Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 10 JANUARY 2024

TREASURY MANAGEMENT STRATEGY & ANNUAL INVESTMENT STRATEGY 2024/25

Report by the Executive Director: Resources

RECOMMENDATION

1. **Audit & Governance Committee is RECOMMENDED to endorse the Treasury Management Strategy for 2024/25 as outlined in the report.**

Executive Summary

2. The Treasury Management Strategy & Annual Investment Strategy for 2024/25 outlines the Council's strategic objectives in terms of its debt and investment management for the financial year 2024/25.

3. The forecast average cash balance for 2024/25 is £463m. The Council will maintain its investment in strategic pooled funds with a purchase value of £101m (22%). The remaining £362m (78%) will be managed internally with a mixture of short, medium and long-term deposits.

4. The Bank of England Base Rate is forecast to remain at 5.25% until autumn 2024 and reduce to 4.00% by March 2025.

5. UK Government Gilt yields are forecast to fall from 4.50% to 3.00% over the medium term.

6. Changes to the Treasury Management Strategy will be recommended to Council to be delegated to the Executive Director of Resources & Section 151 Officer in consultation with the Leader of the Council and Cabinet Member for Finance

Changes from 2023/24 Strategy

7. Reflecting the anticipated level of cash balances over the medium and long term, lending limits are proposed to be updated as follows:

	From	To
2024/25	£145m	£170m
2025/26	£110m	£175m
2026/27	£100m	£150m
2027/28	£100m	£150m
2028/29	n/a	£150m

8. Community municipal investments, which will enable the council to issue green or community bonds, has been added to the approved borrowing instruments.

Background

9. The Local Government Act 2003 and supporting regulations require the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

10. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Annual Investment Strategy sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

11. 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.”

12. The proposed strategy for 2024/25 is based upon the views of the Council’s Treasury Management Strategy Team (TMST)[1], informed by market forecasts provided by the Council’s treasury advisor, Link Treasury Services. The forecast and economic background provided by Link Treasury Services can be found in Annex 1.

13. It is proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy, continue to be delegated to the Executive Director of Resources & Section 151 Officer in consultation with the Leader of the Council and Cabinet Member for Finance.

Forecast Treasury Portfolio Position

14. The Council’s treasury forecast portfolio position for the 2024/25 financial year comprises:

	Principal £m	**Average Rate %**
Opening External Debt Balance		
Public Works Loans Board (PWLB)	244.383	4.523
Lender’s Option Borrower’s Options (LOBOs)[2]	35.000	3.910
Money Market Loans	5.000	3.950
TOTAL EXTERNAL DEBT	284.383	

[1]Comprising the Executive Director of Resources & Section 151 Officer, Service Manager (Pensions), Head of Corporate Finance, and Treasury Manager.
[2] See paragraphs 27 & 28 for detail

2024/25 Average Forecast Cash Balance	
Average In-House Cash	361.622
Average Externally Managed	101.006
TOTAL INVESTMENTS	**462.628**

15. The average forecast cash balance for 2024/25 is comprised of the following:

	Average Balance £m
Earmarked Reserves	183.919
Unusable Dedicated Schools Grant Reserve	-83.500
Capital and Developer Contributions	349.800
General & School Balances	55.717
Cashflow and Working Capital Adjustments	177.649
Internal Borrowing	-232.454
Provisions and Deferred Income	11.497
TOTAL	**462.628**

16. Cash balances for 2024/25 are approximately £50m higher than anticipated when the Treasury Management Strategy for 2023/24 was agreed. This reflects the updated profile of capital expenditure as set out in the Capital Monitoring Reports to Cabinet in 2023/24.

Prospect for Interest Rates

17. The Council's TMST, taking into account the advice from Link Treasury Services, market implications and the current economic outlook, have determined the interest rates to be included in the Strategic Measures budget for 2024/25 and over the medium term. TMST forecast that the bank rate will remain at 5.25% until autumn 2024, then reduce to 4.00% by the end of 2024/25. The bank rate is then forecast to continue to drop to 3.00% over the medium term.

18. The TMST team has agreed that based on the current portfolio of deposits and market rates, the target in-house rate of return should be as set out below. These rates have been incorporated into the strategic measures budget estimates for interest receivable and reflect the mix of rates expected to be achieved on existing and new deposits:

2024/25	4.25%
2025/26	3.00%
2026/27 - 2028/29	2.50%

Borrowing Strategy

19. The Council's Capital Programme Financing Principles require the application of capital grants, developer contributions, capital receipts and revenue contributions to fund capital expenditure. Prudential borrowing will only be considered where:

i. there is a robust invest to save model; or
ii. the council has a significant unmet capital need; or
iii. It contributes towards the overall investment approach

20. The Capital Financing Requirement sets out the council's requirement to prudentially borrow for capital purposes. This borrowing can either be met through external loans or by using existing cash balances held by the council.

21. The Council's chief objective when borrowing money externally is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

22. Borrowing rates are forecast to fall from a high of 5.30% in December 2023 to 3.80% over the medium term.

23. External borrowing taken out by the council is expected to fall well below the Capital Financing Requirement by 2028/29 due to increased capital expenditure and £11m of debt repayments by that point. If no new external borrowing is arranged during this time, the council will be temporarily financing the capital programme via internal borrowing.

24. Given the high level of balances and the forecast for borrowing rates to significantly reduce in the medium term, the Council's TMST have agreed that the council should maintain the option to fund new or replacement borrowing through internal borrowing. The limit of internal borrowing will be combined with the long term lending limit, and will not exceed £400m in 2024/25.

25. The TMST monitor the borrowing rates on a daily basis. If changes in interest rate forecasts mean the policy to borrow internally is no longer in the short term or long-term interests of the council, the TMST may agree to take out new or replacement borrowing to give the council certainty of costs over the long term, and to reduce Interest Rate Risk and Refinancing Risk in the short to medium term. Any increase in borrowing costs as a result of new external borrowing will be offset by an increased return of interest on balances. Any new external borrowing will be reported to Cabinet.

26. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors

- special purpose companies created to enable joint local authority bond issues
- community municipal investments[3]

27. The Council has historically set a maximum limit of 20% of the debt portfolio to be borrowed in the form of Lender's Option Borrower's Option (LOBOs). As at 31 December 2023 LOBOs represent 14.1% of the total external debt after taking account of the early repayment of £10m of LOBOs in 2023/24. This compares to 14.5% of the total external debt in 2023/24. The council has no intention of entering into any new LOBO arrangements, however as the level of PWLB debt is due to fall over the medium term, the percentage of LOBOs compared to total external debt will increase. Therefore, it is recommended that the limit for 2024/25 remains at 20%.

28. The Council has three £5m LOBOs with call options in 2024/25, two of which have two call options in year, with the third having a single call option in year. At each call date, the lender may choose to exercise their option to change the interest rate payable on the loan. If the lender chooses to do so, the Council will evaluate alternative financing options before deciding whether or not to exercise the borrower's option to repay the loan or to accept the new rate offered. It is likely that if the rate is changed the debt will be repaid. The TMST will explore early repayment of LOBOs if this were to arise and where there is a financial benefit to do so.

Prudential Indicators

29. The Prudential Code for Capital Finance in Local Authorities 2021 requires the Council to set and monitor against Prudential Indicators in the following categories:
    - Prudence – Capital Expenditure & External Debt
    - Affordability
    - Treasury Management

30. This report includes the indicators for Treasury Management. The indicators for Prudence and Affordability are included in the Capital & Investment Strategy agreed by Council.

Liability Benchmark

31. This indicator identifies the minimum future borrowing needs, compared to the capital financing requirement compared to the actual level of external debt.

32. The gap between the capital financing requirement and the minimum borrowing requirement[4] represents the maximum amount of financing that can be temporarily funded through internal borrowing. Based on the assessment below the council could internally borrow up to £235m in 2024/25. The forecast internal borrowing position for 2024/25 is £232m.

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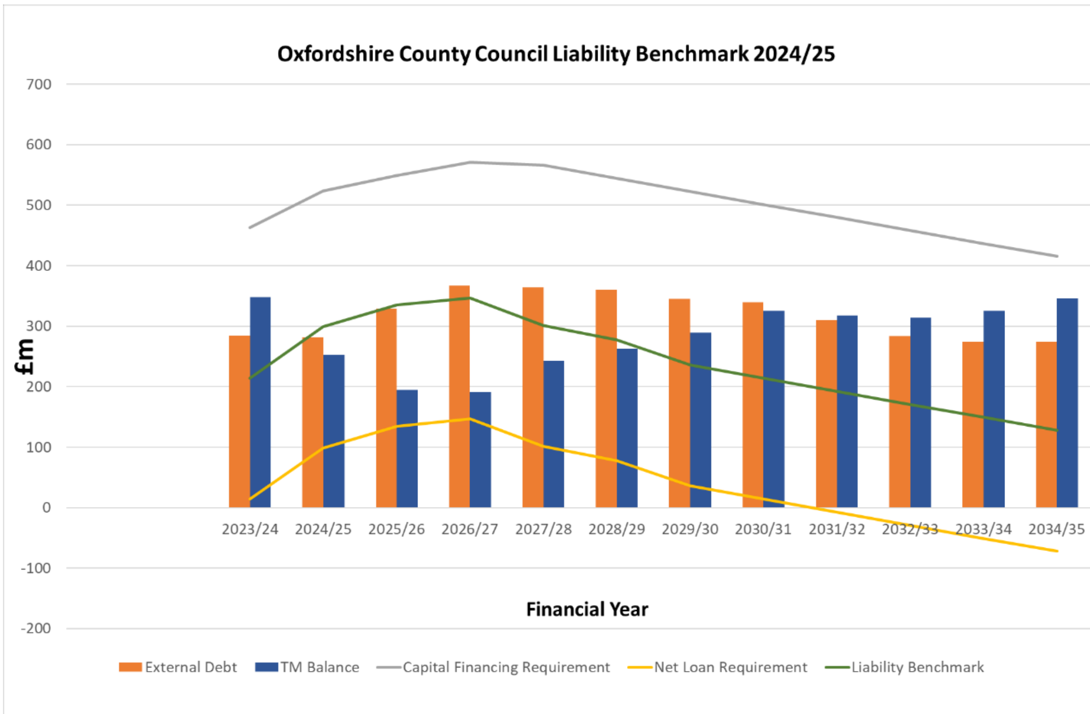
[3] This is a new addition for 2024/25 and will enable the council to issue green or community bonds.
[4] The minimum borrowing requirement is calculated by taking the capital financing requirement, netting off usable reserves and working capital, and adding on a liquidity allowance.



Upper and lower limits to maturity structure of fixed rate borrowing

33. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

34. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

35. LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2024/25	Lower Limit %	Upper Limit %	2024/25 Forecast %
Under 12 months	0	20	6.33
12 months and within 24 months	0	25	2.46
24 months and within 5 years	0	35	27.78
5 years and within 10 years	5	40	30.38
10 years and above	25	95	33.05

36. Prudential Indicators are reported to and monitored by the TMST on a regular basis and will be reported to the Audit & Governance Committee and Cabinet

in the quarterly Treasury Management reports and the Treasury Management Annual Performance Report.

Annual Investment Strategy

37. The council complies with all relevant treasury management regulations, codes of practice and guidance. The council's investment priorities are:

    - The security of capital and
    - The liquidity of its investments

38. The council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the council will not engage in such activity.

39. The Treasury Management Code of Practice requires the Council to approve a Treasury Management Policy Statement. Good practice requires that this statement is regularly reviewed and revised as appropriate. Council approved the statement in February 2019. The statement is reviewed annually and there are no revisions proposed for 2024/25.

Investment Instruments

40. Investment instruments identified for use in the 2024/25 financial year are set out in the Specified and Non-Specified instrument tables below

41. Guidance states that specified investments are those requiring "minimal procedural formalities". The placing of cash on deposit with banks and building societies 'awarded high credit ratings by a credit rating agency', the use of Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this phrase as they form a normal part of day to day treasury management.

42. Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by using more than one MMF where practical. It should be noted that while exposure will be limited, the use of MMFs does give the council exposure to institutions that may not be included on the approved lending list for direct deposits. This is deemed to be an acceptable risk due to the benefits of diversification. The Treasury team use an online portal to provide details of underlying holdings in MMFs. This enables more effective and regular monitoring of full counterparty risk.

43. All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.

Specified Investment Instrument	Minimum Credit Criteria	Use
Term Deposits – UK Government	N/A	In-house
Term Deposits – other Local Authorities	N/A	In-house
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
UK Government Gilts	N/A	In-house on a buy and hold basis and Fund Managers
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[5]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	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

44. Non-specified investment products are those which take on greater risk. They are subject to greater scrutiny and should therefore be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy; this applies regardless of whether they are under one-year investments and have high credit ratings.

45. A maximum of 50% of internal investments, and 100% of external investments will be held in non-specified investments.

[5] 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 Investment Instrument	Minimum Credit Criteria	Use	Max Maturity Period
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	5 years
UK Government Gilts with maturities in excess of 1 year	N/A	In-house and Fund Managers	5 years in-house, 10 years fund managers
Collective Investment Schemes[6] but which are not credit rated	N/A	In-house and Fund Managers	Pooled Funds do not have a defined maturity date
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	5 years
OxLEP Ltd (to be reviewed pending transfer of responsibility to Oxfordshire County Council in 2024/25)	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	5 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Short-term F1+, Long-term AA-	In-house and Fund Managers	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	Short-term F1+, Long-term AA-	In-house and Fund Managers	3 years
Bonds issued by Multilateral Development Banks	AAA	In-house and Fund Managers	25 years
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	5 years in-house

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

Non-Specified Investment Instrument	Minimum Credit Criteria	Use	Max Maturity Period
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	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	3 years
Covered Bonds	AAA	In-house and Fund Managers	20 years

Changes to Instruments

46. There are no proposed changes to instruments

Credit Quality

47. The CIPFA Code of Practice on Treasury Management (2021) recommends that Councils have regard to the ratings issued by the three major credit rating agencies (Fitch, Moody's and Standard & Poor's) and to make decisions based on all ratings. Whilst the Council will have regard to the ratings provided by all three ratings agencies, the Council uses Fitch ratings as the basis by which to set its minimum credit criteria for deposits and to derive its maximum counterparty limits. Counterparty limits and maturity limits are derived from the credit rating matrix as set out in the tables at paragraphs 57 and 59 respectively.

48. The TMST may further reduce the derived limits due to the ratings provided by Moody's and Standard & Poor's or as a result of monitoring additional indicators such as Credit Default Swap rates, share prices, Ratings Watch & Outlook notices from credit rating agencies and quality Financial Media sources.

49. Notification of any rating changes (or ratings watch and outlook notifications) by all three ratings agencies are monitored daily by a member of the Treasury Management Team. Updates are also provided by the Council's Treasury Management advisors Link Treasury Services and reported to TMST. Appropriate action will be taken for any change in rating.

50. Where a change in the Fitch credit rating places a counterparty on the approved lending list outside the credit matrix (as set out in tables at paragraphs 57 and 59), that counterparty will be immediately removed from the lending list.

51. The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher with the Fitch ratings agency.

52. Prior to lending to other local authorities, due diligence is undertaken on their financial resilience. The council will not arrange investments with local authorities that are deemed to have poor financial management and/or standing, or whose operations are deemed to be inconsistent with the council’s priorities.

Liquidity Management

53. The council forecasts its cash flow to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council’s medium term financial plan and cash flow forecast. The council uses instant access bank deposit accounts and money market funds for balances forecast to be required at short notice to meet commitments due. The TMST will continue to monitor options available to maintain the required liquidity and will open new accounts with approved counterparties as appropriate.

Lending Limits

54. In addition to the limits determined by the credit quality of institutions, the TMST apply further limits to mitigate risk by diversification. These include:

    - Limiting the amount lent to banks in any one country (excluding the UK) to a maximum of 20% of the investment portfolio.
    - Limiting the amount lent to any bank, or banks within the same group structure to 10% of the investment portfolio.
    - Actively seeking to reduce exposure to banks with bail in risk

55. Where the Council has deposits on instant access, this balance may temporarily exceed the 10% bank or group limit. However, the limits as set out in paragraphs 57 and 59 will still apply.

56. Counterparty limits as set out in paragraphs 57 and 59, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts, money market funds or notice accounts. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and cashflow forecast.

57. Any changes to the approved lending list will be reported to Cabinet as part of the Business Management and Monitoring Report.

58. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2024/25. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings is included for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded.

LENDING LIMITS - Fitch Rating	Short Term Rating	
Long Term Rating	F1+	F1
AAA	£30m	£20m
AA+	£30m	£20m
AA	£25m	£15m
AA-	£25m	£15m
A+	£20m	£15m
A	£20m	£15m
A-	£15m	£10m
BBB+, BBB, BBB- (bank with which the Council has its bank account)	£20m	£20m

59. The maximum lending limit to other Local Authorities is £30m per Authority. The maximum lending limit for AAAmmf rated Money Market Funds is £25m.

60. The Council also manages its counterparty risk by setting maturity limits on deposits, restricting longer term lending to the very highest rated counterparties. The table below sets out the maximum approved limits. The TMST may further restrict lending criteria in response to changing market conditions.

MATURITY LIMITS – Fitch Rating	Short Term Rating	
Long Term Rating	F1+	F1
AAA	3 years	364 days
AA+	2 years	364 days
AA	2 years	9 months
AA-	2 years	9 months
A+	364 days	9 months
A	9 months	6 months
A-	6 months	3 months
BBB+, BBB, BBB- (bank with which the Council has its bank account)	Overnight	Overnight

External Funds

61. The Council uses 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 Council will have no more than 50% of the total portfolio invested with external fund managers

and pooled funds (excluding MMFs). This allows the Council to achieve diversification while limiting the exposure to funds with a variable net asset value. And, in order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.

62. As at 30 November 2023, the Council had £95m (original purchase value of £101m) invested in external funds (excluding MMFs), representing 17% of the Council's total investment portfolio. Whilst market volatility has seen the capital value fluctuate, they are held with a long term view, and there is no intention to divest from any of the funds at present.

63. At present, fluctuations in the value of the external funds do not impact on the council's revenue account, because they are held in an unusable reserve via the statutory override arrangements set out in IFRS9. The override was extended in early 2023 to 31 March 2025. It is unclear if the override will be extended beyond that date. It is proposed that a new reserve is created with an initial balance of £2.2m to manage the estimated risk pending confirmation regarding the statutory override.

64. The external funds have a targeted income return of 3.75% which has been incorporated into the medium term financial strategy. Whilst this rate is below the short term in-house return for 2024/25, it is expected that the in house return will be below this rate from 2025/26 onwards.

65. The performance of the pooled funds is monitored by the TMST throughout the year against the funds' benchmarks and the in-house investment returns. The TMST will keep the external fund investments under review and consider alternative instruments and fund structures, to manage overall portfolio risk. It is recommended that authority to withdraw, or advance additional funds to/from external fund managers, continue to be delegated to the TMST.

Investment Approach

66. The TMST will aim to maintain the balance between medium and long-term deposits with local authorities and short-term secured and unsecured deposits with high credit quality financial institutions. Money Market Funds will continue to be utilised for instant access cash. This approach will maintain a degree of certainty about the investment returns for a proportion of the portfolio, while also enabling the Treasury Management team to respond to any increases or decreases in interest rates in the short-term.

Treasury Management Indicators for Investments

Upper limit to total of principal sums invested longer than 364 days

67. The purpose of this limit is to contain exposure to the risk of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

68. The long term lending limit is based on 50% of the forecast average cash balance. Based on forecast balances reducing to £300m over the medium term, the proposed limits for investments longer than 364 days is set out below:

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Upper limit on principal sums invested longer than 364 days	170	175	150	150	150

Policy on Use of Financial Derivatives

69. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

70. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

71. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2024/25. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Performance Monitoring

72. The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.

73. Link Treasury Services benchmark the performance of their clients against each other on a quarterly basis, looking at a variety of indicators including investment risk and returns.

74. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the quarterly Treasury Management reports and the Treasury Management Annual Performance Report.

Investment Training

75. All members of the Treasury Management Strategy Team are members of CIPFA or other professional accounting bodies. In addition, key treasury management officers receive in-house and externally provided training as deemed appropriate and training needs are regularly reviewed, including as part of the staff appraisal process.

76. The Council has opted up to 'professional client' categorisation with under the second Markets in Financial Instruments Directive (MiFID II). In order to achieve this, evidence was required that the person(s) authorised to make investment decisions on behalf of the authority have at least one year's relevant professional experience and the expertise and knowledge to make investment decisions and understand the risks involved. Members of the TMST currently meet these criteria and training needs will be regularly monitored and reviewed to ensure continued compliance.

Financial Implications

77. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2024/25 is budgeted to be £15.43m.

78. Dividends payable from external funds in 2024/25 are budgeted to be £3.81m.

79. Interest payable on external debt in 2024/3 is budgeted to be £12.44m.

80. Comments checked by:

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

Legal Implications

81. There are no direct legal implications arising from this report save for the need for ongoing collaborative working between the S151 Officer and the Monitoring Officer. CIPFA guidance promotes the need for consultative working and collaboration between these respective roles to promote good organisational governance.

82. The duties of a local authority in relation to Treasury Management are set out in Local Government 2003 as set out in paragraph 8 and 9 above. In addition, the responsibilities of a local authority in monitoring its treasury management are set out in The Treasury Management Code of Practice introduced in 2001/02. Local authorities are required to "have regard" to the code in setting up and approving their Treasury Management arrangements. The Treasury Management Code and the Prudential Code, form two parts of what is known as the Prudential Framework. This includes statutory guidance published by the then Ministry of Housing Communities and Local Government (MHCLG)

- Guidance on Local Authority Investments and the Guidance on Minimum Revenue Provision which came into effect from 1 April 2018. The latest versions of the above codes and guidance have been considered in setting the Treasury Management Strategy for 2024/25.

83. The functions of the Audit and Governance Committee include the monitoring of the system for Treasury Management. (Council Constitution Part 5.1A paragraph 1(a) 6)).

84. Comments checked by:

85. Paul Grant, Head of Legal & Deputy Monitoring Officer, Law & Governance, paul.grant@oxfordshire.gov.uk

Sustainability Implications

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

87. The Treasury Management Strategy Team will consider investments that may make a positive contribution to the Council's carbon commitment when appropriate opportunities become available. The TMST will continue to explore ethical, sustainable and good governance (ESG) investment practices.

88. Where the Council has investments in externally managed funds, each of the fund managers is a signatory to the United Nations Principal for Responsible Investment.

89. Furthermore, the Council will not knowingly invest directly in organisations whose activities include practices which are inconsistent with the values of the Council or the Council's zero carbon emissions commitment by 2030.

90. The Treasury Management function is now completely paperless and working in line with the council's agile working policy with a mix of office based and remote working.

Annex 1

LINK TREASURY SERVICE INTEREST RATE FORECASTS 2023-2026

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

PWLB forecasts are based on PWLB certainty rates.

ECONOMIC BACKGROUND PROVIDED BY LINK TREASURY SERVICES

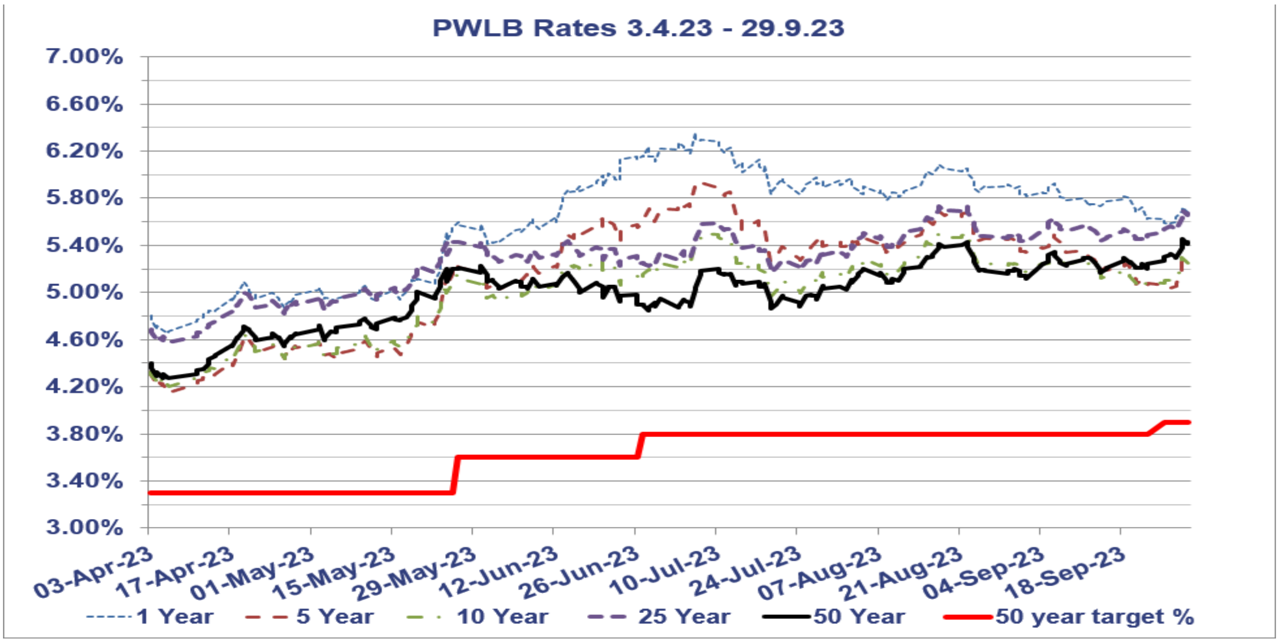
- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant

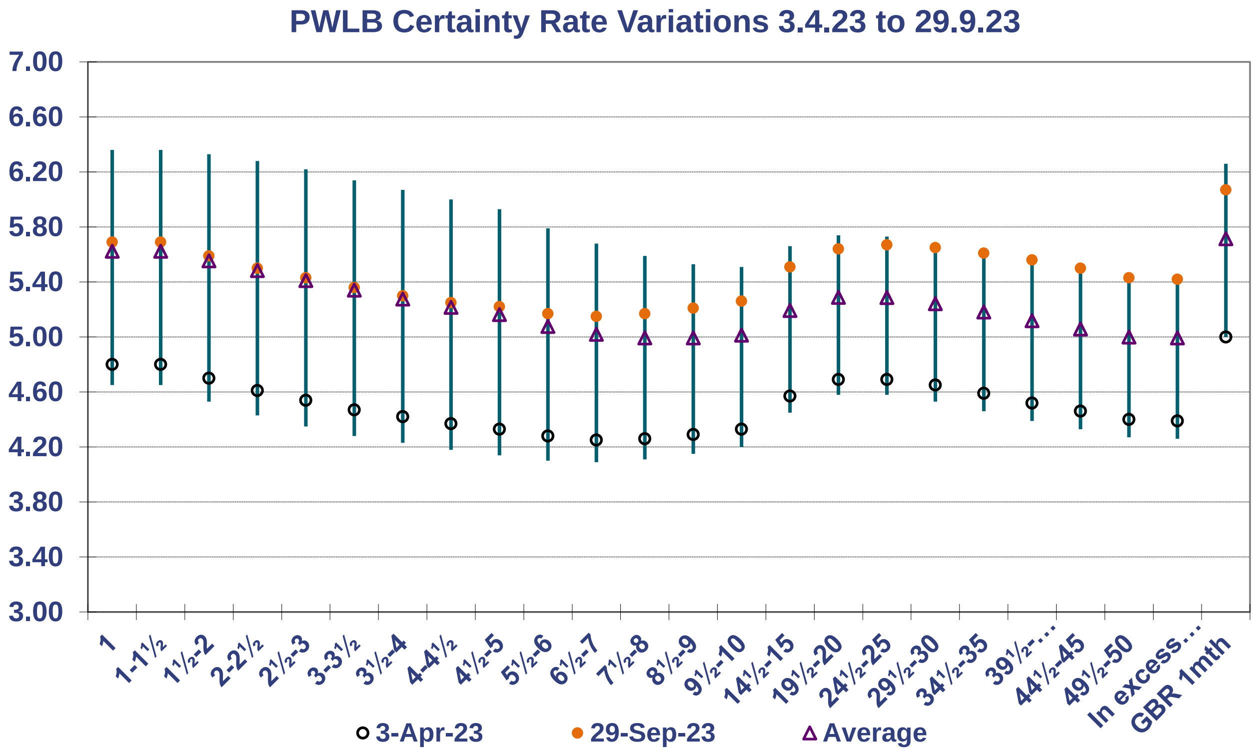
UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.
- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).