APPENDIX A

TREASURY MANAGEMENT ANNUAL 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 regular reports to Members. This report represents the final report on Treasury Management for 2023/24.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2023/24. The strategy covers 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 advisors

PROSPECTS FOR INTEREST RATES

3. The UK economy over the past 12 months has been characterised by sluggish economic growth and sustained high inflation. The legacy impacts of the pandemic and the ongoing war in Ukraine continue to cause supply chain disruption resulting in inflation remaining above target. In the latter half of the financial year, elevated tensions in the Middle East prompted concern over the potential for further disruption to global trade. While there has been much speculation over the timing of rates cuts from major global central banks, to date it has not proved possible for UK policy makers to ease monetary policy from the current restrictive stance.

4. The Bank of England increased the Bank Rate from 4.25% at the start of the year to 5.25% by August 2023 with the policy rate remaining at this level at each subsequent meeting of the Monetary Policy Committee (MPC). At the meeting in March 2024, members of the MPC highlighted concern over the persistence of inflation which in recent months has remained elevated above expectations. Market commentators speculate that there could be two rate cuts during 2024, however this will be influenced by the path of inflation over coming months.

5. Given the volatility throughout 2023/24 a cautious approach has been adopted with regards to funding the authority’s capital spend. No new borrowing was arranged during the year, instead investments have been reduced as a means of deferring the point by which the Authority needs to borrow. Given the profile in recent years whereby the capital financing requirement has been fully matched by external borrowing, there is the capacity to adopt this course on the expectation that interest

rates will be more favourable over the next 12-24 months. Given the long-dated nature of the authority's existing borrowing portfolio there is also scope for shorter term borrowing where this proves advantageous.

6. PWLB rates and gilt yields have seen volatility over the course of the financial year, with long term PWLB rates varying from a low of 4.46% to a peak of 5.93%. At the start of the financial year long term PWLB rates were 4.59% and finished the financial year higher at 5.21%.

7. The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt. The rise in interest rates during 22/23 & 23/24 exceeded many forecasters expectations, the question is now whether this will be sustained at a new elevated level or if they will have to be cut as a response to a slowing economy and as the lagged impact of monetary tightening continue to take effect on the economy.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

8. The borrowing requirement comprises of the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority did envisage that there would be new long-term borrowing in 2023/24 driven by the financing need of the capital programme, however, no new long-term borrowing was arranged given the unfavourable environment. In the current conditions it is intended to reduce investments and defer new long-term borrowing were this is possible. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

9. 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 central government regulations and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

10. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns which were able to benefit in a rising interest rate environment. The credit ratings and individual limits for each institution to be used by the Authority in 2023/24 are outlined below:

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

The average rate of return achieved on average principal available in 2023/24 was 4.60%. This compares with an average Sterling Overnight Rate (SONIA) of 4.97%. Deposits that were placed for extended terms during the year tended to average returns below that of overnight returns. An interest rate rising environment, effectively acted as a dampener on returns, the opposite of what might typically be expected. However, it remains prudent to maintain a balanced investment portfolio and not have all investments placed in overnight instruments.

11. The Investment Strategy specified that investments are only made with banks with a high credit rating. UK banks must have at least an “A” long term rating for inclusion on the Authority’s counterparty list. The money markets are continually monitored for information regarding the creditworthiness of financial institutions and notifications are received of any changes to credit ratings made by any of the rating agencies. An institution is immediately suspended from the Authority’s list of institutions should any doubt arise about its financial standing regardless of whether its credit rating is downgraded.

EXTERNAL DEBT PRUDENTIAL INDICATORS

12. 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 reached at any time in the financial year 2023/24 was £33.9 million.

13. **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Authority’s gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31 March 2023	31 March 2024	31 March 2025
	Actual	**Actual**	**Estimate**
	£'m	**£'m**	**£'m**
Capital Financing Requirement	51.4	61.4	69.5
Less: PFI	(16.4)	(15.8)	(15.2)
Less:MRD	(0.1)	(0.1)	(0.1)
Borrowing CFR	**34.9**	**45.5**	**54.2**
Existing Debt Portfolio	33.7	33.7	41.7
Over(-)/Under borrowing	**1.2**	**11.8**	**12.5**
Borrowing as a % of CFR	**96.56%**	**74.07%**	**76.94%**

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

14. 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 financial year 2023/24 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 at any time in the financial year 2023/24 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
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 2022/23. One investment for £2m, longer than 365 days, remained in place after being arranged during 2022/23. No further investments longer than 365 days were arranged during 2023/24.

PERFORMANCE INDICATORS

15. 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.

16. The indicators for the treasury function are:

Borrowing - Average rate of long term borrowing for the year compared to average available. No new long-term borrowing was arranged in 2023/24.

Investments – Internal returns compared to the average Sterling Overnight Rate (SONIA). The return in the financial year 2023/24 was 0.37% below the benchmark.

TREASURY MANAGEMENT ADVISORS

17. 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 advisers 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.

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

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

19. 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.

20. 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.

21. 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.

22. 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.

IFRS 16

23. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIPFA/LASAAC has announced an optional two year delay to the implementation of this standard; a decision which was subsequently confirmed by the Financial Reporting Advisory Board in early April 2022.

CONCLUSION

24. 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.