Report to:	Cabinet Council	**Date of Meeting:**	3 November 2022 17 November 2022
Subject:	Treasury Management Position to September 2022		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This report provides Members with a review of the Treasury Management activities undertaken to 30th September 2022. This document is the mid-year report to Cabinet and Council, as well as the second report of the ongoing quarterly monitoring provided to Audit & Governance Committee whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management update to 30th September 2022, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully appraised of the treasury activity undertaken to 30th September 2022 and to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

The financial position on the external investment budget to the end of September indicates a surplus to the end of the period. The forecast to the end of the financial year also shows that investment income will exceed the level set in the budget.

(B) Capital Costs
None.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): A surplus in investment income has been forecast for 2022/23 financial year due to prevailing market conditions.
Legal Implications: The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.
Equality Implications: There are no equality implications.
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The Council has during 2022/23, invested its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances. It has not had the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion.

In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with the Treasury Management Advisors.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.

Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD6984/22) is the author of the report.
The Chief Legal and Democratic Officer (LD5184/22) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

With immediate effect.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Background to the Report

1.1. As recommended under CIPFA's revised 2017 Code of Practice on Treasury Management in Public Services, the Council's Treasury Management Policy and Strategy document for 2022/23 (approved by Council on 3rd March 2022) included a requirement for regular updates to be provided on the investment activity of the Authority. This report is the second of such reports for the year and presents relevant Treasury Management information for the period ending 30th September 2022.

1.2. The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy and Strategy and the Council's approved Prudential Indicators (the operational boundaries within which the Council aims to work).

2. Investments Held

2.1. Investments held at the 30/09/2022 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	8.66	2.09	01.10.22	AAA
Aviva	8.66	1.94	01.10.22	AAA
Blackrock	8.66	1.94	01.10.22	AAA
BNP Paribas	9.19	2.20	01.10.22	AAA
Goldman-Sachs	8.66	1.97	01.10.22	AAA
HSBC	8.66	2.05	01.10.22	AAA
Invesco	8.20	2.12	01.10.22	AAA
Morgan Stanley	8.89	2.12	01.10.22	AAA
Federated	8.66	2.08	01.10.22	AAA
Insight	8.66	2.03	01.10.22	AAA
Total	86.90			
Property Fund:				
CCLA	5.00	3.40	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**91.90**			

2.2. The Authority holds significant invested funds, representing grant income received in advance of expenditure plus balances and reserves held. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they are required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for

2022/23. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

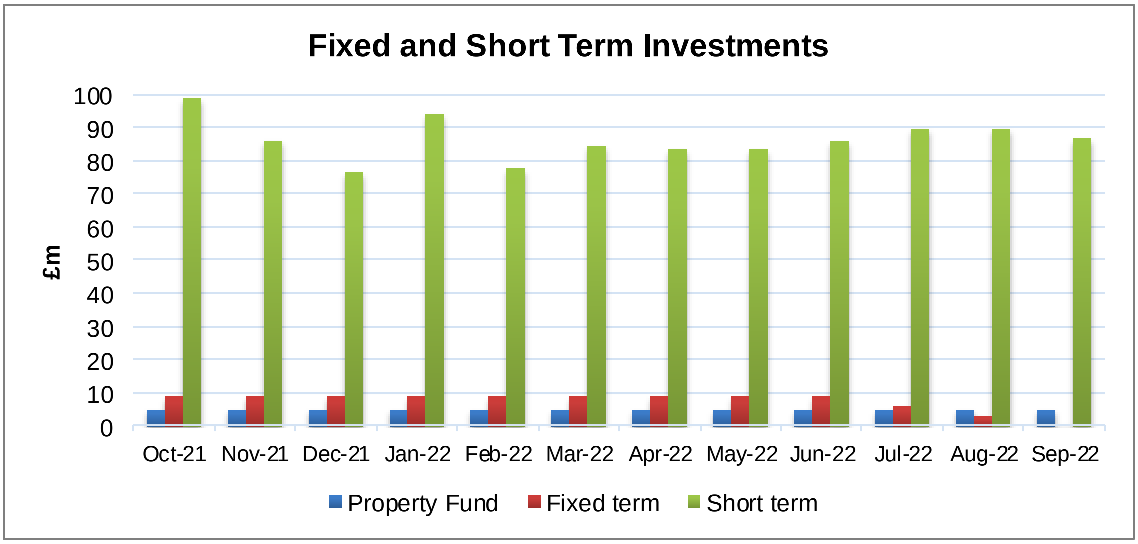
2.3. All of the investments made since April 2022 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of current economic conditions, a day to day operational maximum of 10% of the total portfolio is currently being imposed for investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

2.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 2.8).

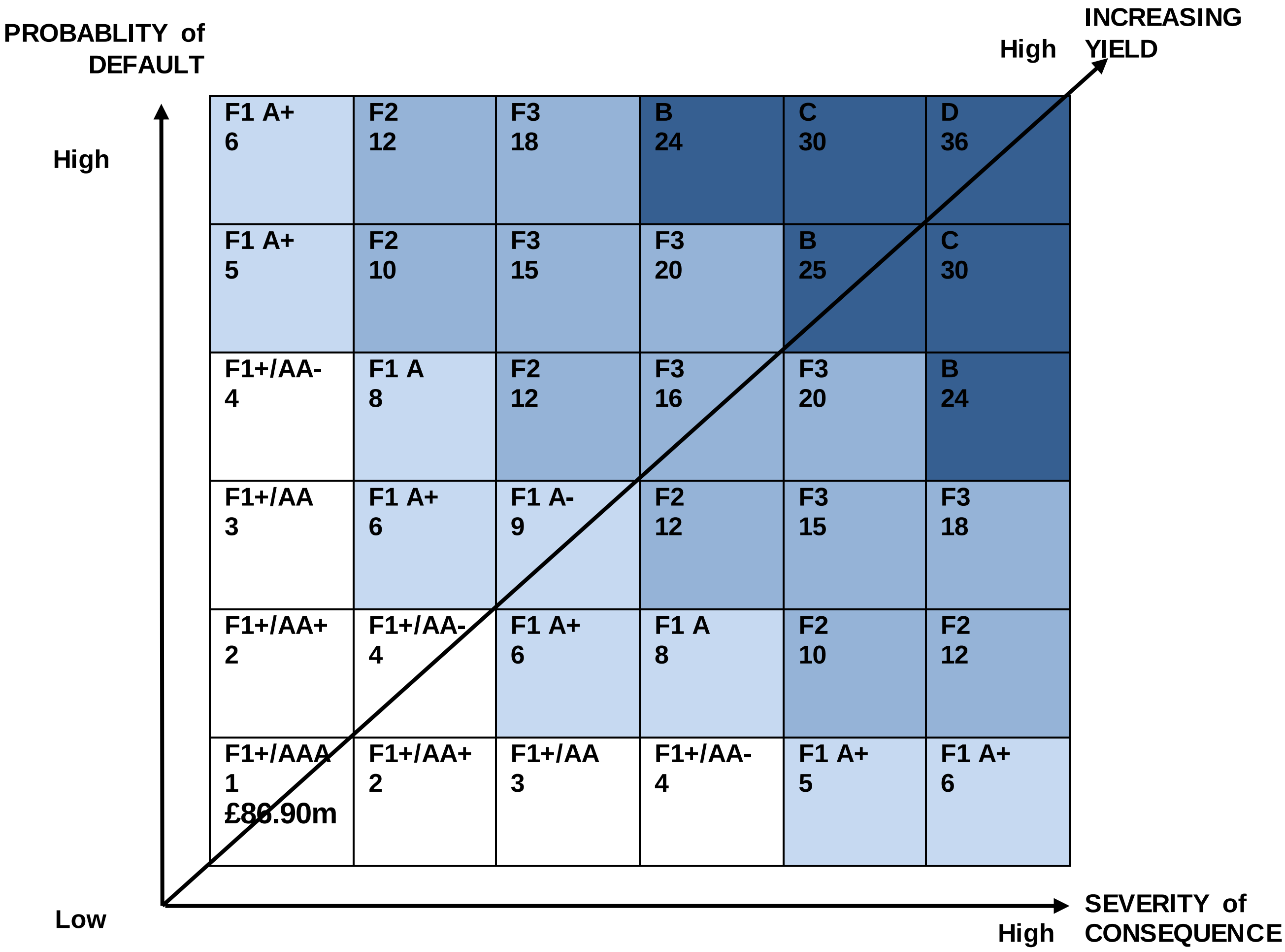
2.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 3%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

2.6. The Net Asset Value (NAV) of the Property Fund has increased over a 12-month period to September 2022 from 318.20p per unit to 347.79p per unit, an increase of 9.3%. The income yield on the Property fund at the end of September 2022 was 3.4% which, although lower than returns received in the past, still represents a reasonable return on the Council's investment.

2.7. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



2.8. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£86.90m
LOW - MEDIUM	5 - 9	Investment Grade	£0
MEDIUM	10 - 20	Investment Grade	£0
HIGH	21 - 36	Speculative Grade	£0

2.9. The Council will continue to maximise any investment opportunities as they arise, but in light of current economic conditions and uncertainty around interest rates it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year. Cash balances available for investment will be held in overnight deposits to allow the council to respond to any exceptional demands for cash as they arise. The possibility for making long term deposits at potentially improved rates will be reviewed once economic conditions stabilise.

3. Interest Earned

3.1. The actual performance of investments against the profiled budget to the end of September 2022 and the forecast performance of investments against total budget at year end is shown below:

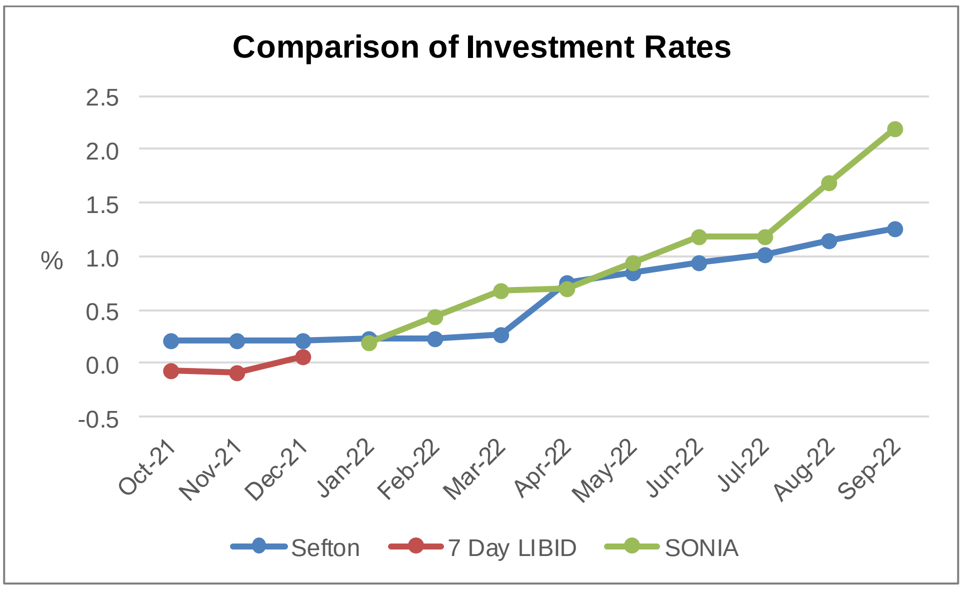
	Budget £m	Actual £m	Variance £m
September-22	0.345	0.587	0.242

	Budget £m	Forecast £m	Variance £m
Outturn 2022/23	0.789	1.173	0.384

3.2. The forecast outturn for investment income shows the level of income to be above target against the budget for 2022/23. Investment rates have increased significantly in the first half of 2022 (see 3.4. below) largely in response to rises in interest rates. The forecast income for 2022/23 has therefore been set at a higher level when compared to previous financial years.

3.3. As mentioned in paragraph 2.9, it is not envisaged that increased rates will lead to a significant improvement in the forecast income from investments for the remainder of 2022/23 as cash balances are diminishing and held in short term deposits. Interest rate uncertainty has also made future returns difficult to forecast and a prudent approach has therefore been taken when forecasting returns for the rest of the year.

3.4. The Council has achieved an average rate of return on its investments of 1.27%. The chart below shows the average rate of return plotted against the 7-day LIBID and SONIA benchmarks.



3.5. On 5th March 2021 the Financial Conduct Authority announced the cessation of the LIBOR benchmark from the start of 2022. This deadline has now passed and as a result some LIBOR benchmarks such as the 7-day LIBID have been discontinued. LIBOR has primarily been replaced by the Sterling Overnight Index Average (SONIA) benchmark as the new widespread reference rate.

3.6. On the advice of its treasury management advisors, Sefton has adopted the SONIA rate as a replacement for the 7-day LIBID when benchmarking its investment performance from January 2022 onwards. As can be seen from the chart above, Sefton's investments have underperformed (by 0.92%) compared to SONIA to the end of September 2022, although the investment income received is above target as per the 2022/23 budget as shown in paragraph 3.1 (above).

4. Borrowing Strategy

4.1. 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.

4.2. Over the April-September period short term Public Works Loans Board (PWLB) rates rose dramatically, particular in late September after the Chancellor's 'mini-budget', included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by over 1% for certain maturities.

4.3. Interest rates rose by over 2% during the period in both the long and short term. As an indication the PWLB 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%. Further commentary on interest rates is provided in paragraph 5 (below).

4.4. The Council has a significant PWLB loan maturity of £17.9m due in March 2023 comprising several historic loans. The Council pursues a strategy of internal borrowing as per the Treasury Management Strategy approved by Council in March 2022. Cash balances will therefore be reduced to replace maturing loans where possible and when interest rates on deposits remain lower than PWLB borrowing rates.

4.5. Following consultation with the Council's treasury advisers, it is considered prudent to continue to pursue the above strategy in view of recent interest rate uncertainty. The borrowing position will be kept under review however and further advice sought should the need arise to take out external borrowing from the PWLB.

5. Interest Rate Forecast

5.1. Arlingclose, the Council's treasury advisors, have provide the following interest rate view:

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

- Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

- There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

- Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

- The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

- UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

- The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

- Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

- The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.

- 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.

- The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

- This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

- Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

6. Compliance with Treasury and Prudential Limits

6.1. During the first half of 2022/23 financial year, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

6.2. The key treasury indicators compared to the actuals as at 30th September 2022 are shown below:

External Debt:	**2022/23 £m**
Authorised limit for external debt	220.000
Operational boundary for external debt	205.000
Actual external debt 30.09.22	166.600

Maturity structure of fixed rate borrowing:	Upper Limit %	Lower Limit %	Actual %
Under 12 months	35	0	21
12 months to 24 months	40	0	3
24 months to 5 years	50	0	10
5 years to 10 years	50	0	15
10 years to 15 years	75	0	12
15 years +	90	25	39

Upper limit for principal sums invested for longer than 365 days:	Limit £m	Actual £m
Principal sums invested	15	5