Executive Summary

1. The Treasury Management Strategy & Annual Investment Strategy for 2025/26 outlines the council's strategic objectives in terms of its debt and investment management for the financial year 2025/26.

2. The forecast average cash balance for 2025/26 is £405m. The council will maintain its investment in strategic pooled funds with a purchase value of £101m (24%). The remaining £304m (76%) will be managed internally with a mixture of short, medium and long-term deposits.

3. The Bank of England Base Rate is forecast to start the year at 4.50%, reducing to 3.75% - 3.50% by the end of the financial year.

4. UK Government Gilt yields are forecast to fall from 5.50% to 3.80% over the medium term.

5. As the council's Capital Financing Requirement (CFR) is proposed to increasing significantly over the medium term, the strategy will aim to decrease long term investments to allow for greater internal borrowing.

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 2024/25 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
2025/26	£175m	£150m
2026/27	£150m	£150m
2027/28	£150m	£140m
2028/29	£150m	£100m
2029/30	n/a	£100m

Background

8. 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.

9. 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.

10. 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."

11. The proposed strategy for 2025/26 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.

12. 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

13. The council's treasury forecast portfolio position for the 2025/26 financial year comprises:

	Principal £m	**Average Rate %**
Opening External Debt Balance		
Public Works Loans Board (PWLB)	241.383	4.470
Lender's Option Borrower's Options (LOBOs)[2]	25.000	3.910
Money Market Loans	5.000	3.950
TOTAL EXTERNAL DEBT	271.383	
2025/26 Average Forecast Cash Balance		
Average In-House Cash	303.534	
Average Externally Managed	101.006	
TOTAL INVESTMENTS	**404.540**	

14. The average forecast cash balance for 2025/26 is comprised of the following:

	Average Balance £m
Earmarked Reserves	161.900
Unusable Dedicated Schools Grant Reserve	-81.900
Capital and Developer Contributions	399.392
General & School Balances	57.091

[1]Comprising the Executive Director of Resources & Section 151 Officer, Financial Manager – Pension Fund Investments, Head of Corporate Finance, and Treasury Manager.
[2] See paragraphs 27 & 28 for detail

Cashflow and Working Capital Adjustments	154.184
Internal Borrowing	-291.923
Provisions and Deferred Income	5.796
TOTAL	**404.540**

Prospect for Interest Rates

15. 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 2025/26 and over the medium term. TMST forecast that the bank rate will start the year at 4.50% and slowly drop to between 3.75% - 3.50% by the end of 2025/26. The bank rate is then forecast to continue to drop to 3.00% over the medium term.

16. 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:

2025/26	3.25%
2026/27	3.00%
2027/28 - 2029/30	2.50%

Borrowing Strategy

17. 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

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

19. 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.

20. Borrowing rates are forecast to fall from a high of 5.50% in December 2024 to 3.80% over the medium term.

21. External borrowing taken out by the council is expected to fall well below the CFR by 2029/30 due to increased capital expenditure and £85m of debt repayments by that point.

22. Given the high level of balances and the forecast for borrowing rates to 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 £450m in 2025/26.

23. Based on current forecast of balances and the proposed extra £65m borrowing for structural maintenance, the council may be required to externalise some debt from 2026/27 onwards.

24. The proposed extra borrowing of £65m for structural maintenance will have an ongoing annual revenue cost of £4.2m.

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

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 2024 LOBOs represent 16.6% of the total external debt. This compares to 14.1% of the total external debt in 2024/25. 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 2025/26 remains at 20%.

28. The council has two £5m LOBOs with call options in 2025/26, one of which has two call options in year, with the second 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 have agreed that if the new proposed rate is higher than the equivalent PWLB certainty rate, it's default position will be to repay the loan without penalty.

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

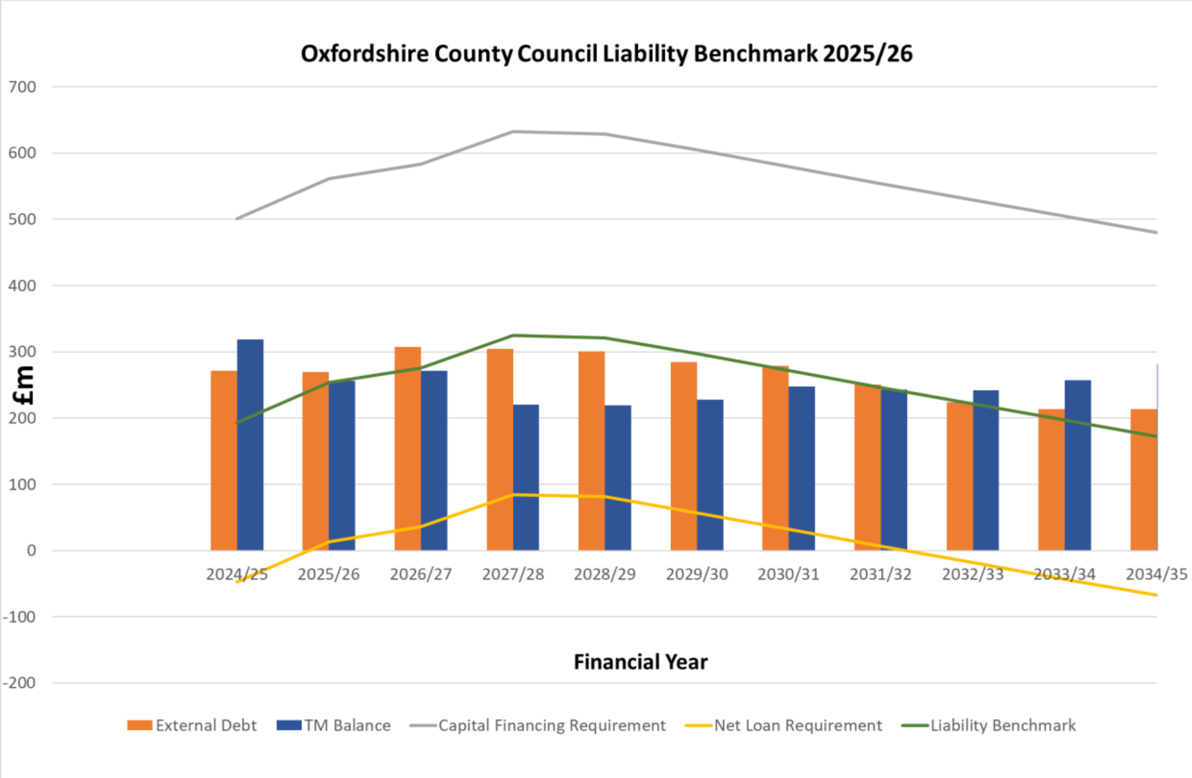
30. This report includes the indicators for Treasury Management. The indicators for Prudence and Affordability are included in the Capital & Investment Strategy agreed by Council.

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[3] 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 £300m in 2025/26. The forecast internal borrowing position for 2025/26 is £291m.

[3] 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 2025/26	Lower Limit %	Upper Limit %	2025/26 Forecast %
Under 12 months	0	20	0.74
12 months and within 24 months	0	25	12.53
24 months and within 5 years	0	35	16.72
5 years and within 10 years	5	40	26.16
10 years and above	25	95	43.85

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 2025/26.

Investment Instruments

40. Investment instruments identified for use in the 2025/26 financial year are set out in the Specified and Non-Specified instrument tables below:

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[4]	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

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

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

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.

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.

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[5] 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
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

[5] 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
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
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 59 and 61 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 59 and 61), 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 59 and 61 will still apply.

56. Counterparty limits as set out in paragraphs 59 and 61, 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 2025/26. 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 2024, the council had £99m (original purchase value of £101m) invested in external funds (excluding MMFs), representing 18% 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. The IFRS9 Statutory Override, which mandates that fluctuations in the value of pooled fund investments are taken to the balance sheet, is ending on 31 March 2025. From 1 April 2025 fluctuations in the fund value are therefore reflected in the revenue account. To mitigate against any reduction in value, a ringfenced IFRS9 reserve has been created in 2024/25 with funding of £5.0m. Options to increase the funding available in this reserve are being considered as part of the Budget & Business Planning process. If the value of the funds is below the purchase price at the balance sheet date, funds will be released from the reserve to ensure that there is no net impact to the revenue account. Similarly, if the fund value is above the purchase price at the balance sheet date, any unrealised gain will be transferred to the IFRS9 reserve. It would only be appropriate to release such gains to the revenue account when the funds are divested from and gains are crystalised.

64. The external funds have a targeted income return of 3.75% which has been incorporated into the medium term financial strategy.

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, fund structures and the proportion of external funds to cash balances, 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 internal borrowing to temporarily finance the CFR, with short and medium term deposits with high credit quality financial institutions. Money Market Funds will continue to be utilised for instant access cash. This approach will reduce the interest receivable on balances compared with a strategy with a higher level of long term investments, but this will be offset by saving on borrowing costs in the short to medium term whilst borrowing costs remain relatively high.

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 £250m over the medium term, the proposed limits for investments longer than 364 days is set out below:

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Upper limit on principal sums invested longer than 364 days	150	150	140	100	100

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 2025/26. 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.

Treasury Management 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 2025/26 is budgeted to be £10.42m.

78. Dividends payable from external funds in 2025/26 are budgeted to be £3.81m.

79. Interest payable on external debt in 2025/26 is budgeted to be £12.00m.

80. Comments checked by:

Kathy Wilcox, Head of Corporate Finance, Financial & Commercial Services
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 comes into effect from 1 April 2025. The latest versions of the above codes and guidance have been considered in setting the Treasury Management Strategy for 2025/26.

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

Staff Implications

86. The report does not create any staffing implications.

Equality & Inclusion Implications

87. There are no equality or inclusion implications arising from the report.

Sustainability Implications

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

89. 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.

90. 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.

91. 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.

92. 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.

LORNA BAXTER
Executive Director of Resources & Section 151 Officer

Annex: Annex 1 External View from Link Treasury Services.

Background Papers: Nil
Contact Officer: Tim Chapple, Treasury Manager, tim.chapple@oxfordshire.gov.uk

January 2025

Annex 1

External view by Link Treasury Services

LINK TREASURY SERVICE INTEREST RATE FORECASTS 2023-2026

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

PWLB forecasts are based on PWLB certainty rates.

ECONOMIC BACKGROUND PROVIDED BY LINK TREASURY SERVICES

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%