Report to:	Cabinet Council	**Date of Meeting:**	2 November 2023 16 November 2023
Subject:	Treasury Management Position to September 2023		
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 2023. 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 2023, 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 2023 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 2023/24 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	No
Have a neutral impact	Yes
Have a negative impact	No
The Author has undertaken the Climate Emergency training for report authors	No

The Council has during 2023/24, 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 (FD7389/23) is the author of the report.
The Chief Legal and Democratic Officer (LD5589/23) 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.

Contact Officer:	Graham Hussey
Telephone Number:	Tel: 0151 934 4100
Email Address:	graham.hussey@sefton.gov.uk

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 2021 Code of Practice on Treasury Management in Public Services, the Council's Treasury Management Policy and Strategy document for 2023/24 (approved by Council on 2nd March 2023) 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 2023.

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 30/09/2023 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	3.83	5.24	01.10.23	AAA
Aviva	3.83	5.32	01.10.23	AAA
BNP Paribas	3.22	5.28	01.10.23	AAA
Goldman-Sachs	3.83	5.22	01.10.23	AAA
HSBC	3.30	5.21	01.10.23	AAA
Invesco	3.83	5.33	01.10.23	AAA
Morgan Stanley	3.83	5.27	01.10.23	AAA
Federated	3.83	5.35	01.10.23	AAA
Insight	3.83	5.30	01.10.23	AAA
Total	33.33			
Property Fund:				
CCLA	5.00	4.49	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**38.33**			

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 2023/24. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

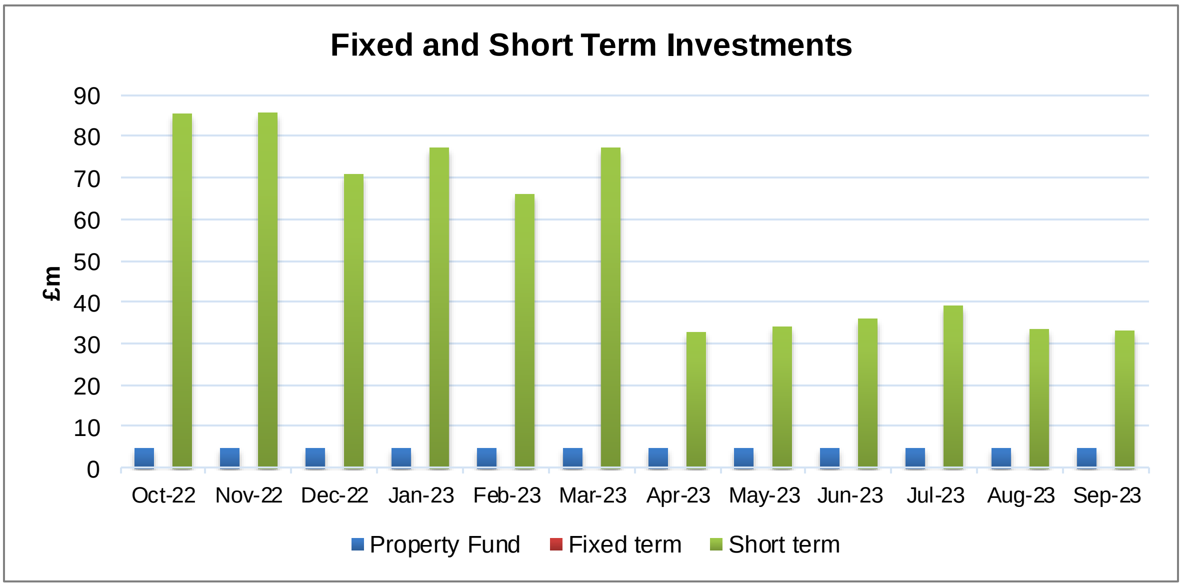
2.3. All of the investments made since April 2023 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of 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).

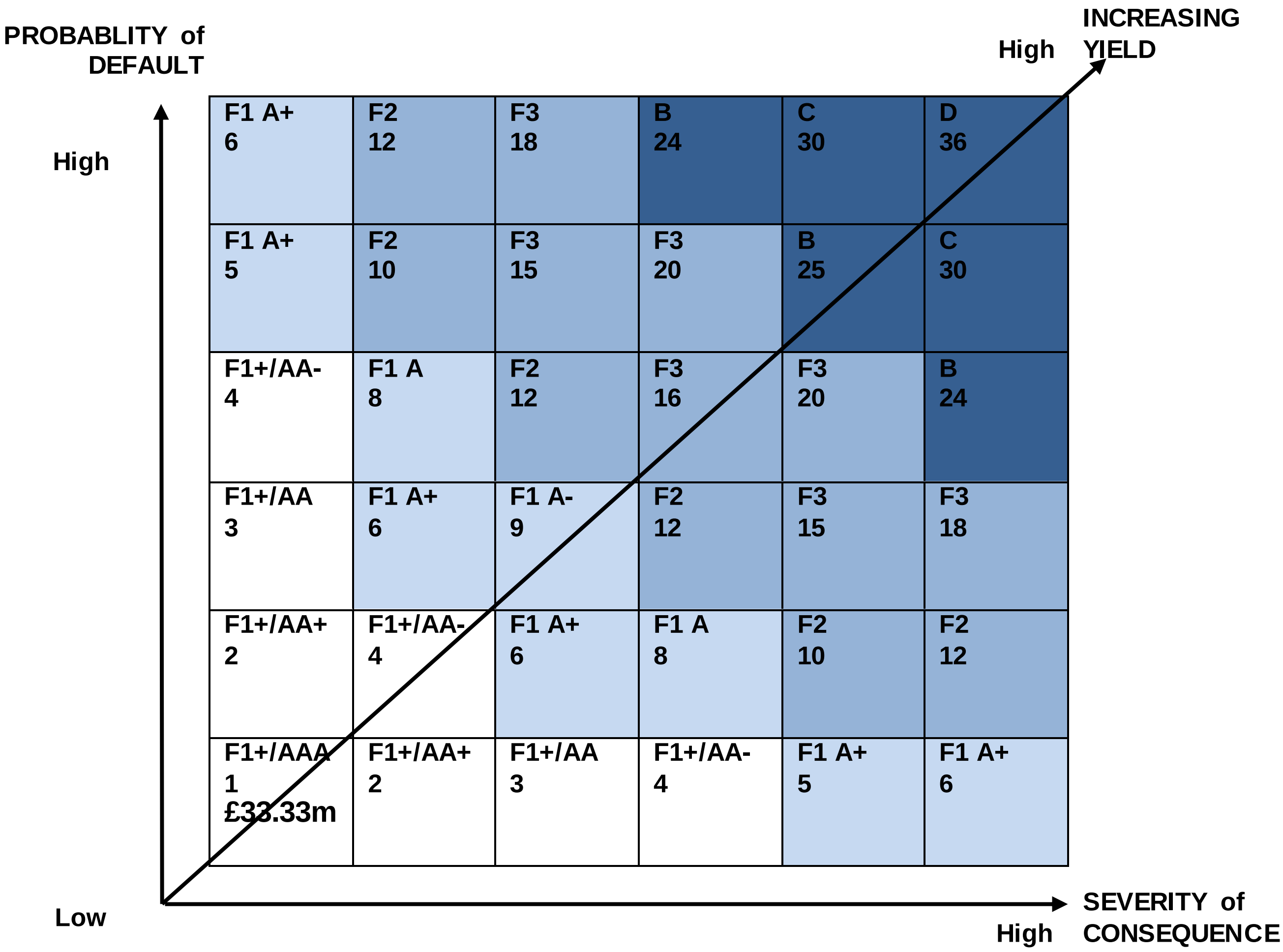
2.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where 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 4%. 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 decreased over a 12-month period to August 2023 from 347.79p per unit to 284.97p per unit, a decrease of 18%. The fund is considered to be a long-term investment and fluctuations in value are to be expected with this type of asset. The investment market over the past 12 months has been turbulent and driven by interest rates rather than property fundamentals. The CCLA is well positioned in the property market and has experienced no material change in tenant default rates with income levels remaining stable and reliable. The fund has a high industrial weighting with future growth potential and is making a strategic shift away the weaker office sector. The overall value of the Council's investment in the fund still remains higher than the original principal sum invested. It should also be noted that much of the fluctuation mentioned above took place in the latter half of 2022 and NAV prices have now stabilised in recent months. The situation will continue to be monitored closely however, and advice taken from the Council's treasury advisers should its position in the fund need to be reviewed. The income yield on the Property fund at the end of August 2023 was 4.49% which is above the level of returns received in the past.

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	**£33.33m**

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 2023 and the forecast performance of investments against total budget at year end is shown below:

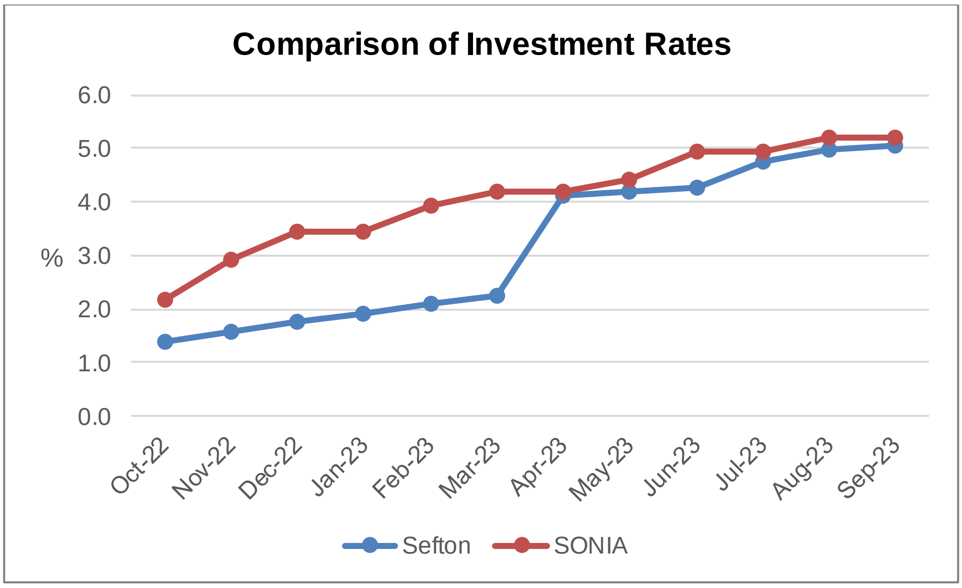
	Budget £m	Actual £m	Variance £m
September-23	0.602	1.059	0.457

	Budget £m	Forecast £m	Variance £m
Outturn 2023/24	1.317	1.989	0.672

3.2. The forecast outturn for investment income shows the level of income to be above target against the budget for 2023/24. Investment rates have increased significantly in the past 12 months (see 3.4. below) largely in response to rises in interest rates. The forecast income for 2023/24 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 2023/24 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 5.06%. The chart below shows the average rate of return plotted against the SONIA benchmark.



3.5. As can be seen from the chart above, Sefton's investments have slightly underperformed (by 0.12%) compared to SONIA to the end of September 2023, although the investment income received is above target as per the 2023/24 budget as shown in paragraph 3.1 (above).

4. Borrowing Strategy

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

4.2. There has been a substantial rise in the cost of taking out new loans, both short- and long-term, over the last 18 months. The Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. The Bank Rate was 2% higher than at the end of September 2022.

4.3. The Council has PWLB loan maturities of £11.9m scheduled during 2023/24 comprising several historic loans. The Council pursues a strategy of internal borrowing as per the Treasury Management Strategy approved by Council. Cash balances will therefore be reduced to replace maturing loans where possible and when interest rates on deposits remain lower than PWLB borrowing rates.

4.4. 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 economic and interest rate view as at September 2023:

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

- *UK inflation remained stubbornly high over much 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.*

- *Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, 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.*

- *July data showed the unemployment rate increased to 4.3% (3mth/year) 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.*

- *Inflation continued to fall from its peak as annual headline CPI 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%.*

- *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.*

- *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.*

- *Following the September MPC meeting, Arlingclose, 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.*

6. Compliance with Treasury and Prudential Limits

6.1. During the first half of 2023/24 financial year, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management

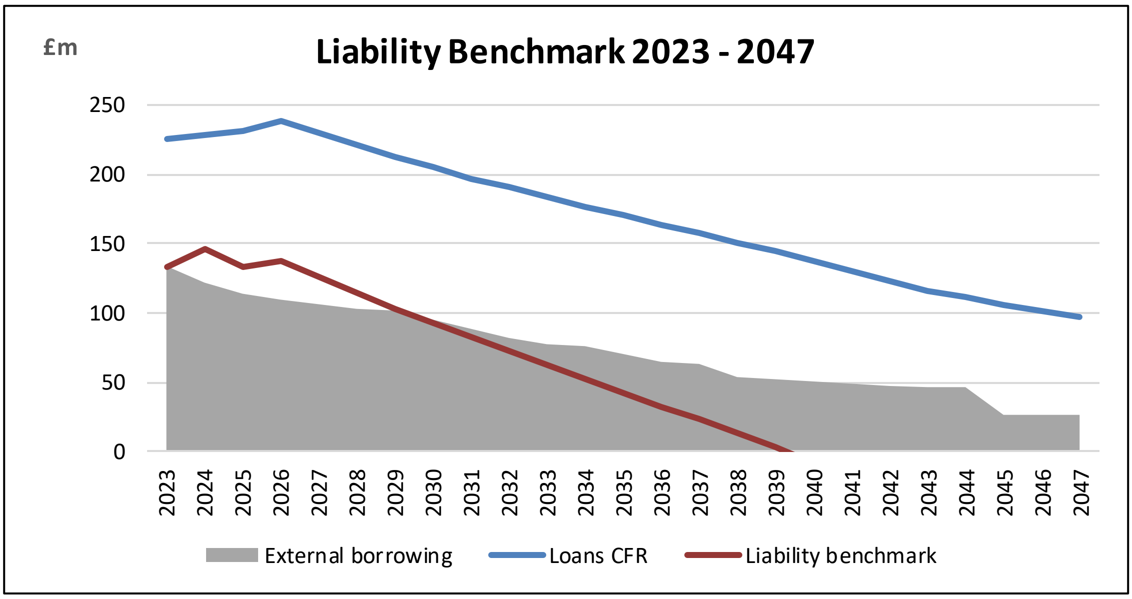
Strategy Statement and in compliance with the Council's Treasury Management Practices.

6.2. The key treasury indicators compared to the actuals as at 30th September 2023 are shown below:

6.2.1. Liability Benchmark: This new indicator compares the Authority's 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.

Liability Benchmark	**31.03.23 Estimate £m**	**31.03.24 Estimate £m**	**31.03.25 Estimate £m**	**31.03.26 Estimate £m**
Loans CFR	225.4	228.6	230.5	238.0
Less: Balance sheet resources	-102.6	-93.1	-106.9	-111.2
Net loans requirement	122.8	135.6	123.7	126.8
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	132.8	145.6	133.7	136.8

A long term forecast for the liability benchmark plotted against external borrowing for the next 25 years can be seen in the chart below. The long-term liability benchmark assumes capital expenditure funded by borrowing in line with the approved capital programme, minimum revenue provision on new capital expenditure based on standard asset life and income, expenditure and reserves all increasing by inflation of 2.5% each year.



6.2.2. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity structure of fixed rate borrowing:	Upper Limit %	Lower Limit %	Actual %
Under 12 months	15	0	2
12 months to 24 months	20	0	6
24 months to 5 years	20	0	9
5 years to 10 years	45	10	21
10 years to 15 years	45	10	19
15 years +	50	30	43

6.2.3. External Debt: This indicator shows the levels of actual debt compared to the authorised limit and operational boundary set for the current financial year:

External Debt:	**2023/24 £m**
Authorised limit for external debt	190
Operational boundary for external debt	165
Actual external debt 30.09.23	129

6.2.4. Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

Long-term Treasury Management Investments:	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**No fixed date £m**
Limit on principal invested beyond year end	15	10	5	15
Actual principal invested beyond year end	0	0	0	5

6.2.5. Interest Rate Risk Indicator: This indicator is set to control the Authority's exposure to interest rate risk. A target is set for the one-year impact of a 1% rise and a 1% fall in interest rates on the revenue account. This is measured by examining the parallel shifts in yield curves on borrowing net of treasury investments. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Interest Rate Risk Indicator	**Limit**
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	£1m
Upper limit on one-year revenue impact of a 1% **fall** in interest rates	£1m

The Bank Rate rose by 1% from 4.25% on 1st April to 5.25% by 30th September. As mentioned in 3.2 above, the Authority has experienced an over-achievement in investment income due to interest rate rises during the year. The impact of the increase has not exceeded the £1m tolerance set at the start of the year.