



WEST OXFORDSHIRE  
DISTRICT COUNCIL

**WEST OXFORDSHIRE DISTRICT COUNCIL**

Name and date of Committee	<b>AUDIT AND GOVERNANCE – 28 NOVEMBER 2024</b>
Subject	<b>2024/25 HALF YEAR TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE AS AT 30 SEPTEMBER 2024</b>
Wards affected	All
Accountable member	Cllr Alaric Smith Cabinet Member for Finance Email: <a href="mailto:alaric.smith@westoxon.gov.uk">alaric.smith@westoxon.gov.uk</a>
Accountable officer	Madhu Richards, Director of Finance Email: <a href="mailto:madhu.richards@westoxon.gov.uk">madhu.richards@westoxon.gov.uk</a>
Report author	Sian Hannam, Treasury Accountant Email: <a href="mailto:sian.hannam@publicagroup.uk">sian.hannam@publicagroup.uk</a>
Summary/Purpose	To provide Members with an update on Treasury Management activity, the performance of internal and external funds and prudential indicators for the period 1st April 2024 – 30th Sept 2024.
Annexes	N/A
Recommendation(s)	That the Audit and Governance Committee resolves to: I. Note the contents of the report
Corporate priorities	Working Together for West Oxfordshire
Key Decision	No
Exempt	No

## **1. BACKGROUND AND SUMMARY**

- 1.1** The overall performance of investments in the 6 months to 30<sup>th</sup> September 2024 was positive, returning interest of £786,307 or 4.81% against a budget of £578,115, and generating an unrealised capital gain of 1.60% or £223,624 in the year to date.
- 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 benefitted from higher revenue returns due to sustained higher Bank Rate in the first six months of 2024/25.
- 1.4** This report includes the new requirement in the 2021 Prudential Code (published by CIPFA), mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators.
- 1.5** The Council complied with the majority of 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 7 of this report.

## **2. ECONOMIC & FINANCIAL MARKETS BACKGROUND**

- 2.1** UK headline consumer price inflation remained around the Bank of England (BoE) target in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, due to the impact of energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.
- 2.2** The UK economy continued to expand over the period, although slowing from the 0.7% gain in the first calendar quarter to 0.5% in the second.
- 2.3** With headline inflation lower, the BoE cut the Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting and held it at that in September. The meeting minutes suggested there was concern over the rate of inflation and therefore a considered approach to the reduction of interest rates.
- 2.4** The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.
- 2.5** Arlingclose, the Council's treasury adviser, maintained its view that the Bank Rate would steadily fall from November 2024 to around 3% by the end of 2025.
- 2.6** The US and Eurozone - The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested

a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

- 2.7 Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.
- 2.8 Optimism in financial markets continued to improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period fell away with yields ending the half-year not far from where they started. The volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during the first half of the year.
- 2.9 Credit Review - Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.
- 2.10 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. The institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

### 3. LOCAL CONTEXT

On 31st March 2024, the Council had net investments of £16.45m 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 1 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	0.00
<b>Internal borrowing</b>	28.08	32.46
Less: Balance sheet resources	(32.03)	(34.44)
<b>Net investments</b>	<b>(3.95)</b>	<b>(1.98)</b>

- 3.1 The treasury management position at 30th September 2024 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	30.09.24 Balance £m	30.06.24 Rate %
Short-term borrowing	0.000	0.000	0	N/A
<b>Total borrowing</b>	0.000	0.000	0	
Long-term investments	13.768	(1.322)	12.446	4.67
Short-term investments	0.077	5.941	6.018	4.94
Cash and cash equivalents	2.135	5.795	7.930	4.94
<b>Total investments</b>	<b>15.980</b>	<b>10.414</b>	<b>26.394</b>	<b>4.94</b>
<b>Net investments</b>	<b>15.980</b>	<b>10.414</b>	<b>26.394</b>	

#### 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 September 2024, the Council had no external borrowing.

#### 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 brought 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	30.09.24 Balance £m	30.09.24 Income Return %
Banks & building societies (unsecured)	0.000	1.000	1.000	4.94
Bank of England DMADF	0.000	4.955	4.955	4.94
Money Market Funds	2.135	5.795	7.930	4.94
Other Pooled Funds				
- <i>Equity &amp; Multi Asset income funds</i>	9.200	(1.296)	7.904	4.67
- Bond income funds	3.692	0.003	3.695	4.67
- <i>Real Estate Investment Trusts</i>	0.953	(0.043)	0.910	3.00
<b>Total investments</b>	<b>15.980</b>	<b>10.414</b>	<b>26.394</b>	<b>4.81</b>

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.

The Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term interest rates largely being around these levels. The rates on Debt Management Account Deposit Facility (DMADF) deposits ranged between 5.19% and 4.85% and money market rates between 5.0% and 5.24%.

5.5 The progression of risk and return metrics is 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 of Return %
30.09.2024	4.38	AA-	64%	34	8.07
Similar LAs	<b>4.62</b>	<b>A+</b>	<b>60%</b>	<b>52</b>	<b>5.88</b>
All LAs	<b>4.6</b>	<b>A+</b>	<b>61%</b>	<b>11</b>	<b>5.42</b>

**5.6 Externally Managed Pooled Funds:** £12m of the Council’s investments are invested in externally managed strategic pooled bond, equity, and multi-asset funds where the objectives are regular revenue income and long-term price stability. These funds generated an income return of £308,880 which is used to support services in year, and a £223,624 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 September	6 Month Dividend 2024/25	2024/25 Capital Gain/(Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
UBS (B/E)	2,000,000	1,466,417	-	38,104	36,140	(497,443)
M&G Strategic (B)	2,000,000	1,827,489	1,819,858	42,114	(7,631)	(180,142)
Royal London (L)	2,000,000	1,842,579	1,855,272	44,035	12,693	(144,728)
Schroders €	1,000,000	890,477	943,225	45,068	52,748	(56,775)
Threadneedle UK €	1,000,000	1,093,543	1,174,340	22,652	80,797	174,340
CCLA Betterworld Fund (B/E)	3,000,000	2,908,273	2,854,259	53,077	(54,014)	(145,741)
Aegon/Kames (L)	3,000,000	2,786,106	2,888,997	63,830	102,891	(111,003)
<b>Total - Current funds</b>	<b>14,000,000</b>	<b>12,814,884</b>	<b>11,535,951</b>	<b>308,880</b>	<b>223,624</b>	<b>(961,492)</b>

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

**5.7** In July 2024 the Council received notification from UBS that they were closing their fund on the 16<sup>th</sup> September 2024. After several meetings with Arlingclose, and senior finance staff, to look at the possible options of where the proceeds of the fund closure could be invested it was decided that the proceeds from the closure would be best invested in highly liquid ESG

Money Market Fund achieving a good rate of return. At the time of closure the Council's share of the UBS fund had a capital loss of £497,443 which will be funded through the earmarked reserve set up specifically for this purpose when the Statutory Override expires at the end of this financial year unless the government reverse the decision of the previous government

- 5.8** The first six months of 2024/25 were marked by ongoing market volatility, with global bond yields remaining elevated, although trending downward as policymakers kept rates at a restrictive level in light of persistent core inflation until nearly the end of the period, when the MPC, Federal Reserve, and ECB began to deliver rate cuts and signal a shift towards loosening monetary policy.
- 5.9** Stock markets across the UK, Europe, and US were buoyed by hopes of rate cuts over the first half of the period. UK equities saw growth in small and mid-sized companies while the US continued to be supported by its strong IT sector, especially growth in AI companies which continued to outperform. IT names performed well in the Eurozone as well while consumer discretionary stocks declined. Slowdown in the Chinese economy and ongoing geopolitical tension in the Middle East and Europe continue to weigh on investor sentiment but are somewhat offset by the loosening of monetary policy and prospect of further rate cuts.
- 5.10** After a sustained period of high interest rates, central banks began to reverse course towards the second half of the year. The European Central Bank began to cut rates in June, the Bank of England delivered its first rate cut in August, and the Federal Reserve surprised markets with an outsized rate cut of 0.5% in September. The stabilisation in interest rates and well telegraphed move towards rate cuts, albeit at a much more conservative pace than previously expected, has allowed fund managers to position for a falling rate environment. This in turn has led to some improvement in capital values of the Council's longer-dated bond funds during the six-month period and, to a lesser extent, the multi-asset funds.
- 5.11** The change in the Council's funds' capital values and income return over the 6-month period is shown in Table 5 above.

## **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 7 below.

Table 6: Performance

	Q2 Actual £m	2024_25 Budget £m	Over/ under	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.026	0	0.026	4.94	4.91	0.03
MMF & Call Accounts	0.332	0.354	-0.022	4.94	4.91	0.03
Strategic Funds	0.309	0.500	-0.191	4.67	5.10	-0.43
Long Term Loans	0.104	0.273	-0.169	2.84	N/A	N/A
REIT	0.015	0.029	-0.014	3.00	N/A	N/A
<b>Total treasury investments</b>	<b>0.786</b>	<b>1.156</b>	<b>-0.370</b>	<b>4.81</b>	<b>4.90</b>	<b>-0.09</b>

## 7. COMPLIANCE

- 7.1 The Director of Finance reports that all 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	30.09.24 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	9.564	10	YES
Unsecured investments with banks	3	1.502	10	YES
Money Market Funds	15	7.428	25	YES
Strategic pooled funds	14	12	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

	Q2 2024/25 Maximum	30.09.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied? Yes/No
	£m	£m	£m	£m	
Borrowing	0	0	33.57	40.57	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.

	2023/24 Actual	2024/24 Forecast	2025/26 Forecast
Loans CFR	28.08	32.46	37.38
Less Usable Reserves	(32.03)	(34.44)	(29.52)
Working Capital	(12.50)	(14.77)	(17.70)
<b>Net Loans requirement</b>	<b>(16.45)</b>	<b>(16.75)</b>	<b>(9.84)</b>
Plus Liquidity Allowance	15.00	15.00	15.00
Liability Benchmark	<b>(1.45)</b>	<b>(1.75)</b>	<b>5.16</b>
External Borrowing	0.00	0.00	3.50

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	£16m
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	30.9.24	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	30.09.24 Actual	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-210,000	- 244,882	No
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	210,000	244,882	No

Due to the lack of capital expenditure the weighted average on variable rate investments (MMFs) has been higher than originally forecast. The 1% increase was therefore higher than the target and we have generated more interest income.

## 9. NON TREASURY MANAGEMENT PRUDENTIAL INDICATOR

9.1 The Council measures and manages its capital expenditure, borrowing and service investments with references to the following indicators. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

9.2 Capital Expenditure: The Council 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

The main capital expenditure in the first half of the year has been £606,000 on Waste Vehicle replacement, £635,000 of Local Council Housing Fund grant for affordable housing and £161,000 on Play Parks. 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.

9.3 Capital Financing Requirement: The Council'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.

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast
General Fund services	28.08	32.46	37.38
<b>TOTAL CFR</b>	<b>28.08</b>	<b>32.46</b>	<b>37.38</b>

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 Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2024 actual £m	31.3.2025 forecast £m	31.3.2026 forecast £m	Debt at 30.9.2024 £m
Debt (incl. PFI & leases)	0	0.00	3.50	0
Capital Financing Requirement	28.38	32.46	37.38	

**9.4 Debt and the Authorised Limit and Operational Boundary:** 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.

	Maximum debt Q2 2024/25	Debt at 30.9.24	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

**9.5 Net Income from Commercial and Service Investments to Net Revenue Stream:** The Council’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 forecast	2025/26 forecast
Total net income from service and commercial investments	2.93m	5.91m	5.91m
Net Revenue Stream per MTFS	14.17m	15.15m	15.15m
Proportion of net revenue stream	20.67%	39.00%	39.00%

**9.6 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 / loans fund repayments are charged to revenue.

**9.7** 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.

	2023/24 actual	2024/25 forecast	2025/26 forecast
Financing costs (£m)	0.501m	0.703m	1.818m
Net Revenue Stream per MTFS	14.17m	15.15m	15.60m
Proportion of net revenue stream	3.53%	4.64%	11.65%

## **Conclusion**

Overall performance of investments in the 6 months to 30th September 2024 was positive and the Council complied with all the Prudential Indicators for 2024/25, except that relating to Interest Rate Exposure, 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)