ADUR & WORTHING COUNCILS

Joint Governance Committee
21 November, 2023

Joint Strategic Committee
5 December, 2023

Key Decision : No
Ward(s) Affected: All

Joint Mid Year Treasury Management Review 2023/24

Report by the Director for Digital, Sustainability & Resources

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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 a mid-year 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 with the exception of one minor breach as detailed within the report.

1.4 This report asks Members to note the Treasury Management mid-year performance for Adur and Worthing Councils at the 30 September 2023, as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 The Joint Audit & Governance Committee is recommended to note this report, and refer any comments or suggestions to the Joint Strategic Committee meeting on the 5th December 2023.

2.2 The Joint Strategic Committee is recommended to note this report and forward the report to the Worthing Borough Council Meeting on 12th of December 2023 and Adur District Council 14th of December 2023

2.3 Worthing Borough Council is recommended to note this report at its meeting on 12th December 2023

2.4 Adur DIstrict Council is recommended to note this report at its meeting on 14th December 2023

3. CONTEXT

3.1 This report summarises the treasury management activities and portfolio for both Adur and Worthing Councils for the half year to 30th September 2023.

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

3.3 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. All local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

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

A report setting out our Capital Strategy applicable to the 2023-24 year was approved at the 11th October 2022 JSC meeting.

3.4 Treasury Management

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

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

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

3.5 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing.

4. ISSUES FOR CONSIDERATION

4.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

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

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

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

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

5. Delegation by the Councils of the role of scrutiny of treasury management strategy and policies to a specific named body. For these

Councils the delegated bodies are the Joint Audit & Governance Committee and the Joint Strategic Committee.

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

- An economic update for the first half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Councils' capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Councils' investment portfolios for 2023/24;
- A review of the Councils' borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24

4.3 **RECOMMENDED ADDITIONS/AMENDMENTS TO COUNTERPARTIES**

There are no recommended changes to the Treasury and Capital Strategies.

5. THE ECONOMY AND INTEREST RATES

A commentary supplied by ***Link Treasury Services Ltd****,* the professional consultants for the Councils' shared treasury management services, is included as an appendix to this report. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.

6. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

6.1 The Treasury Management Strategy Statement (TMSS) for 2023/24 was noted by the Joint Audit & Governance Committee on the 24th January 2023 and approved by Adur Council on 21st February 2023 and by Worthing Council on 23rd February 2023.

6.2 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

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

7.1 **Prudential Indicators for Capital Expenditure**

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

Adur District Council

	2023/24 Original Estimate	Actual at 30 Sep 2023	2023/24 Revised Estimate
	£m	£m	£m
HRA	29.243	4.879	27.052
Non HRA	55,629	2.048	56.559
Total capital expenditure	84.872	6.927	83.611

The change in the Adur capital expenditure estimate is due mainly to the reprofiling of schemes which have been delayed or scheduled for 2024/25. An example of this is the small sites project, where construction on three sites will begin in 2024/25. The budget has therefore been adjusted in line with expected expenditure. The revised estimate also includes the budgets brought forward from last year, which were not spent, this was approved in the capital outturn report.

Worthing Borough Council

	2023/24 Original Estimate	Actual at 30 Sep 2023	2023/24 Revised Estimate
	£m	£m	£m
Non HRA	31.148	3.981	41.974

There have been various changes to the Worthing capital expenditure programme with new schemes included and last year’s unspent budgets brought forward as per the capital outturn report.. The Heat Network has seen approvals to increase the project with additional spend. There has also been more funding made available for the Worthing Integrated Care Centre.

7.2 **Changes to the Financing of the Capital Programme**

The tables below draw together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the tables increases the underlying indebtedness of the Councils by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Adur District Council

	2023/24 Original Estimate	**2023/24 Revised Estimate**
	£m	**£m**
Total Capital Expenditure	85.056	83.530
Financed by:		
Capital receipts	0.121	1.367
Capital Grants & contributions	2.307	3.584
Reserves & revenue contributions	7.007	5.138
Total financing	9.435	10.088
Borrowing requirement	76.363	73.442

Worthing Borough Council

	2023/24 Original Estimate	**2023/24 Revised Estimate**
	£m	**£m**
Total Capital Expenditure	33.595	41.669
Financed by:		
Capital receipts	0.914	0.958
Capital grants & contributions	4.000	14.775
Reserves & revenue contributions	2.327	0.295
Total financing	7.241	16.028
Borrowing requirement	24.902	25.641

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

The Capital Financing Requirement (CFR), is an indicator of the need of a Council to undertake external borrowing in order to fund the capital programme. The CFR increases as a result of unfinanced capital spend. The tables below detail each council's position with regard to the CFR, they also show the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator - Capital Financing Requirement

As explained above, the CFR forecasts change with the capital expenditure forecasts, to the extent that the expenditure is not funded. Due to the reprofiling of capital expenditure, for a number of reasons, capital expenditure is significantly lower than originally forecast.

7.3.1 Prudential Indicator - the Operational Boundary for external debt

Adur District Council

	2023/24 Original Estimate	Actual at 30 Sep 2023	2023/24 Revised Estimate
	£m	£m	£m
Prudential Indicator			
Capital Financing Requirement			
CFR - HRA	94.816	74.75	82.026
CFR - Non HRA	159.994	110.804	160.693
Total CFR	254.810	185.551	242.719
Net movement in CFR	75.620	6.36	64.041
	Operational Boundary	**Actual Debt**	**Operational Boundary**
Borrowing	260.000	161.026	260.000
Other long term liabilities	1.000	0.000	1.000
Total debt	261.000	161.026	261.000

Worthing Borough Council

	2023/24 Original Estimate	Actual at 30 Sep 2023	2023/24 Revised Estimate
	£m		
Prudential Indicator			
Capital Financing Requirement			
CFR - Non HRA	161.833		
CFR - Strategic	68.791	£m	£m
Total CFR	229.844	208.975	229.844
Net movement in CFR	21.202	2.10	21.202
	Operational Boundary	**Actual Debt**	**Operational Boundary**
Borrowing	229.50	182.567	229.500
Borrowing re Worthing Homes	10.000	10.000	10.000
Borrowing re GB Met College	4.500	4.125	4.500
Other long term liabilities	1.000	0.000	1.000
Total debt	245.000	196.692	245.000

7.4 **Limits to Borrowing Activity: CFR and debt**

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital investment purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Councils have approved a policy for borrowing in advance of need which will be adhered to only where determined this proves prudent. The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Adur District Council

	2023/24 Original Estimate	Actual at 30 Sep 2023	2023/24 Revised Estimate
	£m	£m	£m
Borrowing	249.656	161.614	249.656
Other long term liabilities	0.000	0.000	0.000
Total debt	249.656	161.614	249.656
CFR	254.810	185.551	254.810

Worthing Borough Council

	2023/24 Original Estimate	Actual at 30 Sep 2023	2023/24 Revised Estimate
	£m	£m	£m
Borrowing	224.713	196.692	220.000
Other long term liabilities	0.000	0.000	0.000
Total debt	224.713	196.692	220.000
CFR	229.844	208.975	229.844

7.5 **Limits to Borrowing Activity: Authorised Limit and debt**

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

Adur District Council

	2023/24 Original Indicator	Actual debt at 30 Sep 2023	2023/24 Revised Indicator
Authorised Limit for external debt	**£m**	**£m**	**£m**
Borrowing	255.000	161.614	255.000
Other long term liabilities	1.000	0.000	1.000
Total	256.000	161.614	256.000

Worthing Borough Council

	2023/24 Original Indicator	Actual debt at 30 Sep 2023	2023/24 Revised Indicator
Authorised Limit for external debt	**£m**	**£m**	**£m**
Borrowing re Worthing Homes and GB Met	14.300	14.125	14.250
Other Borrowing	233.000	182.567	233.000
Other long term liabilities	1.000	0.000	1.000
Total	248.300	196.692	248.250

8 BORROWING

8.1 The Capital Financing Requirement (CFR) denotes the Councils' underlying need to borrow for capital purposes. If the CFR is positive the Councils may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. For both Adur and Worthing Councils capital expenditure in 2023/24 is funded from grants, capital receipts, contributions, reserves and revenue contributions as well as borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

8.2 External borrowing serves the dual purpose of supporting the implementation of the capital programs for both Councils and refinancing existing loans as they are repaid through instalment payments or upon maturity.

The specifics of the newly approved loans for the six-month period up to September 2023 can be found in the tables provided in Appendix 2. It's worth noting that both Councils' current borrowing strategy, in response to prevailing market conditions, emphasises holding a higher proportion of short-term loans. Consequently, the tables in Appendix 2 illustrate a substantial uptick in the number of new loan agreements comparative to the same period in prior years, as an increasing number of short-term borrowings require refinancing on an ongoing basis.

8.2.1 The capital programme is being kept under regular review in particular due to the effects of inflationary pressures, and the materials and labour market challenges facing both Council's capital programmes. Our borrowing strategy will always remain iterative to ensure that it delivers optimum value and manage interest rate risk exposure in the long-term. Both Councils continue to make use of lending offered by other local authorities nationally since this continues to present value versus drawing loans from the PWLB.

8.3 **PWLB maturity certainty rates to 30 September 2023**

Gilt yields and the linked PWLB rates were on a generally rising trend throughout the first 6 months of 2023/24, at the beginning of April the 5-year loan rate was the cheapest part of the curve at 4.14%, however by July this same period hit 5.93% with 1-year rates hitting 6.36%. By September 2023 rates were broadly between 5.65% and 5.45% across various borrowing periods.

The current PWLB rates are set as margins over gilt yields as follows (100 basis points is equivalent to 1%):-

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)

The **UK infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

9.0 DEBT RESCHEDULING

9.1 Debt rescheduling is a financial arrangement in which a borrower and a lender agree to modify the terms of an existing debt, typically by extending the repayment period, altering interest rates, restructuring or refinancing the debt to create financial benefit while maintaining the obligation to repay.

9.2 Officers continue to review the debt portfolios of both Councils for rescheduling opportunities, and this forms part of regular discussions with Link Group (Treasury advisors to both Councils), however the current cost of borrowing to replace debt when rescheduling means that opportunities have not been identified that represent a discernible value to either council at this time.

10.0 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for each Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2023, the both Councils operated within the treasury and prudential indicators set out in their respective Treasury Management Strategy Statements for 2023/24.

The Chief Financial Officer reports that no difficulties are envisaged for either Council in the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

11.0 ANNUAL INVESTMENT STRATEGY

11.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by Adur Council on 23 February 2023 and by Worthing Council on 21 February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Councils' investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Councils will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with the respective Councils' risk appetite. The shared Treasury Service uses information supplied by the Treasury advisers, Link Asset Services, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

11.2 As shown by the interest rate forecasts in the Appendix, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2023, the details of each meeting and subsequent rate decision are below:

- **11th May 2023** - The MPC votes 6:1 to increase the base rate 25 bps to 4.50%
- **22nd June 2023** - The MPC votes 6:1 to increase the base rate 50bps to 5.00%
- **3rd August 2023** - The MPC votes 5:3 to increase the base rate 25bps to 5.25%
- **21 September 2023** - The MPC votes 5:3 to maintain the base rate at 5.25%

Over the initial 6 Months of the year inflationary pressures continued to weigh on the UK economy. Supply shortages in the labour market became a significant driver of domestic inflation with the UK seeing significant private sector wage inflation over the period, as employers “paid up” for fear of losing staff in a difficult labour market.

International Inflationary pressures continue to be driven by global fossil fuel markets, initially in response to sanctions placed on Russia as a result of its invasion and subsequent occupation of Ukrainian territory. This pressure has eased as markets adjust to a new normal however suppliers have shown reluctance to pass this relaxation on to the consumer in many cases.

The factors above and their market implications have a significant impact on the Treasury function of both councils, offering great opportunity in some areas and significant risk in others. In addressing the significant risk posed by current market conditions the treasury strategy has been adaptive over the 6-months to September 2023, however the key objective remained unchanged; to borrow only when absolutely required and for an appropriate period to allow refinancing of the debt when rates are anticipated to fall. This strategy also relies on allowing a number of investments to mature without being reinvested, so that the cash can be used to furnish the borrowing needs of each council, avoiding external borrowing. As such, it is anticipated that investment returns for each council will be lower comparative to 2022/23 for both councils

11.2 **Creditworthiness**

Both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook in 2022, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook. However no rationing adjustments have yet been made.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function for both councils.

Credit Default Swap prices

Credit Default Swaps (CDS) are financial instruments that allow investors to exchange credit risk with another party concerning a specific company, operating akin to insurance policies to shield against losses in the event of a borrower's debt default. The trading prices of CDS contracts serve as indicators of credit risk. While CDS prices for UK banks experienced a notable increase at the start of the 2020 pandemic, they later reverted to levels resembling those before the pandemic. Nevertheless, it is crucial for officers to remain vigilant and they continually assess all aspects of risk and return given the potential for sentiment to rapidly change in the present environment.

11.3 **Investment balances**

The average level of funds available for investment purposes, excluding the Local Authorities' Property Fund, during the half year for Adur was £7.4m and for Worthing was £18.7m, excluding long term loans to Worthing Homes and GB Met College. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt and payment of grants and progress on the capital programme.

11.4 **Investment performance – Adur District Council**

- The term deposit and liquidity portfolio yield for the first six months of the year is 4.23% p.a. (2022 1.21% p.a.). This is viewed against the average benchmark rate (supplied by Link) of 4.64% for 30 day deposits.
- The other investment held by the council is a £3m investment in the Local Authorities' Property Fund, for which we project a return of 3.86% p.a. In the period ended September 2023.

Detailed portfolio holdings are given in Appendix 1.

11.4.1 Adur District Council's budgeted investment return for 2023/24 is £428k for the General Fund and HRA combined and the current forecast outturn position implies income of £365k an under achievement of £63k against the budget. Though interest rates remain high in markets available to the Council, the current borrowing strategy of delaying borrowing as long as possible has reduced the residual cash balances available to invest below what was anticipated in the initial budget process. Accordingly, the combined interest payable budget is estimated to underspend by £273k demonstrating the benefit of adopting the current borrowing strategy and further impacted by delayed capital expenditure.

11.5 **Investment performance – Worthing Borough Council**

The investment portfolio yield for the first 6 months of the year is 4.64% p.a. against the average benchmark rate (supplied by Link) of 4.64% for 30 day deposits. The portfolio yield excludes the £1.5m investment in the Local Authorities' Property Fund,for which we project a return of 3.86% p.a. over the 6 months.

In the previous years the Council has made two loans which are treated as capital expenditure rather than treasury investments:

- £10m to Worthing Homes at 0.7% above the rate at which the funds were borrowed, generating £70k p.a. for the Council
- £5m repayment loan to GB Met College at 2% above the rate at which funds were borrowed; the balance is now £4.342m, which will generate £213k in 2023/24 for the Council.

11.5.1 Worthing Borough Council's budgeted investment return for 2023/24 is £392k and the current forecast outturn position implies income of £736k an over achievement of £344k against the budget. This is in part because interest rates remain high in markets available to the Council, additionally the Council was asked to repay unspent grant funds relating to the Covid pandemic later than was anticipated in the initial budget process meaning average cash balances were higher in the first half of the year. The interest payable budget is estimated to underspend by £64k demonstrating the benefit of adopting the current borrowing strategy and further impacted by reprofiled capital expenditure.

Investment Performance – Approved Limits

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the period ended 30 September 2023.

11.6 **Counterparty commitment to sustainability**
The Councils are committed to ethical investments and the use of counterparties which have appropriate sustainability, carbon reduction or ethical plans.

12. ENGAGEMENT AND COMMUNICATION

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

12.2 The Adur and Worthing Councils' treasury management team has also provided treasury services to Arun District Council through a shared services arrangement (SSA) since 1st March 2021 under a Service Level Agreement which defines the respective roles of the client and provider authorities for a period of three years.

12.3 Information and advice is supplied throughout the year by Link Treasury Services Ltd, the professional consultants for the Councils' shared treasury management service. This contract is due to be re-procured for 1st April 2024.

13. FINANCIAL IMPLICATIONS

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

14. LEGAL IMPLICATIONS

14.1 The presentation of the Half Year Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2023/24.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2023/24 to 2025/26 (Adur Council 23rd February 2023 and Worthing Council 21st February 2023)
Annual Joint In-House Treasury Management Activity Report 1 April 2022 – 31 March 2023 (JAGC 26 September 2023 JSC 03 October 2023)
Link Treasury Services Ltd Half Year Report Template 2023/24

Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA)
The Prudential Code for Capital Finance in Local Authorities (CIPFA)

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 places the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Council priorities.

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 1
Investment Portfolios at 30 September 2023
Adur District Council:

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
CCLA MMF	n/a	n/a	£10,000	var	AAAmmf
Black Rock MMF	n/a	n/a	£10,000	var	AAAmmf
Federated Investments MMF	n/a	n/a	£1,550,000	var	AAAmmf
Invesco Liquidity Funds MMF	n/a	n/a	£470,000	var	AAAmmf
Close Brothers Limited	09.08.22	09.08.24	£1,000,000	3.20%	A-
Close Brothers Limited	19.04.23	19.01.24	£1,000,000	4.95%	A-
Local Authority Property Fund	25.04.17	n/a	£3,000,000	var	n/a
Boom Credit Union	06.03.15	n/a	£25,000	n/a	n/a
TOTAL			**£7,065,000**		

Worthing Borough Council:

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
CCLA MMF	n/a	n/a	£5,000	var	AAAmmf
Black Rock MMF	n/a	n/a	£5,000	var	AAAmmf
Federated Investors MMF	n/a	n/a	£1,690,000	var	AAAmmf
Invesco Liquidity Funds MMF	n/a	n/a	£1,860,000	var	AAAmmf
Close Brothers Limited	05.01.23	05.01.25	£1,000,000	4.70%	A-
Close Brothers Limited	19.05.23	20.11.23	£1,000,000	5.00%	A-
Adur District Council	22.09.23	02.10.23	£1,000,000	5.27%	GOV
Cheltenham Borough Council	18.09.23	12.10.23	£3,000,000	5.32%	GOV
London Borough of Barking and Dagenham	28.09.23	27.10.23	£4,000,000	5.60%	GOV
Leeds City Council	15.09.23	05.10.23	£3,000,000	5.30%	GOV
Debt Management Office	18.09.23	09.10.23	£1,000,000	5.25%	GOV
Local Authority Property Fund	27.04.17	n/a	£1,500,000	var	n/a
Boom Credit Union	Various	n/a	£50,000	n/a	n/a
TOTAL			**£19,110,000**		

Appendix 2
New loans taken out by the Councils

Adur District Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
Worthing Borough Council	£1.5m	Fixed interest rate	5.27%	02/10/23

Worthing Borough Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
West Midlands Combined Authority	£5.0m	Fixed interest rate	4.00%	16/02/2024
Gloucestershire County Council	£5.0m	Fixed interest rate	4.70%	22/04/2024
North Northamptonshire Council	£5.0m	Fixed interest rate	5.75%	09/09/2024

APPENDIX 3

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

- The first half of 2023/24 saw:

  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.

  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.

  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.

  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.

  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100’s relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.