

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 13 MARCH 2024

TREASURY MANAGEMENT QUARTER 3 PERFORMANCE REPORT 2023/24

Report by the Executive Director of Resources & Section 151 Officer

RECOMMENDATION

1. **Audit & Governance Committee is RECOMMENDED to note the council's treasury management activity at the end of the third quarter of 2023/24.**

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 committee to which some treasury management responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks. This report is the third for the 2023/24 financial year and sets out the position at 31 December 2023.
4. Throughout this report, the performance for the three quarters of the year to December 2023 is measured against the budget agreed by Council in February 2023.
5. As at 31 December 2023, the council's outstanding debt totalled £284m and the average rate of interest paid on long-term debt during the year was 4.41%. No new external borrowing was arranged during the third quarter, whilst £8m of maturing Public Works Loan Board (PWLB), and £5m of LOBO¹ loans were repaid. The cumulative amount of PWLB and LOBO loans repaid during 2023/24 is £12m and £10m, respectively. The council's forecast debt financing position for 2023/24 is shown in Annex 1.
6. The [Treasury Management Strategy for 2023/24](#) agreed in February 2023 assumed an average base rate of 4.25%.
7. The average daily balance of temporary surplus cash invested in-house was expected to be £480m in 2023/24, with an average in-house return of 3.00%.
8. During the nine months to 31 December 2023 the council achieved an average in-house return of 3.93% on average cash balances of £496.422m, producing gross interest receivable of £14.686m. In relation to external funds, the return for the nine months was

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

£3.035m, bringing total investment income to £17.721m. This compares to budgeted investment income of £10.805m, giving a net overachievement of £6.916m.

- At 31 December 2023, the council's investment portfolio totalled £532.604m. This comprised £406.500m of fixed term deposits, £29.216m at short term notice in money market funds and £96.889m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 December 2023.

Treasury Management Activity

Debt Financing & Maturing Debt

- The strategy for long term borrowing agreed in February 2023 included the option to fund new or replacement borrowing up to the value of £180m through internal borrowing. The aim was to reduce the council's exposure to credit risk and reduce the long-term cost of carry (difference between borrowing costs and investment returns).
- The council is able to borrow from the Public Works Loan Board (PWLB) or through the money markets. Persistently high inflation has led to bond yields, and therefore PWLB rates, remaining high. The expectation is that as inflation falls, PWLB rates should reduce over the medium term. Given the forecast for borrowing rates, the strategy for 2023/24 assumes no new external borrowing during the year, with any increase in the capital financing requirement met through internal borrowing.
- As at 31 December 2023, the authority had 43 PWLB loans totalling £244.383m, 7 LOBO loans totalling £35m and one £5m money market loan. The average rate of interest paid on PWLB debt was 4.72% and the average cost of LOBO debt in 2023/24 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 4.41%. The council's debt portfolio as at 31 December 2023 is shown in Annex 1.
- The council repaid £8m of maturing PWLB loans and £5m of LOBO loans during the third quarter of the year. The weighted average interest rate payable on the matured loans was 4.645%. The forecast outturn for interest payable in 2023/24 is £12.90m. This is below the budgeted figure of £13.15m as a result of the early repayment of £10m of LOBO loans during the year. The details are set out in Annex 2.

Investment Strategy

- 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.
- During the first three quarters 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 from time to time.

16. The Treasury Management Strategy Statement and Annual Investment Strategy for 2023/24 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.
17. At the start of the year the UK Bank Rate was 4.25% which was in line with the forecast. With ongoing inflationary pressures impacting on the UK economy, interest rates rose higher than forecast to 5.25% in August and has remained there to date. The market forecast as at February 2024 is that rates will remain at 5.25% until summer 2024, then slowly reduce to 3.00% by June 2026.

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 during the third quarter of 2023/24.

Investment Performance

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 annual return on these in-house balances for 2023/24 was 3.00% and assumed an average annual in-house cash balance of £379.144m.
20. The actual average daily balance of temporary surplus cash invested in-house was £496.422m for the first three quarters of 2023/24 and the average in-house return was 3.93%, producing gross interest receivable of £14.686m. Gross distributions from pooled funds totalling £3.035m were also realised in the three quarters, bringing total investment income to £17.721m. This compares to budgeted investment income of £10.805m, giving a net overachievement of £6.916m. This reflects a combination of higher than forecast average cash balances, and higher than forecast interest rates.
21. Cash balances for the year are forecast to be lower than they otherwise would be as a result of negative Dedicated Schools Grant (DSG) balances relating to High Needs. The negative DSG balance by the end of 2023/24 is forecast to be £64.00m. This would have an estimated opportunity cost of £1.59m in unearned interest during 2023/24.

22. The council operates a number of instant access call accounts and money market funds to deposit short-term cash surpluses. During the first three quarters of 2023/24 the average balance held on instant access was £67.864m, at an average rate of 4.24%.
23. At 31 December 2023 the total value of pooled fund investments was £96.889m. This has increased from the last reported value of £93.473m at 30 September 2023.
24. At 31 December 2023, the council's investment portfolio of £532.604m comprised £406.500m of fixed term deposits, £29.216m at short term notice in money market funds and £96.889m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 December 2023.
25. 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 December 2023 is included at Annex 4.

Prudential Indicators for Treasury Management

26. During the first three quarters of the year, the council operated within the treasury limits and Prudential Indicators set out in the council's Treasury Management Strategy for 2023/24. The position for the Prudential Indicators as at 31 December 2023 is shown in Annex 3.

Financial Implications

27. This report is mostly concerned with finance and the implications are set out in the main body of the report. The anticipated use of additional interest to support revenue budget pressures in 2023/24 is set out in the Business Management & Monitoring Report to Cabinet in March 2024.

Comments checked by:

Kathy Wilcox, Head of Corporate Finance, kathy.wilcox@oxfordshire.gov.uk

Legal Implications

28. 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:

Anita Bradley, Director of Law and Governance, anita.bradley@oxfordshire.gov.uk

Sustainability Implications

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

Contact officer: Tim Chapple – Treasury Manager
Contact number: 07917 262935
February 2024

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2023/24

<u>Debt Profile</u>		£m
1. PWLB	64%	256.38
2. Other Long Term Loans	12%	<u>50.00</u>
3. Sub-total External Debt		306.38
4. Internal Balances	24%	<u>96.34</u>
5. Actual Debt at 31 March 2023	100%	402.72
6. Prudential Borrowing		73.35
7. Borrowing in Advance		0.00
8. Minimum Revenue Provision		<u>-11.84</u>
9. Forecast Debt at 31 March 2024		464.23
<u>Maturing Debt</u>		
10. PWLB loans maturing during the year		-12.00
11. PWLB/LOBO Loans repaid prematurely		<u>10.00</u>
12. Total Maturing Debt		-22.00
<u>New External Borrowing</u>		
13. PWLB Normal		0.00
14. PWLB loans raised in the course of debt restructuring		0.00
15. Money Market LOBO loans		<u>0.00</u>
16. Total New External Borrowing		0.00
<u>Debt Profile Year End</u>		
17. PWLB	52%	244.38
18. Money Market loans (incl £35m LOBOs)	10%	<u>40.00</u>
19. Forecast Sub-total External Debt		289.38
20. Forecast Internal Balances	38%	<u>174.85</u>
21. Forecast Debt at 31 March 2024	100%	464.23

Line Explanation

- 1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2023). 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' is 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/LOBO debt repaid early during the year.
- 12 Total debt repayable during the year.
- 13 The normal PWLB borrowing undertaken by the Council during 2023/24.
- 14 New PWLB loans to replace debt repaid early.
- 15 The Money Market borrowing undertaken by the Council during 2023/24
- 16 The total external borrowing undertaken.
- 18-22 The Council's forecast debt profile at the end of the year.

Long-Term Debt Maturing 2023/24**Public Works Loan Board: Loans maturing during 2023/24**

Date	Amount £m	Rate %
30/04/2023	2.000	5.625%
22/05/2023	2.000	5.625%
01/11/2023	8.000	5.000%
Total	12.000	

LOBO Loans called & repaid during 2023/24

Date	Amount £m	Rate %
31/08/2023	5.000	3.820%
27/10/2023	5.000	4.290%
Total	10.000	

Prudential Indicators Monitoring at 30 December 2023

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 the third quarter of 2023/24.

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 Authorised Limit was not breached in the in the third quarter of 2023/24 and is not expected to be breached by year end.

Authorised limit for External Debt	£555,000,000
Operational Limit for External Debt	£570,000,000
Capital Financing Requirement for year	£508,413,000

	Actual	Forecast
	31/12/2023	31/03/2024
Borrowing	£284,382,618	£284,382,618
Other Long-Term Liabilities	£ 17,000,000	£ 17,000,000
Total	£301,382,618	£301,382,618

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 31 December 2023	-£146,117,382

Variable Interest Rate Exposure

Variable Interest Net Borrowing limit	£0
Actual at 31 December 2023	-£74,104,268

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	£ 45,000,000

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 December 2023, 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	3.52
12 – 24 months	0 - 25	1.05
24 months – 5 years	0 - 35	20.04
5 years to 10 years	5 - 40	30.02
10 years +	25 - 95	45.36

OXFORDSHIRE COUNTY COUNCIL INVESTMENT PORTFOLIO 31/12/2023

Fixed term deposits held at 31/12/2023

Counterparty	Principal Deposited	Maturity Date
Torfaen County Borough Council	£7,000,000.00	04/01/2024
Cambridgeshire County Council	£5,000,000.00	10/01/2024
Denbighshire County Council	£5,000,000.00	18/01/2024
London Borough of Lambeth Council	£10,000,000.00	22/01/2024
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
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
Aberdeenshire Council	£5,000,000.00	05/02/2024
Aberdeenshire Council	£5,000,000.00	08/02/2024
Kirklees Council	£5,000,000.00	15/02/2024
South Ayrshire Council	£3,000,000.00	22/02/2024
Gravesham Borough Council	£6,000,000.00	07/03/2024
Gravesham Borough Council	£5,800,000.00	15/03/2024
Bury Metropolitan Borough Council	£2,000,000.00	10/04/2024
Ashford Borough Council	£5,000,000.00	23/04/2024
North Lanarkshire Council	£5,000,000.00	24/04/2024
Ashford Borough Council	£5,000,000.00	24/04/2024
Police and Crime Commissioner for Merseyside	£5,000,000.00	24/04/2024
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
Gravesham Borough Council	£2,400,000.00	26/04/2024
Gravesham Borough Council	£1,800,000.00	26/04/2024
Rushmoor Borough Council	£5,000,000.00	10/05/2024
London Borough of Newham Council	£5,000,000.00	13/05/2024
London Borough of Newham Council	£5,000,000.00	13/05/2024
Gloucester City Council	£7,000,000.00	15/05/2024
Cheshire East Council	£5,000,000.00	15/05/2024
West Dunbartonshire Council	£5,000,000.00	16/05/2024
The Highland Council	£3,000,000.00	17/05/2024
Rushmoor Borough Council	£5,000,000.00	21/05/2024
North Lanarkshire Council	£5,000,000.00	21/05/2024
South Ayrshire Council	£5,000,000.00	24/05/2024
Worcestershire County Council	£5,000,000.00	06/06/2024
Manchester City Council	£5,000,000.00	17/06/2024
Worcestershire County Council	£5,000,000.00	27/06/2024
Bradford Metropolitan District Council	£5,000,000.00	28/06/2024
The Highland Council	£5,000,000.00	01/07/2024

Counterparty	Principal Deposited	Maturity Date
Conwy County Borough Council	£5,000,000.00	03/07/2024
Isle of Wight Council	£5,000,000.00	05/07/2024
North Lanarkshire Council	£5,000,000.00	05/07/2024
Isle of Wight Council	£5,000,000.00	05/07/2024
North Lanarkshire Council	£5,000,000.00	05/07/2024
Conwy County Borough Council	£5,000,000.00	09/07/2024
Monmouthshire County Council	£5,000,000.00	10/07/2024
Bradford Metropolitan District Council	£5,000,000.00	24/07/2024
London Borough of Newham Council	£10,000,000.00	30/07/2024
Cambridgeshire County Council	£5,000,000.00	15/08/2024
London Borough of Brent Council	£5,000,000.00	15/08/2024
West Dunbartonshire Council	£5,000,000.00	15/08/2024
Plymouth City Council	£5,000,000.00	04/09/2024
London Borough of Haringey Council	£5,000,000.00	05/09/2024
The Highland Council	£5,000,000.00	25/09/2024
Rotherham Metropolitan Borough Council	£5,000,000.00	30/09/2024
Falkirk Council	£5,000,000.00	01/10/2024
Great Yarmouth Borough Council	£8,000,000.00	08/10/2024
Orkney Islands Council	£5,000,000.00	10/10/2024
The Highland Council	£7,000,000.00	16/10/2024
London Borough of Haringey Council	£5,000,000.00	18/10/2024
West Dunbartonshire Council	£5,000,000.00	23/10/2024
Fife Council	£5,000,000.00	24/10/2024
Worthing Borough Council	£3,000,000.00	19/11/2024
Aberdeen City Council	£5,000,000.00	19/11/2024
Aberdeen City Council	£5,000,000.00	19/11/2024
Aberdeen City Council	£5,000,000.00	20/11/2024
Moray Council	£5,000,000.00	26/11/2024
Short Term Deposit Total	£361,500,000.00	

Counterparty	Principal Deposited	Maturity Date
Falkirk Council	£5,000,000.00	03/01/2025
Police and Crime Commissioner for Lancashire	£5,000,000.00	06/01/2025
Falkirk Council	£5,000,000.00	31/01/2025
Police and Crime Commissioner for Lancashire	£5,000,000.00	14/04/2025
Kirklees Council	£5,000,000.00	15/08/2025
Derbyshire County Council	£5,000,000.00	26/08/2025
North East Lincolnshire Council	£5,000,000.00	21/11/2025
Worthing Borough Council	£5,000,000.00	21/11/2025
Derbyshire County Council	£5,000,000.00	25/08/2026
Long Term Deposit Total	£45,000,000.00	
Total Deposits	£406,500,000.00	

Money Market Funds

Counterparty	Balance at 31/12/23 (£)	Notice period
Aberdeen Liquidity Fund	50,000.00	Same day
Goldman Sachs Sterling Liquid Fund	0.00	Same day
Deutsche Sterling Liquid Fund	0.00	Same day
Federated Sterling Liquidity Funds	25,000,000.00	Same day
Legal & General Sterling Liquidity Fund	4,100,000.00	Same day
CCLA Public Sector Deposit Fund	159.66	Same day
Morgan Stanley Sterling Liquid Fund	50,000.00	Same day
Total	29,150,159.70	

Notice / Call Accounts

Counterparty	Balance at 31/12/23 (£)	Notice period
Santander Call Account	3,724.48	Same day
Barclays Current	9,258.91	Same day
Handlesbanken	2,386.74	Same day
Total	15,370.13	

Strategic Bond Funds

Fund	Balance at 31/12/23 (£)	Notice period
Threadneedle strategic bond fund (income)	12,478,200.65	4 days
Threadneedle Global Equity Income Fund	15,678,495.79	4 days
Kames Diversified Income	9,233,345.74	4 days
Ninety One Diversified Income	8,986,389.28	4 days
M&G Strategic Corporate Bond Fund	11,465,033.42	4 days
Schroder Income Maximiser	10,863,994.88	4 days
CCLA Diversified Income Fund	4,896,769.44	4 days
Total	73,843,235.79	

Property Funds

Fund	Balance at 31/12/22 (£)	Notice period
CCLA Local Authorities Property Fund	23,045,502.42	Monthly
Total	23,045,502.42	