ADUR & WORTHING COUNCILS

Joint Governance Committee
19 November, 2024

Joint Strategic Committee
10 December, 2024

Key Decision : No
Ward(s) Affected: All

Joint Mid Year Treasury Management Review 2024/25

Report by the Director for 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.

1.4 This report asks Members to note the Treasury Management mid-year performance for Adur and Worthing Councils at the 30 September 2024, 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 10th December 2024.

2.2 The Joint Strategic Committee is recommended to note this report and forward the report to the Worthing Borough Council Meeting on 17th of December 2024 and Adur District Council 19th of December 2024

2.3 Worthing Borough Council is recommended to note this report at its meeting on 17th December 2024

2.4 Adur DIstrict Council is recommended to note this report at its meeting on 19th December 2024

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 2024.

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 2024-25 year was approved at the 11th July 2023 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 2024/25 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 2024/25;
- A review of the Councils' borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25

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 2024/25 was noted by the Joint Audit & Governance Committee on the 18th January 2024 and approved by Adur Council on 20th February 2024 and by Worthing Council on 22nd February 2024.

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

	2024/25 Original Estimate	Actual at 30 Sep 2024	2024/25 Revised Estimate
	£m	£m	£m
HRA	29.749	7.636	28.234
Non HRA	12.953	2.744	20.027
Strategic	43.488	0	0
Total capital expenditure	86.19	10.38	48.261

The change in the Adur capital expenditure estimate is due mainly to the removal of the strategic property fund budget which represented £43m of the 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 and accounts for a £1.1m of increase.

Worthing Borough Council

	2024/25 Original Estimate	Actual at 30 Sep 2024	2024/25 Revised Estimate
	£m	£m	£m
Non HRA	27.065	11.302	39.852
Strategic	2.58	0	2.58
Total capital expenditure	29.645	11.302	42.432

The main change to the estimate is the budgets brought forward from last year, which were not spent, this was approved in the capital outturn report and represents a £13.2m increase. There are also three budgets which have been reprofiled as per the Quarter 1 Capital Monitoring Report.

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

	2024/25 Original Estimate	2024/25 Revised Estimate
	£m	£m
Total Capital Expenditure	86.190	48.261
Financed by:		
Capital receipts	2.771	0.921
Capital Grants & contributions	1.898	3.187
Reserves & revenue contributions	11.085	6.005
Total financing	15.754	10.113
Borrowing requirement	70.436	38.148

Worthing Borough Council

	2024/25 Original Estimate	2024/25 Revised Estimate
	£m	£m
Total Capital Expenditure	29.645	42.432
Financed by:		
Capital receipts	0.067	0.915
Capital grants & contributions	8.246	16.782
Reserves & revenue contributions	0.171	0.158
Total financing	8.484	17.855
Borrowing requirement	21.161	24.577

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

	2024/25 Original Estimate	Actual at 30 Sep 2024	2024/25 Revised Estimate
	£m	£m	£m
Prudential Indicator			
Capital Financing Requirement			
CFR - HRA	90.678	76.513	95.606
CFR - Strategic	119.279	76.685	75.791
CFR - Non HRA	34.705	27.2	40.977
Total CFR	244.662	180.398	212.374
Net movement in CFR	68.295	4.031	36.007
	Operational Boundary	**Actual Debt**	**Operational Boundary**
Borrowing	258.000	169.540	245.000
Other long term liabilities	1.000	0.000	1.000
Total debt	259.000	169.540	246.000

Worthing Borough Council

	2024/25 Original Estimate	Actual at 30 Sep 2024	2024/25 Revised Estimate
	£m	£m	£m
Prudential Indicator			
Capital Financing Requirement			
CFR - Non HRA	154.078	145.262	160.81
CFR - Strategic	73.105	68.01	69.789
Total CFR	227.183	213.272	230.599
Net movement in CFR	19.157	5.246	22.573
	Operational Boundary	**Actual Debt**	**Operational Boundary**
Borrowing	239.500	185.140	239.500
Borrowing re Worthing Homes	10.000	10.000	10.000
Borrowing re GB Met College	4.500	3.875	4.500

Other long term liabilities	1.000	0.000	1.000
Total debt	255.000	199.013	255.000

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 2024/25 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

	2024/25 Original Estimate	Actual at 30 Sep 2024	2024/25 Revised Estimate
	£m	£m	£m
Borrowing	245.886	169.540	205.000
Other long term liabilities	0.000	0.000	0.000
Total debt	245.886	169.540	205.000
CFR	255.371	180.398	212.374

Worthing Borough Council

	2024/25 Original Estimate	Actual at 30 Sep 2024	2024/25 Revised Estimate
	£m	£m	£m
Borrowing	235.669	199.013	220.000
Other long term liabilities	0.000	0.000	0.000
Total debt	235.669	199.013	225.000
CFR	238.148	213.272	230.599

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

	2024/25 Original Indicator	Actual debt at 30 Sep 2024	2024/25 Revised Indicator
Authorised Limit for external debt	**£m**	**£m**	**£m**
Borrowing	270.000	169.540	255.000
Other long term liabilities	1.000	0.000	1.000
Total	271.000	169.540	256.000

Worthing Borough Council

	2024/25 Original Indicator	Actual debt at 30 Sep 2024	2024/25 Revised Indicator
Authorised Limit for external debt	**£m**	**£m**	**£m**
Borrowing re Worthing Homes and GB Met	14.500	13.875	14.000
Other Borrowing	258.000	185.138	233.000
Other long term liabilities	1.000	0.000	1.000
Total	273.500	199.013	248.000

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 2024/25 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 2024 can be found in the tables provided in Appendix 2. It's worth noting that both Councils' current borrowing strategies in the current and prior year, 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 report titled *New Financial Strategy*, presented by the Director for Sustainability and Resources to the Joint Strategic Committee on 17 July 2024, recommended that the committee 'agree to the change in approach to developing the capital programme and the subsequent implications of this, resulting in a smaller capital programme in the short term.' The report also outlined officers' plans to adopt a more integrated approach to capital and revenue spending, aligned with ongoing prudent treasury planning for both councils. This strategy aims to ensure that each council's capital decisions are aligned with their long-term revenue capacity while reflecting their unique aspirations and priorities.

8.3 **PWLB maturity certainty rates to 30 September 2024**

Gilt yields and the linked PWLB rates were less volatile than at this time last year. Overall, the 10, 25, and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

Where there was some movement down in rates, this was often at the shorter durations as markets positioned themselves for bank rate cuts expected across the end of 2024 and through 2025. Though some cuts are still expected, the stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizable falls ahead.

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 Debt repayment and rescheduling options have been limited for both councils over the last 6 months, largely due to the interest rate environment being elevated in relation to the average rate of both councils debt portfolios.

9.3 Adur District Council made an early repayment outside of standard loan terms after being notified by FMS Wertmanagement on 25/09/24 that the lender intended to raise the interest rate on its £4m LOBO loan from 4.035% to 7.35%. This new rate was unfavourable compared to the rates listed at 8.3 in this report. Council officers informed the bank that the new terms were unacceptable and repaid the loan in full without penalty within five days. The repayment was subsequently financed through borrowing from other local authorities.

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 2024, the both Councils operated within the treasury and prudential indicators set out in their respective Treasury Management Strategy Statements for 2024/25.

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 22 February 2024 and by Worthing Council on 20 February 2024. 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 2024, the details of each meeting and subsequent rate decision are below:

- **9th May 2024 -** The MPC votes 7:2 to hold the base rate at 5.25%

- **20th June 2024 -** The MPC votes 7:2 to hold the base rate at 5.25%
- **1st August 2024** - The MPC votes 5:4 to decrease the base rate 25bps to 5.00%
- **19th September 2024** - The MPC votes 8:1 to maintain the base rate at 5.00%

In the first half of the year, inflationary pressures in the UK economy began to ease. Labour market supply shortages also showed signs of improvement, with Q1 unemployment at 4.2%, slightly below estimates, while the economic inactivity rate remained stable. These factors have been significant drivers of domestic inflation, as private sector wage inflation in previous years was driven by employers increasing pay to retain staff in a challenging labour market.

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 remained adaptive over the 6-months to September 2024, 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 2023/24.

11.2 Creditworthiness

Fitch placed the UK sovereign debt rating on Stable Outlook on 20th September 2024 having previously issued a Negative Outlook in 2022, reflecting reduced policy uncertainty, improved sentiment around budget deficits and predicted stabilisation of debt levels anticipated in 2025 . Though the outlook was changed, no ratings 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. However, there is one notable update:

Both councils currently list Close Brothers Ltd as an approved counterparty. The bank recently received a long-term rating downgrade to BBB+ and was placed on a negative ratings watch following the FCA’s announcement of investigations into the mis-selling of car finance products, which comprise over 20% of Close Brothers’ loan portfolio. The ratings downgrade reflects concerns over the bank's future profitability and financial performance. As of 30 September 2024, Worthing Borough Council has £1m invested with Close Brothers, maturing on 5 January 2025. While officers currently have no concerns about the bank's ability to repay this investment, a rating of BBB+ does not align with either council's risk appetite. As a result, no further investments will be made until the bank's rating improves to at least A-.

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 £6.557m and for Worthing was £12.282m, 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 4.67% p.a. (2023 4.23% p.a.). The other investment held by the council is a £3m investment in the Local Authorities' Property Fund, for which we project a return of 4.26% p.a. In the period ended September 2024.

Detailed portfolio holdings are given in Appendix 1.

11.4.1 Adur District Council's budgeted investment return for 2024/25 is £363k for the General Fund and HRA combined and the current forecast outturn position implies income of £356k an under achievement of £7k 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 overspend by £158k demonstrating the challenging interest rate environment where elevated rates have extended beyond the forecast dates which shaped the budget applicable to this year.

11.5 **Investment performance – Worthing Borough Council**

The investment portfolio yield for the first 6 months of the year is 5.044% p.a. The portfolio yield excludes the £1.5m investment in the Local Authorities' Property Fund,for which we project a return of 4.26% 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.

11.5.1 Worthing Borough Council's budgeted investment return for 2024/25 is £667k and the current forecast outturn position implies income of £602k an underachievement of £65k against the budget. This is in part because interest rates remain high in markets available to the Council, offsetting the lower cash balances held. The interest payable budget is estimated to underspend by £74k 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 2024.

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. Arun District Council has agreed to continuing this agreement for another 3 years commencing 1st April 2024.

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 2024/25.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2024/25 to 2026/27 (Adur Council 22nd February 2024 and Worthing Council 20th February 2024)
Annual Treasury Management Report 2023/24 for Adur District Council and Worthing Borough Council 1 April 2023 – 31 March 2024 (JAGC 26 September 2024 JSC 12 November 2024)
Link Group Treasury Services Ltd Half Year Report Template 2024/25

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 2024/25 - 2026/27, submitted and approved before the commencement of the 2024/25 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 2024
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	£2,370,000	var	AAAmmf
Invesco Liquidity Funds MMF	n/a	n/a	£370,000	var	AAAmmf
Lloyds Call Account	n/a	n/a	£95,000	4.88%	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			**£5,880,000**		

Worthing Borough 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 Investors MMF	n/a	n/a	£1,680,000	var	AAAmmf
Invesco Liquidity Funds MMF	n/a	n/a	£920,000	var	AAAmmf
Close Brothers Limited	05.01.23	05.01.25	£1,000,000	4.70%	BBB+
Lloyds Call Account	n/a	n/a	£1,150,000	4.88%	A+
Worthing ESCO Ltd	11.06.24	11.06.49	£1,275,000	0.01%	n/a
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			**£7,595,000**		

Appendix 2
New loans taken out by the Councils

Adur District Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
Police and Crime Commissioner for South Wales	£5.0m	Fixed interest rate	5.00%	11/12/24
London Borough of Newham	£4.0m	Fixed interest rate	5.00%	29/11/24

Worthing Borough Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£5.0m	Fixed interest rate	4.83%	28/04/27
North Northamptonshire Council	£5.0m	Fixed interest rate	5.35%	22/10/24
West Yorkshire Combined Authority	£5.0m	Fixed interest rate	5.10%	22/05/25
South Yorkshire Mayoral Combined Authority	£5.0m	Fixed interest rate	4.70%	05/07/25
South Derbyshire District Council	£5.0m	Fixed interest rate	4.70%	29/09/25

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.*

Economics Update

- The third quarter of 2024 (July to September) saw:

  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)

  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;

  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;

  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;

  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;

  - 10-year gilt yields falling to 4.0% in September.

- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

· The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

· Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

· CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

· The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

· Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.

- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.

- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.