

## **AUDIT & GOVERNANCE COMMITTEE – 2 JUNE 2021**

### **TREASURY MANAGEMENT ANNUAL PERFORMANCE 2020/21**

#### **Report by Director of Finance**

#### **RECOMMENDATION**

1. **The Audit & Governance Committee is RECOMMENDED to note the report, and to RECOMMEND Council to note the Council's Treasury Management Activity in 2020/21.**

#### **Executive Summary**

2. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Code of Practice on Treasury Management 2017' requires that the Council and Audit & Governance Committee receives an updated report on Treasury Management activities at least twice per year. This report is the second report for the financial year 2020/21 and sets out the position as at 31 March 2021.
3. Performance for the financial year 2020/21 is measured against the original budget set in February 2020.
4. Treasury management is defined as: "The management of the local authority's investments and cash flows, 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."
5. At 31 March 2021, outstanding debt totalled £335m and average interest paid on long-term debt was 4.46%. The Council repaid £6m of maturing PWLB loans during the year. No new borrowing was arranged during 2020/21. The Council's debt financing position for 2020/21 is shown in Annex 1.
6. The Treasury Management Strategy for 2020/21 was based on an average base rate forecast of 0.75%, with heavily weighted risk to the downside. The budget for interest receivable assumed that an average interest rate of 0.85% would be achieved. The average daily balance of temporary surplus cash invested in-house was £402m in 2020/21.
7. The Council achieved an average in-house return for the year of 0.84%, producing gross interest receivable of £3.357m. In relation to external funds, gross distributions totalling £3.947m were realised in year, bringing total investment income to £7.304m. This compares to budgeted investment income of £6.258 m, giving a net overachievement of £1.046m.
8. At 31 March 2021, the Council's investment portfolio of £529.326m comprised £379.300m of fixed term deposits, £49.339m at short term notice in money market funds and £100.687m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2021.

## Treasury Management Activity

### Debt Financing & Maturing Debt

9. The Strategy for Long Term Borrowing included the option to fund new or replacement borrowing up to the value of £100m through internal borrowing 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.
10. The Council is able to borrow from the Public Works Loan Board (PWLB) or through the money markets. However, as the Council was able to undertake internal borrowing no new borrowing was arranged during 2020/21.
11. At 31 March 2021, the authority had 53 PWLB loans totalling £285.383m, 9 LOBO<sup>1</sup> loans totalling £45m and one £5m money market loan. The average rate of interest paid on PWLB debt was 4.55% and the average cost of LOBO debt in 2019/20 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 2021 is shown in Annex 1.
12. The Council repaid £6m of maturing PWLB loans during the year. The weighted average interest rate payable on the matured loans was 3.342%. The outturn for Interest Payable in 2020/21 was £15.0m which is in line with the budget in the Medium Term Financial Plan. The details are set out in Annex 2.

### Investment Strategy

13. 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. The Council used fixed deposits, call accounts, notice accounts, money market funds and pooled funds to deposit its in-house cash surpluses during 2020/21. The Council continuously monitored credit quality information regarding the institutions on the Council's approved Lending List.
14. As a result of an in year balances analysis, the long term lending limit for 2020/21 was increased from £200m to £215m, whilst the limit for 2021/22 was increased from £150m to £200m. The increase in limit allowed the Council to take further advantage of inflated intra local authority deposit rates.
15. During 2020/21, because of financial uncertainty caused by the COVID-19 pandemic, the Council limited the exposure to banks by lending to local authorities. At 31 March 2021 the Council had £72.3m of long-term fixed deposits (deposits over 364 days), all of which were placed with local authorities. The aim was to maintain a high level of security and manage exposure to interest rate and counterparty risk.
16. The inter local authority lending market is beneficial to both the lender and the borrower. The lender is able to benefit by having access to high security deposits. The borrower is able to

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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.

secure short to medium term cash at a borrowing cost that is lower than available through PWLB or other money market participants.

17. The weighted average maturity of all deposits at 31 March 2021, including money deposited in short-term notice accounts, was 225 days (compared with 193 days during 2019/20). The increase in weighted average maturity was a strategic decision to take advantage of inflated inter local authority longer term lending rates, against a bank drop of lowering inter bank lending rates.
18. The 2020/21 Treasury Management Strategy allowed for 50% of the total portfolio to be held in Strategic Pooled funds. During the year, the Council maintained the investment in Strategic Pooled Funds. These funds are all income producing. As the value of the funds can fluctuate, these investments are treated as long term.
19. In March 2021 the TMST explored options for longer dated investments. Increasing the exposure to Strategic investments was not deemed appropriate as the certainty of cash levels, above the current exposure, for the 10 year time horizon was not satisfied. An analysis of shorter dated and cash plus funds was undertaken, however the returns were not favourable. It was decided to review these funds in the first half of 2021/22.

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

20. The Council's in-house cash balances are deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List is regularly updated during the year to reflect changes in bank and building society credit ratings. Changes are reported to the Cabinet on a regular basis as part of the Financial Monitoring & Business Strategy Delivery reports. The approved lending list may also be further restricted by officers, in response to changing conditions and perceived risk. Annex 3 shows the amendments incorporated into the Lending List during 2020/21, in accordance with the approved credit rating criteria and additional temporary restrictions.

### **Investment Outturn**

21. The average daily balance of temporary surplus cash invested in-house was £401.675m in 2020/21. The Council achieved an average in-house return for the year of 0.84%, producing gross interest receivable of £3.357m. Temporary surplus cash balances include: 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 the average three month London Interbank Bid (LIBID) rate.
22. During 2020/21 the average three month LIBID rate was 0.14%. The Council's average in-house return of 0.84% exceeded this benchmark by 0.70%. The average in-house return was 0.01% lower than the rate of interest of 0.85% assumed in the budget. The budgeted forecast was for UK Base Rate to remain at 0.75% for 2020/21. However, as a result of the COVID-19 pandemic, official bank rate was lowered to 0.10% in March 2020 and remained at that level for the duration of 2020/21.
23. The Council operates a number of instant access call accounts and money market funds to deposit short-term cash surpluses. During 2020/21 the average balance held on instant access was £83.819m.

24. In-house deposits produced gross interest receivable of £3.357m for the year. Gross distributions from pooled funds totalling £3.947m were realised in year, bringing total investment income to £7.304m. This compares to budgeted investment income of £6.258m, giving a net overachievement of £1.046m. The overachievement in income received was due to a combination of higher than forecast average cash balances and higher than forecast distributions from pooled funds.
25. At 31 March 2020 the total value of pooled fund investments was £89.974m, which represented a book value loss of £11.031m. The loss was a direct result of global investment market contractions as a result of the Coronavirus pandemic. As at 31 March 2021, the portfolio had regained the losses and was valued at £100.687m.
26. At 31 March 2021, the Council's investment portfolio of £529.326m comprised £379.300m of fixed term deposits, £49.339m at short term notice in money market funds and £100.687m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2021.
27. 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 2021 is shown in Annex 4.

### **Prudential Indicators for Treasury Management**

28. During the financial year, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Report. The outturn for the Prudential Indicators is shown in Annex 5.

### **External Performance Indicators and Statistics**

29. The Council's treasury management advisors Link Treasury Services also benchmark the Council's investment performance against its other clients on a quarterly basis. The results of the quarter 4 benchmarking to 31 March 2021 are included in Annex 6.
30. The benchmarking results show that the Council was achieving higher than average interest on deposits at 31 March 2021 compared to the benchmark group. This has been achieved by placing deposits over a longer than average duration with institutions that are of higher than average credit quality.

### **Financial and Legal Implications**

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

**LORNA BAXTER**  
Director of Finance

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June 2021

## OXFORDSHIRE COUNTY COUNCIL DEBT PROFILE 31 MARCH 2021

LOAN No	£m	RATE %	Start Date	End Date	LOAN No	£m	RATE %	Start Date	End Date
479915	1.684	6.625	30/11/1995	26/03/2023	492376	10.000	4.200	01/11/2006	31/03/2037
479916	0.316	6.625	30/11/1995	26/03/2023	492386	2.000	4.350	03/11/2006	01/04/2027
480364	1.000	6.250	29/12/1997	31/12/2022	492535	10.000	4.200	29/11/2006	30/06/2037
480867	2.000	5.625	23/04/1998	30/04/2023	492561	6.000	4.250	07/12/2006	30/06/2032
480915	2.000	5.625	30/04/1998	22/05/2023	492598	8.000	4.500	18/12/2006	30/04/2027
483469	3.000	4.250	12/11/1999	22/11/2024	492599	6.000	4.500	18/12/2006	31/05/2027
483659	2.000	4.250	25/11/1999	30/04/2025	492786	10.000	4.850	23/01/2007	31/01/2022
487777	4.000	4.650	16/05/2003	01/05/2028	492789	6.000	4.500	24/01/2007	31/01/2032
488204	8.000	5.000	27/10/2003	01/11/2023	492990	6.000	4.450	06/03/2007	31/03/2032
488562	7.650	4.700	19/03/2004	16/03/2030	492807	4.000	4.250	25/01/2007	30/06/2053
488563	1.733	4.700	19/03/2004	16/03/2030	493378	4.000	4.900	11/06/2007	30/06/2032
488989	6.000	4.850	16/08/2004	13/07/2030	493638	6.000	4.550	02/08/2007	30/09/2052
489168	6.000	4.700	22/10/2004	01/03/2030	493803	4.000	4.650	23/08/2007	20/09/2032
489287	6.000	4.600	22/11/2004	01/04/2032	493822	6.000	4.450	23/08/2007	30/09/2053
489429	6.000	4.550	02/12/2004	01/06/2032	493960	4.000	5.050	03/10/2007	31/10/2022
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	27/04/2021
491960	10.000	4.600	21/08/2006	30/09/2026	LOBO 07	5.000	4.500	27/04/2005	27/04/2021
492021	5.000	4.350	25/08/2006	22/11/2031	MML08	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	23/11/2021
492064	5.000	4.450	31/08/2006	30/04/2027	LOBO 10	5.000	3.800	31/07/2006	31/07/2019
492088	4.000	4.350	04/09/2006	02/03/2032	LOBO 11	5.000	3.840	31/07/2006	29/07/2021
492117	4.000	4.450	07/09/2006	02/03/2037	LOBO 12	5.000	3.825	02/10/2006	02/10/2022
492367	2.000	4.700	25/10/2006	31/12/2021	LOBO 13	5.000	4.010	02/10/2006	02/10/2024
492369	10.000	4.650	31/10/2006	31/12/2021	LOBO 14	5.000	3.820	31/08/2006	31/08/2023
492371	13.000	4.500	31/10/2006	31/12/2026	LOBO 15	5.000	3.720	21/09/2006	13/10/2022
492375	10.000	4.200	01/11/2006	31/12/2036	<b>Total</b>	<b>154.383</b>			

## Annex 2

### Long-term debt Maturing 2020/21

#### Public Works Loan Board: Loans Maturing in 2020/21

<b>Date</b>	<b>Amount £m</b>	<b>Rate %</b>	<b>Repayment Type</b>
01/06/2020	5.0	3.540	Maturity
13/07/2020	0.5	2.350	EIP
31/07/2020	0.5	2.350	EIP
<b>Total</b>	<b>6.0</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

**Lending List Changes during 2020/21**

**Lending limits & maturity limits changed from 1 April 2020**

**There were no changes to the Lending List During 2020/21**

## OXFORDSHIRE COUNTY COUNCIL INVESTMENT PORTFOLIO 31/03/2021

## Fixed term deposits held at 31/03/2020

Counterparty	Principal Deposited (£)	Maturity Date
Spelthorne Borough Council	£4,000,000.00	02-Jul-21
London Borough of Croydon Council	£10,000,000.00	25-Oct-21
London Borough of Croydon Council	£5,000,000.00	06-Dec-21
Warrington Borough Council	£10,000,000.00	14-Oct-21
Dudley Metropolitan Borough Council	£10,000,000.00	01-Jul-22
Dudley Metropolitan Borough Council	£5,000,000.00	03-Jan-23
Cambridgeshire County Council	£5,000,000.00	09-Jan-23
Dudley Metropolitan Borough Council	£5,000,000.00	12-Oct-22
Wokingham Borough Council	£5,000,000.00	10-Feb-22
Wokingham Borough Council	£5,000,000.00	23-Mar-22
London Borough of Islington Council	£5,000,000.00	21-May-21
Northumberland County Council	£5,000,000.00	30-Jan-23
Peterborough City Council	£5,000,000.00	29-Apr-22
Dudley Metropolitan Borough Council	£5,000,000.00	08-Nov-22
Worcestershire County Council	£7,500,000.00	03-Mar-23
Thurrock Council	£5,000,000.00	01-Apr-21
Thurrock Council	£5,000,000.00	01-Apr-21
Slough Borough Council	£10,000,000.00	01-Apr-21
Rotherham Metropolitan Borough Council	£5,000,000.00	01-Apr-21
Gloucester City Council	£5,000,000.00	07-Apr-21
Police and Crime Commissioner for Lancashire	£5,000,000.00	22-Apr-21
Slough Borough Council	£5,000,000.00	26-Apr-21
Wokingham Borough Council	£5,000,000.00	26-Apr-21
Wokingham Borough Council	£5,000,000.00	28-Apr-21
Uttlesford District Council	£5,000,000.00	19-Jun-23



<b>Counterparty</b>	<b>Principal Deposited (£)</b>	<b>Maturity Date</b>
Blaenau Gwent County Borough Council	£3,000,000.00	10-Jul-23
Staffordshire Moorlands District Council	£3,000,000.00	31-Jul-23
Kingston Upon Hull City Council	£7,000,000.00	04-May-21
Liverpool City Council	£5,000,000.00	15-Apr-21
Liverpool City Council	£5,000,000.00	30-Apr-21
Rotherham Metropolitan Borough Council	£5,000,000.00	09-Jun-21
Plymouth City Council	£5,000,000.00	23-Apr-21
Liverpool City Council	£5,000,000.00	28-Apr-21
West Dunbartonshire Council	£6,000,000.00	21-Jun-21
Liverpool City Council	£5,000,000.00	21-Jun-21
Cherwell District Council	£5,000,000.00	15-Jul-22
Rotherham Metropolitan Borough Council	£5,000,000.00	23-Jun-21
Lancashire County Council	£5,000,000.00	17-May-21
Lancashire County Council	£5,000,000.00	21-May-21
Brentwood Borough Council	£5,000,000.00	16-Jun-21
Spelthorne Borough Council	£10,000,000.00	30-Jun-21
Spelthorne Borough Council	£10,000,000.00	08-Jul-21
Police & Crime Commissioner for Nottinghamshire	£10,000,000.00	14-Jul-21
West Dunbartonshire Council	£5,000,000.00	21-Jul-21
Lancashire County Council	£5,000,000.00	21-Jul-21
Kingston Upon Hull City Council	£5,000,000.00	07-Sep-21
Blackburn with Darwen Borough Council	£5,000,000.00	01-Sep-21
Plymouth City Council	£5,000,000.00	15-Sep-21
Plymouth City Council	£5,000,000.00	28-Sep-21
Police and Crime Commissioner for Merseyside	£5,000,000.00	15-Jul-21
Thurrock Council	£5,000,000.00	09-Nov-21
Moray Council	£5,000,000.00	30-Nov-21
Fife Council	£5,000,000.00	14-Dec-21
Aberdeenshire Council	£5,000,000.00	05-Jan-22

<b>Counterparty</b>	<b>Principal Deposited (£)</b>	<b>Maturity Date</b>
Aberdeenshire Council	£5,000,000.00	06-Jan-22
Fife Council	£5,000,000.00	12-Nov-21
West Dunbartonshire Council	£5,000,000.00	22-Oct-21
Plymouth City Council	£5,000,000.00	08-Nov-21
North Lanarkshire Council	£5,000,000.00	10-Jan-22
South Ayrshire Council	£3,000,000.00	22-Feb-24
Cambridgeshire County Council	£5,000,000.00	17-Feb-22
Surrey County Council	£5,000,000.00	06-Sep-21
London Borough of Barking & Dagenham Council	£5,000,000.00	23-Aug-21
London Borough of Brent Council	£5,000,000.00	23-Feb-22
West Dunbartonshire Council	£5,000,000.00	25-Feb-22
London Borough of Southwark Council	£10,000,000.00	24-Jan-22
London Borough of Haringey Council	£5,000,000.00	28-Feb-22
Gravesham Borough Council	£5,800,000.00	15-Mar-24

## Money Market Funds

<b>Counterparty</b>	<b>Balance at 31/03/20 (£)</b>	<b>Notice period</b>
Aberdeen Liquidity Fund	2,005,000.00	Same day
Goldman Sachs Sterling Liquid Fund	5,000.00	Same day
Deutsche Sterling Liquid Fund	355,291.44	Same day
Federated Sterling Liquidity Funds	25,000,577.48	Same day
Legal & General Sterling Liquidity Fund	21,681.16	Same day
CCLA Public Sector Deposit Fund	5,000,496.86	Same day
Morgan Stanley Sterling Liquid Fund	2,000,000.00	Same day
<b>Total</b>	<b>34,388,046.94</b>	

## Notice / Call Accounts

<b>Counterparty</b>	<b>Balance at 31/03/20 (£)</b>	<b>Notice period</b>
Santander Call Account	14,948,787.34	Same day
Barclays Current	9,325.51	Same day
Handlesbanken	2,376.69	Same day
<b>Total</b>	<b>14,960,489.54</b>	

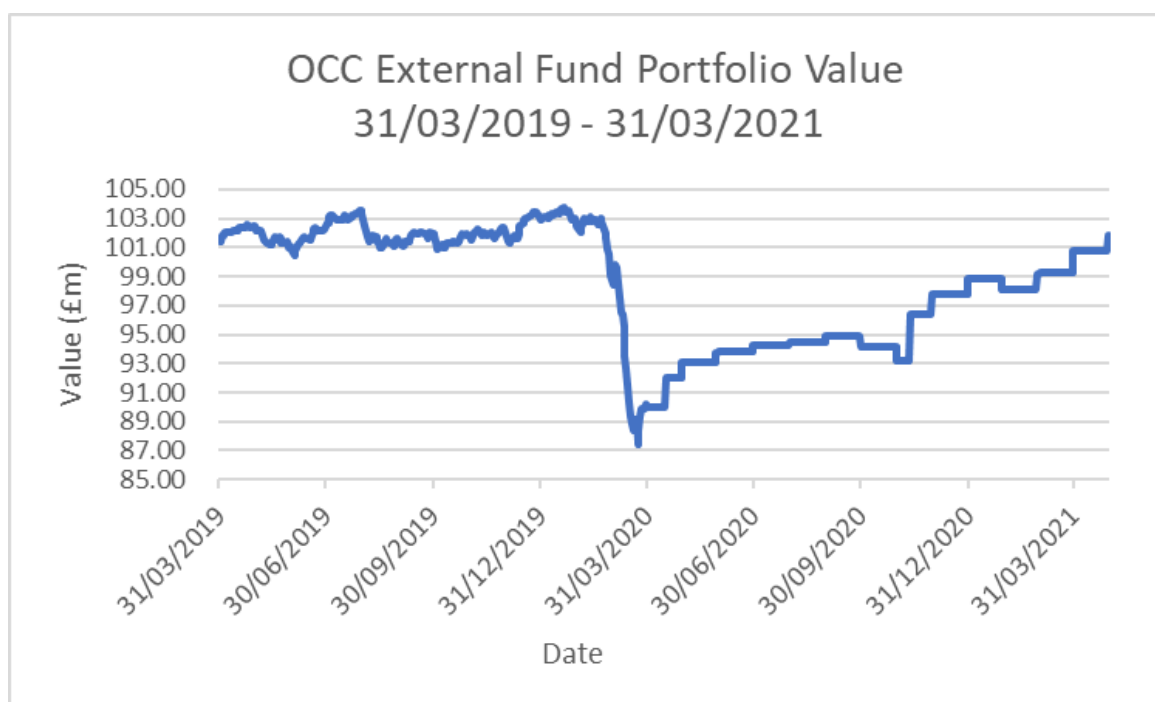
## Strategic Bond Funds

Fund	Balance at 31/03/20 (£)	Notice period
Threadneedle strategic bond fund (income)	13,795,046.06	4 days
Threadneedle Global Equity Income Fund	14,263,076.25	4 days
Kames Diversified Income	10,152,586.53	4 days
Ninety One Diversified Income	9,961,311.54	4 days
M&G Strategic Corporate Bond Fund	13,031,392.99	4 days
Schroder Income Maximiser	10,294,839.09	4 days
CCLA Diversified Income Fund	4,924,380.30	4 days
<b>Total</b>	<b>76,422,632.76</b>	

## Property Funds

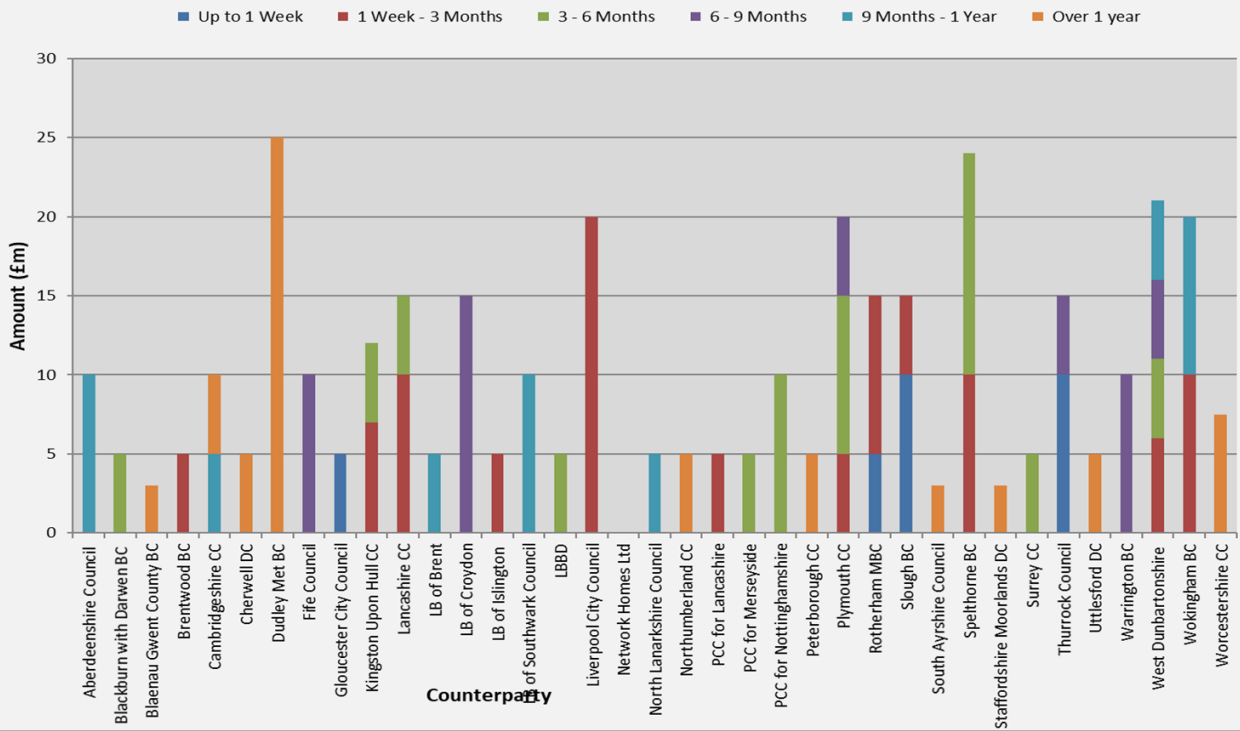
Fund	Balance at 31/03/20 (£)	Notice period
CCLA Local Authorities Property Fund	24,264,254.95	Monthly
<b>Total</b>	<b>24,264,254.95</b>	

## Strategic Pooled Fund Portfolio Value Over Time

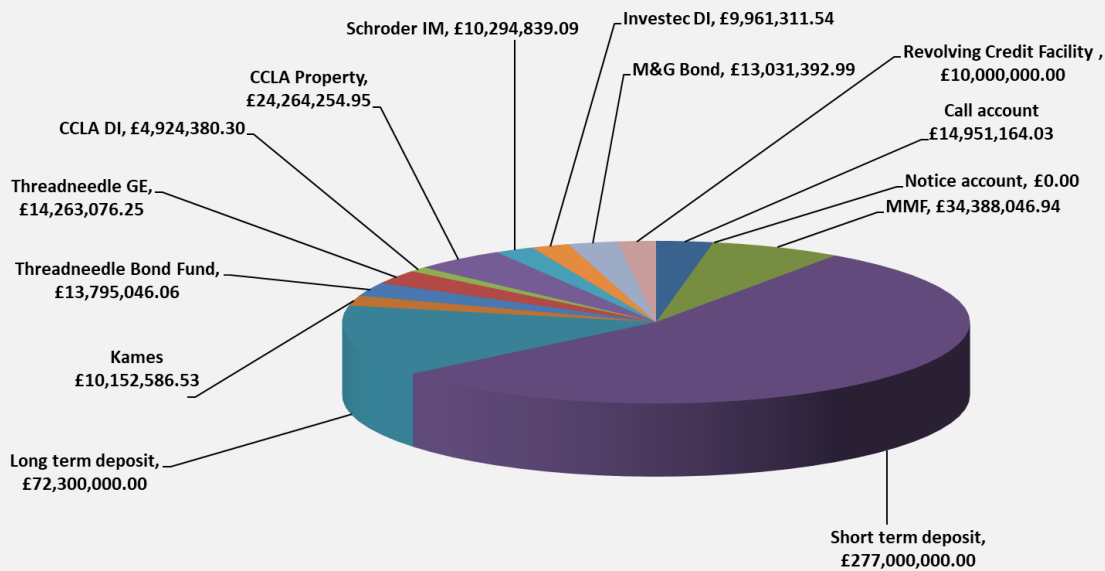


## Investment portfolio risk profile at 31/03/21

## Fixed Deposit Maturity Profile as at 31.03.2021



## Total Combined Portfolio as at 31.03.2021



## Prudential Indicators Outturn 31 March 2021

### **Authorised and Operational Limit for External Debt**

Authorised Limit for External Debt	£410,000,000
Operational Limit for External Debt	£390,000,000
Actual External Debt at 31 March 2019	£335,382,618

### **Fixed Interest Rate Exposure**

Fixed Interest Net Borrowing limit	£350,000,000
Actual at 31 March 2020	£158,882,618

### **Variable Interest Rate Exposure**

Variable Interest Net Borrowing limit	0
Actual at 31 March 2021	- £9,727,083.22

### **Sums Invested over 364 days**

Total sums invested for more than 364 days maximum limit	£215,000,000
Actual sums invested for more than 364 days at 31 March 2021	£72,300,000

### **Maturity Structure of Borrowing at 31/03/20**

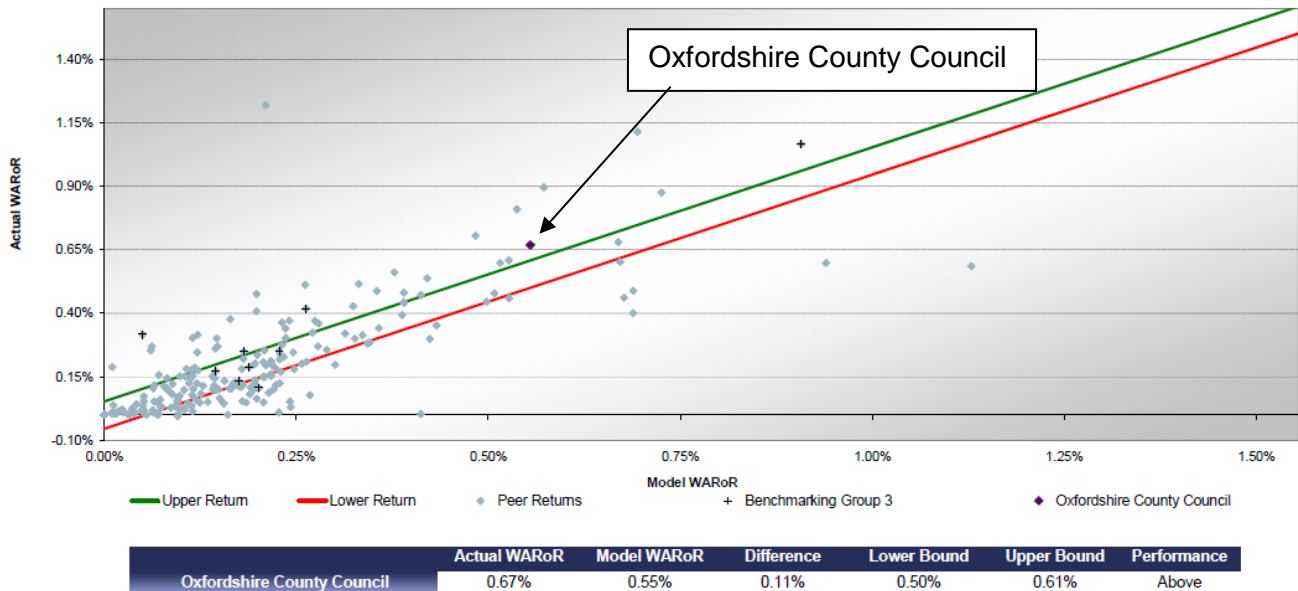
	<b>Limit %</b>	<b>Actual %</b>
From 01/04/18		
Under 12 months	0 - 20	17.00
12 – 24 months	0 - 25	5.07
24 months – 5 years	0 - 35	5.07
5 years – 10 years	5 - 40	25.46
10 years +	50 - 95	47.41

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 01/04/20 on loans still outstanding at 31/03/21.

# Benchmarking

## Weighted Average Return

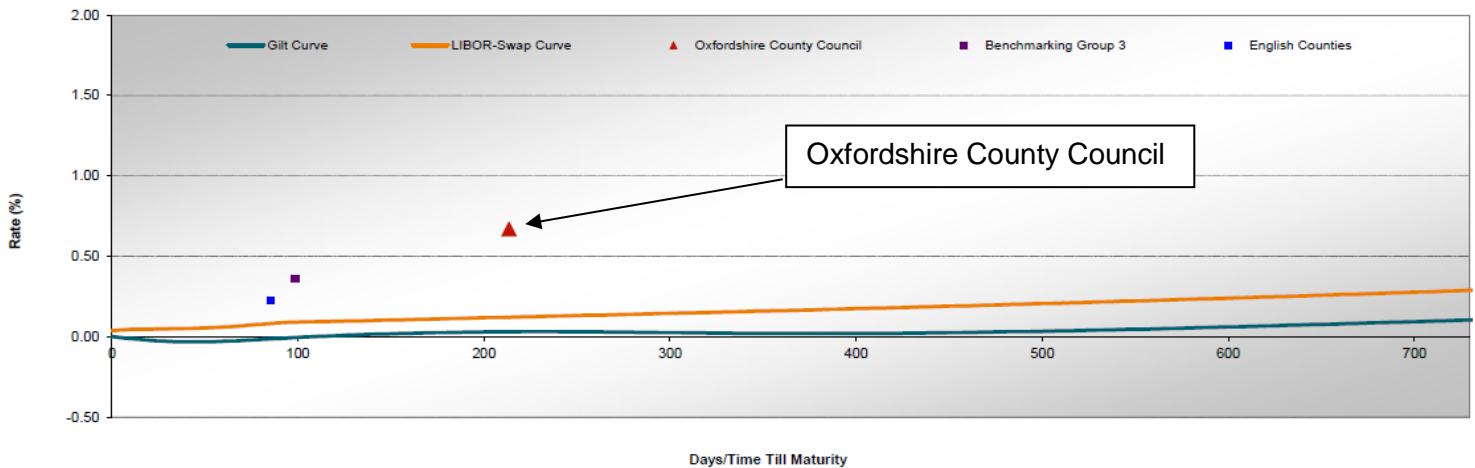
Population Returns against Model Returns



Oxfordshire County Council achieved a higher interest rate compared to the average achieved by Link Treasury Services clients, as at 31/03/2021.

## Return Compared to Risk Free Rate

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



Oxfordshire County Council achieved a higher interest rate compared to the average achieved by Link Treasury Services clients, as at 31/03/2021, by increasing the weighted average duration of deposits.