Appendix A

TREASURY MANAGEMENT INTERIM REPORT 2023/24

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 2023/24.

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 2023/24 and was contained within the Budget and Financial Plan report approved by the Authority at its meeting on 23rd February, 2023. 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 2023.

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

- The authority envisages that new long term borrowing of £12m will be required in 2023/24. No new borrowing has been arranged in the first half of 2023/24.
- Financial Investments at 29 September 2023 stood at £48m, with associated income of £0.643m received in the first half of the year
- The Bank of England (BOE) base rate has increased from 4.25% at the start of the financial year, to its current level announced on 3rd August 2023 of 5.25%.
- Longer term Public Works Loan Board (PWLB) rates have increased during the first half of the year by 1.01% from 4.60% at the start of the year to 5.61 % at 29 September 2023.
- Treasury Management activity for 2023/24 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 Bank of England (BoE) Bank Rate has increased steadily from 4.25% at the start of the financial year to 5.25% in August, possibly reaching a peak in the tightening cycle.

In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The week August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the bank that it has already raised rates by far enough.

The growing drag from higher interest rates will intensify over the next six months, and the economy will most likely continue to lose momentum falling into mild recession.

The most recent forecasts now expect the Bank Rate to remain at the probable peak of 5.25% until the second half of 2024.

Rates are forecast to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and 50-year PWLB rates are currently forecast to stand at 3.90% by the end of September 2025.

PWLB rates for both long and short term borrowing have risen over the first half of the financial year, especially at the shorter end of the market where they remain volatile. The 1 year PWLB standard rate rose from a low of 4.85% on 6 April to a peak of 6.56% on 6 July. Longer term PWLB 50 year standard rates have risen from a low of 4.47% on 5 April to a peak of 5.63% on 22 August before falling slightly to 5.61% by the end of September.

With current elevated borrowing rates it may be advisable not to borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

9. The PWLB certainty rate for borrowing is linked to Gilt yield plus a margin of 0.80%. Gilt yields and PWLB rates were on a generally rising trend throughout the first half of 2023/24. PWLB rates for longer term loans have risen sharply by 1.01% 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	4.85%	4.34%	4.40%	4.78%	4.47%
Date	06/04/23	06/4/23	06/4/23	06/4/23	05/4/23
High	6.56%	6.13%	5.71%	5.93%	5.63%
Date	06/7/23	07/7/23	22/8/23	17/8/23	22/8/23
29/9/23	5.88%	5.42%	5.45%	5.86%	5.61%
Average	5.82%	5.36%	5.21%	5.48%	5.20%

(*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.

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 envisages that new long-term borrowing of £12m will be required in 2023/24.

11. In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required the Authority may initially choose to benefit from lower short term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-authority market. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

12. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Recent rises in longer term interest rates may provide more favourable debt rescheduling opportunities. Any rescheduling that takes place will be reported to members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

12. The investment strategy for 2023/24 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DCLG 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 the current interest rate environment which has improved dramatically in the first half of 2023/24. In the period 1st April to 30 September 2023 the average rate of return achieved on average principal available was 5.14 %. This compares with an overnight SONIA (Sterling Overnight Rate) rate of 4.73 %.

14. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2023/24 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 £48m as at 29th September 2023 (this included a £30.46m firefighters' pension grant received in July that will be utilised in the year):

ANALYSIS OF INVESTMENTS END OF QUARTER 2 2023/24

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Aberdeen Liquidity	AAA	3,000,000					4.85
Federated Investors UK (Overnight)	AAA	1,200,000					4.90
Legal & General	A+	2,700,000					4.80
Morgan Stanley	A+	2,100,000					5.01
HSBC (MFRS Deposit Account)	A			500,000			1.67
Newcastle BS					1,000,000		5.90
Birmingham CC						3,000,000	4.45
Central Bedfordshire Council						3,000,000	5.37
Cheshire East Council						3,000,000	5.38
Cornwall Council						3,000,000	5.40
Derby City Council						3,000,000	5.40
Eastleigh Borough Council						3,000,000	5.40
Lancashire CC						2,000,000	2.10
London Borough of Barking & Dagenham						3,000,000	5.20
North Lanarkshire						2,000,000	3.90
Rushmoor Borough Council						3,000,000	4.00
Suffolk County Council						3,000,000	5.33
Uttlesford District Council						1,500,000	5.40
Wakefield Council						3,000,000	5.21
Wyre Forest DC						2,000,000	2.00
Totals		**9,000,000**	**0**	**500,000**	**1,000,000**	**37,500,000**	**4.58**
Total Current Investments						**48,000,000**	

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

EXTERNAL DEBT PRUDENTIAL INDICATORS

17. The external debt indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £79 million
Operational boundary for external debt: £66 million

Against these limits, the maximum amount of debt that was reached in the period April to September 2023 was £33.7 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

18. The treasury management indicators of prudence for 2023/24 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 2023 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 2023 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	0%	0%
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%	100%	100%

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 2023/24. One such investments for £2m has been made in the first half of 2023/24.

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.

19. 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 2023.

Investments – Internal returns compared to the SONIA rate. The return in the period April to September 2023 was 0.41% above the benchmark.

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 2023/24 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.