WIRRAL

POLICY AND RESOURCES COMMITTEE

Wednesday, 13 July 2022

REPORT TITLE:	TREASURY MANAGEMENT ANNUAL REPORT 2021-22
REPORT OF:	DIRECTOR OF RESOURCES (S151 OFFICER)

REPORT SUMMARY

The Authority's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management ("the Code"), which requires the Authority to approve treasury management semi-annual and annual reports.

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

There was an underspend on net Treasury activities of £0.1 million, which is attributable to lower debt management costs. This underspend was incorporated into the Revenue Outturn report.

The level of Capital Financing debt held on the balance sheet, including the Merseyside Residuary Body debt managed by the Council on behalf of the constituent authorities, was £160 million at 31 March 2022. This is a reduction of £6 million since 1 April 2021 and reflects policies to minimise and delay borrowing costs which adversely impact upon the revenue budget. At 31 March 2022, the Council also held £58 million of temporary loans from other Local Authorities, compared to £85 million at 31 March 2021.

The Council has complied with the Treasury Management Indicators as set out in the agreed Treasury Management Strategy for 2021/22.

This matter is a key decision due to the level of expenditure involved and as Treasury Management decision affects all Wards within the Borough.

RECOMMENDATION

The Policy and Resources Committee is requested to recommend to Council that the Treasury Management Annual Report for 2021/22 be agreed.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Wirral 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 annual review for 2021/22

2.0 OTHER OPTIONS CONSIDERED

2.1 The Council has previously determined what Treasury Management strategy we should use, and this report is detailing the outcomes of that which is a legal requirement.

3.0 BACKGROUND INFORMATION

3.1 Treasury management is defined by CIPFA as: "The management of the local authority 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. Appendix A provides an overview of economic developments throughout 2021/22.

BORROWING AND DEBT MANAGEMENT

3.4 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The value of the CFR increases whenever you fund capital expenditure via borrowing. The CFR is reduced when the Council makes annual repayments against this debt, known as the Minimum Revenue Provision (MRP). The CFR balance as at 31 March 2022 was £373.9 million.

3.5 Whilst the debt requirement to fund historic capital spend was £374 million at the year-end, the actual level of external debt was below this at £252 million. The gap between the need to borrow and the actual debt level was bridged by the use of investment balances. Appendix B, table B1 shows the movement of debt between 1 April 2021 and 31 March 2022.

3.6 Included within the short term capital debt of £114 million is a loan with the PWLB for £6.5 million, which was arranged to match the 2020/21 cost of the capitalisation directive granted to the Council by DLUHC. This loan was arranged once the 2020/21 Statement of Accounts had been audited by Grant Thornton.

3.7 At 31 March 2022 the total external debt on the Councils balance sheet included £17.9 million for the Merseyside Residuary Body debt, which is repayable by other external organisations, which is administered by the Authority (£25.1 million at 31 March 2021).

3.8 During 2021/22 the Council secured a further interest free loan from SALIX in respect of energy efficient street lighting schemes. This loan was for £1.7 million and matures in 2026/27.

3.9 The average rate of interest paid on long term borrowings as at 31 March 2022 was 5.58% (5.83% at 31 March 2021) and the average term is 28 years, (28 years at 31 March 2021). It should be noted that the average rate calculation excludes the benefit received from the policy of using internal borrowing to delay borrowing for capital financing purposes. This incurs a £nil borrowing cost at the expense of foregone investment income and if included would reduce the average rate.

3.10 Temporary, short, dated loans, predominantly from other local authorities remain affordable and attractive for periods of low cash flow.

3.11 Lender Option Borrower Option (LOBO) loans: A LOBO loan 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. The Authority continues to hold LOBO loans at a value of £95 million which is down from £101 million at 31 March 2021. No banks exercised their option during the year.

Other Long-Term Liabilities

3.12 Other Long-Term Liabilities relates to the schools Private Finance Initiative (PFI) scheme. Under the International Financial Reporting Standards (IFRS) these items are now shown on the Balance Sheet as a Financial Liability and therefore need to be considered within any Treasury Management decision making process.

3.13 As at 31 March 2021 the PFI liability was valued at £34.4 million to be repaid by 2031.

3.14 Appendix B describes the debt management approach taken in 2021/22 and also provides additional debt details in tables B1 and B2.

INVESTMENT ACTIVITY

3.15 Both the CIPFA and the DLUHC’s Investment Guidance require the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum 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.

3.16 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation’s cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

3.17 At 31 March 2021 the Council held investments of £48 million, this decreased to £40 million in June 2021 before climbing to a higher level of £51 million at the end of September then reducing to December 2021 (£34 million). During the final quarter of the financial year the Council received further money from Central government in relation to the Council Tax Rebate grant, hence the increase in investment levels to £67 million at the year end.

3.18 Appendix C, table C1 details investments held as at 31 March 2022.

3.19 The following table shows the credit composition of the Council's investment portfolio as at 31 March 2022:

Table 4: Investment Portfolio – Credit Components

Credit Rating	Proportion of Portfolio %
AAA	81
Unrated	19
Total	**100**

Note: *'Unrated' components relate to corporate investments that despite the absence of a formal rating, are either deemed credit worthy due to analysis of their performance over a variety of credit metrics or backed by suitable financial guarantees.*

3.20 Investments with Banks and Building Societies were primarily call accounts. 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.

3.21 For diversification purposes the Treasury Management team 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 5: Investment Portfolio – Financial Instruments

Investment Instrument	Proportion of Portfolio %
Money Market Fund	70
Externally Managed Fund	26
Green Energy Bond	2
Edsential Credit Facility	2
Total	**100**

3.22 As stated in the Revenue Monitoring reports the budgeted investment income for the year estimated at £1.2 million was unlikely to be achieved. The final income for the year was £0.25 million (£0.23 million in 2020/21) with the reduction attributable to these key factors:

a) Low interest rates offered for investments
b) The economic environment
c) The continuing policy of relying on internal borrowing to temporarily fund and thereby delay borrowing for the capital programme, which reduces balances available to put into investments but generates savings in interest incurred.

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

3.24 Appendix D notes accounting developments regarding Treasury Management that occurred during 2020/21.

COMPLIANCE WITH TREASURY INDICATORS

3.25 The Authority confirms that it has complied with its Treasury Management Indicators for 2021/22, which were approved by Council on March 2021 as part of the Treasury Management Strategy Statement. Details can be found in Appendix E.

3.26 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during 2021/22. None of the indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4.0 FINANCIAL IMPLICATIONS

4.1 In the financial year 2021/22 there was an underspend on net Treasury activities of £0.1 million, which is attributable to lower debt management costs.

4.2 Interest rates set by the Bank of England remained low for much of the 12-month reporting period, however increases were evident in the latter part. Opportunities for investments have been curtailed whilst the rate of increase for yields has slowed, however work is being conducted with advisors to try and enhance the rate of return on the investment portfolio. With regards to reducing the interest costs associated with the Council's loans, work is taking place to renegotiate borrowing terms with lenders but is behind schedule due to other demands on financial institutions and other involved parties.

4.3 Capital financing debt has reduced to £160 million, per the balance sheet as at 31 March 2022, a decrease of £6 million since 1 April 2021, despite additional capital expenditure commitments.

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

5.0 LEGAL IMPLICATIONS

5.1 The Local Government Act 2003, section 15(1), requires a local authority "…to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify…".

5.2 The guidance on investments in the main part of this document is issued under section 15(1) of the 2003 Act and authorities are therefore required to have regard to it.

5.3 Two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain investment guidance which complements Ministry for Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities) guidance. These publications are:

- Treasury Management in the Public Services: Code of Practice and CrossSectoral Guidance Notes
- The Prudential Code for Capital Finance in Local Authorities

5.4 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]

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	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	That wherever possible investments are entered into at inflation equalling levels of interest. This depends entirely on the nature and purpose of the proposed investment.
Legal and Regulatory Risk	That appropriate legal advice is sought on new opportunities to ensure adherence to relevant legislation and regulation.

Credit and Counterparty Risk (Security of investments).	That any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria
Council issues S114 notice	Should the Council encounter difficulties in obtaining borrowing following a S114 notice, the Authority has access to borrow from the PWLB as a lender of last resort. Any such borrowing would be subject to higher rates of interest.

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.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications 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. An example of such investment is the holding in the Public Sector Social Impact Fund.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The Community Wealth Building Strategy is a key part of how the Authority 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 Public Sector Social Impact Fund "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 Treasury Management 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.

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APPENDICES

Appendix A Economic Background
Appendix B Debt Management
Appendix C Investment Management
Appendix D Treasury Management – Accounting Developments
Appendix E Treasury Indicators 2021/22

BACKGROUND PAPERS

CIPFA Code of Practice on Treasury Management

SUBJECT HISTORY

Council Meeting	Date
Treasury Management Strategy Statement 2019-20	**Cabinet – 18 Feb 2019**
Treasury Management Annual Report 2018-19	**Cabinet – 22 July 2019**
Treasury Management Mid-Year Report 2019-20	**Cabinet – 25 Nov 2019**
Treasury Management Strategy Statement 2020-21	**Cabinet – 17 Feb 2020**
Treasury Management Annual Report 2019-20	**Cabinet – 27 July 2020**
Treasury Management Mid-Year Report 2020-21	**P&R – 3 Nov 2020**
Treasury Management Strategy Statement 2021-22	**P&R - 17 Feb 2021**
Treasury Management Annual Report 2020-21	**P&R - 28 July 2021**
Treasury Management Mid-Year Report 2021-22	**P&R - 10 Nov 2021**

APPENDIX A

ECONOMIC BACKGROUND

Growth & Inflation

1 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were significant issues over the 2021/22 financial year.

2 The Bank of England (BOE) base rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. However, rising, persistent inflation changed that.

3 The Consumer Prices Index (CPI) was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series.

4 The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. The most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

5 Activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic.

Monetary Policy

6 Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds to thereby reduce the rise in the money supply and help counter inflationary growth.

7 In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022. The Committee also noted that consumer confidence had fallen due to the squeeze in real household incomes.

Market Reaction

8 The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

9 Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

APPENDIX B

DEBT MANAGEMENT

Table B1 – Level of External Debt

	Balance at 01/04/21 £000	New Borrowing £000	Matured Debt £000	Balance at 31/03/22 £000
CFR	**362,649**			**373,933**
Outstanding Debt				
Short Term Capital Debt	16,194	11,394	-16,194	11,394
Long Term Capital Debt	149,434	1,671	-2,837	148,268
Total Capital Debt	**168,530**	**13,065**	**-19,031**	**159,662**
Temporary Cashflow Loans	85,004	108,521	-136,000	57,525
Other Long Term Liabilities	36,868		-2,465	34,403
Total External Debt	**348,689**	**121,586**	**-157,496**	**251,590**

1 The following table shows the capital financing loans repaid during the year.

Table B2 – Loan Maturities in 2021/22

Loans maturing in 2021/22	Principal £'m	Fixed/ Variable	Rate %	Loan start date	Terms
PWLB	0.25	Fixed	2.30	November 2011	E I P
PWLB	0.25	Fixed	2.16	February 2019	E I P
FMS Wertmanagement	7.00	Fixed	6.65	November 2000	Maturity
FMS Wertmanagement	6.00	Fixed	5.29	June 2001	Maturity
SALIX	0.55	Fixed	0.00	Various	E I P
Total Maturing Borrowing	**14.05**				

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.

2 With external borrowing reducing, the annual cost of financing this debt has also fallen year on year, generating savings. These cost reductions, coupled with the deferral of further borrowing costs through internal borrowing provided substantial one-off savings.

3 The Authority's strategy will continue to be to minimise and delay external borrowing where possible, through the utilisation of investment balances, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

4 Affordability and the "cost of carry" remained important influences on the borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained lower than long-term rates, it was more cost effective in the short-term to use internal resources instead.

5 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose, the treasury management advisers, assist the Authority with this 'cost of carry' and breakeven analysis.

6 The chief objective when borrowing is 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 long-term plans change, being a secondary objective.

7 In keeping with these objectives, the borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. 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.

8 As a consequence of the decision to borrow internally, the Authority's level of external long-term borrowing has reduced significantly over recent years. Utilisation of the short-term borrowing market has aided the policy of internal borrowing, whilst enabling the Council to have enough liquidity at a lower cost compared to the longer-term loan market.

PUBLIC WORKS LOAN BOARD (PWLB) Borrowing Update

9 In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. 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. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

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

APPENDIX C

INVESTMENT MANAGEMENT

Table C1 – Level of Investment 2021/22

Investment Counterparty	Credit Rating	Balance 31/03/21 £000	Investments Made £000	Maturities £000	Balance 31/03/22 £000
UK Banks	AA-	0	23,161	-23,161	0
	A+	941	25,073	-26,014	0
	A	5,000	2,414	-7,414	0
Money Market Funds	AAA	23,917	448,491	-425,453	46,955
Corporate Loans	Unrated	975	775	-250	1,500
Green Energy Bond	Unrated	0	1,500	0	1,500
Externally Managed Funds	AAA	7,000	0	0	7,000
	Unrated	10,000	0	0	10,000
Total		**47,833**	**501,414**	**-482,292**	**66,955**

Note 1: Unrated Corporate investments are cash flow facilities backed by suitable financial guarantees.

1 Security of capital remained the main investment objective. This was maintained by following the counterparty policy set out in the Treasury Management Strategy Statement for 2021/22 which defined “high credit quality” organisations as those having a long-term credit rating of A- or higher. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of sound credit quality.

2 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority’s minimum long-term counterparty rating for 2021/22 was A- across rating agencies Fitch, S&P and Moody’s); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

3. The Authority also has investments in externally managed cash plus funds, a strategic bond fund and a pooled property fund, which allow the Authority to diversify into asset classes other than cash with the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. The Authority’s pooled fund investments are in the respective fund’s ‘distributing’ share class which pay out the income generated.

4 In light of Russia's invasion of Ukraine, Arlingclose contacted the fund managers of our Money Market Funds, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g., from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

5 Any unrealised capital movements will not have an impact on the General Fund as the Authority has either, depending on the fund, elected to present changes in the funds' fair values in other comprehensive income (FVOCI) or is using the alternative fair value through profit and loss (FVPL) accounting and must defer the funds' fair value gains or losses to the Pooled Investment Fund Adjustment Account until 2023/24.

6 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is 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. Their performance and suitability in meeting the Authority's investment objectives are monitored regularly and discussed with Arlingclose.

7 Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31st March, the 1-day return on the Authority's MMFs ranged between 0.44% - 0.58%. Dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities. The level of investment income does not reflect the savings of an estimated 2.0% on delayed borrowing for amounts internally borrowed. Reduced debt management costs more than compensated for the reduction in investment income as overall Treasury Management activities resulted in a slight underspend for the year.

Credit Rating Developments

8 Credit Default Swaps (CDS) can be used as a measure of the financial markets view of the financial health of a banking institution, the higher the CDS the higher the uncertainty level. CDS spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back.

9 Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their

improved capital positions compared to 2020 and better economic growth prospects in the UK.

10 The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

11 Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Environmental, Social & Governance (ESG) Issues

12 Over 250 UK local authorities, including Wirral, have declared a climate emergency to tackle the drivers and impact of climate change, adapting now for sustainability in future years. Whilst there are no universally agreed metrics to assess these issues, the Council has included within its Treasury Management Strategy 2022/23 an appendix noting future ESG considerations.

Non-Treasury Investments

13 The definition of investments in CIPFA's revised 2021 Treasury Management Code has been widened to include financial assets as well as non-financial assets held partially or wholly for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

APPENDIX D

TREASURY MANAGEMENT – ACCOUNTING DEVELOPMENTS

1 **Revised CIPFA Codes**: CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

2 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year.

3 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

4 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

5 Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management (TM) Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version. The Authority will follow the same process as the Prudential Code, i.e., delaying changes in reporting requirements to the 2023/24 financial year.

6 **IFRS 16 - Lease accounting standard**: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024.

APPENDIX E

TREASURY MANAGEMENT INDICATORS

Background

Treasury management indicators are not in the 2017 edition of the CIPFA Treasury Management Code itself but in the separate Treasury Management Code guidance notes for local authorities, which was last published in 2011. The Authority measures and manages its exposures to treasury management risks using the following indicators.

Treasury Management Indicators

1. Security

The Authority 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**	**31.3.22 Actual**	**Complied?**
Portfolio average credit rating	A-	AA	Yes

2. Liquidity

The Authority 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 in the table below, the Council was able to draw upon £58m of short notice temporary loans over the last three months.

Liquidity risk indicator	**Target**	**31.3.22 Actual**	**Complied?**
Total sum borrowed in past 3 months without prior notice	**£15m**	**£58m**	**Yes**

3. Maturity Structure of Borrowing

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

Maturity Structure of Borrowing	**Lower Limit 2021/22 %**	**Upper Limit 2021/22 %**	**Actual 31.03.22 %**	**Complied?**
Under 12 Months	0	90	72	YES
12 Months and within 24 months	0	75	3	YES
24 Months and within 5 years	0	75	4	YES
5 years and within 10 years	0	75	0	YES
10 years and over	0	100	21	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.

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.

	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£50m	£30m	£30m
Actual principal invested beyond year end	£12m	£12m	£12m
Complied?	Yes	Yes	Yes