Division(s): N/A

CABINET – 20 SEPTEMBER 2022

TREASURY MANAGEMENT QUARTER 1 PERFORMANCE REPORT 2022/23

Report by Director of Finance

RECOMMENDATION

1. **Cabinet is RECOMMENDED to note the report, and to RECOMMEND Council to note the Council's treasury management activity the first quarter of 2022/23.**

Executive Summary

2. This report covers the treasury management activity for the first quarter of 2022/23 in compliance with the CIPFA Code of Practice on Treasury Management 2021. It provides an update on the anticipated position and prudential indicators set out in the Treasury Management Strategy Statement & Annual Investment Strategy for 2022/23 agreed as part of the council's budget and Medium Term Financial Strategy in February 2022.

3. The global economy has changed significantly since the Strategy was agreed. Supply and workforce issues have caused global inflation, leading to world central banks increasing base interest rates much faster than forecast. Further interest rate rises are likely during the financial year, making investment returns more sensitive week to week. There is also volatility in global bond, equity and property markets which will lead to fluctuations in the value of investments in these instruments.

4. During the first quarter of the year there were no maturities of external debt. The external debt balance remained at £313.38m on 30 June 2022.

5. The average daily balance of temporary surplus cash invested in-house in the three months to 30 June was £465.10m, compared to the £342.00m budget. The Council achieved an average in-house return for that period of 0.73%. That was above the budgeted rate of 0.58% set in the strategy. This has produced gross interest receivable of £0.85m for the quarter to 30 June 2022 compared to budget of £0.38m.

6. During the first quarter of the year the Council maintained its holding in external funds. Gross distributions from the council's investments in pooled funds totalled £0.68m in the first quarter of the year, exceeding the budgeted figure of £0.60m. Forecast returns for the year are £3.81m, in line with the budget of £3.81m.

Introduction

7. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management 2021 recommends that members are informed of Treasury Management activities at least four times per year. This report ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

8. The following annexes are attached

   Annex 1 Debt Financing 2022/23
   Annex 2 Public Works Loans Board (PWLB) Debt Maturing
   Annex 3 Prudential Indicator Monitoring
   Annex 4 Specified & Non-Specified Investments 2022/23

Treasury Management Strategy 2022/23

9. The Treasury Management Strategy & Annual Investment Strategy for 2022/23 outlines the Council's strategic objectives in terms of its debt and investment management for the financial year 2022/23.

10. The Strategy sets out that the forecast average cash balance for 2022/23 is £442m. The average base rate forecast was 0.35%

11. The council intends to maintain its investment in strategic pooled funds with a purchase value of £101m (23%), with the remaining £341m (77%) being managed internally with a mixture of short, medium and long-term deposits.

12. The Strategy included the continued use of pooled fund vehicles with variable net asset value.

13. The Strategy for borrowing provided an option to fund new or replacement borrowing. The limit for internal borrowing was combined with the long term lending limit, and will not exceed £300m.

External Context – Provided by Link Treasury Services

14. **Economic backdrop**: Following the 0.1% month on month fall in GDP in March and the 0.3% month on month contraction in April, the economy is now moving towards a recession. However, after adjusting for the impact of winding down of the COVID-19 Test and Trace activity and the vaccination programme on the wider economic position the underlying momentum may not be as weak as the headline figures suggest.

15. The Composite Purchasing Managers Index (PMI) remained unchanged in June, at May's level of 53.1, suggesting that real GDP softened rather than collapsed.

16. CPI inflation rose from 9.0% in April 2022 to a new 40-year high of 9.1% in May and it is not yet close to its peak. The increase in CPI inflation in May was mainly due to a further leap in food price inflation from 6.7% to a 13-year high of 8.5%. With the influence of increases in agricultural commodity prices yet to fully feed into prices on the supermarket shelves, it is likely that food price inflation will rise above 10% in September. Previous forecasts were for CPI inflation to peak at 10.5% in October, however, following the announcement of the energy price freeze in September, this is likely to be softened.

17. The Bank Rate has recently been increased to 1.25%, taking it to its highest level since the Global Financial Crisis. The Monetary Policy Committee's (MPC) new guidance is that if there

are signs of "more persistent inflationary pressures" it will, "if necessary act forcefully in response". We expect the MPC to continue to raise rates in steps of 0.25% rather than 0.50%. We think the MPC will raise rates from 1.25% now to a peak of 2.75% next year. That's higher than the peak of 2.00% forecast by economists, but lower than the peak priced into the financial markets

18. Gilt yields have been affected by the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. And in response to signs that central banks (particularly the US Fed) are going to raise interest rates faster to get on top of inflation, we now think that 10-year gilt yields will reach a peak of 2.70% (up from 2.39% currently) this year and into 2023.

19. **Interest Rate Forecasts** Link Group, provided the following forecasts on 9th August 2022:

Link Group Interest Rate View	09.08.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

Treasury Management Activity

Debt Financing

20. The Strategy for 2022/23 assumed the level of external borrowing would increase by £46m during the financial year. As a result of slippage in the capital programme noted in the Capital Monitoring Report to Cabinet in July 2022 and the forecast for cash balances over the medium term this external borrowing will not be arranged in 2022/23. .

21. The Council's cumulative total external remained at from £313.38m from 1 April 2022 to 30 June 2022. No new debt financing has been arranged during the year. The total forecast external debt as at 31 March 2023 is £306.38m. The forecast debt financing position for 31 March 2023 is shown in Annex 1.

22. At 30 June 2022, the authority had 50 PWLB[1] loans totalling £263.38m, nine LOBO[2] loans totalling £45m and one long-term fixed Money Market loan totalling £5m[3]. The combined weighted average interest rate for external debt as at 30 June 2022 was 4.44%.

Maturing Debt

23. No debt matured during the quarter of the year. The Council is forecast to repay £7m of PWLB debt by 31st March 2023. The details are set out in Annex 2.

Debt Restructuring

24. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt restructuring activity. No PWLB debt restructuring activity was undertaken during the first half of the year. However, given the forecast for bond rates, debt restructuring opportunities are being actively sought with our advisors, Link Treasury Services.

LOBOs

25. At the beginning of the financial year the Council held £45m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £15m of these LOBOs had options during 2022/23, to the 30 June 2022 none had been exercised by the lender. The Council is exploring early repayment opportunities of LOBOs with Link Treasury Services.

Investment Strategy

26. The Council holds deposits and invested funds representing income received in advance of expenditure plus balances and reserves. The guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.

27. During the first quarter of the financial year term fixed deposits have been placed with other Local Authorities as per the approved lending list, whilst Money Market Funds have been utilised for short-term liquidity. Inter Local Authority lending remains an attractive market to deposit funds with from a security view point, whilst the Government's Debt Management Deposit Facility (DMADF) has also provided a competitive and secure counterparty. With rapidly increasing interest rates, the Council has taken a position of laddering investments, taking advantage of increased market rates and ensuring a continuous cycle of maturities to be invested at higher rates.

[1] PWLB (Public Works Loans Board) is a Government agency operating within the United Kingdom Debt Management Office and is responsible for lending money to Local Authorities.

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

[3] In June 2016, the Council's LOBO with Barclays PLC was converted to a fixed rate loan at its current interest rate of 3.95% to mature on the 29th May 2065 with Barclays waiving their right to change the interest rate on the loan in the future.

28. The Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 included the use of external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three-year period. The strategy permitted up to 50% of the total portfolio to be invested with external fund managers and pooled funds (excluding Money Market Funds). The performance of the pooled funds will continue to be monitored by the Treasury Management Strategy Team (TMST) throughout the year against respective benchmarks and the in-house portfolio.

29. At the start of the year the UK Bank Rate was 0.75%. This was above the forecast of 0.25% owing to consecutive interest rate rises in February and March 2022 as a result of the invasion of Ukraine. Further increases in May and June saw the official rate increase to 1.25% by 30th June. With ongoing inflationary pressures impacting on the UK economy, the forecast is for interest rates is for them to increase to a high of 2.75% by March 2023, then reduce to 2.00% by 2025.

30. The long term lending limit for 2022/23 is £205m. During the first six months of the year the average available cash headroom within that limit was £10m.

The Council's Lending List

31. The Council's in-house cash balances were deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List is updated to reflect changes in counterparty credit quality with changes reported to Cabinet on a bi-monthly basis. There were no changes to the lending list in the first quarter of 2022.

32. In the quarter to 30 June 2022 there were no instances of breaches in policy in relation to the Council's Lending List. Any breaches in policy will be reported to Cabinet as part of the monthly Business Management & Monitoring report.

Investment Performance

33. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 and by maintaining a limited exposure to "bail in" banks and favouring deposits with other Local Authorities and the DMADF. As at 30 June 2022, the Council had £419.0m deposited with 41 other Local Authorities with an average deposit total of £8.76m per authority. As at 30 June 2022, the maximum deposit with any single local authority was £25m. This was below the limit of £30m. The Council also had £80m deposited with the DMADF as at 30 June 2022.

34. The average daily balance of temporary surplus cash invested in-house in the quarter to 30 June 2022 was £465.10m, compared to a budgeted figure of £342.00m. The Council achieved an average in-house return for that period of 0.73%, above the budgeted rate of 0.35% set in the strategy. This has produced gross interest receivable of £0.85m for the quarter to 30 June compared to budget of £0.38m.

35. Temporary surplus cash includes; developer contributions; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on a margin below the Sterling Overnight Interest Average.

External Fund Managers and Pooled Funds

36. During the first quarter of 2022/23 the Council maintained its holding in external funds. The value of the funds was £101.08m as at 30 June 2022 compared to £105.53m at 31 March 2022. The original purchase cost of the portfolio in March 2019 was £101.0m. Weighted by original purchase value, pooled fund investments produced an annualised income return of 3.87% for the period. These investments are held with a long-term view and performance is assessed accordingly.

37. Gross distributions from pooled funds have totalled £0.66m in the first quarter of the year, exceeding the budgeted figure of £0.60m.

Prudential Indicators for Treasury Management

38. The Authority confirms compliance with its Prudential Indicators for 2022/23, which were set as part of the Authority's Treasury Management Strategy Statement. The position as at 30 June 2022 for the Prudential Indicators is shown in Annex 3.

Training

39. Individuals within the Treasury Management Team continue to keep up to date with the latest developments and attend external workshops and conferences where relevant

Financial Implications

40. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2022/23 is currently forecast to be £3.78m, which is £2.24m above £1.54m budget. An estimated £1.52m of this will be applied to Developer Contribution balances. As at 30 June 2022, £0.85m of the £3.78m interest receivable has been realised.

41. Dividends payable from external funds in 2022/23 are forecast as £3.81m, which is in line with budget.

42. Interest payable is currently forecast to be £13.81m, which is £0.58m below the budgeted figure of £14.39m, due to £46m of new external borrowing not required during the year.

43. The Business Management & Monitoring Report to Cabinet in October 2022 notes that the net impact of the additional interest, after taking account of increases to interest payable on developer contributions is forecast to be £1.3m in 2022/23.

Comments checked by:

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Legal Implications

44. There are no direct legal implications arising from this report save for the need for ongoing collaborative working between the S.151 Officer and the Monitoring Office. CIPFA guidance promotes the need for consultative working and collaboration between these respective roles to promote good organisational governance.

Comments checked by:

Jennifer Crouch, Principal Solicitor, jennifer.crouch@oxfordshire.gov.uk

Sustainability Implications

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

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September 2022

Annex 1

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2021/22

Debt Profile		£m
1. PWLB	85%	263.38
2. Other Long Term Loans	15%	50.00
3. Sub-total External Debt		313.38
4. Internal Balances		0.00
5. Actual Debt at 31 March 2022	**100%**	**313.38**
6. Prudential Borrowing		42.62
7. Borrowing in Advance		0.00
8. Minimum Revenue Provision		-10.17
9. Forecast Debt at 31 March 2023		**345.84**
Maturing Debt		
10. PWLB loans maturing during the year		-7.00
11. PWLB loans repaid prematurely in the course of debt restructuring		0.00
12. Total Maturing Debt		**-7.00**
New External Borrowing		
13. PWLB Normal		0.00
14. PWLB loans raised in the course of debt restructuring		0.00
15. Money Market LOBO loans		0.00
16. Total New External Borrowing		**0.00**
Debt Profile Year End		
17. PWLB	74%	256.38
18. Money Market loans (incl £45m LOBOs)	14%	50.00
19. Forecast Sub-total External Debt		306.38
20. Forecast Internal Balances	12%	39.46
21. Forecast Debt at 31 March 2023	**100%**	**345.84**

Line

1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2020). The PWLB is a government agency operating within the Debt Management Office. LOBO (Lender's Option/ Borrower's Option) loans are long-term loans, with a maturity of up to 60 years, which includes a re-pricing option for the bank at predetermined time intervals. Internal balances include provisions, reserves, revenue balances, capital receipts unapplied, and excess of creditors over debtors.

6 'Prudential Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.

7 'Borrowing in Advance' is the amount the Council borrowed in advance to fund future capital finance costs.

8 The amount of debt to be repaid from revenue. The sum to be repaid annually is laid down in the Local Government and Housing Act 1989, which stipulates that the repayments must equate to at least 4% of the debt outstanding at 1 April each year.

9 The Council's forecast total debt by the end of the financial year, after taking into account new borrowing, debt repayment and movement in funding by internal balances.

10 The Council's normal maturing PWLB debt.

11 PWLB debt repaid early during the year.

12 Total debt repayable during the year.

13 The normal PWLB borrowing undertaken by the Council during 2022/23.

14 New PWLB loans to replace debt repaid early.

15 The Money Market borrowing undertaken by the Council during 2022/23

16 The total external borrowing undertaken.

18-22 The Council's forecast debt profile at the end of the year.

Annex 2

Long-Term Debt Maturing 2022/23

Public Works Loan Board: Loans maturing during 2022/23

Date	Amount £m	Rate %
31/10/2022	4.000	5.050%
31/12/2022	1.000	6.250%
26/03/2023	0.316	6.625%
26/03/2023	1.684	6.625%
Total	**7.000**	

Annex 3

Prudential Indicators Monitoring at 30 June 2022

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. To demonstrate that the Authority has fulfilled the requirements of the Prudential Code the following indicators must be set and monitored each year.

Authorised and Operational Limit for External Debt

Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below. The Operational Boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The council confirms that the Operational Boundary has not been breached during 2022/23.

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authority confirms that the Authorised limit was not breached in the first half of 2022/23.

Authorised limit for External Debt	£495,000,000
Operational Limit for External Debt	£610,000,000
Capital Financing Requirement for year	£437,546,949

	Actual 30/06/2022	**Forecast 31/03/2023**
Borrowing	£313,382,618	£306,382,618
Other Long-Term Liabilities	£ 17,000,000	£ 17,000,000
Total	**£330,382,619**	**£323,382,618**

Interest Rate Exposures

These indicators are set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures. Fixed rate investments are borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Fixed Interest Rate Exposure	
Fixed Interest Net Borrowing limit	£350,000,000
Actual at 30 June 2022	-£143,917,382
Variable Interest Rate Exposure	
Variable Interest Net Borrowing limit	£0
Actual at 30 June 2022	-£-24,644,080

Principal Sums Invested over 365 days

Total sums invested for more than 364 days limit	£215,000,000
Actual sums invested for more than 364 days	£ 99,800,000

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 fixed rate borrowing and the actual structure at 30 June 2022, are shown below. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

	Limit %	Actual %
Under 12 months	0 - 20	10.21
12 – 24 months	0 - 25	5.42
24 months – 5 years	0 - 35	16.59
5 years to 10 years	5 - 40	24.37
10 years +	40 - 95	43.40

Annex 4

Specified and Non Specified Investments 2022/23

Specified Investments

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Term Deposits – Banks and Building Societies	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+	In-house and Fund Managers
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes[4]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	N/A	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Long Term Counterparty Rating A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-	In-house and Fund Managers

[4] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	N/A	In-house and Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral Development Banks	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	25 years
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house
Collective Investment Schemes[5] but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date

[5] Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Minimum long term rating of A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Covered Bonds	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	20 years
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	50% In-house	5 years

The maximum limits for in-house investments apply at the time of arrangement.