ADUR & WORTHING
COUNCILS

Joint Governance Committee
29 November, 2022

Joint Strategic Committee
6 December, 2022

Key Decision : No
Ward(s) Affected: All

Joint Mid Year Treasury Management Review 2022/23

Report by the Director for Digital, Sustainability & Resources

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Executive Summary

1. PURPOSE

1.1 The purpose of this and the other treasury management reports that are submitted during the year is to ensure that proper scrutiny is undertaken of the treasury and capital expenditure activities of the Councils and that the activities are conducted in a prudent manner in order to safeguard the financial position of the Councils.

1.2 Councils are required by regulations issued under the Local Government Act 2003 to produce a mid-year treasury management review of activities; and a review of performance against the prudential and treasury indicators for the year.

1.3 The key message arising from this report is that both Adur and Worthing Councils have complied with the approved policies and the indicators agreed prior to the start of the financial year with the exception of one minor breach as detailed within the report.

1.4 This report asks Members to note the Treasury Management mid-year performance for Adur and Worthing Councils at the 30 September 2022, as required by regulations issued under the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 The Joint Governance Committee is recommended to note this report, and refer any comments or suggestions to the Joint Strategic Committee meeting on the 6th December 2022.

2.2 The Joint Strategic Committee is recommended to note this report and forward the report to the Worthing Borough Council Meeting on 13th of December 2022 and Adur District Council 15th of December 2022

2.3 Worthing Borough Council is recommended to note this report at its meeting on 13th December 2022

2.4 Adur DIstrict Council is recommended to note this report at its meeting on 15th December 2022

3. CONTEXT

3.1 This report summarises the treasury management activities and portfolio for both Adur and Worthing Councils for the half year to 30th September 2022.

3.2 This is one of 3 treasury management reports that are required to be presented during the financial year (see Para. 4.1.3).

3.3 **Capital Strategy**

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. All local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

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

A report setting out our Capital Strategy was approved by JSC on 11th October 2022.

3.4 **Treasury Management**

The Councils operate balanced budgets, which broadly means cash raised during the year will meet their cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Councils' capital plans. These capital plans provide a guide to the borrowing needs of the Councils, essentially the longer term cash flow planning to ensure the Councils can meet their capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

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

4. ISSUES FOR CONSIDERATION

4.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Councils' treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Councils will seek to achieve those policies and objectives.

3. Receipt by the full Councils of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Councils of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Councils of the role of scrutiny of treasury management strategy and policies to a specific named body. For these

Councils the delegated bodies are the Joint Governance Committee and the Joint Strategic Committee.

4.2 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2022/23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Councils' capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Councils' investment portfolios for 2022/23;
- A review of the Councils' borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23

4.3 **RECOMMENDED ADDITIONS/AMENDMENTS TO COUNTERPARTIES**

There are no recommended changes to the Treasury and Capital Strategies.

5. THE ECONOMY AND INTEREST RATES

A commentary supplied by ***Link Treasury Services Ltd**,* the professional consultants for the Councils' shared treasury management services, is included as an appendix to this report. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.

6. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

6.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was noted by the Joint Governance Committee on the 25th January 2022 and approved by Adur Council on 24th February 2022 and by Worthing Council on 22nd February 2022.

6.2 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

7. THE COUNCILS' CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Councils' capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

7.1 **Prudential Indicator for Capital Expenditure**

These tables show the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Adur District Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
HRA	19.513	5.060	16.006
Non HRA	52.997	1.055	7.102
Total capital expenditure	72.510	6.115	23.108

The change in the Adur capital expenditure estimate is due mainly to the decision that the Council no longer plans to use the Strategic Property fund to invest in property solely for commercial purposes, due to changes in government guidance, consequently this is not expected to be used in 2022/23 pending identification of appropriate projects. The budget was previously £44m, which has been reprofiled to 2023/24 to be used for regeneration projects. There has also been some reprofiling of the HRA maintenance programme.

Worthing Borough Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Non HRA	74.896	22.727	63.627

There have been various changes to the Worthing capital expenditure programme, this has involved the review of some major projects which have been detailed in regular capital monitoring reports.

7.2 **Changes to the Financing of the Capital Programme**

The tables below draw together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the tables increases the underlying indebtedness of the Councils by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Adur District Council

	2022/23 Original Estimate	2022/23 Revised Estimate
	£m	£m
Total Capital Expenditure	72.510	23.108
Financed by:		
Capital receipts	0.200	0.206
Capital Grants & contributions	1.546	1.121
Reserves & revenue contributions	5.976	4.031
Total financing	7.722	5.358
Borrowing requirement	64.788	17.750

Worthing Borough Council

	2022/23 Original Estimate	2022/23 Revised Estimate
	£m	£m
Total Capital Expenditure	74.896	63.627
Financed by:		
Capital receipts	0.918	0.023
Capital grants & contributions	6.385	7.259
Reserves & revenue contributions	2.398	0.266
Total financing	9.701	7.547
Borrowing requirement	65.195	56.079

7.3 **Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary**

The tables below show the CFR, which is the underlying external need to incur borrowing to fund the capital programme. They also show the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator - Capital Financing Requirement

As explained above, the CFR forecasts change with the capital expenditure forecasts, to the extent that the expenditure is not funded. Due to the reprofiling of capital expenditure, partly due to Covid 19, the CFR is below the forecast for both Adur and Worthing.

Prudential Indicator - the Operational Boundary for external debt
Adur District Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	**£m**	**£m**
Prudential Indicator			
Capital Financing Requirement			
CFR - HRA	95.226	65.251	72.041
CFR - Non HRA	161.638	106.736	112.607
Total CFR	256.864	171.987	184.648
Net movement in CFR	64.788	3.214	15.875
	Operational Boundary	**Actual Debt**	**Operational Boundary**
Borrowing	248.000	156.678	248.000
Other long term liabilities	1.000	0.000	1.000
Total debt	249.000	156.678	249.000

Worthing Borough Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	**£m**	**£m**
Prudential Indicator			
Capital Financing Requirement			
CFR - Non HRA	175.400		
CFR - Strategic	68.791	172.806	209.256
Total CFR	244.191	172.806	209.256
Net movement in CFR	65.195	17.936	54.386
	Operational Boundary	**Actual Debt**	**Operational Boundary**
Borrowing	229.000	158.170	229.000
Borrowing re Worthing Homes	10.000	10.000	10.000
Borrowing re GB Met College	5.000	4.605	5.000
Other long term liabilities	1.000	0.000	1.000
Total debt	245.000	172.775	245.000

7.4 **Limits to Borrowing Activity: CFR and debt**

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital investment purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Councils have approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Chief Financial Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Adur District Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Borrowing	247.304	156.678	170.276
Other long term liabilities	0.000	0.000	0.000
Total debt	247.304	156.678	170.276
CFR	256.864	171.987	184.648

Worthing Borough Council

	2022/23 Original Estimate	Actual at 30 Sept 2022	2022/23 Revised Estimate
	£m	£m	£m
Borrowing	242.272	172.775	207.946
Other long term liabilities	0.000	0.000	0.000
Total debt	242.272	172.775	207.946
CFR	244.191	172.806	209.256

7.5 **Limits to Borrowing Activity: Authorised Limit and debt**

A further prudential indicator controls the overall level of borrowing. This is the **Authorised Limit** which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Adur District Council

	2022/23 Original Indicator	Actual debt at 30 Sept 2022	2022/23 Revised Indicator
Authorised Limit for external debt	**£m**	**£m**	**£m**
Borrowing	252.000	156.678	252.000
Other long term liabilities	1.000	0.000	1.000
Total	253.000	156.678	253.000

Worthing Borough Council

	2022/23 Original Indicator	Actual debt at 30 Sept 2022	2022/23 Revised Indicator
Authorised Limit for external debt	**£m**	**£m**	**£m**
Borrowing re Worthing Homes and GB Met	14.500	14.500	14.500
Other Borrowing	233.000	157.775	233.000
Other long term liabilities	1.000	0.000	1.000
Total	248.500	172.775	248.500

8 BORROWING

8.1 The Capital Financing Requirement (CFR) denotes the Councils' underlying need to borrow for capital purposes. If the CFR is positive the Councils may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. For both Adur and Worthing Councils capital expenditure in 2022/23 is funded from grants, capital receipts, contributions, reserves and revenue contributions as well as borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

8.2 Adur District Council's revised CFR forecast for 2022/23 is £184.648m. The relevant table in 7.4 shows the Council has borrowings of £156.678m at 30 September 2022 and has utilised £15.309m of cash flow funds in lieu of borrowing.

Worthing Borough Council's revised CFR for 2022/23 is £209.256m. The relevant table in 7.4 shows the Council has borrowings of £172.775m at 30

September 2022 and has utilised £0.031m of cash flow funds in lieu of borrowing.

8.3 Due to the overall financial position, the payments made on repayment loans and the underlying need to borrow for capital purposes, new external borrowing was undertaken for both councils as detailed in the tables below. It is anticipated that further borrowing will be undertaken by both Councils during this financial year to fund capital expenditure and any debt refinancing needs.

The capital programme is being kept under regular review in particular due to the effects of inflationary pressures, and the materials and labour market challenges facing both Council's capital programmes. Our borrowing strategy will, therefore, also be regularly reviewed for both councils and then revised, if necessary, in order to achieve optimum value and manage interest rate risk exposure in the long-term. Both Councils have made some use of short-term borrowing from other local authorities because interest rates in this market have been competitive.

8.4 **PWLB maturity certainty rates (the equivalent gilts yields plus 80bps) year to 30 September 2022**

Gilt yields and the linked PWLB rates were on a generally rising trend throughout the first 6 months of 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September. The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit we forecast rates to fall back to 3.10% by the end of September 2025.

The current PWLB rates are set as margins over gilt yields as follows (100 basis points is equivalent to 1%):-

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)

9.0 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate for both councils and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

10.0 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for each Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the both Councils operated within the treasury and prudential indicators set out in their respective Treasury Management Strategy Statements for 2022/23.

However, on the 31st of October 2022 a procedural error occurred. This caused the Worthing Council's investment balance to exceed the agreed counterparty limit of £3m with Federated Investments MMF for 2 days, at its peak the size of the breach was £425,000. Following recognition of the error, corrective action was taken to return the balance within limits. There was no loss of funds or additional expense to the Council as a result of this breach. A full review of controls has been completed and additional measures have now been implemented to mitigate future risk.

The Chief Financial Officer reports that no difficulties are envisaged for either Council in the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

11.0 ANNUAL INVESTMENT STRATEGY

11.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by Adur Council on 24 February 2022 and by Worthing Council on 22 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Councils' investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Councils will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with the respective Councils' risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions. The shared Treasury Service uses information supplied by the Treasury advisers, Link Asset Services, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in the Appendix, investment rates have continued to rise. There have been 4 meetings of the MPC in the 6 months to 30th September 2022, at each meeting the decision has been made to increase the base rate. Following the September meeting the rate was set at

2.25%, its highest since 2008's Global Financial Crisis. It is widely anticipated that the bank rate will continue to increase throughout the remainder of 2022 and into early 2023, before stabilising and subsequently returning to around 2% gradually over the course of 2024 and 2025. Inflationary pressures continue to be driven by global fossil fuel markets, largely in response to sanctions placed on Russia as a result of its invasion and subsequent occupation of Ukrainian territory.

The UK government's "fiscal event" presented on September 23rd received a shock response from Gilt markets and prompted a fall and instability in Sterling against most world currencies, including a very strong US dollar.

In general the factors above present both opportunities and risks in our investment activities, chiefly it prompts a need for agility. Therefore our investments continue to follow a low risk and largely short term strategy for both councils. This increases our ability to respond to changes in market conditions and to changes in risk; which we continue to monitor closely. It is expected that as a result of increased market rates our investment income for the year will improve comparative to 2021/22 for both councils.

11.2 **Creditworthiness**

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function.

Credit Default Swap prices

Credit Default Swaps (CDS) are credit derivative contracts that enable investors to swap credit risk on a company with another counterparty. They are market indicators of credit risk. Although CDS prices for UK banks spiked at the outset of the pandemic in 2020, they then subsequently returned to near pre-pandemic levels. **However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.**

11.3 **Investment balances**

The average level of funds available for investment purposes, excluding the Local Authorities' Property Fund, during the half year for Adur was £18.5m and for Worthing was £46.1m, excluding long term loans to Worthing Homes and GB Met College. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt and payment of grants and progress on the capital programme.

11.4 Investment performance – Adur District Council

The investment portfolio yield for the first 6 months of the year is 1.21% p.a. against the average benchmark rate (supplied by Link) of 1.11% for 30 day deposits. This rate excludes the £3m investment in the Local Authorities' Property Fund, for which we project a return of 3.36% p.a. over the 6 months. The portfolio is shown in Appendix 1. Adur District Council's budgeted investment return for 2022/23 for both the General Fund and the HRA is £135k and the current forecast will result in a significant over achievement of about £228k. This is due mainly to the significant increases in interest rates available in the market as well as the additional liquidity arising from government grants held in respect of Covid and energy rebates grants. The interest payable budget is currently expected to underspend by around £69k for the General Fund and overspend by around £72k for the HRA by the year end.

11.5 Investment performance – Worthing Borough Council

The investment portfolio yield for the first 6 months of the year is 1.87% p.a. against the average benchmark rate (supplied by Link) of 1.11% for 30 day deposits. The portfolio yield excludes the £1.5m investment in the Local Authorities' Property Fund,for which we project a return of 3.36% p.a. over the 6 months.

In the previous years the Council has made two loans which are treated as capital expenditure rather than treasury investments:

- £10m to Worthing Homes at 0.7% above the rate at which the funds were borrowed, generating £70k p.a. for the Council
- £5m repayment loan to GB Met College at 2% above the rate at which funds were borrowed; the balance is now £4.605m, which will generate £213k in 2022/23 for the Council.

Worthing Borough Council's budgeted investment income for 2022/23, excluding the Worthing Homes and GB Met loans, is £62k and the current forecast will result in an over achievement of about £241k, this is in part due to the level of government grants still held at this time by the Council, in addition recent changes in economic conditions have improved the outlook for investment return. The use of internal borrowing and the reprofiling of the capital programme contribute to a saving in the interest payable budget which is currently expected to be overspent by £61k. This is largely due to increasing interest rates and Gilt market volatility following the UK Governments 'fiscal event' in late September 2022; both of which have contributed to increased borrowing costs.

Investment Performance – Approved Limits

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the period ended 30 September 2022. The Local Authority Property Funds gave a briefing for Members on the 27th October 2021 to update them and answer any questions.

11.6 **Counterparty commitment to sustainability**
The Councils are committed to ethical investments and the use of counterparties which have appropriate sustainability, carbon reduction or ethical plans.

12. ENGAGEMENT AND COMMUNICATION

12.1 The Adur and Worthing Councils' treasury management team provides treasury services to Mid Sussex District Council through a shared services arrangement (SSA). The SSA is provided under a Service Level Agreement that was renewed from 18th October 2019, and which defines the respective roles of the client and provider authorities for a period of three years.

12.2 The Adur and Worthing Councils' treasury management team has also provided treasury services to Arun District Council through a shared services arrangement (SSA) since 1st March 2021 under a Service Level Agreement which defines the respective roles of the client and provider authorities for a period of three years.

12.2 Information and advice is supplied throughout the year by Link Treasury Services Ltd, the professional consultants for the Councils' shared treasury management service. This contract is due to be re-procured for 1st April 2024.

13. FINANCIAL IMPLICATIONS

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

14. LEGAL IMPLICATIONS

14.1 The presentation of the Half Year Report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators for 2022/23.

Background Papers

Joint Treasury Management Strategy Statement and Annual Investment Strategy Report 2022/23 to 2024/25 (Adur Council 24th February 2022 and Worthing Council 22 February 2022)
Annual Joint In-House Treasury Management Operations Report 1 April 2021 – 31 March 2022 (JGC 28 July 2022 JSC 11 October 2022)
Link Treasury Services Ltd Half Year Report Template 2022/23

Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA)
The Prudential Code for Capital Finance in Local Authorities (CIPFA)

SUSTAINABILITY & RISK ASSESSMENT

1. ECONOMIC

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

2. SOCIAL

2.1 **Social Value**
Matter considered and no issues identified.

2.2 Equality Issues
Matter considered and no issues identified.

2.3 Community Safety Issues (Section 17)
Matter considered and no issues identified.

2.4 Human Rights Issues
Matter considered and no issues identified.

3. ENVIRONMENTAL

Matter considered and no issues identified.

4. GOVERNANCE

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

4.2 The operation of the treasury management function is as approved by the Councils' Treasury Management Strategy and Annual Investment Strategy 2022/23 - 2024/25, submitted and approved before the commencement of the 2022/23 financial year.

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

APPENDIX 1
Investment Portfolios at 30 September 2022
Adur District Council:

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
CCLA MMF	n/a	n/a	£10,000	var	AAA
Black Rock MMF	n/a	n/a	£10,000	var	AAA
Close Brothers Limited	09.08.22	09.08.23	£1,000,000	2.80%	A-
Close Brothers Limited	06.09.21	06.03.23	£1,000,000	0.60%	A-
Close Brothers Limited	09.08.22	09.08.24	£1,000,000	3.20%	A-
Federated Investments MMF	n/a	n/a	£10,000	var	AAA
Goldman Sachs Int Bank	06.04.22	06.04.23	£2,000,000	1.95%	A+
Handelsbanken call account	n/a	n/a	£5,000	0.02%	AA
HSBC ESG MMF	n/a	n/a	£350,000	var	AAA
NatWest Bank PLC	11.05.22	06.02.23	£1,000,000	1.65%	A+
Invesco MMF	n/a	n/a	£170,000	var	AAA
Standard Chartered Bank	05.07.22	19.12.22	£1,000,000	2.00%	A+
Standard Chartered Bank	14.04.22	13.01.23	£1,000,000	1.65%	A+
Clydesdale Bank PLC	20.07.22	20.01.23	£2,000,000	2.35%	A-
Nationwide Building Society	17.08.22	25.11.22	£2,000,000	1.90%	A+
Local Authority Property Fund	25.04.17	n/a	£3,000,000	var	n/a
Boom Credit Union	06.03.15	n/a	£25,000	n/a	n/a
TOTAL			**£15,580,000**		

Investment Portfolio - Worthing Borough Council

Counterparty	Issue Date	Maturity Date	Principal	Interest Rate	Long Term Rating
CCLA MMF	n/a	n/a	£3,000,000	var	AAA
Black Rock MMF	n/a	n/a	£3,000,000	var	AAA
HSBC ESG MMF	n/a	n/a	£3,000,000	var	AAA
Close Brothers Limited	05.01.22	05.01.23	£1,000,000	0.75%	A-
Close Brothers Limited	08.09.22	11.09.23	£1,000,000	3.90%	A-
Federated Investors MMF	n/a	n/a	£2,650,000	var	AAA
Goldman Sachs Int Bank	06.04.22	06.04.23	£3,000,000	1.95%	A+
Nationwide Building Society	29.06.22	05.10.22	£1,000,000	1.37%	A+
Nationwide Building Society	07.09.22	05.12.22	£1,000,000	2.23%	A+
Handelsbanken call account	n/a	n/a	£5,000	0.02%	AA
NatWest Bank PLC	09.03.22	06.03.23	£1,000,000	1.67%	A+
Invesco MMF	n/a	n/a	£3,000,000	var	AAA
Clydesdale Bank PLC	20.07.22	20.10.22	£2,000,000	1.80%	A-
Debt Management Office	28.09.22	03.10.22	£8,820,000	1.97%	AA-
Debt Management Office	30.09.22	03.10.22	£1,780,000	1.85%	AA-
Standard Chartered Bank	23.05.22	23.05.23	£1,000,000	2.13%	A+
Standard Chartered Bank	01.06.22	05.10.22	£2,000,000	1.38%	A+
Local Authority Property Fund	27.04.17	n/a	£1,500,000	var	n/a
Boom Credit Union	Various	n/a	£50,000	n/a	n/a
TOTAL			**£39,805,000**		

Appendix 2
New loans taken out by the Councils

Adur District Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
Halton Borough Council	£1.0m	Fixed interest rate	1.90%	20/06/2024

Worthing Borough Council – new loans

Lender	Principal	Type	Interest Rate	Maturity
Great Yarmouth Borough Council	£3.0m	Fixed interest rate	0.30%	19/04/2024
Gloucestershire County Council	£5.0m	Fixed interest rate	1.70%	05/07/2024
Bedford Borough Council	£2.0m	Fixed interest rate	1.85%	30/09/2022
Vale of Glamorgan Council	£2.0m	Fixed interest rate	2.45%	29/09/2023
Public Works Loan Board	£2.0m	Fixed interest rate	2.50%	09/08/2031
Public Works Loan Board	£5.0m	Fixed interest rate	3.82%	13/09/2072
Public Works Loan Board	£5.0m	Fixed interest rate	4.00%	21/09/2067
Public Works Loan Board	£5.0m	Fixed interest rate	4.05%	21/09/2062

APPENDIX 3

*This commentary has been supplied by **Link Treasury Services Ltd**, the professional consultants for the Councils' shared treasury management services. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

Economics update

- The second quarter of 2022/23 saw:

  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;

  - Signs of economic activity losing momentum as production fell due to rising energy prices;

  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;

  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;

  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;

  - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

- During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

· After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10