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ADUR & WORTHING
COUNCILS

30 January 2023

Joint Strategic Committee	
Date:	**7 February 2023**
Time:	**6.30 pm**
Venue:	**QEII Room, Shoreham Centre**

Committee Membership:

Adur District Council: Councillors Neil Parkin (Leader), Angus Dunn (Deputy Leader), Carson Albury, Kevin Boram, Emma Evans and Steve Neocleous

Worthing Borough Council: Councillors Dr Beccy Cooper (Leader), Martin McCabe, Helen Silman, Emma Taylor, John Turley, Carl Walker (Deputy Leader), Vicki Wells, Rosey Whorlow and Rita Garner

Agenda

Part A

1. Declarations of Interests

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 6th December 2022, copies of which have been previously circulated.

3. Public Question Time

To receive any questions from members of the public.

Questions should be submitted by **noon on Thursday 2nd February 2023** to Democratic Services, democratic.services@adur-worthing.gov.uk

*(**Note**: Public Question Time will operate for a maximum of 30 minutes)*

4. Members Questions

Pre-submitted Members questions are pursuant to rule 12 of the Council & Committee Procedure Rules.

Questions should be submitted by **noon on Thursday 2nd February 2023** to Democratic Services, democratic.services@adur-worthing.gov.uk

*(**Note:** Member Question Time will operate for a maximum of 30 minutes)*

5. Items Raised under Urgency Provisions

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

6. Council Tax Support Fund in respect of 2023/24 (Pages 5 - 10)

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

7. Final Revenue Budget Estimates for 2023/24 (Pages 11 - 30)

To consider a report from the Director for Digital, Sustainability & Resources, a copy is attached as item 7.

8. Joint Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 to 2025/26 for Adur District Council and Worthing Borough Council (Pages 31 - 82)

To consider a report from the Director for Digital, Sustainability & Resources, a copy is attached as item 8.

Part B - Not for Publication – Exempt Information Reports

None.

Recording of this meeting

The Council will be live streaming the meeting, including public question time. A 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:	For Legal Services enquiries relating to this meeting please contact:
Neil Terry Democratic Services Manager & Deputy Monitoring Officer 01903 221073 neil.terry@adur-worthing.gov.uk	Andrew Mathias Senior Solicitor 01903 221032 andrew.mathias@adur-worthing.gov.uk

Duration of the Meeting: Three hours after the commencement of the meeting the Chairperson will adjourn the meeting to consider if it wishes to continue. A vote will be taken and a simple majority in favour will be necessary for the meeting to continue.

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Joint Strategic Committee
7 February 2023

ADUR & WORTHING
COUNCILS

Key Decision: No

Ward(s) Affected: All

Council Tax Support Fund in respect of 2023/24

Report by the Director for Digital, Sustainability & Resources

Officer Contact Details:

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Sarah Gobey, Chief Financial Officer
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Executive Summary

1. Purpose

1.1 Following the provisional Local Government Finance Settlement for 2023/24, on 23 December 2023 the Department for Levelling Up, Housing & Communities wrote to local authorities and issued guidance in respect of the Council Tax Support Fund.

1.2 Each council will be provided with funding to award a maximum of £25.00 additional Council Tax Support to both working age and pensioner households in respect of 2023/24. Councils can utilise their remaining funding allocation as they see fit to support vulnerable households with Council Tax bills.

1.3 This report therefore recommends the criteria to be adopted by Adur District Council and Worthing Borough Council in respect of the Council Tax Support Fund.

2. Recommendations

2.1. The Joint Strategic Committee is recommended to:

i) note the content of this report and to recommend to the respective Full Councils that the criteria to be adopted in respect of Council Tax Support Fund for 2023/24 should be those detailed in paragraph 4.8 and in accordance with the government guidelines.

ii) Approve a budget virement in 2023/24 of £94,900 for Adur District Council and £146,400 for Worthing Borough Council to create the budgets required to implement this new scheme.

iii) In the event that the Government amends the scheme, that the Committee delegates to the Head of Revenues and Benefits the ability to make minor and non-consequential adjustments to the scheme in consultation with the Leaders.

3. Context

3.1 Alongside the provisional Local Government Finance Settlement that was announced on 19 December 2022, on 23 December 2022 the Department for Levelling Up, Housing & Communities advised local authorities that £100m of additional funding would be provided

> *"......to support the most vulnerable households in England.*
>
> *This funding will allow councils to deliver additional support to the 3.8 million households already receiving Council Tax Support, whilst also providing councils with the resources and flexibility to determine the local approaches to support other vulnerable households in their area."*

The new scheme is known as the Council Tax Support Fund.

3.2 Each year since April 2020 additional awards of up to £150.00 have been provided to working age residents in receipt of Council Tax Support. These awards were initially funded by the former Ministry of Housing, Communities & Local Government and more recently by West Sussex County Council together with Adur and Worthing Councils.

3.3 The £150.00 awards end from 31 March 2023 and have never been available to pensioner residents in receipt of Council Tax Support (the criteria for which is not determined locally).

3.4 The £25.00 Council Tax Support Fund applies to both working age and pensioner households where Council Tax Support has been awarded on any day on or after 1 April 2023 until (and including) 31 March 2024. Awards are to be made by reducing the amount of Council Tax that residents are asked to pay.

3.5 In Worthing, Members have already determined that the £5.00 weekly Council Tax Support restriction for working age customers will end after 31 March 2023, with the associated discretionary budget also ending.

3.6 At the time of producing this report, further advice is awaited from the Councils' software supplier in respect of software enhancements that are likely to be required to enable awards from the Council Tax Support Fund to be made. Consequently the timing of the roll out of the awards is dependent on the delivery of this functionality.

4. Issues for consideration

4.1 The Government expects councils to deliver awards of the Council Tax Support Fund using their discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992.

4.2 Funding has been provided to each council on the basis of their respective shares of the working age Council Tax Support caseload using data from Quarter 2 2022/23. The allocations are

- Adur: £94,903
- Worthing: £146,401

4.3 The guidance issued by the Department for Levelling Up, Housing & Communities advises that

1. Total awards cannot exceed each council's funding allocation
2. Where a resident's Council Tax liability for 2023/24 is (following their award of Council Tax Support)
   - Less than £25 then their liability will be reduced to £nil
   - Already £nil, no award will be available
3. There should be no need for a resident to make a separate claim for a Council Tax Support Fund award. Rather, awards should be made automatically
4. Awards should be applied from the beginning of the 2023/24 financial year and should be reflected in Council Tax bills that are issued in March 2023. It is for councils to decide how to treat households that become eligible for Council Tax Support during the course of the financial year
5. It is the government's intention that awards will not affect the eligibility of recipients for other benefits
6. Funding allocations should be used within the 2023/24 financial year

4.4 A comparison of the available budget and Council Tax Support caseload as at 1 January 2023 for each Council shows that:

	Adur	Worthing
Total CTS caseload	3,509	5,452
Available budget	£94,903	£146,401
Maximum cost of awards at £25 based on current caseload*	£87,725	£136,300
Minimum remaining budget	£7,178	£10,101
Additional awards at £25 that could be made based on remaining budget	287	404

* The actual cost is likely to be lower depending on the makeup of the caseload.

4.5 The amount of Council Tax that a resident is asked to pay is calculated on a daily basis (i.e. if a resident moves into or out of the area during the course of the year, their account is apportioned based on their date of occupation or vacation).

4.6 Members could determine that awards from the Council Tax Support Fund are also apportioned (equal to £0.0683 per day). However, this approach has not been applied to the recent discretionary awards of £150.00 due to the administrative complexities (manual adjustments) that would have been required and it is therefore strongly recommended to Members that awards from the Council Tax Support Fund should not be apportioned.

4.7 Additionally, and in the interests of administrative simplicity, if accounts are not to be apportioned it is also recommended to Members that an award of up to £25.00 is made to residents who become entitled to Council Tax Support after 1 April 2023. This approach would also be consistent with the criteria for the recent £150.00 awards and is likely to utilise the “Remaining budget” figures shown in the table in paragraph 4.4.

4.8 It is therefore recommended that the qualifying criteria for the Council Tax Support Fund should be

1. Residents will not need to apply for an award; rather, awards will be made automatically based on whether the resident already receives Council Tax Support;
2. A flat rate award of £25.00 will be made to all residents in receipt of Council Tax Support on any day from 1 April 2023 to 31 March 2024 inclusive;
3. An award will only be reduced where the net amount of Council Tax that is payable (after Council Tax Support has been awarded) is less than £25.00;
4. Awards will not otherwise be apportioned;
5. Awards will not be made retrospectively after 31 March 2024 (see point 6 in paragraph 4.3)

5. Financial Implications

5.1 The Department for Levelling Up, Housing & Communities has confirmed that councils will be fully reimbursed by the Government for the cost of awards from the Council Tax Support Fund. It is also anticipated that the Councils will be provided with New Burdens funding to meet the costs of administering the scheme.

5.2 There are therefore no direct financial implications to the Councils but Members will nevertheless wish to ensure that use of the available funding is maximised to provide support to the most vulnerable residents who are liable to pay Council Tax.

Finance Officer: Sarah Gobey Date: 3rd January 2023

6. Legal Implications

6.1 S13A(1)(c) of the Local Government Finance Act 1992 provides that

> *The amount of Council Tax which a person is liable to pay in respect of any chargeable dwelling and any day (as determined in accordance with sections 10 to 13) -*
>
> *(a) In the case of a dwelling situated in the area of a billing authority in England, is to be reduced to the extent, if any, required by the authority's Council Tax Reduction scheme (see subsection (2));*
>
> *(b) In the case of a dwelling situated in the area of a billing authority in Wales, is to be reduced to the extent, if any, required by the authority's Council Tax Reduction scheme made under regulations under subsection (4) that applies to that dwelling;*
>
> *(c) In any case, may be reduced to such extent (or, if the amount has been reduced under paragraph (a) or (b), such further extent) as the billing authority for the area in which the dwelling is situated thinks fit.*

6.2 The Councils are therefore able to determine the qualifying criteria for the Council Tax Support Fund in respect of 2023/24.

Legal Officer: Joanne Lee Date: 17/01/2023

Background Papers

Local Government Finance Act 1992

Council Tax Support Fund guidance issued by the Department for Levelling Up, Housing & Communities on 23 December 2022

Sustainability & 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.

ADUR & WORTHING
COUNCILS

Joint Strategic Committee
7 February 2023

Key Decision [~~Yes~~/No]

Ward(s) Affected: All

Final Revenue Budget Estimates for 2023/24

Report by the Director for Digital & Resources

Officer Contact Details:
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Chief Accountant
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Executive Summary

1. Purpose

1.1 This report is the final budget report of the year, the culmination of the annual budgeting exercise, and asks members to note:

- The final revenue estimates for 2023/24; and
- An updated outline 5-year forecast;

These budgets reflect the decisions taken by members to date in relation to agreed savings proposals and any committed growth. The budgets are still to be adjusted for the proposals to invest in services detailed in Appendix 2 which were considered by the Cabinets last week.

1.3 The budget is analysed by Directorate. In addition, the draft estimates for 2023/24 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 cost adjustments that do not impact either on the Budget Requirement or the Council Tax Requirement).

1.4 The respective Adur and Worthing 2023/24 Estimates and Council Tax setting reports have already been considered by the Worthing Cabinet on 1st February 2023 and the Adur Cabinet on 2nd February 2023. 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 the report:

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

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

(iii) **Appendix 3** Summary of Executive Member Portfolio budgets for 2023/24

2. Recommendations

2.1 The Joint Strategic Committee is recommended to:

(a) Note the proposals to invest in services outlined in Appendix 2 which were considered at the Executive meetings in early February;

(b) Note the proposed 2023/24 budget detailed in Appendix 3. The respective Council shares having been approved by the Adur and Worthing Executives. The budget will be adjusted for any changes to the Investment in Services proposals agreed by Cabinet.

3. Background

3.1 The Joint Strategic Committee considered the outline 5-year forecast for 2023/24 to 2027/28 and the Budget Strategy on 5th July 2022, which was subsequently adopted by each full Council.

3.2 On 6th December the *‘2023/24 Budget update report’* 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.

3.3 The Councils had already set-up several strategic programmes which are responsible for taking forward key initiatives aimed at delivering savings for the future. These are now in the process of being reviewed in the context of Our Plan and new political priorities but the overarching structure is sound and we continue to organise our work in these programmes:

- The Major Projects programme leads on delivering regeneration projects to increase employment space and additional housing;
- The Strategic Asset Management programme will lead on delivering the income growth associated with the Strategic Property Fund and any proposed new developments;
- The Commercial programme is developing initiatives for income growth from commercial services and seeks to improve the customer experience;
- The Affordable Homes Working Group leads on initiatives to improve the supply of affordable homes and to reduce the cost of temporary and emergency accommodation; and
- The Corporate Landlord programme which seeks to rationalise accommodation use and generate capital receipts from the sale of surplus assets and thereby reducing the costs associated with funding priority projects identified in the Council strategic plans.
- The Service and Digital Redesign Programme which continues to deliver new digital services and improvements to existing systems.

3.4 Since the meeting on the 6th 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 2023/24 can be summarised as :

	£'000
Original 2023/24 budget shortfall	**3,770**
Add: Transferred budgets	354
Changes to Pay and inflation	
(a) Impact of latest assessment of 22/23 pay award	280
(b) Additional pay award 23/24 above 2%	27
(c) Change in inflation estimate	-805
(d) Impact of 1.25% national insurance contribution reduction	-180
(e) Net change to pension costs	-20
(f) Increase in energy and diesel cost assumptions	196
Delay to the implementation of the requirements of the Environment Act	-150
Impact of waste negotiation	97
Adjustment for final items	
Other minor adjustments	-4
Increase in funding from constituent authorities	–1,870
Revised Budget shortfall	1,695
Less: Net savings agreed in December	-2,018
Add: Adjustment for savings that are directly attributable to the constituent authorities budgets	323
Balanced budget	**-**

3.5 The government published the provisional local government finance settlement for 2023-24 on 19th December 2022 via a written statement. Consultation on the provisional settlement closed on the 16th January 2023. This is a one-year settlement but contains some details for 2024/25.

3.6 A full update on the provisional settlement is included in the Budget Estimate reports for both Councils.

3.7 Local Government as a whole was a major beneficiary of the Autumn Statement 2022, with larger increases in funding than any other part of the public sector. Whilst a significant proportion of the increase was directed towards social care, even authorities without social care responsibilities have received an increase in funding. However, whilst the year's settlement was better in cash terms than any for over a decade; in real terms, the settlement will still leave many local authorities with a significant financial gap to close as it was less than the inflationary pressures currently being experienced across the sector.

3.8 The key issues which will affect the future funding for the Joint Strategic Committee include:

i) The Council Tax referendum thresholds confirmed as the higher of 3% or £5.00 for a Band D property.

ii) The inclusion of Council Tax Support Administration Grant as part of Revenue Support Grant for the first time. Since 2016/17 both Councils have seen Revenue Support Grant fall and have received no grant since 2018/19 until 2023/24. The Councils have been allocated the following grant in 2023/24;

- Adur £ 74,160
- Worthing £109,100

iii) Business grant income and baseline funding

The business rate system has been reset this year following the national revaluation which resulted in an overall increase nationally in rateable values.

The government's decision to freeze the business rates multiplier will be fully funded, and, from 2023-24 onwards, compensation to authorities for under-indexation would be paid based on Consumer Price Index (CPI) (10.1%).

Compensation to authorities will be part-paid via an uplift to Baseline Funding Level (BFL) (3.74%), with the remainder paid via section 31 grant.

Overall, councils will be compensated for the impact of freezing of business rates via grants and the net overall impact of all of these changes is an increase in income from the business rate system of £191,000 in Adur and £304,000 in Worthing.

iv) A new funding guarantee grant has been created to ensure every authority has an increase in Core Spending Power (the total funding received from Council Tax, Business Rates, and Government Grant) of at least 3% in 2023/24. This new guarantee will be funded from the previous Lower Tier Services Grant (LTSG) and the reduced cost of New Homes Bonus (NHB).

The cost of the 3% Funding Guarantee will be £136m in 2023-24. Allocations for Adur District Council and Worthing Borough Council are £226,630 and £256,100 respectively. It is expected that this funding will remain in place in 2024/25.

v) The Services Grant was introduced in 2022/23 as a on year grant to fund core services which was distributed using the 2013/14 Settlement Funding Assessment methodology. This has continued in 2023/24 but reduced to reflect the estimated benefit from the changes to National Insurance. Allocations are;

- Adur District Council will receive £68,650,
- Worthing Borough Council will receive £104,590.

This funding will be excluded from any proposed baseline for transitional support as a result of any proposed system changes.

vi) New Homes Bonus (NHB) will continue for another year but the government very clearly intends to phase out the current scheme although the timing of this is unclear. For 2023/24, there is no change in the operation of the scheme: the scheme works in the same way and applies the same threshold (0.4%). The threshold means that NHB payments will only be made on an increase in the council tax base that exceeds 0.4%.

NHB allocations of £290m will be made nationally. This is a one off allocation in 2023/24 and the Councils will receive an additional grant of;

- Adur District Council £ 78,980
- Worthing Borough Council £125,110

3.9 This is not a fixed two-year settlement and so there is uncertainty around 2024/25. We do not yet know the future of NHB. However, the policy statement made earlier in December, was clear that “the core settlement will continue in a similar manner for 2024-25. The major grants will continue as set out for 2023-24."

The Funding Review and the fundamental changes to the Business Rate Retention Scheme have now been delayed until 2025/26 at the earliest, effectively deferred until after the next election.

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

4.0 DRAFT REVENUE ESTIMATES 2023/24

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 £26,346,800. This includes the savings agreed by the Joint Strategic Committee in December. Attached at Appendix 2 are the additional proposals for investment into services recently considered by the Executives.

4.2 A breakdown of each Executive Member's summary budget is attached in Appendix 3. The changes can be summarised briefly as follows:

	£'000	£'000
2022/23 Original Estimate		24,477
Add: Budget transferred in 2022/23 for approved growth items		143
2022/23 Revised Estimate		24,620
Add: Pay and Price Increases		2,378
Add: Committed and Unavoidable Growth:		
Impact of Waste dispute		347
Increased Energy & Diesel costs		540
Measures to reduce Waste		50
Less: Compensatory savings and additional Income:		
Reduction in pension contributions	-20	
Decrease in employer NI contributions	-180	-200

	£’000	£’000
Other items:		
Transfer of Budgets from Joint Services		211
Provision for investment in services		96
2023/24 budget prior to agreed savings		28,042
Less: Savings agreed by members		
Approved in December		-2,018
Less : Savings subsequently attributed to the constituent councils		323
Net cost to be funded by the Councils		26,347
Net cost allocated as follows:		
- Adur District Council		10,590
- Worthing Borough Council		15,757
Cost reallocated to both Councils		26,347

4.3 The Joint Strategic Committee budget has been reflected in both the Adur and Worthing Estimates, which will be approved by their respective Executives on 2nd February and 1st February 2023. 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.

Further details can be provided by request from 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:

	Expected shortfall (Cumulative)				
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cumulative budget shortfall as per appendix 1	1,695	2,082	2,409	2,983	3,570
Less:					
Net savings identified in 2023/24 budget round	-1,695	-1,695	-1,695	-1,695	-1,695
Adjusted cumulative budget shortfall	-	387	714	1,288	1,875
Savings required each year		387	327	574	587

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) **Inflation**

A provision for 4.5% inflation has been built into pay budgets; with significantly higher amounts built in for energy costs and business rates; general non-pay budgets have been increased by 2%. Whilst the Bank of England inflation forecasts expect that inflation will begin to fall in 2023 and return to 2% in two years time, there is a risk that inflation will run at a higher rate than allowed for within the budget. Each 1% increase in inflation is equivalent to the following amount:

	1% increase
	£'000
Pay	267
Non-pay	19

(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) **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 2023/24, income may fall further than expected.

7.0 CONSULTATION

7.1 The Council ran a public consultation exercise this year, there were 925 responses from Adur district residents and 1,239 from Worthing borough residents. Further details are provided within the appendices of the Adur District Council and Worthing Borough Council budget estimates 2023/24 and setting of the 2023/24 Council Tax reports considered by the Adur Executive and Worthing Cabinet on 23rd February 2023 and 21st February 2023. respectively.

7.2 Officers and members have been consulted on the development of the budget.

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.

  - 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 2023//24.

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 LEGAL IMPLICATIONS

9.1 The Local Government Act 2003 requires that the Councils set a balanced budget. This report demonstrates how the Council will meet this requirement for 2023/24.

10.0 CONCLUSION

10.1 The Councils have implemented a budget strategy which plans for the reduction in the resources provided via Government. 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 £1.695m to meet the current year's shortfall against a backdrop of inflationary and cost of living pressures..

10.2 Looking further ahead, 2024/25 will again be challenging as the Council grapples with the impact of increasing cost pressures and reduced real term funding. Consequently, the strategy of delivering commercial income growth and business efficiencies through the digital agenda continues to play a vital role in balancing the budget.

10.3 However, provided we continue to deliver on this strategy, the Councils will become increasingly financially resilient over the next 5-10 years as government funding reduces, New Homes Bonus disappears and we become largely funded by our community through Council Tax and income from our commercial services.

Background Papers

- Our Plan - The new corporate plan for Adur & Worthing Councils - report to Joint Strategic Committee 11th October 2022
- Developing a revenue budget for 2023/24 against a backdrop of high inflation – Report to Joint Strategic Committee on 5th July 2022
- Budget Update - Report to Joint Strategic Committee on 6th December 2022.
- Local Authority Finance (England) Settlement Revenue Support Grant for 2023/24 and Related Matters: MHCLG Letters and associated papers of 19th December 2022.
- Local Government Act 2003 and Explanatory Note
- 'Guidance Note on Local Authority Reserves and Balances" – LAAP Bulletin No. 77 - CIPFA -published in November 2008
- Statement of Accounts 2021/22
- Reports to Adur Joint Strategic Sub-Committees 5th December 2022 – 2nd Revenue Budget Monitoring Report (Q2)
- Report Worthing Joint Strategic Sub-Committees 6th December 2022 – 2nd Revenue Budget Monitoring Report (Q2)

SUSTAINABILITY AND RISK ASSESSMENT

1. **ECONOMIC**

Matter considered and no issues identified

2. **SOCIAL**

2.1 **Social Value**

The Councils' use of data is helping target those most in need, offering support through our One Stop and proactive services and signposting people to further help.

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**

The JSC's budget is supporting the delivery of a range of carbon emissions reduction and biodiversity initiatives that is helping the Councils' meet their net zero 2030 commitments.

4. **GOVERNANCE**

Matter considered and no issues identified

Appendix 1

JOINT STRATEGIC COMMITTEE Revenue Budget Summary Statement 2022/23 - 2027/28						
	2022/23 Base	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000	£'000
Net Spending to be Financed from Taxation						
Base budget	**24,477**	24,620	24,620	24,620	24,620	24,620
Investment in services approved as part of 22/23 budget	**143**					
a) **Annual Inflation**						
Estimated inflation		603	1,385	2,117	2,832	3,562
Impact of 2022/23 pay award (Assume 5.82% budget contains 2%)		1,081	1,103	1,125	1,148	1,171
Reduction in employers national insurance by 1.25%		(180)	(184)	(188)	(192)	(196)
b) **Impact of funding 'Platforms'**						
Measures to reduce waste		50	50	50	50	50
c) **Impact of Cost of Living crisis**						
Additional pay award - Usually budget for 2% assume 4.5%		694	708	722	736	751
Gas and electricity (380% gas, 190% electricity)		359	359	359	359	359
Diesel (50% increase)		181	181	181	181	181
c) **Other items**						
Impact of waste dispute:						
Impact of negotiation on salaries costs		347	347	347	347	347
Impact of Triennial review:						
Reduction in pension rates		(20)	(20)	(20)	(20)	(20)
Provision for new growth items (see appendix 2).		96	196	296	396	496
Transfer of Budgets from Joint		211	211	211	211	211
Net cost to be reallocated to the Councils	**24,620**	**28,042**	**28,956**	**29,820**	**30,668**	**31,532**
Adur District Council	9,933	10,590	10,802	11,018	11,128	11,239
Worthing Borough Council	14,687	15,757	16,072	16,393	16,557	16,723
Total income for services provided to the constituent councils	**24,620**	**26,347**	**26,874**	**27,411**	**27,685**	**27,962**
(Surplus) / Shortfall in Resources	**-**	**1,695**	**2,082**	**2,409**	**2,983**	**3,570**

JOINT STRATEGIC COMMITTEE Revenue Budget Summary Statement 2022/23 - 2027/28						
	2022/23 Base	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
(Surplus) / Shortfall in Resources		**1,695**	**2,082**	**2,409**	**2,983**	**3,570**
Savings identified to date:						
Commercial activities and commissioning						
Commercial and Customer Board		263	263	263	263	263
Service and Digital redesign programme		178	178	178	178	178
Corporate initiatives		460	460	460	460	460
Departmental proposals		1,117	1,117	1,117	1,117	1,117
Savings identified within constituent authorities		(323)	(323)	(323)	(323)	(323)
Total savings identified		**1,695**	**1,695**	**1,695**	**1,695**	**1,695**
Savings still to be found/ (surplus)		**(0)**	**387**	**714**	**1,288**	**1,875**

Appendix 2

		Expected cost (cumulative)								
		2023/24			***2024/25***			***2025/26***		
Description	***Proposed text for paper***	***Joint (memo only)***	**Adur**	**Worthing**	***Joint (memo only)***	**Adur**	**Worthing**	***Joint (memo only)***	**Adur**	**Worthing**
Delivery manager	New post to build our programme management capability as outlined in Our Plan and manage our budget challenge programme	55,310	22,120	33,190	60,340	22,120	33,190	60,340	22,120	33,190
ASB Officer	Mainstreaming of one post to reflect that this reamins an important service for the Councils despite the fact that external funding has now ceased for this role	41,000	16,400	24,600	41,000	16,400	24,600	41,000	16,400	24,600
Broadcasting of council meetings - Software licencing	Mainstreaming our protoype approach to broadcasting council meetings as this saves considerable staff time and resource compared to the temporary solution developed during the pandemic	4,000	1,600	2,400	4,000	1,600	2,400	4,000	1,600	2,400

		Expected cost (cumulative)								
		2023/24			***2024/25***			***2025/26***		
Description	***Proposed text for paper***	***Joint (memo only)***	**Adur**	**Worthing**	***Joint (memo only)***	**Adur**	**Worthing**	***Joint (memo only)***	**Adur**	**Worthing**
Time to spare platform for participation	Planned expenditure to increase our participation and community engagement infrastructure (NB this will slightly different text in Adur and Worthing	15,000	6,000	9,000	15,000	6,000	9,000	15,000	6,000	9,000
Asana licences	Software which will enable the development of an enhanced programme management capability and reporting	6,170	2,470	3,700	6,170	2,470	3,700	6,170	2,470	3,700
Total growth identified through financial planning		121,480	48,590	72,890	126,510	48,590	72,890	126,510	48,590	72,890
		-100,000	-70,000	-90,000	-100,000	-70,000	-90,000	-100,000	-70,000	-90,000
Net growth identified		21,480	-21,410	-17,110	26,510	-21,410	-17,110	26,510	-21,410	-17,110

JOINT SERVICE BLOCK ACTIVITY RECHARGED TO ADUR AND WORTHING COUNCILS

ADUR & WORTHING COUNCILS

SERVICE BLOCKS	ESTIMATE 2022/2023	ESTIMATE 2023/2024
	£	£
Chief Executive & Communications	645,580	743,830
Director for Communities	9,014,030	10,020,510
Director for Digital & Resources	12,227,570	12,423,640
Director for the Economy	3,903,400	4,333,260
TOTAL SERVICES	25,790,580	27,521,240
ALLOCATION OF COSTS		
Less: Allocation to HRA and Capital Programme charged direct to Adur and Worthing	(1,169,680)	(1,174,440)
	24,620,900	**26,346,800**
Adur District Council	(9,933,310)	(10,589,810)
Worthing Borough Council	(14,687,590)	(15,756,990)
TOTAL SERVICE BLOCK ALLOCATIONS	**(24,620,900)**	**(26,346,800)**

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Joint Governance Committee
24 January 2023

Joint Strategic Committee
7 February 2023

Key Decision : No
Ward(s) Affected: All

JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24 to 2025/26, ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY THE DIRECTOR FOR DIGITAL, SUSTAINABILITY 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 2023/24 to 2025/26 for Adur and Worthing Councils, as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 The Joint Governance Committee is recommended to:

i) Note the report (including the Prudential Indicators and Limits, and MRP Statements) for 2023/24 to 2025/26

ii) Refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 7 February 2023.

2.2 The Joint Strategic Committee is recommended to:

i) Approve and adopt the TMSS and AIS for 2023/24 to 2025/26, incorporating the Prudential Indicators and Limits, and MRP Statements

ii) Forward the Prudential Indicators and Limits, and MRP Statements of the report for approval by Worthing Council at its meeting on 21 February 2023, and by Adur Council at its meeting on 23 February 2023.

3. 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 needs 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, when it is prudent and economic, any debt previously drawn may be restructured to meet the Councils' risk or cost objectives.

The contribution the treasury management function makes to the authority is critical as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day to day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management 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."

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

3.2 Reporting requirements

3.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term 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 capital strategy is to ensure that all elected members on the full Councils fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.2.2 **Treasury Management Reporting**

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), the first, and most important report is forward looking and 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).

A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. It is intended to include this reporting as part of one of our existing capital reports.

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

3.3 **Treasury Management Strategy for 2023/24**

The strategy for 2023/24 covers two main areas:

Capital issues

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

Treasury management

- 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, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC 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. During the Covid 19 Pandemic provision of this training proved difficult, however work is underway to identify a suitable provider to deliver training in 2023.

The training needs of treasury management officers are periodically reviewed and officers attend courses provided by appropriate trainers such as Link and CIPFA in addition to internal training relevant to finance. As of 1st April 2023 a log of training undertaken will be maintained by the Group Accountant responsible for the treasury function in compliance with the revised 2021 CIPFA Treasury Management Code.

3.5 **Treasury management consultants**

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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. THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

The Authority's 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.

4.1 Capital expenditure and financing

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 financing or borrowing need.

ADUR DISTRICT COUNCIL

Capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	4.293	5.660	55.548	1.847	1.882
HRA	7.007	14.006	29.508	5.600	5.600
TOTAL	**11.300**	**19.666**	**85.056**	**7.447**	**7.482**
Financed by:					
Capital receipts	1.243	0.224	0.121	0.104	0.100
Capital grants and contributions	4.884	0.938	2.307	0.673	0.512
Revenue Reserves & contributions	4.895	8.402	7.007	7.075	7.094
Net financing need for the year	**0.277**	**10.101**	**76.363**	**-0.405**	**-0.224**

WORTHING BOROUGH COUNCIL

Capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	26.664	61.857	33.595	10.340	5.867
TOTAL	**26.664**	**61.857**	**33.595**	**10.340**	**5.867**
Financed by:					
Capital receipts	0.798	0.050	0.914	0.000	0.089
Capital grants and contributions	5.068	5.557	4.000	4.551	1.006
Revenue Reserves & contributions	1.823	1.802	2.327	3.711	3.997
Net financing need for the year	**18.975**	**55.060**	**24.902**	**1.842**	**1.992**

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

The second prudential indicator is the Councils' Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of each councils indebtedness and so its underlying borrowing needs. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 indebtedness 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 schemes 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

Capital Financing Requirement (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR – non-HRA	28.566	32.026	83.309	82.498	81.894
CFR - HRA	61.802	69.608	94.816	96.116	97.416
CFR – strategic	78.405	77.556	76.685	75.790	74.873
Total CFR	**168.773**	**179.190**	**254.810**	**254.406**	**254.181**
Movement in CFR	0.277	10.417	75.620	-0.405	-0.224
Movement in CFR represented by					
Financing need for the year	2.499	12.414	78.359	2.385	2.581
Less: MRP/VRP and other financing movements	(2.222)	(1.997)	(2.739)	(2.790)	(2.805)
Movement in CFR	**0.277**	**10.417**	**75.620**	**-0.405**	**-0.224**

WORTHING BOROUGH COUNCIL

Capital Financing Requirement (£m)	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR – non-HRA	85.318	139.851	161.833	160.557	163.850
CFR - strategic	69.552	68.791	68.010	67.209	66.387
Total CFR	**154.870**	**208.641**	**229.844**	**227.766**	**230.237**
Movement in CFR	**19.238**	**53.771**	**21.202**	**(2.077)**	**2.472**
Movement in CFR represented by					
Financing need for the year	20.774	55.940	24.796	1.754	5.882
Less: MRP/VRP and other financing movements	(1.536)	(2.169)	(3.594)	(3.831)	(3.410)
Movement in CFR	**19.238**	53.771	21.202	-2.077	**2.472**

4.3 **Liability Benchmark**

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

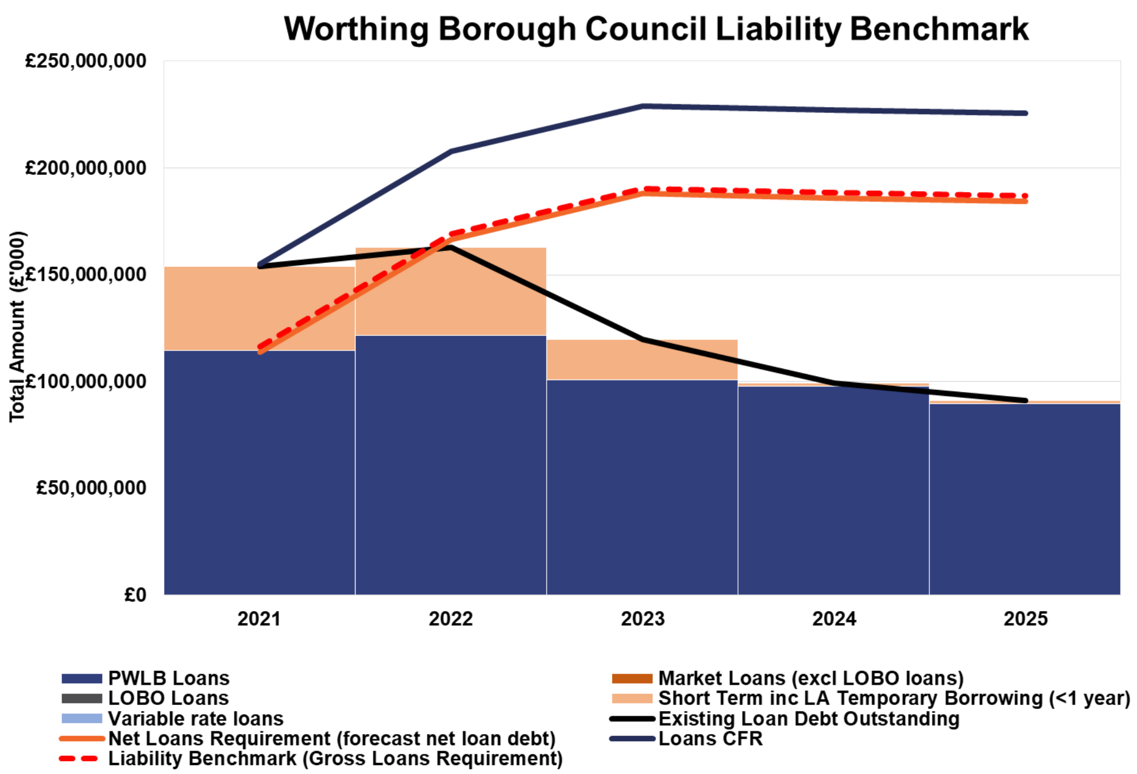
1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

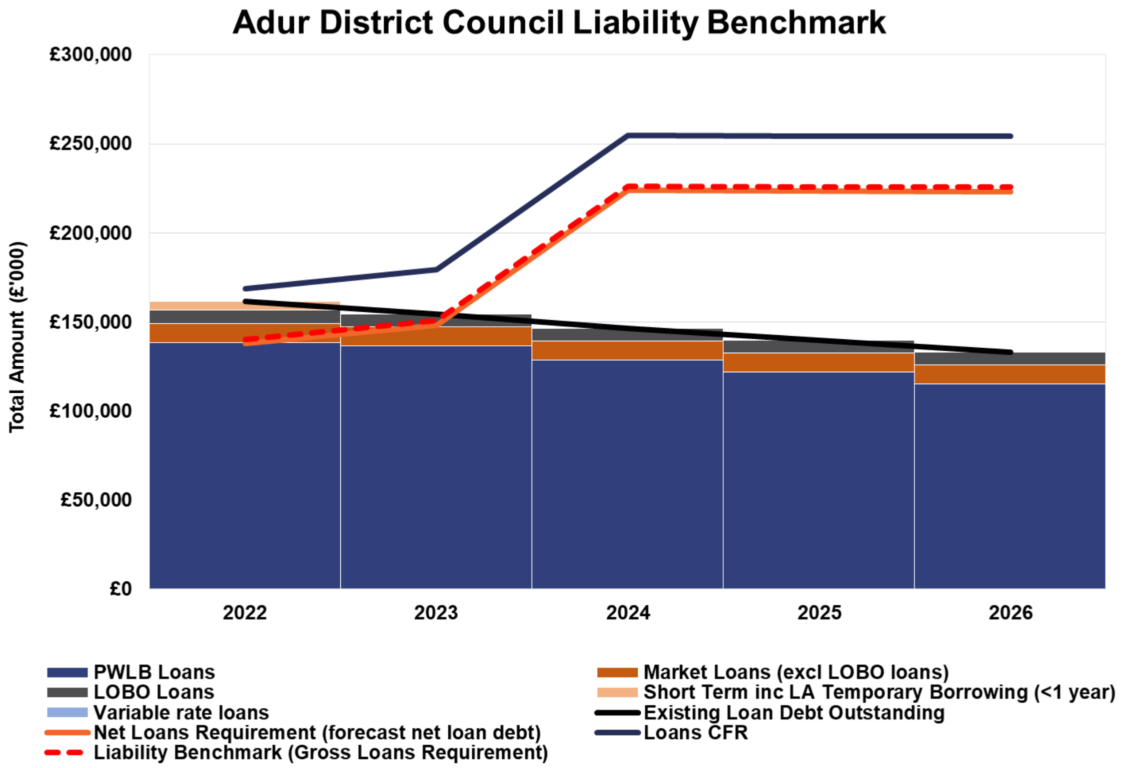
3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Worthing Borough Council



Adur District Council



The above charts show the liability benchmark for Adur District Council and Worthing Borough Council for the year ended 2022 through to the year ended March 2026. An analysis of what is shown is given below:

- The black line represents existing loan debt outstanding which tracks the existing debt balance closely as repayments are made on the opening debt position as at the year ended March 2022.
- The red dashed line and Orange line represent the additional borrowing requirement which is driven by the amount of the Council's forecast capital expenditure which will be funded through prudential borrowing.
- The Blue line sitting at the top of the graph represents the Loans CFR, the gap between this and the liability benchmark line represents in part the treasury management investments held by the council which are required for management of liquidity and cash flow.

Though further periods of forecast are possible, as there is no capital programme set for years beyond 2026 the models data beyond that point is not indicative of the likely movement and has therefore not been included in this report.

4.5 **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).

DLUHC regulations have been issued which require the full Councils to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

For both Councils, the MRP relating to built assets under construction will be set aside once the asset is completed. If any finance leases are entered into, the repayments are applied as MRP.

The Councils are recommended to approve the following MRP Statements:

ADUR DISTRICT COUNCIL

For Adur District Council it was approved by the Joint Strategic Committee on 2nd June 2016 that for borrowing incurred before 1st April 2008, the MRP will be set aside in equal instalments over the life of the associated debt.

4.5.1 **General Fund**

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 over the life of the asset 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 Asset Life Method). The option remains to use additional revenue contributions or capital receipts to repay debt earlier.

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 and other public bodies. 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 borrower 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 2023/24.

4.5.2 **Housing Revenue Account**

Unlike the General Fund, the HRA is not required to set aside funds to repay debt. There is a requirement for a charge for depreciation to be made but there are transitional arrangements in place. 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.

WORTHING BOROUGH COUNCIL

4.5.3 Worthing had no debt prior to 1 April 2008. Worthing applies the same MRP policy as Adur for capital expenditure funded from borrowing from 1 April 2008. Worthing also has discretion in the application of MRP in respect of capital loans to approved Counterparties (currently Worthing Homes and GB Met College).

4.5.4 In addition to the above policy, it is also recommended that where the Council purchases a property to facilitate a development whether via a Compulsory Purchase Order or via a negotiated arrangement with the intention of disposing of the property to a development partner, no MRP shall be provided for the first three years. Any capital receipt received for the land shall be used to repay the associated debt. This change to the policy was initially approved by Council in July 2021.

4.5.5 It is proposed to retain this policy for 2023/24.

ADUR and WORTHING COUNCILS - VOLUNTARY REVENUE PROVISION

4.5.4 **MRP Overpayments** – A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory MRP, which are designated as voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayments made each year. Up until the 31st March 2023 Adur has a net VRP overpayment of £20k and Worthing has a cumulative net £310k VRP overpayment which will be reclaimed over the five years following each voluntary overpayment.

5. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. 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.

5.1 **Current portfolio position**

The Councils' treasury portfolio positions at 31st March 2022 and at 31st December 2022 are shown below.

Adur District Council

	Principal at 31.03.22 £m	Actual 31.03.2022 %	Principal at 31.12.22 £m	Actual 31.12.2022 %
External Borrowing				
PWLB	(138.527)	86%	(140.655)	88%
Other Borrowing	(22.990)	14%	(19.627)	12%
Finance lease	(0.000)		(0.000)	
TOTAL BORROWING	**(161.517)**	100%	**(160.282)**	100%
Treasury Investments:				
Local Authority Property Fund	3.232	13%	3.258	16%
In-house:				
Banks	9.025	36%	10.005	49%
Building societies	1.000	4%	1.000	5%
Debt Management Office	8.000	32%	1.000	5%
Local authorities	0.000	0%	0.000	0%
Money market funds	3.940	16%	5.010	25%
TOTAL INVESTMENTS	**25.197**	100%	**20.273**	100%
NET DEBT	**(136.320)**		**(140.009)**	

Worthing Borough Council

	Principal at 31.03.22 £m	Actual 31.03.2022 %	Principal at 31.12.22 £m	Actual 31.12.2022 %
External Borrowing				
PWLB	(114.376)	74%	(139.286)	75%
Other Borrowing	(39.375)	26%	(45.375)	25%
Finance lease	(0.000)		(0.000)	
TOTAL BORROWING	**(153.751)**	100%	**(184.661)**	100%
Treasury Investments:				
Local Authority Property Fund	1.616	4%	1.629	6%
In-house:				
Banks	9.045	24%	9.005	31%
Building societies	1.000	3%	3.000	10%
Debt Management Office	11.700	32%	2.000	7%
Local authorities	2.500	7%	3.000	10%
Money market funds	11.125	30%	10.215	35%
TOTAL INVESTMENTS	**36.986**	100%	**28.849**	100%
NET DEBT	**(116.765)**		**(155.812)**	

Worthing Borough Council has also made two loans which are categorised as capital rather than treasury investments, these detailed below showing balances as at 31st December 2022:

- a £10m loan to Worthing Homes
- a £5m repayment loan to GBMet College, with £4.605m remaining

Both of these loans are secured on assets of these bodies.

The Councils' forward projections for borrowing are summarised below. The tables show the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

ADUR DISTRICT COUNCIL

Adur District Council External Debt £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt at 1 April	(158.936)	(161.517)	(174.036)	(249.656)	(249.252)
Expected change in Debt	(2.581)	(12.519)	(75.620)	0.405	0.224
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	(161.517)	(174.036)	(249.656)	(249.252)	(249.027)
The Capital Financing Requirement	168.773	179.190	254.810	254.406	254.181
Under/(over) borrowing	7.256	5.154	5.154	5.154	5.154

Within the above figures the level of debt relating to commercial property is:

Adur District Council	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	(78.405)	(77.556)	(76.685)	(75.790)	(74.873)
Percentage of total external debt %	49%	45%	31%	31%	30%

Worthing Borough Council

Worthing BC External Debt £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt at 1 April	(135.632)	(153.751)	(203.510)	(224.713)	(222.635)
Expected change in Debt	(18.119)	(49.759)	(21.202)	2.077	(2.472)
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	(153.751)	(203.510)	(224.713)	(222.635)	(225.106)
The Capital Financing Requirement	154.870	208.641	229.844	227.766	230.237
Under/(over) borrowing	1.119	5.131	5.131	5.131	5.131

Within the above figures the level of debt relating to commercial property is:

Worthing BC	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	(69.552)	(68.791)	(68.010)	(67.209)	(66.387)
Percentage of total external debt %	45%	34%	30%	30%	29%

Within the range of 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 2023/24 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.

5.2 **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 £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	185.0	258.0	260.0	258.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**186.0**	**259.0**	**261.0**	**259.0**

WORTHING BOROUGH COUNCIL

Operational boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Debt re GB Met	5.0	4.5	4.3	4.0
Other Debt	167.0	229.5	231.5	232.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**183.0**	**245.0**	**246.8**	**247.0**

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

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

ADUR DISTRICT COUNCIL

Authorised limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	253.0	255.0	257.0	259.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**253.0**	**255.0**	**258.0**	**260.0**

WORTHING BOROUGH COUNCIL

Authorised limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt re Worthing Homes	10.0	10.0	10.0	10.0
Debt re GB Met	4.5	4.3	4.0	4.0
Other Debt	233.0	233.0	233.0	233.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**248.5**	**248.3**	**248.0**	**248.0**

5.3 **Prospects for interest rates**

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

In the 3 years prior to this report, the persistence of Covid-19 has continued to have some impact both in the UK economy and in economies around the World. Geo-politcal tensions in Asia and energy supply pressures, as a result of sanctions on Russian economic drivers following their invasion of Ukrainian territory in 2022, have also weighed heavily on the UK economy. These factors combined to stagnate economic growth whilst increasing inflationary pressures.

Prior to the above issues, the Bank Rate was expected to peak at 1.25% in quarter 1 of 2025. However, as of quarter 4 of 2022 the rate is 3.50% and anticipated to increase further in the first half of 2023 reaching a peak of 4.5% before decreasing steadily over the coming 2 years. Some more recent data suggests that the bank rate may be nearing its peak at or possibly below 4%, though there is still a significant amount of uncertainty and potential for volatility both in the UK and in world economies. This means it is difficult to predict which level of Bank Rate will be deemed sufficient by the Monetary Policy Committee across their 2023 meetings.

Additional information about interest rates and the risks to the forecasts are contained in Appendix E.

Borrowing for capital expenditure Link's long-term forecast (beyond 10 years) for Bank Rate is 2.50%. As PWLB certainty rates are now above this level, the borrowing strategies of both councils are continually under review and both have favoured shorter term borrowing, in particular from other Local Authorities in order to minimise exposure to current interest rates and allow refinancing sooner when rates fall.

While the Councils will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

5.4 **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 borrowing costs remain high, this strategy extends, for as long as possible, the periods between borrowing need, and therefore reduces exposure to current interest rates.

Against this background and the risks within the economic forecast, caution will continue to be applied within the 2023/24 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 borrowing rates*, then borrowing will be postponed.

- *If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* Most likely, fixed rate funding will be drawn whilst interest rates are 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.

5.5 In prior years, both Councils have referred 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 Local Authorities and the Local Government Association Municipal Bonds Agency, can from time to time offer options to borrow at advantageous rates comparative to the PWLB, and therefore will be considered alongside the PWLB during the current period of interest rate pressure.

Where appropriate, the Councils will investigate the possibility of using "ethical" or "green" borrowing options eg "green bonds." Such borrowing is usually only available for significant amounts e.g. over £20m and takes time to arrange because the lender and the Council needs to undertake due diligence. PWLB rates have now been reduced meaning that other options are less likely to be economically viable. Local Climate Bonds may offer another alternative for funding carbon reduction projects.

Given the expected under borrowing position of the Councils, the borrowing strategy will give consideration to the most appropriate sources of funding from the following list given in no particular order:

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 50 years;

iv) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB, market debt and loans from other councils in the debt portfolio;

v) PWLB borrowing for periods under 5 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

vi) Short term loans from other Councils where appropriate;

vii) Other forms of borrowing where appropriate e.g. green bonds or the Municipal Bonds Agency where these offer better value than the PWLB.

5.6 Preference may 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. However debt maturity must be spread appropriately in order to reduce refinancing risk.

5.7 **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.

5.8 **Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is done, it will be reported to the Councils at the earliest meeting following its action.

5.9 **New financial institutions as a source of borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities out to 3 years or so - still cheaper than the Certainty Rate)

- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)

- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time)

- "Green Bonds" or "Local Climate Bonds" or the local Credit Union, Boom

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

6.1.2 The Councils' investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Councils' investment priorities will be security first, portfolio liquidity second and then yield, (return). The Councils will aim to achieve the maximum yield on investments commensurate with proper levels of security and liquidity and with the Councils' risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Councils will also consider the value available in periods up to 24 months with high credit rated financial institutions, as well as wider range fund options.

6.1.3 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. As conditions in the financial markets remain uncertain, the proposed maximum limits for specified and unspecified investments for 2023/24 are the same as for 2022/23. The Mid Year Review added the UK bank Standard Chartered (currently A+ rated) to the specified investments and increased the limit for investment with the Local Authorities' Property Fund from £3m to £5m per Council for the purpose of setting aside long term funds for the repayment of debt. Counterparties' "sustainability", "ethical" or "climate change" policies will be reviewed to ensure that the Council invests funds appropriately.

6.1.4 Investment instruments identified for use in the financial year are listed in Appendix B under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Councils' treasury management practices.

6.1.5 The guidance from the DLUHC and CIPFA places a high priority on the management of risk. The Councils have adopted a prudent approach to managing risk and define risk appetite by the following means: -

a) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) **Other information**: ratings will not be the sole determinant of the quality of an institution; 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. To achieve this consideration the Councils will engage with the advisors to maintain a monitor on market pricing such as “credit default swaps” (a financial derivative or contract that allows an investor to "swap" or offset his or her credit risk with that of another investor) and overlay that information on top of the credit ratings.

c) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) The Councils have defined the list of **types of investment instruments** that the treasury management team is authorised to use. There are two lists in Appendix B under the categories of ‘specified’ and ‘non-specified’ investments.

  - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

  - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

e) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix B.

f) The Councils will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 6.8).

g) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 6.4). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut.

h) The Councils have engaged **external consultants**, (see paragraph 3.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the

Councils in the context of the expected level of cash balances and need for liquidity throughout the year.

i) All investments will be denominated in **sterling**.

j) As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23, in December 2022 as a result of further consultation the implementation was further delayed until 31st of March 2025.

6.1.6 However, the Councils will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 6.15). Regular monitoring of investment performance will be carried out during the year.

6.2 **Creditworthiness Policy**

6.2.1 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.

6.2.2 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the 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.

6.2.3 Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with our criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.2.4 In accordance with the Code, Link Group's creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.2.5 The result is a series of colour coded 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.

6.2.6 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.

6.2.7 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.

6.2.8 Accordingly, the Councils may exercise discretion to deviate from Link's suggested durational bands for counterparties where circumstances warrant a more flexible approach being taken.

6.3 **The Councils' Minimum Investment Creditworthiness Criteria**

6.3.1 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.

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.

6.4 **Country Limits and Proposed Monitoring Arrangements**

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 (other than the UK) 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 B. 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.

6.5 **Creditworthiness**

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the September 2022 mini budget. Although the Sunak government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices - Credit Default Swaps

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

Investment Strategy

6.6 **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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. For cash flow balances, the Councils will seek to use notice accounts, money market funds, call accounts and short-dated deposits to benefit from the compounding of interest.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

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.

6.7 **Investment returns expectations**

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

2023/24	3.92%
2024/25	3.35%
2025/26	2.60%
2026/27	2.50%
Later years	2.80%

6.8 **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 after each year-end.

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

ADUR DISTRICT COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2023/24	**2024/25**	**2025/26**
Principal sums invested > 365 days	50%	50%	50%

WORTHING BOROUGH COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 365 DAYS			
	2023/24	**2024/25**	**2025/26**
Principal sums invested > 365 days	50%	50%	50%

Both Councils are currently holding investments in the Local Authorities' Property Fund (£3m for Adur and £1.5m for Worthing) and other small bonds in the local credit union (£50k for Worthing and £25k for Adur) which are expected to be invested for more than 365 days. Worthing holds long term investments with Worthing Homes and GB Met College.

6.9 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 UK central government. The rates of interest may be below equivalent money market rates, however, if necessary, the returns are an acceptable trade-off for the guarantee that the Councils' capital is secure.

6.10 The Councils' proposed investment activity for placing cash deposits in 2022/23 will be to use: (given in no particular order)

- AAA rated Money Market Funds with a Constant Net Asset Value (CNAV) or a Low Volatility Net Asset Value (LVNAV) under the new money market fund regulations
- other local authorities, parish councils etc.
- business reserve accounts and term deposits, primarily restricted to UK institutions that are rated at least A- long term.
- the top five building societies by asset size

Other Options for Longer Term Investments

6.11 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**

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) **The Councils' own banker** (currently Lloyds) if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

d) **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).

e) 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).

f) 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 total exposure up to the limit applicable to the parent.

g) **Registered Social Landlords** (Housing Associations) **and other public sector bodies** - subject to confirming that the Councils have appropriate powers, consideration will be given to lending to Registered Social Landlords and other public sector bodies. 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.

h) **Property Investment Funds** for example the Local Authorities' 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. The Councils may invest up to £5m in Property Investment Funds - this reflects the request from Adur members to invest more in the CCLA Local Authorities' Property Fund.

i) **Other local authorities**, parish councils etc.

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

k) **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.*

(Note: For (j) and (k) 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).

6.12 **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.

6.13 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.

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

6.15 **End of year investment report** – at the end of the financial year the Councils will report on investment activity as part of the Annual Treasury Report.

6.16 **Local Authorities' Property Fund** – both Councils hold investments in the Fund (Adur DC - £3m and Worthing BC £1.5m). The treasury service receives regular reports and quarterly dividends. Representatives of the Fund gave a presentation on current and forecast performance to the Councils in October 2021.

7. OTHER MATTERS

7.1 **2021 revised CIPFA Treasury Management Code and Prudential Code – changes which has changed TMSS/AIS reports and the risk management framework**

CIPFA published the revised codes on 20th December 2021 and formal adoption is required for the 2023/24 financial year. The Councils have to have regard to these codes of practice when they prepare the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to the Full Councils for approval.

Following the revised codes the following adaptations have been made in this report:

· Inclusion of the liability benchmark in the strategy as shown in 4.3.

· An amendment to the Treasury Management Practices to address Environmental, Social and Governance policy within the treasury management risk framework; as included in Appendix B.

· Maintenance of the knowledge and skills register for individuals involved in the treasury management function as addressed in 3.4.

- The adoption of Quarterly reporting for the year 2023/24 as detailed in 3.2.2

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

7.3 For social policy purposes, the Councils both hold deferred shares in the local Credit Union, Boom. Boom approached the Councils with a request to hold and invest some of Boom's funds in order to mitigate their treasury management investment risk. The Councils approved this through the Mid Year Review of Treasury Management. Boom's management has indicated that there is likely to be a request to lend around £1.2m to £1.5m to Worthing Borough Council, on mutually beneficial terms.

8. ENGAGEMENT AND COMMUNICATION

8.1 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 2022, and which defines the respective roles of the client and provider authorities for a period of three years.

8.2 The Adur and Worthing Councils' treasury management team also provides treasury services to Arun District Council through a shared services arrangement (SSA). The SSA is provided under a Service Level Agreement that was renewed from 18th October 2022, and which defines the respective roles of the client and provider authorities for a period of three years.

8.3 Information and advice is supplied throughout the year by Link Group, the professional consultants for the Councils' shared treasury management service.

9. FINANCIAL IMPLICATIONS

9.1 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.

10. LEGAL IMPLICATIONS

10.1 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.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2022/23 to 24/25 – Adur Council 24 February 2022 and Worthing Council 22 February 2022

Annual Joint In-House Treasury Management Operations Report 1 April 2021 – 31 March 2022 for Adur District Council and Worthing Borough Council – Joint Governance Committee, 28 July 2022 and Joint Strategic Committee, 11 October 2022

Overall Budget Estimates 2023/24 and Setting of 2023/24 Council Tax Report

Link Asset Services Ltd TMSS Template 2023/24

Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) and CIPFA Treasury Management Guidance Notes 2021

The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021)

MHCLG Investment Guidance

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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 2023/24 - 2025/26, submitted and approved before the commencement of the 2023/24 financial year.

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

Appendix A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

1.1 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.

Adur District Council

Adur Capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	£m	£m	£m	£m
Non-HRA	4.293	5.660	55.548	1.847	1.882
HRA	5.186	14.006	29.508	5.600	5.600
Commercial property	0.000	0.000	0.000	0.000	0.000
TOTAL	**11.300**	**19.666**	**85.056**	**7.447**	**7.482**

Worthing Borough Council

Worthing Capital expenditure	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	£m	£m	£m	£m	£m
Non-HRA	26.664	61.857	33.595	10.340	5.867
Strategic property	0.000	0.000	0.000	0.000	0.000
TOTAL	**26.664**	**61.857**	**33.595**	**10.340**	**5.867**

1.2 **Affordability prudential indicators**

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

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

Adur District Council

Adur	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	%	%	%	%	%
Non-HRA	14.43	16.40	24.50	22.55	15.80
HRA	23.51	24.89	26.36	26.03	26.47
Strategic purchases	(19.10)	(17.88)	(19.88)	(19.49)	(18.41)
TOTAL	**18.84**	**18.81**	**26.43**	**24.98**	**23.08**

WORTHING BOROUGH COUNCIL

Worthing	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
	%	%	%	%	%
Non-HRA	4.95	9.73	8.99	6.22	8.12
Commercial activities	(7.82)	(14.37)	(14.74)	(14.11)	(14.07)
TOTAL	**(2.87)**	**(4.64)**	**(5.75)**	**(7.88)**	**(5.96)**

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

HRA Ratio

Adur	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt £m	**(56.625)**	**(64.431)**	**(89.639)**	**(90.939)**	**(92.239)**
Number of HRA dwellings	**2537**	**2509**	**2550**	**2562**	**2574**
Debt per dwelling	**£22.5k**	**£25.7k**	**£35.1k**	**£35.5k**	**£35.8k**

1.3 **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. Neither Council has any variable rate borrowing.

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

Adur District Council

Limits to maturity structure of fixed interest rate borrowing 2022/23		
	Lower Limit	**Upper Limit**
Under 12 months	0%	25%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years to 20 years	0%	80%
20 years to 30 years	0%	60%
30 years to 40 years	0%	60%
40 years to 50 years	0%	45%

WORTHING BOROUGH COUNCIL

Limits to maturity structure of fixed interest rate borrowing 2022/23		
	Lower Limit	**Upper Limit**
Under 12 months	0%	35%
12 months to 2 years	0%	40%
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%
30 years to 40 years	0%	75%
40 years to 50 years	0%	75%

APPENDIX B

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Councils will use. These are high security (i.e. high credit rating, although this is defined by the Councils, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Councils is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement. However a further consideration is included below:

ESG considerations - Both councils will consider Environmental, Social and Governance factors when placing any investment with current or new counterparties. Where matters for concern are identified for any specific counterparty both councils will consider placing future investments with other counterparties. A process of ongoing monitoring is underway for existing counterparties using ESG tracking services and available indices of bribery and corruption for the countries of domicile for the proposed counterparties. This is maintained by the Group Accountant (Strategic Finance).

Whilst there are no concerns regarding our banker, for operational reasons the

Councils' own banker Lloyds bank is required to be exempt from this approach as we are contractually bound to them for the duration of our banking contract. These factors will always be considered when the contract is renewed.

SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Councils

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Councils have the right to be repaid within 12 months if they wish. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under twelve months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The Uk Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt* with less than one year to maturity)
- Supranational bonds of less than one year's duration*
- A local authority, housing association, parish council or community council
- Pooled investment vehicles (such as money market funds) that have been awarded a AAA rating by Standard and Poor's, Moody's and/or Fitch rating agencies
- A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and/or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Councils have set additional criteria to set the time and amount of monies which will be invested in these bodies - see Annexes 1 and 2.

Non-Specified Investments identified for use by the Councils

These are any other type of investment (ie not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in Annexes 1 and 2.

Where appropriate, the Councils will seek further advice on the associated risks with non-specified investments.

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 (over 365 days): 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.

Where appropriate the Ring Fenced entities of banks will be used.

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 and current rating	Max'm exposure limit £m and/or %
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£5m
Term Deposits/ Call Accounts	UK	Santander UK A+	£4m
Term Deposits/ Call Accounts	UK	Bank of Scotland/ Lloyds (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Barclays (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Clydesdale A-	£4m
Term Deposits/ Call Accounts	UK	HSBC (RFB) AA-	£4m
Term Deposits/ Call Accounts	UK	Close Brothers Ltd A-	£4m
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland/Nat West Group (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Standard Chartered Bank A+	£3m
Term Deposits/ Call Accounts	Australia - AAA	National Australia Bank Ltd A+	£3m
Term Deposits/ Call Accounts	US - AAA	JP Morgan Chase Bank NA AA	£3m
Term Deposits/ Call Accounts	UK	Handelsbanken plc AA	£4m
Term Deposits/ Call Accounts	UK	Goldman Sachs Int Bank A+	£3m
Gilts	UK	Debt Management Office (DMO)	£3m or 25% of funds

Instrument	Country and sovereign rating	Counterparty and current rating	Max'm exposure limit £m and/or %
Bonds	EU	European Investment Bank/ Council of Europe	£3m or 25% of funds
AAA rated Money Market Funds		Constant Net Asset Value or LVNAV MMFs	to manage liquidity, maximum £3m per fund
Other MMFs and CIS	UK	Collective Investment Schemes	25%
Term Deposits	UK	Nationwide BS A	£4m
Term Deposits	UK	Yorkshire BS A-	£2m
Term Deposits	UK	Coventry BS A-	£2m
Term Deposits	UK	Skipton BS A-	£2m
Term Deposits	UK	Leeds BS A-	£2m
Share Capital	n/a	West Sussex Credit Union	£0.025m deferred shares
Share Capital	n/a	Local Capital Finance Co (Municipal Bonds Agency)	£0.05m

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 to be used for liquidity purposes - funds should be invested to achieve higher returns wherever possible.

Institution ratings shown are as at 20 December 2021 and are subject to change.

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 • Deposits with Local Authorities • The UK Government	√ √ √ √	√ √ √ √	5 years	The higher of £8m or 50% of funds, maximum of £2m per institution £5m No limit	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 advisors	√ √ √ √	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

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	£5m	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.

3. The Council's own banker may also be used if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.

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	Max'm exposure limit £m and/or %
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£5m
Term Deposits/ Call Accounts	UK	Santander UK A+	£4m
Term Deposits/ Call Accounts	UK	Bank of Scotland/ Lloyds (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Barclays (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Clydesdale A-	£4m
Term Deposits/ Call Accounts	UK	HSBC (RFB) AA-	£4m
Term Deposits/ Call Accounts	UK	Standard Chartered Bank A+	£3m
Term Deposits/ Call Accounts	UK	Close Brothers Ltd A-	£4m
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland/Nat West Group (RFB) A+	£4m
Term Deposits/ Call Accounts	Australia - AAA	National Australia Bank Ltd A+	£3m
Term Deposits/ Call Accounts	US - AAA	JP Morgan Chase Bank NA AA	£3m
Term Deposits/ Call Accounts	UK	Handelsbanken plc AA	£4m
Term Deposits/ Call Accounts	UK	Goldman Sachs Int Bank A+	£3m
Gilts	UK	Debt Management Office (DMO)	£3m or 25% of funds

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Bonds	EU	European Investment Bank/ Council of Europe	£3m or 25% of funds
AAA rated Money Market Funds		Constant Net Asset Value or LVNAV MMFs	£9m or 25% of funds (the limit may be exceeded for up to 7 days), max £3m per fund
Other MMFs and CIS	UK	Collective Investment Schemes	25%
Term Deposits	UK	Nationwide BS A	£4m
Term Deposits	UK	Yorkshire BS A-	£2m
Term Deposits	UK	Coventry BS A-	£2m
Term Deposits	UK	Skipton BS A-	£2m
Term Deposits	UK	Leeds BS A-	£2m
*Term Deposits	UK	Worthing Homes (10 year loan)	£10m
*Term Deposits	UK	GB Met (20 year loan)	£5m
Share Capital	n/a	West Sussex Credit Union	£0.05m deferred shares
Share Capital	n/a	Local Capital Finance Co (Municipal Bonds Agency)	£0.05m
Temporary Loans	n/a	Worthing Leisure Trust	£0.5m

NB Any existing deposits outside of the current criteria will be reinvested within 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.
* These loans are for more than 1 year, therefore are "unspecified", but are included here as they have been approved by Council.
Institution ratings shown are as at 20 December 2021 and are subject to change.

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 - Deposits with Local Authorities - The UK Government	√ √ √ √	√ √ √ √	5 years	The higher of £8m or 50% of funds, maximum of £2m per institution £5m No limit	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

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	£5m	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.

3. The Council's own banker may also be used if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating as at

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- New Zealand

AA-

- Belgium
- U.K.

NB Consideration will be given to other factors, including Environmental, Social and Governance standards when considering the destination country of Non-UK investments. As such countries with an appropriate sovereign rating will not be used where matters identified do not align with the respective Council's values.

NB As detailed in 6.1.5 it has been determined that the UK will remain an approved country for investment regardless of its sovereign rating. This is due to the avoidance of such investments being operationally prohibitive.

COUNTERPARTIES WHERE THE COUNCILS HAVE OPTED UP TO PROFESSIONAL INVESTOR STATUS

(i) **Money Market Funds**

Invesco
Federated Investors
CCLA
Black Rock
HSBC ESG Fund

(ii) **Building Societies**

Skipton Building Society
Coventry Building Society
Leeds Building Society
Nationwide Building Society
Yorkshire Building Society

(iii) **Brokers**

BGC (Sterling)
Tradition
ICAP
Imperial

(iv) **Other**

ICD (Portal used for money market fund investments)
Link Group

These arrangements will be regularly reviewed as appropriate.

APPENDIX D

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

- the Treasury Management Strategy Statement and 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 have extended the functions of the S151 role in respect of non-financial investments

- 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

APPENDIX E

Economic backdrop provided by Link Advisory

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.

However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

. The current margins over gilt yields are as follows: -.

§ **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)

§ **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

§ **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)

§ **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)

§ **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)