



WEST OXFORDSHIRE
DISTRICT COUNCIL

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Name and date of Committee	AUDIT AND GOVERNANCE COMMITTEE – 26th September
Subject	2024/25 TREASURY MANAGEMENT INDICATORS – QUARTER ONE
Wards affected	None
Accountable member	Cllr Alaric Smith Cabinet Member for Finance Email: alaric.smith@westoxon.gov.uk
Accountable officer	Madhu Richards, Director of Finance Email: madhu.richards@westoxon.gov.uk
Report author	Sian Hannam, Treasury Accountant Email: sian.hannam@publicagroup.uk
Summary/Purpose	To report to the Audit and Governance Committee the Quarter 1 Treasury Management Indicators as required by the CIPFA Treasury Management Code.
Annexes	A. Glossary of Treasury Management Terms
Recommendation(s)	That the Committee Resolves to: I. Note the contents of the report
Corporate priorities	Working Together for West Oxfordshire
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

1. BACKGROUND AND SUMMARY

- 1.1** The overall performance of investments in the 3 months to 30th June 2024 was positive, returning interest of £322,692 or 4.94% against a revenue budget of £289,058 for the period and also generating an unrealised capital gain of 4.66% or £182,841.
- 1.2** The capital value of pooled funds continues to be affected by prevailing economic conditions in the world markets. Pooled funds are intended to be long term investments where short term fluctuations in the capital value are expected. These funds are being monitored closely by the Council's Treasury Management adviser (Arlingclose) and they continue to forecast that the capital values will recover over the next 2-3 years as gilts and bond revenue rates start to decline again.
- 1.3** The Council has continued to benefit from higher revenue returns due to regular increases in the Bank of England Bank Rate to combat high levels of inflation. The Monetary Policy Committee made its first rate cut decision in July cutting the Bank base rate to 5%.
- 1.4** The Council complied with the Prudential Indicators for 2024/25 as set out in the budget approved by full Council in February 2024. Further details can be found in section 8 of this report.

2. ECONOMIC & FINANCIAL MARKETS BACKGROUND

- 2.1** UK headline consumer price inflation (CPI) continued to decline over the quarter, falling from an annual rate of 3.2% in March to 2.0% in May, in line with the Bank of England's target. The core measure of inflation, however, only declined from 4.2% to 3.5% over the same period, which, together with price inflation at 5.7% in May, helped contribute to the BoE maintaining the Bank Rate at 5.25% during the period, a level unchanged since August 2023.
- 2.2** Data released during the period showed that the UK economy had emerged from the technical recession at the end of 2023 to expand by 0.7% in the first quarter of the calendar year. Monthly GDP data showed zero growth in April following an expansion of 0.4% in the previous month.
- 2.3** Labour market data continued to provide mixed messages for policymakers, exacerbated by issues the Office for National Statistics is having compiling the labour force survey. In the three months between February and April 2024, unemployment was up, employment fell, while the decline in vacancies slowed and wage growth remained elevated. Unemployment rose to 4.4% while average regular earnings (excluding bonuses) was 6.0% and total earnings (including bonuses) was 5.9%. Adjusting for inflation, regular pay rose by 2.3% and total pay by 2.2%.
- 2.4** Having started the financial year at 5.25%, the Bank of England's Monetary Policy Committee (MPC) maintained Bank Rate at this level throughout the quarter. In line with expectations, at its June meeting, the Committee voted by a majority of 7-2 in favour of maintaining the status quo.

- 2.5** Earlier in May, in addition to an identical MPC rate decision and voting pattern, the Bank published the latest version of its Monetary Policy Report (MPR). Within the Report, the Committee noted that it expected four-quarter GDP growth to increase over the forecast period, reflecting the negative effects of past Bank Rate increases and the predicted downward path of interest rates which should provide support to economic activity. The trajectory of inflation was broadly similar to that in the previous Monetary Policy Report, albeit slightly lower towards the end of the forecast horizon due to the Committee's revised assessment of falling external inflationary pressures from past import price increases. This meant the Committee expected headline inflation to hit the 2% target two quarters sooner than in the February Monetary Policy Report. As was highlighted earlier, inflation data published in June showed that CPI inflation fell to the 2% target in May.
- 2.6** Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate and that interest rates will be cut later in 2024. The risks over the medium term are deemed to be to the upside as while inflation has fallen to target, it is expected to pick up again later in the year and as services price inflation and wage growth are still on the firmer side, the Monetary Policy Committee could well delay before delivering the first rate cut.
- 2.7** **Financial markets:** Sentiment in financial markets showed signs of improvement over the quarter, but bond yields remained volatile. Early in the period yields climbed steadily, but mixed signals from economic data and investors' constant reassessment of when rate cuts might come caused some fairly pronounced but short lived dips in yields. Towards the end of the quarter yields rose once again and were higher than at the start of the period.
- 2.8** **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.
- 2.9** Financial market volatility is expected to remain a feature, at least in the short term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

3. LOCAL CONTEXT

- 3.1** On 31st March 2024, the Council had net investments of £25.629m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These items are summarised in Table I below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m	31.3.25 Forecast £m
General Fund CFR	28.08	32.46
External borrowing	0.00	(2.00)
Internal borrowing	30.74	30.46
Less: Balance sheet resources	(32.03)	(27.88)
Net investments	(3.95)	2.57

- 3.2** The treasury management position at 30th June and the change over the 3 months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	30.06.24 Balance £m	30.06.24 Rate %
Short-term borrowing	0.000	0.000	0	N/A
Total borrowing	0.000	0.000	0	
Long-term investments	13.768	0.183	13.951	4.74
Short-term investments	0.077	3.003	3.080	5.24
Cash and cash equivalents	2.135	4.270	6.405	5.19
Total investments	15.980	7.456	23.436	4.94
Net investments	15.980	7.456	23.436	

4. BORROWING STRATEGY AND ACTIVITY

- 4.1** As outlined in the Treasury Management Strategy, the Council's chief objective when borrowing has been to strike a low-risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required. Flexibility to renegotiate loans, should the Council's long-term plans change, being a secondary objective. The Council's borrowing strategy thus far has maintained borrowing and investments below their underlying levels, known as internal borrowing.
- 4.2** CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decisions that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.
- 4.3** At 30th June, the Council had no loans outstanding.

5. TREASURY INVESTMENT ACTIVITY

- 5.1 A counterparty list, recommended and reviewed by the Council's treasury management advisors Arlingclose, is received monthly and the treasury team use this to evaluate investment options. At the end of the period the majority of counterparties remained on a 100 day limit maintaining precautions bought about by uncertainty in the market. The treasury team continues to hold the majority of in-house balances in the liquid Money Market Funds and Call Accounts and making short term deposits with the UK Debt Management Office (DMO). This enables continued cash support for the services the Council provides to the public and provides funding for the Council's capital programme, without the need to borrow.
- 5.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 3 below.

Table 3: Treasury Investment Position

	31.3.24 Balance £m	Net Movement £m	30.06.24 Balance £m	30.06.24 Income Return %
Banks & building societies (unsecured)	0.000	2.500	2.500	5.22
Bank of England DMADF	0.000	1.080	1.080	5.19
Money Market Funds	2.135	3.770	5.905	5.22
Other Pooled Funds				
- <i>Equity & Multi Asset income funds</i>	9.201	0.113	9.314	4.74
- Bond income funds	3.692	(0.008)	3.684	4.74
- <i>Real Estate Investment Trusts</i>	0.953	0.000	0.953	2.85
Total investments	15.981	7.455	23.436	4.94

- 5.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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.
- 5.4 As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

5.5 Bank Rate remained at 5.25% through the quarter with short term interest rates being around this level. The rates on DMADF deposits ranged between 5.2% and 5.18% and money market rates between 5.25% and 5.18%.

5.6 The progression of risk and return metrics are shown in the Arlingclose quarterly investment benchmarking report; the results of which are summarised in Table 4 below.

Table 4: Investment Benchmarking – Treasury investments managed in-house.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate Return %	of
30.06.2024	4.92	A+	89%	10	7.70	
Similar LAs	4.76	A+	62%	52	5.54	
All LAs	4.66	A+	62%	10	5.24	

5.7 Externally Managed Pooled Funds: £14m of the Council’s investments are invested in externally managed strategic pooled bond, equity, and multi-asset funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £144,153 which is used to support services in year, and £182,841 unrealised capital gain. The current Pooled Fund position can be seen in table 5 below.

Table 5: Current Pooled Funds

Fund Manager	Original Investment	Value 31st March 2024	Value 30th June	3 Month Dividend 2024/25	2024/25 Capital Gain/(Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
UBS (B/E)	2,000,000	1,466,417	1,482,130	20,427	15,713	- 517,870
M&G Strategic (B)	2,000,000	1,827,489	1,826,827	21,888	- 662	- 173,173
Royal London (L)	2,000,000	1,842,579	1,857,453	21,646	14,874	- 142,547
Schroders (E)	1,000,000	890,477	948,661	24,935	58,184	- 51,339
Threadneedle UK (E)	1,000,000	1,093,543	1,188,897	11,038	95,354	188,897
CCLA Better World (B/E)	3,000,000	2,908,273	2,854,259	6,685	- 54,014	- 145,741
Aegon/Kames (L)	3,000,000	2,786,106	2,839,498	37,534	53,392	- 160,502
Total - Current funds	14,000,000	12,814,884	12,997,725	144,153	182,841	1,002,275

(L = Liquidity; B= Bond; E= Equity)

- 5.8 At the end of July, West Oxfordshire Council received notification from UBS Fund Managers that they would be closing their fund in September 2024. The Council will absorb an unavoidable capital loss with the withdrawal of this fund, the mitigation of which is being discussed regularly with Arlingclose.
- 5.9 Government bonds yields remained elevated and higher-for-longer interest rate expectations resulted in a drop in capital values of the Authority's bond funds, and, to a lesser extent, the multi-asset funds where there was some offset from better equity performance.
- 5.10 UK equities enjoyed a positive quarter. The FTSE All Share index was buoyed in April by data showing the economy had emerged from the short, shallow recession in 2023. Sterling's weakness against the dollar in April also provided a boost to UK stocks with overseas earnings. The energy, materials and mining sectors gained as the outlook for global manufacturing improved. Healthcare and financial stocks were also supported by good earnings data. The rally faded with the unexpected announcement in May of a general election in early July.
- 5.11 The change in the Authority's funds' capital values and income return over the 3-month period to 30th June is shown in Table 5 above.
- 5.12 In April 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken. An earmarked reserve has been set up to mitigate against this risk.

6. TREASURY PERFORMANCE

- 6.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Q1 Actual £m	2024_25 Q1 Budget £m	Over/ (under)	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.046	0	0.046	5.24	5.07	0.17
MMF & Call Accounts	0.133	0.0885	0.045	5.22	5.07	0.15
Strategic Funds	0.144	0.125	0.019	4.74	5.16	-0.42
Long Term Loans	0.007	0.068	(0.061)	2.84	N/A	N/A
REIT	0.008	0.007	0.001	2.85	N/A	N/A
Total treasury investments	0.338	0.289	0.049	4.94	5.06	-0.12

7. COMPLIANCE

7.1 The treasury management activities undertaken during the quarter complied with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2024/25 Maximum £m	30.06.24 Actual £m	2024/25 Limit £m	Complied? Yes/No
Any single organisation, except the UK Government	3	0	5	YES
Any group of organisations under the same ownership	3	0	5	YES
Any group of pooled funds under the same management	0	0	5	YES
Limit per non-UK country	0	0	1	YES
Registered providers and registered social landlords	9.8	9.607	10	YES
Unsecured investments with banks	3	2.5	10	YES
Money Market Funds	15	6.905	25	YES
Strategic pooled funds	14	14	25	YES
Real Estate Investment Trusts	1	1	5	YES

7.2 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	Q1 2024/25 Maximum	30.06.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied? Yes/No
	£m	£m	£m	£m	
Borrowing	0	0	55.06	50.06	YES
Total debt	0	0			

7.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

8. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

8.1 As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

8.2 **Liability Benchmark** - This indicator compares the Council's existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £4m required to manage day-to-day cash flow.

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast
Loans CFR	28.08	32.46	39.38
Less: Usable Reserves	(32.03)	(27.88)	(23.95)
Working Capital	(12.50)	(17.42)	(23.20)
Net loans requirement	(16.45)	(12.84)	(7.77)
Plus: Liquidity allowance	15.00	15.00	15.00
Liability benchmark	(1.45)	2.16	7.23
External borrowing	0.00	2.00	7.00

8.3 Long-term Treasury Management Investments: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£25m	£25m	£25m	£25m
Actual principal invested beyond year end	0	n/a	n/a	£15m
Complied?	YES	YES	YES	YES

8.4 Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

8.5 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.

	2024/25 Target	30.06.2024	Complied?
Portfolio average credit rating	A-	A+	Yes

8.6 Interest Rate Exposures: This indicator is set to control the Council’s exposure to interest rate risk.

Interest rate risk indicator	2024/25 Target	30.06.2024 Actual	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-210,000	-58,902	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	210,000	58,902	Yes

9. NON TREASURY MANAGEMENT PRUDENTIAL INDICATORS

9.1 The Authority measures and manages its capital expenditure, borrowing and service investments with references to the following indicators.

9.2 It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

9.3 Capital Expenditure: The Authority has undertaken and is planning capital expenditure as summarised below.

	2023/24 Actual	2024/25 Forecast	2025/26 Forecast
General Fund services	4.24	11.28	6.37

9.4 The main capital expenditure this quarter has been £606,000 on Waste Vehicle replacement and £635,000 of Local Authority Housing Fund grant for affordable housing. Significant capital expenditure timetabled for this financial year includes urgent repairs to some of the Council’s

Investment Property portfolio, replacement Food Waste and ancillary vehicles and the decarbonisation of Witney Leisure Centre.

- 9.5 Capital Financing Requirement:** The Authority’s cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt.

	31.03.2024	31.03.2025	31.03.2026
	actual	forecast	forecast
General Fund services	28.08	32.46	39.38
TOTAL CFR	28.08	32.46	39.38

- 9.6 Gross Debt and the Capital Financing Requirement:** Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.03.2024 actual £m	31.03.2025 forecast £m	31.03.2026 budget £m	Debt at 30.06.2024 £m
Debt (Incl.PFI & leases)	0	2.00	7.00	0
Capital Financing Requirement	28.08	32.46	39.38	

- 9.7 Debt and the Authorised Limit and Operational Boundary:** The Authority 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.

	Maximum debt Q1 2024/25	Debt at 30.06.24	2024/25 Authorised Limit	2024/25 Operational Boundary	Complied? Yes/No
Borrowing	0	0	55.06m	50.06m	Yes
Total Debt	0	0	0	0	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

9.8 Net Income from Commercial and Service Investments to Net Revenue Stream: The Authority's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2023/24 actual	2024/25 budget	2025/26 budget
Total net income from service and commercial investments	2.93m	5.91m	5.91m
Net Revenue Stream per MTFS	14.17m	15.15m	15.23m
Proportion of net revenue stream	20.67%	39.00%	38.80%

9.9 Proportion of Financing Costs to Net Revenue Stream: Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loan repayments are charged to revenue.

9.10 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.

	2023/34 actual	2024/25 forecast	2025/26 budget
Financing costs (£m)	0.501m	1.611m	1.818m
Net Revenue Stream per MTFS	14.17m	15.15m	15.23m
Proportion of net revenue stream	3.53%	10.63%	11.93%

9.11 Conclusion

Overall performance of investments in the 3 months to 30th June 2024 was positive and the Council complied with the Prudential Indicators for 2024/25 as set out in the budget approved by full Council in February 2024.

10. Financial Implications

There are no financial implications arising from this report.

11. Legal Implications

There are no legal implication arising from this report.

12. Risk Assessment

None required as a result of this report.

13. Equalities Impact

No direct equalities impact with regards to the content of this report.

14. Climate and Ecological Emergencies Implications

None.

15. Background Papers

None.

(END)