

## AUDIT & GOVERNANCE COMMITTEE 19 JULY 2023

### TREASURY MANAGEMENT ANNUAL PERFORMANCE 2022/23

#### Report by the Director of Finance

#### RECOMMENDATION

1. **Audit & Governance Committee is RECOMMENDED to note the report, and to RECOMMEND Council to note the council's treasury management activity and outcomes in 2022/23.**

#### Executive Summary

2. Treasury management is defined as: "The management of the organisation's borrowing, investments and cash flows, including 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."
3. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Code of Practice on Treasury Management 2021' requires that the Council and Audit & Governance Committee receives a report on Treasury Management activities at least four times per year. This report is the final report for the financial year 2022/23 and sets out the position at 31 March 2023.
4. Throughout this report performance for the 2022/23 financial year is measured against the budget agreed by Council in February 2022.
5. At 31 March 2023, the council's outstanding debt totalled £306m and the average rate of interest paid on long-term debt during the year was 4.43%. £7m of maturing Public Works Loan Board (PWLB) loans were repaid during the year. No new external borrowing was arranged during 2022/23. The Council's debt financing position for 2022/23 is shown in Annex 1.
6. The [Treasury Management Strategy for 2022/23](#) agreed in February 2022 assumed an average base rate forecast of 0.35% consistent with rates at that time. The average daily balance of temporary surplus cash invested in-house was expected to be £341m in 2022/23.
7. The Council achieved an average in-house return for the year of 1.38% on average cash balances of £447.943m, producing gross interest receivable of £6.845m. In relation to external funds, the return for the year was 4.44% producing gross distributions totalling £4.447m, bringing total investment income to £11.292m. This compares to budgeted investment income of £5.352m, giving a net overachievement of £5.940m. £5.043m of this was used to fund the indexation of Section 106 funding held by the council.

8. At 31 March 2023, the council's investment portfolio of £548.301m comprised £434.500m of fixed term deposits, £18.443m at short term notice in money market funds and £95.358m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2023.

9.

## **Treasury Management Activity**

### **Debt Financing & Maturing Debt**

10. The Strategy for Long Term Borrowing agreed in February 2022 included the option to fund new or replacement borrowing up to the value of £100m through internal borrowing. The aim was to reduce the Council's exposure to credit risk and reduce the cost of carry (difference between borrowing costs and investment returns) whilst debt rates remained higher than investment interest rates.
11. The council is able to borrow from the Public Works Loan Board (PWLB) or through the money markets. At the start of the financial year, global economic events led to interest rates unexpectedly rising sharply, but with an expectation that they would reduce over the medium term. The original budget had assumed £46m of new external borrowing, however, as the council was able to undertake internal borrowing no new external borrowing was arranged during 2022/23.
12. As at 31 March 2023, the authority had 46 PWLB loans totalling £256.383m, 9 LOBO<sup>1</sup> loans totalling £45m and one £5m money market loan. The average rate of interest paid on PWLB debt was 4.65% and the average cost of LOBO debt in 2022/23 was 3.94%. The cost of debt on the money market loan was 3.95%. The combined weighted average for interest paid on long-term debt was 4.44%. The Council's debt portfolio as at 31 March 2023 is shown in Annex 1.
13. The Council repaid £7m of maturing PWLB loans during the year. The weighted average interest rate payable on the matured loans was 5.67%. The outturn for interest payable in 2022/23 was £13.8m which was below the budgeted figure of £14.4m. The details are set out in Annex 2.

### **Investment Strategy**

14. In line with the CIPFA Code of Practice on Treasury Management, the council prioritised security and liquidity of cash above the requirement to maximise returns during 2022/23. Fixed deposits, call accounts, notice accounts, money market funds and pooled funds were utilised to deposit the council's in-house cash surpluses. Credit quality information regarding the institutions on the council's approved Lending List was continuously monitored to reduce risk.
15. Because of continued volatility in financial markets during 2022/23, exposure to banks was limited by lending to local authorities in the United Kingdom. At 31 March 2023 the council had £69.7m of long-term fixed deposits (deposits over 364 days), all of which were placed

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<sup>1</sup> LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.

with local authorities. The aim was to maintain a high level of security and manage exposure to interest rate and counterparty risk.

16. The 2022/23 Treasury Management Strategy allowed for 50% of the total portfolio to be held in Strategic Pooled funds and this policy was maintained throughout the year, although the value held in these funds was consistently well-below that maximum.
17. The weighted average maturity of all deposits at 31 March 2023, including money deposited in short-term notice accounts, was 229 days (compared with 259 days during 2021/22). The decrease compared to 2021/22 reflects the opportunity to take advantage of increasing interest rates in an environment of rapidly increasing interest rates.

### **The Council's Lending List**

18. In-house cash balances are deposited with institutions that meet the council's approved credit rating criteria. The approved lending list, which sets out those institutions, is updated to reflect changes in bank and building society credit ratings. Changes are reported to Cabinet as part of the Business Management & Monitoring Report. The approved lending list may also be further restricted by officers, in response to changing conditions and perceived risk. There were no changes to the lending list in 2022/23.

### **Investment Income Received in 2022/23**

19. Temporary surplus cash balances include: developer contributions; council reserves and balances; and various other funds to which the Council pays interest at each financial year end. The budgeted return on these in-house balances for 2022/23 was 0.35% and assumed an average in-house cash balance of £340.630m.
20. The actual average daily balance of temporary surplus cash invested in-house was £447.943m in 2022/23 and the average in-house return was 1.38%, producing gross interest receivable of £6.845m. Gross distributions from pooled funds totalling £4.447m were also realised in year, bringing total investment income to £11.292m. This compares to budgeted investment income of £5.352m, giving a net overachievement of £5.940m. This reflects a combination of higher than forecast average cash balances, rapidly increasing interest rates, and higher than forecast distributions from pooled funds. £5.043m of this overachievement was used to fund the indexation of Section 106 funding held by the council.
21. Cash balances for the year were lower than they otherwise would have been as a result of negative DSG balances which increased from £29.8m at 1 April 2022 to £41.1m at 31 March 2023. The impact of this is an estimated opportunity cost of £0.49m in unearned interest during 2022/23
22. The Council operates a number of instant access call accounts and money market funds to deposit short-term cash surpluses. During 2022/23 the average balance held on instant access was £42.499m.
23. At 31 March 2023 the total value of pooled fund investments was £95.358m. The values as at 31 March 2023 represented a book value loss of £10.168m compared to the value at 31

March 2022. The decrease was due to the extreme global financial volatility as a result of the war in Ukraine.

24. At 31 March 2023, the Council's investment portfolio of £548.301m comprised £434.500m of fixed term deposits, £18.443m at short term notice in money market funds and £95.358m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2023.
25. During 2022/23 the Council entered into a new Revolving Credit Facility (RCF) of £10m with Network Homes Ltd. None of the RCFs in place during the year were utilised. Non utilisation fees for the facilities produced £0.080m interest for the year.
26. The Council's Treasury Management Strategy Team regularly monitors the risk profile of the Council's investment portfolio. An analysis of the credit and maturity position of the portfolio at 31 March 2023 is included at Annex 3.

## **Prudential Indicators for Treasury Management**

27. During the financial year, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy for 2022/23. The outturn for the Prudential Indicators is shown in Annex 4.

## **External Performance Indicators and Statistics**

28. The Council's treasury management advisors Link Treasury Services benchmark the Council's investment performance against its other clients on a quarterly basis. The results of the quarter 4 benchmarking to 31 March 2023 are included in Annex 5.
29. The benchmarking results show that the Council was achieving lower than average interest on deposits at 31 March 2023 compared to the benchmark group. This is as result of placing deposits with institutions that are of higher than average credit quality, coupled with a lag on average returns due to on-going historic loans taken out before the period of global economic volatility.

## **Financial Implications**

30. This report is mostly concerned with finance and the implications are set out in the main body of the report.

Comments checked by:

Kathy Wilcox, Head of Financial Strategy, [kathy.wilcox@oxfordshire.gov.uk](mailto:kathy.wilcox@oxfordshire.gov.uk)

## **Legal Implications**

31. The report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply

with both Codes through Regulations issued under the Local Government Act 2003. There are no other legal implications.

Comments checked by:

Jennifer Crouch, Principal Solicitor, [jennifer.crouch@oxfordshire.gov.uk](mailto:jennifer.crouch@oxfordshire.gov.uk)

## **Sustainability Implications**

32. This report is not expected to have any negative impact with regards to the Council's zero carbon emissions commitment by 2030.

**Lorna Baxter**  
**Director of Finance**

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**June 2023**

## OXFORDSHIRE COUNTY COUNCIL DEBT PROFILE 31 MARCH 2023

LOAN No	£m	RATE %	Start Date	End Date	LOAN No	£m	RATE %	Start Date	End/Call Date
480867	2.000	5.625	23/04/1998	30/04/2023	492386	2.000	4.350	03/11/2006	01/04/2027
480915	2.000	5.625	30/04/1998	22/05/2023	492535	10.000	4.200	29/11/2006	30/06/2037
483469	3.000	4.250	12/11/1999	22/11/2024	492561	6.000	4.250	07/12/2006	30/06/2032
483659	2.000	4.250	25/11/1999	30/04/2025	492598	8.000	4.500	18/12/2006	30/04/2027
487777	4.000	4.650	16/05/2003	01/05/2028	492599	6.000	4.500	18/12/2006	31/05/2027
488204	8.000	5.000	27/10/2003	01/11/2023	492789	6.000	4.500	24/01/2007	31/01/2032
488562	7.650	4.700	19/03/2004	16/03/2030	492990	6.000	4.450	06/03/2007	31/03/2032
488563	1.733	4.700	19/03/2004	16/03/2030	492807	4.000	4.250	25/01/2007	30/06/2053
488989	6.000	4.850	16/08/2004	13/07/2030	493378	4.000	4.900	11/06/2007	30/06/2032
489168	6.000	4.700	22/10/2004	01/03/2030	493638	6.000	4.550	02/08/2007	30/09/2052
489287	6.000	4.600	22/11/2004	01/04/2032	493803	4.000	4.650	23/08/2007	20/09/2032
489429	6.000	4.550	02/12/2004	01/06/2032	493822	6.000	4.450	23/08/2007	30/09/2053
489856	5.000	4.600	06/05/2005	01/05/2033	494069	6.000	4.500	21/11/2007	30/09/2052
490105	5.000	4.450	23/05/2005	01/12/2033	494171	6.000	4.480	27/12/2007	31/03/2052
491669	4.000	4.450	23/05/2006	14/06/2026	494200	6.000	4.420	04/01/2008	31/03/2057
491948	5.000	4.650	16/08/2006	31/12/2026	494703	6.000	4.460	04/08/2008	13/07/2058
491957	4.000	4.500	18/08/2006	31/12/2031	494747	10.000	4.390	15/08/2008	26/03/2058
491958	4.000	4.500	18/08/2006	30/09/2031	497549	5.000	4.190	08/07/2010	14/06/2054
491959	2.000	4.600	21/08/2006	30/04/2027	LOBO 06	5.000	4.290	27/04/2005	27/10/2023
491960	10.000	4.600	21/08/2006	30/09/2026	LOBO 07	5.000	4.500	27/04/2005	27/10/2023
492021	5.000	4.350	25/08/2006	22/11/2031	LOBO 08	5.000	3.950	31/05/2005	29/05/2065
492063	5.000	4.450	31/08/2006	31/03/2028	LOBO 09	5.000	3.680	23/11/2005	24/11/2025
492064	5.000	4.450	31/08/2006	30/04/2027	LOBO 10	5.000	3.800	31/07/2006	29/07/2023
492088	4.000	4.350	04/09/2006	02/03/2032	LOBO 11	5.000	3.840	31/07/2006	31/07/2026
492117	4.000	4.450	07/09/2006	02/03/2037	LOBO 12	5.000	3.825	02/10/2006	04/10/2027
492371	13.000	4.500	31/10/2006	31/12/2026	LOBO 13	5.000	4.010	02/10/2006	02/10/2024
492375	10.000	4.200	01/11/2006	31/12/2036	LOBO 14	5.000	3.820	31/08/2006	31/08/2023
492376	10.000	4.200	01/11/2006	31/03/2037	LOBO 15	5.000	3.720	21/09/2006	13/10/2027
					<b>TOTAL</b>	<b>306.383</b>			

### Long-term debt that Matured in 2022/23

<b>Date</b>	<b>Amount £m</b>	<b>Rate %</b>	<b>Repayment Type</b>
26/03/2023	1.684	6.625	Maturity
26/03/2023	0.316	6.625	Maturity
31/12/2022	1.000	6.250	Maturity
31/10/2022	4.000	5.050	Maturity
<b>Total</b>	<b>7.000</b>		

### Repayment Types

Maturity – Full amount of principal is repaid at the final maturity date

EIP – Equal Instalments of Principal are repaid every 6 months until the final maturity date

## OXFORDSHIRE COUNTY COUNCIL INVESTMENT PORTFOLIO 31/03/2023

## Fixed term deposits held at 31/03/2023

Counterparty	Principal Deposited	Maturity Date
Uttlesford District Council	£5,000,000.00	19/06/2023
Blaenau Gwent County Borough Council	£3,000,000.00	10/07/2023
Staffordshire Moorlands District Council	£3,000,000.00	31/07/2023
South Ayrshire Council	£3,000,000.00	22/02/2024
Gravesham Borough Council	£5,800,000.00	15/03/2024
Cambridgeshire County Council	£10,000,000.00	22/11/2023
Kirklees Council	£5,000,000.00	15/02/2024
Somerset West and Taunton Council	£10,000,000.00	03/04/2023
Peterborough City Council	£5,000,000.00	03/04/2023
Aberdeenshire Council	£5,000,000.00	05/04/2023
Moray Council	£5,000,000.00	05/04/2023
Liverpool City Council	£10,000,000.00	06/04/2023
Stockport Metropolitan Borough Council	£10,000,000.00	19/04/2023
West Dunbartonshire Council	£5,000,000.00	19/04/2023
Sandwell Metropolitan Borough Council	£5,000,000.00	25/04/2023
Cherwell District Council	£5,000,000.00	27/04/2023
Rushmoor Borough Council	£5,000,000.00	28/04/2023
West Dunbartonshire Council	£6,000,000.00	02/05/2023
Police and Crime Commissioner for Merseyside	£5,000,000.00	03/05/2023
Blackpool Council	£8,000,000.00	04/05/2023
Basilston Borough Council	£5,000,000.00	05/05/2023
Surrey County Council	£5,000,000.00	30/06/2023
South Ayrshire Council	£5,000,000.00	03/07/2023
Surrey Heath Borough Council	£6,000,000.00	16/06/2023
South Cambridgeshire District Council	£5,000,000.00	26/07/2023
West Dunbartonshire Council	£5,000,000.00	26/07/2023
Surrey County Council	£5,000,000.00	24/04/2023
The Highland Council	£5,000,000.00	09/08/2023
Bradford Metropolitan District Council	£10,000,000.00	01/09/2023
Manchester City Council	£5,000,000.00	01/09/2023
Plymouth City Council	£5,000,000.00	06/09/2023
London Borough of Brent Council	£5,000,000.00	07/09/2023
The Highland Council	£5,000,000.00	10/10/2023
South Ayrshire Council	£5,000,000.00	11/10/2023
Powys County Council	£10,000,000.00	12/10/2023
Plymouth City Council	£10,000,000.00	19/10/2023
London Borough of Hillingdon Council	£5,000,000.00	26/10/2023
Medway Council	£5,000,000.00	06/11/2023
West Dunbartonshire Council	£5,000,000.00	20/11/2023
Wrexham County Borough Council	£5,000,000.00	22/11/2023



<b>Counterparty</b>	<b>Principal Deposited</b>	<b>Maturity Date</b>
Medway Council	£5,000,000.00	23/11/2023
Worcestershire County Council	£5,000,000.00	08/12/2023
Great Yarmouth Borough Council	£6,000,000.00	13/12/2023
Watford Borough Council	£5,000,000.00	14/12/2023
Wrexham County Borough Council	£5,000,000.00	20/09/2023
Ashford Borough Council	£5,000,000.00	22/09/2023
Cambridgeshire County Council	£5,000,000.00	10/01/2024
Denbighshire County Council	£5,000,000.00	18/01/2024
Manchester City Council	£10,000,000.00	23/01/2024
Fife Council	£5,000,000.00	24/01/2024
Oadby and Wigston Borough Council	£8,000,000.00	24/01/2024
East Dunbartonshire Council	£5,000,000.00	07/08/2023
East Dunbartonshire Council	£5,000,000.00	15/08/2023
Falkirk Council	£5,000,000.00	25/01/2024
Fife Council	£5,000,000.00	25/01/2024
Guildford Borough Council	£10,000,000.00	25/01/2024
Falkirk Council	£5,000,000.00	04/09/2023
Plymouth City Council	£5,000,000.00	07/11/2023
Reading Borough Council	£5,000,000.00	14/08/2023
London Borough of Newham Council	£5,000,000.00	21/08/2023
London Borough of Newham Council	£5,000,000.00	14/09/2023
London Borough of Waltham Forest Council	£5,000,000.00	01/09/2023
Gravesham Borough Council	£6,000,000.00	07/03/2024
<b>Short Term Deposit Total</b>	<b>£364,800,000.00</b>	
<b>Counterparty</b>	<b>Principal Deposited</b>	<b>Maturity Date</b>
South Ayrshire Council	£5,000,000.00	24/05/2024
Rotherham Metropolitan Borough Council	£5,000,000.00	26/04/2024
Rotherham Metropolitan Borough Council	£5,000,000.00	26/04/2024
Gravesham Borough Council	£2,500,000.00	26/04/2024
Rotherham Metropolitan Borough Council	£5,000,000.00	30/09/2024
Gravesham Borough Council	£2,400,000.00	26/04/2024
Gravesham Borough Council	£1,800,000.00	26/04/2024
Falkirk Council	£5,000,000.00	03/01/2025
Falkirk Council	£5,000,000.00	31/01/2025
Worthing Borough Council	£3,000,000.00	19/11/2024
Police and Crime Commissioner for Lancashire	£5,000,000.00	06/01/2025
Police and Crime Commissioner for Lancashire	£5,000,000.00	14/04/2025
Cambridgeshire County Council	£5,000,000.00	15/08/2024
Kirklees Council	£5,000,000.00	15/08/2025
North East Lincolnshire Council	£5,000,000.00	21/11/2025
Worthing Borough Council	£5,000,000.00	21/11/2025
<b>Long Term Deposit Total</b>	<b>£69,700,000.00</b>	

Counterparty	Principal Deposited	Maturity Date
<b>Total Deposits</b>	<b>£434,500,000.00</b>	

### Money Market Funds

Counterparty	Balance at 31/03/23 (£)	Notice period
Aberdeen Liquidity Fund	646.87	Same day
Goldman Sachs Sterling Liquid Fund	0.00	Same day
Deutsche Sterling Liquid Fund	0.00	Same day
Federated Sterling Liquidity Funds	26,567.35	Same day
Legal & General Sterling Liquidity Fund	13,400,000.00	Same day
CCLA Public Sector Deposit Fund	5,000,000.00	Same day
Morgan Stanley Sterling Liquid Fund	10,386.75	Same day
<b>Total</b>	<b>18,437,600.97</b>	

### Notice / Call Accounts

Counterparty	Balance at 31/03/23 (£)	Notice period
Santander Call Account	3,643.29	Same day
Barclays Current	9,325.51	Same day
Handlesbanken	2,383.99	Same day
<b>Total</b>	<b>15,52.79</b>	

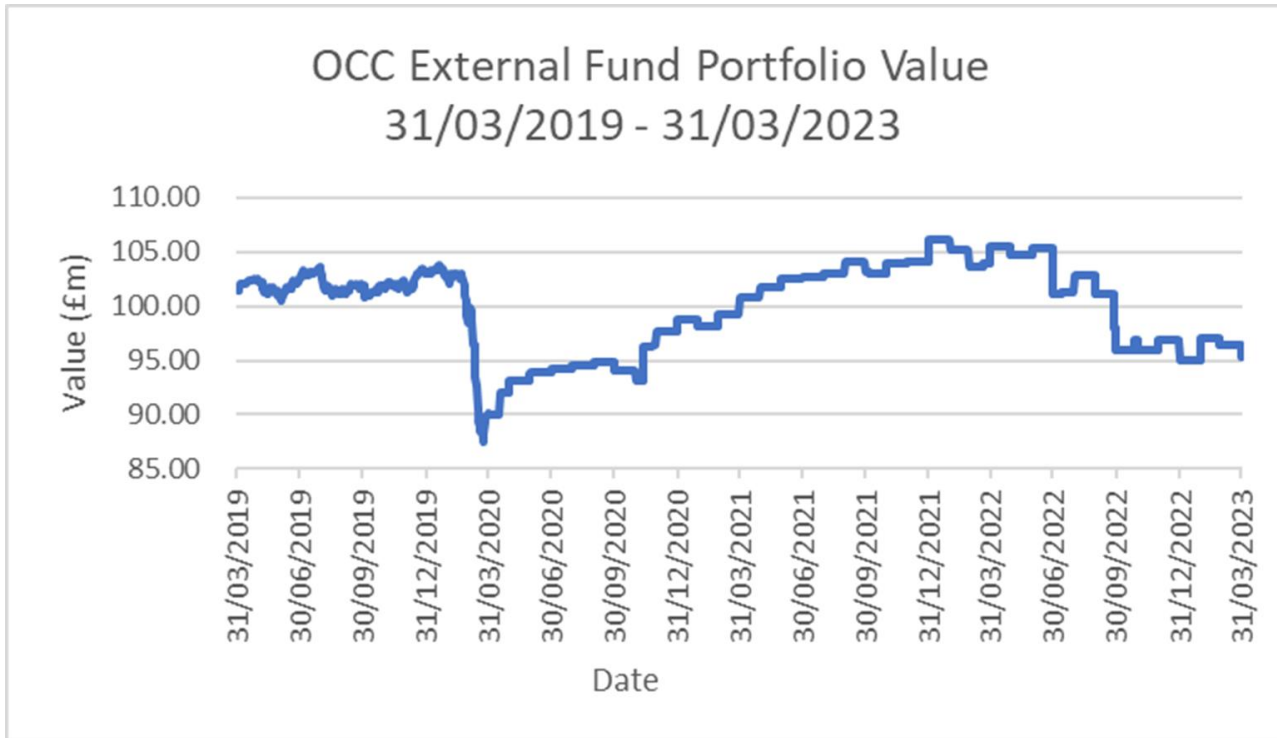
### Strategic Bond Funds

Fund	Balance at 31/03/23 (£)	Notice period
Threadneedle strategic bond fund (income)	11,839,123.89	4 days
Threadneedle Global Equity Income Fund	15,376,511.61	4 days
Kames Diversified Income	8,896,538.89	4 days
Ninety One Diversified Income	8,982,460.80	4 days
M&G Strategic Corporate Bond Fund	10,938,950.05	4 days
Schroder Income Maximiser	10,808,295.68	4 days
CCLA Diversified Income Fund	4,694,844.23	4 days
<b>Total</b>	<b>71,536,725.15</b>	

### Property Funds

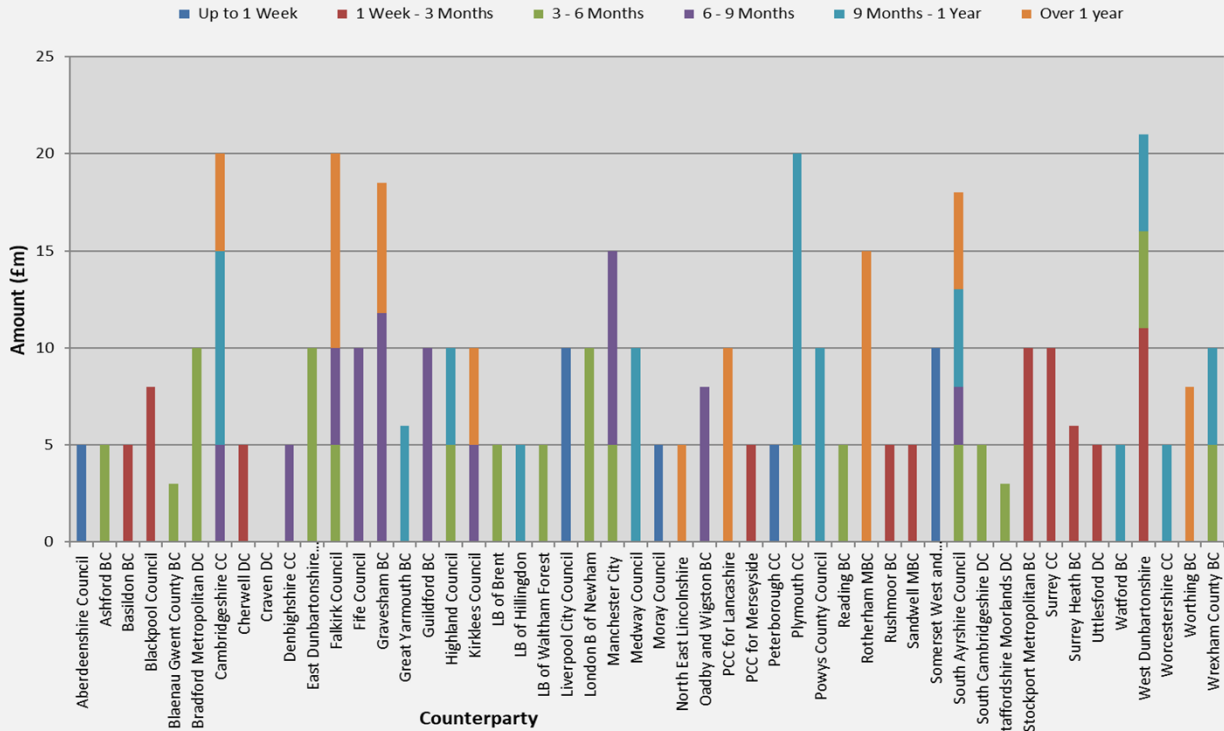
Fund	Balance at 31/03/22 (£)	Notice period
CCLA Local Authorities Property Fund	23,821,072.21	Monthly
<b>Total</b>	<b>23,821,072.21</b>	

## Strategic Pooled Fund Portfolio Value Over Time

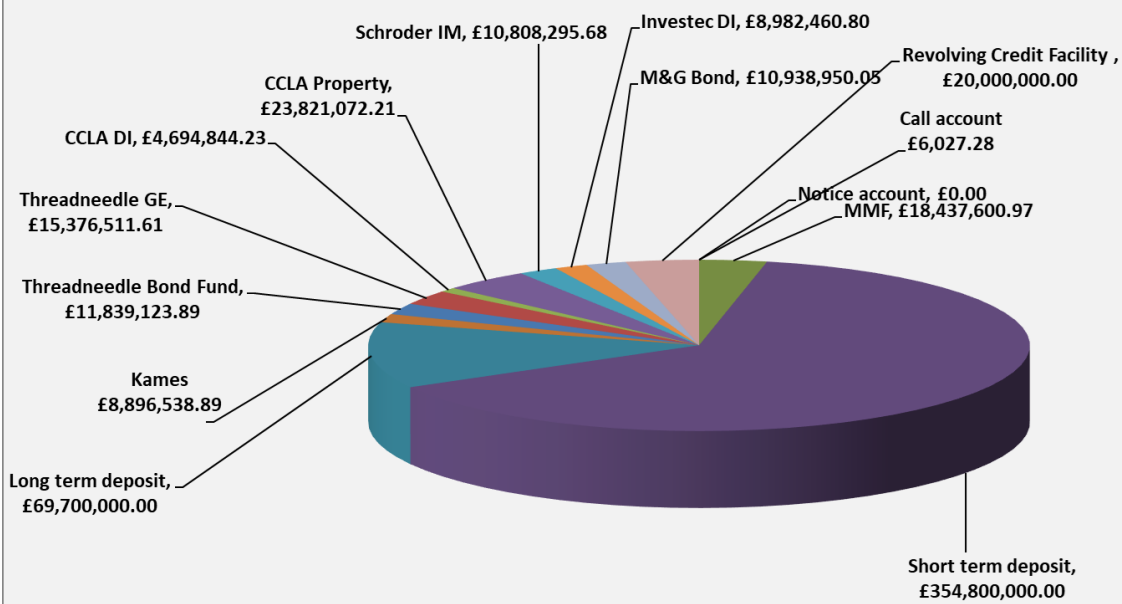


## Investment portfolio risk profile at 31/03/22

### Fixed Deposit Maturity Profile as at 31.03.2023



### Total Combined Portfolio as at 31.03.2023



**Prudential Indicators Outturn 31 March 2023****Authorised and Operational Limit for External Debt**

Authorised Limit for External Debt	£495,000,000
Operational Limit for External Debt	£610,000,000
Actual External Debt at 31 March 2023	£306,382,618

**Fixed Interest Rate Exposure**

Fixed Interest Net Borrowing limit	£350,000,000
Actual at 31 March 2023	-£82,117,382

**Variable Interest Rate Exposure**

Variable Interest Net Borrowing limit	0
Actual at 31 March 2023	- £82,862,588

**Sums Invested over 364 days**

Total sums invested for more than 364 days maximum limit	£274,000,000
Actual sums invested for more than 364 days at 31 March 2023	£69,500,000

**Maturity Structure of Borrowing at 31/03/23**

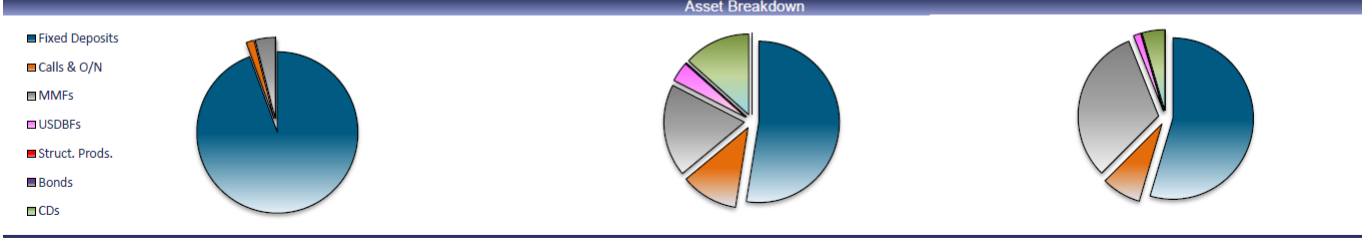
	Limit %	Actual %
From 01/04/22		
Under 12 months	0 - 20	9.79
12 – 24 months	0 - 25	5.55
24 months – 5 years	0 - 35	15.34
5 years – 10 years	5 - 40	24.93
10 years +	40 - 95	44.39

The Prudential Indicators for maturity structure are set with reference to the start of the financial year. The actual % shown above relates to the maturity period remaining at 01/04/22 on loans still outstanding at 31/03/23.

Benchmarking

Weighted Average Return

Oxfordshire County Council	Benchmarking Group 3 (11) Basic Portfolio Characteristics	English Counties (17)
WARoR	2.64%	3.68%
WAM	221	102
WATT	453	202
WA Credit Risk	1.06	2.36
Model WARoR	3.10%	3.57%
Difference	-0.46%	0.11%
Model Band	3.26% - 3.69%	3.36% - 3.78%
Performance	Below	Inline



Maturity Profiles

Oxfordshire County Council had a lower return compared to peers as at 31/03/2023, though with a much lower credit risk. The lower return was as a result of interest lag due to some historic loans.