Joint Strategic Committee
4 December, 2018
Agenda Item 7

Joint Governance Committee
22 January, 2019
Agenda Item xx
Key Decision : No
Ward(s) Affected:

MID YEAR REVIEW OF TREASURY MANAGEMENT 2018-19, ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY THE DIRECTOR FOR DIGITAL AND RESOURCES

EXECUTIVE SUMMARY

1. PURPOSE

1.1 This report asks Members to note the Treasury Management mid-year performance for Adur and Worthing Councils at the 30 September 2018, as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 **Recommendation One**
The Joint Strategic Committee is recommended to note this report.

2.2 **Recommendation Two**
The Joint Strategic Committee is recommended to approve the amendment of the Treasury Management Strategy Statement and the Annual Investment Strategy to remove the minimum sovereign credit rating requirement from investment in UK institutions. In the unlikely event that the UK's sovereign rating is downgraded, the Councils must still be able to invest in UK banks and building societies.

2.3 **Recommendation Three**
The Joint Governance Committee is recommended to note this report and refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 31st January 2019.

3. CONTEXT

3.1 This report summarises the treasury management activities and portfolio for both Adur and Worthing Councils for the half year to 30 September 2018.

3.2 This is one of 3 treasury management reports that are required to be presented during the financial year (see Para. 4.1.3).

3.3 **Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy 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

A report setting out our Capital Strategy was approved by the full Councils on 17th July 2018 (Worthing) and 19th July 2018 (Adur).

3.4 **Treasury Management**

The Councils operate balanced budgets, which broadly means cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

4. ISSUES FOR CONSIDERATION

4.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Councils' treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Councils will seek to achieve those policies and objectives.

3. Receipt by the full Councils of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Councils of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Councils of the role of scrutiny of treasury management strategy and policies to a specific named body. For these Councils the delegated bodies are the Joint Governance Committee and the Joint Strategic Committee.

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

- An economic update for the first part of the 2018/19 financial year;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

- The Councils' capital expenditure (prudential indicators);

- A review of the Councils' investment portfolios for 2018/19;

- A review of the Councils' borrowing strategy for 2018/19;

- A review of any debt rescheduling undertaken during 2018/19;

- A review of compliance with Treasury and Prudential Limits for 2018/19.

5. THE ECONOMY AND INTEREST RATES

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

5.1 Economics update

UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market**, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

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

5.2 Interest rate forecasts

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

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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.
- 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, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the

national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.

- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- 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 QE, 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.
- 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.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

6. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Joint Strategic Committee on 1st February 2018 and by Adur Council on 22nd February 2018 and by Worthing Council on 20th February 2018. On the 24th April 2018 Worthing Council approved the amendment of the Annual Investment Policy and Strategy document to allow the investment in Boom Credit Union (formerly the West Sussex Credit Union) to be increased to £50,000 for Worthing.

7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

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

7.1 Prudential Indicator for Capital Expenditure

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

Adur District Council

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
HRA	7.006	1.127	5.305
Non HRA	38.007	17.625	41.488
Total capital expenditure	45.013	18.752	46.793

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

- HRA: reprofiling of major works contracts for leaseholder consultation and procurement

- Non HRA: re-profiling of budgets from 2017/18

Worthing Borough Council

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
Total capital expenditure	34.565	12.156	40.908

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

- Reprofiling of budgets from 2017/18

- The addition of new schemes which have previously been reported to and approved by JSC

7.2 Changes to the Financing of the Capital Programme

The tables below draw together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

The borrowing element of the tables increases the underlying indebtedness of the Councils by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Adur District Council

	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
Total Capital Expenditure	45.013	46.793
Financed by:		
Capital receipts	0.764	0.943
Government Grants	0.699	0.983
Reserves and contributions	6.187	7.685
Total financing	7.650	9.611
Borrowing requirement	37.363	37.182

Worthing Borough Council

	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
Total Capital Expenditure	34.565	40.908
Financed by:		
Capital receipts	0.192	0.289
Government Grants	0.858	0.767
Reserves & contributions	0.199	0.864
Total financing	1.249	1.920
Borrowing requirement	33.316	38.988

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

The tables below show the CFR, which is the underlying external need to incur borrowing for a capital purpose. Due to the re-profiling of the 2017-18 expenditure on strategic property investment, the CFRs will be lower than forecast in the TMSS, which was prepared before the full year expenditure figures for 2017-18 were available. The tables also show the expected debt position over the period. “Other long term liabilities” includes finance leases, when there are any.

Adur District Council

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
Prudential Indicator			
Capital Financing Requirement			
CFR - HRA	61.474	60.103	60.103
CFR – non HRA	79.785	45.321	64.666
Total CFR	141.259	105.424	124.769
Net movement in CFR	36.157	16.821	36.166
	Op Boundary	**Actual Debt**	**Op Boundary**
Borrowing	140.000	102.236	140.000
Other long term liabilities	1.000	0.000	1.000
Total debt	141.000	102.236	141.000

Worthing Borough Council

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	**£m**	**£m**
Prudential Indicator			
Capital Financing Requirement			
CFR – non housing	100.445	49.661	77.027
Net movement in CFR	31.820	10.551	37.877
	Op Boundary	**Actual Debt**	**Op Boundary**
Borrowing re Worthing Homes	10.000	10.000	10.000
Other Borrowing	90.000	37.443	90.000
Other long term liabilities	1.000	0.000	1.000
Total debt	101.000	47.443	101.000

7.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Councils have approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Adur District Council

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	**£m**	**£m**
Borrowing	136.648	102.236	120.321
Other long term liabilities	0.000	0.000	0.000
Total debt	136.648	102.236	120.321
CFR	141.259	105.424	124.769

Worthing Borough Council

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
Borrowing	93.585	47.443	71.738
Other long term liabilities	0.000	0.000	0.000
Total debt	93.585	47.443	71.738
CFR	100.445	49.661	77.027

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

7.4 Limits to Borrowing Activity

Adur District Council

	2018/19 Original Indicator	Actual at 30 Sept 2018	2018/19 Revised Indicator
Authorised Limit for external debt	£m	£m	£m
Borrowing	145.000	102.236	145.000
Other long term liabilities	1.000	0.000	1.000
Total	146.000	102.236	146.000

Worthing Borough Council

	2018/19 Original Indicator	Actual at 30 Sept 2018	2018/19 Revised Indicator
Authorised Limit for external debt	£m	£m	£m
Borrowing re Worthing Homes	10.000	10.000	10.000
Other Borrowing	95.000	37.443	95.000
Other long term liabilities	1.000	0.000	1.000
Total	106.000	47.443	106.000

8 INVESTMENT PORTFOLIO 2018/19

8.1 Investment performance – Adur District Council

In accordance with the Code, it is the Councils' priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Councils' risk appetite. As shown by forecasts in section 5.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

Adur District Council held £14.8m of investments for varying durations as at 30 September 2018, (£10.8m at 31 March 2018) and the investment portfolio yield for the first 6 months of the year is 1.22% p.a. against benchmark rates of 0.94% for 12 month deposits and 0.71% for 6 month deposits (supplied by Link Asset Services). The portfolio is shown below. Adur District Council's budgeted investment return for 2018/19 for both the General Fund and the HRA is £176k and the current forecast will result in an under achievement of about £10k.

Investment portfolio – Adur District Council

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Barclays Bank (RFB)	26.04.18	26.04.19	£1,000,000	0.91%	A
Blackrock MMF	n/a	n/a	£5,000	var	AAA
CCLA MMF	n/a	n/a	£2,340,000	var	AAA
Close Brothers Ltd	29.03.18	29.03.19	£1,000,000	1.10%	A
Federated Investments MMF	n/a	n/a	£1,140,000	var	AAA
Goldman Sachs Intern'l Bank	03.04.18	03.04.19	£2,000,000	1.275%	A
Goldman Sachs Intern'l Bank	24.04.18	24.04.19	£1,000,000	1.21%	A
Handelsbanken	n/a	n/a	£10,000	0.50%	AA
Kingston Upon Hull City Cl	02.12.13	30.11.18	£2,000,000	1.90%	n/a
Lloyds Bank (RFB)	26.06.18	25.06.19	£1,000,000	1.00%	A+
Local Authority Property Fund	25.04.17	n/a	£1,000,000	Var	n/a
Santander UK	03.05.18	03.05.19	£1,000,000	0.90%	A
Santander UK 95 day notice	12.07.18	n/a	£1,000,000	0.70%	A
Santander UK 95 day notice	12.07.18	n/a	£250,000	0.70%	A
Local Capital Finance Co Ltd	30.09.14	n/a	£50,000	n/a	n/a
Boom Credit Union	06.03.15	n/a	£25,000	n/a	n/a
TOTAL			**£14,820,000**		

Investment performance – Worthing Borough Council

Worthing Borough Council held £19.5m of investments for varying durations as at 30 September 2018, (£11.6m at 31 March 2018). The investment portfolio yield for the first 6 months of the year is 0.82% p.a. against benchmark rates of 0.94% for 12 month deposits and 0.71% for 6 month deposits. The Council has also made a loan of £10m to Worthing Homes at 0.7% above the rate at which the funds were borrowed; this is treated as capital expenditure rather than a treasury investment.

Worthing's investment portfolio yield is lower than Adur's because Adur has been able to place longer term investments, for example Adur took out a 5 year deal for £2m in 2013 at 1.9% - a far higher rate than has been available over the last 2 years. Worthing needs to retain more of its cash in short term investments, including Money Market Funds, where rates have been very low. The portfolio is shown below.

Worthing Borough Council's budgeted investment income for 2018/19, excluding for the Worthing Homes loan, is £88k and performance for the year to date is above budget.

Investment Portfolio - Worthing Borough Council

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Barclays Bank (RFB)	19.07.18	21.01.19	£1,000,000	0.74%	A
Barclays Bank (RFB)	01.08.18	14.02.19	£1,000,000	0.80%	A
Barclays Bank (RFB)	19.04.18	23.04.19	£1,000,000	0.93%	A
Blackrock MMF	n/a	n/a	£50,000	var	AAA
CCLA MMF	n/a	n/a	£2,640,000	var	AAA
Close Brothers Ltd	26.07.18	25.01.19	£1,000,000	0.80%	A
Eastleigh BC	11.09.18	06.12.18	£1,000,000	0.75%	n/a
Federated Investments MMF	n/a	n/a	£2,075,000	var	AAA
Goldman Sachs Intern'l Bank	09.07.18	09.07.19	£1,000,000	1.23%	A
Goldman Sachs Intern'l Bank	04.09.18	14.02.19	£1,000,000	0.81%	A
Handelsbanken	n/a	n/a	£100,000	0.50%	AA
Lloyds Bank (RFB)	02.05.18	16.05.19	£1,000,000	1.0%	A+
Lloyds Bank (RFB)	09.07.18	14.02.19	£1,000,000	0.78%	A+
Lloyds Bank (RFB)	04.09.18	10.01.19	£1,000,000	0.80%	A+
Local Authority Property Fund	27.04.17	n/a	£500,000	Var	n/a
Santander UK	09.05.18	09.05.19	£1,000,000	0.90%	A
Santander UK	11.07.18	11.04.19	£1,000,000	0.93%	A
Santander UK	19.07.18	25.07.19	£1,000,000	0.95%	A
Santander UK 180 day notice	19.07.18	14.02.19	£1,000,000	0.80%	A
Local Capital Finance Co Ltd	03.09.14	n/a	£50,000	n/a	n/a
Boom Credit Union	Various	n/a	£50,000	n/a	n/a
TOTAL			**£19,465,000**		

Investment Performance – Approved Limits

The Head of Financial Services confirms that no approved limits for Adur District Council or Worthing Borough Council within the Annual Investment Strategy were breached during the first 6 months of 2018/19.

8.2 Investment counterparty criteria

The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirements of the Adur and Worthing treasury management function. The Annual Investment Strategy for Worthing was amended by the Joint Strategic Committee (11th April 2018) and approved by Council (24th April 2018) in order to increase the investment in deferred shares in BOOM Credit Union (formerly West Sussex Credit Union) from £25k to £50k.

Due to the current economic and political uncertainty, it is recommended that the Joint Strategic Committee should approve the removal of the current minimum sovereign rating from UK counterparties. In the unlikely event that the UK's rating is downgraded, the Councils still need to invest in UK banks and building societies.

9 BORROWING

9.1 The Capital Financing Requirement (CFR) denotes the Councils' underlying need to borrow for capital purposes. If the CFR is positive the Councils may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. For both Adur and Worthing Councils capital expenditure in 2018/19 is funded from grants, capital receipts, contributions, reserves and revenue contributions as well as borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring.

9.2 Adur District Council's revised CFR forecast for 2018/19 is £124.8m. The relevant table in 7.4 shows the Council has borrowings of £102.2m at 30 September 2018.

Worthing Borough Council's revised CFR for 2018/19 is £77.0m. The relevant table in 7.4 shows the Council has borrowings of £47.4m at 30 September 2018.

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

Adur District Council – new loans

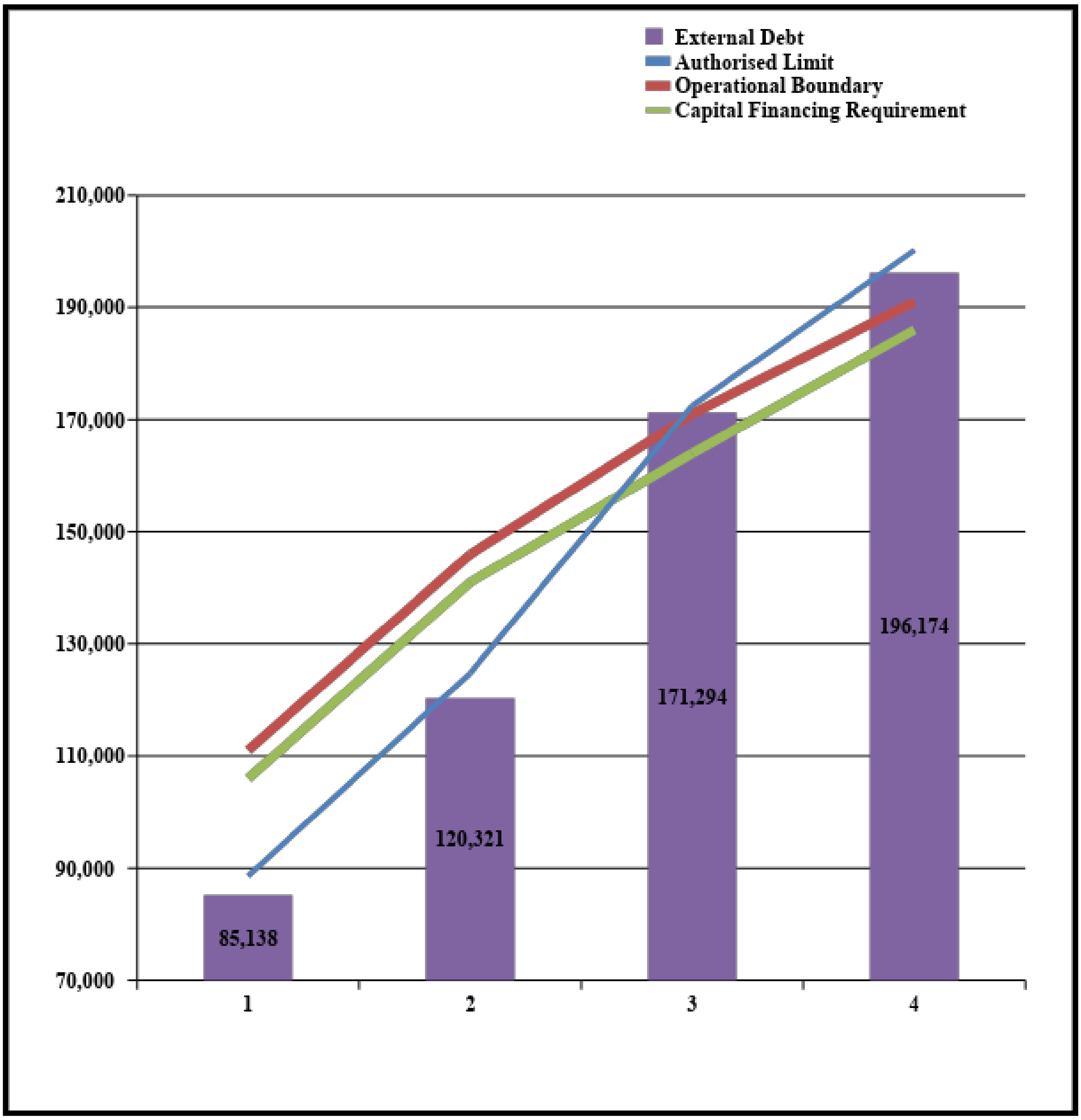
Lender	Principal	Type	Interest Rate	Maturity
PWLB (Office construction)	£2m	Fixed interest rate	2.44%	26/04/2038
PWLB	£2m	Fixed interest rate	2.20%	21/06/2038
PWLB (Property purchase)	£2.8m	Fixed interest rate	2.05%	06/09/2033
PWLB (Property Purchase)	£11.4m	Fixed interest rate	2.10%	13/09/2033
Lancing Parish Council	£0.3m	Variable interest rate		On request

Worthing Borough Council – new loans

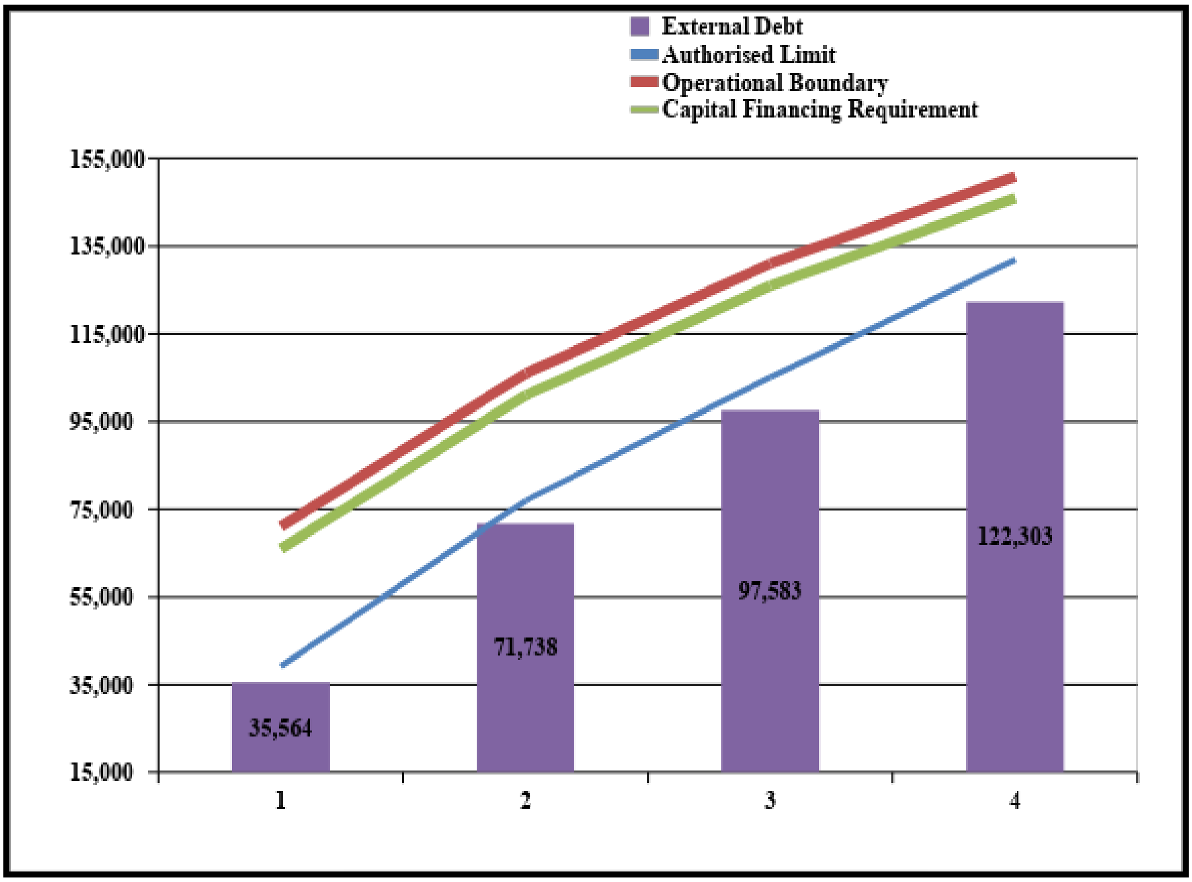
Lender	Principal	Type	Interest Rate	Maturity
PWLB (property purchase)	£5m	Fixed interest rate	1.56%	17/07/2023
PWLB (property purchase)	£5m	Fixed interest rate	2.18%	17/07/2038
Yorkshire Purchasing Auth	£2m	Fixed interest rate	0.72%	18/06/2019

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

Adur District Council



Worthing Borough Council



10 DEBT RESCHEDULING

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

11 OTHER

11.1 UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Councils will continue to assess the new-formed entities in the same way that they do others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

11.2 IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. However the Ministry of Housing, Communities and Local Government (MHCLG), has approved a temporary override of 5 years to allow English local authorities time to adjust their portfolio of investments. The impact on the Councils is likely to be minimal.

11.3 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

11.4 Member Training

The treasury advisors for the shared treasury management service, Link Asset Services, provided a training session for Members on the 19th June 2018. The session included reviews of the Councils' Balance Sheets and current debt and investment portfolios, as well an overview of developments in local government treasury management and UK economic data.

12. ENGAGEMENT AND COMMUNICATION

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

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

13. FINANCIAL IMPLICATIONS

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

14. LEGAL IMPLICATIONS

14.1 The presentation of the Half Year Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2018/19.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2018/19 to 2020/21 – Joint Strategic Committee 1 February 2018, and Joint Governance Committee, 30 January 2018

Annual Joint In-House Treasury Management Operations Report 1 April 2017 – 31 March 2018 for Adur District Council and Worthing Borough Council – Joint Governance Committee, 31 July 2018 and Joint Strategic Committee, 11 September 2018

Link Asset Services Ltd Half Year Report Template 2018/19

Link Benchmarking Club Reports

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

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

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SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

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

2. SOCIAL

2.1 **Social Value**

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. ENVIRONMENTAL

Matter considered and no issues identified.

4. GOVERNANCE

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

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 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.