



ANNUAL TREASURY MANAGEMENT REPORT 2018-19 ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL and REVISED TREASURY MANAGEMENT POLICY and PRACTICES

REPORT BY THE DIRECTOR FOR DIGITAL AND RESOURCES

EXECUTIVE SUMMARY

1. PURPOSE

- 1.1 This report asks Members to note the Treasury Management performance for Adur and Worthing Councils for 2018/19 as required by regulations issued under the Local Government Act 2003.
- 1.2 Members are recommended to approve the revised Treasury Management Policy and Practices, which have been updated to incorporate new CIPFA and MHCLG guidance and are attached as appendices 1 and 2

2. RECOMMENDATIONS

2.1 Recommendation One

The Joint Governance Committee is recommended to note the annual report and the revised Treasury Management Policy and Practices and refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 10th September 2019.

2.2 Recommendation Two

The Joint Strategic Committee is recommended to note the annual report and to approve the revised Treasury Management Policy and Practices.

3. CONTEXT

- 3.1 This report presents the treasury management activities and portfolio positions for the 2018/19 financial year for Adur District Council and Worthing Borough Council.

- 3.2 This is one of three treasury management reports that are required to be presented during the financial year (see Para. 4.1).
- 3.3 The presentation of the Annual Report is required through regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2018/19. This report also meets the requirements of both the Treasury Management Code of Practice (The Code) and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), both of which are issued by The Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.4 To put the report in context, Treasury Management is defined by CIPFA as:
- “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 3.5 The Councils’ Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the Councils’ priorities set out in Platforms for our Places.

4. ISSUES FOR CONSIDERATION

- 4.1 For 2018/19 the minimum reporting requirements specified within the treasury management policy is that the Councils should receive the following:

The Annual Treasury Management Strategy Statement (TMSS) in advance of the financial year – this was submitted to the meeting of Adur Council on 22nd February 2018 and to Worthing Council on 20th February 2018.

A mid-year treasury update report – a joint in-house operations report for both Councils was submitted to the meeting of JSC on the 4th December 2018 and JGC on 22nd January 2019.

An annual review (this report) - to be submitted by 30th September after the year end, which compares the actual activity with the planned strategy.

- 4.2 The regulatory environment places a significant onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury management activities and highlights compliance with the Councils’ policies previously approved by members.
- 4.3 The Annual Report also confirms that the Councils have complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Joint Governance Committee and the Joint Strategic Committee before they were reported to the full Councils. Member training on treasury management issues was conducted on 19th June 2018 by the Councils’ treasury advisors, Link Asset Services, in order to support members’ scrutiny role.

5. The Councils' Capital Expenditure and Financing

5.1 The Councils undertake capital expenditure on long-term assets. These activities may either be:

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

5.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The difference between the budget and actual spend is due to re-profiling of the capital budgets.

Adur District Council General Fund	2017/18 Actual	2018/19 Budget	2018/19 Actual
Capital expenditure £m	17.364	57.832	36.573
Financed in year £m	3.773	5.807	1.926
Borrowing for capital expenditure £m	13.591	52.025	34.647

Adur District Council HRA	2017/18 Actual	2018/19 Budget	2018/19 Actual
Capital expenditure £m	2.937	9.583	2.993
Financed in year £m	2.937	6.487	2.993
Borrowing for capital expenditure £m	0.000	3.096	0.000

Worthing Borough Council	2017/18 Actual	2018/19 Budget	2018/19 Actual
Capital expenditure £m	29.550	60.350	38.273
Financed in year £m	12.784	2.799	6.749

Borrowing for capital expenditure £m	16.766	57.551	31.524
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6. THE COUNCILS' OVERALL BORROWING NEED

6.1 The Councils' underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Councils should ensure that their gross external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year (2017/18), plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Councils are not borrowing to support revenue expenditure. This indicator allowed the Councils some flexibility to borrow in advance of immediate capital needs in 2018/19. The tables below highlight the Councils' gross borrowing positions against the CFRs. The Councils have complied with this prudential indicator.

Adur District Council General Fund	31 March 2018 Actual	31 March 2019 Strategy	31 March 2019 Actual
CFR General Fund (£m)	28.500	79.785	63.147
Gross borrowing position (£m)	27.263	75.677	57.999
Under/overfunding (-) of CFR (£m)	1.237	4.108	5.148

Adur District Council HRA	31 March 2018 Actual	31 March 2019 Strategy	31 March 2019 Actual
CFR HRA (£m)	60.103	61.474	60.103
Gross borrowing position (£m)	57.875	60.971	58.168
Under/overfunding (-) of CFR (£m)	2.228	0.503	1.935

As at 31 March 2019, for Adur District Council, the HRA was under borrowed by £1.935m. The General Fund was under borrowed by £5.148m due to the use of internal resources to support capital expenditure, which reduces the amount of

interest payable on external borrowing. Interest rates on investments remain low in comparison to the rates charged on borrowed sums, so this is a cost-effective strategy reducing the overall net cost of borrowing. The difference between the budgets and the actual CFR figures is due to re-profiling of the Capital budgets.

Worthing Borough Council	31 March 2018 Actual	31 March 2019 Strategy	31 March 2019 Actual
CFR General Fund (£m)	39.150	100.445	70.674
Gross borrowing position (£m)	41.564	93.585	67.250
Under/overfunding of CFR (£m)	(2.414)	6.860	3.424

Worthing Borough Council was under-borrowed based on long term debt by £5.424m at 31 March 2019, but it also held temporary borrowing of £2m which was repaid in June.

- 6.2 The **authorised limit** is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Councils do not have the power to borrow above this level. The Councils did not breach the authorised limit during the year.

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

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Adur District Council	2018/19
Authorised limit	£146.000m
Maximum gross borrowing position during the year	£117.966m
Operational boundary	£141.000m
GF Financing costs as a proportion of net revenue stream	22.10%
HRA Financing costs as a proportion of net revenue stream	23.82%

Adur’s financing cost proportions are lower than the forecasts of 30.55% (General Fund) and 25.01% (HRA) due to re-profiling of the capital programme and the availability of loans at lower interest rates than forecast. The net revenue stream

definition does not include the additional rental income received from the properties which were purchased through borrowing, adding to the financing costs. If the rental income is included, the financing cost proportion for the General Fund reduces to 7.79% - this figure is particularly low because MRP (see 12.1) is not payable in the year of purchase of the properties.

Worthing Borough Council	2018/19
Authorised limit	£106.000m
Maximum gross borrowing position during the year	£67.450m
Operational boundary	£101.00m
Financing costs as a proportion of net revenue stream	11.09%

Worthing's financing cost proportion is lower than the forecast of 18.65% due to re-profiling of the capital programme and the availability of loans at lower interest rates than forecast. As for Adur, the net revenue stream definition does not include the additional rental income received from the properties which were purchased through borrowing, adding to the financing costs. If the rental income is included, the financing cost proportion reduces to 2.40% - this figure is particularly low because MRP (see 12.1) is not payable in the year of purchase of the properties.

7. TREASURY POSITION AS AT 31 MARCH 2019

7.1 Adur District Council's position at the beginning and end of the year was as follows:-

	Principal at 31.03.18 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.19 £m	Average Rate of Return	Average Life in Years
<u>Debt Portfolio</u>						
PWLB	(67.198)	3.4%	24.2	(98.227)	2.9%	20.0
Other Borrowing	(17.940)	5.2%	48.0	(17.940)	5.2%	47.0
Total Debt	(85.138)			(116.167)		
CFR	88.603			123.250		
(Over)/under borrowing	3.465			7.083		
<u>Investments</u>						
Bonds	0.080	n/a	n/a	0.055	n/a	n/a
Property Fund	0.968	4.54%	n/a	0.983	4.37%	n/a
Long Term	0.000	n/a	n/a	0.000	n/a	n/a
Short Term	9.800	1.04%	< 1 year	9.514	0.97%	< 1 year
TOTAL INVESTMENTS	10.848			10.552		

NET DEBT	(74.290)			(105.615)		
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Adur District Council Maturity Structure of Debt	31 March 2018 actual	2018/19 original limits	31 March 2019 actual
under 12 months	4%	20%	6%
12 months and within 24 months	3%	25%	5%
24 months and within 5 years	10%	30%	14%
5 years and within 10 years	16%	50%	19%
10 years and within 20 years	26%	60%	27%
20 years and within 30 years	8%	60%	4%
Over 30 years	33%	60%	25%

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

	Principal at 31.03.18 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.19 £m	Average Rate of Return	Average Life in Years
<u>Debt Portfolio</u>						
PWLB	(31.536)	1.90%	12.02	(61.222)	1.87%	11.31
Other Borrowing	(10.028)	0.87%	1.05	(6.028)	1.21%	0.81
TOTAL BORROWING	(41.564)			(67.250)		
CFR	39.150			70.674		
(Over)/under borrowing	(2.414)			(3.424)		
<u>Investments</u>						
Bonds	0.075	n/a	n/a	0.075	n/a	n/a
Property Fund	0.484	4.54%	n/a	0.491	4.37%	n/a
Long Term	-	-	-	-	-	-
Short Term	11.000	0.54%	< 1 year	9.200	0.86%	< 1 year
TOTAL INVESTMENTS	11.559			9.766		
NET DEBT	(30.005)			(57.484)		

Worthing Borough Council Maturity Structure of Debt	31 March 2018 actual	2018/19 original limits	31 March 2019 actual
under 12 months	20%	45%	16%
12 months and within 24 months	10%	75%	12%
24 months and within 5 years	18%	75%	24%
5 years and within 10 years	39%	75%	31%

Over 10 years	13%	75%	17%
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7.3 Investments held by Adur District Council at 31 March 2019:

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Goldman Sachs Int Bank	03/04/2018	03/04/2019	£2,000,000	1.28%	A
Goldman Sachs Int Bank	24/04/2018	24/04/2019	£1,000,000	1.21%	A
Barclays Bank	26/04/2018	26/04/2019	£1,000,000	0.91%	A
Santander Bank	03/05/2018	03/05/2019	£1,000,000	0.90%	A
Lloyds Bank	26/06/2018	25/06/2019	£1,000,000	1.00%	A+
CCLA MMF	10/04/2018	n/a	£2,950,000	variable	AAA
Invesco MMF	01/02/2019	n/a	£553,900	variable	AAA
Handelsbanken	16/07/2018	n/a	£10,000	0.50%	AA-
CCLA Local Auth Property Fund	25/04/2017	n/a	£982,941	variable	n/a
Local Auth Cap Finance Co	30/09/2014	n/a	£25,000	n/a	n/a
Boom Credit Union & War Bond	06/03/2015	n/a	£29,630	n/a	n/a
TOTAL			£10,551,471		

Non-treasury investments

Adur District Council has approved a strategy to invest in commercial properties. Full details can be found in the Capital Strategy and Commercial Property Investment Strategy.

7.4 Investments held by Worthing Borough Council at 31 March 2019:

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Santander Bank	09/05/2018	09/05/2019	£1,000,000	0.90%	A
Goldman Sachs Int Bank	09/07/2018	09/07/2019	£1,000,000	1.23%	A
Santander Bank	11/07/2018	11/04/2018	£1,000,000	0.93%	A
Santander Bank	19/07/2018	25/07/2019	£1,000,000	0.95%	A
Lloyds Bank	14/01/2018	05/04/2019	£1,000,000	1.00%	A+
Barclays Bank	19/04/2018	23/04/2019	£1,000,000	0.93%	A
Lloyds Bank	02/05/2018	16/05/2019	£1,000,000	1.00%	A+
CCLA MMF	03/04/2018	n/a	£2,200,000	variable	AAA
CCLA Local Auth Property Fund	25/04/2017	n/a	£491,472	variable	n/a
Local Auth Cap Finance	30/09/2014	n/a	£25,000	n/a	n/a

Co					
Boom Credit Union	06/03/2015	n/a	£50,000	n/a	n/a
TOTAL			£9,766,472		

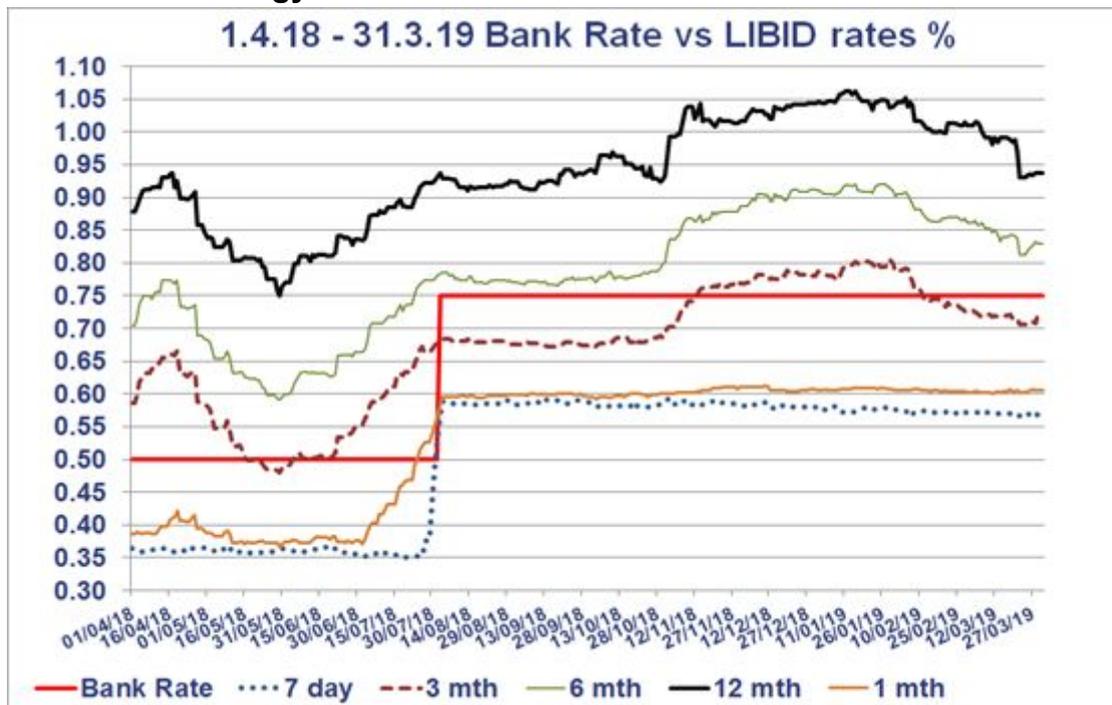
Non-treasury investments

Worthing Borough Council has made two loans of £5m each to Worthing Homes to support the building of homes. The Council receives £70k per annum net in interest over and above the cost to the Council of borrowing the £10m from the Public Works Loan Board.

Worthing Borough Council has approved a strategy to invest in commercial properties. Details can be found in the Capital Strategy and Commercial Property Investment Strategy.

8. THE STRATEGY FOR 2018/2019

Investment strategy and control of interest rate risk



Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty

with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

9. BORROWING STRATEGY and CONTROL of INTEREST RATE RISK

- 9.1 During 2018/19, the Councils maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Councils' reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low in relation to the cost of borrowing and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

- 9.2 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Financial Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

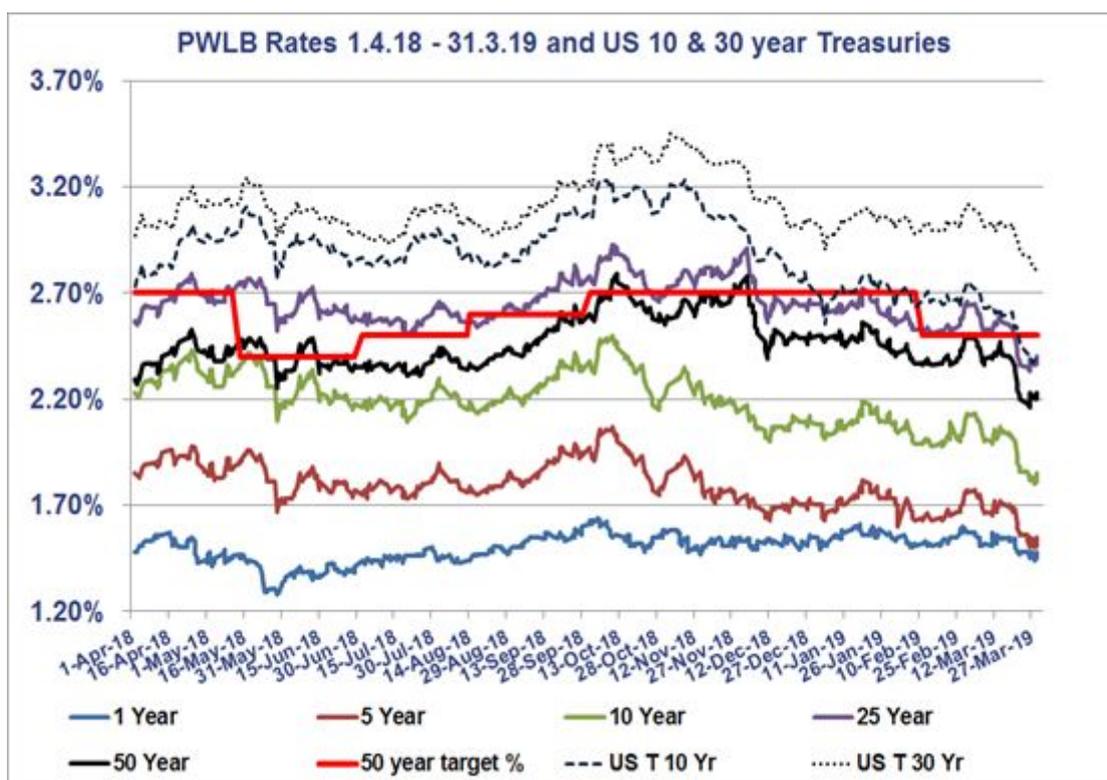
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would

have been drawn whilst interest rates were lower than they were projected to be in the next few years.

9.3 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 2.1.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue

now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

10. BORROWING OUTTURN

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

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

Adur General Fund

Lender	Principal	Purpose of Loan	Interest Rate	Maturity
PWLB	£2m	Office Block Construction	2.44%	26/04/2038
PWLB	£2m	Office Block Construction	2.20%	21/06/2038
PWLB	£2.8m	Commercial property purchase	2.05%	06/09/2033
PWLB	£11.4m	Commercial property purchase	2.10%	14/09/2033
PWLB	£5m	Commercial property purchase	1.62%	17/01/2024
PWLB	£7.241m	Commercial property purchase	1.93%	17/01/2034
PWLB	£2m	HRA refinancing	2.00%	28/01/2035
PWLB	£1m	Office Block Construction	1.61%	28/01/2024
PWLB	£1m	Office Block Construction	1.75%	28/01/2029

Worthing Borough Council

Lender	Principal	Purpose of Loan	Interest Rate	Maturity
PWLB	£5m	Commercial property purchase	1.56%	17/07/2023
PWLB	£5m	Commercial property purchase	2.18%	17/07/2038
PWLB	£4.515m	Commercial property purchase	1.98%	31/10/2033
PWLB	£1.2m	Housing purchase - Temporary accommodation	1.79%	14/11/2027
PWLB	£5m	Commercial property purchase	1.58%	14/01/2024
PWLB	£6.812m	Commercial property	1.89%	14/01/2034

		purchase		
PWLB	£1.62m	Housing purchase - Temporary accommodation	2.07%	04/02/2039
PWLB	£3.352m	Commercial property purchase	1.59%	14/03/2024
Yorkshire Purchasing Org	£2m	Capital programme financing	0.72%	18/06/2019

10.3 As shown above, the Councils have borrowed to fund the purchase of commercial properties. Members are reminded that in choosing to invest in Commercial Property, the Councils do not fully comply with the Prudential Code. This is allowable provided that the Councils have an Investment Strategy that explains:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

The requirement is met through the publication of a Commercial Property Investment Strategy which sets out the Councils' approach to developing and managing the commercial property portfolio including how the associated risks will be managed.

<https://www.adur-worthing.gov.uk/media/media.152857.en.pdf>

11. INVESTMENT OUTTURN

11.1 Investment Policy

The Councils' investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Councils had no liquidity difficulties.

11.2 Resources

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

Adur District Council

Balance Sheet Resources (£m)	31 March 2018	31 March 2019
General Fund Balances	(480)	156

HRA Balances	(3,616)	(5,081)
Earmarked reserves	(2,991)	(3,476)
Provisions	(853)	(802)
Usable capital receipts & grants	(5,678)	(9,012)
Total	(13,618)	(18,215)

Worthing Borough Council

Balance Sheet Resources (£m)	31 March 2018	31 March 2019
Balances	(730)	(83)
Earmarked reserves	(3,091)	(3,954)
Provisions	(875)	(772)
Usable capital receipts & grants	(9,632)	(7,205)
Total	(14,328)	(12,014)

11.3 Investments held by Adur District Council:

Adur District Council maintained an average balance of £8.849m of internally managed funds, which earned an average rate of return of 1.32%. The comparable performance indicator is the average 6 month LIBID rate, which was 0.79%. This compares with a budget assumption of an average £16.683m investment balance earning an average rate of 1.15%. The difference between the budget and actual balances is partly due to the use of internal funds in preference to external borrowing. Adur benefited from a long term £2m investment taken out in 2013 at 1.9%.

The treasury investment returns included in the reported income of Adur Council for 2018/19 amount to £180k, which exceeded the budget by £4k.

11.4 Investments held by Worthing Borough Council:

Worthing Borough Council maintained an average balance of £16.087m of internally managed funds, which earned an average rate of return of 0.89%. Those figures exclude the £10m loan to Worthing Homes, which earned 0.70% above the rate at which the funds were borrowed from the PWLB, amounting to £70k. The comparable performance indicator is the average 6 month LIBID rate, which was 0.79%. This compares with a budget assumption of £10.262m investment balance earning an average rate of 0.90%. The difference between the budget and actual balances is partly due to funding received from the LEP in relation to several schemes, including some funds paid in advance.

The Treasury investment returns included in the reported income of the Council for 2018/19 amount to £148,884, excluding Worthing Homes, £61k over budget, due to the rise in Base Rate, the higher than forecast average balance and the high return on the Local Authorities' Property Fund investment.

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

- 12.1 The Councils, in accordance with legislation, make a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year.
- 12.2 For 2018/19 an amount of £1.016m has been provided in the Adur District Council General Fund. No voluntary amount has been set aside for the HRA.
- 12.3 For 2018/19 an amount of £1.111m has been provided in the Worthing Borough Council revenue accounts, including £300k of voluntary revenue provision, which can be used to reduce the provision in future years.

13. CURRENT PERIOD TREASURY MATTERS

- 13.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, (MHCLG), on IFRS9, the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. This applies to Adur and Worthing Councils in respect of the investments in the Local Authorities' Property Fund.

14. ENGAGEMENT AND COMMUNICATION

- 14.1 The Adur and Worthing Councils' treasury management team provides treasury services to Mid Sussex District Council through a shared services arrangement (SSA). The SSA is provided under a Service Level Agreement that was renewed from 18th October 2016, and which defines the respective roles of the client and provider authorities for a period of three years.
- 14.2 Information and advice is supplied throughout the year by Link Asset Services Ltd, the professional consultants for the Councils' shared treasury management service.

15. FINANCIAL IMPLICATIONS

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

16. LEGAL IMPLICATIONS

The presentation of the Annual Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2018/19.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2018/19 to 2020/21 – Joint Governance Committee 30 January 2018, Joint Strategic Committee, 1 February 2018

Joint Half-Year In-House Treasury Management Operations Report 1 April – 30 September 2018 for Adur District Council and Worthing Borough Council – Joint Strategic Committee, 4 December 2018 and Joint Governance Committee, 22 January 2019

Link Asset Services Annual Report Template 2018/19

CIPFA Code of Practice on Treasury Management

CIPFA Code for Capital Finance in Local Authorities

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SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

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

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. ENVIRONMENTAL

Matter considered and no issues identified.

4. GOVERNANCE

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

- 4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2018/19 - 2020/21, submitted and approved before the commencement of the 2018/19 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.