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ADUR & WORTHING
COUNCILS

25 September 2023

Joint Strategic Committee	
Date:	**3 October 2023**
Time:	**6.30 pm**
Venue:	**Gordon Room, Worthing Town Hall**

Committee Membership:

Adur District Council: Councillors; Neil Parkin (Adur Chair), Angus Dunn (Adur Vice-Chair), Carson Albury, Kevin Boram, Emma Evans and Steve Neocleous

Worthing Borough Council: Councillors; Dr Beccy Cooper (Worthing Chairman), Carl Walker (Worthing Vice-Chairman), Caroline Baxter, Sophie Cox, Rita Garner, Emma Taylor-Beal, John Turley, Vicki Wells and Rosey Whorlow

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 11 July 2023, 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 28 September 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 28 September 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. Land Charges Migration to HM Land Registry (Pages 5 - 12)

To consider a report by the Director for Place, copy attached as item 6

7. Annual Treasury Management Report 2022-23 for Adur District Council and Worthing Borough Council (Pages 13 - 40)

To consider a report by the Director for Sustainability and Resources, copy attached as item 7

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:
Chris Cadman-Dando Senior Democratic Services Officer 01903 221364 chris.cadman-dando@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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ADUR & WORTHING COUNCILS

Joint Strategic Committee
3 October 2023

Key Decision [Yes/~~No~~]

Ward(s) Affected:

Land Charges Migration to HM Land Registry

Report by the Director for Place

Officer Contact Details: James Appleton
Head of Planning and Development
james.appleton@adur-worthing.gov.uk
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Executive Summary

1. Purpose

1.1. HM Land Registry are combining each Local Authority's Land Charges Register into a single standardised digital and geospatial dataset. Under the Infrastructure Act 2015, responsibility for the 331 registers was transferred to HM Land Registry (HMLR) to be rolled out in a phased approach. The target is for all 331 local authorities in England and Wales to be migrated by 2025.

1.2. At the present time only 75 authorities have migrated to the HMLR. The target for Adur and Worthing is to carry out the migration during the financial year 2023-24. However, as with other migrations this timetable is very likely to slip into 2024-2025.

1.3. This report provides background to the HMLR project and highlights some of the financial and resource implications for the Councils. The report seeks approval to enter into a Collaboration Agreement with the HMLR. To assist with the migration the Government will provide initial funding (transitional payments) and post migration an 'additional burdens' payment.

1.4. The report also seeks authority to use some of the transitional payment to fund additional staff resources to enable the Council to progress the migration of the Council's Local Land Charges Service to HMLR.

2. Recommendations

2.1. Authorise the Director for Place in Consultation with the Assistant Director Legal and Monitoring Officer, to enter into a Collaboration Agreement and agree a Delivery Plan with HMLR.

2.2. Authorise the Director for Place to enter into any other agreements necessary to facilitate the migration of the Council's Local Land Charges service to HMLR.

2.3. To agree to allocate up to £40.5k of the Part 1 HMLR Transitional Payment to fund additional staff resources to enable the migration process to be delivered within agreed timescales.

3. Context

3.1 Background

3.1 HMLR is working in partnership with local authorities across England and Wales to migrate their local land charges data to a central digital register. The objective of the programme is to make HMLR the sole registering authority and official search provider for Part 1 Local Land Charges in accordance with the provisions of the Infrastructure Act 2015. The programme is part of the Government's commitment to make the homebuying process simpler, faster, and cheaper.

3.2 The benefits for those seeking an official search are set out to be:

- Search results provided with the highest level of due diligence.
- The full spatial extent of every charge appears on the search result.
- Standard £15 fee for each service providing a reduction to the current national average price (currently £115 in Adur and Worthing).

3.3 The migration of local land charges is a complex issue. The purpose of the Collaboration Agreement is to establish a framework to govern each parties' rights and obligations under the Local Land Charges Programme. Under the agreement the local authority (LA) makes its Local Land Charge (LLC) data available to HMLR. This includes both the textual and spatial elements to:

- analyse where authority data is not suitable for migration
- identify areas needing work before to migration
- identify areas of data enhancement during migration by applying HLMR business rules.

3.4 In addition, under the Collaboration Agreement the Council is required to appoint a Senior Responsible Owner (proposed Head of Planning and Development) for the Migration to provide overall strategic oversight and direction and an Operational Leader (proposed Senior Land Charges Officer) accountable for the day-to-day delivery of the migration.

4.0 Migration Process

4.1 On signing of the Collaboration Agreement, a delivery plan will be agreed with HMLR. Officers will enter into negotiation with HMLR on the realistic timescales for the delivery plan which the Council is willing to commit to, based on its resource capacity.

4.2 The Delivery Plan, once agreed, sets out the timetable for the migration process and commits the Council to deliver the migration of local land charges by a specified date. There will be targets within the plan which the Council must achieve to receive transitional funding from HMLR. The Council will be entitled to a maximum transitional payment of £135k (£60 for Adur and £75k for Worthing) if it delivers the migration process on time.

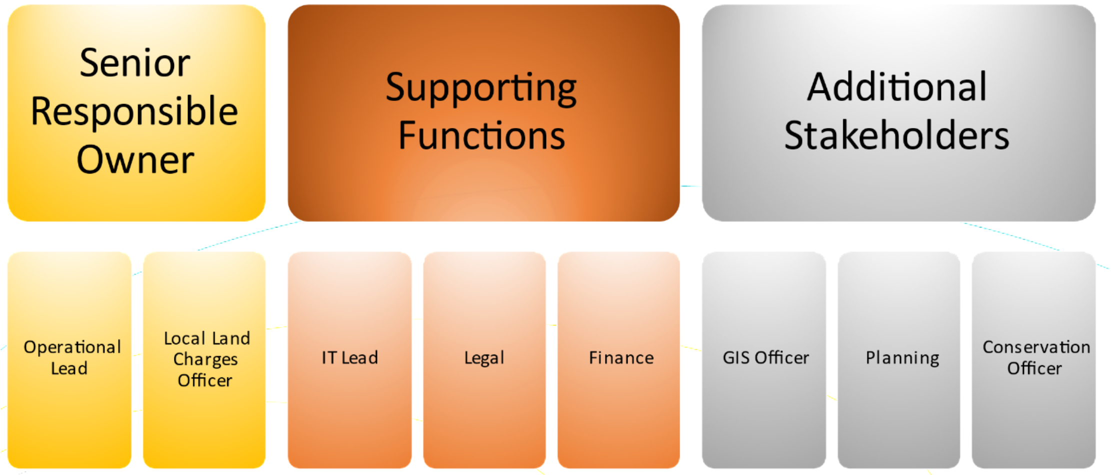
4.3 HMLR proposes to make the transition payment in 2 stages provided the delivery schedule milestones are met as follows:

‘Milestone 1 *– payment (30% of total) – When we formally agree a plan of work and Adur and Worthing enter migration delivery, the delivery activities include agreement and sign-off of your Delivery Plan and Collaboration Agreement. These activities to be completed no later than 6 weeks from and including the date of your mobilisation meeting.*

Milestone 2 *– payment (70% of total) – When Parts 1 and 3 of Schedule 5 to the Infrastructure Act 2015 have effect in relation to the area served by Adur* *and Worthing, so that Adur and Worthing's LLC Register has transferred to HMLR's LLC Register, by the agreed serve notice date. If Adur and Worthing fail to meet the second milestone, HMLR will deduct 2.5% of the final payment weekly, until the revised serve notice is complete. If the cause of the delay is the fault of HMLR, Adur and Worthing will receive payments as normal.'*

4.4 As Adur and Worthing Local Land Charges service comprises a small team of two full time and two part time team Members (total 2.9 FTE), it is envisaged that extra support will be needed to work on data preparation. An initial review of the data by the HMLR has identified that the data is relatively good and the main issue will be ensuring that address data can be captured spatially. For example, the Register includes a charge on any property that is a listed building but HMLR will require the charge to be captured spatially and therefore the curtilage of every listed building would need to be defined.

4.5 As the Land Charges Register is made up of charges from a number of other departments, it is likely that a project team would need to be set including support services and planning representatives as the following indicative diagram indicates:



4.6 It is proposed to take advantage of the transitional payments to fund the costs of additional staff time (appointing a temporary member of staff and/or overtime) needed to cleanse the data, correct errors and capture charges spatially whilst continuing to run the service. Committee authority is therefore requested to allocate the first stage of the transitional payment made on signing of the Delivery Plan (£40.5k) to fund the additional staff resource required to deliver the programme on time.

5.0 Post Migration Implications

5.1 Once the migration process is complete, the Chief Land Registrar issues a formal notice to the Council informing it of the date on which the Chief Land Registrar will assume the Local Land Charges function for Adur and Worthing. After migration, the Council will continue to provide what are known as CON 29 enquiries relating to Planning and Building Control, which provides information on matters which affect a property e.g., road schemes or noise abatement notices. In addition, the Council will still be required to apply, vary, or cancel charges in the new register.

5.2 Once the Chief Land Registrar has assumed the Local Land Charges function for Adur and Worthing, the Council will no longer carry out local land charges searches and requests under the Environmental Information Regulations (EIR's) with a resultant loss in income. This is difficult to estimate at this stage but any reduction in income will be cushioned initially as the Government has also indicated that it will pay Councils an 'Additional Burdens' payment. This would be paid within 3 months of migration to cover the cost of:

- ☐ extraction of data from current digital systems
- ☐ data preparation
- ☐ provision of information to create spatial extents
- ☐ providing updates to the register during migration
- ☐ resolution of enquiries arising during the migration process
- ☐ payment for the one-off activities and first 3 years of additional work to add, vary and cancel charges will be made at the same time

5.3 A Service Assessment form has been completed to seek an estimate of any future additional burdens payment and once this has been received and there is greater clarity on the delivery timetable, a further report on the future financial implications of the migration will be prepared for Committee's consideration.

6.0 Engagement and Communication

6.1 Consultation was undertaken prior to introducing the Infrastructure Act 2015. Following the passing of the Act there is no alternative available to local authorities other than to migrate to the HMLR.

6.2 The Land Charges Team have been consulted on the project and the potential future implications of the migration on workload and resourcing. The HMLR has indicated that the migration for the Service has not resulted in any redundancies at LA's that have been through the process but it accepts that workload will be reduced and there could be future efficiency savings for both Councils.

7.0 Financial Implications

7.1 The Council will receive transitional funding from HM Land Registry for the migration work of £135k (£60k for Adur and £75k for Worthing).

7.2 There will be additional resources required to complete the migration by the target date, and it is recommended that Members approve the use of the initial HMLR funding to meet the additional associated cost of £40.5k to prepare the Councils data to be ready for migration.

Finance Officer: Emma Thomas Date: 22/09/2023

8.0 Legal Implications

8.1 There is a legal obligation to register local land charges. Local authorities currently maintain local land charges registers.

8.2 The Infrastructure Act 2015 provides for the transfer of responsibility for local land charges in England and Wales from local authorities to HMLR.

Legal Officer: Caroline Perry Date: 22/09/2023

Background Papers

- Infrastructure Act 2015
- Local Land Charges Programme - website
- Local Land Charges Migration Hub - website

Sustainability & Risk Assessment

1. Economic

- The migration to the HMLR is intended to speed up the process and reduce costs for those buying and selling property. In this respect the proposal would have a positive economic impact on the local community.

2. Social

2.1 Social Value

- The migration would provide an opportunity to digitise all LA data and provide a more efficient and cheaper service for the public. Given the complexities of buying and selling property and land the process should make improvements for all those involved in the process.

2.2 Equality Issues

- The reduced costs for seeking information on land charges would benefit all those seeking to buy or sell although this would not assist those who cannot afford their own property.

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 Audit and Governance Committee
26 September 2023
Joint Strategic Committee
03 October 2023

Key Decision : No
Ward(s) Affected: All

Annual Treasury Management Report 2022-23 for Adur District Council and Worthing Borough Council

Report by the Director for Digital, Sustainability and Resources

EXECUTIVE SUMMARY

1. PURPOSE

1.1 The purpose of this and the other treasury management reports that are submitted during the year is to ensure that proper scrutiny is undertaken of the treasury and capital expenditure activities of the Councils and that the activities are conducted in a prudent manner in order to safeguard the financial position of the Councils.

1.2 Councils are required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities; and a review of performance against the prudential and treasury indicators for the year.

1.3 The key message arising from this report is that both Adur and Worthing Councils have complied with the approved policies and the indicators agreed prior to the start of the financial year.

1.4 This report asks Members to note the Treasury Management performance for Adur and Worthing Councils for 2022/23 as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 **Recommendation One**
The Joint Audit and Governance Committee is recommended to note the annual report and to refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 3rd October 2023.

2.2 **Recommendation Two**
The Joint Strategic Committee is recommended to note the annual treasury management report for 2022/23.

3. CONTEXT

3.1 Treasury Management is defined as:

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

3.2 This report details the treasury management activities and portfolio positions for the 2022/23 financial year for Adur District Council and Worthing Borough Council. The Councils are required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.3 During 2022/23 the minimum reporting requirements were that the full Councils should receive the following reports:

- Before the beginning of the financial year, the first report, the Treasury Management Strategy and Annual Investment Strategy, seeks approval for the Councils’ approach to the management of investments and the borrowing of funds for the forthcoming year. This report details how the Councils will manage risk in their treasury activities and was approved by Worthing Council on the 22nd February 2022 and by Adur Council on the 24th February 2022.

- This is followed by a mid-year review of performance against the approved strategies (JAGC 29th November 2022, JSC 6 December 2022).

- At the year end, there is an annual report which confirms actual performance for the year (this report).

3.4 There is a clear regulatory environment governing the Council’s investment and treasury activities. The Local Government Act 2003 requires that the Council complies with the Prudential Code for Capital Finance. This is a framework established to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. As part of the Prudential Code, indicators are established to ensure that the Council has approved limits on both capital expenditure plans and associated borrowing activity.

3.5 The Councils’ Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Councils’ priorities set in Our Plan.

4. ISSUES FOR CONSIDERATION

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

4.2 The Annual Report also confirms that the Councils have complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Joint Governance Committee and the Joint Strategic Committee before they were reported to the full Councils.

4.3 Member training on treasury management matters is now a requirement of the Prudential Code. To facilitate this for the 2023/34 year officers are requesting quotations and specifications from appropriate providers. Once an appropriate provider has been identified members will be notified of the plan to deliver training sessions.

5. Summary of Prudential and Treasury Indicators

During 2022/23, the Councils complied with their legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are shown in the tables below. Other prudential and treasury indicators are to be found in the main body of this report. The Chief Financial Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limits, (the authorised limits), were not breached.

Adur District Council

Prudential and treasury indicators	31.3.22 Actual £m	2022/23 Projected £m	31.3.23 Actual £m
Capital expenditure			
· **Non-HRA**	4.293	52.997	3.487
· **HRA**	7.007	19.513	10.212
· **Total**	11.300	72.510	13.699
Capital Financing Requirement:			
· **Non-HRA**	106.971	109.582	113.826
· **HRA**	61.802	69.608	60.60
· **Total**	168.773	179.190	174.426
Gross borrowing	**(161.517)**	**(247.304)**	**(164.962)**
Investments			
· Longer than 1 year	3.208	3.025	2.684
· Under 1 year	21.965	15.000	8.090
· **Total**	**25.173**	**18.025**	**10.774**
Net borrowing	**(136.344)**	**(229.279)**	**(154.188)**

Worthing Borough Council

Prudential and treasury indicators	31.3.22 Actual £m	2022/23 Projected £m	31.3.23 Actual £m
Gross Expenditure non-HRA	26.662	29.685	57.559
Capital Financing Requirement: · **Non-HRA**	154.870	244.191	206.875
Gross borrowing	**(153.751)**	**(242.272)**	**(203.948)**
Investments · **Longer than 1 year** · **Under 1 year** · **Total**	 1.642 32.745 **34.387**	 4.050 17.005 **21.055**	 2.829 31.560 **34.389**
Net borrowing	**(119.364)**	**(221.217)**	**(169.559)**

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

6. The Councils' Capital Expenditure and Financing

6.1 The Councils undertake capital expenditure on long-term assets (land, buildings, vehicles, software and equipment). These activities may either be:

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

6.2 The actual capital expenditure forms one of the required prudential indicators, because the Councils must ensure that capital expenditure is affordable, approved and monitored. The tables below show the actual capital expenditure and how this was financed. The full explanation of the expenditure and the variances between the budgets and actual expenditure can be found in the Capital Monitoring Reports, but the most significant items are detailed below. There have been some delays in delivery of both capital programmes. The impacts of the Covid-19 pandemic on supply chains continued to impact on delivery lead times for vehicles and materials, with vehicle lead times now in excess of 10 months. Additionally, staffing resources, in particular for surveyors, have limited the ability to deliver projects. The “current budget” includes subsequent approvals and reprofiled budgets approved during the year.

Adur District Council Total	2021/22 Actual	2022/23 Original Budget	2022/23 Current Budget	2022/23 Actual
Capital expenditure £m	11.300	87.646	19.734	13.717
Financed in year £m	11.022	6.014	7.437	6.138
Unfinanced capital expenditure £m	0.278	81.632	12.297	7.579

The following table shows the General Fund share of the figures in the table above

Adur District Council General Fund	2021/22 Actual	2022/23 Original Budget	2022/23 Current Budget	2022/23 Actual
Capital expenditure £m	4.293	57.961	5.728	3.505
Financed in year £m	4.226	1.914	1.337	1.478
Unfinanced capital expenditure £m	0.067	56.047	4.391	2.027

The following table shows the HRA share of the figures in the table above

Adur District Council HRA	2021/22 Actual	2022/23 Original Budget	2022/23 Current Budget	2022/23 Actual
Capital expenditure £m	7.007	29.685	14.006	10.212
Financed in year £m	6.796	4.100	6.100	4.660
Unfinanced capital expenditure £m	0.211	25.585	7.906	5.552

For Adur, the original budget was revised due to subsequent approvals and re-profiling of budgets, most significantly the reprofiling of the Strategic Property Economic Regeneration Fund and the impact of extended lead times and staff resources on the ability to deliver some projects.

The difference between the current budget and the actual spend is due to:

- re-profiling of £5.880m of the 2022/23 budget into 2023/24 of which £3.794m relates to HRA developments and works to current accommodation
- a net underspend of £0.137m

Worthing Borough Council	2021/22 Actual	2022/23 Original Budget	2022/23 Current Budget	2022/23 Actual
Capital expenditure £m	26.662	91.024	61.907	57.559
Financed in year £m	7.424	6.120	5.922	3.811
Unfinanced capital expenditure £m	19.238	84.904	55.985	53.748

For Worthing, the original budget was revised due to subsequent approvals and re-profiling of budgets, most significantly the reprofiling of the Strategic Property Economic Regeneration Fund and the impact of extended lead times and staff resources on the ability to deliver some projects.

The difference between the current budget and the actual spend is due to:

- re-profiling of £4.215m of the 2022/23 budget into 2023/24 including £0.577m relating to the Brooklands Park Redevelopment Works, £0.582m to the Union Place Development Works, £878k to Portland Road Improvement Works

7. THE COUNCILS’ OVERALL BORROWING NEED

7.1 Some of the Councils’ capital expenditure is funded immediately by, for example, capital grants, capital receipts from the sale of assets, or from contributions from the revenue budget (capital funded by revenue as approved by statute). Capital expenditure that is not funded by any of these means is described as “the underlying need to borrow” and is known as the Capital Financing Requirement (CFR). The CFR is a gauge of the Councils’ indebtedness. It results from the capital activity of the Councils and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Councils’ treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Councils’ cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Councils. The Councils make these decisions based on a number of factors, including the prevailing interest rates for borrowing compared to those for investing, the likelihood of a capital receipt in the near future or a forecast of additional capital grants.

7.2 **Reducing the CFR** – the Councils' (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Councils are required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or

- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Councils' 2022/23 MRP Policies (as required by DLUHC Guidance), were approved as part of the Treasury Management Strategy Report for 2022/23 by Worthing Council on the 22nd February 2022 and by Adur Council on the 24th February 2022

The tables below show the Councils' CFRs for the year, which represent key prudential indicators. The CFR would include PFI and leasing schemes on the balance sheet because they increase borrowing need. However the Councils do not have any PFI or other qualifying schemes.

Adur District Council - total of General Fund and HRA

CFR (£m):	31.3.22 Actual	2022/23 Budget	31.3.23 Actual
Opening balance	168.496	192.076	168.723
Add unfinanced capital expenditure (as above)	2.591	72.510	7.579
Less MRP/VRP	(2.314)	(1.997)	(1.876)
Closing balance	168.773	256.864	174.427

Adur General Fund share of the CFR

CFR (£m): General Fund	31.3.22 Actual	2022/23 Budget	31.3.23 Actual
Opening balance	106.905	112.363	106.921
Add unfinanced capital expenditure (as above)	2.380	52.997	1.460
Less MRP/VRP	(2.314)	(1.997)	(1.876)
Closing balance	106.971	161.638	107.072

Adur HRA share of the CFR

CFR (£m): HRA	31.3.22 Actual	2022/23 Budget	31.3.23 Actual
Opening balance	61.591	79.713	61.802
Add unfinanced capital expenditure (as above)	0.211	15.513	5.552
Less MRP/VRP	0.000	0.000	0.000
Closing balance	61.802	95.226	67.354

Worthing Borough Council

CFR (£m): General Fund	31.3.22 Actual	2022/23 Budget	31.3.23 Actual
Opening balance	135.632	178.996	154.820
Add unfinanced capital expenditure (as above)	20.774	67.264	53.748
Less MRP/VRP	(1.536)	(2.169)	(1.693)
Closing balance	154.870	244.191	206.875

7.3 **Gross borrowing and the CFR**

in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Councils should ensure that their gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year (2021/22), plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Councils are not borrowing to support revenue expenditure. This indicator allows the Councils some flexibility to borrow in advance of immediate capital needs to take advantage of, say, low interest rates.

The difference between the CFR and the gross borrowing position is termed under or over borrowing. If a Council is under borrowed, it is using some of its internal cash that could otherwise be invested. It can therefore choose to borrow externally up to the CFR so as to take advantage of favourable interest rates. If a Council is over borrowed, it needs to ensure that this position is remedied over a two year period. The Councils have complied with this prudential indicator over a two year period.

This table shows the total CFR and gross borrowing for Adur District Council and the two following tables show the separate figures for the General Fund and the HRA.

Adur District Council Total	31 March 2022 Actual	31 March 2023 Strategy	31 March 2023 Actual
CFR £m	168.773	256.864	174.427
Gross borrowing position £m	161.517	247.304	164.942
Under/(over)funding of CFR £m	7.256	9.56	9.485

Adur District Council General Fund	31 March 2022 Actual	31 March 2023 Strategy	31 March 2023 Actual
CFR General Fund £m	106.971	161.638	107.072
Gross borrowing position £m	104.892	155.379	97.344
Under/(over)funding of CFR £m	2.079	6.259	9.09

Adur District Council HRA	31 March 2022 Actual	31 March 2023 Strategy	31 March 2023 Actual
CFR HRA £m	61.802	95.226	67.354
Gross borrowing position £m	56.625	91.925	66.960
Under/(over)funding of CFR £m	5.177	3.301	0.39

As at 31 March 2023, for Adur District Council, the HRA was under-borrowed by £0.39m. The General Fund was under-borrowed by £9.09m. Under borrowing results from the use of internal resources to fund capital expenditure, which reduces the amount of interest payable on external borrowing. Interest rates on investments are currently very low in comparison to the rates charged on borrowed sums, so this is a cost-effective strategy reducing the overall net cost of borrowing.

Worthing Borough Council	31 March 2022 Actual	31 March 2023 Strategy	31 March 2023 Actual
CFR General Fund £m	154.870	244.191	206.875
Gross borrowing position £m	153.751	242.272	203.948
Under/(over)funding of CFR £m	1.119	1.919	2.927

Worthing Borough Council was under-borrowed by £2.927m at 31 March 2023. As for Adur, the difference between the strategy and the actual CFR figures is due to re-profiling of the Capital budgets as detailed in section 5.2 above.

7.4 The **authorised limit** is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Councils do not have the power to borrow above this level. The tables below demonstrate that during 2021/22 the Councils maintained gross borrowing within the authorised limits.

The **operational boundary** is the expected borrowing position of the Councils during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limits not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs, net of investment income), against the net revenue stream. The costs incurred through capital expenditure are the interest payable on money borrowed and the Minimum Revenue Provision (see section 12), which is a statutory annual revenue charge to reduce the indebtedness of a Council, based on the amount of capital expenditure which has not been funded by capital receipts, grants etc.

Investment income and other income generated from the capital assets purchased or created through the capital programme are deducted from these costs. The net figure is then compared to the Councils' net revenue streams - the income received from grants and taxation as shown in the Statement of Accounts. Consequently if only the costs of the capital programme increase, so will the proportion of financing cost to net revenue stream. If only the net revenue stream increases, then the proportion will reduce. Usually there will be a combination of both factors.

Adur District Council	2022/23
Authorised limit	**£253.000m**
Maximum gross borrowing position during the year	**£164.962m**
Operational boundary	**£249.000m**
Average gross borrowing position	**£160.648m**
Commercial properties financing as a proportion of net revenue stream	**(11.66)%**
Other GF financing costs as a proportion of net revenue stream	**9.21%**
HRA Financing costs as a proportion of net revenue stream	**17.02%**

The figures for the financing as a proportion of net revenue stream differ from the original forecasts, partly due to the high level of grants received to support the Council through the pandemic, which increased the value of the net revenue stream.

Worthing Borough Council	2022/23
Authorised limit	**£248.500m**
Maximum gross borrowing position during the year	**£196.038m**
Operational boundary	**£245.000m**
Average gross borrowing position	**£171.382m**
Commercial properties financing as a proportion of net revenue stream	**(13.75%)**
Other GF financing costs as a proportion of net revenue stream	**8.87%**

As with Adur, the figures for the financing as a proportion of net revenue stream differ from the original forecasts, partly due to the high level of grants received to support the Council through the pandemic, which increased the value of the net revenue stream.

8. TREASURY POSITION AS AT 31 MARCH 2023

The Councils' treasury management debt and investment positions are organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Councils' Treasury Management Practices. At the end of 2022/23 the Councils' treasury positions are shown in the following tables.

8.1 Adur District Council's position at the beginning and end of the year is shown below (nb PWLB refers to the Public Works Loan Board - an arm of the government).

	Principal at 31.03.23 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.22 £m	Average Rate of Return	Average Life in Years
Debt Portfolio						
PWLB	(140.002)	3.59%	19.00	(138.527)	2.68%	15.62
Other Borrowing	(24.939)	4.56%	24.29	(22.990)	4.30%	34.41
Total Debt	**(164.952)**			**(161.517)**		
CFR	**174.427**			**168.773**		
(Over)/under borrowing	**9.485**			**7.256**		
Investments						
Bonds	0.025	n/a	n/a	0.025	n/a	n/a
Property Fund	2.659*	4.04%**	n/a	3.183*	3.82%**	n/a
Long Term	0.000	n/a	n/a	0.000	n/a	n/a
Short Term	8.090	3.49%	< 1 year	21.965	0.58%	< 1 year

TOTAL INVESTMENTS	**10.774**			**25.173**		
NET DEBT	**(154.178)**			**(136.344)**		

* value of units at 31 March 2023
** return on original investment (£3m) over the financial year 2022/23

The maturity structure of debt table below demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

Adur District Council Maturity Structure of Debt	31 March 2023 actual	2022/23 original limits	31 March 2022 actual
under 12 months	9%	20%	8%
12 months and within 24 months	6%	30%	5%
24 months and within 5 years	8%	50%	12%
5 years and within 10 years	20%	70%	24%
10 years and within 20 years	35%	80%	29%
20 years and within 30 years	2%	60%	1%
30 years and within 40 years	8%	60%	9%
Over 40 years	12%	45%	12%

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

	Principal at 31.03.23 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.22 £m	Average Rate of Return	Average Life in Years
<u>Debt Portfolio</u>						
PWLB	(142.423)	2.24%	19.66	(114.376)	2.01%	16.20
Other Borrowing	(61.525)	2.25%	1.42	(39.375)	0.93%	1.35
TOTAL BORROWING	**(203.948)**			**(153.751)**		
CFR	206.875			**154.870**		
(Over)/under borrowing	2.927			**1.119**		
<u>Investments</u>						
Bonds	0.050	n/a	n/a	0.050	n/a	n/a
Property Fund	1.329*	4.04%**	n/a	1.592*	3.54%**	n/a
Long Term	1.000	4.70%	1.8	2.500	1.00%	0.25
Short Term	18.865	3.29%	< 1 year	30.245	0.58%	< 1 year
TOTAL INVESTMENTS	**21.244**			**34.387**		
NET DEBT	**(169.559)**			**(119.364)**		

* value of units at 31 March 2023
** return on original investment (£1.5m) over the financial year 2022/23

The maturity structure of debt table that follows demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

Worthing Borough Council Maturity Structure of Debt	31 March 2023 actual	2022/23 original limits	31 March 2022 actual
under 12 months	18%	35%	15%
12 months and within 24 months	21%	35%	12%
24 months and within 5 years	18%	75%	15%
5 years and within 10 years	15%	75%	27%
10 years and within 20 years	8%	75%	14%
20 years and within 30 years	3%	75%	4%
30 years and within 40 years	9%	75%	9%
Over 40 years	8%	75%	4%

8.3 **Investments held by Adur District Council at 31 March 2023:**

Counterparty	Issue Date	Maturity Date	Principal	31.03.23 Interest Rate*	Long Term Rating
Lloyds Bank call account	31/03/2023	n/a	£1,150,000	4.16%	A+
Close Bros	09/08/2022	09/08/2023	£1,000,000	2.80%	A-
Close Bros	09/08/2022	09/08/2024	£1,000,000	3.20%	A-
Goldman Sachs Int. Bank	06/04/2022	06/04/2023	£2,000,000	1.96%	A+
HSBC ESG Sterling MMF	14/04/2022	n/a	£1,840,000	variable	AAAmmf
CCLA MMF	01/04/2020	n/a	£760,000	variable	AAAmmf
Black Rock MMF	15/03/2022	n/a	£340,000	variable	AAAmmf
CCLA Local Authorities Property Fund	25/04/2017	n/a	£3,000,000	variable	n/a
Boom Credit Union	06/03/2015	n/a	£25,000	n/a	n/a
TOTAL			**£11,115,000**		

Non-treasury investments

Adur District Council has approved a strategy to invest in properties and developments for economic regeneration purposes. Full details can be found in the Capital Strategy and Commercial Property Investment Strategy. Adur also holds, for policy purposes, shares in what was originally the West Sussex Credit Union, now known as Boom Community Bank. This is a member-owned financial co-operative with services available to residents and workers of East Hampshire, Kingston upon Thames, Surrey and West Sussex.

8.4 **Investments held by Worthing Borough Council at 31 March 2023:**

Counterparty	Issue Date	Maturity Date	Principal	31.03.23 Interest Rate	Long Term Rating
Redcar and Cleveland Council	20/03/2023	05/04/2023	£5,000,000	4.30%	Gov
PCC for West Yorkshire	31/03/2023	11/03/2023	£3,000,000	4.70%	Gov
Close Brothers Limited	05/01/2023	05/01/2024	£1,000,000	4.70%	A-
Close Brothers Limited	08/09/2022	11/09/2023	£1,000,000	3.90%	A-
Goldman Sachs Int. Bank	06/04/2022	06/04/2023	£3,000,000	1.95%	A+
Standard Chartered Bank	23/05/2022	23/05/2023	£1,000,000	2.13%	A+
Lloyds Bank call account	01/04/2021	n/a	£290,000	4.16%	A+
Lloyds Bank 32 day notice	07/04/2021	n/a	£10,000	0.10%	A+
Black Rock MMF	25/03/2022	n/a	£1,880,000	variable	AAAmmf
HSBC ESG Sterling MMF	07/02/2023	n/a	£2,185,000	variable	AAAmmf
CCLA Local Authorities Property Fund	25/04/2017	n/a	£1,500,000	variable	n/a
Boom Credit Union	06/03/2015	n/a	£50,000	n/a	n/a
TOTAL			**£19,915,000**		

Non-treasury investments

Worthing Borough Council has made two loans of £5m each for 10 years to Worthing Homes to support the building of homes. The Council receives £70k per annum net in interest over and above the cost to the Council of borrowing the £10m from the Public Works Loan Board. The loans are fully secured on property and mature in 2027 and 2028.

A loan of £5m was made to GB Met College in January 2020 for 20 years to support local education. The Council received £97k in 2022/23 net in interest over and above the cost to the Council of borrowing the £5m from the Public Works Loan Board. This amount will reduce in future years because the loan is repayable by equal instalments of principal. The loan is fully secured on property.

Worthing BC has approved a strategy to invest in properties and developments for economic regeneration purposes. Details can be found in the Capital Strategy and Commercial Property Investment Strategy. Worthing also holds, for policy purposes, shares in what was originally the West Sussex Credit Union, now known as Boom Community Bank. This is a member-owned financial co-operative with services available to residents and workers of East Hampshire, Kingston upon Thames, Surrey and West Sussex.

9. THE STRATEGY FOR 2022/23

9.1 Investment Strategy and control of interest rate risk

Some of the information and tables in the following paragraphs are supplied by the

Councils’ treasury advisors, Link Asset Services and consist of detailed economic and market information which informed the Councils’ treasury management decisions throughout the year.

The UK Economy

The easing of Covid 19 restrictions in most developed economies, the Russian invasion of Ukraine and UK Government policies to support household spending have all occurred against a backdrop of stubborn inflationary pressures. It is therefore of no surprise that over the course of the 2022/23 year UK interest rates have been volatile across the board.

Unemployment remained low across the year, and wage growth began to feature towards the end of the year, caused by employers choosing to award pay rises to retain staff, faced with the reality of a low labour supply which is hampering recruitment efforts. In economic terms the labour market can be described as extraordinarily tight. This upward trend in wages risks supporting domestic inflation in the coming year.

In response the Bank of England increased its base rate from 0.75% to 4.25% at successive meetings across the 2022/23 year.

Market commentators’ have shown misplaced optimism at times around inflation. As such there were surprise upsides in data releases, this has been the root cause of upward pressures in bond markets internationally. UK, Eurozone and US 10-year bond yields have all risen by over 200 basis points across the 2022 year.

Both Councils take a cautious and prudent approach to investing, which historically has served their portfolios well. This approach continues to bear out in the current strategy, investing only with highly rated institutions and diversifying to ensure that significant reliance is not placed on any single institution.

The approach of keeping investment to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. Shields the Councils from additional cost, due to the differential between borrowing and investment. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

9.2. **Borrowing strategy and control of interest rate risk**

During 2022/23, both Councils maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<3 years) as appropriate.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, owing to the repayment of excess grant funds received during the pandemic, both Councils have experienced a reduction in cash balances available to implement this strategy in the 2022/23 year. As with all elements of the treasury strategy, this policy is adaptive and remains under ongoing review to control the risk of both authorities being exposed to a higher market rate on refinancing the maturing debt.

9.3 Against this background and the risks within the economic forecast, significant were presented to treasury operations. The Chief Financial Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy to manage interest rate risks. The strategy is underpinned by two fundamental options:

- Where it was felt that there was a significant risk of a sharp **fall** in long and short-term rates, (e.g a marked increase of risk indicators of a recession or indicators of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would be considered.

- Where it was felt that there was a significant risk of a much sharper **rise** in the long and short-term rates than initially expected, perhaps arising from an acceleration in inflationary pressures and a rise in central bank rates in the UK, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

9.4 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. As at 31 March 2023 the CPI measure of inflation is still above 10% in the UK and was forecast to fall back to around 4% across the 2023/24 year.

9.5 The below tables show two variants of the interest rate forecast supplied by Link Group, the appointed treasury advisors for both Councils. The first table is the forecast used to inform Annual Treasury Management Strategy Statement 2022/23 from, and the second is the final forecast received in the 2022/23 financial year. The stark difference between the two forecasts in the short and medium term are an indicator of the severity of changes in economic conditions across the year.

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Gilt yields have been on a continual rise since the start of the year and peaked in year in the autumn of 2022.At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18% (31 March 2022 1.11% – 1.84%) with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing relevant to the 2022/23 year 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)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

HIGH/LOW/AVERAGE PWLB RATES FOR 2022/23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

10. BORROWING OUTTURN

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

10.2 The following fixed interest rate loans were taken during the year:

Adur District Council

Lender	Principal	Purpose of Loan	Interest Rate	Maturity
PWLB	**£2m**	**Albion Street**	**5.06%**	**04/10/2038**
PWLB	**£3m**	**Albion Street**	**5.05%**	**04/10/2039**
PWLB	**£1m**	**HRA Refinancing**	**4.36%**	**08/11/2038**
PWLB	**£1m**	**HRA Refinancing**	**3.99%**	**22/11/2024**
PWLB	**£1m**	**HRA Refinancing**	**4.52%**	**21/10/2024**

Halton BC	£1m	HRA Refinancing	1.90%	20/06/2024
North Herts DC	£1m	GF Refinancing	4.25%	20/06/2023
West Midlands Combined Authority	£3m	GF Refinancing	4.00%	14/02/2024
West Midlands Combined Authority	£2m	GF Refinancing	4.75%	12/03/2024

Worthing Borough Council

Lender	Principal	Purpose of Loan	Interest Rate	Maturity
PWLB	£2m	WICC	2.50%	09/08/2031
PWLB	£5m	WICC	3.82%	13/09/2072
PWLB	£5m	Southern House	4.00%	21/09/2067
PWLB	£5m	Southern House	4.05%	21/09/2062
PWLB	£5m	Southern House	5.12%	04/10/2034
PWLB	£7m	southern House	4.77%	07/10/2072
PWLB	£5m	WICC	4.52%	21/10/2024
North Herts DC	£5m	Refinancing	3.90%	17/08/2023
The Vale of Glamorgan	£2m	WICC	2.45%	29/09/2023
Wigan Metropolitan BC	£5m	Refinancing	4.50%	24/04/2023
West Midlands Combined Authority	£2m	Refinancing	2.25%	29/09/2023
West Midlands Combined Authority	£6m	Refinancing	4.00%	14/02/2024
Cornwall Council	£5m	WICC	5.00%	05/12/2025
Gloucestershire CC	£5m	Refinancing	1.70%	05/07/2024
Oxford County Council	£5m	Refinancing	3.45%	21/11/2025
Great Yarmouth BC	£3m	Refinancing	0.30%	18/04/2024
West Sussex Credit Union	£1.25m	Refinancing	3.80%	02/02/2024

10.3 Borrowing in advance of need

The Councils have not borrowed more than, or in advance of their needs, purely in order to profit from the investment of the extra sums borrowed.

11. INVESTMENT OUTTURN

11.1 Investment Policy

The Councils’ investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Councils had no liquidity difficulties.

11.2 Resources

The Councils' cash balances comprise revenue and capital resources and cash flow monies. The Councils' core cash resources comprised as follows:

Adur District Council

Balance Sheet Resources (£m)	31 March 2023	31 March 2022
General Fund Balances	(1.051)	(8.794)
HRA Balances	(1.079)	(9.332)
Earmarked reserves	(3.750)	(4.447)
Provisions	(0.862)	(0.862)
Usable capital receipts & grants	(4.027)	(4.271)
Total	(27.706)	(27.706)

Worthing Borough Council

Balance Sheet Resources (£m)	31 March 2023	31 March 2022
Balances	(1.347)	(4.055)
Earmarked reserves	(5.502)	(7.146)
Provisions	(0.832)	(0.832)
Usable capital receipts & grants	(14.668)	(7.697)
Total	(22.349)	(19.730)

11.3 Investments held by the Councils

Both Councils recorded investment income above the budgets, mainly due unprecedented interest rate rises which benefited investment markets. This resulted in higher than forecast investment returns.

Details of the income earned are shown below. A comparable performance indicator is the average 3 month London Interbank Bid Rate (the rate bid by banks on deposits), which was 2.24%.

Adur District Council:

Adur District Council maintained an average balance of £15.038m of internally managed short term investments, which earned an average rate of return of 1.77% and an average balance of £1.753m of long term investments, which earned an average rate of 1.52%. This excludes the £3m investment in the Local Authorities' Property Fund, which returned an average dividend rate of 3.84%.

The treasury investment returns included in the reported income of Adur Council for 2022/23 exceeded the General Fund and HRA budgets by £223k, due in large part to the acceleration of interest rates during the year. The Council's policy of holding more liquid investments during this time enabled Adur to realise the changes in interest rates more quickly than if investments were longer term.

The Council also made a saving of £219k against the budget on the interest payments on borrowing due careful management of cash flow resources and borrowing decisions. This was also aided by the reprofiling of capital expenditure as detailed earlier in the report.

Worthing Borough Council:

Worthing Borough Council maintained an average balance of £27.188m of internally managed short term investments, which earned an average rate of return of 1.99% and a long term investment of £0.788m which earned 3.34%. Those figures exclude:

- the £10m loan to Worthing Homes, which earned 0.70% above the rate at which the funds were borrowed from the PWLB, amounting to £70k;

- the repayment loan to GB Met College, (originally £5m), which earned 2.00% above the rate at which the funds were borrowed from the PWLB, amounting to £97k;

- the investment in the Local Authorities' Property Fund, which earned an average dividend rate of 3.84%.

The treasury investment returns included in the reported income of Worthing Borough Council for 2022/23 exceeded the General Fund budget by £508k, due in large part to the acceleration of interest rates during the year. The Council's policy of holding more liquid investments during this time enabled Worthing to realise the changes in interest rates more quickly than if investments were longer term. Due to the alphabetical nature of Covid related grant reconciliations Worthing held balances in relation to these for longer than Adur, which also benefited investment return.

The Council also made a saving of £77k against the budget on the interest payments on borrowing due careful management of cash flow resources and borrowing decisions. This was also aided by the reprofiling of capital expenditure as detailed earlier in the report.

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

12.1 The Councils, in accordance with legislation, make a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. The Councils are also permitted to make a Voluntary Revenue Provision (VRP) which is additional to the MRP and can be used to reduce the MRP in future years.

12.2 For 2022/23 an amount of £1.876m of MRP, after an offset of £10k of VRP, has been provided in the Adur District Council General Fund. The VRP total balance at 31 March 2023 was £20k. No voluntary amount has been set aside for the HRA.

12.3 For 2022/23 an amount of £1.693m of MRP and a net £160k offset of VRP has been provided in the Worthing Borough Council revenue accounts. The VRP total balance at 31 March 2022 was £310k.

13. CURRENT PERIOD TREASURY MATTERS

13.1 In previous years, due to the Covid-19 virus, the government made substantial payments to both Councils to provide relief to the local community, support the additional costs that the Councils are incurring, and to compensate for the loss of income. The Councils were very successful in distributing the funds, however the timescales for the government to reconcile the use of the grants and to request the return of excess funds have resulted in periods of short term excess liquidity. The funds could only be invested for short periods of time at lower interest rates than would be available were the timing of repayment more certain.

13.2 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. The only investment held by each Council relevant to this override is the CCLA Local Authorities Property Fund.

14 The Economy and Interest Rates - Economic Summary Provided by Link Group (Treasury Management Advisors)

UK Economy

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 2022/23.

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 200 bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extraordinarily tight, making it an issue of fine judgement as to how far monetary policy needs to tighten.

Q2 of 2022 saw UK GDP deliver growth of +0.1% 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. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k 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 over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. 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 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period.

That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror. As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

14. ENGAGEMENT AND COMMUNICATION

14.1 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. The shared service also took on Treasury work for Arun District Council on the 1st March 2021 under a three year service level agreement.

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

15. FINANCIAL IMPLICATIONS

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

16. LEGAL IMPLICATIONS

The presentation of the Annual Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2022/23.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2022/23 to 2024/25 – Joint Governance Committee 25 January 2022, Joint Strategic Committee 8 February 2022, Worthing Council 22 February 2022, Adur Council 24 February 2022

Joint Mid-Year Treasury Management Review 2022/23 – Joint Governance Committee, 29 November 2022 and Joint Strategic Committee, 6 December 2022

Link Asset Services Annual Report Template 2022/23

CIPFA Code of Practice on Treasury Management and CIPFA Code for Capital Finance in Local Authorities

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SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

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

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. ENVIRONMENTAL

Matter considered and no issues identified.

4. GOVERNANCE

4.1 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Councils' 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 2022/23 - 2024/25, submitted and approved before the commencement of the 2022/23 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.

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