ADUR & WORTHING COUNCILS

Joint Audit & Governance Committee
29 January 2025

Joint Strategic Committee
6th February 2025

Key Decision : No
Ward(s) Affected: All

JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2025/26 to 2027/28, ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY THE DIRECTOR FOR DIGITAL, SUSTAINABILITY AND RESOURCES

EXECUTIVE SUMMARY

1. PURPOSE

1.1 This report asks Members to approve and adopt the contents of the Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26 to 2027/28 for Adur and Worthing Councils, as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 The Joint Governance Committee is recommended to:

i) Note the report (including the Prudential Indicators and Limits, and MRP Statements) for 2025/26 to 2027/28. Including the addition of State Street Global Advisors MMF as an approved counterparty, to be governed within the same limits as other Money Market Funds and proposed changes to specified investment limits as detailed in 6.1.3.

ii) Refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 6th February 2025.

2.2 The Joint Strategic Committee is recommended to:

i) Approve and adopt the TMSS and AIS for 2025/26 to 2027/28, incorporating the Prudential Indicators and Limits, and MRP Statements. Including the proposed changes to specified investment limits as detailed in 6.1.3.

ii) Forward the Prudential Indicators and Limits, and MRP Statements of the report for approval by Worthing Council at its meeting on 25 February 2025, and by Adur Council at its meeting on 20 February 2025.

3. INTRODUCTION

3.1 Background

The Councils are required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authorities specific low risk appetites, providing adequate liquidity initially before considering 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 that the Councils can meet their capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet the Councils' risk or cost objectives.

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

CIPFA defines treasury management as:

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

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

3.2 Reporting requirements

3.2.1 Capital Strategy

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

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

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

3.2.2 Treasury Management Reporting

The Councils are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report), the first, and most important report is forward looking and covers:

- The capital plans (including prudential indicators);
- A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An Investment Strategy (the parameters on how investments are to be managed).

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

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

An additional Quarterly report – Due to the timing of the above reports, it is required to submit one quarterly report alongside the Quarter 1 Capital monitoring report in order to satisfy the requirements of the code.

Scrutiny - The above reports are required to be scrutinised by the Joint Audit & Governance Committee (JAGC) which may make recommendations to the Joint Strategic Committee (JSC) regarding any aspects of Treasury Management policy and practices it considers appropriate in fulfilment of its scrutiny role. Such recommendations as may be made shall be incorporated within the above named reports and submitted to meetings of the JSC for consideration as soon after the meetings of the JGC as practically possible.

The reports are approved by the JSC and recommended to the Councils for approval.

3.3 **Treasury Management Strategy for 2025/26**

The strategy for 2025/26 covers two main areas:

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

Treasury management
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Councils
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

3.4 **Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Officers are expecting to have training date options with members imminently.

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

3.5 **Treasury management consultants**

Both authorities use Link Group, Link Treasury Services Limited as external treasury management advisors.

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

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Link Group was acquired by Mitsubishi UFJ Trust and Banking Corporation, a consolidated subsidiary of Mitsubishi UFJ Financial Group, inc. (MUFG). As a result on the 20th of January 2025 Link Treasury Services will be known as MUFG Corporate Markets.

4. THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.1 Capital expenditure and financing

This prudential indicator is a summary of the Councils' capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.
The tables below summarise the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a financing or borrowing need.

Adur District Council Capital expenditure	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	4.741	13.738	4.372	2.257	2.764
HRA	15.305	27.282	10.080	10.080	3.876
Total:	**20.046**	**41.020**	**14.452**	**12.337**	**6.640**
Financed by:					
Capital receipts	3.636	0.921	0.000	0.000	0.000
Capital grants and contributions	3.413	3.380	1.404	0.785	0.000
Revenue Reserves & contributions	6.482	6.005	3.512	3.500	0.000
Net financing need for the year	**6.515**	**30.715**	**9.536**	**8.052**	**6.640**

Worthing Borough Council Capital expenditure	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	14.109	36.965	18.761	4.476	8.688
TOTAL	**14.109**	**36.965**	**18.761**	**4.476**	**8.688**

Financed by:					
Capital receipts	7.438	0.915	0.112	0.012	0.012
Capital grants and contributions	3.365	20.410	8.471	0.250	0.000
Revenue Reserves & contributions	0.03	0.018	0.028	0.000	0.000
Net financing need for the year	**3.276**	**15.622**	**10.150**	**4.214**	**8.676**

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

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Councils' borrowing requirement, these types of schemes include a borrowing facility and so the Councils are not required to separately borrow for these schemes. The Councils currently do not have any such schemes within the CFR. The Councils are asked to approve the CFR projections below:

Adur District Council	**Capital Financing Requirement (£m)**				
	2023/24 Actual	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
CFR – non-HRA	29.706	38.817	40.929	41.526	43.332
CFR - HRA	73.869	94.797	101.377	107.957	111.833
CFR – strategic	75.790	74.872	73.931	72.963	71.995
Total CFR	**179.365**	**208.486**	**216.237**	**222.446**	**227.160**
Movement in CFR	6.515	30.715	9.536	8.052	6.640
Represented by:					
Financing need for the year	6.515	30.715	9.536	8.052	6.640
Less: MRP/VRP and other financing movements	-1.575	-1.594	-1.785	-1.843	-1.926
Movement in CFR	**4.940**	**29.121**	**7.751**	**6.209**	**4.714**

Worthing Borough Council	**Capital Financing Requirement (£m)**

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR – non-HRA	140.017	154.34	162.89	165.10	171.40
CFR – strategic	68.01	67.209	66.387	65.544	64.701
Total CFR	**208.03**	**221.55**	**229.28**	**230.65**	**236.10**
Movement in CFR	3.276	15.622	10.150	4.214	8.676
Represented by:					
Financing need for the year	3.276	15.622	10.150	4.214	8.676
Less: MRP/VRP and other financing movements	-1.859	-2.101	-2.422	-2.840	-3.223
Movement in CFR	**1.417**	**13.521**	**7.727**	**1.373**	**5.453**

4.3 Liability Benchmark

The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

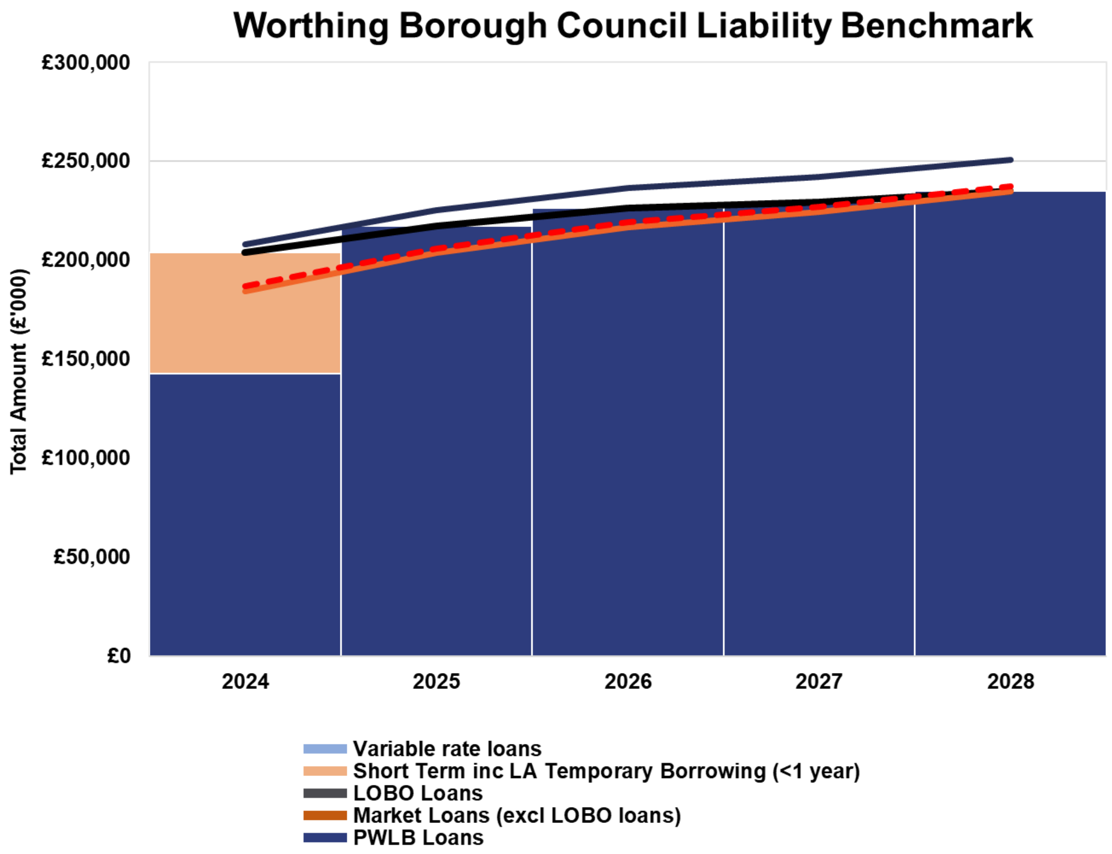
1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

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

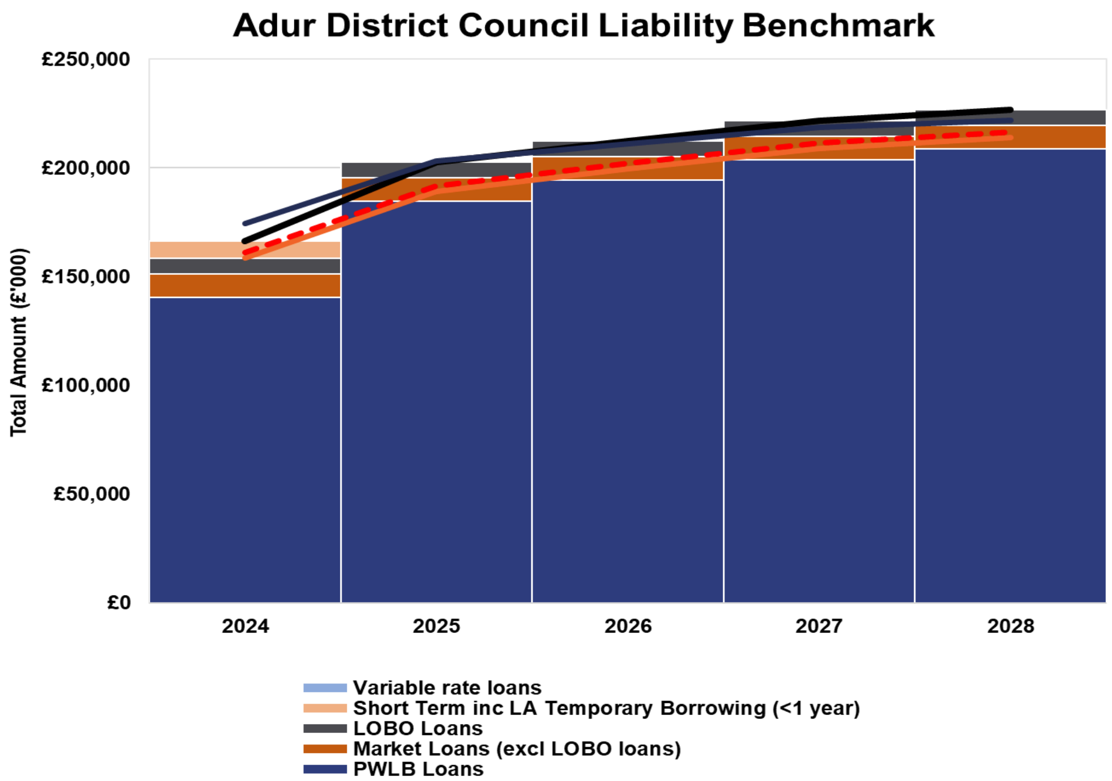
3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

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

Worthing Borough Council



Adur District Council



The above charts show the liability benchmark for Adur District Council and Worthing Borough Council for the year ended 2024 through to the year ended March 2028. An analysis of what is shown is given below:

- The black line represents existing loan debt outstanding which tracks the existing debt balance closely as repayments are made on the opening debt position as at the year ended March 2024.
- The red dashed line and Orange line represent the additional borrowing requirement which is driven by the amount of the Council's forecast capital expenditure which will be funded through prudential borrowing.
- The Blue line sitting at the top of the graph represents the Loans CFR, the gap between this and the liability benchmark line represents in part the treasury management investments held by the council which are required for management of liquidity and cash flow.

Though further periods of forecast are possible, as there is no capital programme set for years beyond 2028 the models data beyond that point is not indicative of the likely movement and has therefore not been included in this report.

4.5 Minimum revenue provision (MRP) policy statement

The Councils are required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although they are also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

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

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

The Councils are recommended to approve the following MRP Statements:

ADUR DISTRICT COUNCIL

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

4.5.1 <u>General Fund</u>

For non-HRA capital expenditure after 1st April 2008 the MRP will be calculated as the annual amount required to repay borrowing based on the annuity method: equal annual payments of principal and interest are calculated, with the interest element reducing and the principal element increasing over the life of the asset as the principal is repaid. The interest is based on the rate available to the Council at the beginning of the year in which payments start and the MRP is calculated as the amount of principal, so that by the end of the asset's estimated life the principal is fully repaid (the Asset Life Method). The option remains to use additional revenue contributions or capital receipts to repay debt earlier.

An exception was agreed in the 2015/16 Treasury Management Strategy Statement: the Chief Financial Officer has discretion to defer MRP relating to debt arising from loans to Registered Social Landlords (RSLs) to match the profile of debt repayments from the RSL and other public bodies. RSLs normally prefer a maturity type loan as it matches the onset of income streams emanating from capital investment with the timing of the principal debt repayment. The deferral of MRP to the maturity date would therefore mean that MRP is matched at the same point as the debt is repaid, and is therefore cash (and revenue cost) neutral to the Council.

If concerns arise about the ability of the borrower to repay the loan, the Chief Financial Officer will use the approved discretion to make MRP as a "prudent provision" from the earliest point to ensure that sufficient funds are set aside from revenue to repay the debt at maturity if the RSL defaults.

It is proposed to use the same policy for 2025/26.

4.5.2 **Housing Revenue Account**

Unlike the General Fund, the HRA is not required to set aside funds to repay debt. There is a requirement for a charge for depreciation to be made but there are transitional arrangements in place. The Council's MRP policy previously applied the financially prudent option of voluntary MRP for the repayment of HRA debt, to facilitate new borrowing in future for capital investment. However in order to provide additional capital funding to address the maintenance backlog identified by the condition survey, the payment of voluntary MRP was suspended for a period of 9 years from 2017/18 whilst the Council invests in its current housing stock and manages the impact of rent limitation.

WORTHING BOROUGH COUNCIL

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

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

4.5.5 It is proposed to retain this policy for 2025/26.

ADUR and WORTHING COUNCILS - VOLUNTARY REVENUE PROVISION

4.5.4 **MRP Overpayments** – A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory MRP, which are designated as voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayments made each year. As at the 31st March 2024 Adur has a net VRP overpayment of £10k.

5. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

5.1 Current portfolio position

The Councils' treasury portfolio positions at 31st March 2024 and at 31st December 2024 are shown below.

Adur District Council	Principal at 31.03.24 £m	Actual 31.03.24 %	Principal at 31.12.24 £m	Actual 31.12.24 %
External Borrowing				
PWLB	(146.799)	87%	(150.083)	87%
Other Borrowing	(22.327)	13%	(22.390)	13%
Finance lease	0		0	
Total Borrowing:	**(169.127)**	100%	**(172.472)**	100%
Treasury Investments				
Local Authority Property Fund	3.000	72%	3.000	60%
Managed In-house:				
Banks	1.150	28%	1.180	28%
Bonds	0.025	1%	0.025	1%
Debt Management Office	0	0%	0	0%
Local authorities	0	0%	0	0%
Money market funds	0	0%	0.785	19%
Total Investments:	**4.175**	100%	**4.990**	100%
NET DEBT	**(154.168)**		**(167.482)**	

Worthing Borough Council	Principal at 31.03.24 £m	Actual 31.03.24 %	Principal at 31.12.24 £m	Actual 31.12.24 %
External Borrowing				
PWLB	(136.411)	69%	(147.092)	86%
Other Borrowing	(62.525)	31%	(54.525)	14%
Finance lease	0.000		0.000	
Total Borrowing:	**(198.94)**	100%	**(201.617)**	100%
Treasury Investments				
Local Authority Property Fund	1.5	17%	1.50	16%
In-house:				
Banks	1.695	19%	2.84	30%
Bonds	0.025	0%	0.03	0%
Debt Management Office	5.730	64%	0.00	0%
Local authorities	0	0%	0.45	5%
Money market funds	0	0%	4.81	50%
Total Investments:	**8.95**	100%	**9.62**	100%
NET DEBT	**(189.99)**		**(192.00)**	

Worthing Borough Council has also made two loans which are categorised as capital rather than treasury investments, these detailed below showing balances as at 31st December 2024:

- a £10m loan to Worthing Homes
- a £5m repayment loan to GBMet College, with £4.079m remaining

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

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

Adur District Council External Debt £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt at 1 April	(169.127)	(172.472)	(202.593)	(212.344)	(221.553)
Expected change in Debt	(3.346)	(30.121)	(9.751)	(9.209)	(5.114)
Other long-term liabilities (OLTL)	0	0	0	0	0
Actual gross debt at 31 March	**(172.472)**	**(202.593)**	**(212.344)**	**(221.553)**	**(226.668)**
The Capital Financing Requirement	179.365	208.486	216.237	222.446	227.160
Under/(over) borrowing	**6.893**	**5.893**	**3.893**	**0.893**	**0.493**

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

Adur District Council	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	(75.790)	(74.872)	(73.931)	(72.963)	(71.995)
Percentage of total external debt %	44%	37%	35%	33%	32%

Worthing Borough Council External Debt £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt at 1 April	(198.936)	(201.617)	(215.139)	(222.866)	(227.739)
Expected change in Debt	(2.682)	(13.521)	(7.727)	(4.873)	(7.453)
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	**(201.617)**	**(215.139)**	**(222.866)**	**(227.739)**	**(235.192)**
The Capital Financing Requirement	208.027	221.548	229.276	230.649	236.102
Under/(over) borrowing	**6.410**	**6.410**	**6.410**	**2.910**	**0.910**

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

Worthing Borough Council	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt for commercial activities / non-financial investments					
Actual debt at 31 March £m	(68.010)	(67.209)	(66.387)	(65.544)	(64.701)
Percentage of total external debt %	34%	31%	30%	29%	28%

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

5.2 **Treasury Indicators: limits to borrowing activity**

The operational boundary - This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Adur District Council Operational Boundary	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt	222.852	233.579	243.709	249.334
Other long term liabilities	1.000	1.000	1.000	1.000
Total	**223.852**	**234.579**	**244.709**	**250.334**

Worthing Borough Council Operational Boundary	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt re Worthing Homes	10.000	10.000	10.000	10.000
Debt re GB Met	4.5	4.3	4.0	3.8
Other Debt	236.653	245.153	250.513	258.711
Other long term liabilities	1.000	1.000	1.000	1.000
Total	**252.153**	**260.453**	**265.513**	**273.511**

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

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

Adur District Council Authorised Limit	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt	243.111	254.813	265.864	272.001
Other long term liabilities	1.000	1.000	1.000	1.000
Total	**244.111**	**255.813**	**266.864**	**273.001**

Worthing Borough Council Authorised Limit	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt re Worthing Homes	10.000	10.000	10.000	10.000
Debt re GB Met	4.500	4.300	4.000	3.800
Other Debt	258.167	267.440	273.287	282.230
Other long term liabilities	1.000	1.000	1.000	1.000
Total	**273.667**	**282.740**	**288.287**	**297.030**

5.3 **Prospects for interest rates**

5.3.1 The Council has engaged Link Group as its treasury advisor, tasking them with providing insights to help the Council formulate a perspective on interest rates. Link Group has presented the following forecasts as of November 11 2024, specifically focusing on certainty rates, which are gilt yields plus 80 basis points.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

5.3.2 **Factors and Previous Moves**

Prior Years

Inflationary pressures continued to weigh on the UK economy and other developed economies globally. Geopolitics continued to feed volatility in energy markets and disturbances to global trade. This pressure eased somewhat across the financial year as markets adjusted to a “new normal" in the base cost of energy and other essentials.

Current Year

Indicators suggest that domestic rates of inflation have eased in the year-to-date, prompting market expectations of cuts to the Bank of England Base Rate. Markets currently predict a 75% probability of a 0.25% rate cut in February. For the calendar year as a whole, markets are pricing a total of 0.50% in base rate cuts.

Meanwhile, material uncertainties have led to increased yields in bond markets across many major economies, raising the cost of government borrowing. In particular, the impact of statements by the incoming Trump administration regarding global trade and geopolitics remains unclear—whether they are theoretical, rhetorical, or will materialise into concrete actions will not become evident until after January 20th.

Domestically, within this broader context of global bond market volatility, the cost of UK government borrowing has also risen in line with trends in other major economies. Markets perceive a potential risk to the growth targets set in the October Budget. Should borrowing continue at planned levels and growth not be achieved, there is concern that government debt may become unsustainable in the long term. This is sustaining the elevated borrowing costs at this time and the spread between the Gilt rate and the Bank of England Base Rate is widening as a result.

There have been 6 meetings of the MPC this financial year so far prior to authoring, the details of each meeting and subsequent rate decision are below:

- **9th May 2024** - Votes 5:2 to hold the base rate at 5.25%
- **20th June 2024** - Votes 5:2 to hold the base rate at 5.25%
- **1st August 2024** - Votes 5:3 to decrease the base rate 25bps to 5.00%
- **19th September 2024** - Votes 8:1 to maintain the base rate at 5.00%
- **7th November 2024** - Votes 8:1 to decrease the base rate 25bps to 4.75%
- **19th December 2024** - Votes 6:3 to maintain the base rate at 4.75%

Borrowing for capital expenditure Link's long-term forecast (beyond 10 years) for Bank Rate is 3.50%. As PWLB certainty rates are now above this level, the borrowing strategies of both councils are continually under review and both have favoured shorter term borrowing, in particular from other Local Authorities in order to minimise exposure to current interest rates and allow refinancing sooner when rates fall.

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

5.4 Borrowing Strategy

The Councils are both currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Councils' reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as borrowing costs remain high, this strategy extends, for as long as possible, the periods between borrowing needs, and therefore reduces exposure to current interest rates.

Against this background and the risks within the economic forecast, caution will continue to be applied within the 2025/26 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *If it was felt that there was a significant risk of a sharp FALL borrowing rate*, then borrowing will be postponed or where not possible the maturity period shortened within the bounds of the maturity profile restrictions.

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

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

5.5 In prior years, both Councils have referred in the first instance to the Public Works Loan Board (PWLB) for sourcing their borrowing needs, given that they are eligible to access the PWLB "Certainty" rate of interest, being 20 basis points below the normal prevailing PWLB rates. However, borrowing from other sources, including other Local Authorities and on rare occasions wider markets, can from time to time offer options to borrow at advantageous rates comparative to the PWLB, and therefore will be considered alongside the PWLB during the current period of interest rate pressure.

Where appropriate, the Councils will continue to monitor the potential for 'ethical' or 'green' borrowing options, such as 'green bonds'. These options are generally suitable for substantial amounts (e.g. over £50m) and require significant due diligence by both the lender and the Council, which can be resource-intensive. Whilst PWLB rates are easing more slowly than expected, alternative options remain under review but are not currently considered viable. Local Climate Bonds may offer a potential funding avenue for future carbon reduction projects, but they are not actively being pursued at present due to insufficient resourcing to meet the monitoring and reporting requirements. The cost of staffing to support such requirements would negate the benefits of using these alternative funding sources.

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

i) Internal borrowing, by running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing;

ii) Weighing the short term advantage of internal borrowing against potential long term borrowing costs, in view of the overall forecast for long term borrowing rates to increase over the next few years;

iii) PWLB fixed rate loans for up to 50 years;

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

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

vi) Short term loans from other Councils where appropriate;

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

5.6 Preference may be given to PWLB borrowing by annuity and EIP loans instead of maturity loans during periods of high interest rates, as this may result in lower interest payments over the life of the loans. However debt maturity must be spread appropriately in order to reduce refinancing risk.

5.7 **Policy on borrowing in advance of need**

The Councils will not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Councils can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

5.8 **Debt rescheduling**

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

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

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

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for non-HRA borrowing and Gilt rate + 40 basis points for HRA borrowing. However, consideration will also need to be given to sourcing funding at cheaper rates from the following:

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

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

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

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

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

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

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

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

6.1.3 The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements, and Prudential Indicators. As conditions in financial markets remain uncertain the changes proposed below are focused on meeting the operational needs of the treasury function for the 2025/26 financial year:

Adur District Council:

- No Changes Proposed.

Worthing Borough Council:

- To extend the removal of the 25% of funds limit in relation to MMF and Call Account balances for a further period of 2 financial years. To be reinstated or adapted as required (subject to member approval) in the 2027/28 Treasury Management Strategy. This proposal is to facilitate the operational needs of the Council, by ensuring availability of liquid funds during a period where it is expected that long term deposits will continue to be minimised in order to shield from elevated borrowing costs.

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

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

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

b) **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Councils will engage with the advisors to maintain a monitor on market pricing such as “credit default swaps” (a financial derivative or contract that allows an investor to "swap" or offset their credit risk with that of another investor) and overlay that information on top of the credit ratings.

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

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

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

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

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

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

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

h) The Councils have engaged **external consultants**, (see paragraph 3.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Councils in the context of the expected level of cash balances and need for liquidity throughout the year.

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

j) As a result of the change in accounting standards for 2026/27 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

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

6.2 **Creditworthiness Policy**

6.2.1 The primary principle governing the Councils' joint treasury management service investment criteria is the security of investments, although the yield or return on the investment is also a key consideration. After this main principle, the service will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Councils' prudential indicators covering the maximum principal sums invested.

6.2.2 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Councils for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the service may use, rather than defining what types of investment instruments are to be used.

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

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

6.2.5 The result is a series of colour coded bands for counterparties indicating the relative creditworthiness of each as they are categorised by durational bands. These bands are used by the Councils to form a view of the duration for investments by each counterparty. The Councils are satisfied that this service gives a robust level of analysis for determining the security of its investments. It is also a service which the Councils would not be able to replicate using its own in-house resources.

6.2.6 Using Link's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. The effect of a change in ratings may prompt the following responses:

- If a downgrade results in the counterparty/investment scheme no longer meeting the Councils' minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Councils will be advised by Link of movements in Credit Default Swaps and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils' lending lists.

6.2.7 The Councils' officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, the government support for banks, and the credit ratings of that government support.

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

6.3 The Councils' Minimum Investment Creditworthiness Criteria

6.3.1 The minimum credit ratings criteria used by the Councils generally will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term, A- Long term (or equivalent). Where this arises, the counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

The Councils include the top five **building society** names in the specified investments. It is recognised that they may carry a lower credit rating than the Councils' other counterparties, therefore the lending limits for the building societies shall be £2m each, excepting that for Nationwide (the top building society) the lending limit shall be £4m.

6.4 Country Limits and Proposed Monitoring Arrangements

Due care will be taken to consider the country, group and sector exposure of the Councils' investments.

The Councils have determined that they will only use approved counterparties from countries (other than the UK) with a minimum sovereign credit rating of *AA-* from Fitch Ratings (or equivalent from other agencies if Fitch does not provide one). The list of countries that qualify using these credit criteria as at the date of this report is reflected in the counterparty approved lending list shown at Appendix B. This list will be added to, or deducted from, by officers should ratings change, in accordance with this policy. No more than 25% of investments shall be placed in non-UK financial institutions for more than 7 days.

6.5 **Creditworthiness**

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the September 2022 mini budget. This was later reversed in October 2023. Close Brothers and Black Horse are two of the UK's largest providers of motor finance products, which are currently under investigation by the FCA due to issues in the disclosure of commission payments to customers this has caused a down grade for Close Brothers Limited who is now suspended from further dealing for both councils until such times as this position improves.

CDS prices - Credit Default Swaps

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

Investment Strategy

6.6 **In-house funds**

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. For cash flow balances, the Councils will seek to use notice accounts, money market funds, call accounts and short-dated deposits to benefit from the compounding of interest.

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

The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the meetings of the JAGC and JSC in accordance with the reporting arrangements contained in the Treasury Management Practices Statement.

6.7 **Investment returns expectations**

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

2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Later years	3.50%

6.8 **Investment treasury indicator and limit** - total principal of in house funds invested for greater than 365 days. These limits are set with regard to the Councils' liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

Adur District Council

Maximum Proportion of Principal Sums Invested > 365 Days			
	2025/26	2026/27	2027/28
Principal sums invested > 365 days	50%	50%	50%

Worthing Borough Council

Maximum Proportion of Principal Sums Invested > 365 Days			
	2025/26	2026/27	2027/28
Principal sums invested > 365 days	50%	50%	50%

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

6.9 In any sustained period of significant stress in the financial markets, the default position is for investments to be placed with the Debt Management Office Deposit Facility of the UK central government. The rates of interest may be below equivalent money market rates, however, if necessary, the returns are an acceptable trade-off for the guarantee that the Councils' capital is secure.

6.10 The Councils' proposed investment activity for placing cash deposits in 2025/26 will be to use: (given in no particular order)

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

Other Options for Longer Term Investments

6.11 To provide the Councils with options to enhance returns above those available for short term durations, it is proposed to retain the option to use the following for longer term investments, as an alternative to cash deposits:

a) **Supranational bonds greater than 1 year to maturity**

b) **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

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

d) **Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use the top five building societies by asset size up to £2m, (£4m Nationwide).

e) Any **bank or building society** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

f) Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company, and total exposure up to the limit applicable to the parent.

g) **Registered Social Landlords** (Housing Associations) **and other public sector bodies** - subject to confirming that the Councils have appropriate powers, consideration will be given to lending to Registered Social Landlords and other public sector bodies. Such lending may either be as an investment for treasury management purposes, or for the provision of "social policy or service investment", that would not normally feature within the Treasury Management Strategy.

h) **Property Investment Funds** for example the Local Authorities' Property Fund. The Councils will consult the Treasury Management Advisors and undertake appropriate due diligence before investment of this type is undertaken. Some of these funds are deemed capital expenditure – the Councils will seek guidance on the status of any fund considered for investment. The Councils may invest up to £5m in Property Investment Funds - this reflects the request from Adur members to invest more in the CCLA Local Authorities' Property Fund.

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

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

k) **Share capital** *in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.*

(Note: For (j) and (k) above the Councils' Staff do not hold appropriate skills to discharge proper governance in relation to these investments as such will seek further advice on the appropriateness and associated risks with investments in these categories as and when an opportunity presents itself).

6.12 **The accounting treatment** may differ from the underlying cash transactions arising from investment decisions made by the Councils. To ensure that the Councils are protected from any adverse revenue impact, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

6.13 The Councils will not transact in any investment that may be deemed to constitute **capital expenditure** (e.g. Share Capital, or pooled investment funds other than Money Market Funds), without the resource implications being approved as part of the consideration of the Capital Programme or other appropriate Committee report.

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

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

6.16 **Local Authorities' Property Fund** – both Councils hold investments in the Fund (Adur DC - £3m and Worthing BC £1.5m). The treasury service receives regular reports and quarterly dividends. Both Councils' holdings in these funds is currently under review in light of a change in regulatory environment. Details of this change and potential implications are given at Appendix F.

7. OTHER MATTERS

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

7.2 For social policy purposes, the Councils both hold deferred shares in the local Credit Union, Boom. Boom approached the Councils with a request to hold and invest some of Boom's funds in order to mitigate their treasury management investment risk. The Worthing Borough Council approved this through a Mid Year Review of Treasury Management at the time.

Officers are pleased to report that this relationship has continued enabling Boom to seek a return on its funds, supporting the work of the organisation as a community bank. In addition this is a reliable source of borrowing for the council and Boom extends the loan to the Council at a very competitive borrowing rate. As at 31st December 2024 the council had £250k held on 8 days notice in order to facilitate the liquidity needs of Boom.

8. ENGAGEMENT AND COMMUNICATION

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

8.2 The Adur and Worthing Councils' treasury management team also provides treasury services to Arun District Council through a shared services arrangement (SSA). The SSA is provided under a Service Level Agreement that was renewed from 2nd October 2024, and which defines the respective roles of the client and provider authorities for a period of three years.

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

9. FINANCIAL IMPLICATIONS

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

10. LEGAL IMPLICATIONS

10.1 The approval and adoption of the Treasury Management Strategy Statement, Annual Investment Strategy, Minimum Revenue Provision Policy and Prudential Indicators is required by regulations issued under the Local Government Act 2003.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2024/25 to 26/27 – Adur Council 22 February 2024 and Worthing Council 20 February 2024

Annual Treasury Management Report 2023-24 for Adur District Council and Worthing Borough Council – Joint Audit & Governance Committee, 26th September 2024 and Joint Strategic Committee, 1st October 2024

Overall Budget Estimates 2025/26 and Setting of 2024/25 Council Tax Report

Link Group Advisory TMSS Template 2025/26

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

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

MHCLG Investment Guidance

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SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

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

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. ENVIRONMENTAL

Matter considered and no issues identified.

4. GOVERNANCE

4.1 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Council priorities contained in Platforms for our Places.

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2025/26 - 2027/28, submitted and approved before the commencement of the 2025/26 financial year.

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

Appendix A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2027/28

1.1 The Councils' capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Adur District Council

Capital expenditure	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	4.741	13.738	4.372	2.257	2.764
HRA	15.305	27.282	10.080	10.080	3.876
Commercial property	0.000	0.000	0.000	0.000	0.000
TOTAL	**20.046**	**41.020**	**14.452**	**12.337**	**6.640**

Worthing Borough Council

Capital expenditure	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
Non-HRA	14.109	36.965	18.761	4.476	8.688
Commercial property	0.000	0.000	0.000	0.000	0.000
TOTAL	**14.109**	**36.965**	**18.761**	**4.476**	**8.688**

1.2 **Affordability prudential indicators**

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

Ratio of financing costs to net revenue stream

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

Adur District Council	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non-HRA	16.62%	11.95%	11.48%	13.32%	21.62%
HRA	16.45%	22.01%	26.96%	31.49%	31.64%
Strategic purchases	-22.29%	-21.88%	-22.42%	-23.60%	-24.66%
TOTAL	**10.78%**	**12.08%**	**16.03%**	**21.20%**	**28.60%**

Worthing Borough Council	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non-HRA	16.26%	22.30%	26.97%	31.47%	32.27%
Commercial activities	-20.49%	-19.73%	-20.88%	-21.33%	-20.70%
TOTAL	**-4.24%**	**2.57%**	**6.09%**	**10.13%**	**11.57%**

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

HRA Ratio

Adur (HRA)	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA CFR (£m)	(73.869)	(94.797)	(101.377)	(107.957)	(111.833)
Number of HRA dwellings	2509	2523	2577	2578	2570
Financing Need per dwelling (£)	**29,442**	**37,573**	**39,339**	**41,876**	**43,515**

1.3 **Maturity structure of borrowing**

These gross limits are set to reduce the Councils' exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. Neither Council has any variable rate borrowing.

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

Adur District Council

Limits to maturity structure of fixed interest rate borrowing 2025/26		
	Lower Limit	**Upper Limit**
Under 12 months	0%	25%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years to 20 years	0%	80%
20 years to 30 years	0%	60%
30 years to 40 years	0%	60%
40 years to 50 years	0%	45%

Worthing Borough Council

Limits to maturity structure of fixed interest rate borrowing 2025/26		
	Lower Limit	**Upper Limit**
Under 12 months	0%	35%
12 months to 2 years	0%	40%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
40 years to 50 years	0%	75%

APPENDIX B

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

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

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

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

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

The investment policy proposed for the Councils is:

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

ESG considerations - Both councils will consider Environmental, Social and Governance factors when placing any investment with current or new counterparties. Where matters for concern are identified for any specific counterparty both councils will consider placing future investments with other counterparties. A process of ongoing monitoring is underway for existing counterparties.

Whilst there are no concerns regarding our banker, for operational reasons the Councils' own banker Lloyds bank is required to be exempt from this approach as we are contractually bound to them for the duration of our banking contract. These factors will always be considered when the contract is renewed.

SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Councils

Identified for utilisation by the Councils, these specified investments primarily comprise sterling investments with a maturity of not more than one year. Additionally, they encompass investments with longer tenures, yet affording the Councils the option of repayment within 12 months. This category extends to assets originally categorised as non-specified investments, which, despite having an initial duration exceeding 12 months, are reclassified as specified investments when the remaining period to maturity falls below twelve months. Characterised by their low-risk profile, these investments entail minimal risk of principal or investment income loss. These would include sterling investments which would not be defined as capital expenditure with:

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

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

Non-Specified Investments identified for use by the Councils

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

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

For credit rated counterparties, the minimum criteria, excepting for the Councils' own banker and the specified building societies, (see below) will be the short-term / long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard and Poor's, Fitch Ratings, being:

Long-term investments (over 365 days): minimum: A- (Fitch) or equivalent
Or
Short-term investments (365 days or less): minimum: F1 (Fitch) or equivalent

For all investments the Councils will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

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

ADUR DISTRICT COUNCIL - SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and sovereign rating	Counterparty and current rating	Max'm exposure limit £m and/or %
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£5m
Term Deposits/ Call Accounts	UK	Santander UK A+	£4m
Term Deposits/ Call Accounts	UK	Bank of Scotland/ Lloyds (RFB) A+	£4m as standard (£6m maximum for not more than 2 working days)
Term Deposits/ Call Accounts	UK	Barclays (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Clydesdale A-	£4m
Term Deposits/ Call Accounts	UK	HSBC (RFB) AA-	£4m
Term Deposits/ Call Accounts	UK	Close Brothers Ltd BBB+	SUSPENDED
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland/Nat West Group (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Standard Chartered Bank A+	£3m
Term Deposits/ Call Accounts	Australia - AAA	National Australia Bank Ltd A+	£3m
Term Deposits/ Call Accounts	US - AAA	JP Morgan Chase Bank NA AA	£3m
Term Deposits/ Call Accounts	UK	Handelsbanken plc AA	£4m
Term Deposits/ Call Accounts	UK	Goldman Sachs Int Bank A+	£3m
Gilts	UK	Debt Management Office (DMO)	£3m or 25% of funds

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

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, except that this limit may be breached for liquidity purposes for up to 1 week at any time.

NB Investments in AAA rated Money Market Funds are to be used for liquidity purposes - funds should be invested to achieve higher returns wherever possible.

Institution ratings shown are as at 31 December 2024 and are subject to change.

APPENDIX B - ANNEX 1

ADUR DISTRICT COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure ?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies • Deposits with Local Authorities • The UK Government	√ √ √ √	√ √ √ √	5 years	The higher of £8m or 50% of funds, maximum of £2m per institution £5m No limit	No
Gilts and Bonds: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ on advice from treasury advisors	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £5m or 30% of funds, maximum of £3m per fund	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes

ADUR DISTRICT COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority, such as the Local Authorities' Property Fund	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	£5m	To be confirmed
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

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

APPENDIX B - ANNEX 2

WORTHING BOROUGH COUNCIL SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£5m
Term Deposits/ Call Accounts	UK	Santander UK A+	£4m
Term Deposits/ Call Accounts	UK	Bank of Scotland/ Lloyds (RFB) A+	£4m as standard (£6m maximum for not more than 2 working days)
Term Deposits/ Call Accounts	UK	Barclays (RFB) A+	£4m
Term Deposits/ Call Accounts	UK	Clydesdale A-	£4m
Term Deposits/ Call Accounts	UK	HSBC (RFB) AA-	£4m
Term Deposits/ Call Accounts	UK	Standard Chartered Bank A+	£3m
Term Deposits/ Call Accounts	UK	Close Brothers Ltd BBB+	SUSPENDED
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland/Nat West Group (RFB) A+	£4m
Term Deposits/ Call Accounts	Australia - AAA	National Australia Bank Ltd A+	£3m
Term Deposits/ Call Accounts	US - AAA	JP Morgan Chase Bank NA AA	£3m
Term Deposits/ Call Accounts	UK	Handelsbanken plc AA	£4m
Term Deposits/ Call Accounts	UK	Goldman Sachs Int Bank A+	£3m
Gilts	UK	Debt Management Office (DMO)	£3m or 25% of funds

Instrument	Country and sovereign rating	Counterparty	Max'm exposure limit £m and/or %
Bonds	EU	European Investment Bank/ Council of Europe	£3m or 25% of funds
AAA rated Money Market Funds	Various	Constant Net Asset Value or LVNAV MMFs	£3m per fund (Proposed removal of 25% rule, see 6.1.3)
Other MMFs and CIS	UK	Collective Investment Schemes	25%
Term Deposits	UK	Nationwide BS A	£4m
Term Deposits	UK	Yorkshire BS A-	£2m
Term Deposits	UK	Coventry BS A-	£2m
Term Deposits	UK	Skipton BS A-	£2m
Term Deposits	UK	Leeds BS A-	£2m
*Term Deposits	UK	Worthing Homes (10 year loan)	£10m
*Term Deposits	UK	GB Met (20 year loan)	£5m
Share Capital	n/a	West Sussex Credit Union	£0.05m deferred shares
Share Capital	n/a	Local Capital Finance Co (Municipal Bonds Agency)	£0.05m
Temporary Loans	n/a	Worthing Leisure Trust	£0.5m

NB Any existing deposits outside of the current criteria will be reinvested within the above criteria on maturity.

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits except that this limit may be breached for liquidity purposes for up to 1 week at any time.

* These loans are for more than 1 year, therefore are "unspecified", but are included here as they have been approved by Council.

Institution ratings shown are as at 31 December 2024 and are subject to change.

APPENDIX B - ANNEX 2

WORTHING BOROUGH COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure ?
Deposits with banks and building societies Certificates of deposit with banks and building societies Deposits with Local Authorities The UK Government	√ √ √ √	√ √ √ √	5 years	The higher of £8m or 50% of funds, maximum of £2m per institution £5m No limit	No
Gilts and Bonds: Gilts Bonds issued by multilateral development banks Bonds issued by financial institutions guaranteed by the UK government Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £5m or 30% of funds, maximum of £3m per fund	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes

WORTHING BOROUGH COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority, such as the Local Authorities' Property Fund	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	£5m	To be confirmed
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

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

APPROVED COUNTRIES FOR INVESTMENTS

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

Based on lowest available rating as at

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- New Zealand
- The United Kingdom

AA-

- Belgium

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

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

APPENDIX C

COUNTERPARTIES WHERE THE COUNCILS HAVE OPTED UP TO PROFESSIONAL INVESTOR STATUS

(i) **Money Market Funds**

Invesco
Federated Investors
CCLA
Black Rock
HSBC ESG Fund
State Street Global Advisors (SSGA)

(ii) **Building Societies**

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

(iii) **Brokers**

BGC (Sterling)
Tradition
ICAP
Imperial
RP Martin

(iv) **Other**

ICD (Portal used for money market fund investments)
MUFG Corporate Markets (Formerly Link Group Treasury Advisors)

These arrangements will be regularly reviewed as appropriate.

APPENDIX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) **Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual Treasury Management Strategy Statement and Annual Investment Strategy
- approval of MRP Statement

(ii) **Joint Strategic Committee**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) **Joint Audit & Governance Committee**

Receiving and reviewing the following, and making recommendations to the Joint Strategic Committee

- the Treasury Management Strategy Statement and regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

(iv) **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

APPENDIX D

TREASURY MANAGEMENT SCHEME OF DELEGATION

The revised CIPFA Treasury Management and Prudential Codes have extended the functions of the S151 role in respect of non-financial investments

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- ensuring that the capital strategy is prudent, sustainable and affordable in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authorities
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

APPENDIX E

Economic backdrop provided by Link Treasury Advisory

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

The third quarter of 2024 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 its 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiated 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

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is "bond vigilante". Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

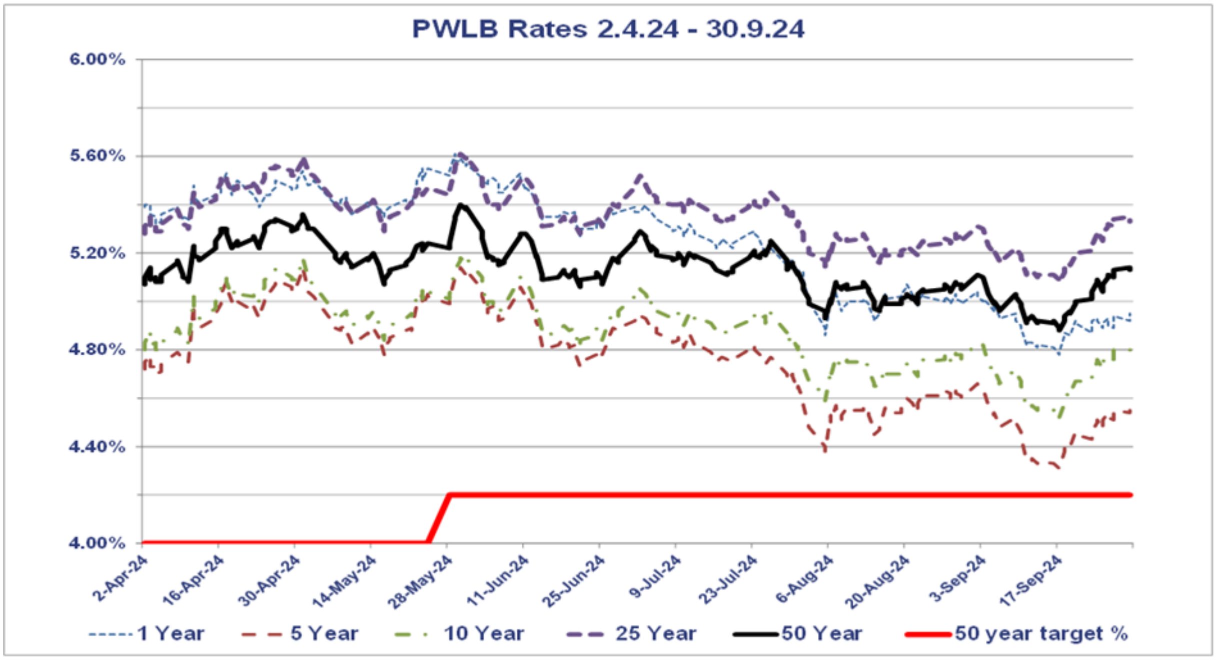
Staying with the US, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

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. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P 500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.



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

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

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

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

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

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