ADUR & WORTHING
COUNCILS

Joint Audit and Governance Committee
26 September 2024
Joint Strategic Committee
01 October 2024

Key Decision : No
Ward(s) Affected: All

**Annual Treasury Management Report 2023-24 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 2023/24 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 1st October 2024.

2.2 **Recommendation Two**
The Joint Strategic Committee is recommended to note the annual treasury management report for 2023/24.

## 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 2023/24 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 2023/24. 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 2023/24 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 21st February 2023 and by Adur Council on the 23rd February 2023.

- This is followed by a mid-year review of performance against the approved strategies (JAGC 21st November 2023, JSC 5th December 2023).

- 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 doing so, it contributes towards the Councils' priorities.

## 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 2023/24 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 2023/24, 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 | 31.3.23 Actual £m | 2023/24 Projected £m | 31.3.24 Actual £m |
|---|---|---|---|
| **Capital expenditure** | | | |
| · **Non-HRA** | 3.505 | 55.548 | 4.741 |
| · **HRA** | 10.212 | 29.508 | 15.305 |
| · **Total** | 13.717 | 85.056 | 20.046 |
| **Capital Financing Requirement:** | | | |
| · **Non-HRA** | 29.516 | 80.799 | 28.813 |
| · **HRA** | 60.60 | 92.562 | 73.869 |
| · **Strategic** | 77.556 | 76.685 | 76.685 |
| · **Total** | 174.426 | 250.046 | 179.367 |
| **Gross borrowing** | **(164.962)** | **(240.582)** | **(168.739)** |
| **Investments** | | | |
| · Longer than 1 year | 2.684 | 3 | 4 |
| · Under 1 year | 8.090 | 7.774 | 0.15 |
| · **Total** | **10.774** | **10.774** | **4.15** |

| | | | |
|---|---|---|---|
| **Net borrowing** | **(154.188)** | **(243.192)** | **(164.589)** |

**Worthing Borough Council**

| Prudential and treasury indicators | 31.3.23 Actual £m | 2023/24 Projected £m | 31.3.24 Actual £m |
|---|---|---|---|
| **Gross Expenditure non-HRA** | **57.559** | **33.595** | **14.106** |
| **Capital Financing Requirement:**<br>· **Non-HRA**<br>· **Strategic**<br>**Total** | 137.82<br>68.791<br>**206.611** | 161.463<br>68.010<br>**229.473** | 141.152<br>68.01<br>**209.162** |
| **Gross borrowing** | **(203.948)** | **(224.713)** | **(198.936)** |
| **Investments**<br>· **Longer than 1 year**<br>· **Under 1 year**<br>· **Total** | 16.974<br>17.355<br>**34.329** | 15.71<br>20.776<br>**36.486** | 15.71<br>7.425<br>**23.135** |
| **Net borrowing** | **(169.619)** | **(188.227)** | **(175.801)** |

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. The "current budget" includes subsequent approvals and reprofiled budgets approved during the year.

| Adur District Council Total | 2022/23 Actual | 2023/24 Original Budget | 2023/24 Actual |
|---|---|---|---|
| **Capital expenditure £m** | 13.717 | 85.056 | 20.046 |
| **Financed in year £m** | 6.138 | 6.697 | 13.531 |
| **Unfinanced capital expenditure £m** | 7.579 | 78.359 | 6.515 |

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

| Adur District Council General Fund | 2022/23 Actual | 2023/24 Original Budget | 2023/24 Actual |
|---|---|---|---|
| **Capital expenditure £m** | 3.505 | 55.548 | 4.741 |
| **Financed in year £m** | 1.478 | 2.397 | 4.741 |
| **Unfinanced capital expenditure £m** | 2.027 | 53.151 | 0 |

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

| Adur District Council HRA | 2022/23 Actual | 2023/24 Original Budget | 2023/24 Actual |
|---|---|---|---|
| **Capital expenditure £m** | 10.212 | 29.508 | 15.305 |
| **Financed in year £m** | 4.660 | 4.300 | 8.790 |
| **Unfinanced capital expenditure £m** | 5.552 | 25.208 | 6.515 |

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 (£43.4m) 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, in part, attributed to:

- re-profiling of budgets including large schemes where works will complete in a future year such as:

  £4.7m Small Sites schemes at Daniel Close and Gravelly Crescent

  £4.31m Adur Homes External Works

  £2.1m South Street Housing Development

  £1.9m Shoreham Harbour Walls

- a net underspend of £0.277m

| Worthing Borough Council | 2022/23 Actual | 2023/24 Original Budget | 2023/24 Actual |
|---|---|---|---|
| **Capital expenditure £m** | 57.559 | 33.595 | 14.106 |
| **Financed in year £m** | 3.811 | 8.729 | 9.696 |
| **Unfinanced capital expenditure £m** | 53.748 | 24.866 | 4.410 |

For Worthing, the original budget was revised due to subsequent approvals and re-profiling of budgets, 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 attributed to:

- re-profiling of budgets including large schemes where works will complete in a future year such as:

  £4.9m Worthing Heat Network

  £2.7m Montague Gardens

  £1.6m Victoria Road Housing Development

- a net underspend of £63,840

## 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 2023/24 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' 2023/24 MRP Policies (as required by DLUHC Guidance), were approved as part of the Treasury Management Strategy Report for 2023/24 by Worthing Council on the 21st February 2023 and by Adur Council on the 23rd February 2023.

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): | 31.3.23 Actual | 2023/24 Budget | 31.3.24 Actual |
|---|---|---|---|
| **Opening balance** | 168.723 | 174.426 | 174.426 |
| **Add unfinanced capital expenditure (as above)** | 7.579 | 78.359 | 6.515 |
| **Less MRP/VRP** | (1.876) | (2.739) | (1.574) |
| **Closing balance** | 174.426 | 250.046 | 179.367 |

Adur General Fund share of the CFR

| CFR (£m): General Fund | 31.3.23 Actual | 2023/24 Budget | 31.3.24 Actual |
|---|---|---|---|
| **Opening balance** | 106.921 | 107.072 | 107.072 |
| **Add unfinanced capital expenditure (as above)** | 1.460 | 53.151 | 0 |
| **Less MRP/VRP** | (1.876) | (2.739) | (1.574) |
| **Closing balance** | 107.072 | 157.484 | 105.498 |

Adur HRA share of the CFR

| CFR (£m): HRA | 31.3.23 Actual | 2023/24 Budget | 31.3.24 Actual |
|---|---|---|---|
| **Opening balance** | 61.802 | 67.354 | 67.354 |
| **Add unfinanced capital expenditure (as above)** | 5.552 | 25.208 | 6.515 |
| **Less MRP/VRP** | 0.000 | 0.000 | 0.000 |
| **Closing balance** | 67.354 | 92.562 | 73.869 |

Worthing Borough Council

| CFR (£m): General Fund | 31.3.23 Actual | 2023/24 Budget | 31.3.24 Actual |
|---|---|---|---|
| **Opening balance** | 154.820 | 206.611 | 206.611 |
| **Add unfinanced capital expenditure (as above)** | 53.748 | 24.866 | 4.410 |
| **Less MRP/VRP** | (1.693) | (2.004) | (1.859) |
| **Closing balance** | 206.611 | 229.473 | 209.162 |

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 (2022/23), plus the estimates of any additional capital financing requirement for the current (2023/24) 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 2023 Actual | 31 March 2024 Strategy | 31 March 2024 Actual |
|---|---|---|---|
| **CFR £m** | 174.426 | 251.810 | 179.367 |
| **Gross borrowing position £m** | 164.962 | 249.658 | 170.649 |
| **Under/(over)funding of CFR £m** | 9.464 | 5.154 | 8.988 |

| Adur District Council General Fund | 31 March 2023 Actual | 31 March 2024 Strategy | 31 March 2024 Actual |
|---|---|---|---|
| **CFR General Fund £m** | 107.072 | 156.994 | 105.498 |
| **Gross borrowing position £m** | 97.344 | 153.940 | 100.618 |
| **Under/(over)funding of CFR £m** | 9.09 | 3.054 | 4.880 |

| Adur District Council HRA | 31 March 2023 Actual | 31 March 2024 Strategy | 31 March 2024 Actual |
|---|---|---|---|
| **CFR HRA £m** | 67.354 | 94.816 | 73.869 |
| **Gross borrowing position £m** | 66.960 | 92.716 | 68.121 |
| **Under/(over)funding of CFR £m** | 0.39 | 2.100 | 5.748 |

As at 31 March 2024, for Adur District Council, the HRA was under-borrowed by £5.748m. The General Fund was under-borrowed by £4.880m. 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 2023 Actual | 31 March 2024 Strategy | 31 March 2024 Actual |
|---|---|---|---|
| **CFR General Fund £m** | 206.875 | 229.884 | 209.162 |
| **Gross borrowing position £m** | 203.948 | 224.713 | 198.936 |

| | | | |
|---|---|---|---|
| **Under/(over)funding of CFR £m** | 2.927 | 5.131 | 8.401 |

Worthing Borough Council was under-borrowed by £8.401m 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 2023/24 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 | **£259.000m** |
| Maximum gross borrowing position during the year | **£175.283m** |
| Operational boundary | **£256.000m** |
| Average gross borrowing position | **£164.946m** |
| Commercial properties financing as a proportion of net revenue stream | **(12.40)%** |
| Other GF financing costs as a proportion of net revenue stream | **26.43%** |
| HRA Financing costs as a proportion of net revenue stream | **12.78%** |

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 | **£248.300m** |
| Maximum gross borrowing position during the year | **£209.252m** |
| Operational boundary | **£245.000m** |
| Average gross borrowing position | **£201.489m** |
| Commercial properties financing as a proportion of net revenue stream | **(22.78%)** |
| Other GF financing costs as a proportion of net revenue stream | **5.35%** |

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 2024

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 2023/24 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 31.03.24 £m | Average Rate of Return | Average Life in Years | Principal at 31.03.23 £m | Average Rate of Return | Average Life in Years |
|---|---|---|---|---|---|---|
| **Debt Portfolio** | | | | | | |
| PWLB | (148.323) | 3.76% | 17.71 | (140.002) | 3.59% | 19.00 |
| Other Borrowing | (22.327) | 4.57% | 18.44 | (24.939) | 4.56% | 24.29 |
| **Total Debt** | **(170.650)** | | | **(164.952)** | | |
| **CFR** | **179.367** | | | **174.427** | | |
| **(Over)/under borrowing** | **8.988** | | | **9.485** | | |
| **Investments** | | | | | | |
| Bonds | 0.025 | n/a | n/a | 0.025 | n/a | n/a |
| Property Fund | 2.555* | 4.67%** | n/a | 2.659* | 4.04%** | n/a |
| Long Term | 0.000 | n/a | n/a | 0.000 | n/a | n/a |
| Short Term | 1.150 | 4.17% | < 1 year | 8.090 | 3.49% | < 1 year |

| | | | | | | |
|---|---|---|---|---|---|---|
| **TOTAL INVESTMENTS** | **3.730** | | | **10.774** | | |
| **NET DEBT** | **(166.920)** | | | **(154.178)** | | |

* value of units at 31 March 2024
** return on original investment (£3m) over the financial year 2023/24

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** | **2023/24 original limits** | **31 March 2024 actual** |
|---|---|---|---|
| under 12 months | 9% | 20% | 11% |
| 12 months and within 24 months | 6% | 30% | 10% |
| 24 months and within 5 years | 8% | 50% | 16% |
| 5 years and within 10 years | 20% | 70% | 19% |
| 10 years and within 20 years | 35% | 80% | 23% |
| 20 years and within 30 years | 2% | 60% | 2% |
| 30 years and within 40 years | 8% | 60% | 7% |
| 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** |
|---|---|---|---|---|---|---|
| **Debt Portfolio** | | | | | | |
| PWLB | (136.411) | 2.28% | 16.31 | (142.423) | 2.24% | 19.66 |
| Other Borrowing | (62.275) | 3.31% | 0.71 | (61.525) | 2.25% | 1.42 |
| **TOTAL BORROWING** | **(198.686)** | | | **(203.948)** | | |
| **CFR** | 209.162 | | | **206.875** | | |
| **(Over)/under borrowing** | 10.476 | | | **2.927** | | |
| **Investments** | | | | | | |
| Bonds | 0.050 | n/a | n/a | 0.050 | n/a | n/a |
| Property Fund | 1.277* | 4.67%** | n/a | 1.329* | 4.04%** | n/a |
| Long Term | 1.000 | 4.70% | 1.8 | 1.00 | 4.70% | 1.8 |
| Short Term | 6.425 | 5.17% | < 1 year | 18.865 | 3.29% | < 1 year |
| **TOTAL INVESTMENTS** | **8.752** | | | **21.244** | | |
| **NET DEBT** | **(189.934)** | | | **(169.559)** | | |

* value of units at 31 March 2024
** return on original investment (£1.5m) over the financial year 2023/24

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 | 2023/24 original limits | 31 March 2024 actual |
|---|---|---|---|
| under 12 months | 18% | 35% | 32% |
| 12 months and within 24 months | 21% | 35% | 7% |
| 24 months and within 5 years | 18% | 75% | 17% |
| 5 years and within 10 years | 15% | 75% | 16% |
| 10 years and within 20 years | 8% | 75% | 6% |
| 20 years and within 30 years | 3% | 75% | 4% |
| 30 years and within 40 years | 9% | 75% | 10% |
| Over 40 years | 8% | 75% | 9% |

8.3 **Investments held by Adur District Council at 31 March 2024:**

| Counterparty | Issue Date | Maturity Date | Principal | 31.03.24 Interest Rate* | Long Term Rating |
|---|---|---|---|---|---|
| Lloyds Bank call account | 31/03/2024 | n/a | £150,000 | 5.14% | A+ |
| Close Bros | 09/08/2022 | 09/08/2024 | £1,000,000 | 3.20% | BBB+ |
| 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** | | | **£4,175,000** | | |

**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 2024:**

| Counterparty | Issue Date | Maturity Date | Principal | 31.03.23 Interest Rate | Long Term Rating |
|---|---|---|---|---|---|
| Lloyds Bank Call Account | 31/03/2024 | n/a | £695,000 | 5.14% | A+ |
| Close Brothers Limited | 05/01/2023 | 03/01/2025 | £1,000,000 | 4.70% | BBB+ |
| Debt Management Office (DMO) | 28/03/2024 | 02/04/2024 | £5,730,000 | 5.19% | GOV |
| 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** | | | **£8,975,000** | | |

**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 2023/24

### 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.

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 2023/24, 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 largely remained lower than borrowing costs, shielding both councils from undue interest expense.

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 Councils sought to avoid taking on long-term borrowing at elevated levels (>5%) and 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 experienced a reduction in cash balances available to implement this strategy in the 2022/23 year, this has tempered its effectiveness over 2023/24. 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 challenges 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 initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages, and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

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 2023/24 from, and the second is the final forecast received in the 2023/24 financial year. The marked difference again shows it has been a turbulent period, with markets initially under estimating the persistence and extent of inflationary pressures and the economy's ability to absorb interest rate increases before entering recession.

| Link Group Interest Rate View | 19.12.22 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
| BANK RATE | 3.50 | 4.25 | 4.50 | 4.50 | 4.50 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 2.75 | 2.50 | 2.50 |
| 3 month ave earnings | 3.60 | 4.30 | 4.50 | 4.50 | 4.50 | 4.00 | 3.80 | 3.30 | 3.00 | 3.00 | 2.80 | 2.50 | 2.50 |
| 6 month ave earnings | 4.20 | 4.50 | 4.60 | 4.50 | 4.20 | 4.10 | 3.90 | 3.40 | 3.10 | 3.00 | 2.90 | 2.60 | 2.60 |
| 12 month ave earnings | 4.70 | 4.70 | 4.70 | 4.50 | 4.30 | 4.20 | 4.00 | 3.50 | 3.20 | 3.10 | 3.00 | 2.70 | 2.70 |
| 5 yr PWLB | 4.20 | 4.20 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 | 3.10 |
| 10 yr PWLB | 4.30 | 4.40 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.80 | 3.60 | 3.50 | 3.40 | 3.30 | 3.30 |
| 25 yr PWLB | 4.60 | 4.60 | 4.60 | 4.50 | 4.40 | 4.20 | 4.10 | 4.00 | 3.90 | 3.70 | 3.60 | 3.50 | 3.50 |
| 50 yr PWLB | 4.30 | 4.30 | 4.30 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.50 | 3.30 | 3.20 | 3.20 |

| Link Group Interest Rate View | 08.01.24 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| BANK RATE | 5.25 | 5.25 | 4.75 | 4.25 | 3.75 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 5.30 | 5.30 | 4.80 | 4.30 | 3.80 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 5.20 | 5.10 | 4.60 | 4.10 | 3.70 | 3.30 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | 5.00 | 4.90 | 4.40 | 3.90 | 3.60 | 3.20 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.20 | 3.20 |
| 5 yr PWLB | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | 4.70 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.70 | 3.70 | 3.70 | 3.70 |
| 25 yr PWLB | 5.20 | 5.10 | 4.90 | 4.80 | 4.60 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 | 4.10 | 4.10 | 4.10 |
| 50 yr PWLB | 5.00 | 4.90 | 4.70 | 4.60 | 4.40 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 | 3.90 | 3.90 | 3.90 |

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 levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable

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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 generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing 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)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

**High/Low/Average PWLB Rates for 2023/24**

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| **Low** | 4.65% | 4.13% | 4.20% | 4.58% | 4.27% |
| **Date** | 06/04/2023 | 27/12/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| **High** | 6.36% | 5.93% | 5.53% | 5.96% | 5.74% |
| **Date** | 06/07/2023 | 07/07/2023 | 23/10/2023 | 23/10/2023 | 23/10/2023 |
| **Average** | 5.54% | 4.99% | 4.97% | 5.34% | 5.08% |
| **Spread** | 1.71% | 1.80% | 1.33% | 1.38% | 1.47% |

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 falls and inflation (on the Consumer Price Index measure) moves below 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.

The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

## 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 | £5m | Albion Street | 5.21% | 30/04/2024 |
| PWLB | £5m | HRA Refinancing | 4.75% | 28/06/2025 |
| PWLB | £5m | GF Refinancing | 5.31% | 08/03/2024 |
| Worthing BC | £1.5m | GF Refinancing | 5.27% | 02/10/2023 |
| Worthing BC | £2m | GF Refinancing | 5.47% | 16/10/2023 |
| Worthing BC | £2m | GF Refinancing | 5.30% | 20/10/2023 |
| West Midlands Combined Authority | £3m | GF Refinancing | 3.95% | 14/02/2024 |

### Worthing Borough Council

| Lender | Principal | Purpose of Loan | Interest Rate | Maturity |
|---|---|---|---|---|
| West Midlands Combined Authority | £5m | Refinancing | 4.00% | 17/08/2023 |
| Gloucestershire CC | £5m | Refinancing | 4.70% | 22/04/2024 |
| North Northamptonshire Council | £5m | WICC | 5.75% | 09/09/2024 |
| South Derbyshire DC | £5m | Refinancing | 5.45% | 30/09/2024 |
| West Midlands Combined Authority | £5m | Refinancing | 3.95% | 28/11/2024 |
| West Midlands Combined Authority | £6m | WICC | 3.95% | 12/02/2025 |
| West Midlands Combined Authority | £5m | Refinancing | 3.95% | 14/02/2025 |
| West Midlands Combined Authority | £4m | Refinancing | 5.30% | 24/02/2025 |
| West Sussex Credit Union | £0.25m | Refinancing | 3.80% | Notice |

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 2024 | 31 March 2023 |
|---|---|---|
| General Fund Balances | (1.051) | (1.051) |
| HRA Balances | (0.741) | (1.079) |
| Earmarked reserves | (9.035) | (12.445) |
| Provisions | (0.688) | (0.625) |
| Usable capital receipts & grants | (6.221) | (7,020) |
| Total | (18.096) | (22.220) |

**Worthing Borough Council**

| Balance Sheet Resources (£m) | 31 March 2024 | 31 March 2023 |
|---|---|---|
| Balances | (0.761) | (1.347) |
| Earmarked reserves | (2.192) | (5.502) |
| Provisions | (0.229) | (0.184) |
| Usable capital receipts & grants | (14.940) | (14.668) |
| Total | (18.122) | (21.701) |

### 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 5.12%.

**Adur District Council:**

Adur District Council maintained an average balance of £4.656m of internally managed short term investments, which earned an average rate of return of 4.40% and an average balance of £4.010m of long term investments, which earned an average rate of 3.87%. This excludes the £3m investment in the Local Authorities' Property Fund, which returned an average dividend rate of 4.09%.

The treasury investment returns included in the reported income of Adur Council for 2023/24 exceeded the General Fund and HRA budgets by £53k, due in large part to the acceleration of interest rates during the year and their increased period of elevation. 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 £81k 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 £18.680m of internally managed short term investments, which earned an average rate of return of 4.89% and a long term investment of £4.684m which earned 3.40%. 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 4.09%.

The treasury investment returns included in the reported income of Worthing Borough Council for 2023/24 exceeded the General Fund budget by £533k, 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 £68k 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 2023/24 an amount of £1.574m 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 2024 was £10k. No voluntary amount has been set aside for the HRA.

12.3 For 2023/24 an amount of £1.840m 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 £150k.

## 13. CURRENT PERIOD TREASURY MATTERS

13.1 In recent history, 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. Administration of the funds was successful and both councils have since returned unused funds reducing the available cash balances.

13.2 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government had 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 Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgement as to when rates can be cut.

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

| | UK | Eurozone | US |
|---|---|---|---|
| **Bank Rate** | 5.25% | 4% | 5.25%-5.5% |
| **GDP** | -0.3%q/q Q4<br>(-0.2%y/y) | +0.0%q/q Q4<br>(0.1%y/y) | 2.0% Q1 Annualised |
| **Inflation** | 3.4%y/y (Feb) | 2.4%y/y (Mar) | 3.2%y/y (Feb) |
| **Unemployment Rate** | 3.9% (Jan) | 6.4% (Feb) | 3.9% (Feb) |

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

**USA Economy**

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025…but how many and when?

**EZ Economy**

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

## 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 in 2021 which has run on a rolling contract since expiry on the 1st March 2023 under a three year service level agreement. A new agreement will be signed very shortly following reviews by respective legal teams.

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 2023/24.

**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.