WIRRAL

AUDIT AND RISK MANAGEMENT COMMITTEE

TUESDAY 28 JANUARY 2025

REPORT TITLE:	**TREASURY MANAGEMENT STRATEGY 2025/26**
REPORT OF:	**DIRECTOR OF FINANCE (S151 OFFICER)**

REPORT SUMMARY

Treasury Management is the management of the Council's cash flows, borrowing and investments, and risks associated with those activities. The Council has substantial sums of money both borrowed and invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Key points that the report covers are:

- The Council complies with the requirement to produce an annual Treasury Management Strategy.
- This strategy includes the capabilities to re-schedule debt, should a prudent opportunity arise to either minimise interest costs, re-profile the debt maturity profile or reduce the level of refinancing risk.
- The Council has a policy of internal borrowing, which delays entering new long term loan arrangements by using cashflows available to temporarily fund capital expenditure.
- The level of interest charges made to the Treasury budget in 2025/26 will be determined by the delivery rate of the capital programme coupled with the interest rate environment. The level of investment income received will also be affected by the interest rate market; and
- There are investment parameters within which Treasury activity will be carried out during 2025/26.

Investments held for service purposes or for commercial profit are considered separately, in the Investment Strategy.

The report supports the delivery of The Council Plan: Wirral Working Together 2023-27 as the Capital Programme contributes towards projects that support all five Wirral Plan priorities.

This matter affects all Wards within the Borough.

The decisions in this report are key decisions.

RECOMMENDATIONS

1. To note the report.

2. To refer to Policy and Resources Committee with an onward recommendation to Council to approve:
   (1) the Treasury Management Strategy for 2025/2026, as set out in Appendix A to this report;
   (2) the Treasury Management Policy Statement, as set out in Appendix B to this report;
   (3) the Treasury Management Prudential Indicators for 2025/2026, as set out in Appendix C to this report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATIONS

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to determine the Treasury Management Strategy Statement (TMSS) on an annual basis. This report no longer incorporates the Investment Strategy as required under the Investment Guidance, which mostly refers to non-treasury investments. Investments held for service purposes or for commercial profit are considered separately, in the Investment Strategy.

2.0 OTHER OPTIONS CONSIDERED

2.1 CIPFA's 2021 Code of Practice on Treasury Management requires the production of annual Treasury Management Indicators and a Treasury Management Strategy Statement on likely financing and investment activity. The 2024/29 Capital Programme impacts on the levels of borrowing being forecast within this report. A Capital Programme covering the period 2025/32 will be presented to Policy & Resources Committee in February 2025 and Full Council in March 2025. An annual strategy is standard practice, but should it become appropriate to amend any key elements of this strategy during the period covered, a revised report will be produced.

3.0 BACKGROUND INFORMATION

3.1 Wirral Council defines its treasury management activities as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." (CIPFA Treasury Management in the Public Services Code of Practice).

3.2 This report and the associated appendices seek to detail the approach to treasury management in order to meet the definition provided above.

4.0 FINANCIAL IMPLICATIONS

4.1 Approval and implementation of this strategy will limit financial risks while helping to minimise financing costs and maximise investment returns.

4.2 If the Council fails to set a balanced budget as a result of the significant financial pressures, a Section 114 notice may be issued by the Section 151 Officer. Should this action be required, this would impede upon the Council's ability to borrow funds.

5.0 LEGAL IMPLICATIONS

5.1 The MHCLG Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue." The Council has adopted the requirement of the MHCLG to produce a Treasury Management Strategy. The Council would be putting its financial standing at risk, as well as failing to meet the requirements of the Local Government Act 2003, if it failed to follow the revised Treasury Management Code and the associated guidance. The Council has adopted the CIPFA Code of Practice on Treasury Management. This requires the annual production of a Treasury Management Strategy Statement, which this report fulfils and the reporting of treasury management activities at least twice a year.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are no resource implications arising out of 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 and mitigations 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	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
would increase pressure on the Council's revenue budget.	
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 cause 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 Council'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	That any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria.

Risk	Mitigation
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.	
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 Council, 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 B of this report 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; and
- Suitable Treasury Management Practices, 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 strategy report has been written in consultation with the Council's external treasury management advisors, Arlingclose Ltd, in accordance with best practice. There are no implications for partner organisations arising out of this report.

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.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The Community Wealth Building Strategy is a key part of how the Council will tackle economic, social and health inequalities across the borough and make a major contribution to improving the economic, social and health outcomes on the Wirral. As mentioned within 10.1 of this report, 'ESG' criteria will be considered in investment decision. The Altana Social Impact Partnership "offers local authorities an opportunity to improve Public Sector cash flows and quality of life for their constituents. Cash flow is improved by pooling capital and knowledge while creating and investing in long lasting social impact UK projects."

11.2 Also contained within this strategy are the Council considerations in respect to borrowing. This borrowing requirement would occur as a result of financing the ongoing capital programme. Schemes contained within the Capital Programme include several regeneration projects that look to improve the economic outlook for the borough, including job creation, training facilities and enhanced transport links. The Community Wealth Building implications are reported for each scheme separately to the relevant policy and service committee.

REPORT AUTHOR: Christopher Crawford
Senior Finance Business Partner
email: christophercrawford@wirral.gov.uk

APPENDICES

A. Treasury Management Strategy
B. Treasury Management Policy Statement
C. Treasury Management Prudential Indicators 2025/26
D. Existing Investment and Debt Portfolio Position
E. Liability Benchmark – Graphical Format
F. Approved Investment Counterparties
G. Environmental, Social and Governance Considerations
H. CIPFA Code – Related Matters
I. Authorised Signatories
J. Arlingclose Economic & Interest Rate Forecast – December 2024

BACKGROUND PAPERS

- CIPFA Code of Practice on Treasury Management

TERMS OF REFERENCE

This report is being considered by Audit and Risk Management Committee for referral to the Policy and Resources Committee in accordance the following sections of its Terms of Reference:

<u>Audit and Risk Management Committee</u>

(h) Treasury Management (i) Consider the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensure that they meet best practice.

<u>Policy and Resources Committee</u>
(b) provide a co-ordinating role across all other service committees and retain a 'whole council' view of performance, budget monitoring and risk management, which includes responsibility for a decision:
(v) regarding companies or limited liability partnerships including acquisition and disposals,
(vi) which is deemed significant in terms of impact on the Council's revenue or capital (to be determined by the Head of Paid Service and/or Section 151 Officer in consultation with the Leader).

SUBJECT HISTORY (last 3 years)

Report	Council meeting and Date
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 Nov 2022**
Treasury Management Strategy Statement 2023-24	**P&R – 15 Feb 2023**
Treasury Management Annual Report 2022-23	**P&R – 14 Jun 2023**
Treasury Management Mid-Year Report 2023-24	**P&R – 8 Nov 2023**
Treasury Management Strategy Statement 2024-25	**P&R – 13 Feb 2024**
Treasury Management Annual Report 2023-24	**P&R – 17 July 2024**
Treasury Management Mid-Year Report 2024-25	**P&R – 6 Nov 2024**

APPENDIX A

TREASURY MANAGEMENT STRATEGY

A1 Wirral Council defines its treasury management activities as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." (CIPFA Treasury Management in the Public Services Code of Practice).

A2 The Council will create and maintain, as the cornerstones for effective treasury management:

- A Treasury Management Policy Statement (see Appendix B), stating the policies, objectives, and approach to risk management of its treasury management activities.

- Suitable Treasury Management Practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

A3 Treasury Management incorporates the management of risk. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. Generally, higher financial returns reflect higher levels of risk.

A4 As per the requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code of Practice. All treasury activity will comply with relevant statute, guidance, and accounting standards.

A5 Adoption of this Treasury Management Strategy Statement includes approval for the following:

- Treasury Management Strategy for 2025/26 (Appendix A);
- Treasury Management Policy Statement (Appendix B); and
- Treasury Management Prudential Indicators for 2025/26 (Appendix C).

Economic background

A6 The impact on the UK from the government's Autumn Budget, slower interest rate cuts than previously predicted, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

A7 The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting.

At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

A8 The November quarterly Monetary Policy Report (MPR) is forecasting Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero between July and September 2024, a downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

A9 ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

A10 The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

A11 Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

A12 Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

A13 Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

A14 Interest rate forecast (December 2024): The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

A15 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

A16 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix J.

Capital Financing Requirement

A17 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement, while balance sheet resources are the underlying sums available for investment. The Council's strategy will be to minimise and delay external borrowing where possible, through the utilisation of investment balances, sometimes known as internal borrowing. The Council's current level of debt and investments are set out in Appendix D.

A18 CIPFA's Prudential Code of Practice recommends that total debt should be lower than its highest forecast Capital Finance Requirement over the next three years.

A19 The forecast movement in the Capital Finance Requirement in coming years is one of the Prudential Indicators that are used for monitoring purposes. The movement in actual external debt and usable reserves combine to identify the Council's borrowing requirement and potential investment strategy in the current and future years, as determined by the 'Liability Benchmark' described below.

A20 As of 31st December 2024, the Council held £337m of borrowing and £40m of treasury investments. This is set out in further detail at Appendix D. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

A21 Table 1 shows that, because of the capital expenditure plans of the Council over the next three years, there is a net borrowing requirement each year. Useable reserves are subject to review as part of the Medium-Term Financial Strategy. The Council holds a number of reserves, both revenue and capital for various reasons. They provide assurance to ensure financial stability, funding for future initiatives or investments, and allow balances to be earmarked to meet expected future cost pressures.

Table 1: Balance Sheet Summary Analysis

	31-Mar-25 Estimate £m	31-Mar-26 Estimate £m	31-Mar-27 Estimate £m	31-Mar-28 Estimate £m
Total Capital Financing Requirement (CFR)	405	417	409	397
Less: Other Long Term Liabilities (PFI)	-25	-21	-18	-14
Loans CFR	**380**	**396**	**391**	**383**
Less: Existing Profile of Longer Term External Borrowing	-235	-245	-245	-242
Internal Borrowing	**145**	**151**	**146**	**141**
Less Usable Reserves	-100	-90	-88	-87
New Borrowing Requirement	**45**	**61**	**58**	**54**

*Table 1 based upon the approved Q2 position in order to meet the Audit and Risk Management Committee timetable, as Q3 is yet to be reported to Members. An updated CFR will be reported within the TM Mid-Year report.

A22 The Council as of 31st December 2024 held £224m of longer-term loans, an increase of £9m from March 2024, as part of its strategy for funding previous years' capital programmes. As evidenced by Table 1 there is a difference between the CFR and the level of actual longer-term borrowing. This is due to the Council's approach over recent years of using readily available cash resources rather than entering into costly borrowing to fund the capital programme. This is not a permanent measure as cash balances need to be appropriate to allow reserves to be used as required. The balance sheet forecast in Table 1 shows that in theory the Council could need to borrow up to an additional £61 million in 2025/26. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing as per the Capital Strategy.

A23 Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

A24 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow, as shown below. The 'Loans Capital Finance Requirement' is derived by subtracting any other long-term liabilities (e.g., PFI liabilities) from the total Capital Finance Requirement.

Table 2: Prudential Indicator: Liability benchmark

	31-Mar-24 Actual £m	31-Mar-25 Estimate £m	31-Mar-26 Estimate £m	31-Mar-27 Estimate £m
Loans CFR	366	380	396	391
Less Usable Reserves	-141	-100	-90	-88
Net Loans Requirement	**225**	**280**	**306**	**303**
Plus Liquidity Allowance	10	10	10	10
Liability Benchmark	**235**	**290**	**316**	**313**

* Table 2 based upon the approved Q2 position in order to meet the Audit and Risk Management Committee timetable, as Q3 is yet to be reported to Members. An updated CFR will be reported within the Treasury Management Mid-Year report.

A25 Table 2 reiterates that over the coming years there will be a requirement to borrow additional funds to deliver the existing capital plans and maintain a minimum level of investments. There is a requirement to show the information in Table 2 in a graphical format, this is included in Appendix E to this report.

Borrowing Strategy

A26 Objectives: The Council’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long-term plans change is a secondary objective.

A27 Strategy**:** Given the significant cuts to public expenditure and in particular to local government funding, the Council’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority’s interest rate exposure within the limit set in the treasury management prudential indicators, see below.

A28 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

A29 The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (“PWLB”) but will consider long-term loans from other sources including banks, pension funds and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council intends to avoid this activity in order to retain its access to PWLB loans.

A30 Alternatively, the Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

A31 In addition, the Council will need from time to time to borrow short-term to cover unexpected cash flow shortages.

A32 The approved sources of long term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd).
- any other UK public sector body.
- any institution approved for investments, including UK universities.
- any other bank or building society authorised to operate in the UK.
- UK public and private sector pension funds (with the exception of Merseyside Pension Fund).
- capital market bond investors.
- retail investors via a regulated peer-to-peer platform; and
- UK Municipal Bonds Agency Plc and other special purpose companies created to enable joint local authority bond issues.

A33 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing.
- Hire purchase.
- Private Finance Initiative
- Sale and leaseback; and
- Similar asset-based finance

Municipal Bonds Agency

A34 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons. Firstly, borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason. Secondly there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to this committee.

‘Lender’s Option Borrower’s Option’ (LOBO) Loans

A35 At 31 December 2024 the Council had £51m of exposure to LOBO loans of which £36m of these can be called within 2025/26. A LOBO is called when the lender exercises its rights to amend the interest rate on the loan at which point the borrower can accept the revised terms or reject them and repay the loan at no additional cost. LOBO loans present a potential re-financing risk to the Council since the decision to call a LOBO is entirely at the lender’s discretion. With interest rates having dropped recently, there is a low to moderate chance that lenders will exercise their options.

A36 Any LOBOs called will be discussed with the Council’s Treasury Management advisor prior to acceptance of any revised terms. If a lender proposes to exercise its right to amend the interest rate of the loan, the default position will be the repayment of the LOBO without penalty i.e., the revised terms will not be accepted, to reduce refinancing risk in later years. Should the possibility arise of a LOBO being refinanced, for example by replacing the loan with a new loan arrangement, then the approach detailed below in A38 will be adopted.

Short-term and variable rate loans

A37 This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. Financial derivatives may also be used to manage this interest rate risk. The Council’s exposure to shorter dated and variable rate borrowing is kept under regular review.

Debt Rescheduling

A38 The Council’s debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

A39 The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years due to lenders seeking a higher rate, than in a lower interest rate environment where surplus cash is retained rather than lent. The rationale for undertaking debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

A40 As mentioned in paragraph A23 to A24 the ‘liability benchmark’ illustrates the current level of Council borrowing. Any potential refinancing of existing loans will be scheduled with the consideration of the existing maturity profile of Council debt, along with the duration of required debt, as per the liability benchmark.

A41 Borrowing and rescheduling activity will be reported in the Annual Treasury Management Report and the regular treasury management reports to Audit and Risk Management Committee and then Policy and Resources Committee.

Treasury Investment Strategy

A42 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

A43 At 31st December 2024, the Council held £40m of treasury investments. In the past 12 months, the Council's treasury investment balance has ranged between £27m and £80m. Fluctuations in cash balances occur throughout the year as grants are received (e.g., Dedicated Schools Grant), and payments fall due (e.g., PWLB loan repayments). Investment levels were £52m (30th June 2024) and £42m (30th September 2024). A similar range in investment level is expected in the forthcoming year, depending on the levels of grant received and the payment profiles.

A44 Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council 's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

A45 The Council and its advisors continually assess economic and market conditions for signs of credit or market distress that might adversely affect the Council.

A46 Strategy: As demonstrated by the liability benchmark in Appendix E, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

A47 The CIPFA Code does not permit local authorities to both borrow and then invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

A48 ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's

ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

A49 Business models: Under the International Financial Reporting Standard 9, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

A50 The Council may invest its surplus funds with any of the counterparties shown in Appendix F, subject to the counterparty credit rating, cash and time limits shown. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered. Additionally, where available, the credit rating relevant to the specific investment or class of investment is used.

A51 UK Government: Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

A52 Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

A53 Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

A54 Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

A55 Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social

Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

A56 Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

A57 Strategic pooled funds: Bond, equity and property funds, including exchange traded funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

A58 Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, real estate investment trusts offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

A59 Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

A60 Operational bank accounts: The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be minimised as part of daily Treasury Management procedures. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. (Bail-ins provide immediate relief when banks use money from their unsecured creditors, including depositors and bondholders, to restructure their capital. Bailouts occur where the government injects capital into banks, enabling them to continue their operations.)

A61 Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made.
- existing investments that can be recalled or sold at no cost will be and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

A62 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

A63 Other Information on the Security of Investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

A64 Reputational aspects: The Council will assess any valid reputational considerations when investing with potential counterparties.

A65 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, and 2022, this is not generally reflected immediately in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

A66 Investment Limits: In order that the risk to the Council's finances is further minimised in the case of a single default, a group of entities under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries. Group Investment can be found in Appendix F.

A67 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

A68 When calculating counterparty limits, the investment portfolio may be grossed up to include amounts that are being utilised by the Council in lieu of borrowing (internally borrowed), as per the Council's external advisor.

A69 Liquidity management: The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's cash flow forecast. The Council will spread its liquid cash over providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

A70 The Section 151 Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements. Decisions taken on the core investment portfolio will be reported to Committee meetings.

A71 Environmental, Social and Governance (ESG): The Council's approach towards responsible investment, sustainability, its impact on society and the environment, as well as other ethical and good governance considerations. These factors can collectively be termed 'ESG.' Integrating ESG will allow the Council to deliver on key goals and also improve the long-term resilience of the balance sheet, particularly as it is now increasingly clear that there are financial benefits to be gained in the long-term from recognising the impact of climate change, efficient energy consumption, sustainable resources, inclusion, diversity, equality and strong corporate governance. However, this needs to be considered in conjunction with Security, Liquidity and Yield. A summary of the key ESG consideration is included in Appendix G to this report.

A72 Related Matters: Appendix H to this report includes detail on related matters that the CIPFA code requires the Council to include within its Treasury Management Strategy.

A73 Investment Advisors: The Council continues to utilise an independent treasury advisor to provide the following services:

- Credit advice.
- Investment advice.
- Technical advice.
- Economic and interest rate forecasts; and
- Workshops and training events.

A competitive tendering exercise was completed to appoint an advisor for an initial period spanning April 2021 to March 2024, with the option to extend for a further two years. The Council has exercised its option to extend the contract for a further twelve months. The successful bid came from Arlingclose Ltd. The treasury management team within Finance monitor the quality of the service provided.

Interest Rate Forecast

A74 Economic and interest rate forecasts are provided by the Council's treasury management advisor. The Council will reappraise its strategies from time to time in response to evolving economic, political, and financial events.

Policy on Delegation

A75 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Director of Finance who will act in accordance with the Council's Strategy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

A76 On a day-to-day basis the treasury management team within Finance undertake the treasury management activities.

A77 Decisions on short term investments and short-term borrowings may be made on behalf of the Section 151 Officer by the Senior Finance Business Partner with the responsibility for investments or any other members of that team who are empowered to agree deals subject to their conforming to the Council's Treasury Management Strategy and policies outlined in this report.

A78 A list of the current Authorised Signatories for Treasury Management activity, as designated by the Director of Finance, is included in Appendix I.

A79 Decisions on long term investments or long-term borrowings (i.e., for periods greater than one year) may be made on behalf of the Section 151 Officer by the Treasury Management function and will be reported to Committee.

A80 All officers will act in accordance with the policies contained within this document.

Performance Monitoring and Reporting

A81 The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its Treasury Management Practices.

A82 The Council will produce an Outturn Report on its treasury activity no later than 30 September after the financial year end.

APPENDIX B

TREASURY MANAGEMENT POLICY STATEMENT

Introduction and background

B1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

B2 Accordingly, 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, setting out the way the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

B3 The Council (i.e., Full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its Treasury Management Practices.

B4 The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer who will act in accordance with the Council's Strategy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

Policies and objectives of treasury management activities

B5 The Council defines its treasury management activities as:

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

B6 This Council regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

B7 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

B8 The Council's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Council transparency and control over its debt.

B9 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX C

TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2025/2026

C1 Background

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

Treasury Management Indicators

C2 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**
Portfolio average credit rating	A

C3 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.

Liquidity risk indicator	**Target**
Total sum borrowed in past 3 months without prior notice	**£10m**

C4 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 2025/26 %**	**Upper Limit 2025/26 %**
Under 12 Months	0	90
12 Months and within 24 months	0	75
24 Months and within 5 years	0	75
5 years and within 10 years	0	75
10 years and over	0	100

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.

C5 Long-term treasury management investments

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. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	**2025/26**	**2026/27**	**2027/28**
Limit on principal invested beyond year end	£15m	£15m	£15m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

APPENDIX D

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

	Balance as at 31 Dec 24 £m
External Borrowing (Long & Short Term)	
Public Works Loan Board	132.7
Local Authorities Temporary Loans	113.0
LOBO Loans	51.0
Other Loans	39.8
Total External Borrowing *	336.5
Other Liabilities	
Private Finance Initiative (PFI)	26.4
Total Other Liabilities	26.4
Total External Debt	**362.9**
Treasury Investments	
Community Interest Companies	0.9
Money Market Funds	28.4
Strategic Pooled Funds:	
Royal London	1.0
Columbia Threadneedle Bond Fund	1.0
Altana Social Investment Partnership	7.9
CCLA Property Fund	1.0
Total Investments	**40.2**
Net Borrowing Position	**322.7**

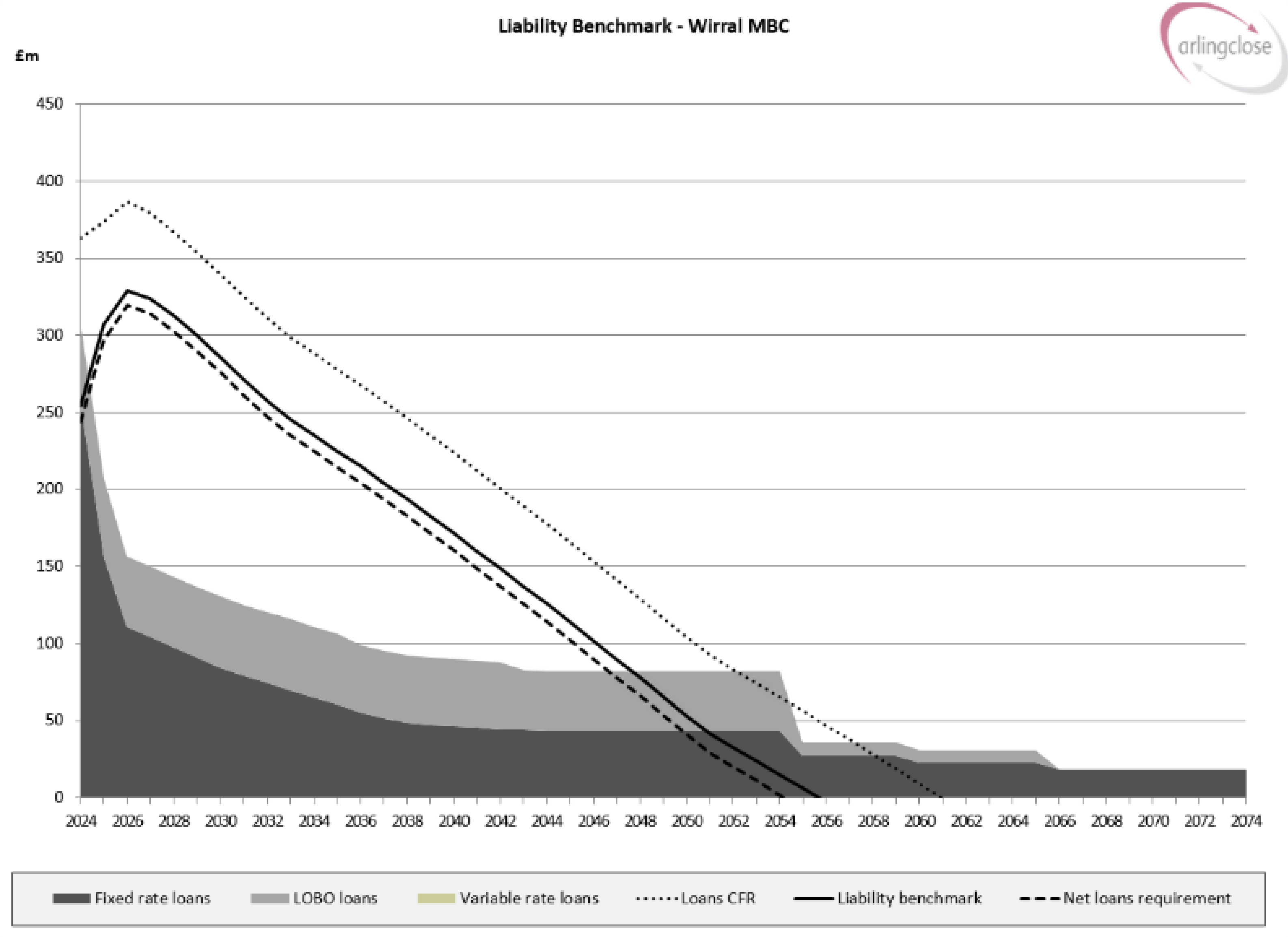
D1 *£11 million of the £336.5 million of external borrowing relates to transferred debt from the former Merseyside County Council. This will be repaid by 31 March 2026. Wirral administers this debt on behalf of the following other Authorities who make annual repayments towards this liability:

- Knowsley Council
- Liverpool City Council
- Sefton Council
- St Helens Council
- Merseyside Fire and Rescue Service

- Merseyside Police
- Merseyside Recycling & Waste Council
- Merseytravel

APPENDIX E

LIABILITY BENCHMARK – GRAPHICAL FORMAT



Supporting Notes:

- The concept is that the chart allows a comparison of the current level of borrowing against the need to borrow, looking at both the amount (on the vertical axis) and the term (on the horizontal axis).

- Where level of actual loans (the grey shaded areas on the chart) exceed the Liability Benchmark (the solid middle line of the three lines), the Council can make long-term investments for cash flow management or repay loans early; where the Liability Benchmark exceeds loans, the Council can take long-term borrowing or sell investments.

- The 'Loans CFR' (the top, dotted line of the three lines on the chart) can be described as the maximum permitted level of borrowing. Borrowing up to the 'Loans CFR' will usually mean high levels of investments, exposing the Council to credit, price and interest rate risks.

- The 'Net Loans Requirement' (the bottom, dashed line of the three lines on the chart) is the minimum possible level of borrowing, at which investments would be zero. This would expose the Council to the liquidity risk of being unable to make payments when due.

- The Liability Benchmark is then the level between the two, where an appropriate balance of risks can be struck between these two extremes.

- There is no requirement to borrow exactly to the Liability Benchmark, but a decision to borrow more or less, or longer or shorter, than the Liability Benchmark implies a deliberate decision to accept additional risk. This may be entirely appropriate if it is accompanied by a reduction in cost, for example through short-term borrowing at lower margins.

- For the Council what this chart estimates is that, if capital plans proceed as forecast and following which there in no new capital borrowing added to the programme, then there will be a need for additional borrowing for a period of about twenty years of up to a peak of approximately £170 million. This requirement can be seen on the chart as the white segment that is above the current level of shaded debt and the below the solid middle line of the Liability Benchmark.

- The profile of this chart will change over time if additional capital borrowing is added to the existing programme, or new external debt is entered into.

APPENDIX F

APPROVED INVESTMENT COUNTERPARTIES

Table 1: Limits for New Investment

Sector	Time limit	Counterparty limit	Sector limit for total investments
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£10m	Unlimited
Secured investments *	3 years	£10m	£30m
Banks (unsecured) *	13 months	£5m	£15m
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	3 years	£5m	£10m
Money market funds *	n/a	£10m	£100m
Strategic pooled funds	n/a	£10m	£20m
Other investments *	3 years	£5m	£15m

*Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of sound credit quality.

Table 2: Additional investment limits

Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Financial Institutions not domiciled in the UK	£10m per country

F1 UK Government: Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

F2 Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

F3 Secured Investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

F4 Banks and Building Societies Unsecured Investments: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

F5 Registered Providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

F6 Money Market Funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

F7 Strategic Pooled Funds: Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

F8 Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, real estate investment trusts offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

F9 Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

APPENDIX G

Environmental, Social and Governance (ESG) Considerations

G1 Outside of financial risks, it is increasingly evident that there are also key non-financial risks with financial consequences over the longer-term for the Council. In particular:

G2 Environmental risks: Climate change has continued to become an increasingly evident problem, with extreme weather events rising and temperatures increasingly on a global basis. Coupled with the depletion of natural resources and the negative feedback loop created by hydrocarbon pollution, there are growing concerns about the environment and the potential financial impact on societies, economies and businesses.

G3 Social risks: Inequality, diversity and inclusion are becoming more important considerations. The unequal recovery since the last financial crisis coupled with financial pressures on public sector balance sheets have led to a growing divergence of outcomes and concerns about parts of society being systematically left behind. There is also increased scrutiny from a range of stakeholders. For the Council, there is also a vested interest in protecting and minimising the most vulnerable in society.

G4 Governance risks: Governance covers the rights and responsibilities of the senior management of companies, institutions and counterparties, in particular its structures, corporate values and accountability processes. The proper treatment of employees, ensuring an ethical approach to supply chains, paying living wages, how counterparties ensure that management is acting in the best interests of all stakeholders – these are all clear areas of focus that if poorly managed, can lead to reputational and financial consequences for the Council's portfolio in the long-term.

G5 The Council's objective is to recognise all these risks, to mitigate them where possible and thereby improve the security of its portfolios and balance sheet in the long-term.

G6 Within these risks, the Council has identified climate change as a long-term, material and systemic financial risk with the potential to significantly impact the treasury portfolio, the capital strategy and the Council's financial resilience over time. The Council has declared a Climate Emergency already in response to this, and further, in respect of its investments, will seek to:

- Minimise exposure to counterparties and investments heavily impacted by climate change risk.

- Increase exposure to sectors, counterparties and investments, such as renewables, whose activities aid the transition to a lower carbon world and economy.

- Contribute meaningfully to an improved economically sustainable future locally and nationally, without sacrificing security.

G7 The Council will incorporate ESG issues into its analysis and decision-making processes when considering the treasury portfolio and capital investments. The Council will seek to use data and analysis where available to determine the type and materiality of relevant issues for counterparties.

ESG Risk Appetite

G8 It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, it is unavoidable for some measure of risk to exist.

G9 Therefore, risks need to be considered both in terms of potential threats to the Council and positive opportunities.

G10 The risk appetite will be considered annually and monitored on an ongoing basis by senior management and external advisors.

G11 In general, the Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Of relevance to ESG, the Council is exposed to a range of risks across its balance sheet and portfolios:

- Environmental risks related to the environmental impact of the Council's strategy and investments.

- Social risks related to the social impact of the Council's strategy and investments.

- Governance risks related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances.

G12 Within these, the Council's appetite is as follows:

Risk	Appetite
Environmental	No appetite for environmentally negative risks. Moderate to high appetite for projects and investments that reduce environmental risks and promote sustainability. Always subject to full due diligence and subsequent monitoring of risks and key appropriate metrics.
Social	Low appetite for social risks, especially in the local region. Moderate appetite for projects and investments that reduce social risk. Always subject to full due diligence and subsequent monitoring of risks and key appropriate metrics.
Governance	No appetite for investments and

Risk	Appetite
	initiatives that are not accompanied by careful due diligence and an assessment of the transaction versus the Council's resources, funding needs, cashflow requirements, ESG risk preferences and broader goals. All subject to ongoing monitoring of risks and key relevant metrics to manage the Council's exposure and respond to any emerging issues. Depth and frequency of monitoring should be proportional to the complexity and capital at risk for the Council.

APPENDIX H

CIPFA CODE – RELATED MATTERS

The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

Financial Derivatives

H1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

H2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

H3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

H4 In line with the CIPFA Code, the Council will seek external advice and will where necessary consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive

H5 The Council has chosen to be assigned the 'professional client' status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

APPENDIX I

AUTHORISED SIGNATORIES

I1 The following officers are authorised to make payments, either via the Council's online banking system or by signing cheques, and issue other instructions relating to Treasury Management transactions on behalf of Wirral Borough Council:

Director of Finance – Matthew Bennett

Assistant Director of Finance & Investment – Daniel Kirwan

Head of Finance – Diane Grisdale

Head of Finance – Carla Wright

Head of Finance – Jessica Whitley

Senior Finance Manager – Gary Mitchell

Senior Finance Manager – Mark Goulding

Senior Finance Manager – Christopher Kelly

Senior Finance Manager – Shaun Allen

Finance Manager – Mark Lightburn

Finance Manager – Asako Brown

Finance Manager – Mike Kostrewski

This list can be amended at the discretion of the Director of Finance, should the need arise due to operational requirements.

APPENDIX J

Arlingclose Economic & Interest Rate Forecast – December 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.

- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.

- UK GDP recovered well in the first half of 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.

- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.

- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.

- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.

- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.

- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.

- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

The PDF file may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact Christopher Crawford if you would like this document in an accessible format.