Appendix A

TREASURY MANAGEMENT INTERIM REPORT 2022/23

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to reports to Members. This report represents the interim report for 2022/23.

2. For each financial year the Authority sets a balanced budget so that cash income raised during the year is sufficient to meet all of its cash expenditure commitments. One of the key functions of the Authority's treasury management activity is to ensure that these cash flows are effectively managed, so that cash is available when it is needed. Surplus cash is invested having regard to risk, liquidity and yield.

3. A further key function of the treasury management activity is to ensure that the Authority has sufficient funds to pay for its capital and other investment plans. These capital plans, which are set out in the Capital Programme, identify the borrowing needs of the Authority over a longer time horizon than the current year. In managing its longer term cash flow requirements for capital expenditure the Authority will take out loans or alternatively use its cash flow surpluses in lieu of external borrowing. This latter practice is referred to as "internal borrowing". In managing its loans, it may at times be advantageous for the Authority to repay or restructure its borrowings to optimise interest payments or achieve a balanced debt portfolio.

4. Having regard to these activities, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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."

5. As treasury management decisions involve borrowing and investing substantial sums of money, the Authority is exposed to potentially large financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The identification, control and monitoring of risk are therefore integral elements of treasury management activity.

6. The strategy for the year was identified in the Treasury Management Strategy Statement 2022/23 and was contained within the Budget and Financial Plan report CFO/007/22 approved by the Authority at its meeting on 24th February, 2022. The strategy covered the following areas:

   (a) prospects for interest rates;
   (b) capital borrowing and debt rescheduling;
   (c) annual investment strategy;
   (d) external debt prudential indicators;
   (e) treasury management prudential indicators.
   (f) performance indicators;
   (g) treasury management advisers

7. The Treasury Management Interim Report considers actual treasury management performance up to September 2022.

EXECUTIVE SUMMARY of the key points on performance so far include:

- No new borrowing has been arranged in the year or is expected to be arranged.
- Borrowing of £0.165m is due to be repaid in the second half of 2022/23.
- Financial Investments at 30 September 2022 stood at £61.35m, with associated income of £0.114m received in the first half of the year
- The Bank of England (BOE) base rate has increased from 0.75% at the start of the financial year, to its current level announced on 22nd September 2022 of 2.25%.
- Longer term Public Works Loan Board (PWLB) rates have increased during the first half of the year by 1.77% from 2.62% at the start of the year to 4.39% at 30 September 2022.
- Treasury Management activity for 2022/23 has been carried out in compliance with the relevant codes and statutes and within the borrowing and treasury management limits approved by the Authority as part of the budget setting process.

PROSPECTS FOR INTEREST RATES

8. The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The Bank of England (BoE) increased the Bank Rate to 2.25% during the first half of the financial year from 0.75% in March. The Monetary Policy Committee (MPC) noted that domestic inflationary pressures are expected to remain strong and so given the rhetoric around tackling inflation further bank rate rises should be expected

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. They may therefore raise the bank rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation.

9. The PWLB certainty rate for borrowing is linked to Gilt yield plus a margin of 0.80%. Gilt yields have increased since the start of the financial year and remain volatile having been exacerbated by the UK government's fiscal plans. PWLB rates for longer term loans have risen sharply by 1.77% during the first half of the financial year. The table below shows the spread of interest rates during the first six months of the year.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	2.15%	2.38%	2.56%	2.72%	2.45%
Date	01/04/22	13/5/22	04/4/22	04/4/22	04/4/22
High	5.31%	5.64%	5.55%	6.00%	5.71%
Date	28/9/22	28/9/22	28/9/22	28/9/22	28/9/22
30/9/21	4.89%	5.31%	5.15%	4.98%	4.39%
Average	3.01%	3.12%	3.33%	3.64%	3.37%

(*figures do not include 20bps certainty rate discount)*

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.

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

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. Further changes to the CIPFA Prudential Code introduced in December 2021 prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

10. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long-term borrowing will be required in 2022/23.

11. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, interest rate structures are continually monitored for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

12. The investment strategy for 2022/23 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DLUHC Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and a limit of £2m for investments with duration in excess of one year.

13. Investments have been made with various counterparties including UK and foreign banks with higher credit ratings, the larger Building Societies, "nationalised" banks and AAA rated money market funds. This diversity has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 September 2022 the average rate of return achieved on average principal available was 1.83 %. This compares with an overnight SONIA (Sterling Overnight Rate) rate of 1.24 %.

14. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2022/23 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m

Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

15. The Authority had investments of £61.35m as at 30th September 2022 (this included a £28m firefighters' pension grant received in July that will be utilised in the year):

ANALYSIS OF INVESTMENTS END OF QUARTER 2 2022/23

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Aberdeen Liquidity	AAA	2,800,000					1.26
Blackrock	AAA	2,500,000					1.27
Federated Investors UK (Overnight)	AAA	3,000,000					1.12
Legal & General	A+	2,600,000					1.28
Morgan Stanley	A+	1,900,000					1.78
Debt Management Account Deposit Facility			27,000,000				1.95
HSBC (MFRS Deposit Account)	A			550,000			1.20
Santander	A			2,000,000			0.80
Sumitomo	A			2,000,000			1.32
Nationwide BS					2,000,000		1.53
Newcastle BS					1,000,000		1.00
Principality BS					1,000,000		1.55
Bradford Metropolitan DC						3,000,000	2.75
Medway Council						2,000,000	1.30
South Cambridgeshire DC						3,000,000	1.95
Thurrock Council						3,000,000	1.88
Wyre Forest DC						2,000,000	2.00
Totals		**12,800,000**	**27,000,000**	**4,550,000**	**4,000,000**	**13,000,000**	**1.53**
Total Current Investments						**61,350,000**	

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

***DMADF is an account offered by the Debt Management Office, (DMO), and is guaranteed by the UK government. The DMO is an Executive Agency of Her Majesty's Treasury. The DMO's responsibilities include debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. As the DMADF is part of HM Treasury and represent the safest counterparty the Authority can use and as such the investment limit in the strategy is unlimited.*

EXTERNAL DEBT PRUDENTIAL INDICATORS

16. The external debt indicators of prudence for 2022/23 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£73 million
Operational boundary for external debt:	£56 million

Against these limits, the maximum amount of debt that was reached in the period April to September 2022 was £33.9 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

17. The treasury management indicators of prudence for 2022/23 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the period April to September 2022 was as follows:

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period April to September 2022 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	1%	1%
12 months and within 24 months	50%	0%	0%	0%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	100%	0%	99%	99%

c) Total principal sums invested for periods longer than 365 days

The limit for investments of longer than 365 days was set at £2 million for 2022/23. One such investments for £2m has been made in the first half of 2022/23.

PERFORMANCE INDICATORS

The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

18. The indicators for the treasury function are:

Borrowing – the indicator is the average rate of actual borrowing compared to the average available for the period of borrowing. However, there has been no borrowing in the period April to September 2022.

Investments – Internal returns compared to the SONIA rate. The return in the period April to September 2022 was 0.59% above the benchmark.

REVISIONS TO CIPFA CODES

19. CIPFA published its revised Treasury Management Code of Practice and Prudential Code for Capital Finance in 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. The principles within the two codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised codes until the 2023/24 financial year

TREASURY MANAGEMENT ADVISORS

20. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisors appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

21. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

22. Treasury Management activity in 2022/23 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.