WEST OXFORDSHIRE
DISTRICT COUNCIL

# Supplement for

**COUNCIL - WEDNESDAY, 15TH FEBRUARY, 2023**

| Agenda No | Item |
|---|---|
| 11. | **2023-2024 Budget and Medium Term Financial Plan (Pages 3 - 66)** |

This supplement contains the outstanding papers for the 2023-24 Budget and Medium Term Financial Plan.

The Chief Finance Officer's Report is still yet to be distributed.

Purpose:
To provide the proposed Budget for 2023-2024, whilst also considering for approval:

1) The draft base budgets for 2023/24
2) The Council's Capital Programme for 2023/24 to 2031/32
3) The level of Council Tax for 2023/24
4) The Medium Term Financial Strategy
5) The Council's Financial Strategies
6) Fees and Charges
7) The Council's Pay Policy Statement

Recommendations:
The Executive resolves to recommend the following to Council for approval:

i) The General Fund revenue budgets as summarised in Annex B
ii) The updated Medium Term Financial Strategy in Annex E
iii) The Capital Programme for 2023/24 to 2031/32 as set out in Annex D
iv) Fees and Charges, as previously circulated and set out in Annex H
v) The Council's Pay Policy Statement as set out in Annex J
vi) The Council's Capital Strategy as set out in Annex K
vii) The Council's Investment Strategy as set out in Annex L
viii) The Council's Treasury Strategy as set out in Annex M

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**Budget increase proposals** **Annex C**

| Post | Details | Cost £ | FTE | Proposal | Additional comments |
|---|---|---|---|---|---|
| Democratic Services Asst | Currently there are 2.2 FTE permanent staff in the team which is not sufficient to support 49 Councillors and a busy meeting schedule. This 22hr post supports the production of committee agendas, Forward Plan and Members Allowances. | 12,033 | 0.59 | 1 yr fixed | WODC specific |
| Biodiversity Land Management Officer | This post has delivered Land Management Plans, established the Windrush in Witney Partnership and is contributing to the Biodiversity projects under the Prosperity Fund. The benefits of making the post permanent are being able to deliver key priorities of the Climate Change Strategy, be the lead delivery officer for Biodiversity net gain, project manage the Biodiversity Toolkit and support volunteer & community projects. | 46,859 | 1.00 | Permanent, as proposed at Cabinet 8/2/23 | WODC specific |
| Climate Change Officer | This post had implemented the Council's Carbon Action Plan, developed a PSDS bid for Carterton Leisure Centre and designed the Impact Assessment Tool to evaluate the sustainability of Council Priorities and projects. The benefits of the post being permanent are the management and development of the Impact Assessment Tool, assist in decarbonisation projects and provide recommendations on recycling and waste opportunities | 39,137 | 1.00 | 1 yr fixed | WODC specific |
| HR Specialists x 3 | HR is the beating heart of an organisation, ensuring that the most important asset, it's people, operate to the optimum level. Investment in this department will increase its capacity through hiring 3 specialists. This in turn will increase HR's capability and elevate the service, partnering strategically hand in glove with the wider businesses. Ultimately it is to enable the HR function to effectively support the drive for increased productivity and efficiencies through our people and processes from ever limited resources. The HR functionality is the key to unlocking the organisational potential, and that of its people. It is imperative we develop our culture and diversity, whilst communicating our broader offering, break down the silos, to not only attract best-in-class talent, but also to support the development of in-house talent, that we retain and grow over a longer time. This will reduce spend on agency fees by further developing the recruitment and talent team, create succession planning and targeted career pathways. | 23,000 | 3.00 | Permanent, needs other Councils to participate though. | Shared posts. Other councils likely supportive pending additional info |
| Waste Partnership Manager | WODC contributes 10k p.a. towards the total cost of £80,477 this year. The contributions are based on £50k from county, £10k x 5 WCAs to cover salary, on costs, and give a little bit of budget for conferences, projects etc as they arise. In addition to being responsible for coordinating county-wide waste and recycling organising the meetings and agenda content, supporting the chair etc. The postholder has a wealth of industry knowledge and contacts, which has proved immensely valuable in our responding to the Government consultations surrounding the Environment Bill and the implications for local authorities. With 2024 and the new waste service coming, translation of the new legislation policies is going to be the next big issue faced and with no guidance coming from Government on how Extended Producer Responsibility (EPR) or Deposit Return Scheme (DRS) is going to operate, there's going to need to be work done to support the implementation and protect the Oxfordshire Partner Councils interests. If the Partnership Manager post is removed, then the partnership will simply fold as there isn't the necessary resource available at any of the Oxfordshire authorities to take this on. | 10,250 | 1.00 | 1 yr fixed then review | Shared post across County |
| Woodgreen Reception/Executive Asst | The change of administration at WODC has had a significant impact on the current Executive Assistant. The demands on her time, when coupled with her role providing support to the Management Team and the return to civic events (which are currently exceptionally high) means that she is struggling to meet the requirements of the role. Some temporary support is being provided via an agency at a cost of £600 per week. In addition Reception cover has been requested at the Woodgreen office as the decision was previously made to focus customer interaction on the Town Centre location. Salary reduced by £10k | 31,275 | 1.00 | Permanent | WODC specific Hopefully if the new flexible chamber and committee rooms can be rented out this post could coordinate that and set rooms up and this additional income would offset some of the cost. |
| Finance Business Partner | The demands on the Finance team with increased audit requirements and a requirement for more support being given to other areas of the business has meant that additional resource is needed. More work required to determine exactly where the best place to add this in the structure is. Finance is under review with further resource requests possible. | 20,000 | 1.00 | Permanent | Shared post. Forest potentially supportive dependent on where this sits in the structure. |
| Empty Homes Co-Ordinator | Dealing with empty properties can have social, regenerative, financial and strategic benefits. To support this a Long Term Empty Strategy 2019-2024 was implemented across all 3 Districts and an Empty Home Coordinator post created. The post has contributed to 1,574 properties being removed from the long term empty database across the 3 partnership Councils since April 2021. The post is directly responsible for investigating properties reported to be empty, working with individual owners encouraging property sales. People purchasing empty homes increase local economic activity by providing for new expenditure on the houses themselves. The effect on the local economy goes beyond the immediate spend by the homeowner and each £1 spent will generate further economic activity that would not have existed without it.<br>Empty homes are prone to anti-social behavior and can lock communities into a spiral of decline. The cost of dealing with this can fall to the emergency services with the cost of a single fire service callout being £1,970 and the police around £1,000. | 8,060 | 0.81 | 1 yr fixed | Shared post |
| Environment and Regulatory Services | To cover regulatory duties and include the expansion of HMO licensing, dealing with poor housing conditions in the private rented sector, the better regulation of caravan and campsites and traveller sites and the processing of new fit and proper person applications, the capacity to enforce the Minimum Energy Efficiency Regulations, to engage with housing work targeted at energy efficiency and fuel property, to meet our air quality management responsibilities, ensuring the monitoring and delivery of the new action plans and meeting the new requirements of the Environment Act 2021, and to be able to respond effectively to an increasing number of private water supply investigations as a result of tightening regulations. | 32,000 | 3.00 | Permanent | 3 shared posts but likely to be a WODC specific officer aimed at Housing inspections. |
| Flooding/Land Drainage | Additional capacity to be shared with one other Council in the partnership - proposed budget reduced by £15k | 39,000 | 0.50 | Permanent | Supported by FOD & WODC so cost has increased since last iteration. |
| Asset Management | Replacement for current consultancy spend. Should generate equivalent savings plus improve rental income by circa £75k from 2024. WODC has a large estate portfolio and an appetite to invest over the coming years. This post would support that. | 63,000 | 1.00 | Permanent | WODC specific - should generate at least equivalent savings |
| Cyber Security | These are the additional Cyber resources already approved by Cabinet. Council approval as a growth item is required to add it to budget. | 71,190 | 1.00 | Permanent | WODC specific |

Budget increase proposals

**Annex C**

| Post | Details | Cost £ | FTE | Proposal | Additional comments |
|---|---|---|---|---|---|
| Climate Change Manager | Fixed term post made permanent. Post already approved by cabinet, currently funded from priorities reserve. This can either continue being funded from there for 23/24 or be added to the budget as growth. | 53,030 | 1.00 | Permanent | WODC specific |
| Market Towns Officer | Post was a Covid funded post ref regeneration of high streets. Now moving on to rural prosperity fund. Post already approved by cabinet, currently funded from priorities reserve. This can either continue being funded from there for 23/24 or be added to the budget as growth. | 35,960 | 1.00 | Permanent | WODC specific |
| | **Total** | **484,794** | 17 | | |

| | | | |
|---|---|---|---|
| Digital Transformation of Development Management | This is a shared cost across three Publica Councils to facilitate Planning moving to a better software platform that allows on site access to the system bringing increased efficiency to the service. | 166,000 | One off additional budget |
| Implement leisure strategy and review income generation | Funding to manage the strategic development of key income generating services. If we can't turn Leisure around we risk reputational damage, the loss of services and up to £1.5m income per year. Immediate intervention is required at a strategic level in this area. We have other commercially focused services which are undergoing transformation and will need to be supported but the primary focus is leisure. The form of the leisure support will be determined by the outputs from the work being done currently by the consultant Publica have engaged. | 95,100 | Per annum funding for two years |
| | | **261,100** | |

| | |
|---|---|
| One off expense | **330,580** |
| Permanent growth | **415,314** |

| | | £ | £ |
|---|---|---|---|
| Permanent | Climate Change Manager | 53,030 | |
| Permanent | Market Towns Officer | 35,960 | |
| 1yr FT | Democratic Services Assistant | 12,033 | |
| Permanent | Biodiversity Land Management Post | 46,859 | |
| 1yr FT | Climate Change Post | 39,137 | |
| Permanent | Woodgreen Reception/Executive Assistant | 31,275 | |
| Permanent | Finance Business Partner | 20,000 | |
| Permanent | HR Specialists x 3 | 23,000 | |
| 1yr FT | Waste Partnership Manager | 10,250 | |
| 1yr FT | Empty Homes Co-Ordinator | 8,060 | |
| Permanent | Environment and Regulatory Services additional resource | 32,000 | |
| Permanent | Flooding/Land Drainage Post | 39,000 | |
| Permanent | Asset Management Post | 63,000 | |
| Permanent | Cyber Security Post | 71,190 | |
| | | | **484,794** |
| One off | Revenue expenditure on new Planning software | 166,000 | |
| 2 yr fund | Implement leisure strategy and review income generation | 95,100 | |
| | | | **261,100** |

# Medium Term Financial Strategy Updated February 2023

## Annex E

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Inflation** | | | 5% | 3% | 2% | 2% | 2% | 2% | 2% | 2% |
| Taxbase | 1.0279 | 1.0196 | 1.018 | 1.016 | 1.020 | 1.020 | 1.020 | 1.020 | 1.020 | 1.020 |
| Base | 13,518,681 | 13,055,622 | 15,105,712 | 15,772,682 | 16,658,473 | 16,676,726 | 16,909,716 | 16,736,415 | 16,691,622 | 16,908,776 |
| Inflationary uplift | | | 755,286 | 473,180 | 333,169 | 333,535 | 338,194 | 334,728 | 333,832 | 338,176 |
| Inflation - Publica | 502,649 | 517,120 | 137,899 | | | | | | | |
| Inflation - Electricity & Gas | | 253,171 | | | | | | | | |
| Inflation - Ubico | (39,335) | 754,099 | | | | | | | | |
| Leisure contract contingency | | 558,613 | | | | | | | | |
| MRP movement | 332,431 | 358,489 | 206,250 | 135,500 | 127,500 | | (109,831) | 29,000 | (60,429) | |
| Interest on External Borrowing | (75,193) | 419,518 | 272,464 | 202,781 | 23,853 | (59,679) | (59,679) | (66,536) | (56,250) | (45,964) |
| One-off growth - reversal of prior year | (32,500) | (772,000) | | | | | | | | |
| Recurring growth | 355,922 | 270,081 | | | | | | | | |
| Identified Savings via Publica Shareholder Forum | | | (113,000) | (9,000) | (30,000) | | | | | |
| Budget growth items pending approval | 263,072 | 745,894 | (235,480) | 179,900 | (275,000) | | | | | |
| Covid income reduction | (1,770,104) | | | | | | | | | |
| Investment Strategy income | | (1,054,896) | (356,448) | (96,571) | (161,269) | (40,866) | (341,986) | (341,986) | | |
| Target Budget (NOE) | **13,055,622** | **15,105,712** | **15,772,682** | **16,658,473** | **16,676,726** | **16,909,716** | **16,736,415** | **16,691,622** | **16,908,776** | **17,200,987** |
| **Financed by:** | | | | | | | | | | |
| Revenue Support Grant | 79,268 | 215,801 | | | | | | | | |
| Business Rates Share & Renewables | 4,373,420 | 5,149,327 | 5,149,327 | 272,090 | 272,090 | 272,090 | 272,090 | 272,090 | 272,090 | 272,090 |
| Baseline Funding Level post 2022 | | | | 2,861,375 | 2,861,375 | 2,861,375 | 2,861,375 | 2,861,375 | 2,861,375 | 2,861,375 |
| New Homes Bonus | 2,378,105 | 1,579,635 | | | | | | | | |
| Potential Government replacement funding | | | 1,000,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Funding Guarantee Grant | | 910,864 | | | | | | | | |
| Rural Services Delivery & Services grants | 229,225 | 235,695 | | | | | | | | |
| Investment Income - Pooled Funds | 1,139,501 | 1,102,228 | 1,137,499 | 1,173,899 | 1,211,464 | 1,250,231 | 1,290,238 | 1,331,526 | 1,374,135 | 1,418,107 |
| Use of earmarked reserves | 826,239 | (257,748) | 346,849 | 392,410 | 354,314 | | | | | |
| Collection Fund | 210,394 | 199,508 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Council Tax | 5,281,201 | 5,620,273 | 5,960,944 | 6,299,780 | 6,674,105 | 7,060,883 | 7,460,463 | 7,873,201 | 8,299,465 | 8,739,630 |
| **Use of GF reserves** | **(1,609,731)** | **350,129** | **2,078,063** | **5,058,919** | **4,703,378** | **4,865,137** | **4,252,249** | **3,753,430** | **3,501,711** | **3,309,785** |
| TaxBase | 46,172 | 47,078 | 47,925 | 48,692 | 49,666 | 50,659 | 51,672 | 52,706 | 53,760 | 54,835 |
| Band D | 114.38 | 119.38 | 124.38 | 129.38 | 134.38 | 139.38 | 144.38 | 149.38 | 154.38 | 159.38 |
| **Tax increase** | **4.57%** | **4.37%** | **4.19%** | **4.02%** | **3.86%** | **3.72%** | **3.59%** | **3.46%** | **3.35%** | **3.24%** |
| General fund balance | 12,901,681 | 12,551,552 | 10,473,490 | 5,414,570 | 711,192 | (4,153,945) | (8,406,195) | (12,159,624) | (15,661,335) | (18,971,119) |

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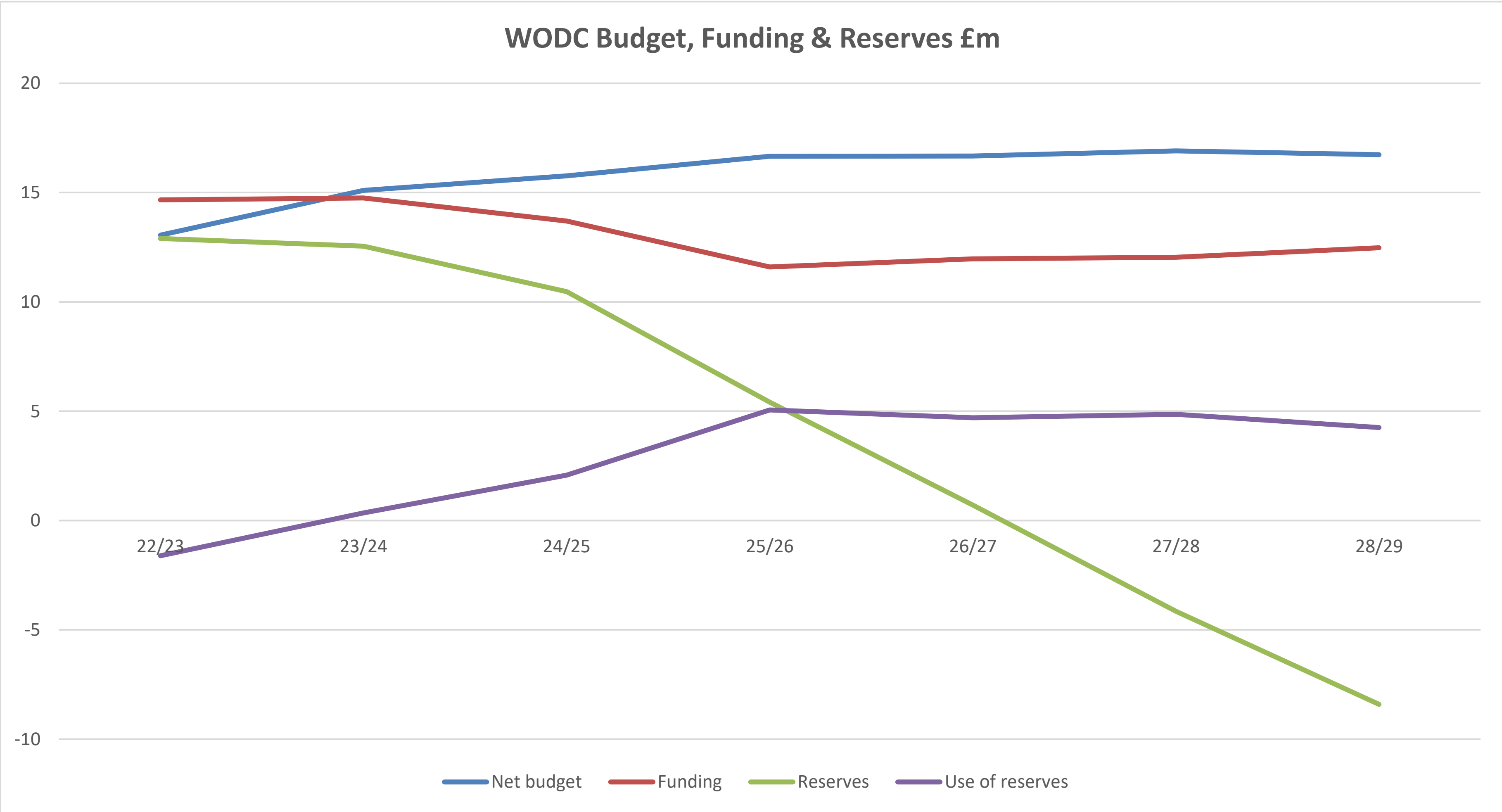

WODC Budget, Funding & Reserves £m
20
15
10
5
0
-5
-10
22/23
23/24
24/25
25/26
26/27
27/28
28/29
Net budget
Funding
Reserves
Use of reserves

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# Capital Strategy Report 2023/24

# West Oxfordshire District Council

**Summary**

West Oxfordshire District Council's capital plans are close to completion on some of our affordable housing projects and have a few notable items included in the coming year such as the exemplar housing development at Walterbush Road in Chipping Norton and the repair of the roof on Chipping Norton Leisure Centre. We continue to pursue our Council set investment strategy to deliver on our Council priorities whilst also covering the cost of capital and supporting our revenue budget and had a high profile successful addition to our portfolio in 2022/23. This ambitious strategy was laid out in 2020 but it has proved difficult to find many suitable investments that meet the criteria set by the PWLB – which is a source of lending we are not currently in a position to forego our eligibility to - and deliver a yield that makes the risk of investment worthwhile and clears the hurdle rates set out in the Council's investment strategy.

Marriott's Walk, Witney

In last year's budget we revised downward our expected level of investment in the Medium Term Financial Strategy (MTFS) but were fortunate enough to find the opportunity of Marriott's Walk in Witney. An investment that gives us the opportunity to influence the strategic direction of the centre, encouraging its development as a shopping destination that not only benefits existing tenants but attracts new ones and in turn extends that benefit of increased footfall to the whole high street. We are realistic however that appropriate investment opportunities are relatively ad hoc and that while we always seek to find them, there isn't a reliable pipeline of them available so we cannot place too much reliance on new income in future years generated from that source. We are taking a financially responsible approach to all of our plans, ensuring that optional expenditure is at the very least cost neutral to the Council and, where possible, delivers ongoing revenue to support services.

Some capital expenditure is of course unavoidable in the delivery of statutory services and our other activities and investments need to deliver financial returns in order to support those.

## Introduction

This Capital Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

While the annual revenue budget can often feel like the main focus for the Council each year, the Capital Strategy affects not only the in year activity but the longer term elements in the MTFS.

While some elements of the capital programme are financed by revenue, some of the projects in it will require the Council to borrow. This can be because it is outside of our normal revenue expenditure or, previous internal borrowing, which is discussed at greater length later in this paper, means that we now need external borrowing to fund the expenditure.

## What is Capital Expenditure?

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this can include spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

For details of the Council's policy on capitalisation, see the Council's accounting policies which are contained within the annual Statement of Accounts:

In 2023/24, the Council is planning new capital expenditure of £12.07m:

### Estimates of capital expenditure in £m

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Capital Expenditure | 5.69 | 30.60 | 12.07 | 12.01 | 6.37 |

**Governance**: Service managers will typically update Finance, as part of the budget process, who include projects in the Council's capital programme. Proposals are collated by the Finance team who calculate the financing cost (which could be nil if the project is fully funded by external contributions). The financing cost is included in the Medium Term Financial Strategy and detailed budgets for the forthcoming financial year.

For full details of the Council's proposed capital expenditure see Annex D which holds the detail of the proposed capital programme.

Where future expenditure is estimated for the purpose of calculating our borrowing requirement and projecting a cost of capital through the MTFS, individual projects still require business cases to be presented to the S151 officer, Executive and Council as appropriate for approval before expenditure can be committed.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

**Sources of capital funding £m**

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| External Sources | 1.61 | 2.38 | 0.80 | 0.80 | 0.80 |
| Own Resources | 0.54 | 4.21 | 0.92 | 0.54 | 0.54 |
| Internal & External Borrowing | 3.53 | 24.01 | 10.35 | 10.67 | 5.03 |
| | 5.69 | 30.60 | 12.07 | 12.01 | 6.37 |


Cllrs Geoff Saul and Andy Graham

External funding could come in the form of:

- Govt grants – these have been used successfully to support the rollout of Gigaclear high speed broadband, ensuring that our rural district is well connected.
- Section 106 contributions from developers – these are used to provide additional infrastructure in communities where new homes increase the number of residents. They have funded play parks, community facilities, new affordable housing and public art amongst other things. We are using them to support the development at Weaver's Fold in Chipping Norton – allowing houses that would otherwise have been sold at market value to be sold as affordable. It also helped facilitate the purchase of Langel Common in Witney in conjunction with residents, protecting a much valued area for public use.
- The disabled facilities grant (DFG) which funds adaptations to residents' homes and other supporting activities.
- The Oxfordshire Growth Deal (now delivered through the Future Oxford Partnership) which has funded the provision of affordable housing in partnership with registered providers such as Cottsway Housing or Heylo.

Cllr Carl Rylett and Phoebe Lloyd at Langel Common in Witney

**Minimum Revenue Provision**

Before the start of the financial year, a statement of MRP policy for the forthcoming financial year must be approved by Full Council.

The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's (MHCLG's) *Guidance on Minimum Revenue Provision* (the Guidance), most recently issued in 2018.

Borrowing, both internal and external, must be paid back and so every year the Council calculates how much has to be charged to the Revenue Budget to pay off the borrowing over the life of the asset – this is called the Minimum Revenue Provision – MRP.

It is in effect a replacement for the depreciation that you would expect to see within a company's accounts in the private sector. In local government accounting, depreciation is charged and then reversed out so it does not affect the level of Council Tax required to fund the Council's costs, however MRP is charged to the General Fund and therefore does affect the required level of funding.

For the purpose of the calculation we determine the useful life of each asset as no less than 5 and no more than 50 years. The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably consistent with the period over which the capital expenditure, which gave rise to the debt, provides benefits. Where a local authority's overall Capital Financing Requirement (CFR) (see below) is £nil, or a negative amount, there is no requirement to charge MRP.

If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure. In exceptional cases, where a Qualified Valuer has estimated the useful life of the asset to be more than 50 years, that useful life will be used.

So if we borrowed £1m to buy an asset with a useful life of 40 years we would need to provide (1,000,000/40) = £25,000 per year for 40 years in our revenue budget. If the asset were only expected to last for 7 years, like for example some of our vehicles, then the charge to the revenue budget would be £1m / 7 = £142,857 per year.

There are two main ways we could calculate MRP – the equal instalment method and the annuity method. The equal instalment method has been used in the example above while the annuity method has lower repayments in the early years which increase every year over the repayment period. MRP is only concerned with the repayment of the principal amount borrowed, so, if viewed like a repayment mortgage, the repayment of the principal under the annuity method is much lower in the early years.

MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational.

Where capital loans and finance leases made to third parties are repaid in annual or more frequent instalments of principal, these "capital receipts" arising from principal repayments reduce the capital financing requirement and thereby the need for MRP.

West Oxfordshire District Council has chosen to use the Equal Instalment Method in general but uses the Annuity Method where this most closely matches corresponding capital receipts, for example in the case of the loan to Cottsway housing which is being repaid in that profile. This avoids a mismatch between attributable MRP and the offsetting capital receipt.

If appropriate, shorter repayment periods (i.e. less than asset life) may be used for new investments.

Taking all available advice into account, the final decision on the determination of asset life rests with the Chief Finance Officer.

The General Fund MRP charge using the above method is estimated at £813,391 for 2023/24

**MRP**

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| MRP on internal/external borrowing | 1.03 | 1.19 | 1.78 | 2.28 | 2.77 |
| Capital Receipts (exc Asset Disposal) | 0.69 | 0.80 | 0.96 | 1.26 | 1.61 |
| MRP provision applied | 0.34 | 0.39 | 0.81 | 1.02 | 1.16 |

The newly opened soft play at Chipping Norton Leisure Centre

**Capital Financing Requirement**

The Council's cumulative outstanding amount of debt finance is expressed as its Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and is reduced by MRP and capital receipts used to replace debt. The CFR is expected to increase by £8.4m during 2023/24. Based on the figures shown above for expenditure and financing, the Council's estimated CFR is as follows:

## Capital Financing Requirement (CFR)

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| General fund services | 9.35 | 10.04 | 13.44 | 16.83 | 14.09 |
| Capital Investments | 16.52 | 29.62 | 34.62 | 39.62 | 44.62 |
| Total CFR | 25.87 | 39.66 | 48.06 | 56.45 | 58.71 |


WODC's Elmfield offices

As always, one of the ongoing large items of capital expenditure is the waste fleet. Waste vehicles typically have a long lead time but the pandemic has pushed that to over a year now causing expenditure for vehicles ordered in one year to take place the following year. The Council are working closely with Ubico to extend the timescales on the fleet as much as possible without increasing the costs of repairs and maintenance too much as the vehicle lives are extended.

Each replacement vehicle is reviewed to see whether lower running costs create sufficient savings for us to purchase a more expensive electric vehicle but this is not always practical for the heavy collection vehicles that make up the core of the fleet. In a rural district such as ours, most of the collection fleet have to have an operational range that exceeds that currently offered by their electrical alternatives. Ubico are investigating alternative fuel vehicles such as hydrogen powered and the hope is, that with a little more time, that technology will have developed far enough to be more readily available and affordable and will offer a practical solution that can deliver at the scale required. We have used additional funding from the Council's New Initiatives fund to cover the additional cost of two electric sweepers to help with our objective of reducing carbon emissions.

Another large item of ongoing expenditure is the Council's investment strategy which was approved in October 2020. The Council approved the investment of £75m over the following few years but this has proven challenging in the context of both increasingly constraining PWLB lending criteria and a lack of suitable investment opportunities. On this basis, while there is still authorisation for investments of up to £75m, only £12.3m has been spent so far and the MTFS includes a more modest £5m per annum in 23/24, 24/25 and 25/26.

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. In the current situation though, where PWLB guidance would not permit the Council to purchase replacement assets if it were to sell some of its current portfolio, it's unlikely that we would benefit in the long term from high levels of asset disposal. As can be seen from the table below, the estimates of potential asset sale are very low and are estimated based on previous years.

The lease and loan repayments relate to vehicles purchased and then leased to Ubico and loan repayments from Cottsway Housing Association and Southill Solar.

**Capital Receipts**

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Asset Disposal | 0 | 0 | 0 | 0 | 0 |
| Leases and Loans | 0.69 | 0.80 | 0.96 | 1.26 | 1.61 |
| | 0.69 | 0.80 | 0.96 | 1.26 | 1.61 |

Southill Solar Farm

## Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortfall in cash may be met by borrowing. Treasury management is discussed in more detail in the Treasury Management Strategy paper but in terms of Capital we will look at the impact that our capital plans have on projected borrowing requirements.

In the past all asset purchases, even those that might have been expected to require external borrowing to fund them, have been able to be funded out of existing cash balances, also known as internal borrowing. Our cashflow forecast shows that this is no longer possible and we will need to borrow externally before the end of 2022/23 and for most capital expenditure going forward unless funded by a future receipt of external funding.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

As part of the review of prudential indicators, the Council is asked to approve the following:

### Authorised limit and operational boundary for external debt £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Operational Boundary | 41.66 | 50.06 | 58.45 | 60.71 | 57.81 |
| Authorised Borrowing Limit | 46.66 | 55.06 | 63.45 | 65.71 | 62.81 |

Although capital expenditure is not charged directly to the revenue budget, as has been explained above, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants and expressed as a percentage of that.

### Estimates of financing costs to net revenue stream

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Interest Payable | 0 | 0.016 | 0.522 | 0.795 | 0.998 |
| MRP | 0.345 | 0.391 | 0.813 | 1.020 | 1.155 |
| Total borrowing costs | 0.345 | 0.407 | 1.336 | 1.814 | 2.153 |
| Net Revenue Stream (per MTFS) | 13.91 | 11.21 | 7.17 | 7.55 | 7.93 |
| Proportion of Net Revenue Stream | 2.48% | 3.63% | 18.63% | 24.04% | 27.14% |

The Council makes investments to assist local public services, including the successful support of the Gigaclear broadband rollout across the district and the purchase of the waste vehicle fleet. Many of these are crucial to our statutory provision of services but where the expenditure is not mandatory, the Council is required to find the most efficient way of delivering this service and where possible, seek grants or external funding to provide additional investment. Proposals should be brought forward with an appropriate business case to protect the Council from risk around unforeseen costs and to ensure that wherever possible any opportunity to raise additional revenue to support service delivery for the Council is explored.

**Net income from commercial & service investments to net revenue stream**

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Capital Investments | 4.06 | 3.92 | 5.37 | 5.37 | 5.37 |
| Service Investments | 0.20 | 0.20 | 1.25 | 1.61 | 1.71 |
| | 4.26 | 4.12 | 6.63 | 6.98 | 7.08 |
| Net Revenue Stream (per MTFS) | 13.78 | 11.21 | 7.17 | 7.55 | 7.93 |
| Proportion of Net Revenue Stream | 30.92% | 36.74% | 92.40% | 92.54% | 89.25% |

**Governance:** Decisions on service investments are made by the Council on advice from the Chief Finance Officer and must comply with the Capital Strategy and Investment Strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on service investments can be found in the Investment Strategy.


WODC's town centre location in Witney

**Current Projects**

In addition to the ongoing programme of investments in the Council's investment strategy, the Council is investing in a range of capital initiatives. The recent successful purchase of Marriotts Walk in Witney will invigorate that area with further work expected in the short to medium term. A small scale development of exemplar housing is underway at Walterbush Road in Chipping Norton, support by S106 affordable housing funds. The Council has already undertaken work on its Welch Way Office, transforming it into a customer access centre with further investment in that location planned in the coming year. The assessment of Council owned buildings for rooftop solar continues with proposals expected to come forward for investment in the coming financial year. This will provide green energy to the building's tenants and generate additional income for the Council.

Some remedial work on the Chipping Norton leisure centre has already taken place this year with a longer term solution being developed for the roof issues and expected to come forward in the next couple of months.

One of the most exciting projects underway is our agile working transformation. As with many organisations, the Council has given staff the option of hybrid working. This has reduced our need for office space and staff currently based in our Elmfield offices will join their colleagues in the Woodgreen offices with teams moving around within the building to spaces better suited to their new footprint. This gives us the opportunity to reduce our carbon footprint by reducing the office space required and frees up space to be rented to local businesses, helping them by providing sought after quality office space and generating another much needed income stream for the Council.

WODC Council chamber

Another aspect of the agile work project is the planned changes to the Council chamber. During the pandemic, we were able to hold our civic meetings online and this platform allowed members of the public to view proceedings from their homes. When the temporary allowance of online meetings ended and meetings were mandated to be in person again, this was no longer an option. Thanks to some grant funding we have been able to invest in a multi-media system that will allow meetings in the committee rooms and the Council chamber to be streamed going forward and allow hybrid participation of officers, members of the public and Cllrs who are unable to attend in person. Since modern hybrid working has also allowed people to work over wider geographical areas this is a great improvement in efficiency with officers no longer needing to drive long distances to make brief contributions to meetings. It also supports the Council's commitment to make proceedings more accessible to residents, allowing them to watch meetings without the need to travel to the Council offices.

As part of our modernisation of the Council chamber we also intend to remove the fixed furniture, replacing it with more flexible furniture that can be moved or removed as required. This will allow our chamber and meeting rooms to be rented for use by members of the public or local businesses to hold events and meetings which can also take advantage of the multi-media system to allow friends, family or colleagues to attend and participate even if they cannot be there in person.

The Council's Finance and Management Overview and Scrutiny Committee receives an annual report on the Council's investment property portfolio. In addition, the Council's Audit Committee also receives information on the Council's asset portfolio as part of the financial statements.

**Knowledge and Skills**

The Council employ (directly or through Publica Ltd), professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Finance Officer and several members of her team are qualified accountants with extensive experience. The Council pays for junior staff to study towards relevant professional qualifications such as the Chartered Institute of Public Finance and Accountancy (CIPFA).

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist consultants to advise upon specific, extra-ordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors
- Royal Institute Chartered Surveyors Registered Valuer

- Member institute welfare & facilities management
- Technical member of institute for occupational safety and health
- CIMA cert BA

The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:

- Fellows of the Chartered Institute of Legal Executives (CILEx)
- Student Member of the Chartered Institute of Legal Executives
- Solicitors

The Property and Legal teams work together with the Finance team to support the Council's Chief Finance Officer in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.

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**Annex L**

# Investment Strategy Report 2023/24

# West Oxfordshire District Council

## Summary

West Oxfordshire District Council invests for a variety of reasons. We invest in the delivery of our services. We are the custodians of third party monies such as external grants and developer contributions through S106. We also have a portfolio of commercial investments which further Council priorities while providing crucial support to our revenue budget and therefore the delivery of our services.

In 2022/23, the Council has, among other things, replaced some waste vehicles, supported the delivery of affordable housing in the district, given improvement grants for the homes of residents with mobility challenges, supported local community capital initiatives, completed the rollout of high speed broadband, purchased a high profile local shopping centre and started work to upgrade the Council chamber with multi-media facilities which will allow meetings to be viewed and speakers to participate remotely.

WODC Councillors and Officers in Marriott's Walk, Witney

The Council invests constantly in its waste and cleansing fleet to enable the delivery of its waste and recycling service. This presents challenges as, while our ambition is to move away from diesel vehicles, electric alternatives for most of the core collection vehicles can have a purchase price more than double the current budget and a range that, given the rural nature of our district, is insufficient to cover the required route on a single charge. What we have been able to do is to assess each vehicle as it comes due for replacement to evaluate whether its range requirements allow for an electrical replacement and, if they do, whether anticipated savings in repairs and running costs can mitigate the increased cost price. Other alternative fuels are also being investigated.

Existing and anticipated funding cuts placed new pressures on the Council's budget and in response to that, the Council endorsed a framework recovery investment strategy in October 2020 which laid out the criteria, in terms of yield and alignment with priorities, that any potential investment would be judged on. All investments must combine the delivery of the Council's priorities with revenue returns over and above the cost of borrowing that will provide additional funding to the Council to deliver services not only in the immediate year but over the life of the Medium Term Financial Strategy (MTFS).

While increasing restrictions on what the Council is allowed to invest in (discussed in more detail below) have made the recovery strategy very difficult to deliver, its importance remains and the Council continues to search for investment opportunities that align with its service priorities and deliver much needed support to our budget over the medium term.

In line with the aspirations of this strategy, we are taking a commercial view to all potential projects to ensure that revenue is generated where possible. This does not mean that we are seeking to charge for services where we would not have otherwise, rather it means that opportunities to generate income should not be ignored and that where income is able to be generated in a situation, the Council seeks to retain an appropriate proportion of it.

**Introduction**

The Council invests its money for three broad purposes:

- to generate additional revenue from surplus cash as a result of timing differences in its day-to-day activities. These are referred to as treasury management investments and are typically short to medium term cash funds with high liquidity but can be invested with the expectation of a longer term if our cashflow forecasting shows no medium term requirement for the cash.
- to support local public services by lending to other organisations or purchasing assets which generate no return but are used solely for the delivery of services (service investments), and
- to earn investment income (known as commercial investments) where, alongside the achievement of Council priorities, the objective is also to earn a return – although that may not be the primary purpose.

This Investment Strategy meets the requirements of the statutory guidance on Investments for Local Government which came into effect on 1 April 2018.

The Council's Capital Strategy is concerned with its future plans for investments in a broad range of projects, the funding for these is underpinned by the Treasury Management Strategy while the Investment Strategy considers the type of investments the Council might make in the context of the risk profile and return of those it already holds.

In October 2020, the Council approved a recovery investment strategy. While everything the Council does relates to serving the residents of the district by furthering the Council's stated priorities, the investment strategy was also designed to generate new revenue streams for the Council.

Expected large scale funding reductions have been deferred for several years now, making it appear in our MTFS that insurmountable funding gaps are always just beyond the current year. While there is, and will always be, great difficulty in estimating future governments funding settlements, the size of some of the uncertain elements in our funding in relation to that total funding requirement make us vulnerable to sudden shifts. New Homes Bonus has been extended again this year and topped up with an additional grant to bring it back to last year's level – but the government have made no commitment to extending it another year and it forms 25% of our external funding (including Business Rates and Council Tax). This huge reliance on these individual elements that are beyond our control causes financial vulnerability.

It has always been important for the Council to generate its own income as much as possible and the investment strategy agreed by Council was designed to increase that capacity. Two things have become apparent however since its inception. Firstly that the available options for investment are limited and therefore the amount of revenue that can be developed through the strategy is limited. Secondly, with the huge inflationary impacts we have seen this year, the investment strategy, even at its most ambitious, will not be enough to close the budget gap. In 2022/23, after growth we still had a surplus of £1.6 million but were predicting future losses in funding that would cause the budget to be in deficit and therefore continually eating into our reserves. As costs have risen this year that surplus has been consumed. Next year's budget is likely to be set at a deficit, using reserves to balance, even although the funding position is materially the same. Next year with further inflationary growth, albeit at a lower level, even if funding was to stay the same, we'd still be almost a million pounds in deficit.

Des Roche, Witney

The Council has a good track record of investments, having purchased a portfolio of commercial property in the past from existing capital receipts that provides a healthy net revenue stream that is crucial to supporting our budget today.

There has been however, a move in recent years by HM Treasury's PWLB lending facility (PWLB) – formerly the Public Work Loans Board to severely restrict what Councils are allowed to invest in. This is in response to a very small number of Councils investing large sums and apparently destabilising their finances as a result. Since the PWLB is a vital source of relatively low cost loans for the Council, it would be unwise to contravene its requirements unless we could be absolutely sure that we did not need to call on it. The requirements are so stringent however that the very act of "investing primarily for yield" is enough to render the Council ineligible to access their funds, even if the investment in question was not made using their funding.

It is permissible to purchase property for the purpose of regeneration or housing, and property purchased should be within the boundaries of the Council's area but any asset bought primarily for yield will preclude the authority from accessing PWLB funds.


The Old Courthouse – Council owned temporary accommodation

Whilst the previous prudential code stated that authorities must not "borrow more than or in advance of need" this new tightening of restrictions is much more prescriptive. There is some allowance for financing capital expenditure primarily related to the delivery of the authority's functions, temporary cashflow management or the refinance of current borrowing (including internal borrowing). This would allow us to borrow for example to replace the waste fleet – but that only helps with the timing of cashflow. There is no return on those vehicles and they do not repay the money spent on them. They are a cost that is paid for annually from our budget as part of our delivery of services. The more we spend on the vehicles, the higher the cost of service delivery.

The PWLB supports investment in Housing which includes spending on delivering new homes, improving existing homes and purchasing built homes to deliver housing services. While housing is an area we remain interested in and are seeking opportunities, the Council transferred its housing stock to an affordable housing provider decades ago so the skill sets required to build and manage housing no longer exist in the Council and would be expensive to buy in for small scale development. For this reason, any projects we are considering need to be in conjunction with an experienced partner to reduce the risk inherent in the construction process. We are currently supporting a developer with S106 monies to build an innovative small development of exemplar housing for sale in Chipping Norton which will emphasise the net zero elements of the build and also be sold at an affordable price.

The other category of investment we are exploring is regeneration which is defined as direct investments into assets to generate additional social or economic benefits. It does however caveat that it should fall into one or more of the following categories:

- The project addresses an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector
- That the authority is making a significant investment in the asset beyond the purchase price, developing them to improve them and / or change their use, or otherwise making a significant financial investment
- That the project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value

The Council has recently invested in Marriott's Walk in Witney with plans to invest further to bring the currently empty units into use. This is an exciting opportunity to re-invigorate not only that specific area but by extension, the high street which we hope will benefit all retailers and residents.


Cllr Duncan Enright on Witney high street

It's important to note that all projects are required to serve Council priorities, meet the criteria set out above and also be cash generating, providing returns that equal or better the rate agreed in the Council's investment strategy. It's very easy to find additional things to simply spend money on but very difficult to find appropriate income generating projects to actually invest in.

The Prudential Code does not require us to sell existing assets to fund new investments but does require us to consider that as an option when pursuing new opportunities. Capital receipts from asset sales can only be used for capital expenditure.

It also required the S151 officer to confirm that the Council has no intention, either now, or in the next three years, to invest primarily for financial return.

In accordance with this, we can confirm that West Oxfordshire District Council has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement than an authority must not borrow to invest for the primary purpose of financial return and that our capital programme includes no such plans.

The Council is currently considering the possibility of new business parks in the District to attract more employers to the area, equipping our commercial properties with rooftop solar, local regeneration and small scale housing.

**Treasury management investments**

In general, the Council receives the bulk of its funding (for example, from taxes and grants) before it pays for its expenditure (for example, through payroll and invoices). As a Council Tax 'billing authority' it collects local taxes on behalf of other local authorities and the Police and also holds reserves for future expenditure. Any cash surplus is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. Unfortunate impacts of the global economic instability has meant that while our treasury investments are performing well in terms of earnings, they have fallen significantly in capital value. We expect them to recover but this will take some time and means that, unless we are willing to crystallise the loss in value, they are not currently available to use for investing through the investment strategy and external borrowing will be used instead. We have previously internally borrowed for all investments so this need to externally borrow is not unexpected but the amount may have been reduced slightly by some of these funds if they had been available.

These investments contribute to the objectives of the Council by providing income to fund operational activity in support of the Council's priorities.

Details of the Council's policies and its 2022/23 plans for treasury management are covered in the Treasury Management Strategy in Annex I.

**Service investments: loans**

The Council lends money to support local public services and stimulate local economic growth. These include loans to organisations within the district which support the priorities of the Council.

The main risk when making service loans is that the borrower will be unable to repay the principal loaned and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

**Loans for service purposes £m**

| | Actual at 31st March 2022 | | | Forecast at 31st March 2023 | |
|---|---|---|---|---|---|
| Category of Borrower | Balance Owing | Loss Allowance | Figure in Accounts | Balance Owing | Approved Limit |
| | £ | £ | £ | £ | £ |
| Local Businesses | 2.62 | 0.00 | 2.62 | 2.40 | 2.40 |
| Town/Parish Councils | 0.13 | 0.00 | 0.13 | 0.11 | 0.11 |
| Housing Associations | 7.54 | 0.00 | 7.54 | 7.26 | 7.26 |
| Local Residents (Equity Loans) | 0.23 | 0.00 | 0.23 | 0.23 | 0.23 |
| Employees (Car loans) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | 10.52 | 0.00 | 10.52 | 10.01 | 10.01 |

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The loans that the Council has made are limited to specific service areas where the risk of non-payment is minimal. As a result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default then the risk will be assessed and a provision established at that time. Should a loan default, the Council will make every reasonable effort to collect the full sum lent and recover any overdue repayments.

The Council assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring that appropriate legal documentation is in place to secure the Council's money.

**Service investments: shares**

The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is wholly-owned by eight local authorities and operates as a not for profit enterprise. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council.

One of the risks of investing in shares is that they potentially could fall in value meaning that the initial outlay may not be recovered. This is not relevant with the share held in Ubico for the reasons discussed below. The Council has no other shareholdings. The Council also owns Publica along with Cotswold District Council, Forest of Dean District Council and Cheltenham Borough Council but it is limited by guarantee and has no share capital. The same potential for upside or loss exists as with Ubico.

**Shares held for service purposes**

| Category of Company | Amount Invested | Gains or losses | Value in Accounts | Approved Limit |
|---|---|---|---|---|
| Local Authority owned company | £1 | £0 | £1 | £1 |

The Council has not invested into Ubico to generate a financial return. It has invested purely to support service provision. Ubico is a cost sharing company and any surplus generated within Ubico Ltd is returned to the partner Councils (shareholders) but any deficit would also be met by the Councils. This means that the Council's investment in Ubico carries with it an obligation to underwrite the costs of the service and that, while a budget is agreed each financial year, the Council must cover in cash any overspend to that budget which relates to the services delivered in West Oxfordshire. This is the material risk in the Ubico investment, not the £1 shareholding. This risk is being mitigated through regular communication with Ubico who are happy to give complete transparency. We are also working with them collaboratively on a service transformation programme to find new efficiencies and more cost effective ways of working.


An electric sweeper

The shareholding in Ubico does not appreciate in value due to the cost sharing nature of the company, it merely gives a shareholders stake in the control of the company, although the board of Ubico does not include all stakeholder Councils and does not currently include West Oxfordshire District Council or any of the other "Publica" stakeholder Councils. The Council has no intention to sell its investment in the foreseeable future and arguably the principal of teckal precludes ownership by third parties.

Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

### Commercial investments in property

Investment Property is defined in the CIPFA code of practice on Local Authority Accounting as property (land or building, or both) held solely to earn rentals, for capital appreciation, or both. The Council holds a number of assets which it classifies as Investment Properties.

The Council has historically invested in Investment Property both within West Oxfordshire and outside of the district, funded through capital receipts, with the intention of generating ongoing income to support the revenue budget.

Investment Property performance is reported to the Council's Finance and Management Overview and Scrutiny (FMOS) Committee on an annual basis.

With the tightening of PWLB's restrictions on allowable investments, the existing property portfolio is extremely valuable to the Council. Were we to sell any of it we would realise an immediate cash gain in the form of capital receipts but would not be able to use that to support our revenue budget and, for all the reasons outlined above, would find it difficult to find another replacement investment that would deliver ongoing revenue budget support in the way that the existing portfolio does.

### Properties held for investment purposes in £m

| Type of Property | Inside District £m | Outside District £m | Inside County £m | Outside County £m |
|---|---|---|---|---|
| Commercial Investment Property | 19.19 | 28.29 | 44.15 | 3.33 |
| Industrial Estates | 7.27 | 0.00 | 7.27 | 0.00 |
| Subtotal | 26.46 | 28.29 | 51.42 | 3.33 |
| Total Held | **54.75** | | **54.75** | |

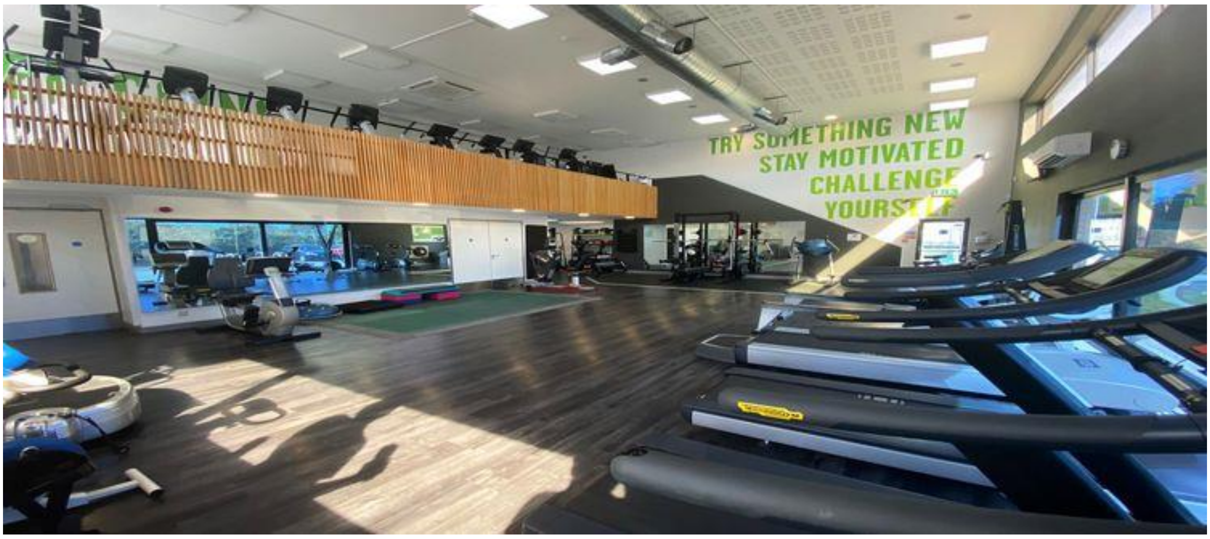
The table above shows the value of the properties held by the Council at 31st of March 2022. The valuations at 31st March 2023 will be assessed by our ongoing valuation process and by external audit. The table shows the geographical split of properties inside the district and outside it and which of those properties are located inside the county. It should be noted that while just over half of the portfolio are outside of West Oxfordshire, virtually all properties are within Oxfordshire itself.

In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio is made each year as part of the final accounts process. Investment Property is valued at market value.

The fair value of the Council's investment property portfolio dropped due to the impact of the pandemic and was less than the purchase price of the assets in a number of cases. The current economic situation is also expected to supress the current value of property with rents typically reducing. The market seems to be hopeful of future increases indicated by short terms and rent reviews No valuation has yet been undertaken for March 2023 when further updates will be available. The Council's Investment Property is held primarily to generate a stable income stream to support the revenue budget. Should a property be sold, any 'loss' will be recognised at that point. The Council has no immediate plans to dispose of any Investment Property.

In order to maximise returns, the Council aims to generate a revenue return from its Investment Property assets which is greater than the return able to be generated by its Treasury Management activity. It is understood that the fair value of property will fluctuate. The Council aims wherever possible to secure its ongoing revenue streams by letting to tenants on long leases. The return available from Treasury investments is also subject to change as interest rates rise and fall.




Chipping Norton Leisure Centre

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the Council has cash funds that can be accessed when they are needed, the Treasury Management Strategy includes the provision of liquid investments should the Council be in need of cash. We currently have a Treasury Management Investment portfolio with good short term access to liquidity so we anticipate no circumstance where the Council would be required to sell Investment Property to raise money quickly.

**Loan commitments and financial guarantees**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

The Council is a shareholder of Ubico Ltd (one eighth) and is a joint partner in Publica Group (Support) Limited (one quarter owner). In both cases, should the company overspend, the Council would be liable for its share of the additional costs. In both companies, transparency of reporting to the Council mitigates the risk that additional sums will be required without adequate notice.

The Council has made the following commitment in terms of cash flow cover to both Publica and Ubico and the expectation is that these will continue for 2023/24

- Publica Group - £500k up to one year duration
- Ubico - £500k up to one year duration

The Council needs investment generated income to fund its revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives of the Council is dependent on achieving the expected income from investments over the lifecycle of the Medium Term Financial Strategy (MTFS). If it cannot generate sufficient income to fund its budget, the Council will be required to draw additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services.

The table below includes the hoped for return generated by the investment strategy outlined above and in the MTFS, albeit that this is a reduced and hopefully more attainable level than that projected previously.

**Proportionality of investments**

| | 2021/22 Actual £m | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Budget £m | 2025/26 Budget £m |
|---|---|---|---|---|---|
| Gross Service Expenditure* | 33.90 | 29.79 | 30.01 | 31.51 | 32.46 |
| Treasury Investment Income | 0.79 | 1.10 | 0.91 | 0.86 | 0.81 |
| Loans Income | 0.18 | 0.19 | 0.19 | 0.20 | 0.21 |
| Share Dividends | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Commercial Investments: Property | 4.06 | 3.92 | 5.37 | 5.37 | 5.37 |
| Total | 5.04 | 5.20 | 6.48 | 6.43 | 6.39 |
| Investment income as a proportion of expenditure | 14.87% | 17.47% | 21.58% | 20.41% | 19.68% |

* excluding Housing Benefit payments

Government guidance is that local authorities must not borrow more than, or in advance of their needs, purely in order to profit from the investment of the extra sums borrowed. The Council has plans to borrow in 23/24 to finance its investment strategy but there are no plans to borrow in advance of need.

**Scrutiny arrangements**

The Executive will make recommendations to full Council on new investments that are not considered to be covered under the Treasury Management strategy.

Financial Performance is reported quarterly to the Council's Overview and Scrutiny Committee and to the Executive. This includes the performance of all income and expenditure against budget.

An annual report on Commercial Property is presented to the Finance and Management Overview and Scrutiny Committee which will include yield; valuation and risk to future revenue. Treasury Management performance is reported regularly to the Council's Finance and Management Overview and Scrutiny Committee and at half-year and year-end to full Council.

The Council's internal audit provider (South West Audit Partnership Ltd) regularly audits the Council's treasury management activity and its processes and procedures for approving investment and performance management. SWAP report to the Council's Audit and General Purposes Committee.

**Investment indicators**

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

The table below shows the Council's total exposure to potential investment losses. This would include amounts the Council is contractually committed to lend but have yet to be drawn down, but no such obligations exist at this point in time.

The Council has issued no guarantees to any third party loans.

**Total investment exposure £m**

| | 31st Mar 2022 Actual £m | 31st Mar 2023 Forecast £m | 31st Mar 2024 Forecast £m |
|---|---|---|---|
| Treasury Management investments | 31.60 | 17.31 | 17.31 |
| Service Investments: Loans | 10.52 | 10.01 | 9.49 |
| Service investments: shares (£1) | 0.00 | 0.00 | 0.00 |
| Property investments | 54.75 | 67.85 | 72.85 |
| Total investments / exposure | 96.87 | 95.16 | 99.65 |

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular loan liabilities and future investments may require external borrowing because of previous internal borrowing, this guidance is difficult to comply with. The capital financing requirement (CFR) gives an indication of how much internal borrowing the Council has undertaken so far and also shows how that funding position is expected to move towards external borrowing over time.

Currently, almost all of the Council's investments have been funded by usable reserves, capital receipts and cash balances but the latest acquisitions have, as anticipated, realised our need to externally borrow.

**Forecast borrowing requirement £m**

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Less external borrowing | (10.00) | (17.00) | (26.50) | (31.50) | (31.50) |
| Internal borrowing | 29.66 | 31.06 | 29.95 | 27.21 | 24.31 |
| Usable reserves | (35.43) | (32.49) | (29.78) | (24.33) | (19.27) |
| Working capital | (10.85) | (10.70) | (10.87) | (11.03) | (11.19) |
| Cash available for investments | 16.62 | 12.13 | 10.69 | 8.14 | 6.15 |

Carterton swimming pool

The table below shows the investment income received, less the associated costs, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred. It is also worth noting that while all of these investments have previously been funded by internal borrowing, and therefore currently have no cost of borrowing associated with them, new investments will be financed by external borrowing and some current investments may also have to be refinanced with external borrowing and the interest rate associated with that will reduce their return accordingly.

**Investment net rate of return**

| | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|
| Treasury Management | 2.12% | 3.92% | 3.92% |
| <u>Service investments: Loans</u> | | | |
| Local Businesses | 3.85% | 3.85% | 3.85% |
| Town & Parish Councils | 1.40% | 1.40% | 1.40% |
| Housing Associations | 2.56% | 2.56% | 2.56% |
| Local Residents (equity loans) | 0.00% | 0.00% | 0.00% |
| Employees (car loans) | 2.00% | 2.00% | 2.00% |
| Service investments: Shares | 0.00% | 0.00% | 0.00% |
| Commercial investments | 7.15% | 6.62% | 6.62% |

The Councils £1 share in both Ubico and Publica is not held to generate any return via a dividend or growth in value. They are both profit sharing companies and any savings or surplus generated results in lower contract fees for shareholders.

The Treasury Management return is diluted by the relatively large amount of cash held as short term, highly liquid funds. For returns on higher interest earning pooled funds, please see the Treasury Strategy paper.

The table above shows the importance to the support of the Council's revenue budget of the current commercial investment portfolio.

**Summary of knowledge and skills available to the Council:**

The Council employ (directly or through Publica Ltd), professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Finance Officer and several members of her team are qualified accountants with extensive experience. The Council pays for junior staff to study towards relevant professional qualifications such as the Chartered Institute of Public Finance and Accountancy (CIPFA).

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist consultants to advise upon specific, extra-ordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors
- Royal Institute Chartered Surveyors Registered Valuer

- Member institute welfare & facilities management
- Technical member of institute for occupational safety and health
- CIMA cert BA

The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:

- Fellows of the Chartered Institute of Legal Executives (CILEx)
- Student Member of the Chartered Institute of Legal Executives
- Solicitors

The Property and Legal teams work together with the Finance team to support the Council's Chief Finance Officer in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.

**Annex M**

# Treasury Management Strategy Report 2023/24

# West Oxfordshire District Council

## Summary

The Council currently has cash invested in various funds, delivering a healthy and important revenue stream to support the Council's revenue budget. While there is a need for the Council to find funding to realise its investment strategy ambitions, recent events in the financial markets have meant that many of our funds lost significant amounts of their capital value so while we expect them to recover over time, to avoid crystallising these losses, the expectation is that for the short to medium term, our treasury investments will remain relatively static in terms of where they are invested. Revenue returns are currently strong.

The Council has always stated its intention to endeavour to maintain an investment balance of £10m which allows us to retain our status under MiFiD 2 criteria as a professional investor. This categorisation allows us access to a wider range of financial instruments than we would otherwise be able to use.

The current levels of Treasury Investment are made up not only of the Council's general reserves but also capital receipts, unspent earmarked reserves and capital grants unapplied. The expectation is that these will be used up over time as they have designated purposes and in some cases we are merely the custodians of them.

The Women's Tour cycling event

While achieving high returns from invested treasury funds is less important to the Council than the need to limit the risk of loss, the size of the portfolio means that changes in fund allocation and strategy have a significant impact on income. The Council is reviewing the level of advice it currently contracts along with the investment decision making processes and protocols in conjunction with the Finance and

Management Overview and Scrutiny Committee. While no one can say with certainty whether the recent capital losses could have been prevented, a more proactive approach to fund management would have certainly given us more choices. A tender has gone out for an enhanced level of support and a new contract should be in place imminently.

**Introduction**

Treasury Management is the management of the Authority's cash flows, borrowing and treasury investments, and the associated risks. The Authority has invested significant sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risks are therefore central to the Authority's prudent financial management. Some of these risks have been realised in the current financial year. It was recognised previously that the level of external treasury management support needed to be strengthened but this sought after shift to a more active and proactive support contract was in progress but not yet in place when the upheaval in the markets resulted in large reductions in the capital value of our pooled funds.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice 2017 Edition' (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Non treasury investments, are considered in the Council's Investment Strategy paper but the approach to borrowing outlined here and the availability of cash will underpin both that paper and the Capital Strategy paper.


Cllr Rizvana Poole at the Chippy Larder

Treasury Management is important to both the short and long term plans of the Council. On a day to day basis it ensures that there is sufficient immediately available cash to settle all payments the Council needs to make, that surplus cash is earning money where possible and that everywhere that cash is held has been assessed for current risk.

In the longer term it provides an important source of income for the Council and underpins the availability of cash and selection of sources of borrowing for capital spend and investments. The revenue budget is set out at the start of the year and monitored quarterly to ensure that we stay within plan but the management of cash is a daily function that facilitates every transaction the Council undertakes. We regularly receive cash on behalf of third parties such as council tax, business rates, grant funding and S106 monies and the Treasury function must deal appropriately with those monies and forecast when they will need to be "spent" in order to determine the best way to do that.

**Balances**

On 31st December 2022, the Authority held £35.9m of investments as shown in the tables below.

**WODC Treasury investments – one year return**

| | | 31st Dec 21 to 31st Dec 22 | | |
|---|---|---|---|---|
| **Investments** | 31st Dec 2022 | Capital Return | Income Return | Total Return |
| | £ | | | |
| Money Market Funds | 11,010,000 | 0.00% | 3.32% | 3.32% |
| Call Accounts | 1,580,000 | 0.00% | 0.40% | 0.40% |
| DMO (Bank of England) | 8,000,000 | 0.00% | 3.08% | 3.08% |
| Internal Investments | 20,590,000 | 0.00% | 3.02% | 3.02% |
| | | | | |
| Cash Plus and Short Bond Fund | 1,989,372 | -2.49% | 1.37% | -1.12% |
| | | | | |
| Strategic Pooled Funds: | | | | |
| Aegon Diversified Monthly Income Fu | 2,659,081 | -12.33% | 4.36% | -7.97% |
| CCLA Diversified Income Fund | 2,759,392 | -10.23% | 2.30% | -7.93% |
| M & G Strategic Corporate Bond | 1,733,749 | -16.30% | 3.10% | -13.21% |
| Royal London Short Dated Credit Fun | 1,769,201 | -10.15% | 2.47% | -7.69% |
| Schroder Income Maximiser Fund | 858,868 | -5.81% | 7.32% | 1.51% |
| Threadneedle UK Equity Income Fund | 1,026,329 | -5.31% | 3.46% | -1.85% |
| UBS Multi Asset Income Fund | 1,463,275 | -19.82% | 5.29% | -14.53% |
| Fundamentum Social Housing REIT | 1,040,000 | 0.97% | 2.48% | 3.45% |
| | 13,309,895 | -11.26% | 3.61% | -7.64% |
| | | | | |
| Total Investment | 35,889,267 | Annualised income return | | 3.25% |
| Pooled funds | 13,309,895 | Annualised income return | | 3.92% |

You can see from the table above that there is a spread of holdings both of shorter term more liquid holdings and of longer term holdings which have an element of both capital appreciation (or depreciation) and income.

The cash position over the last year has started to return to more normal levels after the pandemic which saw huge influxes of monies for Section 31 support and Covid grants, often with large uncertainty over when the residual monies would need to be paid back to the government. The Council now has a much improved cashflow forecast giving us more certainty of the cash requirements which is essential when forecasting cash requirements for borrowing. We have also changed our payment processes to reduce the amount of working capital required. This helps to keep our borrowing requirement at as low a level as possible – which is essential when interest rates are currently running at a much higher level than previously anticipated, which negatively impacts potential investment returns. There is also an active lending market between local authorities for short term requirements making it possible to leave money in higher return funds and supplement a fluctuation in working capital requirements with short term borrowing if interest rates determine that as the more advantageous course of action.

**WODC Treasury investments – five year return**

| | | 31st Dec 17 to 31st Dec 22 | | |
|---|---|---|---|---|
| **Investments** | 31st Dec 22 | Capital Return | Income Return | Total Return |
| | £ | | | |
| Strategic Pooled Funds: | | | | |
| Aegon Diversified Monthly Income Fund | 2,659,081 | -11.36% | 8.32% | -3.04% |
| CCLA Diversified Income Fund | 2,759,392 | -8.04% | 5.95% | -2.09% |
| M & G Strategic Corporate Bond | 1,733,749 | -15.40% | 15.49% | 0.09% |
| Royal London Short Dated Credit Fund | 1,769,201 | -10.77% | 8.83% | -1.95% |
| Schroder Income Maximiser Fund | 858,868 | -20.97% | 31.35% | 10.38% |
| Threadneedle UK Equity Income Fund | 1,026,329 | 2.63% | 17.33% | 19.97% |
| UBS Multi Asset Income Fund | 1,463,275 | -26.47% | 22.03% | -4.44% |
| Fundamentum Social Housing REIT | 1,040,000 | 4.00% | 5.90% | 9.90% |
| | 13,309,895 | -3.76% | 3.52% | -0.24% |
| | | | | |
| Pooled Funds | 13,309,895 | Annualised income return | | 3.52% |


Cllr Joy Aitman (centre) with members of the Charlbury Bowls Club

## Borrowing requirement

The forecast borrowing requirement tracks the transition from internal borrowing to external borrowing showing our Capital Financing Requirement (CFR) and how increasing capital funding requirements will affect the amount of cash available for investment. The balance between retained treasury investments and external borrowing will be dictated by the relative interest rates for both borrowing and investment and the recovery of the capital values of the funds.

In the table below, the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The Authority's strategy has been to maintain investments below their underlying levels, using the cash for internal borrowing as discussed above.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table below shows the use of borrowing expected to change the Council's debt free position from 22/23 onwards, should sufficient investment opportunities be found.

### Forecast borrowing requirement £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Less external borrowing | (10.00) | (17.00) | (26.50) | (31.50) | (31.50) |
| Internal borrowing | 29.66 | 31.06 | 29.95 | 27.21 | 24.31 |
| Usable reserves | (35.43) | (32.49) | (29.78) | (24.33) | (19.27) |
| Working capital | (10.85) | (10.70) | (10.87) | (11.03) | (11.19) |
| Cash available for investments | 16.62 | 12.13 | 10.69 | 8.14 | 6.15 |

The authorised limit for external debt uses the calculated CFR to set limits for agreement on the amount of external debt that it would be prudent for the authority to stay within. Above the CFR there is an operational boundary which should provide an early warning system that we are close to our limits, followed by the Council approved Authorised limit, which should never be exceeded.

The Council is asked to approve the following authorised limit:

### Authorised limit and operational boundary for external debt £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Operational Boundary | 41.66 | 50.06 | 58.45 | 60.71 | 57.81 |
| Authorised Borrowing Limit | 46.66 | 55.06 | 63.45 | 65.71 | 62.81 |

This limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The final prudential indicator in this set is the liability benchmark. It tracks the projected situation were we to use up all of our available funds ahead of borrowing. It shows the funding requirement we currently have (CFR) and how we are projecting that into the future and how much of that could be funded by usable reserves should we choose to do so. It takes into account our balance sheet working capital in the form of debtors and creditors, plus a liquidity allowance which we have set around the balance we intend to maintain in pooled funds till they recover their capital value. The liability benchmark should then show the level of external funding required. Our estimated borrowing is within this indicator showing that we are making good use of internal borrowing before going externally. While it shows that if we are unable to recover the capital value of our currently invested funds we may have to increase our external borrowing, it's important to note that working capital balances are very difficult to project accurately far in advance and this indicator will be reviewed regularly. What it does show is that our expected external borrowing levels are justified and prudent. The liquidity allowance of £16m allows us to hold our current treasury investments pending capital recovery and also keeps us above the £10m threshold required to qualify as a professional investor under MiFiD 2.

**Liability Benchmark £m**

| | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Less usable reserves | (35.43) | (32.49) | (29.78) | (24.33) | (19.27) |
| Less working capital | (10.85) | (10.70) | (10.87) | (11.03) | (11.19) |
| Net loans requirement | (6.62) | 4.87 | 15.81 | 23.36 | 25.35 |
| Plus liquidity allowance | 16.00 | 16.00 | 16.00 | 16.00 | 16.00 |
| Liability Benchmark | 9.38 | 20.87 | 31.81 | 39.36 | 41.35 |

**Borrowing Strategy**

The Authority will enter into debt before the end of 2022/23 to fund the recent purchase under the investment strategy. Going forward, we are unlikely to be able to fund the replacement of the waste vehicle fleet and other planned capital expenditure out of working capital which is demonstrated by the table above.

The Authority may need to convert some of its current internal borrowing into external borrowing, providing this does not exceed the authorised limit but there are no current plans to borrow in advance of need.

The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

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

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. A mixture of short term and long term borrowing will be used as prudent determined by the medium to long term expectations on interest rates.

While very short term requirements may involve borrowing from other local authorities, if longer term loans were considered appropriate, the preferred option would be to use the Public Works Loan Board (PWLB). The Council will however consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield but the Council's investment strategy aims to find investments within the local area that deliver the Council's priorities and are compliant with the PWLB requirements.

**Sources of borrowing:**

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

- HM Treasury's PWLB lending facility (formerly Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Oxfordshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Community bonds

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

**Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

**Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

If we were to borrow the full £10m we expect in 2022/23 and the £7m we are forecasting spread evenly through 23/24, the impact of a 1% rise or fall in variable interest rates would be as follows:

**Interest rate exposures**

| | Limit £k |
|---|---|
| Upper limit on one year revenue impact of a 1% rise in interest rates | (135) |
| Upper limit on one year revenue impact of a 1% fall in interest rates | 135 |

We are also required to set upper and lower limits for the maturity structure of any borrowing. The reality is that the period of the loan will be determined by the optimum affordability based on the cashflows delivered by the project but should not exceed the life of the underlying asset it is funding.

| **Maturity structure of borrowing** | Upper Limit | Lower Limit |
|---|---|---|
| Under 12 months | 100% | 0% |
| 12 months and within 24 months | 100% | 0% |
| 24 months and within 5 years | 100% | 0% |
| 5 years and within 10 years | 100% | 0% |
| 10 years and within 30 years | 100% | 0% |
| 30 years and above | 100% | 0% |


Collecting donations for Ukraine in Carterton

## Treasury Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

### Objectives

Both the CIPFA Code and the CLG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. While this is a sensible objective it is obviously more difficult in times of unprecedentedly high inflation.

### Strategy

Given the relatively low returns from short-term unsecured bank investments, the Council, in previous years, diversified into more secure and/or higher yielding asset classes and this strategy has been maintained through 2022/23. The majority of the Council's current surplus cash is invested in money market funds and pooled funds.

**Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

**Treasury investment counterparties and limits**

| Sector | Time Limit | Counterparty Limit | Sector Limit |
|---|---|---|---|
| The UK Government | 50 years | Unlimited | n/a |
| Local Authorities | 3 years | £15m | Unlimited |
| Other Government Entities | 25 years | £4m | Unlimited |
| Secured investments* | 25 years | £10m | Unlimited |
| Banks (unsecured)* | 13 months | £3m | £10m |
| Building societies (unsecured)* | 13 months | £2m | £5m |
| Registered providers (unsecured)* | 5 years | £3m | £5m |
| Money market funds* | n/a | £5m | £25m |
| Strategic pooled funds | n/a | £5m | £25m |
| Real estate investment trusts | n/a | £3m | £5m |
| Other investments* | 5 years | £5m | £10m |

*Treasury Management investments will only be made with entities whose lowest published long term rating is no lower than A-

Some Government entities who were previously viewed as a very secure counterparty are currently experiencing financial difficulties. While the ability to lend to them has not been restricted in the table above, this is because the limits are set by sector. All transactions should, however, be considered with a suitable level of due diligence. Lending appraisal and approval processes are being reviewed and revised under the new treasury investment strategy which will restrict the authority to approve these to the Section 151 Officer, within the limits of the table above.

Cllrs join residents at Charlbury warm spaces

**Minimum Credit rating** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Secured Investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**Banks and building societies (unsecured**): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed. If the Registered Provider has no credit rating then due diligence checks through our external treasury advisors will be carried out beforehand.

**Money market funds**: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will seek to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic Pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

**Other investments**: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk. This is reflected in the lower time and sector limits. Additional due diligence and monitoring would be required in these instances.

**Operational bank accounts:** The Council banks with Lloyds (Lloyds Banking Group). On adoption of this Strategy, it will meet the minimum credit criteria of A- (or equivalent) long term. It is the Councils intention that even if the credit rating of Lloyds Bank falls below the minimum criteria A- the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. This would of course be reviewed should the credit rating fall significantly.

**Policy Investments:** The Council provides cash-flow cover for third-party organisations linked to the Council. The following limit is set for 2023/24:-

- Publica Group - £500k up to one year duration
- Ubico - £500k up to one year duration

**Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation, and avoided completely if possible, until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example. This may cause investment returns to fall but would protect the principal sum invested.

**Investment limits**:

The Council's revenue reserves available to cover investment losses are forecast to be £29.1 million on 31st March 2023. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and registered providers) will not exceed £5.8 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

In reality most investments will fall well below this threshold but we do currently have just over £7.5m invested with Cottsway Housing Association secured on the houses being built.

### Investment limits

| | **Cash limit** |
|---|---|
| Any single organisation, except the UK Central Govt | £5m each |
| UK Central Govt | unlimited |
| Any group of organisations under the same ownership | £5m per group |
| Any group of pooled funds under the same mgmt | £5m per manager |
| Real Estate Investment Trusts (REITS) | £3m max per REIT |
| Foreign countries | £1m per country |
| Registered providers | £10m in total |
| Unsecured investments with building societies | £2m in total per BS |
| Money Market Funds | £5m per MMF |

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.


Cllrs Dan Levy, Duncan Enright & Joy Aitman with Michelle Morgan on a Facebook Live session

### Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

**Credit risk indicator**

| | Rating |
|---|---|
| Portfolio Average Credit Target | A- |
| Portfolio Credit Risk at 31st Dec 22 | AA- |

**Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

**Interest rate exposures**

| | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Upper limit on fixed interest rate exposure | 100% | 100% | 100% |
| Upper limit on variable interest rate | 100% | 100% | 100% |

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. The table above reflects the fact that, at time of writing, we have no current borrowing and that any future borrowing would be recommended on its merit and suitability as the need arose. The Councils preference is not to undertake variable rate borrowing over long periods of time.

**Principal sums invested for periods longer than 364 days:** The purpose of this indicator is to quantify and control cash tied up for longer than the current financial year. Penalties may be incurred for money withdrawn early but for the reasons explained above, longer term investment opportunities are likely to need to be held where they are in the short to medium term to avoid crystallising capital losses. Although removing funds early potentially risks a variation in capital value, in most cases the money can be withdrawn in around a week and the returns that can be earned in the meantime are significant. Where funds are known to be needed they would not be placed in long term funds but in the absence of firm timescales, it is beneficial to the Council to earn as much on the available funding as possible, within the constraints in the tables above.

The limits on the long-term principal sum invested to final maturities beyond the period end will be:

**Price risk indicator**

| | 2023/24 | 2024/25 | 2025/26 | No fixed date |
|---|---|---|---|---|
| Limit on principal invested beyond year end | £20m | £20m | £20m | £20m |

**Other Items**

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

**Policy on the use of financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act*

*2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit

**Miffid 2:** Is a legislative framework instituted by the European Union to regulate the financial markets and improve protections for investors. This Council has elected for Professional Client Status which means that to be able to invest in certain investments, it must hold a minimum of £10m in investments. If this falls below the minimum level then access to certain financial market instruments could be made unavailable to this Council. This threshold will be monitored and taken into consideration when evaluating whether to borrow externally or cash in an investment.

**Investment training:** The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff will regularly attend training courses, seminars and conferences provided by Arlingclose, CIPFA and other such organisations.

**Investment advisers:** This Council appointed Arlingclose Limited as treasury management advisers back in December 2018 after a joint tender with Cotswold District Council. The contract is coming to an end, a tender process has already been run, the level of desired treasury support has been increased and a new contract will be placed imminently.

Cabinet on tour

## Appendix 1

## Arlingclose Limited Economic Forecast January 2023

### Economic background:

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

**Credit outlook:**

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

**Interest rate forecast:**

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

## Arlingclose Economic & Interest Rate Forecast – December 2022

**Underlying assumptions:**

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

**Forecast:**

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

| | Current | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.75 | 1.00 | 1.00 | 1.00 | 1.25 | 1.50 | 1.75 | 1.50 | 1.25 | 1.25 | 1.25 |
| Arlingclose Central Case | 3.50 | 4.00 | 4.25 | 4.25 | 4.25 | 4.25 | 4.00 | 3.75 | 3.50 | 3.25 | 3.25 | 3.25 | 3.25 |
| Downside risk | 0.00 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| | | | | | | | | | | | | | |
| 3-month money market rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.75 | 1.00 | 1.00 | 1.00 | 1.25 | 1.50 | 1.75 | 1.50 | 1.25 | 1.25 | 1.25 |
| Arlingclose Central Case | 3.00 | 4.40 | 4.40 | 4.40 | 4.35 | 4.30 | 4.25 | 4.00 | 3.75 | 3.50 | 3.40 | 3.40 | 3.40 |
| Downside risk | 0.00 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| | | | | | | | | | | | | | |
| 5yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Arlingclose Central Case | 3.43 | 3.60 | 3.80 | 3.80 | 3.80 | 3.70 | 3.60 | 3.50 | 3.40 | 3.30 | 3.30 | 3.30 | 3.30 |
| Downside risk | 0.00 | 0.80 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| | | | | | | | | | | | | | |
| 10yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Arlingclose Central Case | 3.47 | 3.50 | 3.60 | 3.60 | 3.60 | 3.60 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| Downside risk | 0.00 | 0.80 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| | | | | | | | | | | | | | |
| 20yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Arlingclose Central Case | 3.86 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| Downside risk | 0.00 | 0.80 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| | | | | | | | | | | | | | |
| 50yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Arlingclose Central Case | 3.46 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 | 3.60 |
| Downside risk | 0.00 | 0.80 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

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## Summary of Prudential Indicators

The Council is requested to approve the following Prudential Indicators for 2023/24 which are discussed in detail in the Capital Strategy (Annex K), the Treasury Management Strategy (Annex M) and the Investment Strategy (Annex L).

### Indicators contained within the Capital Strategy

### Estimates of capital expenditure in £m

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Capital Expenditure | 5.69 | 30.60 | 12.07 | 12.01 | 6.37 |

### Sources of capital funding £m

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| External Sources | 1.61 | 2.38 | 0.80 | 0.80 | 0.80 |
| Own Resources | 0.54 | 4.21 | 0.92 | 0.54 | 0.54 |
| Internal & External Borrowing | 3.53 | 24.01 | 10.35 | 10.67 | 5.03 |
| | 5.69 | 30.60 | 12.07 | 12.01 | 6.37 |

### MRP

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| MRP on internal/external borrowing | 1.03 | 1.19 | 1.78 | 2.28 | 2.77 |
| Capital Receipts (exc Asset Disposal) | 0.69 | 0.80 | 0.96 | 1.26 | 1.61 |
| MRP provision applied | 0.34 | 0.39 | 0.81 | 1.02 | 1.16 |

### Capital Financing Requirement (CFR)

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| General fund services | 9.35 | 10.04 | 13.44 | 16.83 | 14.09 |
| Capital Investments | 16.52 | 29.62 | 34.62 | 39.62 | 44.62 |
| Total CFR | 25.87 | 39.66 | 48.06 | 56.45 | 58.71 |

### Capital Receipts

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Asset Disposal | 0 | 0 | 0 | 0 | 0 |
| Leases and Loans | 0.69 | 0.80 | 0.96 | 1.26 | 1.61 |
| | 0.69 | 0.80 | 0.96 | 1.26 | 1.61 |

### Authorised limit and operational boundary for external debt £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Operational Boundary | 41.66 | 50.06 | 58.45 | 60.71 | 57.81 |
| Authorised Borrowing Limit | 46.66 | 55.06 | 63.45 | 65.71 | 62.81 |

## Estimates of financing costs to net revenue stream

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Interest Payable | 0 | 0.016 | 0.522 | 0.795 | 0.998 |
| MRP | 0.345 | 0.391 | 0.813 | 1.020 | 1.155 |
| Total borrowing costs | 0.345 | 0.407 | 1.336 | 1.814 | 2.153 |
| Net Revenue Stream (per MTFS) | 13.78 | 11.21 | 7.17 | 7.55 | 7.93 |
| Proportion of Net Revenue Stream | 2.50% | 3.63% | 18.63% | 24.04% | 27.14% |

## Net income from commercial & service investments to net revenue stream

| | 2021/22 Actual £m | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m |
|---|---|---|---|---|---|
| Capital Investments | 4.06 | 3.92 | 5.37 | 5.37 | 5.37 |
| Service Investments | 0.20 | 0.20 | 1.25 | 1.61 | 1.71 |
| | 4.26 | 4.12 | 6.63 | 6.98 | 7.08 |
| Net Revenue Stream (per MTFS) | 13.78 | 11.21 | 7.17 | 7.55 | 7.93 |
| Proportion of Net Revenue Stream | 30.92% | 36.74% | 92.40% | 92.54% | 89.25% |

## Indicators contained within the Investment Strategy

*Loans for Service Purposes in £*

| | Actual at 31st March 2022 | | | Forecast at 31st March 2023 | |
|---|---|---|---|---|---|
| Category of Borrower | Balance Owing £ | Loss Allowance £ | Figure in Accounts £ | Balance Owing £ | Approved Limit £ |
| Local Businesses | 2.62 | 0.00 | 2.62 | 2.40 | 2.40 |
| Town/Parish Councils | 0.13 | 0.00 | 0.13 | 0.11 | 0.11 |
| Housing Associations | 7.54 | 0.00 | 7.54 | 7.26 | 7.26 |
| Local Residents (Equity Loans) | 0.23 | 0.00 | 0.23 | 0.23 | 0.23 |
| Employees (Car loans) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | 10.52 | 0.00 | 10.52 | 10.01 | 10.01 |

**Shares Held for Service Purposes**

| Category of Company | 31st March 2022 actual Amount Invested | Gains or losses | Value in Accounts | 2023/24 Approved Limit |
|---|---|---|---|---|
| Local Authority owned company | £1 | £0 | £1 | £1 |

**Properties held for investment purposes in £m**

| Type of Property | Inside District £m | Outside District £m | Inside County £m | Outside County £m |
|---|---|---|---|---|
| Commercial Investment Property | 19.19 | 28.29 | 44.15 | 3.33 |
| Industrial Estates | 7.27 | 0.00 | 7.27 | 0.00 |
| Subtotal | 26.46 | 28.29 | 51.42 | 3.33 |
| Total Held | **54.75** | | **54.75** | |

**Proportionality of investments**

| | 2021/22 Actual £m | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Budget £m | 2025/26 Budget £m |
|---|---|---|---|---|---|
| Gross Service Expenditure* | 33.90 | 29.79 | 30.01 | 31.51 | 32.46 |
| Treasury Investment Income | 0.79 | 1.10 | 0.91 | 0.86 | 0.81 |
| Loans Income | 0.18 | 0.19 | 0.19 | 0.20 | 0.21 |
| Share Dividends | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Commercial Investments: Property | 4.06 | 3.92 | 5.37 | 5.37 | 5.37 |
| Total | 5.04 | 5.20 | 6.48 | 6.43 | 6.39 |
| Investment income as a proportion of expenditure | 14.87% | 17.47% | 21.58% | 20.41% | 19.68% |

* excluding Housing Benefit payments

## Total investment exposure £m

| | 31st Mar 2022 Actual £m | 31st Mar 2023 Forecast £m | 31st Mar 2024 Forecast £m |
|---|---|---|---|
| Treasury Management investments | 31.60 | 17.31 | 17.31 |
| Service Investments: Loans | 10.52 | 10.01 | 9.49 |
| Service investments: shares (£1) | 0.00 | 0.00 | 0.00 |
| Property investments | 54.75 | 67.85 | 72.85 |
| Total investments / exposure | 96.87 | 95.16 | 99.65 |

## Forecast borrowing requirement £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Less external borrowing | (10.00) | (17.00) | (26.50) | (31.50) | (31.50) |
| Internal borrowing | 29.66 | 31.06 | 29.95 | 27.21 | 24.31 |
| Usable reserves | (35.43) | (32.49) | (29.78) | (24.33) | (19.27) |
| Working capital | (10.85) | (10.70) | (10.87) | (11.03) | (11.19) |
| Cash available for investments | 16.62 | 12.13 | 10.69 | 8.14 | 6.15 |

## Investments net rate of return

| | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|
| Treasury Management | 2.12% | 3.92% | 3.92% |
| <u>Service investments: Loans</u> | | | |
| Local Businesses | 3.85% | 3.85% | 3.85% |
| Town & Parish Councils | 1.40% | 1.40% | 1.40% |
| Housing Associations | 2.56% | 2.56% | 2.56% |
| Local Residents (equity loans) | 0.00% | 0.00% | 0.00% |
| Employees (car loans) | 2.00% | 2.00% | 2.00% |
| Service investments: Shares | 0.00% | 0.00% | 0.00% |
| Commercial investments | 7.15% | 6.62% | 6.62% |

## Indicators contained within the Treasury Management Strategy

### WODC Treasury investments – one year return

| Investments | 31st Dec 2022 | 31st Dec 21 to 31st Dec 22 Capital Return | Income Return | Total Return |
|---|---|---|---|---|
| | £ | | | |
| Money Market Funds | 11,010,000 | 0.00% | 3.32% | 3.32% |
| Call Accounts | 1,580,000 | 0.00% | 0.40% | 0.40% |
| DMO (Bank of England) | 8,000,000 | 0.00% | 3.08% | 3.08% |
| Internal Investments | 20,590,000 | 0.00% | 3.02% | 3.02% |
| | | | | |
| Cash Plus and Short Bond Fund | 1,989,372 | -2.49% | 1.37% | -1.12% |
| | | | | |
| Strategic Pooled Funds: | | | | |
| Aegon Diversified Monthly Income Fund | 2,659,081 | -12.33% | 4.36% | -7.97% |
| CCLA Diversified Income Fund | 2,759,392 | -10.23% | 2.30% | -7.93% |
| M & G Strategic Corporate Bond | 1,733,749 | -16.30% | 3.10% | -13.21% |
| Royal London Short Dated Credit Fund | 1,769,201 | -10.15% | 2.47% | -7.69% |
| Schroder Income Maximiser Fund | 858,868 | -5.81% | 7.32% | 1.51% |
| Threadneedle UK Equity Income Fund | 1,026,329 | -5.31% | 3.46% | -1.85% |
| UBS Multi Asset Income Fund | 1,463,275 | -19.82% | 5.29% | -14.53% |
| Fundamentum Social Housing REIT | 1,040,000 | 0.97% | 2.48% | 3.45% |
| | 13,309,895 | -11.26% | 3.61% | -7.64% |
| | | | | |
| Total Investment | 35,889,267 | Annualised income return | | 3.25% |
| Pooled funds | 13,309,895 | Annualised income return | | 3.92% |

## WODC Treasury investments – five year return

| Investments | 31st Dec 22 | Capital Return | Income Return | Total Return |
|---|---|---|---|---|
| | £ | | | |
| Strategic Pooled Funds: | | | | |
| Aegon Diversified Monthly Income Fund | 2,659,081 | -11.36% | 8.32% | -3.04% |
| CCLA Diversified Income Fund | 2,759,392 | -8.04% | 5.95% | -2.09% |
| M & G Strategic Corporate Bond | 1,733,749 | -15.40% | 15.49% | 0.09% |
| Royal London Short Dated Credit Fund | 1,769,201 | -10.77% | 8.83% | -1.95% |
| Schroder Income Maximiser Fund | 858,868 | -20.97% | 31.35% | 10.38% |
| Threadneedle UK Equity Income Fund | 1,026,329 | 2.63% | 17.33% | 19.97% |
| UBS Multi Asset Income Fund | 1,463,275 | -26.47% | 22.03% | -4.44% |
| Fundamentum Social Housing REIT | 1,040,000 | 4.00% | 5.90% | 9.90% |
| | 13,309,895 | -3.76% | 3.52% | -0.24% |
| Pooled Funds | 13,309,895 | Annualised income return | | 3.52% |

## Forecast borrowing requirement £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Less external borrowing | (10.00) | (17.00) | (26.50) | (31.50) | (31.50) |
| Internal borrowing | 29.66 | 31.06 | 29.95 | 27.21 | 24.31 |
| Usable reserves | (35.43) | (32.49) | (29.78) | (24.33) | (19.27) |
| Working capital | (10.85) | (10.70) | (10.87) | (11.03) | (11.19) |
| Cash available for investments | 16.62 | 12.13 | 10.69 | 8.14 | 6.15 |

## Authorised limit and operational boundary for external debt £m

| | 2022/23 Budget £m | 2023/24 Forecast £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Operational Boundary | 41.66 | 50.06 | 58.45 | 60.71 | 57.81 |
| Authorised Borrowing Limit | 46.66 | 55.06 | 63.45 | 65.71 | 62.81 |

## Liability Benchmark £m

| | 2022/23 Forecast £m | 2023/24 Budget £m | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m |
|---|---|---|---|---|---|
| Capital Financing Requirement (CFR) | 39.66 | 48.06 | 56.45 | 58.71 | 55.81 |
| Less usable reserves | (35.43) | (32.49) | (29.78) | (24.33) | (19.27) |
| Less working capital | (10.85) | (10.70) | (10.87) | (11.03) | (11.19) |
| Net loans requirement | (6.62) | 4.87 | 15.81 | 23.36 | 25.35 |
| Plus liquidity allowance | 16.00 | 16.00 | 16.00 | 16.00 | 16.00 |
| Liability Benchmark | 9.38 | 20.87 | 31.81 | 39.36 | 41.35 |

## Interest rate exposures

| | Limit £k |
|---|---|
| Upper limit on one year revenue impact of a 1% rise in interest rates | (135) |
| Upper limit on one year revenue impact of a 1% fall in interest rates | 135 |

## Maturity structure of borrowing

| | Upper Limit | Lower Limit |
|---|---|---|
| Under 12 months | 100% | 0% |
| 12 months and within 24 months | 100% | 0% |
| 24 months and within 5 years | 100% | 0% |
| 5 years and within 10 years | 100% | 0% |
| 10 years and within 30 years | 100% | 0% |
| 30 years and above | 100% | 0% |

**Treasury investment counterparties and limits**

| Sector | Time Limit | Counterparty Limit | Sector Limit |
|---|---|---|---|
| The UK Government | 50 years | Unlimited | n/a |
| Local Authorities | 3 years | £15m | Unlimited |
| Other Government Entities | 25 years | £4m | Unlimited |
| Secured investments* | 25 years | £10m | Unlimited |
| Banks (unsecured)* | 13 months | £3m | £10m |
| Building societies (unsecured)* | 13 months | £2m | £5m |
| Registered providers (unsecured)* | 5 years | £3m | £5m |
| Money market funds* | n/a | £5m | £25m |
| Strategic pooled funds | n/a | £5m | £25m |
| Real estate investment trusts | n/a | £3m | £5m |
| Other investments* | 5 years | £5m | £10m |

*Treasury Management investments will only be made with entities whose lowest published long term rating is no lower than A-

**Investment limits**

| | **Cash limit** |
|---|---|
| Any single organisation, except the UK Central Govt | £5m each |
| UK Central Govt | unlimited |
| Any group of organisations under the same ownership | £5m per group |
| Any group of pooled funds under the same mgmt | £5m per manager |
| Real Estate Investment Trusts (REITS) | £3m max per REIT |
| Foreign countries | £1m per country |
| Registered providers | £10m in total |
| Unsecured investments with building societies | £2m in total per BS |
| Money Market Funds | £5m per MMF |

**Credit risk indicator**

| | Rating |
|---|---|
| Portfolio Average Credit Target | A- |
| Portfolio Credit Risk at 31st Dec 22 | AA- |

## Interest rate exposures

| | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Upper limit on fixed interest rate exposure | 100% | 100% | 100% |
| Upper limit on variable interest rate exposure | 100% | 100% | 100% |

## Price risk indicator

| | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Limit on principal invested > year | £20m | £20m | £20m |