WIRRAL

POLICY AND RESOURCES COMMITTEE

Wednesday, 17 July 2024

REPORT TITLE:	**TREASURY MANAGEMENT ANNUAL REPORT 2023-24**
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.

Treasury Management incurred a slight overspend of £9k in the 2023/24 financial year on net treasury activities. Higher debt management costs were largely offset by an increase in investment returns. This position 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 £215 million at 31 March 2024. This is an increase of £51 million since 31 March 2023. At 31 March 2024, the Council also held £94 million of temporary loans from other Local Authorities, compared to £121 million at 31 March 2023. During 2023/24, a proportion of short-term borrowing was converted to fixed term borrowing throughout the year to achieve certainty of cost.

The Council has complied with the Treasury Management Indicators as set out in the agreed Treasury Management Strategy for 2023/24.

The report helps to ensure that the Council maintains effective management of financial resources which indirectly supports the delivery of all seven priorities of the Wirral Working Together Council Plan for 2023 to 2027.

RECOMMENDATION

The Policy and Resources Committee is recommended to note the Treasury Management Outturn Report for 2023/24.

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 2023/24.

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 2024, 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 2023/24. In summary, UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target at the end of the period. The inflation levels impacted upon the Bank of England's monetary policy as they raised their lending base rate from 4.25% in March 2023 to 5.25% at the end of March 2024. 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 at 30 September 2023.

Table 1: Summary of Treasury Position

	Balance 30 Sept 23 £m	Maturities £m	Additions £m	Balance 31 Mar 24 £m
Investments	46.67	-356.58	346.10	36.18
Borrowings	-256.11	187.06	-239.58	-308.63
Other Long-Term Liabilites	-29.61	1.64	0.00	-27.97
Net Debt	**-239.05**	**-167.88**	**106.52**	**-300.42**

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

- Continued delivery of the Capital Programme, which is part funded by debt.
- Temporary loans from other Local Authorities that were taken out towards the end of 2023/24 for cashflow purposes. Temporary loans from other Local Authorities are on average 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 (March 2024) around 2% - 3% higher than those at the beginning (April 2023). Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates and tightening of the inter-authority lending market in the wake of increased issue of s114 notices.

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 Council continued to use internal borrowing for capital purposes to lessen the extent to which it took out long-term debt. In future years, as cash flows diminish through use of reserve and/or interest rates rises, 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 £51 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. During the second half 2023/24, following an analysis and negotiation conducted by Arlingclose, the Council chose to refinance four LOBOs, totalling £20m and replace the financing with PWLB borrowing. The anticipated saving from this negotiated package of refinancing is £508k. In total, the Council refinanced £43.5m of LOBO loans within 2023/24.

3.12 Appendix B illustrates the movement in the Council’s debt portfolio since the mid-year point. Borrowings have increased by £52 million, with other long-term liabilities (PFI agreements) reducing by £1.64 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 2023/24 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.

3.14 The 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.

3.15 On 22nd December 2023, Altana Social Impact Partnership (ASIP) requested an extension to the current investment deadline of 17th January 2024 to finalise two investments. Wirral Council informed ASIP on 4th January 2024, that they do not support the request for the investment period to be extended. The return generated from the fund to date has been below the level anticipated at the date the investment was approved. Wirral’s share of the distributable capital amounted to £2.1m, which was returned on 20th May 2024.

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 at 31 March 2024.

3.17 From a starting position of £32 million of investments at 31 March 2023, the level of investment increased to £39 million at 30 June 2023 and then further increased to a balance of £47 million at 30 September 2023. During the final quarter of the financial year the investment levels decreased from £42 million at 31 December 2023 to £36 million at 31 March 2024, the decrease is due to:

- continued utilisation of the funding as service need dictates, including cash balances held as a result of refinancing temporary borrowing.

3.18 Bank of England Bank Rate, commonly known as Base Rate, has increased from 4.25% at the beginning of the year to 5.25% at the end of March 2024. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 4.00% at the start of the year and 5.25% at the end of March 2024.

3.19 The budgeted investment income for the year was £1.2 million with an actual income of £2.1 million at the end of the year. This increase in investment income is attributable to an increase in the average interest rate environment throughout the year.

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 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

3.22 The Chief Finance Officer reports that all treasury management activities undertaken during 2023/24 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. However, in 2023/24 interest costs increased due to the increase in the interest rate environment, along with fixing a proportion of the fixed-debt portfolio to longer-term maturity dates to mitigate future refinancing risk. Part of the interest cost increase was offset by an increase in investment interest also caused by the increase in the interest rate environment.

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

4.3 Treasury Management achieved a balanced budget position in the 2023/24 financial year on net treasury activities. Higher debt management costs were offset by an increase in investment returns. This position was incorporated into the Revenue Outturn report.

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
Fluctuations in interest rate levels - Fluctuations in interest rates will impact the authority's finances. While a rise in interest rates would be beneficial for short-term investments which could be reinvested at higher rates, it would be a cost for variable rate borrowing, existing borrowing that needs to be refinanced, and any new borrowing. Higher interest rates can also improve debt rescheduling opportunities by increasing discounts/lowering premiums. Conversely, a fall in interest rates is beneficial for variable rate debt, existing borrowing which needs to be refinanced and new borrowing, but not for variable rate investments which would generate lower returns. Increased costs due to changes in interest rates would negatively impact the revenue position of the council.	That the borrowing and investment profiles are balanced both in terms of maturity (utilising short- and long-term instruments) and also in terms of the nature of the interest rate of the portfolio (fixed rate and variable interest rate products).
Exposure to inflation - Where the Authority's returns/cash flows from investments are lower than the prevailing rate of inflation, those investments/cash flows will be worth less in the future because of the erosion in their purchasing power due to inflation. Such a reduction in value would increase pressure on the Council's revenue budget.	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.

Risk	Mitigation
Legal and Regulatory Risk - Failure to comply with any legal requirements or regulations could lead to the Council gaining a poor reputation, which in severe cases could have wider implications than treasury management. This could lead to increased scrutiny from central government, and the possibility of the installation of commissioners to oversee the council's functioning. Not adhering to the PWLB lending arrangements could mean being locked out of accessing funding from them as lender of last resort. Also, counterparties may choose not to deal with the authority, limiting the Council's access to investment opportunities and/or sources of borrowing, and as a minimum increasing borrowing costs due to the higher perceived risk of dealing with the Council.	That appropriate legal advice is sought on new opportunities to ensure adherence to relevant legislation and regulation.
Credit and Counterparty Risk (Security of investments) - Should a counterparty fail to meet its contractual obligations to the Council, particularly as a result of the counterparty's diminished creditworthiness, this could have a detrimental effect on the Authority's capital or revenue resources. This impact could come from a loss of principal and/or interest on an investment, such as from a counterparty defaulting or a bank being 'bailed-in,' with the latter likely to mean the authority loses a proportion of its investment (a 'haircut') in order to recapitalise the failing bank. For investments with other local authorities, while a loss of principal is considered unlikely, there is likely to be a delay in the Council getting its money back. Both actual and expected credit losses would negatively impact the council as they would need to immediately be charged to revenue.	That any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria.

Risk	Mitigation
Council issues S114 notice - Issuing a section 114 notice will likely gain the Council a poor reputation, particularly depending on the reason for issuing the section 114 notice, or at the very least be perceived as higher risk by other lenders. Other counterparties and local authorities would be less likely to lend to the authority, increasing the difficulty of securing funding (made even worse if the Council was also unable to access PWLB funding having fallen foul of the lending arrangements), with the costs of any borrowing being significantly higher, again putting pressure on the council's finances.	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 A of the Treasury Management Strategy 2023/24 (approved by Council on 15 February 2023) 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. The Council has one such investment in the current investment portfolio in the Altana Social Impact Fund.

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 2023/24

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 2023/24

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
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 2022-23	P&R – 9 November 2022
Treasury Management Annual Report 2022-23	P&R – 14 Jun 2023
Treasury Management Mid-Year Report 2023-24	P&R – 8 November 2023
Treasury Management Strategy Statement 2023-24	P&R – 15 Feb 2023

APPENDIX A

ECONOMIC BACKGROUND

Growth & Inflation

1 UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target at the end of the period.

2 The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024.

3 In the labour market, employment and vacancies declined, and unemployment rose to 4.3% in July 2023. The same month saw the highest annual growth rate of 8.5% for pay (including bonuses). Thereafter, unemployment began to decline, falling to 3.9% in January and pay growth also decreased to 5.6% for pay (including bonuses).

Monetary Policy

4 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting. Bank Rate was maintained at 5.25% through to March 2024. The vote in March was 8-1 in favour of maintaining rates at this level, with a sole member preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

5 In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary pressure with aftereffects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in the second half of 2023 being gradual.

6 Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Market Reaction

7 Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates

continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation caused financial markets to expect cuts in interest rates in 2024.

Counterparty Review

8 In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

9 Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable; Handelsbanken's outlook to negative; downgraded five local authorities; and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment.

10 In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

11 Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023.

12 Heightened market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

APPENDIX B

DEBT MANAGEMENT

1 The table below shows Council debt as at 31 March 2024, with movements since the Mid-year update report.

Table B1: Council Debt as at 31 March 2024

Debt Principal	Balance 30 Sept 23 £m	Maturities £m	Additions £m	Balance 31 Mar 24 £m
Borrowings				
Public Works Loan Board (PWLB)	-57.08	13.73	-79.71	-123.06
Market Loans (Fixed Rate)	-38.50	-	-	-38.50
Market Loans (LOBO)	-85.00	34.00	-	-51.00
Interest Free Loans & Other	-2.53	0.46	-	-2.07
Total Capital Finance Loans	**-183.11**	**48.19**	**-79.71**	**-214.63**
Other Liabilities (PFI)	-29.61	1.64	-	-27.97
Temporary Cashflow Loans	-73.00	139.00	-160.00	-94.00
TOTAL	**-285.72**	**188.83**	**-239.71**	**-336.60**

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

- A net increase in PWLB borrowing due refinancing of temporary debt to longer term PWLB loans to mitigate future refinancing risk.

- 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 2023

Loans maturing in 2023/24	Principal £m	Loan Type	Rate %	Loan Maturity	Terms
PWLB	6.25	Fixed	5.84	March 2024	Maturity
PWLB	5.85	Fixed	5.57	February 2024	Maturity
PWLB	0.25	Fixed	2.16	Various	EIP
PWLB	0.33	Fixed	5.35	Various	EIP
PWLB	0.33	Fixed	5.24	Various	EIP
PWLB	0.66	Fixed	5.24	Various	EIP
PWLB	0.06	Fixed	5.01	Various	EIP
Bayern LB	3.50	LOBO	4.88	November 2023	Maturity
Bayern LB	4.50	LOBO	6.83	November 2023	Maturity

Loans maturing in 2023/24	Principal £m	Loan Type	Rate %	Loan Maturity date	Terms
Bayern LB	2.00	LOBO	5.50	November 2023	Maturity
Bayern LB	10.00	LOBO	5.90	November 2023	Maturity
Commerzbank	6.00	LOBO	4.99	October 2023	Maturity
Commerzbank	8.00	LOBO	4.85	October 2023	Maturity
Interest Free & Other	0.46	Fixed	Various	Various	E I P
Total Maturing Borrowing	**48.19**				

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 2024, the Council had £94 million borrowed via such loans running at an average rate of 5.52%. 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 23 £m	31 Dec 23 £m	31 Mar 24 £m
UK Banks			
Money Market Funds	27.20	23.78	18.20
Green Energy Bonds	1.50	0.00	0.00
Community Interest Companies	0.98	0.98	0.98
Other Pooled Funds:			
- *Property Funds*	1.00	1.00	1.00
- *Strategic Bond Funds*	1.00	1.00	1.00
- *Altana Social Investment Fund*	10.00	10.00	10.00
- *Cash Plus Funds*	5.00	5.00	5.00
TOTAL	**46.68**	**41.76**	**36.18**

2 **Table C2: Investment Sources**

Usable Reserves	30 Sep 23 £m	31 Dec 23 £m	31 Mar 24 £m
General Fund	13.18	13.18	13.18
Earmarked Reserves	72.26	72.26	55.46
Capital Receipts Reserve	2.98	3.95	4.57
Capital Grants Unapplied	80.92	88.80	71.00
	169.34	**178.19**	**144.21**
Internal Borrowing in lieu of External Borrowing	(122.66)	(136.43)	(108.02)
Reserves Invested	**46.68**	**41.76**	**36.19**

3 Security of capital remained the main investment objective throughout 2023/24. This was maintained by following the counterparty policy set out in the Treasury Management Strategy Statement for 2023/24 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 2023/24 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 2024:

Table C3: Credit Composition of Investment Portfolio

Credit Rating	Proportion of Portfolio %
AAA	70
Unrated	30
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 2024 are as follows:*

- £0.98 million credit facility and loan with Edsential – a jointly owned company (Wirral and Cheshire West and Chester Council)
- £10.0 million investment with the Altana Social Investment Fund (ASIF)

The ASIF bond was 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 UK businesses only, with underlying investments having to demonstrate, either qualitatively or quantitatively, that their products/services improve the lives of UK residents. The fund continued to generate opportunities to meet their social impact objectives which are subject to due diligence. On 22nd December 2023, Altana Social Impact Partnership (ASIP) requested an extension to the current investment deadline of 17th January to finalise two investments: one in waste incineration plants, and one in the care home sector. Wirral Council informed ASIP on 4th January 2024, that they do not support the request for the investment period to be extended. The return generated from the fund to date has been below the level anticipated at the date the investment was approved. Wirral's share of the distributable capital amounted to £2.1m, which was returned on 20th May 2024.

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	50
Externally Managed Fund	47
Corporate Deposit	3
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

2023/2024

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	At 31 Mar 24	Complied?
Portfolio average credit rating	A	AA-	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	At 31 March 24	Complied?
Total sum borrowed in past 3 months without prior notice	£10m (Minimum)	£97m	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 2023/24 %	Upper Limit 2023/24 %	Actual 31.03.24 %	Complied?
Under 12 Months	0	90	50	YES
12 Months and within 24 months	0	75	3	YES
24 Months and within 5 years	0	75	5	YES
5 years and within 10 years	0	75	7	YES
10 years and over	0	100	35	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.

	2023/24 £m	2024/25 £m	2025/26 £m
Limit on principal invested beyond year end	50	30	30
Actual principal invested beyond year end	10.9	10.8	10.7
Complied?	**Yes**	**Yes**	**Yes**