Joint Governance Committee
28 July 2022

ADUR & WORTHING
COUNCILS

Key Decision : No
Ward(s) Affected: All

Annual Treasury Management Report 2021-22 for 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 note the Treasury Management performance for Adur and Worthing Councils for 2021/22 as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 **Recommendation One**
The Joint Governance Committee is recommended to note the annual report and to refer any comments or suggestions to the next meeting of the Joint Strategic Committee on 11th October 2022.

2.2 **Recommendation Two**
The Joint Strategic Committee is recommended to note the annual treasury management report for 2021/22.

3. CONTEXT

3.1 Treasury Management is:

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

3.2 This report details the treasury management activities and portfolio positions for the 2021/22 financial year for Adur District Council and Worthing Borough Council. The

Councils are required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.3 During 2021/22 the minimum reporting requirements were that the full Councils should receive the following reports:

- Before the beginning of the financial year, the first report, the Treasury Management Strategy and Annual Investment Strategy, seeks approval for the Councils' approach to the management of investments and the borrowing of funds for the forthcoming year. This report details how the Councils will manage risk in their treasury activities and was approved by Worthing Council on the 23rd February 2021 and by Adur Council on the 18th February 2021.
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- This is followed by a mid-year review of performance against the approved strategies (JGC 23rd November 2021, JSC 7 December 2021).

- At the year end, there is an annual report which confirms actual performance for the year (this report) to be submitted by the 30th September.

3.4 There is a clear regulatory environment governing the Council's investment and treasury activities. The Local Government Act 2003 requires that the Council complies with the Prudential Code for Capital Finance. This is a framework established to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. As part of the Prudential Code, indicators are established to ensure that the Council has approved limits on both capital expenditure plans and associated borrowing activity.

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

4. ISSUES FOR CONSIDERATION

4.1 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury management activities and highlights compliance with the Councils' policies previously approved by members.

4.2 The Annual Report also confirms that the Councils have complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Joint Governance Committee and the Joint Strategic Committee before they were reported to the full Councils.

4.3 Member training on treasury management issues was not possible during the year due to the Covid pandemic, but will be arranged during 2022/23 in order to support members' scrutiny role.

5. Summary of Prudential and Treasury Indicators

During 2021/22, the Councils complied with their legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are shown in the tables below. Other prudential and treasury indicators are to be found in the main body of this report. The Chief Financial Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limits, (the authorised limits), were not breached.

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

Adur District Council

Prudential and treasury indicators	31.3.21 Actual £m	2021/22 Original £m	31.3.22 Actual £m
Capital expenditure			
· Non-HRA	12.512	29.447	4.293
· HRA	5.186	18.956	7.007
· Total	17.698	48.403	11.300
Capital Financing Requirement:			
· Non-HRA	106.905	158.544	106.971
· HRA	61.591	79.004	61.802
· Total	168.496	237.548	168.773
Gross borrowing	(158.936)	(232.332)	(161.517)
Investments			
· Longer than 1 year	2.738	3.025	3.208
· Under 1 year	9.000	15.000	21.965
· Total	11.738	18.025	25.173
Net borrowing	(147.198)	(214.307)	(136.344)

Worthing Borough Council

Prudential and treasury indicators	31.3.21 Actual £m	2021/22 Original £m	31.3.22 Actual £m
Gross Expenditure non-HRA	17.744	16.550	26.662
Capital Financing Requirement: · Non-HRA	135.632	191.619	154.870
Gross borrowing	(137.725)	(190.902)	(153.751)
Investments · Longer than 1 year · Under 1 year · Total	 3.904 6.010 9.914	 4.050 17.005 21.055	 1.642 32.745 34.387
Net borrowing	(127.811)	(169.847)	(119.364)

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

6. The Councils' Capital Expenditure and Financing

6.1 The Councils undertake capital expenditure on long-term assets (land, buildings, vehicles, software and equipment). These activities may either be:

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

6.2 The actual capital expenditure forms one of the required prudential indicators, because the Councils must ensure that capital expenditure is affordable, approved and monitored. The tables below show the actual capital expenditure and how this was financed. The full explanation of the expenditure and the variances between the budgets and actual expenditure can be found in the Capital Monitoring Reports, but the most significant items are detailed below. There have been some delays in delivery of the capital programme due to the Covid 19 virus. The "current budget" includes subsequent approvals and reprofiled budgets approved during the year.

Adur District Council Total	2020/21 Actual	2021/22	2021/22	2021/22 Actual

		Original Budget	Current Budget	
Capital expenditure £m	**17.698**	**48.403**	**20.712**	**11.300**
Financed in year £m	**16.220**	**11.032**	**9.820**	**11.022**
Unfinanced capital expenditure £m	**1.478**	**37.371**	**10.892**	**0.278**

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

Adur District Council General Fund	2020/21 Actual	2021/22 Original Budget	2021/22 Current Budget	2021/22 Actual
Capital expenditure £m	**12.512**	**29.447**	**5.746**	**4.293**
Financed in year £m	**12.331**	**5.214**	**2.703**	**4.226**
Unfinanced capital expenditure £m	**0.181**	**24.233**	**3.043**	**0.067**

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

Adur District Council HRA	2020/21 Actual	2021/22 Original Budget	2021/22 Current Budget	2021/22 Actual
Capital expenditure £m	**5.186**	**18.956**	**14.966**	**7.007**
Financed in year £m	**3.889**	**5.818**	**8.184**	**6.796**
Unfinanced capital expenditure £m	**1.297**	**13.138**	**7.849**	**0.211**

For Adur, the original budget was revised due to subsequent approvals and re-profiling of budgets, most significantly the reprofiling of the Strategic Property Economic Regeneration Fund and the impact of Covid 19 on the ability to deliver some projects.

The difference between the current budget and the actual spend is due to:

- re-profiling of £9.142m of the 2021/22 budget into 2022/23 of which £7.959m relates to HRA developments and works to current accommodation
- a net underspend of £0.270m

Worthing Borough Council	2020/21 Actual	2021/22	2021/22	2021/22 Actual

		Original Budget	Current Budget	
Capital expenditure £m	**17.744**	**16.550**	**34.371**	**26.662**
Financed in year £m	**10.900**	**8.669**	**7.012**	**7.424**
Unfinanced capital expenditure £m	**6.844**	**7.881**	**27.359**	**19.238**

For Worthing, the original budget was revised due to subsequent approvals and re-profiling of budgets, most significantly the reprofiling of the Strategic Property Economic Regeneration Fund and the impact of Covid 19 on the ability to deliver some projects.

The difference between the current budget and the actual spend is due to:

- re-profiling of £7.714m of the 2021/22 budget into 2022/23 including £1.417m relating to the Portland Road works, £1.359m to the Worthing Integrated Care Centre, £870k to car park refurbishments works and £2.184 to other refurbishment and development works such as Teville Gate.

7. THE COUNCILS' OVERALL BORROWING NEED

7.1 Some of the Councils' capital expenditure is funded immediately by, for example, capital grants, capital receipts from the sale of assets, or from contributions from the revenue budget (capital funded by revenue as approved by statute). Capital expenditure that is not funded by any of these means is described as "the underlying need to borrow" and is known as the Capital Financing Requirement (CFR). The CFR is a gauge of the Councils' indebtedness. It results from the capital activity of the Councils and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Councils' treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Councils' cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Councils. The Councils make these decisions based on a number of factors, including the prevailing interest rates for borrowing compared to those for investing, the likelihood of a capital receipt in the near future or a forecast of additional capital grants.

Reducing the CFR – the Councils' (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Councils are required to make an annual revenue charge, called the Minimum Revenue Provision

– MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:

· the application of additional capital financing resources, (such as unapplied capital receipts); or

· charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Councils' 2021/22 MRP Policies (as required by DLUHC Guidance), were approved as part of the Treasury Management Strategy Report for 2021/22 by Worthing Council on the 23rd February 2021 and by Adur Council on the 18th February 2021.

The tables below show the Councils' CFRs for the year, which represent key prudential indicators. The CFR would include PFI and leasing schemes on the balance sheet because they increase borrowing need. However the Councils do not have any PFI or other qualifying schemes.

Adur District Council - total of General Fund and HRA

CFR (£m):	31.3.21 Actual	2021/22Budget	31.3.22 Actual
Opening balance	**167.018**	**200.177**	**168.496**
Add unfinanced capital expenditure (as above)	**3.700**	**40.170**	**2.591**
Less MRP/VRP	**(2.222)**	**(2.799)**	**(2.314)**
Closing balance	**168.496**	**237.548**	**168.773**

Adur General Fund share of the CFR

CFR (£m): General Fund	31.3.21 Actual	2021/22Budget	31.3.22 Actual
Opening balance	**106.724**	**134.311**	**106.905**
Add unfinanced capital expenditure (as above)	**2.403**	**27.032**	**2.380**
Less MRP/VRP	**(2.222)**	**(2.799)**	**(2.314)**
Closing balance	**106.905**	**158.544**	**106.971**

Adur HRA share of the CFR

CFR (£m): HRA	31.3.21 Actual	2021/22Budget	31.3.22 Actual
Opening balance	**60.294**	**65.866**	**61.591**
Add unfinanced capital expenditure (as above)	**1.297**	**13.138**	**0.211**
Less MRP/VRP	**0.000**	**0.000**	**0.000**
Closing balance	**61.591**	**79.004**	**61.802**

Worthing Borough Council

CFR (£m): General Fund	31.3.21 Actual	2021/22 Budget	31.3.22 Actual
Opening balance	**128.788**	**183.738**	**135.632**
Add unfinanced capital expenditure (as above)	**9.054**	**10.869**	**20.774**
Less MRP/VRP	**(2.210)**	**(2.988)**	**(1.536)**
Closing balance	**135.632**	**191.619**	**154.870**

7.2 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 (2021/22), plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Councils are not borrowing to support revenue expenditure. This indicator allows the Councils some flexibility to borrow in advance of immediate capital needs to take advantage of, say, low interest rates.

The difference between the CFR and the gross borrowing position is termed under or over borrowing. If a Council is under borrowed, it is using some of its internal cash that could otherwise be invested. It can therefore choose to borrow externally up to the CFR so as to take advantage of favourable interest rates. If a Council is over borrowed, it needs to ensure that this position is remedied over a two year period. The Councils have complied with this prudential indicator over a two year period.

This table shows the total CFR and gross borrowing for Adur District Council and the two following tables show the separate figures for the General Fund and the HRA.

Adur District Council Total	31 March 2021 Actual	31 March 2022 Strategy	31 March 2022 Actual
CFR £m	**168.496**	**237.548**	**168.773**
Gross borrowing position £m	**158.936**	**232.332**	**161.517**
Under/(over)funding of CFR £m	**9.560**	**5.216**	**7.256**

Adur District Council General Fund	31 March 2021 Actual	31 March 2022 Strategy	31 March 2022 Actual
CFR General Fund £m	**106.905**	**158.544**	**106.971**
Gross borrowing position £m	**98.460**	**153.369**	**104.892**
Under/(over)funding of CFR £m	**8.445**	**5.174**	**2.079**

Adur District Council HRA	31 March 2021 Actual	31 March 2022 Strategy	31 March 2022 Actual
CFR HRA £m	**61.591**	**79.004**	**61.802**
Gross borrowing position £m	**60.476**	**78.962**	**56.625**
Under/(over)funding of CFR £m	**1.115**	**0.042**	**5.177**

As at 31 March 2022, for Adur District Council, the HRA was under borrowed by £5.177m. The General Fund was under borrowed by £2.079m. Under borrowing results from the use of internal resources to fund capital expenditure, which reduces the amount of interest payable on external borrowing. Interest rates on investments are currently very low in comparison to the rates charged on borrowed sums, so this is a cost-effective strategy reducing the overall net cost of borrowing. The difference between the strategy and the actual CFR figures is due to re-profiling of the Capital budgets as detailed in section 5.2 above.

Worthing Borough Council	31 March 2021 Actual	31 March 2022 Strategy	31 March 2022 Actual
CFR General Fund £m	**135.632**	**191.619**	**154.870**
Gross borrowing position £m	**137.725**	**190.902**	**153.751**
Under/(over)funding of CFR £m	**(2.093)**	**0.717**	**1.119**

Worthing Borough Council was under borrowed by £1.119m at 31 March 2022. As for Adur, the difference between the strategy and the actual CFR figures is due to re-profiling of the Capital budgets as detailed in section 5.2 above.

7.3 The **authorised limit** is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Councils do not have the power to borrow above this level. The tables below demonstrate that during 2021/22 the Councils maintained gross borrowing within the authorised limits.

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

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs, net of investment income), against the net revenue stream. The costs incurred through capital expenditure are the interest payable on money borrowed and the Minimum Revenue Provision (see section 12), which is a statutory annual revenue charge to reduce the indebtedness of a Council, based on the amount of capital expenditure which has not been funded by capital receipts, grants etc.

Investment income and other income generated from the capital assets purchased or created through the capital programme are deducted from these costs. The net figure is then compared to the Councils’ net revenue streams - the income received from grants and taxation as shown in the Statement of Accounts. Consequently if only the costs of the capital programme increase, so will the proportion of financing cost to net revenue stream. If only the net revenue stream increases, then the proportion will reduce. Usually there will be a combination of both factors.

Adur District Council	**2021/22**
Authorised limit	**£239.000m**
Maximum gross borrowing position during the year	**£162.370m**
Operational boundary	**£234.000m**
Average gross borrowing position	**£158.128m**

Commercial properties financing as a proportion of net revenue stream	**(8.67)%**
Other GF financing costs as a proportion of net revenue stream	**10.15%**
HRA Financing costs as a proportion of net revenue stream	**16.00%**

The figures for the financing as a proportion of net revenue stream differ from the original forecasts, partly due to the high level of grants received to support the Council through the pandemic, which increased the value of the net revenue stream. In addition:

- the forecast for Adur's investment property financing costs as a proportion of net revenue stream was -14.77%, the negative figure meaning that the income would exceed the financing costs. However the planned additional commercial property purchases did not proceed, resulting in lower net income

- the Other General Fund financing cost proportion is lower than the forecast of 16.92%, due to re-profiling of the capital programme

- the HRA figure is lower than the forecast of 25.37%, due to the re-profiling of the capital programme.

Worthing Borough Council	2021/22
Authorised limit	**£198.000m**
Maximum gross borrowing position during the year	**£153.751m**
Operational boundary	**£193.000m**
Average gross borrowing position	**£142.087m**
Commercial properties financing as a proportion of net revenue stream	**(8.44)%**
Other GF financing costs as a proportion of net revenue stream	**2.36%**

As with Adur, the figures for the financing as a proportion of net revenue stream differ from the original forecasts, partly due to the high level of grants received to support the Council through the pandemic, which increased the value of the net revenue stream. In addition:

- the forecast for Worthing's investment property financing costs as a proportion of net revenue stream was -12.16%, the negative figure meaning that the income would exceed the financing costs. However the planned additional commercial property purchases did not proceed, resulting in lower net income

- the Other General Fund financing cost proportion is lower than the forecast of 8.66% due to the reduction in the MRP and the reprofiling of the capital programme, which resulted in lower than forecast borrowing costs.

8. TREASURY POSITION AS AT 31 MARCH 2022

The Councils' treasury management debt and investment positions are organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Councils' Treasury Management Practices. At the end of 2021/22 the Councils' treasury positions are shown in the following tables.

8.1 Adur District Council's position at the beginning and end of the year is shown below (nb PWLB refers to the Public Works Loan Board - an arm of the government).

	Principal at 31.03.22 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.21 £m	Average Rate of Return	Average Life in Years
<u>Debt Portfolio</u>						
PWLB	(138.527)	2.68%	15.62	(136.052)	2.67%	17.56
Other Borrowing	(22.990)	4.30%	34.41	(22.884)	4.40%	36.23
Total Debt	**(161.517)**			**(158.936)**		
CFR	**168.773**			**168.496**		
(Over)/under borrowing	**7.256**			**9.560**		
<u>Investments</u>						
Bonds	0.025	n/a	n/a	0.030	n/a	n/a
Property Fund	3.183*	3.54%**	n/a	2.708	3.90%	n/a
Long Term	0.000	n/a	n/a	0.000	n/a	n/a
Short Term	21.965	0.58%	< 1 year	9.000	0.20%	< 1 year
TOTAL INVESTMENTS	**25.173**			**11.738**		
NET DEBT	**(136.344)**			**(147.198)**		

* value of units at 31 March 2022
** return on original investment (£3m) over the financial year 2021/22

The maturity structure of debt table that follows demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

Adur District Council Maturity Structure of Debt	31 March 2022 actual	2021/22 original limits	31 March 2021 actual
under 12 months	8%	20%	6%
12 months and within 24 months	5%	30%	7%
24 months and within 5 years	12%	50%	13%
5 years and within 10 years	24%	70%	24%
10 years and within 20 years	29%	80%	29%
20 years and within 30 years	1%	60%	1%
30 years and within 40 years	9%	60%	7%
Over 40 years	12%	45%	13%

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

	Principal at 31.03.22 £m	Average Rate of Return	Average Life in Years	Principal at 31.03.21 £m	Average Rate of Return	Average Life in Years
Debt Portfolio						
PWLB	(114.376)	2.01%	16.20	(108.725)	1.96%	15.39
Other Borrowing	(39.375)	0.93%	1.35	(29.000)	1.13%	1.12
TOTAL BORROWING	**(153.751)**			**(137.725)**		
CFR	**154.870**			**135.632**		
(Over)/under borrowing	**1.119**			**(2.093)**		
Investments						
Bonds	0.050	n/a	n/a	0.050	n/a	n/a
Property Fund	1.592*	3.54%**	n/a	1.354	3.90%	n/a
Internal Loan	2.500	1.00%	0.25	2.500	1.00%	1.25
Short Term	30.245	0.58%	< 1 year	6.010	0.03%	< 1 year
TOTAL INVESTMENTS	**34.387**			**9.914**		
NET DEBT	**(119.364)**			**(127.811)**		

* value of units at 31 March 2022
** return on original investment (£1.5m) over the financial year 2021/22

The maturity structure of debt table that follows demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

Worthing Borough Council Maturity Structure of Debt	31 March 2022 actual	2021/22 original limits	31 March 2021 actual
under 12 months	15%	35%	14%
12 months and within 24 months	12%	40%	16%
24 months and within 5 years	15%	75%	9%
5 years and within 10 years	27%	75%	33%
10 years and within 20 years	14%	75%	15%
20 years and within 30 years	4%	75%	0%
30 years and within 40 years	9%	75%	10%
Over 40 years	4%	75%	3%

8.3 **Investments held by Adur District Council at 31 March 2022:**

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Lloyds Bank 95 day notice	22/07/2020	n/a	£10,000	0.10%	A+
Lloyds Bank call account	02/07/2021	n/a	£10,000	0.01%	A+
Close Bros	10/08/2021	09/08/2022	£1,000,000	0.45%	A-
Close Bros	06/09/2021	06/03/2023	£1,000,000	0.60%	A-
Handelsbanken	16/07/2018	n/a	£5,000	0.02%	AA-
DMO (Government)	23/03/2022	22/04/2022	£4,000,000	0.55%	AA-
DMO (Government)	30/03/2022	14/04/2022	£3,000,000	0.55%	AA-
DMO (Government)	09/03/2022	13/05/2022	£1,000,000	0.54%	AA-
Goldman Sachs Int Bank	26/05/2021	06/06/2022	£1,000,000	0.32%	A+
Yorkshire Building Soc	09/03/2022	24/06/2022	£1,000,000	0.75%	A-
Standard Chartered Sustainable Deposit	03/11/2021	14/04/2022	£1,000,000	0.37%	A+
Standard Chartered Sustainable Deposit	23/03/2022	23/09/2022	£1,000,000	1.44%	A+
Santander 95 day notice	07/04/2021	05/07/2022	£4,000,000	0.55%	A
CCLA MMF	01/04/2021	n/a	£3,000,000	variable	AAA
Black Rock MMF	01/04/2021	n/a	£940,000	variable	AAA
CCLA Local Auth Property Fund	25/04/2017	n/a	£3,183,424	variable	n/a
Boom Credit Union	06/03/2015	n/a	£25,000	n/a	n/a
TOTAL			**£25,173,424**		

Non-treasury investments

Adur District Council has approved a strategy to invest in properties and developments for economic regeneration purposes. Full details can be found in the Capital Strategy and Commercial Property Investment Strategy. Adur also holds, for policy purposes, shares in what was originally the West Sussex Credit Union, now known as Boom Community Bank. This is a member-owned financial co-operative with services available to residents and workers of East Hampshire, Kingston upon Thames, Surrey and West Sussex.

8.4 **Investments held by Worthing Borough Council at 31 March 2022:**

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Adur District Council	30/06/2020	30/06/2022	£2,500,000	1.00%	n/a
Close Brother Ltd	05/01/2022	05/01/2023	£1,000,000	0.75%	A-
DMO (Government)	01/03/2022	05/04/2022	£4,700,000	0.42%	AA-
DMO (Government)	30/03/2022	14/04/2022	£7,000,000	0.55%	AA-
Handelsbanken	01/04/2021	n/a	£5,000	0.02%	AA-
Leeds Building Society	09/06/2021	06/06/2022	£1,000,000	0.15%	A-
Lloyds Bank call account	01/04/2021	n/a	£20,000	0.01%	A+
Lloyds Bank 32 day notice	07/04/2021	17/06/2022	£10,000	0.05%	A+
Lloyds Bank 95 day notice	01/04/2021	19/08/2022	£10,000	0.10%	A+
Nat West Bank	09/03/2022	06/03/2023	£1,000,000	1.67%	A
Santander UK PLC	01/04/2021	n/a	£4,000,000	0.40%	A
Standard Chartered Bank	23/03/2022	23/05/2022	£3,000,000	0.98%	A+
Black Rock MMF	01/04/2021	n/a	£2,500,000	variable	AAA
CCLA MMF	01/04/2021	n/a	£3,000,000	variable	AAA
Federated MMF	01/04/2021	n/a	£3,000,000	variable	AAA
CCLA Local Auth Property Fund	25/04/2017	n/a	£1,591,713	variable	n/a
Boom Credit Union	06/03/2015	n/a	£50,000	n/a	n/a
TOTAL			**£34,386,713**		

Non-treasury investments

Worthing Borough Council has made two loans of £5m each for 10 years to Worthing Homes to support the building of homes. The Council receives £70k per annum net in interest over and above the cost to the Council of borrowing the £10m from the Public Works Loan Board. The loans are fully secured on property and mature in 2027 and 2028.

A loan of £5m was made to GB Met College in January 2020 for 20 years to support local education. The Council received £98k in 2021/22 net in interest over and above the cost to the Council of borrowing the £5m from the Public Works Loan Board. This amount will reduce in future years because the loan is repayable by equal instalments of principal. The loan is fully secured on property.

Worthing BC has approved a strategy to invest in properties and developments for economic regeneration purposes. Details can be found in the Capital Strategy and Commercial Property Investment Strategy. Worthing also holds, for policy purposes, shares in what was originally the West Sussex Credit Union, now known as Boom Community Bank. This is a member-owned financial co-operative with services available to residents and workers of East Hampshire, Kingston upon Thames, Surrey and West Sussex.

9. THE STRATEGY FOR 2021/22

9.1 Investment Strategy and control of interest rate risk

Some of the information and tables in the following paragraphs are supplied by the Councils' treasury advisors, Link Asset Services and consist of detailed economic and market information which informed the Councils' treasury management decisions throughout the year.

Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cash flow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Councils have taken a cautious approach to investing, they are also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

9.2. Borrowing strategy and control of interest rate risk

During 2021/22, the Councils maintained under-borrowed positions. 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 very low whilst the cost of borrowing was significantly higher. This approach enabled the Councils to minimise 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 the Councils may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

9.3 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.

9.4 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well into the second half of 2021/22. The forecast available for the preparation of the Treasury Management Strategy Statement is shown below.

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- 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)

HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

10. BORROWING OUTTURN

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

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

Adur District Council

Lender	Principal	Purpose of Loan	Interest Rate	Maturity
PWLB	**£1m**	**New Salts Farm**	**2.01%**	**08/07/2041**
PWLB	**£2m**	**Pad Farm**	**2.34%**	**19/10/2051**
PWLB	**£1m**	**Refinancing**	**1.80%**	**07/12/2041**
PWLB	**£2m**	**Refinancing**	**2.54%**	**23/03/2035**
PWLB	**£2m**	**Refinancing**	**2.60%**	**23/03/2037**
PWLB	**£2m**	**Refinancing**	**2.49%**	**23/03/2062**

Worthing Borough Council

Lender	Principal	Purpose of Loan	Interest Rate	Maturity
PWLB	**£3m**	**Worthing Integrated Care Centre (WICC)**	**2.34%**	**19/10/2051**
PWLB	**£2m**	**WICC**	**1.82%**	**03/11/2071**
PWLB	**£2m**	**Refinancing**	**1.80%**	**07/12/2041**
PWLB	**£2.5m**	**WICC**	**2.60%**	**23/03/2037**
PWLB	**£2.5m**	**WICC**	**2.64%**	**23/03/2047**
Rugby BC	**£5m**	**Liverpool Gardens**	**2.35%**	**05/12/2024**
BEIS	**£1.275m**	**Heat Network**	**0.01%**	**30/06/2050**
Devon CC	**£3m**	**Refinancing**	**0.25%**	**27/10/2023**

Leicestershire CC	**£5m**	**Teville Gate**	**0.25%**	**18/08/2023**
Oxfordshire CC	**£3m**	**WICC**	**0.53%**	**19/11/2024**
Leicestershire CC	**£5m**	**Refinancing**	**1.25%**	**28/02/2024**
West Sussex Credit Union	**£1.1m**	**Refinancing**	**0.55%**	**02/02/2023**

10.3 Borrowing in advance of need

The Councils have not borrowed more than, or in advance of their needs, purely in order to profit from the investment of the extra sums borrowed.

11. INVESTMENT OUTTURN

11.1 Investment Policy

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

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

11.2 Resources

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

Adur District Council

Balance Sheet Resources (£m)	31 March 2022	31 March 2021
General Fund Balances	(8.794)	(0.951)
HRA Balances	(9.332)	(7.816)
Earmarked reserves	(4.447)	(8.504)
Provisions	(0.862)	(0.862)
Usable capital receipts & grants	(4.271)	(6.339)
Total	**(27.706)**	**(24.472)**

Worthing Borough Council

Balance Sheet Resources (£m)	31 March 2022	31 March 2021
Balances	(4.055)	(1.543)
Earmarked reserves	(7.146)	(12.029)
Provisions	(0.832)	(0.516)
Usable capital receipts & grants	(7.697)	(6.360)
Total	(19.730)	(20.448)

11.3 **Investments held by the Councils**

Both Councils recorded investment income above the budgets, mainly due to Covid grants due to be repaid to the Government, but not yet reclaimed pending central reconciliations. This resulted in higher than forecast investment balances. Investment rates achievable in the market during the year also began to rise following the increases in Bank Base Rate, although it was necessary to keep the funds awaiting repayment in very short term and call investments, with resulting lower rates of return. Adur's repayment was requested part way through the year, although Worthing has not yet been asked for return of the funds. This has had a greater impact on Worthing causing the higher average balances and lower average interest rates.

Details of the income earned are shown below. A comparable performance indicator is the average 3 month London Interbank Bid Rate (the rate bid by banks on deposits), which was 0.17%.

Adur District Council:

Adur District Council maintained an average balance of £15.382m of internally managed short term investments, which earned an average rate of return of 0.23% and an average balance of £1.849m of long term investments, which earned an average rate of 0.52%. This excludes the £3m investment in the Local Authorities' Property Fund, which returned an average of 3.54%, amounting to income of £106k.

The treasury investment returns included in the reported income of Adur Council for 2021/22, excluding the Local Authorities' Property Fund investment, amounted to £50k. The total investment income of £157k exceeded the General Fund and HRA budgets by £22k, due to the reasons explained above.

The Council also made a saving of £253k against budget on the interest payments on borrowing due to the lower rates available and the re-profiling of the capital programme.

Worthing Borough Council:

Worthing Borough Council maintained an average balance of £23.375m of internally managed short term investments, which earned an average rate of return of 0.19% and a long term investment of £2.5m which earned 1%. Those figures exclude:

- the £10m loan to Worthing Homes, which earned 0.70% above the rate at which the funds were borrowed from the PWLB, amounting to £70k;

- the repayment loan to GB Met College, (originally £5m), which earned 2.00% above the rate at which the funds were borrowed from the PWLB, amounting to £103k;

- the investment in the Local Authorities' Property Fund, which earned an average of 3.54%, amounting to £53k.

The Treasury investment returns included in the reported income of the Council for 2021/22 amounted to £76k, excluding the investments specified above, £64k over budget, due to the reasons explained above.

The Council also made a saving of £416k against budget on the interest payments on borrowing due to the lower rates available and the re-profiling of the capital programme.

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

12.1 The Councils, in accordance with legislation, make a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. The Councils are also permitted to make a Voluntary Revenue Provision (VRP) which is additional to the MRP and can be used to reduce the MRP in future years.

12.2 For 2021/22 an amount of £2.314m of MRP, after an offset of £10k of VRP, has been provided in the Adur District Council General Fund. The VRP total balance at 31 March 2022 was £30k. No voluntary amount has been set aside for the HRA.

12.3 For 2021/22 an amount of £1.536m of MRP and a net £160k offset of VRP has been provided in the Worthing Borough Council revenue accounts. The VRP total balance at 31 March 2022 was £470k.

13. CURRENT PERIOD TREASURY MATTERS

13.1 Due to the Covid-19 virus, the government made substantial payments to both Councils to provide relief to the local community, support the additional costs that the Councils are incurring, and to compensate for the loss of income.

The Councils have been very successful in distributing the funds, however the timescales for the government to reconcile the use of the grants and to request the return of excess funds have resulted in significant short term excess liquidity. The funds could only be invested for short periods of time at low interest rates.

13.2 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 The Economy and Interest Rates

The following economic review has been supplied by Link Asset Services which provides useful background to the factors affecting interest rates and inflation.

UK. Economy. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That mantra now seems very dated. Inflation is the “genie” that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia’s invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed’s interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said “we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation.”

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a “technical” recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan. The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

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 2019, and which defines the respective roles of the client and provider authorities for a period of three years. The shared service also took on Treasury work for Arun District Council on the 1st March 2021 under a three year service level agreement.

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 2021/22.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2021/22 to 2023/24 – Joint Governance Committee 26 January 2021, Joint Strategic Committee 9 February 2021, Worthing Council 23 February 2021, Adur Council 18 February 2021

Joint Half-Year In-House Treasury Management Operations Report 1 April – 30 September 2021 for Adur District Council and Worthing Borough Council – Joint Governance Committee, 23 November 2021 and Joint Strategic Committee, 7 December 2021

Link Asset Services Annual Report Template 2021/22

CIPFA Code of Practice on Treasury Management and CIPFA Code for Capital Finance in Local Authorities

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SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

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

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified.

2.2 Equality Issues

Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified.

2.4 Human Rights Issues

Matter considered and no issues identified.

3. ENVIRONMENTAL

Matter considered and no issues identified.

4. GOVERNANCE

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

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2021/22 - 2023/24, submitted and approved before the commencement of the 2021/22 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.