WIRRAL

POLICY AND RESOURCES COMMITTEE

Wednesday, 14 June 2023

REPORT TITLE:	TREASURY MANAGEMENT ANNUAL REPORT 2022-23
REPORT OF:	DIRECTOR OF FINANCE

REPORT SUMMARY

The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires the production of an annual Treasury Management Strategy Statement on likely financing and investment activity. The Code also recommends that Members are informed of treasury management activities at least twice a year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance.

There was an underspend in the 2022/23 financial year on net Treasury activities of £0.126 million, which is attributable to lower debt management costs and an increase in investment returns. This underspend was incorporated into the Revenue Outturn report.

The level of Capital Financing debt held on the balance sheet, including the Merseyside Residuary Body debt managed by the Council on behalf of the constituent authorities, was £164 million at 31 March 2023. This is an increase of £4 million since 31 March 2022 and reflects the additional Public Works Loan Board loan to finance the second year of the Capitalisation Directive. At 31 March 2023, the Council also held £121 million of temporary loans from other Local Authorities, compared to £58 million at 31 March 2022. This is due to the policy of minimising and delaying fixed term borrowing costs which adversely impact upon the revenue budget.

The Council has complied with the Treasury Management Indicators as set out in the agreed Treasury Management Strategy for 2022/23.

The report helps to ensure that the Council maintains effective management of financial resources which indirectly supports the delivery of all five priorities of the Wirral Plan 2021 - 26.

RECOMMENDATION

The Policy and Resources Committee is recommended to note the Treasury Management Outturn Report for 2022/23.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Wirral Council has adopted the CIPFA Code of Practice on Treasury Management ("the Code"), which includes regular update reports to Members of treasury activity. This report is the outturn review for 2022/23.

2.0 OTHER OPTIONS CONSIDERED

2.1 As per the requirements of the CIPFA Code, this report updates Members on Treasury activities to 31st March 2023, therefore no other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 Treasury management is defined by CIPFA as: "The management of the Council 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 The Council approves the Treasury Management Strategy at the start of each financial year. This identifies how it is proposed to finance capital expenditure, borrow and invest in the light of capital spending requirements, the interest rate forecasts and the expected economic conditions. During the year Members receive a mid-year report on treasury management activities and at the end of each financial year an Annual Report.

3.3 Treasury Management activities must be considered within the economic context and environment in which they are undertaken.

3.4 Appendix A provides detail of the economic developments throughout 2022/23. In summary, regarding inflation and economic growth, inflation within the financial year was at the highest levels seen for forty years. This has been driven by steep rises in energy costs. These record inflation levels have impacted upon the Bank of England's monetary policy as they have reacted by raising their lending base rate from 0.75% to 4.25% at the end of March 2023. As Treasury activities centre around both lending and investing funds, these changes in interest rates have an effect on both the investment returns and borrowing interest costs for the Council.

THE COUNCIL TREASURY POSITION

3.5 The table shows how the position has changed since the mid-year report as at 30 September 2022.

Table 1: Summary of Treasury Position

	Balance 30 Sep 22 £m	Maturities £m	Additions £m	Balance 31 Mar 23 £m
Investments	36.37	-256.51	251.82	31.68
Borrowings	-203.48	127.91	-209.10	-284.68
Other Long-Term Liabilites	-33.05	1.35	0.00	-31.70
Net Debt	**-200.16**	**-127.25**	**42.72**	**-284.69**

3.6 Throughout the second half of the year the level of net debt increased due to the increase of borrowing. This increase was owing to a contribution of factors,

- Continued delivery of the Capital Programme, which is part funded by debt
- Agreeing a Public Works Loan Board (PWLB) loan to cover the second year of the Capitalisation Directive
- Temporary loans from other Local Authorities that were taken out towards the end of 2022/23 for cashflow purposes. Temporary loans from other Local Authorities are less costly compared to fixing into longer term loan arrangements with for example the PWLB, hence their use for short-term cashflow.

BORROWING AND DEBT MANAGEMENT

3.7 As outlined in the Treasury Strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.8 The Council undertakes borrowing to fund capital expenditure. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates.

3.9 The use of cash balances in lieu of borrowing will not be sustainable over the medium term. Elements of the Capital Programme will ultimately require funding via borrowing from external sources. As capital reserves are called upon the resources temporarily available to use in lieu of external borrowing diminish, meaning the Council will reach a point when it is no longer possible to delay borrowing any further. Internal borrowing does not remove the need to externally borrow, it merely delays incurring the debt and consequently the financing costs.

3.10 The decision to continue to use internal resources in lieu of borrowing for capital purposes helped to reduce borrowing costs in 2022/23. In future years, as cash flows diminish through use of reserve and/or interest rates rise, external borrowing will have to increase. The Treasury Management team will continue to proactively manage the Council's cash flow and where possible to minimise costs. Agreeing fixed term debt, in an environment in which interest rates may fluctuate, would lessen the potential exposure to future interest rate increases albeit at the counter risk of interest rates falling.

3.11 **Lender Option Borrower Option (LOBO) loans**: The Council continues to hold £94.5 million of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks have exercised their option during the second half of the year.

3.12 Appendix B illustrates the movement in the Council's debt portfolio since the mid-year point. Borrowings have increased by £81.2 million, with other long-term liabilities (PFI agreements) reducing by £1.60 million. The increase in borrowing is attributable to the utilisation of useable reserves and continued delivery of the capital programme, part of which is funded by borrowing. Temporary borrowing continues to be utilised, when possible, to keep interest costs reduced. Further detail is provided in Appendix B that describes the debt management approach taken in 2022/23 and provides additional details of borrowings in tables B1 and B2.

TREASURY INVESTMENT ACTIVITY

3.13 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. These investments arise from a number of sources including General Fund Balances, Reserves and Provisions, grants received in advance of expenditure, money borrowed in advance of capital expenditure, Schools' Balances, and daily cashflow / working capital.

3.15 CIPFA revised Treasury Management Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

3.16 Appendix C describes investment management, with a significant sum of available funding being utilised to temporarily minimise borrowing costs. Table C1 details investments held as at 31 March 2023.

3.17 From a starting position of £67 million of investments as at 31 March 2022, the level of investment decreased to £53 million at 30 June 2022 and then further reduced to a balance of £36 million as at 30 September 2022. During the final quarter of the financial year the investment levels fell from £37 million at 31 December 2022 to £32 million at 31 March 2023, the reduction due to:

- Invested cash being used to repay temporary loans as they become due, rather than entering into replacement loan agreements.

- The continued utilisation of the funding as service need dictates, including grant monies received at the end of 2021/22 that inflated the investment balances coming into 2022/23.

3.18 Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.44% - 0.58% at the end of start of the year and between 4.00% and 4.13% at the end of March.

3.19 The budgeted investment income for the year was £1.2 million with an actual income of £1.1 million at the end of the year. This shortfall in investment income is attributable to these key factors:

a) Low interest rates offered for investments at the start of the financial year
b) The continuing policy of relying on internal borrowing to temporarily fund and thereby delay borrowing for the Capital Programme, which reduces balances available to put into investments but generates savings in interest incurred.

3.20 Given the risk of short-term unsecured bank investments, the Council has invested in alternative and/or higher yielding asset classes as shown in Appendix C, table C1.

3.21 However, the reduction in investment income is being offset by the savings of on delayed borrowing for amounts internally borrowed.

3.22 The return on investments, along with the policy of internally borrowing, reflects prevailing market conditions and the objective of optimising returns commensurate with the overriding principles of security and liquidity.

COMPLIANCE WITH TREASURY INDICATORS

3.23 The Chief Finance Officer reports that all treasury management activities undertaken during 2022/23 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Appendix D.

4.0 FINANCIAL IMPLICATIONS

4.1 Capital debt finance has reduced annually over recent years, despite additional annual Capital commitments. This has contributed to the generation of substantial savings.

4.2 Investment income has also helped to generate resources for service delivery.

4.3 In the financial year 2022/23 there was an underspend on net Treasury activities of £0.126 million, which is attributable to lower debt management costs than originally budgeted for and an increase in investment returns compared to last year.

5.0 LEGAL IMPLICATIONS

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management. This requires the annual production of Performance Indicators and a Treasury

Management Strategy Statement and the reporting of treasury management activities at least twice a year.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The Council is responsible for treasury decisions and activity and none of these decisions are without risk. The successful identification, monitoring and control of risk are important, and the main risks are: -

Risk	**Mitigation**
Exposure to inflation	That wherever possible investments are entered into at inflation equalling levels of interest. This depends entirely on the nature and purpose of the proposed investment.
Legal and Regulatory Risk	That appropriate legal advice is sought on new opportunities to ensure adherence to relevant legislation and regulation.
Credit and Counterparty Risk (Security of investments).	That any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria
Council issues S114 notice	Should the Council encounter difficulties in obtaining borrowing following a S114 notice, the Council has access to borrow from the PWLB as a lender of last resort. Any such borrowing would be subject to higher rates of interest.

7.2 The risks mentioned above are inherent in Treasury activity, therefore they are persistent, continuous risks. Appendix 1 of the Treasury Management Strategy 22/23 (approved by Council on 28 February 2022) states that “the Council will create and maintain, as the cornerstones for effective treasury management: -

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the way the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.”

8.0 ENGAGEMENT/CONSULTATION

8.1 This report has been written in consultation with the Council's external treasury management advisors, Arlingclose Ltd, in accordance with best practice.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 As part of future investment strategy, consideration will be given to potential opportunities to invest in environmentally focussed instruments or organisations. 'Ethical, Social and Governance' (ESG) investment criteria will be considered and, where viable in adherence to the policies laid out in this strategy, will only be entered into following satisfactory assessment of the instrument and/or organisation. Two such investments in the current investment portfolio are the holding in the Altana Social Impact Fund along with the Green Energy Bond held.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 Investment vehicles that embrace green and sustainable practices will be given due consideration, should a suitable investment opportunity become available and subject to appropriate due diligence. One fund that the Council invest in is Altana Social Impact Fund, an organisation that is keen to look at investment opportunities within the local area. Possible investment examples include but not limited to;

- Social Housing – affordable places to live for many residents
- Community lending vehicles – creating jobs and revenues in local communities

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APPENDICES

Appendix A	Economic Background
Appendix B	Debt Management
Appendix C	Investment Management
Appendix D	Treasury Indicators 2022/23

TERMS OF REFERENCE

This report is being considered by the Policy and Resources Committee in accordance with 1.2(a)(i) of the Policy and Resources Committee Terms of Reference:

formulate, co-ordinate and implement corporate policies and strategies and the medium term financial plan (budget), which includes responsibility for any decision:
(i) that relates to such matters to the extent that they are not reserved to full Council.

BACKGROUND PAPERS

CIPFA Code of Practice on Treasury Management
Wirral Council Treasury Management Strategy 2022/23

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Treasury Management Annual Report 2019-20	Cabinet – 27 July 2020
Treasury Management Mid-Year Report 2020-21	P&R – 3 Nov 2020
Treasury Management Strategy Statement 2021-22	P&R - 17 Feb 2021
Treasury Management Annual Report 2020-21	P&R - 28 July 2021
Treasury Management Mid-Year Report 2021-22	P&R - 10 Nov 2021
Treasury Management Strategy Statement 2022-23	P&R - 15 Feb 2022
Treasury Management Annual Report 2021-22	P&R - 13 Jul 2022
Treasury Management Mid-Year Report 2023-23	P&R – 9 November 2022

APPENDIX A

ECONOMIC BACKGROUND

Growth & Inflation

1 The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

2 Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

3 Starting the financial year at 5.5%, the annual Consumer Price Index (CPI) measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing.

4 The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%. Nominal earnings were robust throughout the year, with earnings growth in December-February at 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

5 Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Quarter 4 was 0.6%.

Monetary Policy

6 The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March’s rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%.

Market Reaction

7 Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

8 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same period the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49. The rate at which the Council borrows from the Public Works Loan Board is determined by the gilt rates at the time a loan is arranged.

Counterparty Review

9 The Council's Treasury advisor, Arlingclose, reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

10 As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

APPENDIX B

DEBT MANAGEMENT

1 The table below shows Council debt as at 31 March 2023, with movements since the Mid-year update report.

Table B1: Council Debt as at 31 March 2023

Debt Principal	Balance 30 Sep 22 £m	Maturities £m	Additions £m	Balance 31 Mar 23 £m
Borrowings				
Public Works Loan Board (PWLB)	-24.05	8.45	-12.10	-27.71
Market Loans (Fixed Rate)	-38.50	-	-	-38.50
Market Loans (LOBO)	-94.50	-	-	-94.50
Interest Free Loans & Other	-3.43	0.45	-	-2.98
Total Capital Finance Loans	**-160.48**	**8.90**	**-12.10**	**-163.68**
Other Liabilities (PFI)	-32.82	1.60	-	-31.22
Temporary Cashflow Loans	-43.00	119.00	-197.00	-121.00
TOTAL	**-236.30**	**129.50**	**-209.10**	**-315.90**

The increase in total debt is due to a combination of factors:

- *A net increase in PWLB borrowing due to a new loan to cover the second year of the Capitalistion Direction.*
- *The increase in short term temporary borrowing for cashflow purposes towards the end of the financial year as Council Tax and Business Rate receipts reduce.*

2 The following table shows the capital financing loans repaid during the second half of the year.

Table B2 – Loan Maturities since 30 September 2022

Loans maturing in 2022/23	Principal £'m	Fixed/ Variable	Rate %	Loan Maturity date	Terms
PWLB	0.13	Fixed	2.16	February 2023	E I P
PWLB	1.80	Fixed	4.88	March 2023	Maturity
PWLB	6.52	Fixed	3.09	March 2023	Maturity
SALIX	0.45	Fixed	0.00	Various	E I P
Total Maturing Borrowing	**8.90**				

Note: Equal Instalments of Principal (EIP) loans are loans that are repaid in equal instalments spread over the duration of the loan. Maturity loans are repaid in full at the maturity date of the loan.

3 With external longer-term borrowing reducing, the Council has used the Local Council loan market to delay entering into more costly debt, generating savings. The deferral of further borrowing costs through internal borrowing and policy amendments have provided substantial one-off savings to the Council.

4 Effective utilisation of the short-term Local Council loan market has further delayed the need to enter into more costly longer-term loans. At 31 March 2023, the Council had £121 million borrowed via such loans running at an average rate of 4.2%. These temporary, short-dated loans, from other local authorities remain affordable and attractive for periods of low cash flow.

5 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

6 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. The Council's current Capital Programme does not contain schemes that are primarily focussed on a commercial return.

7 Acceptable uses of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

8 The Public Works Loans Board (PWLB) remains the Council's preferred source of longer-term borrowing given the transparency and control that its facilities continue to provide.

9 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual Council and borrowing purpose will be scrutinised by commercial lenders.

10 Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's treasury advisor.

11 Other Long-Term Liabilities include the schools Private Finance Initiative (PFI) scheme and finance leases used to purchase vehicles, plant and equipment. Under International Financial Reporting Standards (IFRS) these are shown on the Balance Sheet as a Financial Liability and therefore need to be considered within any Treasury Management decision making process.

APPENDIX C

INVESTMENT MANAGEMENT

1 **Table C1: Investment Profile**

Investments with:	30 Sep 22 £m	31 Dec 22 £m	31 Mar 23 £m
UK Banks			
Money Market Funds	16.76	16.91	12.08
Green Energy Bonds	1.50	1.50	1.50
Community Interest Companies	1.11	1.11	1.11
Other Pooled Funds:			
- *Property Funds*	1.00	1.00	1.00
- *Strategic Bond Funds*	1.00	1.00	1.00
- *Public Sector Social Investment Fund*	10.00	10.00	10.00
- *Cash Plus Funds*	5.00	5.00	5.00
TOTAL	**36.37**	**36.51**	**31.69**

2 **Table C2: Investment Sources**

Usable Reserves	30 Sep 22 £m	31 Dec 22 £m	31 Mar 23 £m
General Fund	10.68	10.68	13.18
Earmarked Reserves	104.94	104.94	72.26
Capital Receipts Reserve	6.25	6.55	2.98
Capital Grants Unapplied	61.94	65.08	51.47
	183.81	**187.25**	**139.89**
Internal Borrowing in lieu of External Borrowing	(147.44)	(150.74)	(108.20)
Reserves Invested	**36.37**	**36.51**	**31.69**

3 Security of capital remained the main investment objective throughout 2022/23. This was maintained by following the counterparty policy set out in the Treasury Management Strategy Statement for 2022/23 which defined high credit quality organisations as those having a long-term credit rating of A- or higher.

4 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating for 2022/23 was A- across rating agencies Fitch, S&P and Moody's); Credit Default Swap (CDS) prices, financial statements, information on potential government support and reports in the quality financial press.

5 The following table shows the credit composition of the Council's investment portfolio as at 31st March 2023:

Table C3: Credit Composition of Investment Portfolio

Credit Rating	Proportion of Portfolio %
AAA	60
Unrated	40
Total	**100**

Note: *'Unrated' institutions are organisations that despite the absence of a formal rating, are deemed credit worthy due to analysis of their performance over a variety of credit metrics. These institutions are subject to a lower counterparty limit than those with formal credit ratings. Unrated investments at the 31 March 2023 are as follows:*

- £1.11 million credit facility with Edsential – a jointly owned company (Wirral and Cheshire West and Chester Council)
- £10.0 million investment with the Altana Social Investment Fund (ASIF)
- £1.50 million in a Bagnall Green Energy Bond

Both the ASIF and Bagnall Green Energy bond were subject to external due diligence before funds were invested.

6 The Altana Social Impact Fund (ASIF), in which the Council is invested in, is restricted to Social Impact investments in the UK businesses only, with underlying investments having to demonstrate, either qualitatively or quantitatively, that their products/services improve the lives of UK residents. Within the first half of this year the fund has completed its first investment, into an ethical lending platform. The fund continues to generate opportunities to meet their social impact objectives which are subject to due diligence. It is hoped further transactions will be concluded in the coming months.

7 Investments with banks are primarily call accounts and money market deposits. The maximum duration of any new investment was constantly reviewed in line with the prevailing credit outlook during the year as well as market conditions.

8 In keeping with the Department for Levelling Up, Housing and Communities Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and the use of call accounts.

9 For diversification purposes the Council can invest in a variety of counterparties and financial instruments to help mitigate counterparty and liquidity risks. A summary of the instruments invested in follows:

Table C4: Investment Portfolio – Financial Instruments

Investment Instrument	Proportion of Portfolio %
Money Market Fund	31
Externally Managed Fund	60
Corporate Deposit	4
Green Energy Bond	5
Total	**100**

10 £17m of the Council's investments are held in externally managed strategic pooled bond, property and cash plus funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generate an income return which is used to support services in year.

11 The last financial year was a very difficult environment for bonds engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. The sell-off in gilts, other sovereign bonds and corporate bonds with a rise in gilt/bond yields (i.e., a fall in price) was reflected in the Council's bond fund.

12 As these funds have no defined maturity date, but most are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five year period total returns will exceed cash interest rates. In light of their performance over the medium to long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

13 The Department of Levelling UP, Housing and Communities published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

APPENDIX D

TREASURY MANAGEMENT INDICATORS

2022/2023

Background

The Council measures and manages its exposures to treasury management risks using the following indicators.

Treasury Management Indicators

1. Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**	**As at 31.03.23**	**Complied?**
Portfolio average credit rating	A	A+	Yes

2. Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice. As shown below the Council entered into temporary cashflow loans that exceeded the target set in the indicator. This evidences that there are sufficient sources of liquidity available to the Council, should the need arise.

Liquidity risk indicator	**Target**	**As at 31.03.23**	**Complied?**
Total sum borrowed in past 3 months without prior notice	£10m (Minimum)	£125m	Yes

3. Maturity Structure of Borrowing

This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity Structure of Borrowing	Lower Limit 2022/23 %	Upper Limit 2022/23 %	Actual 31.03.23 %	Complied?
Under 12 Months	0	90	77	YES
12 Months and within 24 months	0	75	2	YES
24 Months and within 5 years	0	75	4	YES
5 years and within 10 years	0	75	1	YES
10 years and over	0	100	16	YES

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment, including LOBO loans, many of which have repayment options every six months. The Council complied with this indicator.

4. Principal Sums Invested for Periods Longer Than a Year

The Council has placed an upper limit for principal sums invested for periods longer than a year. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

	2022/23 £m	2023/24 £m	2024/25 £m
Limit on principal invested beyond year end	50	30	30
Actual principal invested beyond year end	12.4	12.3	12.2
Complied?	**Yes**	**Yes**	**Yes**