

## CABINET – 21 JULY 2020

### TREASURY MANAGEMENT OUTTURN 2019/20

#### 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 in 2019/20.**

#### 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 2019/20 and sets out the position as at 31 March 2020.
3. 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."
4. At 31 March 2020, outstanding debt totalled £341m and average interest paid on long-term debt was 4.43%. The Council repaid £2m of maturing PWLB loans during the year. No new borrowing was arranged during 2019/20. The Council's debt financing position for 2019/20 is shown in Annex 1.
5. The Treasury Management Strategy for 2019/20 was based on an average base rate forecast of 0.88% (0.75% from April 2019 to September 2019, then 1.00% from October 2019 to March 2020). The budget for interest receivable assumed that an average interest rate of 0.98% would be achieved. The average daily balance of temporary surplus cash invested in-house was £374m in 2019/20.
6. The Council achieved an average in-house return for the year of 0.91%, producing gross interest receivable of £3.475m. In relation to external funds, gross distributions totalling £4.378m were realised in year, bringing total investment income to £7.853m. This compares to budgeted investment income of £6.170 m, giving a net overachievement of £1.683m.
7. At 31 March 2020, the Council's investment portfolio of £443.260m comprised £302.500m of fixed term deposits, £14.800m in notice accounts, £35.986m at short term notice in money market funds and £89.974m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2020.

## Treasury Management Activity

### Debt Financing & Maturing Debt

8. The Strategy for Long Term Borrowing included the option to fund new or replacement borrowing up to the value of £50m 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.
9. 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 2019/20.
10. At 31 March 2020, the authority had 55 PWLB loans totalling £291.383m, 9 LOBO<sup>1</sup> loans totalling £45m and one £5m money market loan. The average rate of interest paid on PWLB debt was 4.51% 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 4.43%. The Council's debt financing position for 2019/20 is shown in Annex 1.
11. In October 2019, the PWLB increased all of their standard borrowing rates by 1.00%
12. The Council continues to qualify for the Certainty Rate on PWLB loans, offering a 0.20% discount on the Standard Rate (currently gilts plus 2.00%). Qualification is based on provision of additional information on long-term borrowing and associated capital spending plans.
13. The Council repaid £2m of maturing PWLB loans during the year. The weighted average interest rate payable on the matured loans was 2.350%. The outturn for Interest Payable in 2019/20 was £15.2m which is in line with the budget in the Medium Term Financial Plan. The details are set out in Annex 2.

### Investment Strategy

14. Security and liquidity of cash was prioritised 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 2019/20. The Council continuously monitored credit quality information regarding the institutions on the Council's approved Lending List.
15. As a direct result of the increase in PWLB lending rates, inter local authority lending rates also increased. To take advantage of these inflated rates, the long term lending limit for 2019/20 was increased during the year from £150m to £180m.
16. During 2019/20 the Council limited the exposure to banks by lending to local authorities. At 31 March 2020 the Council had £64m 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.

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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.

17. 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 secure short to medium term cash at a borrowing cost that is lower than available through PWLB or other money market participants.
18. The weighted average maturity of all deposits at 31 March 2020, including money deposited in short-term notice accounts, was 193 days (compared with 181 days during 2018/19). This comprised £302.500m fixed deposits with a weighted average maturity of 214 days, £14.800m in notice accounts with a weighted average maturity of 95 days and £35.986m invested in money market funds and call accounts with same day liquidity. The increase in weighted average maturity was a strategic decision to take advantage of inflated longer term lending rates.
19. The 2019/20 Treasury Management Strategy allowed for 50% of the total portfolio to be help 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.

### **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 2019/20, 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 £374.200m in 2019/20. The Council achieved an average in-house return for the year of 0.91%, producing gross interest receivable of £3.747m. 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 2019/20 the average three month LIBID rate was 0.64%. The Council's average in-house return of 0.91% exceeded this benchmark by 0.27%. The average in-house return was 0.07% lower than the rate of interest of 0.98% assumed in the budget. The budgeted forecast was for UK Base Rate to rise from 0.75% to 1.00% in October 2019, however the Monetary Policy Committee maintained rates at 0.75% until March, and then reduced rates to 0.25% and 0.10% on 11<sup>th</sup> March and 19<sup>th</sup> March respectively as a result of the Coronavirus Pandemic.
23. The Council operates a number of instant access call accounts and money market funds to deposit short-term cash surpluses. During 2019/20 the average balance held on instant access was £60.237m.

24. In response to the increased inter local authority lending rates and the increase in longer term lending limit during 2019/20 from £150m to £180m, the treasury team were able to secure longer term deposits ranging from 1 to 3 years, with annual interest of 1.60% to 1.90%.
25. During 2020/21, after a detailed analysis of cashflow, long term lending limits for 2020/21 were increased from £200m to 215m and 2021/22 from £170m to £175m. These increases have allowed the treasury team to secure circa £100m of long term loans with an average interest rate of 1.53% and an average maturity of 2.19 years. As a result, the budget for interest for in house investments for 2020/21 has already been exceeded by £0.500m and £1.423m of the £2,027m budget for 2021/22 is already guaranteed.
26. Gross distributions from pooled funds totalling £4.378m were realised in year, bringing total investment income to £7.853m. This compares to budgeted investment income of £6.170m, giving a net overachievement of £1.683m. 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.
27. As at 31 March 2020 the total value of pooled fund investments was £89.974m. This This represents 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. Under accounting regulations, gains and losses are recognised in the Comprehensive Income and Expenditure Account but are reversed out to an unusable reserve. This ensures that variations in value do not impact the general fund until the point at which fund units are sold.
28. As of 31<sup>st</sup> May 2020, the external funds have partially recovered some of their book losses and are valued at £93.860m.
29. At 31 March 2020, the Council's investment portfolio of £443.260m comprised £302.500m of fixed term deposits, £14.800m in notice accounts, £35.986m at short term notice in money market funds and call accounts and £89.974m in pooled funds with a variable net asset value (VNAV). Annex 4 provides an analysis of the investment portfolio at 31 March 2020.
30. 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 2020 is shown in Annex 4.

## **Prudential Indicators for Treasury Management**

31. 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

32. The Council's treasury management advisors Arlingclose 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 2020 are included in Annex 6.
33. The benchmarking results show that the Council was achieving higher than average interest on deposits at 31 March 2020 with lower than average credit risk, when compared with a group of 137 other local authorities. This has been achieved by placing deposits over a longer than average duration with institutions that are of higher than average credit quality.
34. Oxfordshire had a higher than average allocation to local authority deposits when compared with other local authorities in the benchmarking exercise. Oxfordshire also had a notably lower than average exposure to money market funds, call accounts and the Debt Management Office's deposit account, and a higher than average exposure to Strategic Pooled Funds. This is consistent with the approach set out in the Treasury Management Strategy

## Financial and Legal Implications

35. This report is mostly concerned with finance and the implications are set out in the main body of the report.
36. 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

LORNA BAXTER  
Director of Finance

### Annexes:

Annex 1	Debt Financing 2019/20
Annex 2	Public Works Loan Board (PWLB) Maturing Debt
Annex 3	Lending List Changes
Annex 4	Investment portfolio 31/03/2020
Annex 5	Prudential Indicators Outturn
Annex 6	Benchmarking

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July 2020

## OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2019/20

	£'m
<b>DEBT PROFILE</b>	
1 PWLB	293.38
2 Money Market LOBO loans	45.00
3 Other Long term loans	5.00
4 Temporary Loans	0.00
5 Internal Balances	9.35
6 <b>ACTUAL DEBT AT 01.04.19</b>	<b><u>352.73</u></b>
7 Government Supported Borrowing	9.35
8 Unsupported Borrowing	0.00
9 Borrowing in advance	0.00
10 Repayments -minimum revenue provision	-9.35
11 <b>TOTAL DEBT AT 31.3.20</b>	<b>352.73</b>
<b>DEBT REPAID</b>	
12 PWLB Normally Maturing Loans	2.00
13 Early debt repayments	0.00
14 <b>Total Debt Repaid</b>	<b>2.00</b>
<b>NEW EXTERNAL BORROWING</b>	
15 PWLB New Borrowing	0.00
16 PWLB Replacement following Early Repayment	0.00
17 LOBO New Borrowing	0.00
18 Money Market New Borrowing	0.00
19 <b>Total External Borrowing</b>	<b>0.00</b>
<b>YEAR END DEBT PROFILE</b>	
21 PWLB	291.38
22 Other Long Term Loans	50.00
23 Temporary Loans (External)	0.00
24 Internal Balances	11.35
25 <b>TOTAL YEAR END DEBT</b>	<b><u>352.73</u></b>

## Line

- 1-6. This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2018). 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.
7. 'Government Supported Borrowing' is the amount that the Council can borrow in any one year to finance the capital programme. This is determined by Central Government, and in theory supported through the Revenue Support Grant (RSG) system.
8. 'Unsupported Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.
9. 'Borrowing in Advance' is the amount the Council borrowed in advance during 2019/20 to fund future capital finance costs.
10. 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.
11. The Council's total debt by the end of the financial year at 31 March 2020, after taking into account new borrowing, debt repayment and movement in funding by internal balances.
12. The Council's normal maturing PWLB debt.
13. PWLB debt repaid early during the year.
14. Total debt repaid during the year.
15. The normal PWLB borrowing undertaken by the Council during 2019/20.
16. New PWLB loans to replace debt repaid early.
17. The Money Market LOBO borrowing undertaken by the Council during 2019/20.
18. The Money Market Fixed Rate borrowing undertaken by the Council during 2019/20.
19. The total external borrowing undertaken.
- 20-25. The Council's debt profile at the end of the year.

**Long-term debt Maturing 2019/20****Public Works Loan Board: Loans Maturing in 2019/20**

<b>Date</b>	<b>Amount £m</b>	<b>Rate %</b>	<b>Repayment Type</b>
13/07/2019	0.5	2.350	EIP
13/01/2020	0.5	2.350	EIP
31/07/2019	0.5	2.350	EIP
31/01/2020	0.5	2.350	EIP
<b>Total</b>	<b>2.0</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 2019/20

## Lending limits &amp; maturity limits changed from 1 April 2019

	01/04/2019		31/03/2020	
	Lending Limit	Maximum Maturity	Lending Limit	Maximum Maturity
Federated Cash Funds	£12,	n/a	£20m	n/a
Coventry Building Society	£15m	6 months	£15m	100 Days
Development Bank of Singapore	£25m	13 months	£25m	6 months
Overseas Chinese Banking Corp	£25m	13 months	£25m	6 months
United Overseas Bank	£25m	13 months	£25m	6 months

## OXFORDSHIRE COUNTY COUNCIL INVESTMENT PORTFOLIO 31/03/2020

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

Counterparty	Principal Deposited (£)	Maturity Date
London Borough of Croydon Council	£5,000,000	03/07/2020
Lancashire County Council	£5,000,000	21/09/2020
Monmouthshire County Council	£5,000,000	13/11/2020
Barnsley Metropolitan Borough Council	£5,000,000	27/11/2020
Liverpool City Council	£5,000,000	20/07/2020
Spelthorne Borough Council	£4,000,000	02/07/2021
Doncaster Metropolitan Borough Council	£3,500,000	09/07/2020
Darlington Borough Council	£5,000,000	29/01/2021
Uttlesford District Council	£2,500,000	06/07/2020
Thurrock Council	£5,000,000	20/05/2020
Blackpool Council	£5,000,000	30/06/2020
Rotherham Metropolitan Borough Council	£5,000,000	06/07/2020
Suffolk County Council	£5,000,000	30/07/2020
Slough Borough Council	£7,000,000	30/04/2020
Blackpool Council	£7,000,000	31/07/2020
West Dunbartonshire Council	£6,000,000	21/10/2020
Lancashire County Council	£5,000,000	18/11/2020
Surrey County Council	£5,000,000	22/05/2020
Lancashire County Council	£5,000,000	29/05/2020
Thurrock Council	£10,000,000	02/04/2020
West Dunbartonshire Council	£5,000,000	26/06/2020
Thurrock Council	£10,000,000	14/10/2020
Thurrock Council	£5,000,000	09/10/2020
London Borough of Croydon Council	£10,000,000	25/10/2021
Australia and New Zealand Banking Group	£5,000,000	08/04/2020
Spelthorne Borough Council	£10,000,000	02/11/2020
Doncaster Metropolitan Borough Council	£5,000,000	08/10/2020
London Borough of Croydon Council	£5,000,000	06/12/2021
Warrington Borough Council	£10,000,000	14/10/2021
Rotherham Metropolitan Borough Council	£5,000,000	16/06/2020
Warrington Borough Council	£5,000,000	17/12/2020
London Borough of Hillingdon Council	£2,500,000	26/10/2020
London Borough of Southwark Council	£10,000,000	16/09/2020
Kingston Upon Hull City Council	£7,000,000	02/07/2020
Blackpool Council	£5,000,000	22/06/2020
London Borough of Waltham Forest Council	£5,000,000	28/10/2020
Monmouthshire County Council	£5,000,000	24/06/2020
Rotherham Metropolitan Borough Council	£5,000,000	12/06/2020

Police & Crime Commissioner for Nottinghamshire	£5,000,000	16/07/2020
Conwy County Borough Council	£5,000,000	08/06/2020
Eastbourne Borough Council	£3,000,000	26/05/2020
Royal Borough of Windsor and Maidenhead	£5,000,000	25/06/2020
Woking Borough Council	£5,000,000	13/01/2021
West Dunbartonshire Council	£5,000,000	08/06/2020
Dudley Metropolitan Borough Council	£5,000,000	03/01/2023
Rotherham Metropolitan Borough Council	£5,000,000	21/09/2020
Royal Borough of Windsor and Maidenhead	£5,000,000	03/08/2020
Cambridgeshire County Council	£5,000,000	09/01/2023
Wokingham Borough Council	£5,000,000	10/02/2022
Wokingham Borough Council	£5,000,000	23/03/2022
Northumberland County Council	£5,000,000	30/01/2023
Birmingham City Council	£5,000,000	30/04/2020
London Borough of Havering Council	£10,000,000	15/04/2020
Sedgemoor District Council	£5,000,000	17/04/2020

### Money Market Funds

Counterparty	Balance at 31/03/20 (£)	Notice period
Aberdeen Liquidity Fund	12,330,000.00	Same day
Federated Sterling Liquidity Funds	5,340,000.00	Same day
Legal & General Sterling Liquidity Fund	7,748,515.72	Same day
<b>Total</b>	<b>25,388,515.72</b>	

### Notice / Call Accounts

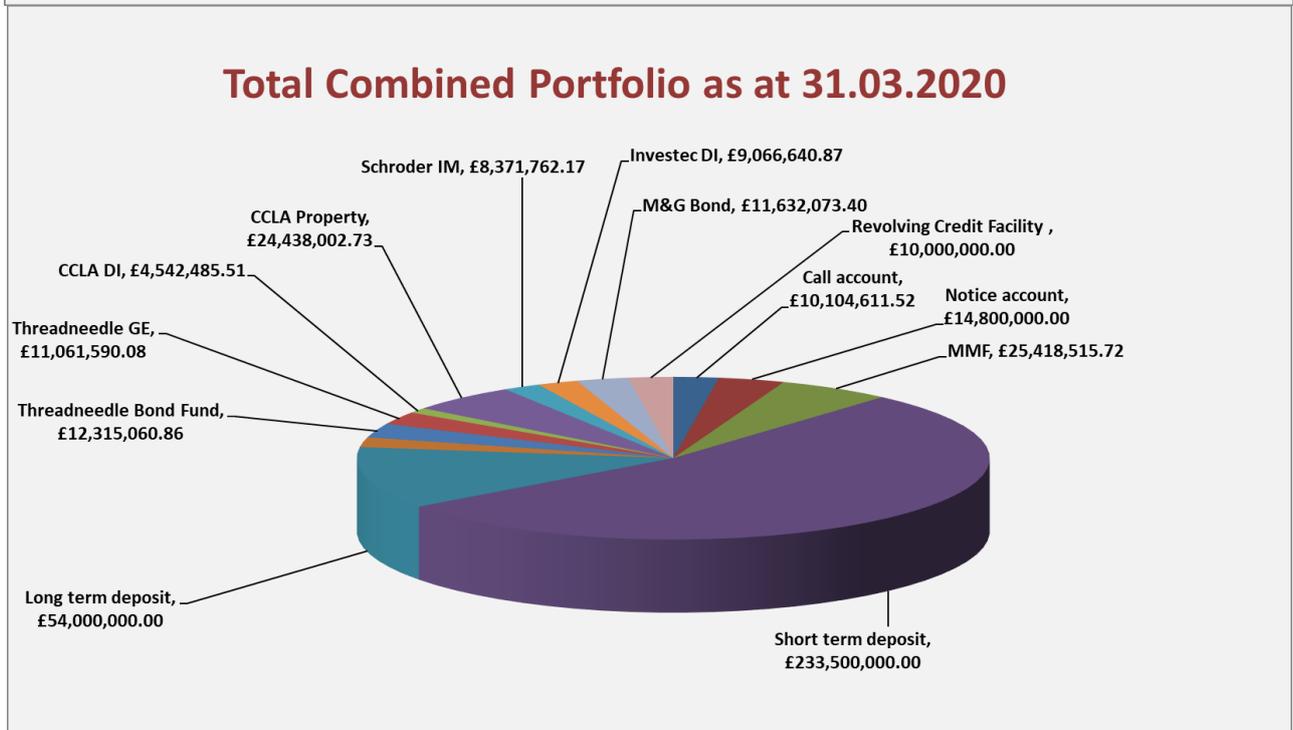
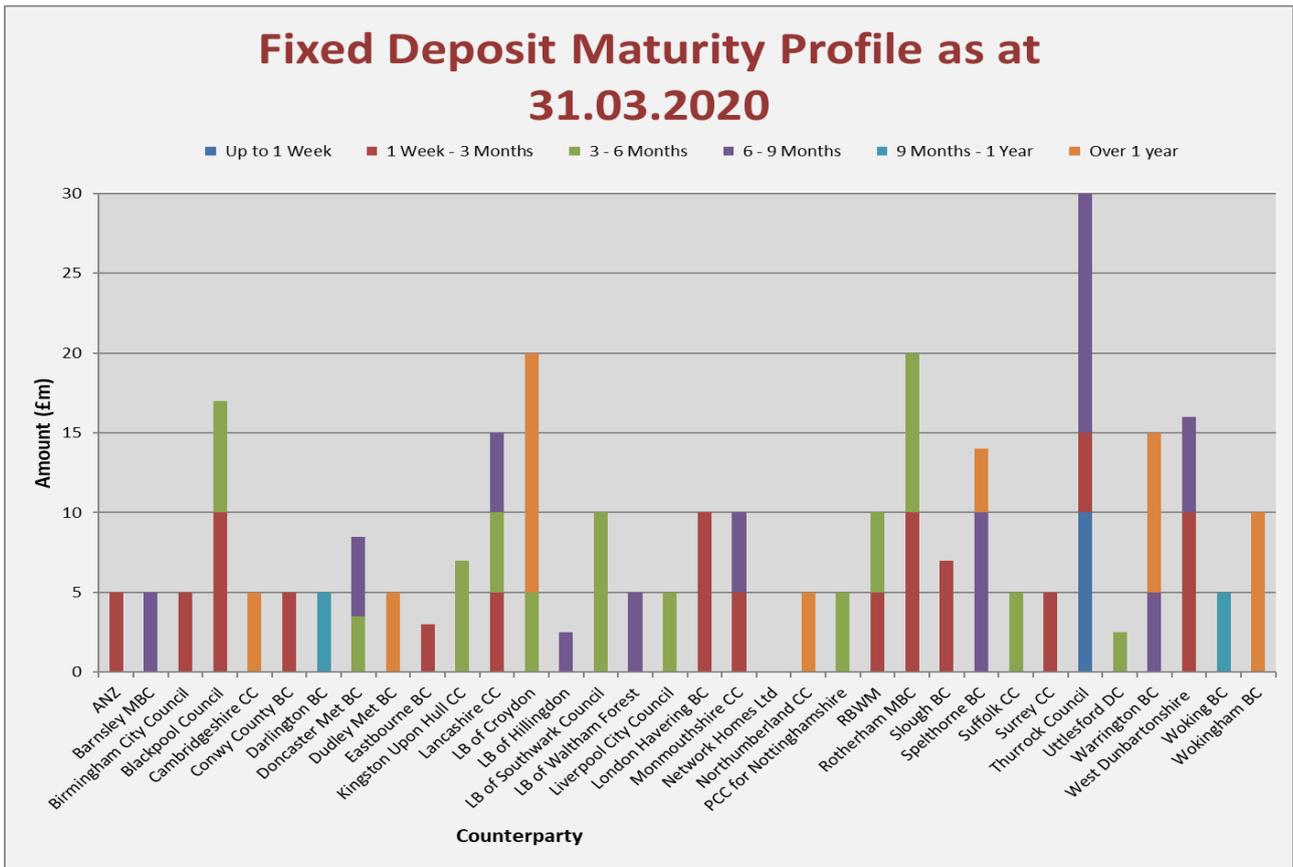
Counterparty	Balance at 31/03/20 (£)	Notice period
Barclays 100 Day Notice	14,800,000.00	100 days
Barclays Current	445,116.26	Same day
Handelsbanken	10,104,611.52	Same day
<b>Total</b>	<b>25,349,727.78</b>	

### Strategic Bond Funds

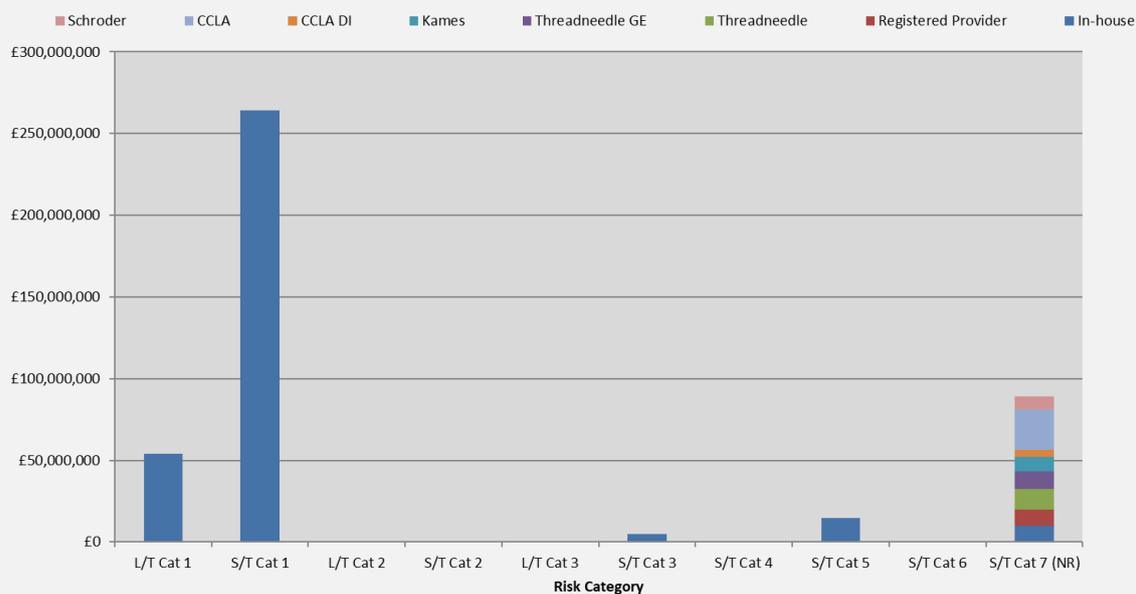
Fund	Balance at 31/03/20 (£)	Notice period
Threadneedle strategic bond fund (income)	12,315,060.86	4 days
Threadneedle Global Equity Income Fund	11,061,590.08	4 days
Kames Diversified Income	8,546,585.41	4 days
Investec Diversified Income	9,066,640.87	4 days
M&G Strategic Corporate Bond Fund	11,632,073.40	4 days

Schroder Income Maximiser	8,371,762.17	4 days
CCLA Diversified Income Fund	4,542,485.51	4 days
<b>Total</b>	<b>75,660,699.37</b>	
<b>Property Funds</b>		
<b>Fund</b>	<b>Balance at 31/03/20 (£)</b>	<b>Notice period</b>
CCLA Local Authorities Property Fund	24,438,002.73	Monthly
<b>Total</b>	<b>24,438,002.73</b>	

## Investment portfolio risk profile at 31/03/20



## Risk Profile - Total Combined Portfolio as at 31.03.2020



Risk Category	L/T rating	S/T rating
<b>1 (Including Local Authorities)</b>	AA+, AA	F1+
<b>2</b>	AA-	F1+
<b>3</b>	AA-	F1+
<b>4</b>	AA-	F1+
<b>5</b>	A+, A	F1
<b>6</b>	A	F1

Based on Fitch Ratings

**Prudential Indicators Outturn 31 March 2020****Authorised and Operational Limit for External Debt**

Authorised Limit for External Debt	£400,000,000
Operational Limit for External Debt	£385,000,000
Actual External Debt at 31 March 2019	£365,382,618

**Fixed Interest Rate Exposure**

Fixed Interest Net Borrowing limit	£350,000,000
Actual at 31 March 2019	£55,882,618

**Variable Interest Rate Exposure**

Variable Interest Net Borrowing limit	0
Actual at 31 March 2019	- £8,683,240

**Sums Invested over 364 days**

Total sums invested for more than 364 days maximum limit	£85,000,000
Actual sums invested for more than 364 days at 31 March 2019	£54,000,000

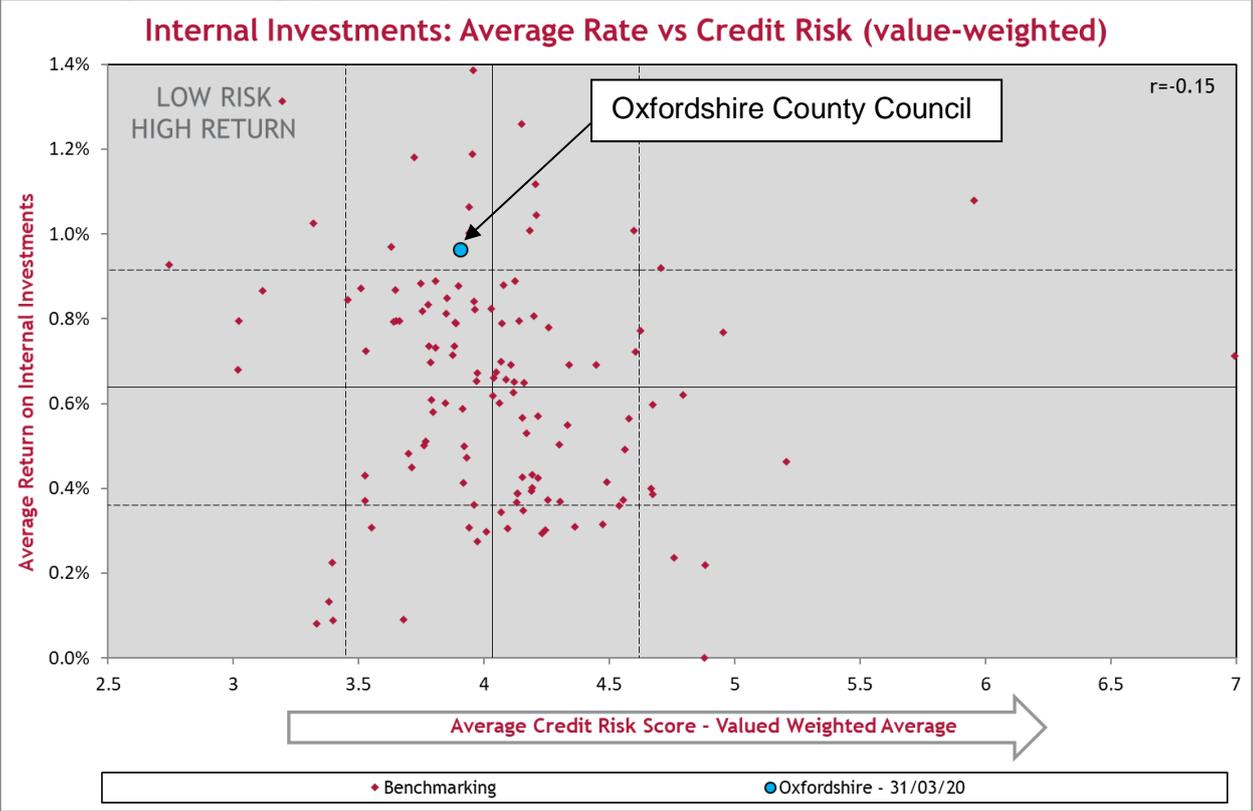
**Maturity Structure of Borrowing at 31/03/18**

	<b>Limit %</b>	<b>Actual %</b>
From 01/04/18		
Under 12 months	0 - 20	10.55
12 – 24 months	0 - 25	7.91
24 months – 5 years	0 - 35	9.37
5 years – 10 years	5 - 40	23.84
10 years +	50 - 95	51.67

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 01/04/19 on loans still outstanding at 31/03/20.

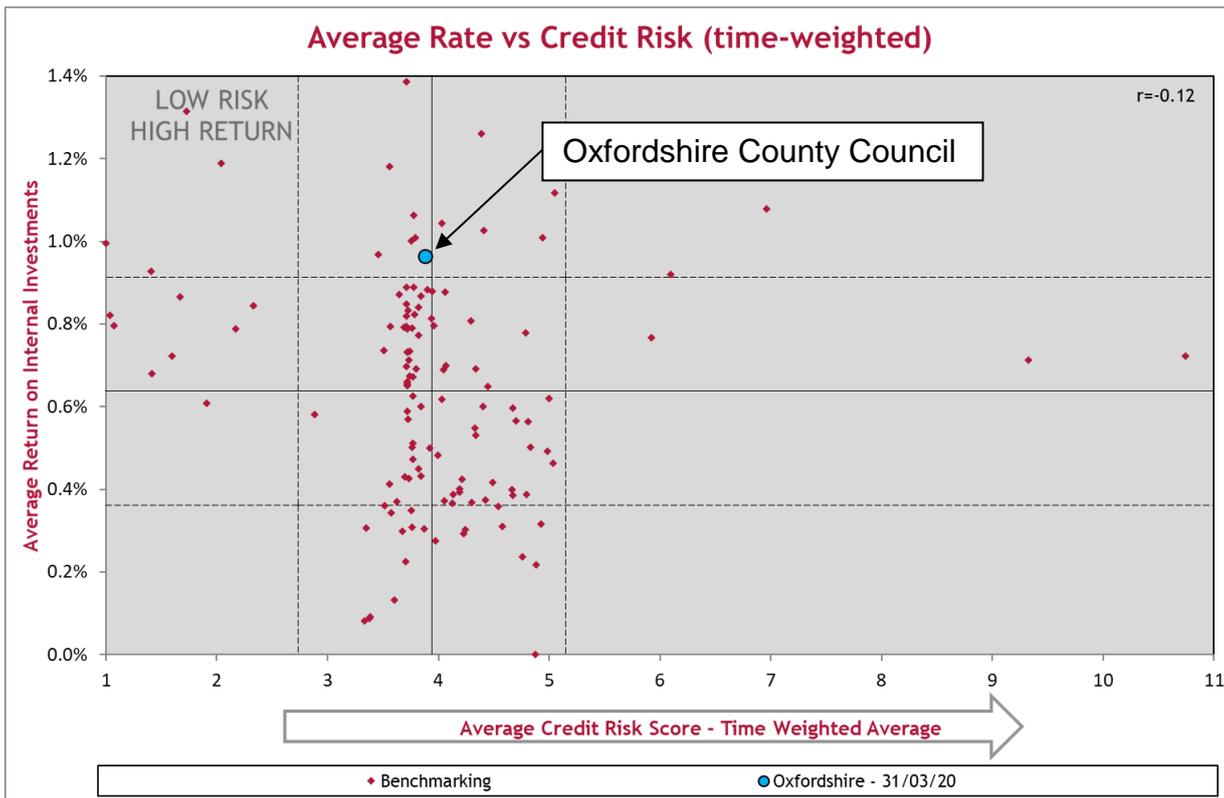
**Benchmarking**

**Value weighted average (all clients)**



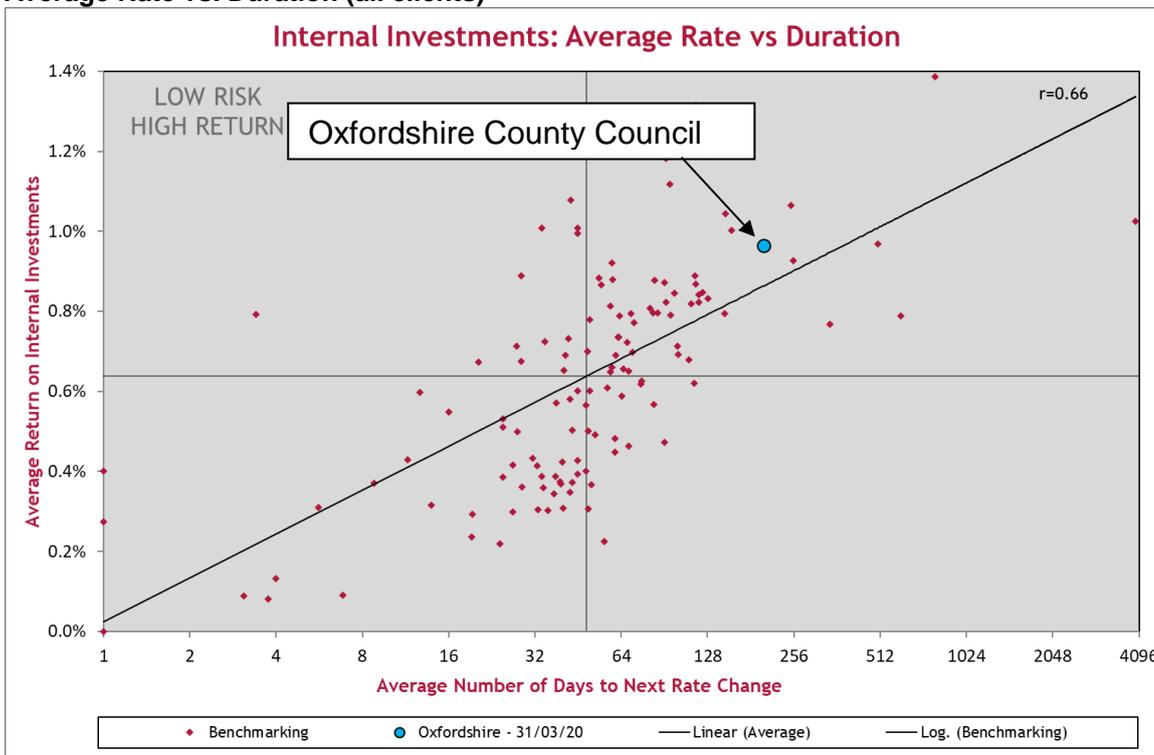
Oxfordshire County Council achieved a higher interest rate compared to the average achieved by all Arlingclose clients, whilst maintaining lower than average value weighted credit risk as at 31/03/2020.

**Time weighted Average (all clients)**



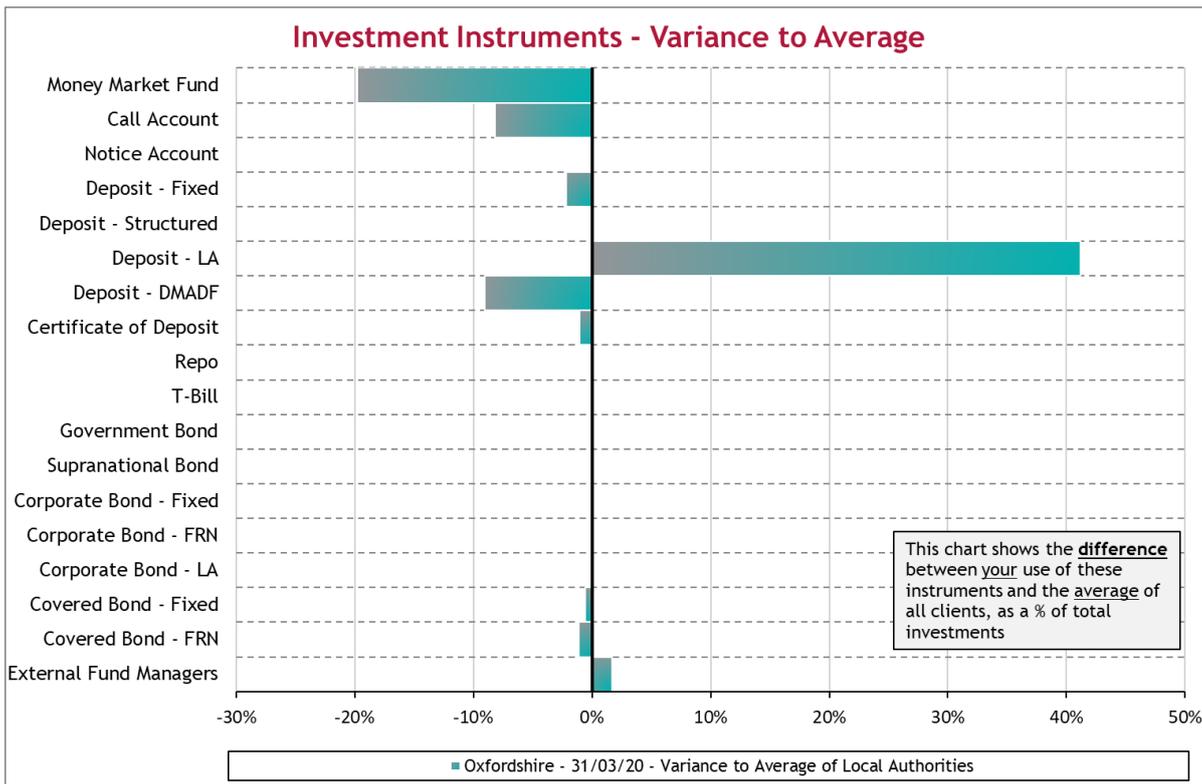
Oxfordshire County Council achieved a higher interest rate compared to the average achieved by all Arlingclose clients, whilst maintaining a just below average time weighted credit risk as at 31/03/2020.

**Average Rate vs. Duration (all clients)**



This graph shows that at 31/03/2020 Oxfordshire County Council achieved a higher than average return by placing deposits for longer than average duration.

**Investment Instruments – Variance to Average of Local Authorities (all clients)**



This graph shows that, at 31/3/2020, Oxfordshire County Council had notably higher than average allocations to local authority deposits when compared with other local authorities. Oxfordshire County Council also had notably lower exposure to money market funds, call accounts and Debt Management Office deposits.