local Plan. Prioritisation will also be informed by the Council's housing trajectory (the phasing of development and its supporting infrastructure). This is because infrastructure delivery is aligned with growth and the need to mitigate the impacts arising from both housing and economic development.

2.12 Prioritisation of schemes to be fully (or partly funded through CIL) will also be informed by other strategies and initiatives that have wider benefits particularly those being advanced by Worthing Borough Council and West Sussex County Council.

2.13 Projects may be favoured where they lever in other funds that wouldn't otherwise be available, particularly where those funds may not be available in future years. Projects may also be prioritised where it can be satisfactorily demonstrated that the particular infrastructure would otherwise not be delivered (for example, there are no other possible sources of funding or other funding sources are insufficient).

2.14 When funding through CIL is approved the service provider will be expected to maintain communication with Worthing Borough Council on the progress of the scheme. Where funding has been agreed 'in principle' or where staged payments are agreed, the service provider will be expected to provide information to justify funding being transferred. Service providers must continue to provide information on the progress of their project until the scheme has been completed and all the CIL funding has been spent.

<u>Timeline</u>

2.15 Assuming that the key principles recommended in this report are agreed it is proposed that the first meeting of the JOMB will be held in June 2018. As illustrated on the flowchart below this will be followed by a workshop for all key stakeholders when the Council's procedures for project prioritisation and CIL spend will be outlined.

2.16 In autumn 2018 the Council will then use a standard template to invite service providers to promote their schemes for inclusion within the IBP. JOMB will then validate and scope the projects that have been put forward and consider how they relate to the Reg 123 list, the IDP and other relevant strategies and plans.

2.17 JOMB will then prepare a draft IBP that will be considered and then approved by March 2019. This in effect will be the point at which the Council has agreed its first 3 year programme (2019-2022) that will establish the projects that will be prioritised for CIL funding when sufficient sums are available. This will include a range of projects some of which could be delivered quickly at relatively low cost whilst others may require significant sums of money that would need to be built up over a number of years. A process chart for preparing the IBP is attached as Appendix 2.

2.18 Due to the 'lag' period when CIL money is being collected and the need to establish these governance arrangements it is proposed that the first release of funds will not take place until 2019/20 at the earliest. CIL receipts will be carried forward each financial year until this point.

2.19 The process set out above will be repeated in the same manner when the IBP is reviewed during which time stakeholders and service providers will again be asked to put forward projects for consideration. The first full review will be undertaken in 2021 to ensure that the new IBP is in place to provide the next three year work programme between 2022 and 2024.

3.0 Issues to Be Addressed Once a Governance Structure is in Place

3.1 The key aim of this report is to agree the key principles outlined above that will help to establish the main governance structure for CIL. There are a number of detailed points that need to be addressed in relation to CIL but it is considered that it would appropriate to defer these to JOMB to address and recommend an approach to JSC. However, this section of the report provides a brief summary of some of these issues that will need to be resolved by JOMB before the Council is in a position to allocate CIL money to specific projects from April 2019.

<u>Neighbourhood Funding</u>

3.2 Future governance arrangements will have to provide for the delivery of both borough-wide strategic infrastructure and local area-specific improvements. In this regard, the CIL Regulations require the Council to pass a ‘meaningful proportion’ of the CIL receipts received in a particular area to that area. This is known as ‘Neighbourhood Funding’. The meaningful proportion is defined as 15% in areas where there is no Neighbourhood Plan or 25% in areas with a Neighbourhood Plan.

3.3 Worthing currently has no Neighbourhood Plans. This is not unexpected as the vast majority of Neighbourhood Plans are progressed by Parish Councils, of which there are none in Worthing. Therefore, the likelihood is that Council will need to demonstrate how 15% of CIL collected in Worthing is spent in (or allocated to’) the local area.

3.4 The JOMB will need to consider:

- how the ‘local area’ is defined. This is likely to be by Wards but it would be appropriate for significant developments like the Aquarena development for CIL to be also spent in adjoining Wards;
- the role of Ward Councillors in local bids for funding coming forward;
- how local communities are consulted / engaged in the process;
- whether a threshold should be set whereby ‘bids’ for funding can only be made once the CIL ‘local pot’ has accrued a certain amount of money;
- what types of projects would be eligible for neighbourhood funding;
- how the neighboured portion is monitored and reported and how any unspent money is carried forward.

The ‘Bidding’ Process

3.5 As outlined in the section above, in autumn 2018 stakeholders will be invited to put forward projects for consideration for inclusion within the IBP. Before then the JOMB will need to consider:

- who to invite ‘bids’ from;
- the precise timetable for the bidding and review process;
- the drafting of standard templates to be used by service providers to set out their business case;
- an appraisal framework to ensure that decisions are made in a clear and overt manner.

Infrastructure Payments In-Kind

3.6 CIL Regulations allow a Charging Authority to accept land payments or infrastructure instead of a financial payment from a developer. For example, where a Charging Authority has already planned to invest CIL receipts in a project there may be time, cost and efficiency benefits in accepting completed infrastructure from the party liable for payment of the levy.

3.7 The option to take the provision of infrastructure 'in kind' is discretionary and would require Infrastructure Agreements with developers and independent valuation of the land being offered. It would result in lower overall CIL receipts, but could help ensure timely infrastructure delivery.

3.8 It is proposed that the JOMB will consider a 'Payment in Kind and Infrastructure Payment Policy' to confirm that the Council would accept 'in kind' infrastructure, subject to conditions including the fact that the Council will only accept land or infrastructure as payment of a CIL liability if the offer relates to infrastructure projects or types of infrastructure included in the Council's published Regulation 123 infrastructure list.

<u>Third Party Infrastructure Providers</u>

3.9 If CIL funding is allocated to a third party infrastructure provider, the CIL funding can only be used to deliver the agreed infrastructure type or project. This would be enforced by appropriate infrastructure contracts. Through the JOMB a standard procedure will be created for the release and monitoring of CIL monies for projects that are identified.

<u>Reviewing the Regulation 123 List</u>

3.10 As part of producing the CIL Charging Schedule, there is a requirement to produce a list (Regulation 123 Infrastructure List) of infrastructure projects or types that may be funded in whole or in part by CIL. to avoid 'double dipping' the regulations dictate that any infrastructure identified on the Regulation 123 list cannot then be provided through the use of Section 106 Obligations. The current Worthing Regulation 123 list, which was adopted by Council in 2015, covers most types of infrastructure which means that Section 106 planning obligations are being used less often.

3.11 The Regulation 123 list can be amended at any time as circumstances change. It is proposed that the JOMB will review the Regulation 123 list alongside the IBP when it will either be endorsed or amended to reflect changed priorities.

Summary

3.12 By the end of 2018/19 the JOMB will be well established, an Infrastructure Business Plan will be in place and the matters set out above will be clarified. At the same time that the IBP is approved Members will also be asked to endorse the timeline and process for the next phase of governance beyond April 2019. This will focus on the 'spending' and monitoring of CIL.

4.0 Administration Costs

4.1 The introduction of CIL and the day-to-day discharge of our duties as the 'Charging Authority' is resource intensive and recognised by the Government as an additional burden on local authorities. In line with the CIL Regulations, and as set out in previous committee reports, it is proposed that the Council will utilise up to 5% of total CIL receipts each year to finance levy administration expenses. If the Council were not to utilise the 'up to 5%' for administrative purposes then its ability to implement CIL effectively and ensure that the right projects receive the right money might be compromised. Ultimately, this could leave the Council open to challenge on the basis of maladministration of the CIL funds received.

4.2 Administrative expenses associated with the Levy include the costs of the functions required to establish and run a levy charging scheme. These functions include levy set-up costs and ongoing functions such as establishing and running billing and payment systems, enforcing the levy, the legal costs associated with payments in-kind and monitoring. Money allocated for administrative costs could also be put towards the funding of software that would help to monitor and manage the Charge. Your Officers are currently investigating software systems that would assist in this process and could possibly help to improve the monitoring of S106 agreements.

4.3 Although Members have previously supported the suggestion to use 5% of CIL money collected to help cover administrative expenses it is recommended that this is formalised as part of this report.

5.0 Monitoring and Review

5.1 There is a requirement for Worthing Borough Council, as a Charging Authority, to prepare an annual report detailing CIL receipts, balances and spend for each financial year. It is proposed that the JOMB will help to prepare this information which will be reported within the Council's Annual

Monitoring Report (AMR) which is published in December each year to cover the preceding financial year.

5.2 When considering whether to review CIL, the Council needs to take any changes made nationally into account whilst also ensuring that the adopted Charging Schedule reflects the type of development coming forward. Members will be aware that there has been concern locally that CIL is impacting on the ability to deliver affordable housing (a view supported by a national CIL review) and with the prospect of further greenfield development coming forward in the emerging Local Plan it would be appropriate to review the current Charging Schedule. Consultants are being appointed to start this review process.

5.3 In the future, the JOMB will monitor regulatory and economic situation and will consider reviewing the CIL Charging Schedule if changes are made to the CIL Regulations such that it would be necessary or of benefit for the Council to review its Schedule. The JOMB will also consider the need for review if monitoring of CIL performance and/or local conditions indicates that either development is being constrained by CIL rate(s) or that development viability may have increased such that CIL receipts are being persistently constrained by the prevailing CIL rate(s).

5.4 A review of the Charging Schedule will require a refresh of the viability evidence and an infrastructure planning update and may lead to fresh consultation and a new independent examination; the costs of which will place additional financial burden on the Council, which can be mitigated, in part, through utilising the 5% administration allowance.

6. Engagement and Communication

6.1 The Preliminary Draft Charging Schedule and the Draft Charging Schedule for CIL were the subject of comprehensive consultation with key stakeholders. The ‘bidding’ process outlined in the report will provide a clear protocol for the prioritisation of funding for projects that will, in part, be informed through consultation with interested parties.

7. Financial Implications

7.1 There will be a cost for each Council in setting up, adopting and implementing CIL. However, as explained in the report, the regulations permit up to 5% of the revenue arising from the levy to be used on administration costs.

7.2 In the coming years it is expected that the total funding for infrastructure projects will increase significantly as more developments will contribute than those previously liable to pay under the S106 regime.

Finance Officer: …….. Date: …….

8. Legal Implications

8.1 Legislation governing the administration and governance of CIL is contained in the Planning Act 2008. This came into effect with the CIL Regulations 2010 (as amended). The Department for Communities and Local Government CIL Guidance (April 2013) is statutory guidance that the authority must have regard to.

8.2 Governance arrangements that are consistent with the CIL Regulations must be agreed and kept under review. If they are not then the Council runs the risk of complaints from developers over the use of CIL and these could then be upheld by the Local Government Ombudsman.

Legal Officer: ……. Date: ……..

Background Papers

- Appendix 1 - Regulation 123 List - Feb 2015
- Appendix 2 - Work Programme 2018/19

❏ Report to Joint Strategic Committee – 5th Feb 2015
❏ Worthing BC - Charging Schedule for CIL - Feb 2015
❏ Worthing BC - Instalment Policy - Feb 2015
❏ Worthing BC - CIL Process Guide - July 2015
❏ Worthing BC - CIL FAQs
❏ Worthing BC - Developer Contributions SPD - July 2015

Officer Contact Details:-

Ian Moody
Planning Policy Manager (Worthing)
01273 263009
ian.moody@adur-worthing.gov.uk

Sustainability & Risk Assessment

1. Economic

- The efficient collection and distribution of money collected through CIL will help to ensure that infrastructure is delivered alongside development to meet the identified needs of new and existing residents / businesses.

2. Social

2.1 Social Value

- The efficient governance of CIL will ensure that money collected is spent on projects that provide the greatest benefit to the community. Furthermore, ensuring that a robust process is put in place for the spending of the 'local proportion' will ensure that communities in close proximity to development are in a position to benefit from the provision of new or enhanced infrastructure.

2.2 Equality Issues

- Issues relating to race, disability, gender and equality have been considered and it is not felt that CIL will have an adverse impact on any social group. In reality, by making communities more sustainable, CIL will facilitate economic growth and help to deliver improved services. The infrastructure and services that CIL can provide (such as community facilities and transport networks) could enhance liveability for all sectors of society, and could help to deliver new infrastructure that serves different needs within the community.

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

- The Council now has overarching responsibility for the allocation of CIL monies and reporting of monies collected and spent. The protocols proposed will enhance the Council's reputation as they will ensure that CIL is managed in an open way and accordance with the CIL regulations.
- Without clear and robust governance arrangements being in place the Council could be open to challenge on the basis of maladministration of CIL funds.
- The efficient distribution of money collected through CIL will help to ensure that infrastructure is delivered alongside development to meet the identified needs. This will help to contribute towards meeting many Council priorities.

Worthing Borough Council
Regulation 123 List – February 2015

Regulation 123 of the CIL Regulations 2010 (as amended) is the requirement for a published list of infrastructure projects or types of infrastructure that the Council (as Charging Authority) intends will be, or may be, wholly or partly funded by CIL. As a result, the Council cannot spend Planning Obligations on items within the Regulation 123 list.

The table below has been informed by infrastructure planning work and the Infrastructure Funding Gap Review. It is important to note that inclusion in this list does not signify a commitment from the Council to fund the entirety (or part of) of any particular project through CIL. In addition, the order of projects in the table does not imply any preference for spend.

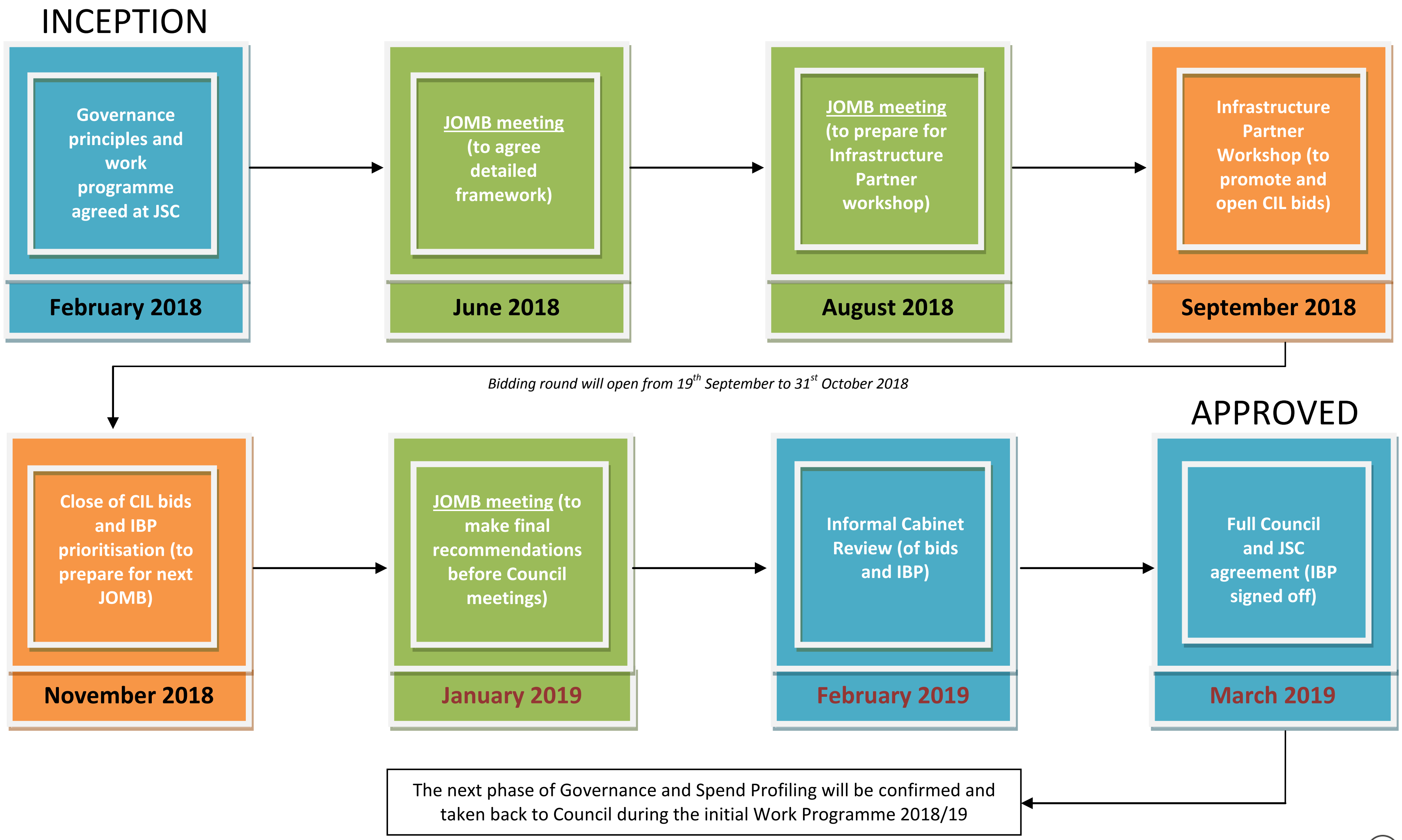
Infrastructure types and examples of projects that may be wholly, or partly, funded by CIL (Provision, improvement, replacement, operation or maintenance of)	**Exclusions** (to be secured through Planning Obligations - S106 / S278 Agreements)
	Affordable Housing
State education facilities - additional school places - potentially helping to fund 'Age of transfer' changes	N/A
Flood risk management measures and beach management	Site related flood defence infrastructure, such as the installation of SUDS.
Environmental improvements - Teville Stream Restoration Project - Green infrastructure	N/A
Transport Improvements - to include consideration of the priorities identified by the CLC and the Community Issues list. - Traffic management schemes - Local and strategic transport improvements - Cycle network improvements - Public transport improvements	On or off site transport and junction infrastructure required specifically to serve a new development
Healthcare facilities	N/A
Community facilities, culture facilities / infrastructure and public art	On site public art required specifically to serve a new development.
Public open space, public leisure and sports facilities	On site open space, play areas or leisure provision required specifically to serve a new development.

Appendix 2

Worthing Borough Council

Community Infrastructure Levy – Work Programme 2018/19

= Council meeting
= JOMB meeting
= Actions



This will enable the Infrastructure Business Plan (IBP), and proposed 3 year rolling programme, to be established

WORTHING BOROUGH COUNCIL

Joint Strategic Committee
1 February 2018
Agenda Item 8

ADUR & WORTHING COUNCILS

Key Decision [~~Yes~~/No]

Ward(s) Affected: All

Costume Research Centre - Museum Proposal

Report by the Director for the Economy

Executive Summary

1. Purpose

1.1. To kick start the museum development by completing works on the Costume Research Centre at the Museum allowing the nationally significant collection to be moved to the new location on the ground floor, making it accessible to TV and film companies, fashion houses, historic researchers, students of costume and fashion. Enabling the development of a new income stream for the Museum.

1.2. The establishment of this key element of the Museum development will prove the commitment to the larger project and increase the success of external funding bids to trusts.

1.3. These works will free up the current costume store which will become the corporate / education space. This is one of the first external funding bids to the Clore Foundation and if successful works can begin summer 2018

2. Recommendations

It is recommended that the Joint Strategic Committee:

2.1. Release £50,000 from the Leisure Lottery and other Partnerships Reserve to enable the Costume Research Centre to be completed in the next six months and amend the capital programme accordingly.

2.2. Note that this will establish a new element of work for the museum giving the team the ability to respond positively to the many requests for access to the collection creating unique opportunities for students and a new income stream from the commercial bookings.

2.3. Note that having the space refurbished prior to the main building works will give a space for talks, workshops and consultation when the majority of the building is potentially closed between September 2019 - July 2020.

3. Context

3.1 The Costume Research Centre would be the first stage of the Museum Development Plan designed by Allies & Morrison.

3.2 Using the ring fenced reserve to establish this first step proves the Council's commitment to the project and will increase the success rate of the funding bids to several Trusts including Wolfson Foundation and the Clore Foundation.

3.3 The main funder for the full project is the Heritage Lottery Fund but the application cannot be submitted until May 2018 (HLF will not fund two large bids in the same area in one year and this year has the Highdowns Garden bid). This initial work developing the Costume Research Centre strengthens the HLF bid.

3.4 The ring fenced Leisure Lottery and other Partnerships Reserve can only be used for leisure projects or as match funds to external funding bids. There is currently a balance of £77,000 on this reserve

3.5 The Museum has currently committed £77,000 of the balance on the Museum Reserve as match funding for the proposed HLF bid. Therefore this reserve cannot be used for the Costume Research Centre.

4. Issues for consideration

4.1 The works will include the strip out of the current outdated costume display housed in the modern extension at the rear of the building. This space will be made good with plastering and refurbishment of the beautiful parquet floors. Bespoke floor to ceiling shelving with be installed with library ladders allowing full access. WiFi access, cutting tables, a photographic area and a 3D printer will all be installed to support the commercial use of the space.

4.2 This project will be managed by the Culture General Manager who has experience of capital projects and specifically Museum Refurbishment. The Museum manager will lead on the collection management. Planning have already been consulted and both planning and technical services would be fully informed of all plans and then each step of the project management.

5. Engagement and Communication

5.1 Consultation has been completed with the museum visitors/ mailing list members and the Friends of Worthing Museum and we have received full support for the project.

5.2 The project is supported by MET Northbrook and Brighton University.

5.3 The project has been discussed in detail with Heritage Lottery Fund and the Arts Council.

5.4 The establishment of this space with its own external door will enable the museum to maintain a low level of service and ongoing consultation during the major works when the majority of the building will be closed for ten months.

6. Financial Implications

6.1 The proposed capital project to improve the costume display will be funded from the Leisure Lottery and other Partnerships reserve specifically set aside for this type of purpose. It is expected that the project will cost £50,000.

7. Legal Implications

7.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.

7.2 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

7.3 s1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation

7.4 Section 1 of The Local Government (Contracts) Act 1997 provides that every statutory provision conferring or imposing a function on a local authority confers the powers on the local authority to enter into a contract with another person for the provision or making available of assets or services, or both (whether or not together with goods) for the purposes of, or in connection with, the discharge of the function by the local authority.

7.5 Section 93 of The Local Government Act 2003 provides that there is a general power to charge for any discretionary service such as leisure and cultural services.

7.6 The Council should procure for the anticipated works in accordance with its Contract Standing Orders and comply with any funding terms and conditions set by the Heritage Lottery Fund in spending the grant funding.

Background Papers
Worthing Museum & Art Gallery - Masterplan Strategy - Allies & Morrison

https://drive.google.com/open?id=0B28BNPhtmYBdOVp3TlNacWZYN1U

Officer Contact Details:-
Gerry Connolly
Museum Manager / Senior Curator
Telephone 07882 092927
gerry.connolly@adur-worthing.gov.uk

Sustainability & Risk Assessment

1. Economic

- This project is the first step of a wider WMA refurbishment project (Let the Light In). The project will have a wider impact on the town, creating a further 20 jobs and safeguarding 15 existing posts. It is anticipated that a further 60k visitors will use the service in the first 3 years, boosting the local economy by a further £0.5m.

2. Social

2.1 Social Value

- The project will have a big impact on local groups such as Superstar Arts, Creative Waves and local U3A's while expanding our highly successful education offer (CoastED). The increase in space will allow us to accommodate a full class of pupils for school visits including Palatine school, MET and University of Brighton. This vibrant new service will encourage our local residents, visitors and wider communities to connect with the WMA giving them a sense of place.

2.2 Equality Issues

- By removing the buildings social and physical barriers this project allows greater access to WMA and its collections to regions increasingly diverse community.

2.3 Community Safety Issues (Section 17)

- Little or no impact.

2.4 Human Rights Issues

- We do not believe that this proposal will impinge on anyone's human rights.

3. Environmental

- Rationalising the collection and the increase in natural light alongside new LED lighting will help reduce the buildings environmental impact.

4. Governance

- The refurbishment of WMA will enhance the towns cultural assets.
- We believe the Councils' reputation and relationship with its partners and communities will be straightened by this project.
- There is a minimum risk to the collections housed in the museum.
- The health and safety element of the refurbishment will be monitored closely by the internal project management team in partnership with over all project managers Gardiner & Theobald, who are leaders in the arts, heritage and culture sector.