WIRRAL

POLICY AND RESOURCES COMMITTEE

Wednesday, 8 November 2023

REPORT TITLE:	**TREASURY MANAGEMENT MID-YEAR REPORT 2023/24**
REPORT OF:	**DIRECTOR OF FINANCE**

REPORT SUMMARY

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

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

At the Mid-Year point the Treasury Management budget forecast for this year is for a net balanced position. It is anticipated that the use of a one-off Treasury reserve will compensate for an otherwise overspend position which is due to an increase in the interest rate environment, which will impact upon the borrowing costs of the Council. Some of this increase in interest cost will be offset by higher interest generated on Treasury Management investments. This position is incorporated into the Quarter 2 Revenue Monitoring report.

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

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

RECOMMENDATION

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

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

1.1 Wirral Council has adopted the CIPFA Code of Practice on Treasury Management ("the Code"), which includes regular update reports to Members of treasury activity. This report is the mid-year report for 2023/24.

2.0 OTHER OPTIONS CONSIDERED

2.1 As per the requirements of the CIPFA Code, this report updates Members on Treasury activities to 30th September 2023, therefore no other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 Treasury management is defined by CIPFA as: "The management of the Council investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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

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

3.4 Appendix A provides detail of the economic developments throughout the first half of 2023/24. In summary, UK inflation remained stubbornly high over much of the period which impacted upon the Bank of England's monetary policy who reacted by continuing to raise their lending base rate from 4.25 % to 5.25% over the first half of the year. As Treasury activities centre around both lending and investing funds, these changes in interest rates have an effect on both the investment returns and borrowing interest costs for the Council.

3.5 Monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

THE COUNCIL TREASURY POSITION

3.6 The table shows how the position has changed since 31 March 2023.

Table 1: Summary of Treasury Position

	Balance 31 Mar 23 £m	Maturities £m	Additions £m	Balance 30 Sep 23 £m
Investments	31.68	-329.32	344.31	46.67
Borrowings	-284.68	203.57	-175.00	-256.11
Other Long-Term Liabilites	-31.22	1.61	0.00	-29.61
Net Debt	**-284.22**	**-124.13**	**169.31**	**-239.04**

3.7 Throughout the first six months of the year the level of net debt has reduced due to the repayment of debt as it fell due, most notably a net repayment of £48 million of temporary loans from other Local Authorities that were taken out towards the end of 2022/23 for cashflow purposes.

3.8 Included within the borrowings of £256.1 million are two loans with the PWLB for a combined £12.1 million, which were arranged to match the cost of the capitalisation directive granted to the Council by DLUHC. It is intended to repay the capitalisation amounts via use of capital receipts at an appropriate point in the future thereby removing the need to borrow and associated interest costs.

BORROWING AND DEBT MANAGEMENT

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

3.10 There was a substantial rise in the cost of both short and long-term borrowing over the last 18 months. Bank of England (BoE) Bank Rate (commonly known as Base Rate) rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

3.11 UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10 year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

3.12 The Council undertakes borrowing to fund capital expenditure. Short-term borrowing interest rates have remained comparable or lower than long-term borrowing rates, although this does come with the refinancing risk that interest rates may continue to rise (and therefore future, replacement borrowing is more expensive). With this refinancing risk in mind, some longer term PWLB borrowing was agreed within the first half of this year. The Council continues to utilise the temporary Local Authority loan market to retain balance within the debt portfolio. Whilst fixed rate debt provides cost certainty from a budgetary perspective, temporary debt will also allow the Council to benefit when interest rates begin to fall.

3.13 Over recent years the levels of longer term, capital financing debt have eroded as the Council used internal borrowing (the use of readily available cash balances) to delay entering into longer term loan agreements. Elements of the Capital Programme will ultimately require funding via borrowing from external sources. As reserves are called upon the resources temporarily available to use in lieu of external borrowing diminish, meaning the Council will reach a point when it is no longer possible to delay borrowing any further. Internal borrowing does not remove the need to externally borrow, it merely delays incurring the debt and consequently the financing costs.

3.14 The level of borrowing cost incurred this financial year will be dependent upon the borrowing requirement of Capital schemes delivered within the financial year. The Treasury Management team will continue to proactively manage the Council's cash flow to delay external borrowing for as long as is possible and prudent to reduce costs.

3.15 **Lender Option Borrower Option (LOBO) loans**: The Council continues to hold £85 million of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. A bank did exercise their option on one loan during the first half of the year. The new loan rate offered by the bank was 6.37%, therefore the decision was taken to exit the agreement and enter into a loan with an interest rate of 5.24% from the PWLB. Discussions have been taking place regarding the exiting of some LOBOs. Officers will only instigate this should it be financially advantageous to the Council. Market conditions are volatile but may offer some opportunities during the second half of the year.

3.16 Appendix B illustrates the Council's debt portfolio at the mid-year point. Borrowings have fallen by £28.6 million, with other long term liabilities (PFI agreements) also reducing by £1.6 million. Shorter term borrowing continues to be utilised, when possible, to keep interest costs reduced. Further detail is provided in Appendix B that describes the debt management approach taken in 2023/24 and provides additional details of borrowings in tables B1 and B2.

TREASURY INVESTMENT ACTIVITY

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

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

3.19 Appendix C describes investment management, with a significant sum of available funding being utilised to temporarily minimise borrowing costs. Table C1 details investments held as at 30 September 2023.

3.20 From a starting position of £31 million of investments as at 31 March 2023, the level of investment increased to £39 million at 30 June 2023 and then further increased to a balance of £47 million as at 30 September 2023 due to funding being received in advance of expenditure being incurred.

3.21 Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds was around 4.1% at the end of March and approximately 5.3% at the end of September.

3.22 The budget for investment income is £1.2 million with forecast income to be in the region of £1.8 million. This estimation is based on two key assumptions:

a) That interest rates remain within a similar range to those currently being achieved
b) Investment balances remain at a comparable level

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

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

COMPLIANCE WITH TREASURY INDICATORS

3.25 The Director of Finance reports that all treasury management activities undertaken during the first half of the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Appendix D.

INTEREST RATE FORECAST

3.26 Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

3.27 Regarding long-term gilt yields, which affect the rate at which the Council can borrow from the PWLB, Arlingclose expect these to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

4.0 FINANCIAL IMPLICATIONS

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

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

4.3 The Quarter 2 budget forecast regarding Treasury Management activity is a net balanced position. It is anticipated that the use of a one-off Treasury reserve will be required to achieve this position. The increases in interest rates will impact upon the borrowing costs of the Council. Some of this increase in interest cost will be offset by higher interest generated on Treasury Management investments, however the use of the Treasury reserve may be required to ensure a balanced outturn.

4.4 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP) and is a charge that is made against the Treasury Management budget. If the Capital Programme is delivered as forecast in the Quarter 2 Capital Monitoring report, the Council will consequently increase its capital debt by £45.1 million (this is increased from a forecast £39.9 million in Quarter 1). This debt is repaid via charges to the revenue budget over the lives of the assets created or enhanced. The revenue impact of the additional £45.1 million of borrowing required to fund all forecast works in 2023/24 is as follows:

Table 2: MRP Charges to Revenue Relating to 2023/24 Debt Funded Capital

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Additional revenue cost	1.049	1.103	1.159	1.219

Note – MRP repayments from revenue only start the year after the capital expenditure has taken place i.e., for spend incurred in 2023/24, the first MRP repayments will be charged in the 2024/25 revenue accounts.

4.5 The MRP charge is calculated on an annuity basis, which means the annual repayments gradually increase each year. This, coupled with additional capital activity each year results in an increase in the MRP charge year on year.

5.0 LEGAL IMPLICATIONS

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management. This requires the annual production of Performance Indicators and a Treasury Management Strategy Statement and the reporting of treasury management activities at least twice a year.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

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

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

7.2 The risks mentioned above are inherent in Treasury activity, therefore they are persistent, continuous risks. Appendix 1 of the Treasury Management Strategy 23/24 (approved by Council on 27 February 2023) states that "the Council will create and maintain, as the cornerstones for effective treasury management: -

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

8.0 ENGAGEMENT/CONSULTATION

8.1 This 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 none arising directly from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

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

11.0 COMMUNITY WEALTH IMPLICATIONS

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

- Social Housing – affordable places to live for many residents
- Solar/Wind Power – cleaner air and cheaper energy
- Community lending vehicles – creating jobs and revenues in local communities

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APPENDICES

Appendix A	Economic Background
Appendix B	Debt Management
Appendix C	Investment Management
Appendix D	Treasury Indicators 2023/24
Appendix E	Liability Benchmark – Graphical Format

TERMS OF REFERENCE

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

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

BACKGROUND PAPERS

CIPFA Code of Practice on Treasury Management
Wirral Council Treasury Management Strategy 2023/24

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Treasury Management Mid-Year Report 2020-21 Treasury Management Strategy Statement 2021-22 Treasury Management Annual Report 2020-21 Treasury Management Mid-Year Report 2021-22 Treasury Management Strategy Statement 2022-23 Treasury Management Annual Report 2021-22 Treasury Management Mid-Year Report 2022-23 Treasury Management Strategy Statement 2023-24 Treasury Management Annual Report 2022-23	P&R – 3 Nov 2020 P&R - 17 Feb 2021 P&R - 28 July 2021 P&R - 10 Nov 2021 P&R - 15 Feb 2022 P&R - 13 Jul 2022 P&R – 9 November 2022 P&R - 15 Feb 2023 P&R - 14 Jun 2023

APPENDIX A

ECONOMIC BACKGROUND

Growth & Inflation

1 UK inflation remained stubbornly high over much of the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

2 Economic growth in the UK remained relatively weak over the period. Monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

3 Inflation continued to fall from its peak as annual headline Consumer Price Index declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

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5 July data showed the unemployment rate increased while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Monetary Policy

6 The Bank of England’s Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

7 Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

8 Following the September MPC meeting, Arlingclose, the authority’s treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

Market Reaction

9 Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

10 PWLB lending rates are determined by the UK gilt market. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%.

APPENDIX B

DEBT MANAGEMENT

1 The table below shows Council debt as at 30 September 2023:

Table B1: Council Debt as at 30 September 2023

Debt Principal	Balance 31 Mar 23 £m	Maturities £m	Additions £m	Balance 30 Sep 23 £m
Borrowings				
PWLB	-27.71	0.13	-29.50	-57.08
Market Loans (Fixed Rate)	-38.50	-	-	-38.50
Market Loans (LOBO)	-94.50	9.50	-	-85.00
Interest Free Loans & Other	-2.98	0.45	-	-2.53
Total Capital Finance Loans	**-163.68**	**10.07**	**-29.50**	**-183.11**
Other Long Term Liabilities (PFI)	-31.22	1.61	-	-29.61
Temporary Cashflow Loans	-121.00	203.00	-155.00	-73.00
TOTAL	**-315.90**	**214.68**	**-184.50**	**-285.72**

- *The reduction in total debt is due to the repayment of temporary cashflow loans that were required over the latter part of 2022/23.*

2 Effective utilisation of the short-term Local Council loan market continues to provide a useful source of borrowing as and when cashflow determines the need. At 30th September, the Council had £73 million borrowed via such loans running at an average rate of 5.4%.

3 The following table shows the capital financing loans repaid during the first half of the year.

Table B2 – Loan Maturities between April and September 2023

Loans maturing in 2023/24	Principal £'m	Fixed/ Variable	Rate %	Loan start date	Terms
Commerzbank	9.50	Variable	4.64	September 2003	LOBO
SALIX	0.45	Fixed	0.00	Various	E I P
PWLB	0.13	Fixed	2.16	February 2019	E I P
Total Maturing Borrowing	**10.07**				

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.

4 The following table shows the longer term loan that were agreed within the first half of the financial year

Table B3 – Long Term Loans agreed between April and September 2023

Loans maturing in 2023/24	Principal £'m	Fixed/ Variable	Rate %	Loan Maturity date	Terms
PWLB	10.00	Fixed	5.35	July 2038	E I P
PWLB	10.00	Fixed	5.24	July 2038	E I P
PWLB	9.50	Fixed	5.24	July 2037	E I P
Total Maturing Borrowing	**29.50**				

5 As mentioned in the main report one LOBO loan was repaid, at nil premium, and replaced with a loan from the PWLB. Two additional loans were agreed with the PWLB, to lessen the refinancing risk associated with temporary borrowing. Duration periods for these new PWLB loans were determined by where there was a dip in PWLB interest rates, along with debt maturity profile considerations.

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

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

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

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

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

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

APPENDIX C

INVESTMENT MANAGEMENT

1 **Table C1: Investment Profile**

Investments with:	31 Mar 23 £m	30 Jun 23 £m	30 Sep 23 £m
UK Banks			
Money Market Funds	12.08	19.29	27.20
Green Energy Bonds	1.50	1.50	1.50
Community Interest Companies	1.11	0.98	0.98
Other Pooled Funds:			
- *Property Funds*	1.00	1.00	1.00
- *Strategic Bond Funds*	1.00	1.00	1.00
- *Public Sector Social Investment Fund*	10.00	10.00	10.00
- *Cash Plus Funds*	5.00	5.00	5.00
TOTAL	**31.69**	**38.77**	**46.68**

2 **Table C2: Investment Sources**

Usable Reserves	31 Mar 23 £m	30 Jun 23 £m	30 Sep 23 £m
General Fund	13.18	13.18	13.18
Earmarked Reserves	72.26	72.26	72.26
Capital Receipts Reserve	2.98	2.98	2.98
Capital Grants Unapplied	51.47	55.40	80.92
	139.89	**143.82**	**169.34**
Internal Borrowing in lieu of External Borrowing	(108.20)	(105.05)	(122.66)
Reserves Invested	**31.69**	**38.77**	**46.68**

3 Security of capital remains the main investment objective. This is maintained by following the counterparty policy set out in the Treasury Management Strategy Statement for 2023/24 which defined high credit quality organisations as those having a long-term credit rating of A- or higher.

4 Counterparty credit quality is assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating for 2023/24 is A- across rating agencies Fitch, S&P and Moody's); Credit Default Swap (CDS) prices, financial statements, information on potential government support and reports in the quality financial press.

5 The following table shows the credit composition of the Council's investment portfolio as at 30th September 2023:

Table C3: Credit Composition of Investment Portfolio

Credit Rating	Proportion of Portfolio %
AAA	73
Unrated	27
Total	**100**

Note: *'Unrated' institutions are organisations that despite the absence of a formal rating, are deemed credit worthy due to analysis of their performance over a variety of credit metrics. These institutions are subject to a lower counterparty limit than those with formal credit ratings. Unrated investments at the 30 September 2023 are as follows:*

- £0.98 million credit facility with Edsential – a jointly owned company (Wirral and Cheshire West and Chester Council)
- £10.0 million investment with the Altana Social Impact Fund (ASIF)
- £1.5 million in a Bagnall Green Energy Bond

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

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

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

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

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

Table C4: Investment Portfolio – Financial Instruments

Investment Instrument	Proportion of Portfolio %
Money Market Fund	58
Externally Managed Fund	37
Term Deposit	2
Green Energy Bond	3
Total	**100**

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

11 Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets. This affected capital values of the Authority's longer-dated bond fund during the six-month period. The combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property, which impacts on the Councils holding in the CCLA Property Fund.

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

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

APPENDIX D

TREASURY MANAGEMENT INDICATORS 2023/2024

Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

D1 Liability Benchmark

This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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. It 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 of £10m required to manage day-to-day cash flow.

	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	384	402	408	404
Less: Balance sheet resources	-99	-99	-99	-99
Net loans requirement	**285**	**303**	**309**	**305**
Plus: Liquidity allowance	10	10	10	10
Liability benchmark	**295**	**313**	**319**	**315**
Exisiting Long Term Borrowing	**165**	**157**	**141**	**138**

The table above 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 the table above in a graphical format, this is included in Appendix E to this report.

D2 Maturity Structure of Borrowing

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

Maturity Structure of Borrowing	Lower Limit 2023/24 %	Upper Limit 2023/24 %	Actual Maturity 30.09.23 %
Under 12 Months	0	90	63%
12 Months and within 24 months	0	75	2%
24 Months and within 5 years	0	75	9%
5 years and within 10 years	0	75	4%
10 years and over	0	100	21%
		Total	**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. The Council complied with this indicator in the first half of the year.

D3 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	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£40m	£30m	£30m
Actual principal invested beyond year end	£10.9m	£10.8m	£10.7m

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.

Additional indicators

D4 Security

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

Credit risk indicator	Target	As at 30.09.23
Portfolio average credit rating	A	AA-

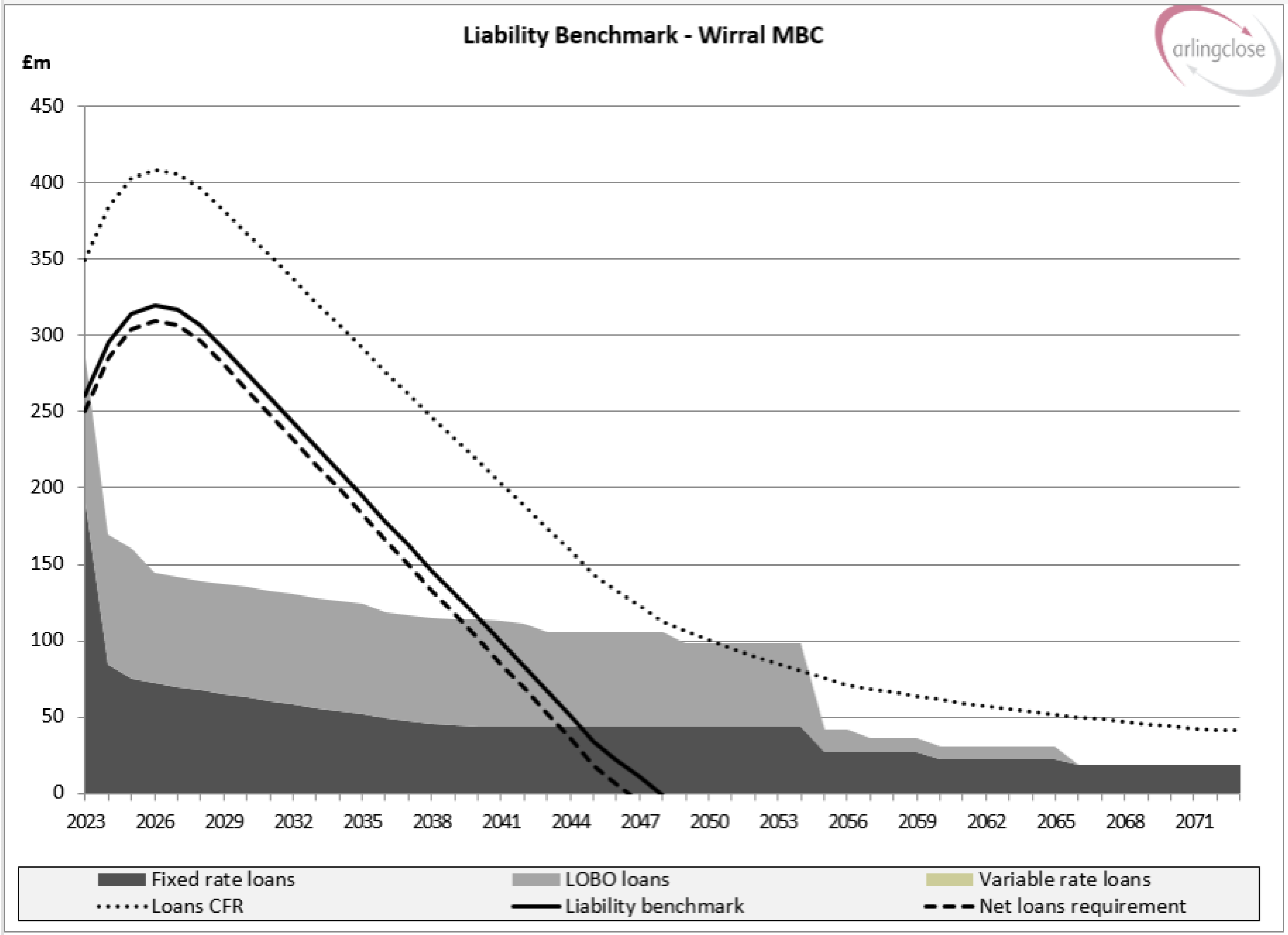
D5 Liquidity

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

Liquidity risk indicator	Target	As at 30.09.23
Total sum borrowed in past 3 months without prior notice	£10m (Minimum)	£77m

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 authority 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 authority 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 authority 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 ten to fifteen years of up to a peak of approximately £150 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.