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OXFORD CITY COUNCIL

To:	**Cabinet**
Date:	**11 September 2024**
Report of:	**Head of Financial Services**
Title of Report:	**Treasury Management Annual Report 2023/24**

Summary and Recommendations	
Purpose of report:	The report sets out the Council's Treasury Management activity and performance for the financial year 2023/24
Key decision:	No
Executive Board Member:	Councillor Ed Turner, Deputy Leader (Statutory) - Finance and Asset Management
Corporate Priority:	All
Policy Framework:	Treasury Management Strategy

Recommendation: That Cabinet resolves to:

1. **Note** the report.

Appendices	
1 (Exempt)	Confidential Appendix on Fund Investment
2	Risk Register

Executive Summary

1. The Council held investments of £20.330 million (based on the investment value) as at 31st March 2024. Net interest earned during the year, including from loans to companies and external borrowing, was £7.24 million against a target of £6.09 million, a favourable variance of £1.15 million. This relates to the following factors:

   Favourable

   - Borrowing costs lower by £1.318 million due to long term borrowing on the General Fund not being required, following slippage in the capital programme including lower loan requirements from the Housing Companies due to internal borrowing.
   - £1.896 million interest charged to the HRA in lieu of external borrowing.

Adverse

- Lower investment income by £0.815 million due to less funds being available to invest, due to internal borrowing to fund housing company projects.
- £0.614 million interest relating to company bank balances paid in accordance with internal agreements plus a variance in budgeted income from loans to companies
- £0.635 million Interest on short term borrowing which was needed due to a requirement to repay government grants at short notice.

2. The average rate of return on the Council's investments in 2023/24 was 4.52% compared to 3.77% in 2022/23. The Bank of England base Rate increased steadily throughout 2023/24, starting at 4.25% and finishing at 5.25%.

3. The Council held £218.528 million of fixed rate Public Works Loan Board (PWLB) debt as at 31st March 2024. £198.528 million was originally borrowed in March 2012 to fund the self-financing of the Housing Revenue Account (HRA) with one of the loans that had matured being replaced on 28th March 2022. All of the debt relates to housing and the maturity profile ranges from 5 to 50 years. Interest paid on the debt in 2023/24 and charged to the HRA was £6.40 million. An additional £20 million was borrowed in 2023/24 to improve cashflow backed by the HRA borrowing to finance the 2022/23 capital programme which was originally financed by internal borrowing.

Background

4. The primary principle governing the Council's investment decisions is the security of the investment, with liquidity and yield being secondary considerations.

5. The Council has a statutory duty to set, monitor and report on its prudential indicators in accordance with the Prudential Code, which aims to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

6. When considering whether to borrow, the Council's Debt Strategy requires a number of factors to be considered. These include:
   - prevailing interest rates;
   - the profile of the Council's debt portfolio;
   - the type of asset being financed; and
   - the availability of cash balances to finance capital expenditure.

7. The Council fully complied with its Treasury Management Strategy in relation to both debt and investment management in 2023/24.

8. The prudential indicators detailed in the body of this report compare the Council's outturn position against the target set for 2023/24.

Financing the Capital Programme 2023/24

9. Table 1 below shows actual capital expenditure and expected financing compared to the original budget.

Table 1 Capital Expenditure and Financing 2023-24			
Capital Expenditure	**2023/24 Original Budget £'000**	**2023/24 Actual £'000**	**Variation £'000**
Non-HRA Capital Expenditure	117,020	20,539	-96,481
HRA Capital Expenditure	117,568	38,235	-79,333
Total Capital Expenditure	**234,588**	**58,774**	**-175,814**
Resourced by:			
Developer Contributions	14,029	1,654	-12,375
Capital Grants and contributions	34,277	9,392	-24,885
Capital Receipts	27,092	13,086	-14,006
Revenue	2,923	1,581	-1,342
Major Repairs Reserve	10,393	15,440	5,047
Prudential Borrowing	145,874	17,621	-128,253
Total Capital Resources	**234,588**	**58,774**	**-175,814**

10. Much of the variation to the original budget relates to slippage in the programme, the resources for which will be moved into funding the expenditure in future financial years.

The Council's Overall Borrowing Need

11. The Council's underlying need to borrow, or Capital Financing Requirement (CFR), is the measurement and control of the Council's overall debt position. It represents all prior years' net capital expenditure which has not been financed by other means, i.e. revenue, capital receipts, grants etc.
12. The CFR can be reduced by:

- The application of additional capital resources, such as unapplied capital receipts;
- Repayment of debt financed by borrowing (including repayment of capital debtors); or
- Charging a Minimum Revenue Provision (MRP), or a Voluntary Revenue Provision (VRP).

13. Table 2 below shows the Council's CFR as at the 31st March 2024, this is a key prudential indicator, and shows that actual borrowing is below the CFR:

Table 2 Capital Financing Requirement (CFR) 2023-24 Estimate and Actual			
CFR	**31st March 2024 Estimate £'000**	**31st March 2024 Actual £'000**	**Variation £'000**
Opening Balance	**345,261**	**336,953**	**-8,308**
Prudential Borrowing	145,874	17,621	**-128,253**
Repayment of debt	-11,285	-11,640	**-355**
Minimum Revenue Provision	-165	-182	**-17**
CFR Closing Balance	**479,685**	**342,752**	**-136,933**
External Borrowing	**364,358**	**218,528**	**-145830**
Internal Borrowing	**115,327**	**124,224**	**8,897**

14. New external debt of £20 million was taken out during 2023/24 in relation to HRA capital financing and as at 31st March 2024 the Council's total external debt is now £218.528 million, all in relation to HRA. This is below the CFR and indicates that the Council continues to internally borrow from its cash balances which is the cheapest form of borrowing.

Treasury Position at 31st March 2024

15. Whilst the Council's gauge of its underlying need to borrow is the CFR, the treasury function manages the Council's actual need to borrow by either:
    - Borrowing to the CFR;
    - Choosing to utilise temporary cash flow funds, instead of borrowing (known as "under borrowing"); or
    - Borrowing for future increases in the CFR that are reasonably certain.

16. The Council's treasury position as at the 31st March 2024 for both debt and investments, compared with the previous year is set out in Table 3 below:

Table 3 : Borrowing and Investments 2022-23 and 2023-24				
	31st March 2023		**31st March 2024**	
Treasury Position	**Principal £'000**	**Average Rate %**	**Principal £'000**	**Average Rate %**
Borrowing				
Fixed Interest Rate Debt	198,528	3.23	218,528	3.41
Total Debt	**198,528**	**3.23**	**218,528**	**3.41**
Investments				
Fixed Interest Investments	43,000	0.48	0	0.00
Call Accounts	0	0.90	0	0.00
Variable Interest Investments	10,125	0.01	330	5.28
Property Funds	20,000	3.54	20,000	4.58
Total Investments	**79,440**	**1.01**	**20,330**	**4.93**
Net Position	**119,088**		**198,198**	

17. Overall, the Council earned a weighted average return of 4.52% on its investment which is below the target of 0.2% above average base rate, which equated to an average of 5.06% as at 31st March 2024.The return is down due to not having funds available to invest at the improved rates throughout the year, this is however offset as the those funds were used for internal borrowing which reduces the amount of interest payable at those higher rates.

Prudential Indicators and Compliance Issues

18. Some of the prudential indicators provide an overview, others a specific limit on treasury activity. These are detailed below:

19. ***Net Borrowing and the CFR*** – In order to ensure that borrowing levels are prudent, the Council's external borrowing (net of investments) over the medium-term must only be for a capital purpose, and not exceed the CFR except in the short-term. In the short term the Council can borrow for cash flow purposes. Table 4 below highlights the Council's net borrowing position against the CFR, and shows that it is significantly below the limit, due to the level of internal borrowing that has been undertaken.

Table 4 : Net Borrowing CFR 2022-23 and 2023-24		
Net Borrowing & CFR	**31st March 2023 Actual £'000**	**31st March 2024 Actual £'000**
Total Debt	198,528	218,528
Total Investment	73,125	20,330
Net Borrowing Position	**125,403**	**198,198**
CFR	**336,953**	**342,752**
Under Borrowing plus Investments	**211,550**	**144,554**

20. In the current climate, internal borrowing is preferable to borrowing externally as the interest rate payable on an external loan is much higher than that which can be earnt on investments. Therefore, forfeiting interest receivable on investments is more economical than paying additional interest charges for new external debt. If the net borrowing position, interest rate position and/or CFR changed significantly, the prospect of taking on additional debt would be reviewed.

21. ***The Authorised Limit*** – The Authorised Limit is the 'affordable borrowing limit' required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level unless it explicitly agrees to do so. Table 5 below demonstrates that during 2023/24 the Council's gross borrowing was within its Authorised Limit. The Authorised Limit allows for some headroom above the Council's projected CFR.

Table 5 : Authorised Lending Limits 2022-23 and 2023-24				
Authorised Limit compared to Actual Borrowing	**31st March 2023**		**31st March 2024**	
	Limit £'000	**Actual £'000**	**Limit £'000**	**Actual £'000**
Borrowing	691,950	198,528	815,820	218,528
Other Long Term Liabilities	0	0	0	0
Total Borrowed	**691,950**	**198,528**	**815,820**	**218,528**
Amount under Limit	**493,422**		**597,292**	

22. ***The Operational Boundary Limit*** – the Operational Boundary Limit is the expected borrowing position of the Council during the year. It is possible to exceed the Operational Boundary Limit, for a short period of time, providing that the Authorised Borrowing Limit is not breached. Table 6 below shows the limits for the last two financial years. Actual borrowing increased by £20 million to £218.5m but the limits were not breached during either period.

Table 6 : Operational Boundary Limits 2022-23 and 2023-24		
Operational Boundaries	**31st March 2023 £'000**	**31st March 2024 £'000**
Operational Borrowing Limit	480,087	499,685
Other Long Term Liabilities	0	0
Totals	**480,087**	**499,685**

Investment Income

23. High inflation has put pressure on the Bank of England to increase the interest rate to reduce the rate of inflation. The rate rose to a peak of 5.25% and was not reduced until 1st August 2024 to 5.0%. The Council manages its investments in-house and invests with institutions listed in the Council's approved counterparty list. The Council invests for a range of periods from overnight to 364 days, dependant on cash flow requirements and its view on interest rates and duration limits set out in the Council's Investment Strategy.

24. During 2023/24, the Council maintained an average investment balance of £59.7m million and received a weighted average return of 4.52%. The upper limit of non-specified investments allowed in the strategy is 25% of the average investment balance for the preceding calendar year. The average balance for 2022 was £107.8 million giving a limit on non-specified investments of £26.95 million (being the higher of 25% of the previous calendar year's average investment portfolio and £25 million). Property funds and Multi Asset Funds fall into the non-specified investment category; their original investment value was £20 million which is within the non-specified limit at 18.6% of the average investment balance.

25. The property funds and the Multi asset Funds are classified as Non-specified Investments within the approved Investment Strategy. The current rate of return on the investments is circa 3.54% per annum.

26. The capital value of the Communities, Churches and Local Authorities (CCLA) Fund has increased by 17.84% between April 2013 and March 2024. The overall value of

the Lothbury property fund investment has fallen by 10.28% as at 31st March 2024 since its inception in August 2014. It is important to understand that fluctuations in value are to be expected with property fund investments over the short term and that they are a long term investment; as such, any gains and losses in fund value should be considered over the long term. More information about the current position can be found in the confidential appendix to this report.

27. Two Multi Asset Funds each for the amount of £5m are held with two fund managers, Fidelity and Artemis. The values as at 31st March 2024 were £4.09 million and £5.39 million respectively. The position on both continues to fluctuate. As with the property funds any gains or losses should be considered over the long term. Aggregate Multi Asset Fund Investment value is currently approximately 5.2% lower than the original investment amount. It is expected that this will improve as bank interest rates fall.

28. Fund managers are reporting that the funds continue to deliver stable income in line with objectives. Yields across asset classes have risen materially and have been incorporating higher yield investments- in the fund, which will remain the focus over the coming months. The funds are well positioned to continue to deliver objectives of a stable yield of around 4-6% per annum over a market cycle.

29. Actual treasury investment income for 2023/24 was £2.07 million; £0.82m Lower than the estimate of £2.89 million. This is mainly due to lower cash balances due to internal borrowing to fund Housing company projects. This should be considered in the context of the overall position which includes savings on external borrowing; overall there is a favourable variance of £1.15 million which is broken down in paragraph 1 of this report.

30. Fluctuations in the Council's balances have been managed through a mix of instant access and notice accounts, money market funds and short term deposits (up to 364 days). This approach is in line with the Investment Strategy approved by the Council.

Other Loans

31. The Council currently have non treasury loans to the Oxford City Housing group (known as OxPlace) of £35.3 million with interest rates varying in line with PWLB rates plus a subsidy control markup and £13.3 million to Oxwed LLP with an interest rate of 6.5% per annum. There are also 2 loans with the Low Carbon Hub of £1.87 million with an interest rate of 2.85% and £1.9 million with an interest rate of 1.45%.

Treasury Advisers

32. The Council takes advice from Link Asset Services on the appropriate durations to place investments with counterparties. These durations and also the availability of individual counterparties are subject to change dependant on market conditions and the credit ratings of the individual institutions. This means that the investment portfolio has to be actively managed to ensure both the availability of enough suitable counterparties and that the Council achieves the best interest rates possible within the agreed security and liquidity parameters.

Interest Rates since 31st March 2024 and forecasts

33. Interest rates have now started to fall following the Bank of England announcement of a reduction of 0.25% from 5.25% to 5.0% and forecasts suggested further gradual falls in short, medium and longer-term rates during 2024/25 and onwards.

34. The CPI measure of inflation was 2.8% in June 2024 and is expected to fall further and stay low.

35. The Council continues to use money market funds and instant access accounts for liquidity purposes, whilst seeking to maximise its returns by arranging longer term deposits where possible., it is vital to maintain a robust cash-flow model which is continuously reviewed and updated.

Environmental Social and Governance (ESG)

36. The Council adopted an ethical investment policy in 2015/16. No changes were made to the policy in setting the 2023/24 Treasury Management Strategy which is set out below:

    The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

    a. Human rights abuse (e.g. child labour, political oppression)
    b. Environmentally harmful activities (e.g. pollutants, destruction of habitat, fossil fuels)
    c. Socially harmful activities (e.g. tobacco, gambling)

37. The Council set a separate ESG policy within the 2023/24 Treasury Strategy which was then updated in the 2024/25 Treasury Strategy. ESG criteria are a set of measures of a company's operations that socially conscious investors can use to inform potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. Due to the number of different agencies producing ESG data, which are not comparable between the agencies because of the different methodologies used, the Council is limited on how this information can be used to inform investment decisions. Due to the focus that has to be placed on the treasury management principles of Security, Liquidity and Yield, caution needs to be applied in order to not restrict the number of counterparties that the Council can invest in such that there is no remaining capacity for further investments or so that the level of interest income is not significantly affected which would cause unexpected financial pressure on the Council. However the Council does monitor the activities of its various counterparties and questions and challenges them on their ESG credentials at any meeting held with them.

Financial implications

38. These are set out within the body of the report.

Legal Issues

39. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

Level of risk

40. The key risk going forward is around uncertainty caused by interest rate rises from the Bank of England. These are being driven by the overall economic position both at the national and the global level. This gives uncertainty around both investment and borrowing decisions. Risk assessment and management is a key part of Treasury Management activity, especially in the selection of counterparties when investment is being considered and in the timing and duration of any borrowing being planned. The Council uses external advisors and counterparty credit ratings issued by the rating agencies to assist in this process.

Equalities impact

41. The Council follows an ethical investment policy, investment interest helps provide council services, which has a beneficial equalities impact.

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Background Papers: None

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