WEST OXFORDSHIRE DISTRICT COUNCIL	WEST OXFORDSHIRE DISTRICT COUNCIL
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 27 MARCH 2025**
Subject	**2024/25 TREASURY MANAGEMENT INDICATORS – QUARTER THREE**
Wards affected	None
Accountable member	Councillor 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 Three Treasury Management Indicators as required by the CIPFA Treasury Management Code.
Annexes	None
Recommendation(s)	That the Audit and Governance Committee Resolves to: 1. 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 9 months to 31st December 2024 was positive, returning interest of £1,187,420 or 4.71% against the profiled revenue budget of £867,173. There has also been an unrealised capital gain of £16,128 in the year to date.

1.2 The UBS pooled fund announced its unexpected closure at the end of quarter 2 and this resulted in a realised capital loss of £497,443. This loss will be funded through the earmarked reserve set up in 2023/24 to smooth out the revenue impact from the end of the statutory override for financial instruments.

1.3 The government announced in March that they have reversed their position on the statutory override and it will now be extended until 31st March 2029, but only for investments made before 1st April 2024. The remaining balance in the specific earmarked reserve after funding the capital loss on the UBS fund, (£252,557), will be moved to the budget deficit reserve at this financial year end to fund the deficit identified in the MTFS 2025/26 – 2029/30.

1.4 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.

1.5 The Council has continued to benefit from higher revenue returns due to sustained higher interest rates, as the expected sharp decline in interest rates was delayed as the Bank of England Bank Rate continues to balance levels of inflation. The Monetary Policy Committee made its first rate cut decision in July cutting the Bank base rate to 5% and has since made another cut in November to 4.75%

1.6 The Council complied with all but one 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 8 of this report.

2. ECONOMIC & FINANCIAL MARKETS BACKGROUND

2.1 The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before it weakening pushing inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields upwards.

2.2 UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose to 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

2.3 UK economy GDP registered 0.4% growth between April and June 2024 and no growth (0.0%) between July and September 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September.

2.4 The labour market continued to loosen, but the ONS data still requires treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity (i.e. unemployed) fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

2.5 The BoE's Monetary Policy Committee (MPC) held the Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak in August.

2.6 Arlingclose, the authority's treasury adviser, maintains its view that the Bank Rate will continue to fall with cuts following steadily in line with the Monetary Policy Report months to take Bank Rate down to around 3.75% by the end of 2025.

2.7 **Financial markets:** Financial market sentiment was positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels from where they began.

2.8 **Credit review:** In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 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 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
Internal borrowing	28.08	32.46
Less: Balance sheet resources	(32.03)	(34.44)
Net investments	**(3.95)**	**(1.98)**

3.2 The treasury management position at 1st April and the change over 9 months is shown below.

Table 2: Treasury Management Summary

	01.4.24 Balance £m	**Movement £m**	**31.12.24 Balance £m**	**31.12.24 Rate %**
Short-term borrowing	0.000	0.000	0	N/A
Total borrowing	0.000	0.000	0	
Long-term investments	13.768	(1.587)	12.181	4.63
Short-term investments	0.077	6.323	6.400	4.75
Cash and cash equivalents	2.135	11.950	14.085	4.75
Total investments	**15.980**	**16.686**	**32.666**	**4.71**
Net investments	**15.980**	**16.686**	**32.666**	

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 31st December 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 is received monthly and the treasury team use this to evaluate investment options. At the end of the period Arlingclose had revised its position on some counterparties to 6 months and the rest remained on a 100 day limit. The treasury team continues to hold the majority of in-house balances in the liquid Money Market Funds (MMF) and Call Accounts and 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 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	Net Movement £m	31.12.24 Balance £m	31.12.24 Income Return %
Banks & building societies (unsecured)	0.000	2.565	2.565	4.69
Bank of England DMADF	0.000	5.400	5.400	4.75
Money Market Funds	2.135	10.385	12.520	4.75
Other Pooled Funds				
- *Equity & Multi Asset income funds*	9.201	(1.453)	7.748	4.63
- Bond income funds	3.692	(0.076)	3.616	4.63
- *Real Estate Investment Trusts*	0.953	(0.253)	0.700	3
Total investments	**15.981**	**16.568**	**32.549**	**4.71**

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 reduced from 5.25% to 5.00% in August 2024 and again to 4.75% in November 2024 with short term interest rates being around these levels. The rates on Debt Management Account Facility Fund DMAFF deposits ranged between 4.57% and 4.51% and money market rates were between 4.6% and 5.3%.

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 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house.

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
31.12.2024	4.59	A+	74%	10	4.90
Similar LAs	**4.62**	**A+**	**62%**	**52**	**4.96**
All LAs	**4.59**	**A+**	**61%**	**10**	**4.91**

5.7 Externally Managed Pooled Funds: £12m 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 £396,343 which is used to support services in year, and a £16,128 unrealised capital gain.

5.8 The current Pooled Fund position can be seen in table 6 below.

Table 6: Current Pooled Funds

Fund Manager	Original Investment	Value 31st March 2024	Value 31st December	9 Month Dividend 2024/25	2024/25 Capital Gain/ (Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
UBS (B/E)			-	38,104	-	-
M&G Strategic (B)	2,000,000	1,827,489	1,769,752	43,554	- 57,737	- 230,248
Royal London (L)	2,000,000	1,842,579	1,846,546	67,087	3,966	- 153,454
Schroders €	1,000,000	890,477	929,937	41,969	39,460	- 70,063
Threadneedle UK €	1,000,000	1,093,543	1,170,997	33,518	77,454	170,997

CCLA Diversfied Fund (B/E)	3,000,000	2,908,273	2,822,048	54,200	- 86,225	- 177,952
Aegon/Kames (L)	3,000,000	2,786,106	2,825,316	117,910	39,210	- 174,684
Total - Current funds	**12,000,000**	**11,348,467**	**11,364,595**	**396,343**	**16,128**	**- 635,405**

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

5.9 At the end of July, West Oxfordshire Council received notification from UBS Fund Managers that they would be closing their fund in September 2024. This is considered to be a very unusual move for a fund manager as they usually merge funds together if one is under performing. The Council will absorb the capital loss of £497,443 attached to this fund. The cash returned from the fund (£1,502,557) is being invested in the Money Market Funds and the DMO rather than a long term investment. This is to reduce the amount of external borrowing required in 2025/26 to deliver the capital programme.

5.10 In financial markets the April – December period was characterised by overall positive equity market performance, rising global yields and bond market volatility, central bank interest rate cuts and changing expectations of the path of future cuts, and uncertainties surrounding the impact of the UK Budget and US presidential election.

5.11 Stock markets were buoyed by hopes of interest rate cuts over the first part of the period, although market volatility spiked in August after worries about a US recession coincided with Japan's central bank cutting interest rates. This saw a huge sell off in equities globally, but markets recovered and ended the calendar year 2024 with gains, which were particularly strong in the US with its artificial intelligence-related technology stocks.

5.12 Having had a challenging time since 2022, UK commercial property experienced a modest recovery during the period, with improved investment activity, capital values stabilising or improving slightly and income remaining robust.

5.13 The change in the Authority's funds' capital values and income return over the 9-month period to 31st December is shown in Table 6.

5.14 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 had been extended only until 31st March 2025. In the last week it has been announced that the statutory override will continue to apply to investments already in place as at 1st April 2024 until 31st March 2029. Any new investments taken out after 1st April 2024 will be subject to IFRS 9 compliance and will require gains and or losses to be accounted for.

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 7: Performance

	Q3 Actual £m	2024_25 Budget £m	Over/ under	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.190	0	0.190	4.75	4.74	0.01
MMF & Call Accounts	0.436	0.354	0.082	4.75	4.74	0.01
Strategic Funds	0.396	0.500	-0.104	4.63	4.97	-0.34
Long Term Loans	0.142	0.273	-0.131	2.84	N/A	N/A
REIT	0.023	0.029	-0.007	3.00	N/A	N/A
Total treasury investments	**1.187**	**1.156**	**0.031**	**4.71**	**4.78**	**-0.07**

7. COMPLIANCE

7.1 The Director of Finance reports that all treasury management activities undertaken to Q3 complied with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated below.

Table 8: Investment Limits

	2024/25 Maximum £m	31.12.24 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	9.492	10	YES

Unsecured investments with banks	3	2.565	10	YES
Money Market Funds	15	12.52	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 9 below.

Table 9: Debt and the Authorised Limit and Operational Boundary

	Q3 2024/25 Maximum	**31.12.24 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 actual 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)
Net Loans requirement	**(16.45)**	**(16.75)**	**(9.84)**
Plus Liquidity Allowance	15.00	15.00	15.00

Liability Benchmark	**(1.45)**	**(1.75)**	**5.16**
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	£13m
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	**31.12.24**	**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**	**30.06.2024 Actual**	**Complied**
Upper limit on one-year revenue impact of a 1% rise in interest rates	-210,000	-310,539	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	210,000	310,539	No

This indicator was not complied with because interest rates have remained higher for longer than expected compared to the budget and the increased availability of funds due to slipped timescales in the capital programme.

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 budget
General Fund services	20.14	11.28	6.37

The main capital expenditure in the year to Q3 has been £1,072,000 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.

9.4 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	37.38
TOTAL CFR	**28.08**	**32.46**	**37.38**

9.5 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 31.12.2024 £m
Debt (Incl.PFI & leases)	0	0	3.5	0
Capital Financing Requirement	**28.08**	**32.46**	**37.38**	

9.6 <u>Debt and the Authorised Limit and Operational Boundary:</u> 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.

	Debt 01.04.2024	Debt 31.12.2024	2024/25 Authorised Limit	2024/25 Operational Boundary	Complied? Yes/No
Borrowing	0	0	40.57m	35.57m	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.

9.7 <u>Net Income from Commercial and Service Investments to Net Revenue Stream:</u> 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.

	2023/34 actual	2024/25 forecast	2025/26 budget
Net income from service investments	3.61m	3.52m	3.23m
Net income from commercial investments	0.84m	1.20	1.06
Net Revenue Stream per MTFS	14.17m	14.97m	18.49m
Proportion of net revenue stream	31.40%	31.52%	23.20%

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

9.9 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	0.519m	0.644m
Net Revenue Stream per MTFS	14.17m	14.97m	18.49m
Proportion of net revenue stream	3.53%	4.30%	3.48%

Conclusion

Overall performance of investments in the 9 months to 31st December 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)