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CABINET
Agenda

Date	Monday 2nd December 2024
Time	6.00 pm
Venue	Lees Suite, Civic Centre, Oldham, West Street, Oldham, OL1 1NL
Notes	1. DECLARATIONS OF INTEREST- If a Member requires advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Alex Bougatef or Constitutional Services at least 24 hours in advance of the meeting.

2. CONTACT OFFICER for this agenda is Constitutional Services, email - constitutional.services@oldham.gov.uk

3. PUBLIC QUESTIONS - Any Member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the contact officer by 12.00 noon on Wednesday, 27th November 2024.

4. FILMING - The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

MEMBERSHIP OF THE CABINET
Councillors M Ali, Brownridge, Dean, Goodwin, F Hussain, Jabbar, Mushtaq, Shah (Chair) and Taylor

Item No

1 Apologies For Absence

2 Urgent Business

Urgent business, if any, introduced by the Chair

3 Declarations of Interest

To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.

4 Public Question Time

To receive Questions from the Public, in accordance with the Council’s Constitution.

5 Minutes (Pages 3 - 10)

The Minutes of the meeting of the Cabinet held on 18th November 2024 are attached for approval.

6 Treasury Management Half Year Review Report 2024/25 (Pages 11 - 66)

To consider a report which advises Cabinet of the performance of the Treasury Management function of the Council for the first half of 2024/25 and also provides a comparison of performance against the 2024/25 Treasury Management Strategy and the Treasury Management Prudential Indicators.

CABINET
18/11/2024 at 6.00 pm

Present: Councillor Shah (Chair)
Councillors M Ali, Brownridge, Dean, F Hussain, Jabbar and Taylor

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Goodwin and Mushtaq.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

There were no public questions for this meeting of the Cabinet to consider.

5 **MINUTES**

Resolved:
That the minutes of the meeting of the Cabinet held on 14th October 2024, be approved as a correct record.

6 **SHAREHOLDER COMMITTEE - MINUTES**

Resolved:
That the Minutes of the meeting of the Shareholder Committee, held 3rd October 2024, be noted.

7 **REVENUE MONITOR AND CAPITAL INVESTMENT PROGRAMME 2024/25**

The Cabinet considered a report of the Director of Finance that provided Members with an update, as of 30th September 2024 (Month 6), of the Council's 2024/25 forecast revenue budget position (detailed at Annex 1) and the financial position of the capital programme together with the revised capital programme 2024/25 to 2028/29 (detailed at Annex 2).

The Cabinet were advised that the forecast overspend position based on the Month 6 profiled budget was £9.956m, which if not addressed, would result in a year-end overspend of £19.912m (£21.065m at Month 4).

This financial monitoring report follows on from the position reported at Month 4 and should continue to be used as a warning of the potential year- end position if no further action is taken to reduce net expenditure. The management actions already implemented for 2024/25 have been factored into the Month 6 forecasts and this has resulted in a reduction in the position previously reported.

Work was ongoing across the organisation to address this position and it was anticipated that by the year end, the current outturn deficit position should reduce even further. An update on the Month 6 2024/25 position was detailed within Annex 1.

In terms of the Capital Position, the report outlined the most up to date capital spending position for 2024/25 to 2028/29 for approved schemes. The revised capital programme budget for 2024/25 is £99.505m at the close of Quarter 2 (£103.935m at Month 4), a net reduction of £4.430m. the actual expenditure to 30th September 2024 was £31.222m (31.38% of the forecast outturn).

Resolved that the Cabinet:

1. Notes the report.
2. Approves the forecast profiled budget, being an adverse position of £9.956m at Quarter 2 and the forecast potential adverse position by year end of £19.912m, with mitigations in place to reduce expenditure.
3. Approves the revised reserves policy for 2024/25, as detailed at Appendix 2 of Annex 1.
4. Approves the revised capital programme for 2024/25 including the proposed virements and the forecast for the financial years to 2028/29 as at Quarter 2, as outlined in Annex 2.

8 **OLDHAM TOWN CENTRE DEVELOPMENT FRAMEWORK**

The Cabinet considered a report of the Deputy Chief Executive (Place) which asked Members to consider endorsing the amended Oldham Town Centre Development Framework, following a public engagement exercise.

The Cabinet was informed that as part of the Council's Creating a Better Place programme to transform Oldham Town Centre, including the delivery of 2,000 new homes, Cabinet had approved the appointment of Muse Place Ltd as our long-term Strategic Delivery Partner in June 2023, following an extensive OJEU compliant competitive procurement exercise.

Since that time, a Master Development Agreement (MDA) between the Council and Muse was entered into in September 2023 and a Detailed Business Plan for the partnership was approved by the Council in March 2024.

A key element of the Detailed Business Plan covered how the core Town Centre housing sites, including the Civic Centre, Former Leisure Centre and Former Magistrates Court will be taken forward. The first stage of this was the production of a draft Town Centre Development Framework, which would help to guide future planning and development proposals in the Town Centre.

A draft Town Centre Development Framework was consulted upon from 24th July until 11th September 2024 (seven weeks in total). The draft Development Framework itself and the full range of consultation material was available to be viewed on the Council's website at: https://oldhamtownliving.co.uk.

The Town Centre Development Framework document had been refined, taking onboard the feedback received through the consultation, and this report was seeking the endorsement of that final Development Framework by the Cabinet.

Options/Alternatives considered:

a. Option 1 – to endorse the finalised Oldham Town Centre Development Framework.
b. Option 2 – to not endorse the finalised Oldham Town Centre Development Framework

The Development Framework provided a clear overview of what the council and partners have been doing, and continue to do, in and around the town centre, and how the proposed developments in the Oldham Town Living partnership with Muse will fit in this context and enhance the town centre. Having gone through a public consultation, in which there was significant engagement, and taken onboard the feedback from this engagement, the finalised Development Framework is now suitable for endorsement and use by the council and partners going forward. Therefore, option 1 is recommended, and there are no disadvantages to this option.

Not endorsing the Development Framework would bring no advantages, as it leaves the Development Framework with no true status and proposals for the Town Centre with no overarching framework to work to (or for the council to hold partners to). As such, option 2 is not recommended.

Option 1 is therefore the preferred option.

Resolved:
That the Cabinet endorses the Oldham Town Centre Development Framework.

9 **INCLUSION OF OLDHAM MUMPS, PRINCES GATE INTO THE TOWN CENTRE DEVELOPMENT PARTNERSHIP**

The Cabinet considered a report of the deputy Chief Executive (Place) which sought approval to include Oldham Mumps, Princes Gate into the Town Centre Development Partnership with MUSE to deliver new homes.

The submitted report set out the rationale for the Council to include the Princes Gate site into the Master Development Agreement, that has been completed with the Private Sector Partner - MUSE. The inclusion of the Princes Gate site will deliver around 295 new homes to push forward with the delivery of the town centre regeneration masterplan supported by Brownfield Housing Land Grant secured on the site to help delivery.

Options/Alternatives Considered:
The options were detailed in the confidential report.

Resolved:

That the Cabinet will consider the confidential recommendations in the report at agenda item 14.

10 **RIGHT START AND SCHOOL NURSING STAFF CONSULTATION OUTCOME**

The Cabinet considered a joint report of the Director of Public Health and the Director of Education, Skills and Early Years which advised members that approval had been granted, by the Cabinet, in June 2024, to enter into a period of formal workforce engagement and consultation regarding the Right Start and School Nursing Service, which is currently delivered under a Section 75 Partnership Agreement between Oldham Council and Northern Care Alliance (NCA). The submitted report to this meeting sought approval to commence implementation of the service redesign of the Right Start and School Nursing service to create a new Integrated Children and Families Service.

Staff consultation on these proposals had taken place between 7th August 2024 and 21st September 2024. Several changes to the proposal were made as a result. The report therefore provided further details of the engagement and consultation which had taken place.

This report explains how the council will introduce a new operating model for the Integrated Children and Families Service. The new model replaces the current Right Start and School Nursing Service.

Options/Alternatives Considered:
The options were detailed in the confidential report.

Resolved:
That the Cabinet will consider the confidential recommendations in the report at agenda item 15.

11 **CATERING REVIEW IMPLEMENTATION**

The Cabinet considered a report of the Director of Economy which informed the Cabinet of the current financial and operating position of Oldham Education Catering Service (OECS) who provided catering for 46 schools in Oldham. There were several issues of concern for the delivery of the service including increasing costs of quality local food supplies, increasing costs for staff and a continued decline in the number of schools contracting with the Council. With the continued roll out of academisation, it was anticipated that the number of schools contracting with the Council will continue to reduce over the coming years.

In response to the challenges faced by OECS, the Association for Public Service Excellence, (APSE), were commissioned to undertake an evidence based independent review. The report highlighted several options which the Cabinet were requested to consider.

OECS was the in-house school catering function that provides school meals: this is not a statutory function of the Council and schools have been opting to use various alternative services for several years now.

OECS provides approximately 7,700 meals per day and employs 199 catering staff. There are 87 Primary School in the Oldham Borough, however OECS only provides catering services for 46 of those: the remaining schools which are not supported by OECS use established providers within the school meals market or operate a successful in-house catering service. It is anticipated that the number of schools contracting with the Council will reduce in the coming years due to private companies offering schools a competitively priced service, and because of new business decisions as schools were 'academised'.

The independent APSE review had identified a number of service areas which required substantial investment whilst recognising this could take a considerable period of time to complete. However, even with this investment, the report cautioned that whilst this provides an opportunity for the service to balance costs versus budget, this would not be guaranteed. The report therefore concluded that the current delivery model was not sustainable and that transitioning the service back to schools would provide a number of benefits including local decision making for schools, (for example menu choices), and increased integration of the catering function with other school services, whilst protecting local jobs and allowing a continuity of service within schools.

Options/Alternatives Considered:
The options were detailed in the confidential report.

Resolved:
That the Cabinet will consider the confidential recommendations in the report at agenda item 16.

12 **PUBLIC HEALTH INVESTMENT REVIEW**

The Cabinet considered a report of the Director of Public Health which provided members with an update on the Public Health Investment Review and present the resulting proposals for consideration.

The report supplied an update on the Public Health Investment Review and associated proposals for in-year and future changes to investment in council services from the Public Health budget. This included those services where public health investment was used by other council areas to commission external providers.

Options/Alternatives Considered:
The options were detailed in the confidential report.

Resolved:
That the Cabinet will consider the confidential recommendations in the report at agenda item 17.

13 **EXCLUSION OF THE PRESS AND PUBLIC**

Resolved:
That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting, for the following four items of business, on the grounds that they contain exempt information, as defined under paragraph 3 Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

14 **INCLUSION OF OLDHAM MUMPS, PRINCES GATE INTO THE TOWN CENTRE DEVELOPMENT PARTNERSHIP**

The Cabinet considered confidential recommendations to the report detailed at agenda item 9.

Resolved:

1. That the Cabinet Members approve the inclusion of the Oldham Mumps into the Master Development Agreement (dated 11th September 2023) via a Supplementary Agreement to ensure MUSE's obligations and timescales for stratifying the core sites are maintained.
2. That the Cabinet agrees to delegate authority to the Leader, Deputy Chief Executive (Place) and to the Interim Borough Solicitor to agree the final details and then finalise the supplemental agreement with Muse.
3. That the Cabinet agree to delegate authority to the Leader, Deputy Chief Executive (Place) and Director of Finance to review all legal, financial and commercial details, ahead of entering into relevant agreements to support pre-development partnership costs (up to £5 Million).

15 **RIGHT START AND SCHOOL NURSING STAFF CONSULTATION OUTCOME**

The Cabinet considered confidential recommendations to the report detailed at agenda item 10.

Resolved:

1. That the Cabinet approves the new operating model, Option 1 shown at Appendix 1 to the confidential report, which has been refined following detailed discussions with staff, formal consultation with unions and scrutiny by the 0-19 Governance Operational Group and the Children and Families Early Help Board
2. That the Cabinet authorises officers to take the necessary actions to implement the restructure effective from 19th November 2024 including the TUPE of 32 staff from NCA to Oldham Council and the authorising of any resulting redundancies.

16 **CATERING REVIEW IMPLEMENTATION**

The Cabinet considered confidential recommendations to the report detailed at agenda item 11.

Resolved:

1. That the Cabinet approve the transition of the school catering provision from Oldham Education Catering

Service to schools through a comprehensive and supportive change management process.
2. That the Cabinet approve the withdrawal of the OECS from the school meal provider market no later than September 2025.

17 **PUBLIC HEALTH INVESTMENT REVIEW**

The Cabinet considered confidential recommendations to the report detailed at agenda item 12.

Resolved:
1. That the Cabinet notes the work undertaken to date and approves the outlined methodology and proposals for changes to the Public Health investment approach, as outlined in the confidential report.
2. That the Cabinet approves the proposed changes in the Public Health investments to council services, as outlined in the confidential report.

The meeting started at 6.00pm and ended at 6.25pm

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Oldham Council

Report to Cabinet

Treasury Management Half Year Review Report 2024/25

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Value for Money & Sustainability

Officer Contact: Sarah Johnston, Director of Finance

Report Author: James Postle Senior Finance Manager/ Paula Buckley, Finance Manager (Capital & Treasury)

2 December 2024

Reason for Decision

Executive Summary

In April 2023 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report advises Cabinet of the performance of the Treasury Management function of the Council for the first half of 2024/25 and provides a comparison of performance against the 2024/25 Treasury Management Strategy and the Treasury Management Prudential Indicators.

Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). This quarterly report provides an additional update and includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators. This report therefore sets out the key Treasury Management issues for Members' information and review and outlines:

- An economic update for the first half of 2024/25 (External Context);
- Net Borrowing and Investments (Local Context);
- A review and updates of the Council's current treasury management position;
- Council Borrowing;

- Treasury Investment Activity;
- Treasury Performance for the first half of the year;
- Compliance;
- Treasury Management Prudential Indicators.

Recommendation

That Cabinet:

a) considers and comments upon the Treasury Management Half Year Review report;

b) accepts the proposed revisions to the Maturity Structure of Borrowing outlined in section 2.10.5;

c) accepts the proposed revision to the Flexible Use of Capital Receipts outlined in section 2.7 and Appendix 2;

d) accepts the proposed revision to the Minimum Revenue Provision Policy outlined in section 2.8 and Appendix 4; and

e) commends the report to Council.

Treasury Management Half Year Review Report 2024/25 2 December 2024

1 Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested with low-risk counterparties, providing adequate liquidity initially before considering optimising investment returns.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 As a consequence, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market, and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Current Position

2.1 Requirements of the Treasury Management Code of Practice

2.1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (Revised 2021) (the CIPFA Code) which requires the Authority to produce a quarterly treasury management update report; a requirement in the 2021 Code which is mandatory from 1 April 2023.

2.1.2 The Treasury Management Quarter 1 Update Report was presented to the Audit Committee for scrutiny on 24 July 2024.

2.1.3 This half year report provides an additional update to that previously received by Members to reflect the requirement of the 2021 Code of quarterly reporting on treasury management prudential indicators. It presents for approval the Treasury Management position, known as the semi-annual review at the end of September 2024. The treasury and prudential indicators are also incorporated at Appendix 1 to this report.

2.1.4 The Council's Treasury Management Strategy for 2024/25 was approved at a meeting on 28 February 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring, and control of risk remains central to the Authority's Treasury Management Strategy.

2.1.5 This Half Year Review report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the second quarter of 2024/25;
- A review and updates of the Council's current treasury management position;
- Council Borrowing;
- Treasury Investment Activity;
- Treasury Performance for the first six months;

- Compliance
- Treasury Management Prudential Indicators;

2.1.6 The report is presented to the Cabinet to enable it to have the opportunity to review and scrutinize the Half Year Treasury Management Report prior to its presentation to Council.

2.2 External Environment Half Year Review 2024/25

2.2.1 **Economic background:** UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally in June, to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

2.2.2 The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

2.2.3 Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% from 4.4% in the previous three-month period, while the employment rate rose to 74.8% from 74.3%.

2.2.4 Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

2.2.5 With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

2.2.6 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.

2.2.7 Arlingclose, the authority's treasury adviser, maintained its central view that the Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking the Bank Rate down to around 3% by the end of 2025.

2.2.8 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.

2.2.9 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.

2.2.10 **Financial markets**: Sentiment in financial markets continued to mostly 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 was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial, and geopolitical issues meant it was a bumpy ride for bond investors during that time.

2.2.11 Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51%, it hit a high of 4.82% in May, and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30 September.

2.2.12 **Credit review**: Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

2.2.13 Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

2.2.14 Financial market volatility is expected to remain a feature, at least in the near 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.

2.3 The Oldham Council Treasury Position

2.3.1 On 31 March 2024, the Authority had net borrowing of £113.980m arising from its revenue and capital income and expenditure. This had fallen to £107.086m at the end of Quarter 1 but, as presented at Table 2, had fallen to £92.736m at the half year.

2.3.2 The actual and planned level of capital expenditure are the drivers of borrowing for capital purposes. Appendix 1 shows the actual level of capital expenditure at the end of 2023/24 and includes the half year forecast for 2024/25, 2025/26 and 2026/27. It also shows the financing sources, including the level of prudential borrowing.

2.3.3 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 factors are summarised in Table 1 below and show the half year forecast compared to the Quarter 1 forecast and the closing position for 2023/24.

Table 1 – Balance Sheet Summary

	31 March 2024 Actual £'000	31 March 2025 Half Year Review Forecast £'000
General Fund CFR	488,980	510,747
Total CFR	**488,980**	**510,747**
Less: Other debt liabilities (PFI)	193,890	182,387
Borrowing CFR	**295,090**	**328,360**
External borrowing	181,110	232,099
Internal borrowing	**113,980**	**96,261**
Less: Usable Balance Sheet Resources	(132,737)	(97,736)
Less: Working capital	(17,957)	(48,903)
Net Investments	**(36,714)**	**(50,378)**

2.3.4 Table 1 shows the forecast CFR for 2024/25 is £510.747m, an increase of £21.767m compared to £488.980m at the end of 2023/24. The CFR excluding other debt liabilities relating to Private Finance Initiative schemes is forecast to be £328.360m, an increase of £33.270m compared to the position at the end of 2023/24.

2.3.5 External borrowing is forecast to increase by some £40m to £233m by the end of the financial year. This is well below the CFR meaning the Council is maintaining an under-borrowed position. This indicates that the capital borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council’s reserves, balances, and cash flow has been used as a temporary measure. This strategy has been prudent in recent years as investment returns have been low and counterparty risk is still an issue that needs to be considered.

2.3.6 However, as the Council utilises its reserves to finance annual revenue expenditure, the capacity to do this will diminish and external borrowing will be required. The Council will continue to analyse and assess the market with respect to interest rate forecasts and counterparty risk to determine the optimum time to externally borrow.

2.3.7 The treasury management position as at 30 September 2024 and the change over the year to date is shown in Table 2 below.

Table 2 - Treasury Management Summary

Borrowing/Investment	31.3.24 Balance £'000	Movement £'000	30.09.24 Balance £'000	31.09.24 Average Rate %
Long-term borrowing				
- PWLB	35,241	25,000	60,241	3.23%
- LOBOs	85,500	-	85,500	4.33%
- Other	40,001	0	40,001	4.03%
Short-term borrowing	20,368	540	20,908	5.19%
Total borrowing	**181,110**	**25,540**	**206,650**	
Long-term investments	13,354	(251)	13,103	5.31%
Short-term investments	10,000	(10,000)	-	0.00%
Cash and cash equivalents	13,360	23,915	37,275	5.01%
Total investments	**36,714**	**13,664**	**50,378**	
Net borrowing	**144,396**	**11,691**	**156,087**	

2.3.8 As can be seen in the table above, borrowing has increased by £25.5m as was expected, and is likely to increase further in line with planned capital expenditure during the latter part of the year. The level of investment has increased £13.664m since the end of the year due to the cash position of the Council. Overall net borrowing has increased by £11.691m

2.4 Borrowing

2.4.1 The Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time, short term interest rates are higher than long term interest rates.

2.4.2 After substantial rises in interest rates since 2021, many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.

2.4.3 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.

2.4.4 The cost of short-term borrowing from other local authorities spiked to around 7% (Oldham temporary borrowing spiked to 6.6%) in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month as expected. Shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

2.4.5 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 decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

2.4.6 Public Works Loan Board (PWLB) loans are no longer available to Local Authorities planning to buy investment assets primarily for yield, unless these loans are for refinancing purposes.

2.4.7 Oldham Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council, and it has no plans to do so in future.

2.4.8 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor, Arlingclose.

2.4.9 As at 30 September 2024, Oldham Council held £206.650m of loans. The Council has undertaken two new borrowings from Public Works Loan Board (PWLB) of £15m at 4.54% over 11 years and £10m at 4.45% over 10 years shown in the table below.

Table 3 - Borrowing Position

Borrowing Sources	31 March 2023 Balance £'000	Movement £'000	30 September 2024 Balance £'000	30 September 2024 Weighted Average Rate %	30 September 2024 Weighted Average Maturity (years)
Public Works Loan Board	35,241	25,000	60,241	3.23%	15.50
Banks (LOBO)	85,500	-	85,500	4.33%	44.43
Banks (fixed-term)	40,000	-	40,000	4.03%	45.05
Local Bonds (long-term)	1	-	1		-
Local Authorities (short term)	20,114	539	20,653	5.19%	
Local Bonds (short-term)	22	-	22	0.00%	-
Local Charitable Trusts (short-term)	231	-	231	4.90%	
Total Borrowing	**181,110**	**25,539**	**206,650**		

LOBO Loans

2.4.10 Oldham Council continues to hold £85.500m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate and terms, or to repay the loan at no additional cost.

2.4.11 Currently Oldham Council has £44.000m LOBO loans with call dates within the next 12 months. Of this sum, £19.000m is held with Dexia Finance, £10.000m with KBC Bank and the remaining £15.000m split with three other providers, Danske Bank, FMS Wertmanagement, and KA Finanz. At the time of writing no call options have been exercised.

2.4.12 Council officers have liaised with treasury management advisors, Arlingclose, over the likelihood of the options being exercised for LOBOs within the loan portfolio. If the option is exercised the Authority plans to repay the loan at no additional cost. If required, the Authority will be required to repay the LOBO loans with available cash or by borrowing from alternative sources or the PWLB. Given the revised interest rate forecasts referred to earlier in this report, the probability of the LOBO options being exercised is reduced but not eliminated.

2.5 Treasury Investment Activity

2.5.1 The CIPFA Treasury Management Code (Dec 21), defines treasury management investments as investments that arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

2.5.2 As at 30 September 2024, the Council held £37.275m of Money Market Funds, representing income received in advance of expenditure plus balances and reserves held. During the first half year, the Authority's investment balances ranged between £15.740m and £47.860m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4 - Treasury Investment Position

Investment Placements	31 March 2024 Balance £'000	Movement £'000	30 September 2024 Balance £'000	30 September 2024 Income Return %
Government (incl. Local Authorities)	10,000	(10,000)	0	
Money Market Funds	13,360	23,915	37,275	5.04%
Property Pooled Fund	13,354	(66)	13,103	5.31%
Total Investments	**36,714**	**(13,849)**	**50,378**	

2.5.3 Both the CIPFA Code and Government guidance require the Authority 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 Authority'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.

2.5.4 As demonstrated by the liability benchmark in this report, the Authority 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 sectors and boost investment income.

2.5.5 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 money market rates fluctuated between 5.21% and 5.01% in the same period.

2.5.6 The Council in previous years has invested £15.000m in the Churches, Charities & Local Authorities (CCLA) pooled property fund. As this is a longer-term investment, short term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fund is forecast to generate an average total return in 2024/25 of £0.700m, representing 5.31% income return. The current value estimated is

£13.103 and a full half year update is based upon our Treasury advisors financial modelling and confirmation from the CCLA will be updated in the next reporting period once received. Analysis of the fund this year is shown below.

2.5.7 Performance

Occupier and rental markets have remained solid, supporting the income flows which make up a sizeable part of long-term total returns to property investors. Capital markets have continued to be a little subdued but some positivity is being experienced. Sentiment has improved markedly, the market is undoubtably in a more stable place than it was this time last year, and investment opportunities are emerging with a more positive narrative surrounding the macro backdrop and outlook for the property market.

The portfolio is managed actively with the aim of providing a high income and long-term capital appreciation. There is a bias towards industrial assets, and retail warehouses are also well represented, whereas there is little exposure to high street shops. Industrial and retail warehouse assets continue to lead performance with some continued weakness in the office sector.

The fund remains well positioned and has returned good performance against a challenging economic backdrop. The investment market has been turbulent, which has been driven by interest rates not property fundamentals.

2.5.8 Management activity

No investment transactions have taken place but management activity featuring lease renewals and rent reviews are protecting income and growing rents. A number of leases were entered into or renewed, supporting occupancy rates and helping to secure future income flows. These include retail warehousing at Beckton Park (London) and Bristol, Office asset at Dartford, and industrial assets near Orpington and Warrington.

2.5.9 Income/distributions levels

Against the backdrop of capital valuations, the fund has undertaken management activity which has positively impacted upon income distributions. These have been maintained and at times increased during 2023 and into 2024. Income returns are higher, well supported by occupier market conditions, rental growth and rising income.

The fund’s more attractive yield compared to the benchmark *(MSCI/AREF UK other Balanced Open-Ended Property Funds Benchmark)* provides a firm foundation for returns and a decisive performance advantage, especially in periods when capital growth is weaker.

2.5.10 Outlook

Investors should continue focusing on the investment fundamentals and high-level trends. The sector will start to provide opportunity for stabilisation and further growth as the financial backdrop settles. The foundation of a high-level of income yield, some rental value growth, a well-placed portfolio structure, and pro-active management activity all combine positively, continuing to support income, enhance asset quality, and add value.

The fund is expected to continue to maintain the high level of income distributions and the outlook for capital valuations is more positive. Reducing interest rates are likely to cause growth in commercial property values. We can anticipate some further improvement in property returns as we move through 2024 and into 2025. The funds approach and strategy remain guided by its philosophy and long-term investment objectives, providing diversification and a high level of income.

2.5.11 The Authority has budgeted income from these investments in 2024/25. Income received for the period up to 30 September was £0.354m.

2.5.12 The Council’s investments have no defined maturity date, but are available for withdrawal after a notice period, but their performance and continued suitability in meeting the Councils medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

Statutory Override

2.5.13 In April 2023 the Ministry for Housing, Communities and Local Government 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 2 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 has provided for a loss of up to £2.000m, to mitigate the impact on the revenue budget of the statutory override not being extended and un-realised losses on pooled investment funds are required to be recognised.

2.5.14 The Council's investments continue to generate returns in excess of 5% and there has been no increase in their perceived risk profile. Therefore, there are no immediate plans to dispose of any investments. The Council will continue to review the implications for the investment strategy and in consultation with Arlingclose. Any future Treasury Management Strategies will be revised accordingly.

2.6 Treasury Team Performance

2.6.1 The Treasury Team 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 5 below.

Table 5 – Treasury Performance

	Budgeted Performance Rates/Benchmark SONIA Return %	Benchmark SONIA Return % Plus 5%	31.09.24 Income Return % (Actual)
Budgeted Investment Rates	5.17%		5.64%
Overnight SONIA	4.95%	5.20%	5.10%

2.6.2 The budgeted investment rate of 5.17% above included within the annual strategy for 2024/25 was based on the average rate over the full financial year as expectations were for interest rates to decrease from 5.25% during 24/25. The actual rate achieved in the first half of the year broadly in line with this budgeted rate. The total budget for treasury management income for 2024/25 is £1.550m. To date, General Fund income of circa £0.845m has been achieved.

2.7 Minimum Revenue Provision (MRP) Regulations and Revised MRP Policy

2.7.1 The Council has undertaken, in conjunction with Treasury Management Advisors, a review of how Minimum Revenue Provision is calculated and charged to the revenue budget. In line with statutory guidance, the review was to ensure that MRP continues to be charged in a prudent manner.

2.7.2 The main recommendations of the review were:

- To move to the Annuity Method (from the straight-line method) using the PWLB Certainty Rate over the life of assets.
- To make MRP over the life of assets for PFI schemes (rather than life of PFI contract)

2.7.3 The Annuity Method will mean that relativity less MRP will be made in the earlier years and greater amounts in the later years, compared to the straight-line method. Although the annuity method results in short term savings and long-term costs, officers believe this method is prudent, as it produces a smoother profile of costs over the life of assets. This is because interest costs are greater in the early years and less in the later years and means that total financing costs will fall to Council Tax-payers at an equal rate over the life of assets. This methodology also better reflects the time value of money.

2.7.4 MRP is also currently made on PFI contracts on an annuity rate over the life of PFI contracts. The rate is calculated from the interest rate implicit in each PFI contract. Where the Council expects to continue to own or retain service benefit from PFI assets after the end of the contract, it is proposed to make MRP over the remaining life of the asset. This will make the policy more consistent with the policy adopted on the Council's other assets.

2.7.5 As the changes in MRP policy will result - in the short term – less money being set aside to repay debt; this will result in increased interest costs over the lifetime of assets if the savings in the early years are spent on day to day expenditure rather than used to build up revenue reserves. The change in policy will impact on the 2024/25 financial outturn and the future years' implications will be factored into the MTFS presented to Budget Council for approval on 6 March 2025. Further details are provided in Appendix 2.

2.7.6 Further details on the revised MRP policy are contained in Appendix 4.

2.7.7 On 10 April 2024, amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7 May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

2.7.8 The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

2.8 Flexible Use of Capital receipts

2.8.1 Under Statutory Guidance published in 2016, the Council is entitled to utilise capital receipts in respect of any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

2.8.2 When setting the 2024/25 budget on 28 February 2024, Council approved the use of £2.6m of capital receipts to fund transformational activity within directorates.

2.8.3 Since that date the Council invited applications for voluntary redundancy and 44 applications have been accepted with a total cost of just under £2million. Such expenditure is eligible to be funded through the flexible use of capital receipts and it is therefore proposed that an additional £2million is utilised to this effect. This will increase the total use of capital receipts to £4.6million and further details are outlined in Appendix 2.

2.9 Compliance

2.9.1 The Director of Finance reports that all treasury management activities undertaken during the half year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 6 below.

Table 6 - Investment Limits

Investment Limit	Maximum during 2024/25 £'000	Actual Position at 30 September 2024 £'000	Maximum Allowable in 2024/25 £'000	Compliance Yes/No
Any single organisation, except the UK Government	-	-	30,000	Yes
Any group of organisations under the same ownership	-	-	20,000	Yes
Any group of pooled funds under the same management	13,617	13,288	15,000	Yes
Unsecured investments with building societies	-	-	20,000	Yes
Money Market Funds	47,860	37,275	80,000	Yes
Strategic Pooled Funds	13,617	13,103	15,000	Yes

2.9.2 Compliance with the Operational Boundary and Authorised Limit for external debt is demonstrated in Table 7 below.

Table 7 – Operational Boundary and Authorised Limit

Borrowing /Limits	Actual Position at 30 September 2024 £'000	2024/25 Operational Boundary £'000	2024/25 Authorised Limit £'000	Compliance Yes/No
Borrowing	206,650	335,250	350,250	Yes
PFI and Finance Leases	182,387	183,500	186,000	Yes
Total Gross Borrowing / Limit	**389,037**	**518,750**	**536,250**	Yes

2.9.3 The Operational Boundary represents the maximum expected borrowing position for the Council for the year, and was originally set at £518.750m.

2.9.4 The Authorised Limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 and for 2024/25 was set at £536.250m. Once this has been set, the Council does not have the power to borrow above this level, although it can be revised if required.

2.9.5 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. No breaches have occurred, and it is not anticipated that there will be any breaches in 2024/25.

2.10 Treasury Management Prudential Indicators

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

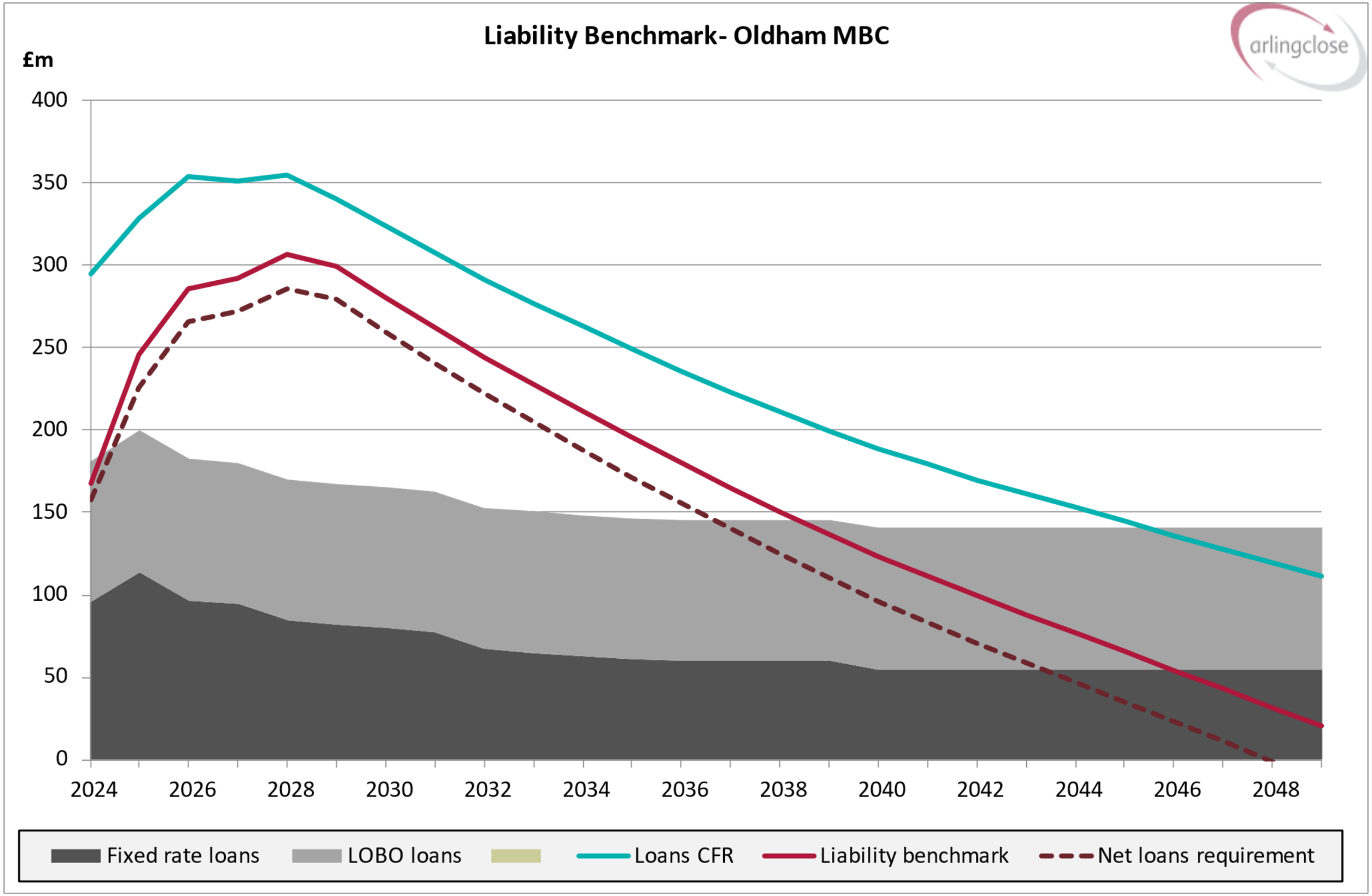
Liability Benchmark

2.10.2 This indicator compares the Authority'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 that the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £20.000m, the level required to manage day-to-day cash flow.

Table 9 - Liability Benchmark

Liability Benchmark Measurement	31 March 2024 Actual £'000	31 March 2025 Forecast £'000	31 March 2026 Forecast £'000	31 March 2027 Forecast £'000
Loans CFR	295,090	328,360	353,056	348,520
Less: Balance sheet resources	132,737	97,736	82,736	72,736
Net loans requirement	162,353	230,624	270,320	275,784
Plus: Liquidity allowance	10,000	20,000	20,000	20,000
Liability benchmark	**172,353**	**250,624**	**290,320**	**295,784**
Existing /forecast borrowing	**181,110**	**230,624**	**270,320**	**275,784**

2.10.3 As demonstrated by the liability benchmark in the table above, the Council expects to be a long-term borrower to finance the expected capital spend. There could be timing differences between when the Council externally borrows compared to when the expenditure is required due to the nature of capital works, but 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 sectors and boost investment income.



Liability Benchmark- Oldham MBC
£m
arlingclose
400
350
300
250
200
150
100
50
0
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
2044
2046
2048
Fixed rate loans
LOBO loans
Loans CFR
Liability benchmark
Net loans requirement

2.10.4 Table 10 below sets out the maturity structure of borrowing at the end of the first six months of 2024/25 compared to the upper and lower limits set in the Treasury Management Strategy for 2024/25. The indicator is set to control the Authoritiy's exposure to refinancing risk.

Table 10 –Maturity Structure of Borrowing

Borrowing Timeframe	Upper Limit	Lower Limit	30 September 2023 Actual	Compliance Yes/No
Under 12 months	30%	0%	28.68%	Yes
12 months and within 24 months	30%	0%	2.43%	Yes
24 months and within 5 years	30%	0%	23.82%	Yes
5 years and within 10 years	30%	0%	3.76%	Yes
10 years to 20 years	60%	0%	14.58%	Yes
20 years to 30 years	60%	0%	2.43%	Yes
30 years to 40 years	60%	0%	2.43%	Yes
40 years to 50 years	60%	0%	21.87%	Yes
50 years to 60 years	60%	0%	0%	Yes

2.10.5 It is proposed to increase the upper limits for the maturity structure of borrowing to 35% for short and medium timeframes to enable the Council's expected debt profile in line with the liability benchmark and to enable greater flexibility around the financing of debt.

Table 11 –Revised Maturity Structure of Borrowing

Borrowing Timeframe	Upper Limit	Lower Limit	30 September 2023 Actual	Compliance Yes/No
Under 12 months	35%	0%	28.68%	Yes
12 months and within 24 months	35%	0%	2.43%	Yes
24 months and within 5 years	35%	0%	23.82%	Yes
5 years and within 10 years	35%	0%	3.76%	Yes
10 years to 20 years	50%	0%	14.58%	Yes
20 years to 30 years	50%	0%	2.43%	Yes
30 years to 40 years	50%	0%	2.43%	Yes
40 years to 50 years	50%	0%	21.87%	Yes
50 years to 60 years	50%	0%	0%	Yes

2.10.6 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. In the case of LOBO loans, the next option date has been used as the measure to determine if it is potentially repayable.

2.10.7 Long-term Treasury Management Investments

The purpose of the Long-Term Treasury Management indicator is to control the Authority'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 set out in the table below.

Table 12- Limit / Actual Investments exceeding one year

Limit /Actual Investments Exceeding One Year	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£50m	£50m	£50m	£50m
Actual principal invested beyond year end	£15m	-	-	-
Compliance – Yes/No?	Yes	N/A	N/A	N/A

2.10.8 Long-term investments with no fixed maturity date include strategic pooled funds. For the Council, this is currently the CCLA Property Fund. Long term investments exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term investments.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Cabinet has no option other than to consider and approve the current Treasury Management position. Therefore, no options/alternatives can be presented in respect of the factual information contained in this report. However, in respect of the potential changes in policy outlined in this report, the options available to this committee are:

3.2 Option 1 – to accept the recommendations of the Council's Treasury Advisers and change the MRP policy as outlined in section 2.7 & Appendix 4.

3.3 Option 2 - to approve the use of up to £2.000m of capital receipts to fund the costs of voluntary redundancy payments.

3.4 Option 3 - to approve both the change in MRP policy and the use of flexible capital receipts to fund the costs of voluntary redundancy payments.

3.5 Option 4 – to approve neither the change in MRP policy nor the use of capital receipts.

4 Preferred Option

4.1 The preferred option is Option 3 and that the contents of the report are agreed and recommended to Cabinet for approval.

5 Consultation

5.1 There has been consultation with the Council's, Treasury Management Advisors, Arlingclose in the production of this report.

5.2 The Treasury Management Half Year Review Report was presented to the Audit Committee for detailed scrutiny on 28 November 2024 and commended to Cabinet. The report will then be presented to Council for approval.

6 Financial Implications

6.1 All included within the report.

7 Legal Services Comments

7.1 The proposals have been the subject of review by Finance officers and the Council's Treasury Management advisers in order to ensure compliance with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and statutory guidance on the Minimum Revenue Provision. I am satisfied that the recommended proposals would not be in breach of those regulations or statutory guidance and the preferred option is supported.

(Alex Bougatef – Interim Borough Solicitor and Monitoring Officer)

8 Co-operative Agenda

8.1 The Council ensures that any Treasury Management decisions comply as far as possible with the ethos of the Co-operative Council.

9 Human Resources Comments

9.1 None.

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in both Internal and the External Auditors' reports presented to the Audit Committee.

11 IT Implications

11.1 None.

12 Property Implications

12.1 None.

13 Procurement Implications

13.1 None.

14 Environmental and Health & Safety Implications

14.1 None.

15 Community cohesion disorder implications in accordance with Section 17 of the Crime and Disorder Act 1998

15.1 None.

16 Oldham Impact Assessment Completed (Including impact on Children and Young People)

16.1 No.

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FCR-20-24

19 Background Papers

19.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: Background papers are contained with Appendix 1
Officer Name: Paula Buckley/James Postle
Contact No: 0161 770 424to

20 Appendices

Appendix 1 - Prudential and Treasury Indicators

Appendix 2 – Flexible Use of Capital Receipts (revised policy)

Appendix 3 - Arlingclose Review of Minimum Revenue Provision

Appendix 4 – Revised Minimum Revenue Provision Policy Statement

Appendix 1 - Prudential and Treasury Indicators

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

The following tables shows a summary of the prudential indicators for half year 2024/25.

Capital Expenditure

Capital Expenditure/Financing	2023/24 Actual £'000	2024/25 Forecast £'000	2025/26 Budget £'000	2026/27 Budget £'000
Expenditure				
General Fund services	81,147	99,055	0	34,838
HRA	64	628	95	-
Total Capital Expenditure	**81,211**	**99,683**	**81,076**	**34,838**
Financing				
Grants & Contributions	(32,621)	(43,834)	(28,633)	(6,494)
Prudential Borrowing	(40,448)	(49,638)	(51,646)	(27,851)
Revenue	(1,606)	(630)	(95)	-
Capital Receipts	(6,536)	(5,581)	(702)	(493)
Total Financing	**(81,211)**	**(99,683)**	**(81,076)**	**(34,838)**

Capital Financing Requirement (CFR)

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.

Capital Financing Requirement	31 March 2024 Actual £'000	31 March 2025 Forecast £'000	31 March 2026 Budget £000 £'000	31 March 2027 Budget £'000
General Fund Services	488,980	510,747	510,747	523,364
Total CFR	**488,980**	**510,747**	**510,747**	**523,364**

Gross Borrowing 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.

Gross Borrowing /CFR	31 March 2023 Actual £'000	31 March 2024 Forecast £'000	31 March 2025 Budget £'000	31 March 2026 Budget £'000	Debt at 30 September 2024 £'000
Gross Borrowing (incl. PFI & leases)	375,000	413,011	440,628	434,168	401,474
Capital Financing Requirement	488,980	510,747	510,747	523,364	

Debt and the Proposed Revised 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 [except in Scotland: and to keep it under review]. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Debt	Debt at 30 June 2024	2024/25 Half Year Revised Operational Boundary	2023/24 Half Year Revised Authorised Limit	Compliance? Yes/No
	£'000	£'000	£'000	
Borrowing	206,650	332,250	350,250	Yes
PFI and Finance Leases	182,387	183,500	186,00	Yes
Total Debt	**389,037**	**518,750**	**536,250**	

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.

Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans is charged to revenue. 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.

Financing Cost/Net Revenue Stream	2023/24 Actual £'000	2024/25 Forecast £'000	2025/26 Budget £'000	2026/27 Budget £'000
Financing costs (£m)	24,124	34,799	39,747	40,777
Proportion of net revenue stream	8.81%	11.50%	13.05%	13.05%

Appendix 2: Flexible Use of Capital Receipts Strategy

Introduction

In March 2016, the former Secretary of State for Housing, Communities and Local Government, now the Department for Levelling Up, Housing & Communities (DLUHC) issued Statutory Guidance that permitted Local Authorities to use capital receipts to fund the revenue costs of transformation for the period 1 April 2016 to 31 March 2019. This flexibility has been extended several times, most recently to 31 March 2025.

This Capital Strategy and the MTFS of the Council has been prepared on the basis on the continued use of the Flexible Use of Capital Receipts for 2024/25.

Statutory Guidance

The Statutory Guidance and supporting 'informal commentary' published in March 2016,and updated in August 2022, states that "Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual Local Authorities to decide whether or not a project qualifies for the flexibility".

The Council's Strategy

The Council intends to make use of the flexibility in the use of capital receipts for the financial year 2024/25.

The Council can only use capital receipts to finance Qualifying Expenditure as defined in this strategy (see Table 1) from the disposal of property, plant and equipment assets received in the year in which this flexibility is offered. The Council will not utilise capital receipts generated on or before 31 March 2024 to finance Qualifying Expenditure.

The Government direction states that the Council cannot borrow to finance the revenue costs of service reform and the Council will comply with this requirement.

This Strategy outlines the projects which plan to make use of the capital receipt flexibility and provides details of the expected savings/service transformation on a scheme by scheme basis. The Strategy can be replaced at any point during the financial year with a revised Strategy outlining an up to date position.

Council approval for the use of this flexibility is required on at least an annual basis, with plans published on the Council's website and notification of planned use sent to the DLUHC.

Summary of planned receipts

The Council's Capital Strategy and Capital Programme 2024/25 to 2028/29 includes £5.000m in capital receipts specifically for this purpose. The first call on new capital receipts received in 2024/25 (£4.600m) will fund qualifying revenue expenditure as detailed within the Flexible Use of Capital Receipts Strategy.

Summary of planned use and savings

It is intended that in 2024/25 capital receipts will fund the following transformational projects/expenditure as set out in Table 1 (note there is an element of contingency to allow for variation).

Table 1 – Planned Qualifying Expenditure

Scheme Description	Qualifying Expenditure	£000 2023/24
Creating a Better Place - Asset Rationalisation	Expenditure in relation to developing and progressing the disposal strategy/asset rationalisation strategy to streamline the Council's (and partners' estates) in line with the principles of One Public Estate.	750
Creating a Better Place - Major Projects/Regeneration	Expenditure in relation to developing major Regeneration and Housing scheme proposals and bids for capital funding opportunities including funding for feasibility, options apprasials and the early development of business cases.	750
Transformation Programme and Project resources to support the delivery of the transformation agenda	A specialist team to wholly support and facilitate the delivery of the Council's Transformational Programme. This team will ensure that the efficiencies and savings that are anticipated within the Medium-Term Financial Strategy (MTFS) are achieved and support the development of the on-going programme of Council wide change.	1,000
ICT	The use of transformational funds to support Research and Development within ICT that drives a more digital approach to deliver efficiencies and support budget reductions in services. The ICT Service will explore new technology and undertake Proof of Concepts before rolling out new developments within the organisation.	100
Voluntary Redundancy Programme	One-off expenditure in relation to the Voluntary Redundancy programme allow for service restructuring to deliver savings by reducing staffing costs.	2,000
Total Flexible Use of Capital Receipts Relied upon to support the revenue budget in 2024/25		**4,600**

APPENDIX 3

Arlingclose Ltd:

Independent treasury management services

Review of Minimum Revenue Provision

Oldham Council

November 2024

DRAFT - Version 4

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Contents

Review of Minimum Revenue Provision – Oldham Council

1.0 Executive Summary

1.1 Oldham Council ('Oldham') currently make MRP on a straight line asset life basis for the majority of their non-Public Finance Initiative (PFI) and finance lease Capital Financing Requirement (CFR). A small number of assets apply the annuity method. For the pre-2008 supported borrowing CFR MRP is made on a straight line basis over a remaining asset life of 42 years. MRP is made on a largely straight line basis for a small amount of transferred debt. MRP on PFI and finance leases is made in line with principal repayments of the lease liability which is broadly on an annuity basis.

1.2 The Council should consider re-writing its MRP policy with the new recommendations adopted. The policy should clearly and comprehensively describe to members how Oldham will make MRP. Officers should ensure that the policy as written is followed in practice.

1.3 Oldham's CFR is the same figure when calculated from their balance sheet and from their statement of accounts note. This gives assurance that the CFR is the correct figure. Based on current calculations Oldham are underproviding for MRP on the general fund by £1,158k and overproviding for MRP on the HRA by £9,050k.This should be corrected for.

1.4 Arlingclose would recommend that MRP is made on Oldham's current adjustment A amount of £19,602k. Making this MRP is in line with guidance and demonstrates prudence. Arlingclose would also recommend the MRP equal to the ECL charge is made for the loan to Manchester Airport Group.

1.5 Arlingclose would recommend that Oldham move from a straight line method to an annuity method for all MRP that is made on an asset life basis. The PWLB certainty rate should be used at the date of imposition of this policy for historical assets, for new future assets the PWLB certainty rate for the year of acquisition should be used. For assets that have historically had the annuity method applied since acquisition the 2.88% annuity rate should continue to be used. Arlingclose would recommending maintaining the current method of making MRP for finance lease assets and the transferred debt.

1.6 Arlingclose would recommend that Oldham make MRP over the remaining asset life of PFI assets rather than the contract length of the PFI. This is provided the assets will continue to provide a benefit to council tax payers over their asset life.

1.7 Adopting these changes is expected to make savings of £13,382k in 2024/25: £7,757k of this is attributable to the general fund and £5,625k to the HRA. £126,159k of savings would be expected over the next 10 years: £65,347k attributable to the general fund and £60,811k to the HRA. Further savings will be realised in future as the annuity method is applied to future expected debt funded capital expenditure. These savings are expected to be £137,923k over the next 10 years: £77,112k attributable to the general fund and £60,811k to the HRA.

1.8 Although the annuity method results in short term savings and long term costs Arlingclose believes that it is prudent as it gives a smoother profile of overall costs once interest costs are taken into consideration.

1.9 Reducing the MRP charge does increase interest costs to the authority. These would be expected to be around £137,054k over the next 50 years. Oldham should carefully consider these cost when changing their MRP policy.

1.10 New MRP regulations were published in April 2024 most of which take effect from 1st April 2025. Arlingclose would not expect these to have a significant impact on Oldham.

2.0 Introduction

2.1 Minimum Revenue Provision (MRP) is the method by which capital expenditure not financed by grants, capital receipts or direct revenue funding is charged to revenue over future years.

2.2 Arlingclose has been commissioned to review Oldham Council's ('Oldham's') MRP calculations.

2.3 In preparing this report Arlingclose have relied upon spreadsheets and emailed information provided to us by Oldham, the latest draft statement of accounts (for year ended 31st March 2024) and Oldham's MRP policy.

2.4 Arlingclose have provided spreadsheet workings to support our calculations.

2.5 The report considers MRP made on Oldham's Public Finance Initiative (PFI) and similar arrangements. Please note however that a full review of all the accounting under these arrangements and the impact of International Financial Reporting Standard 16 (IFRS 16) on them is not include within this review.

3.0 Minimum Revenue Provision

3.1 MRP is the method by which capital expenditure not funded by grants, capital receipts or direct revenue funding is charged to revenue over future years. In some ways it is similar in concept to depreciation, although there are many important differences to how it is calculated and treated than depreciation.

3.2 Capital expenditure not funded by grants, capital receipts or direct revenue funding is commonly referred to as 'debt funded' capital expenditure, although this term can be misleading as it does not always need to be funded by the taking out of an external loan.

3.3 Local authorities have a legal duty to charge their general fund with a prudent amount of MRP each year. Government MRP guidance defines prudence as aligning the period over which MRP is charged to one that is commensurate with the period over which the capital expenditure provides benefits.

3.4 The legal basis for MRP can be found Section 27 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. This is available online at the time of publication of this review here: https://www.legislation.gov.uk/uksi/2003/3146/regulation/27 . These regulations were amended in April 2024 by The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2024 at the time of writing available here: https://www.legislation.gov.uk/uksi/2024/478/contents/made . The majority of these amendments to not take effect until 1st April 2025, although some in relation to MRP made for capital loans may apply earlier.

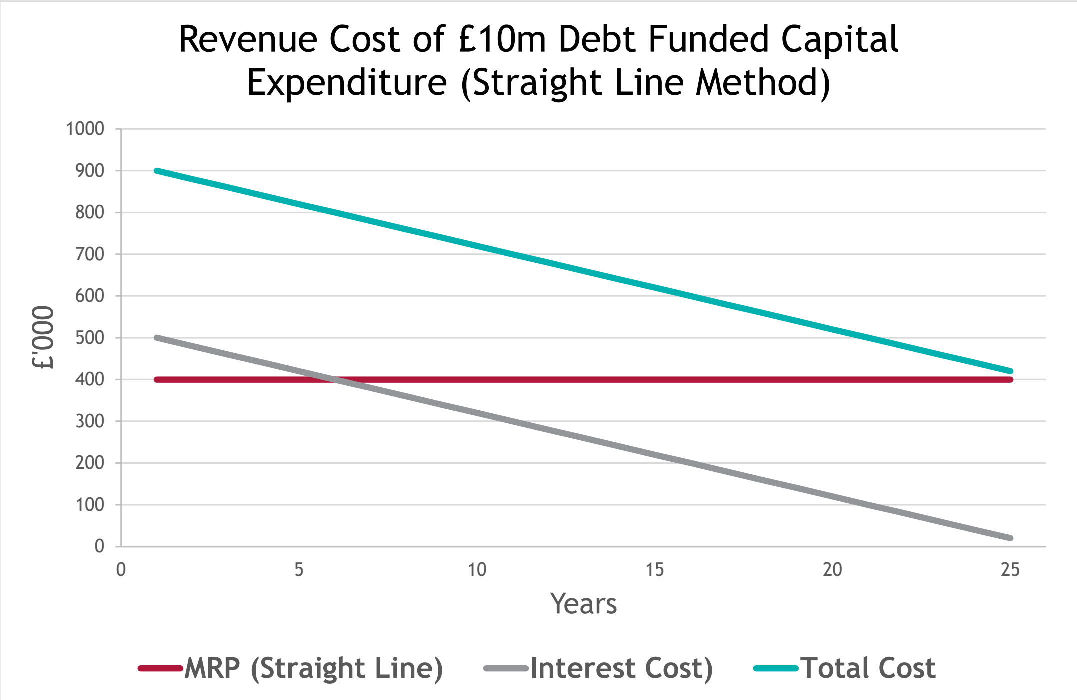
3.5 The fifth edition of the statutory guidance on MRP was published in April 2024 and is available at the time of publication here: https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition/capital-finance-guidance-on-minimum-revenue-provision-5th-edition . Like the most recent legislation the majority of changes in this edition of the guidance do not become applicably until the 1st April 2025. The previous fourth edition of MRP guidance was published in 2018 and is available here: https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition#full-publication-update-history .

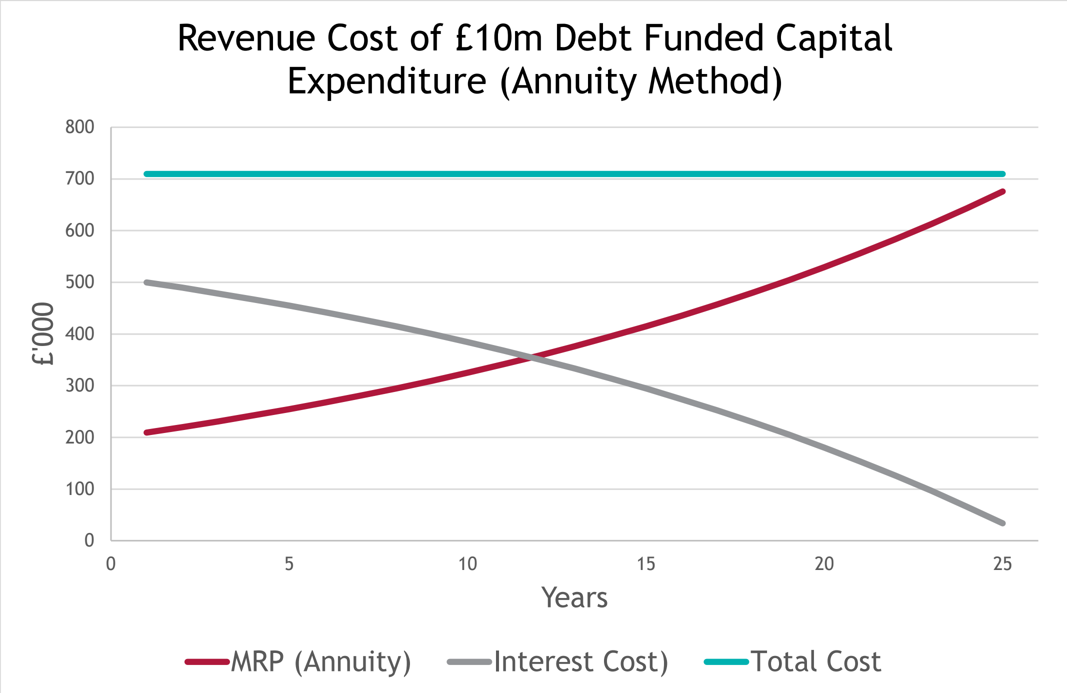
3.6 For capital expenditure incurred before April 2008 the guidance defines prudence as charging MRP at 4% of the non-housing CFR at year end. However alternative methods of calculating MRP are allowable under the relevant MRP guidance.

3.7 The guidance provides several options for calculating prudent MRP but is clear that other calculation methods may also be considered prudent. Straight line and annuity methods over the asset's useful life are the most commonly used methods.

3.8 Arlingclose is of the view that the annuity method is superior since it spreads the total capital financing costs (interest plus MRP) evenly over the asset life, similar to a repayment mortgage, personal loan or finance lease. When MRP is made it increases an authority's cash balance, therefore reducing overall debt costs or increasing income from investment balances. The straight line approach keeps MRP itself even, but since interest costs reduce, it front loads the total financing cost. This is illustrated below on a notional CFR amount of £10m for a 25 year period at an interest rate of 5%:

Figure 1: Total revenue costs under straight line and annuity MRP methods:





Arlingclose believes that an approach where overall costs to council tax taxpayers over the life of the asset is even is more prudent as council tax payers are getting an even benefit from the assets.

3.9 It should however be noted that overall costs are slightly higher when using the annuity method: this is because under the annuity method the principal amount is repaid more slower resulting in higher overall interest costs. In the example above the average total cost per year is £660,000 under the straight line method and £710,000 under the annuity method.

3.10 The interest rate chosen to base annuity calculations on will have an effect on the profile of MRP made. This is discussed in more detail in section 10.0.

3.11 For leases and PFI arrangements both the fourth and fifth editions of the statutory guidance state: *"In the case of leases where a right-of-use asset is on the balance sheet and on balance sheet PFI contracts, the prudent charge to revenue can be regarded being equal to the element of the rent/charge that goes to write down the balance sheet liability."*. However as with all areas of the guidance other methods are permissible provided that they are prudent.

3.12 Arlingclose are of the view that where the estimated asset life of a lease or PFI asset is different to the period over which the liability is being written down over (usually the same as the contract length of the lease or PFI), it is prudent to make MRP over the asset life. This is provided that, where asset life is longer the contract period, Oldham are likely to gain ownership of the asset or the asset is likely to continue to provide a service related benefit to council tax payers after the contract is over. This is because making MRP over the asset life fairly charges council tax payers over the period of time that they are getting the benefit of the asset.

3.13 The guidance allows local authorities to change their MRP calculation methods going forward, but changes cannot be backdated to create an overpayment that results in a credit to the general fund. Arlingclose would interpret this to mean that provided the MRP policy change is approved in the financial year 2024/25 changes could only apply from the year 2024/25 onwards.

4.0 Capital Expenditure and the Capital Financing Requirement

4.1 The starting point for any MRP review is to understand the Capital Financing Requirement (CFR) and how MRP is applied to reduce this balance over time.

4.2 The concept of CFR was introduced by the Prudential Code in 2003. It reflects all the capital expenditure incurred by a local authority that has yet to be permanently financed. The CFR will rise with debt funded capital expenditure. It reduces with MRP, or (more rarely) if capital receipts are applied to reduce it.

CFR calculation

4.3 The CFR may be calculated in two ways, both should result in the same answer.

4.4 The Prudential Code defines the CFR as being calculated directly from the balance sheet. It is the sum of all the capital assets minus the balances on the capital adjustment account and the revaluation reserve. The latest reconciliation that can be completed for the Council is as at 31st March 2024. This is shown for the Council below:

Table 1: Capital financing requirement calculated from the balance sheet:

	31/03/2024 £'000
Property, plant & equipment	960,500
Heritage assets	21,141
Investment property	19,624
Intangible assets	6,033
Long term investments that are capital expenditure	31,627
Long term debtors that are capital expenditure	11,929
Assets held for sale	610
Revaluation reserve	(442,438)
Capital adjustment account	(120,046)
Balance sheet CFR	**488,980**

4.5 The second method takes the previous year's CFR, adds on capital expenditure, subtracts the financing of this capital expenditure, subtracts MRP and subtracts any capital receipts applied. The Accounting Code of Practice requires disclosure of the CFR using this method. This is shown below:

Table 2: Capital financing requirement as per accounts disclosure note for year ending 31/03/2024:

	£'000
Opening CFR	**465,723**
Capital expenditure	81,858
Sources of finance	(40,375)
MRP	(18,226)
Closing CFR	**488,980**

4.6 This amount reconciles with the CFR calculated per the balance sheet, providing assurance that the balance sheet CFR of £488,980k has been calculated correctly.

5.0 Oldham's Current MRP Calculations

5.1 For non-PFI or finance lease assets Oldham make MRP on an asset life basis predominantly using the straight line method. For a small number of assets the annuity method is used using an annuity rate of 2.88%. This annuity rate comes from the PWLB certainty rate for the 40 year asset life of these assets at the time of acquisition.

5.2 For a number of older assets acquired between 2005 and 2016 although the straight line method is used assets acquired over different years have been grouped together, resulting in an MRP profile that is close to but not exactly the same as the straight line method. Original records are either not available or Arlingclose has not seen them.

5.3 Oldham make MRP on a straight line basis for the pre-2008 supported borrowing figure. This is made over a 50 year asset life starting from a previous review of MRP in 2016. This method replaced the previous 'regulatory method' of a 4% reducing balance. Historically not all charges to MRP for this amount have been even, so the straight line method has not been consistently applied. In future £2,742k per annum of MRP is expected to be made in relation to this part of the CFR for the next 42 years.

5.4 Oldham have an adjustment A of £19,602k. This is an amount of the CFR for which Oldham do not make MRP. The amount is historical and will be based on a past discrepancy between pre and post-2008 CFR methodology calculations.

5.5 A large proportion (£193,110k) of Oldham's CFR relates to liabilities under PFI arrangements. MRP is made in line with principal write downs of these liabilities which will broadly be on an annuity basis in line with contract length. MRP is made on £747k of the CFR that relates to finance leases in the same way.

5.6 £9,677k of the CFR relates to capitalised loans to the Manchester Airport Group. The CFR for this will be fully written down for in a single year in 2058/59 when the loan is expected to be repaid. The capital receipt from the loan principal repayment will be used to reduce the CFR instead of making MRP.

5.7 £27k of the CFR relates to transferred debt, MRP on this amount will be made over the next 5 years on a broadly straight line basis.

5.8 Unusually Oldham have a negative Housing Revenue Account (HRA) CFR of -£9,050k when PFI liabilities are excluded. This negative figure is a result of HRA refinancing in 2012. In addition the total HRA CFR includes two HRA PFI liabilities: £62,355k in relation to sheltered housing and £45,765k in relation to 'Gateways to Oldham'. This makes the total HRA CFR £99,070k.

5.9 Normally these is no requirement to make MRP on the HRA CFR as depreciation is a charge to the HRA so also making MRP would be double counting costs. Oldham agreed special dispensation to not charge depreciation for the HRA PFI assets however on the basis that maintenance costs will be met by the unitary charge payments to the PFI provider. Arlingclose and Oldham are therefore in agreement that in these circumstances MRP should be charged on the HRA PFI CFR. Oldham are making this MRP based on the write down of the liability in line with its other PFI assets. This is broadly on an annuity basis.

6.0 Oldham's Current MRP Policy

6.1 Arlingclose have reviewed Oldham's latest MRP Policy document. The document is not always consistent, in some instances makes references to MRP practices no longer applied and does not always reference parts of MRP practices that are applied (for example the adjustment A is not mentioned). In view of likely changes to policy if recommendations in this report are adopted, Arlingclose would suggest a re-write of the policy.

6.2 Arlingclose MRP policy template can be used as a guide but will need adapting to fit Oldham's method and circumstances.

6.3 The policy should clearly outline how Oldham make MRP and any areas of the CFR for which no MRP is made and why. Areas such as the method for choosing the annuity rate applied should be outlined. This document is approved by members and officers should not divert from the policy outlined in it when making MRP in practice.

7.0 Discrepancy Between the CFR and MRP

7.1 All MRP expected to be made in future plus any capital receipts expecting to be applied to the CFR should equal the current CFR unless there are specific amounts within the CFR for which no MRP is permitted to be made. This is because MRP (with any capital receipts applied) is designed to write down the CFR to nil over time.

7.2 Incorporating the adjustment A Oldham are making £1,157k less MRP that their current general fund CFR requires and £9,050 more MRP than their HRA CFR requires. This is indicated below:

Table 3: Discrepancy between the CFR and MRP being made:

	Total £'000	General Fund £'000	HRA £'000
CFR at 31/03/2024	**488,980**	**389,910**	**99,070**
Pre-2008 supported borrowing MRP	115,180	115,180	
Asset life MRP	158,530	158,530	
Capital Receipt from Manchester Airport Group loan	9,677	9,677	
General fund PFI MRP	84,990		
HRA PFI MRP	108,120		108,120
Finance lease MRP	747	747	
Transferred debt MRP	27	27	
Adjustment A	19,602	19,602	
Remaining discrepancy	**(7,893)**	**1,157**	**(9,050)**

8.0 Recommendation: Correction of the Underprovision of General Fund MRP

8.1 As explained in 7.2 above Oldham are underproviding MRP by £1,158k on the general fund. This MRP should be provided for so that the general fund CFR is written down to zero over time.

8.2 Unless the specific source of this discrepancy can be identified, which is unlikely, the best option is to profiled £1,158k of MRP costs on an asset life basis to fit in with Oldham's general approach to making MRP. This could be done over 50 years, but Arlingclose would believe it is more appropriate to profile this over the average remaining asset life of general fund assets identified in the CFR as at 31st March 2024. Arlingclose have calculated this to be 24 years.

8.3 This will incur costs although these will be outweighed in the short term by savings recommended in later parts of this report. These costs are included in the savings quoted in later parts of this report.

9.0 Recommendation: Correction of the Overprovision of HRA MRP

9.1 As explained in 7.2 above Oldham are overproviding MRP by £9,050k on the HRA. This is due to a negative non-PFI HRA CFR, which means if MRP on the whole HRA PFI CFR is provided for this would eventually lead to a CFR of -£9,050k rather than nil. This underprovision should be corrected for so that the HRA CFR is written down to zero over time.

9.2 The overprovision can be adjusted for by reducing the HRA MRP made by the £9,050k in line with Oldham's general approach to making HRA MRP. This is recommended to be on an annuity asset life basis over the average asset life of other assets in the HRA CFR which is 50 years.

9.3 An alternative approach to managing a negative CFR is to incur future capital expenditure without financing it: this rises the CFR to zero rather than a negative figure. When done in the general fund this makes savings because capital expenditure can be incurred effectively 'for free' – without resulting in MRP costs. However savings are not realised in the same way for the HRA where capital expenditure does not conventionally require MRP and depreciation will have to be made on assets regardless of their effect on the HRA CFR. Spreading savings as indicated in 9.2 is thus recommended as the most suitable option of realising savings. These savings are included in the savings quoted in later parts of this report.

10.0 Recommendation: Remove the Adjustment A

10.1 The concept of an 'adjustment A' is based on historical discrepancies between the pre and post-2008 methodologies for calculating MRP. It was initiated to stop local authorities being disadvantaged by the changes that took place. It is referred to in the guidance under the 'regulatory method' for calculating MRP: the 'regulatory method' means making MRP in line with pre-2008 regulations, in practice this being a 4% reducing balance basis.

10.2 Whilst a grey area, the continuation of an adjustment A when the regulatory method is no longer being applied is contentious. Although the statutory guidance does not specifically prohibit having an adjustment A if the regulatory method is not used, the reference to this adjustment is contained within the regulatory method section which strongly implies that it should not be used outside of the use of this method.

10.3 Whilst it is probable that many authorities retain their adjustment A despite no longer using the regulatory method, it has also been common for local authorities to remove this adjustment A as part of previous MRP reviews where the regulatory method ceased to be used.

10.4 Given the extra scrutiny around MRP at the present time and in the context of an overall review resulting in savings (discussed below) Arlingclose would recommend the prudent approach of removing the adjustment A. This will mean some higher MRP charges as MRP on this £19,602k amount will need to be made. It would be logical to make this MRP over a 42 year period in line with the remaining period on pre-2008 supported expenditure. Making this on an annuity basis will result in addition costs of £137k in 2024/25, rising to £1,102k in 2065/66. Costs based on this approach are included in the overall savings quoted in later parts of this report. In the short term these costs will be far outweighed by the other savings suggested from this review.

10.5 As the adjustment A is not mentioned in the current MRP policy there is an argument that removing it would be in line with the policy as agreed by Councillors.

11.0 Recommendation: Make MRP on the Manchester Airport Group Loan Equal to the ECL

11.1 As discussed in section 5.6 Oldham do not currently make any MRP in respect of a £9,677k capital loan to Manchester Airport Group (the loan was for approximately £30m in total but the £9,677k is the only proportion of this loan that is debt funded and thus forms part of the CFR). The full loan is expected to be repaid in 2058/59 when the capital receipt received from the principal repayment is planned to be used to reduce the CFR with respect of this loan.

11.2 Given that this is a maturity loan where capital receipts from principal repayments cannot be used to write down the CFR during the period when the loan provides benefit to council tax payers, Arlingclose would suggest that it is prudent to make some MRP on this loan.

11.3 Arlingclose would recommend the voluntary adoption for this loan of regulations now applicable to loans made after 7th May 2024. This would require the total historical MRP on the loan to be at least equal to the Expected Credit Loss (ECL) charge for that loan. For this loan only the proportion of the ECL related to the loan that is in the CFR would be relevant.

11.4 An ECL calculation is done annually for a loan. Generally the ECL will be small in comparison to the a loan's value, although where a borrower gets into financial difficultly the ECL charge can become much larger.

11.5 The last calculation of the ECL for this loan at 31st March 2024 calculated an ECL of £22k. If the ECL was the same amount for the 2024/25 year this would mean an MRP cost of £22k in 2024/25 in relation to this loan. Arlingclose have included this cost in the overall savings given later in in this report.

11.6 In practice the ECL amount is likely to be different but is unlikely to be significantly higher or lower in proportion to the loan amount. In subsequent years further MRP charges will only be required if the ECL value rises: if it falls overall MRP can be reduced by the amount of the fall. Provided no default occurs any ECL charge is written to nil once the loan is finally repaid and this amount can reduce the overall MRP charge for Oldham.

11.7 The MRP regulations in place until April 2024 did not stipulate clear rules about the treatment of capital loans. Historically Arlingclose would have advised asset life MRP for a maturity loan such as this one, but as the new guidance stipulates making MRP equal to the ECL charge as prudent Arlingclose are happy that this approach is applied.

11.8 Oldham's loan to the airport is very similar to loans that have been made to the airport by other local authorities in Greater Manchester. Oldham may wish to consult with these authorities about the treatment of their loans with respect to MRP as a consistent approach may be desirable.

12.0 A Discussion on Annuity Rates

12.1 Arlingclose would recommend that Oldham adopt the annuity method as opposed to the straight line method for MRP being made on an asset life basis and the pre-2008 supported borrowing CFR. Given the small sums involved Arlingclose would recommend that MRP for transferred debt continues to be made in line with the current method used.

12.2 As well as the decision to move to an annuity method a decision needs to be made on how to choose the percentage used for annuity calculations. There are no stipulations under MRP legislation or statutory guidance as to which interest rate to use. CIPFA's non statutory 'Practitioners' Guide to Capital Finance in Local Government' recommends the following: *"The rate chosen for any calculation should fairly represent the circumstances as they are likely to apply over the life of a particular project. Whilst interest rates cannot be predicted with any certainty, this would mean that authorities would not apply the prevailing rate where it was probable that this rate was temporarily high or low. Otherwise, it would probably be prudent for authorities to apply the prevailing PWLB rate for a loan with a term equivalent to the estimated life for the project."*

12.3 The general idea is that the percentage rate applied to the annuity should represent Oldham's cost of funding the capital asset over its life. Ascertaining what this should be is not straight forward and if all possible options are considered there are a huge number of scenarios that could be use. Some of the main options to consider are discussed below. These can be used in combination if desired: for example applying one option to the CFR to date and a different option to future debt funded capital expenditure.

Option 1: Use the PWLB certainty rate for the asset life

12.4 This means applying the PWLB certainty rate in the year that the asset is acquired for the life of the asset. So for example the 10 year certainty rate would be used for an asset life of 10 years. The idea behind this method is that the PWLB certainty rate broadly represents the cost of local authority funding and thus of financing the asset. The method is easy to use and easy to understand, it is the method that has been used already by Oldham for the small number of assets for which the annuity method has already been applied.

12.5 The main disadvantage of this method is that it may not accurately reflect an individual local authority's actual cost of financing. For example the authority may not need to take out a new loan and is financing the asset through previous loans for which it pays a different rate of interest.

12.6 When applying this method to assets purchased in the past because the MRP methodology is being changed a further decision needs to be made as to whether to use the PWLB certainty rate when the asset was originally acquired or when the policy is being changed. Whether the time period for the asset life when originally acquired or the remaining asset life when the policy is changed also needs to be decided on.

12.7 Using this method and applying the PWLB certainty rate at the time the policy is changed generally results in bigger short term savings as currently interest rates are high. Savings will be smaller if historical rates are used.

12.8 If the PWLB certainty rate at the time the asset was acquired are used this leads to a mis-match in time periods. As an example an asset purchased 4 years ago with a 10 year life has a 6 year remaining life. If the 10 year PWLB certainty rate at time of purchase is used this 10 year rate is only being applied to 6 remaining years. Alternatively the 6 year rate 10 years ago can be applied, but this would also not match the cost of funding at that time.

Option 2: Use the cost of borrowing short term

12.9 There is an argument that if an authority is funding most of their CFR through short term borrowing or internal borrowing (where the cost is effectively lost interest income which is usually the same as short term borrowing costs) than using a short term interest rate most accurately reflects the authority's cost of borrowing.

12.10 The market rate of SONIA is thought to be broadly representative of short term interest rates for local authorities and would be an easy to find interest rate to apply were this method to be used.

12.11 Arlingclose believe that if this method is applied it is only prudently applied if the annuity rate is updated annually with the prevailing short term rate, reflective of the authority's changing cost of financing. This will lead to an MRP cost that varies year to year with interest rates in a way that is unpredictable. This is not typically desirable for a local authority. Some of this variability in MRP cost will be mitigated by variable interest costs if the authority is truly funding most of its CFR on a short term basis: for example if interest falls MRP costs will be higher, but interest costs will be lower.

12.12 At 31st March 2024 Oldham are funding 39% of their CFR through internal borrowing and 7% through short term loans. 46% of the CFR is thus financed on a variable rate basis. So whilst this method would be representative of a large proportion of Oldham's financing costs it would not quite be representative of the majority of it.

12.13 Using this method would result in comparatively large short term savings as current short term interest rates are high. Savings in future years may be smaller if interest rates fall.

Option 3: Use Oldham's Weighted Average Actual Cost of Debt

12.14 The reasoning behind using this method is that it is more accurate in reflecting Oldham's actual cost of borrowing than the PWLB certainty rate. It would include any short term borrowing undertaken. Oldham would need to decide whether to choose their cost of borrowing at a point in time (typically year end) or an average cost of borrowing over a year (borrowing costs may vary on a day to day basis particularly if short term borrowing is utilised).

12.15 A variation of this method is to use an authority's incremental cost of new borrowing – the cost of new loans taken out over the year - rather than the cost of historically incurred borrowing. This may more accurately represent the cost of funding recently acquired debt funded assets. In situations where a specific loan has funded a specific asset the rate of this loan can also be used.

12.16 For PFI assets the rate implicit in the PFI arrangement can accurately be used to represent Oldham's cost of debt.

12.17 When applying this method to assets purchased in the past because the MRP methodology is being changed a further decision needs to be made as to whether to use the authority's cost of borrowing when the original asset was purchased or when the MRP policy is being changed. The former will require examination of past records of loans held which may not be available.

12.18 Using this method will typically result in smaller savings for non-PFI assets than the other methods discussed above as Oldham's historical cost of borrowing is lower than current borrowing costs. However applying the higher implicit interest rates for PFI assets leads to overall higher savings using this method.

12.19 A downside of this method is that it uses a blanket rate for all non-PFI assets regardless of asset life. So it does not account for the fact that longer asset lives typically incur higher interest rates when borrowing.

Option 4: Use Oldham's Weighted Average Actual Cost of Financing the CFR

12.20 This method takes into account an authority's actual cost of debt as above but also includes the cost of internal borrowing. The cost of internal borrowing is lost investment income: Oldham's average return on investments could be used for this, or alternatively SONIA may be a suitable proxy for investment returns especially incremental ones.

12.21 As above a variation on this method is to use an authority's incremental cost of new borrowing, the incremental cost of lost investment income could also be applied to the CFR funded by internal borrowing. Also as above, where a specific loan has funded a specific asset the rate of this loan can be used.

12.22 As above for PFI assets the rate implicit in the PFI arrangement can accurately be used to represent Oldham's cost of financing.

12.23 When applying this method to assets purchased in the past because the MRP methodology is being changed a further decision needs to be made as to whether to use the authority's cost of financing the CFR when the original asset was purchased or when the MRP policy is being changed. The former would ultimately be more accurate, although will require examination of past records of loans held which may not be available. An examination of past balance sheets would also be required to ascertain historical levels of internal borrowing.

12.24 Use of this method will lead to an MRP cost that varies year to year with interest rates in a way that is unpredictable. This is because the CFR funded through internal borrowing will attract a variable interest rate, as will any part of the CFR funded through short term loans. This is not typically desirable for a local authority. Some of this variability in MRP cost will be mitigated by variable interest costs as explained in section 12.11.

12.25 This method will result in smaller short term savings for non-PFI assets than using the PWLB certainty rate or short term rates as the cost of financing the CFR is lower than current interest rates. However applying the higher implicit interest rates for PFI assets leads to overall higher savings using this method.

12.26 Arlingclose believes that this method is ultimately the most technically accurate at representing the cost of financing the CFR. Using incremental costs in the year of asset acquisition would be most representative of true costs.

12.27 The main downside to this method is that it is exceptionally complicated and time consuming for officers to calculate and difficult for members to understand. Complicated MRP policies run the risk of not be followed correctly in future if errors are made in calculations.

12.28 Like the method described in option 3 above, this method uses a blanket rate for all non-PFI assets regardless of asset life. So it does not account for the fact that longer asset lives typically incur higher interest rates when borrowing.

Summary of Savings

12.29 A summary of savings made under the methods indicated above is given below:

Table 4: Savings from different annuity rate methods chosen:

Method	Saving in 2024/25 £'000	Saving Over the Next 10 Years £'000
Option 1: PWLB certainty rate, applying the rate at date of policy change	13,382	126,159
Option 1: PWLB certainty rate, applying the rate at date of asset acquisition	13,308	128,289
Option 2: Short term borrowing costs	13,619	Based on future interest rates
Option 3: Oldham's cost of borrowing, applying the rate at date of policy change	13,744	129,397
Option 4: Oldham's cost of financing the CFR, applying the rate at date of policy change	13,587	Based on future interest rates and CFR financing composition

13.0 Recommendation: Move to Annuity Method Using the PWLB Certainty Rate at the Date of Policy Change

13.1 Arlingclose would recommend that Oldham adopt the annuity method as opposed to the straight line method for MRP being made on an asset life basis and the pre-2008 supported borrowing CFR. Given the small sums involved Arlingclose would recommend that MRP for transferred debt continues to be made in line with the current method used.

13.2 In comparison to the straight line method the annuity method means less MRP is made in earlier years and more is made in later years. Although this may sound less prudent, as is discussed in section 3.8, the annuity structure for MRP when combined with interest costs leads to a smoother profile of costs. Arlingclose believe this is therefore more prudent than using the straight line method. When factoring in the time value of money it also becomes a more suitable option.

13.3 For the assets discussed in section 5.2 which have been grouped together for MRP calculations there will be no material difference in continuing to group these and applying the annuity method to the total outstanding for any group at 31st March 2024. If records are available Oldham can go back to original records and move to an annuity method for more individual assets if they wish.

13.4 Arlingclose would recommend that the PWLB certainty rate for the life of the asset should be used in the annuity calculation. For assets acquired historically the rate at the date of policy change for the remaining asset life at the policy change date should be used. This date is 31st March 2024. The exception is the small number of assets where the annuity method has been used since acquisition, for these assets the 2.88% rate should continue to be used. For assets newly acquired in future the PWLB certainty rate at the time of acquisition should be used.

13.5 For assets acquired in future if the date of acquisition is specific and known the PWLB certainty rate on that day can be used if desired. In general the most suitable and straight forward approach however is to use the average certainty rate for the year for all assets acquired in that year. The later method is advised for simplicity.

13.6 As an annuity method is being applied the PWLB certainty rate for the annuity loan (as opposed to the maturity or EIP loan) should be used.

13.7 Arlingclose believe that this method is most suitable because it is straight forward to use and understand. Significant officer resources will not be required during the year to calculate it. Whilst it may not be the most accurate method on a very purist interpretation of representing borrowing costs, it is broadly accurate at representing an authority's incremental costs associated with new debt funded capital expenditure. It is also consistent with the method that Oldham have historically applied to the small number of assets that it has used the annuity method for. The ultimate differences in MRP charged under this method and the other methods outlined is not overly significant. The difference in MRP charge between this and the cost of financing the CFR method is around £200k: around 2% of the overall MRP charge.

13.8 For historical assets using the certainty rate for the remaining asset life at 31st March 2024 aligns the remaining asset life with the appropriate rate rather than these being inherently mis-matched. It is straight forward to apply.

13.9 Arlingclose would not recommend using a rate based on short term borrowing costs as this does not represent Oldham's circumstances and will lead to an unpredictably variability in the MRP charge.

13.10 Arlingclose would also not recommend using a rate based on the cost of financing the CFR. Whilst Arlingclose believes this is the most technically accurate it would be highly complex to calculate and explain to members. It will lead to unpredictable variability in the future MRP charge.

13.11 If Oldham do not wish to use the PWLB certainty rate as an alternative they could consider the use of their actual cost of borrowing. This is relatively straight forward to calculate. Another alternative is to use Oldham's cost of borrowing at 31st March 2024 for historical assets in the CFR and the PWLB certainty rate for future debt funded expenditure (loosely representative of a future incremental cost of borrowing).

14.0 Recommendation: Make MRP Over the Asset Life Rather than Contract Length for Most PFI Assets

14.1 As discussed in sections 3.11 and 3.12 above Arlingclose are of the view that it is prudent to make MRP for PFI assets over the remaining asset life rather than the contract length. This is provided the asset will continue to provide a benefit to council tax payers over its life.

14.2 Oldhams' PFI asset form a very significant portion of their CFR. The assets are summarised below:

Table 5: Summary of Oldham's PFI liabilities:

Asset	Remaining Liability £'000	General Fund / HRA	Remaining PFI Contract Length (Years)	Expectations of Asset at End of PFI Contract	Estimated Remaining Asset Life (Years)
Library	7,792	General fund	7	Oldham ownership	30
Schools	28,013	General fund	9	Convert to academy status	30 assumed
Chadderton	7,696	General fund	16	Option to purchase by Oldham for £4,891k	Not applicable
Sheltered housing	62,355	HRA	13	Oldham ownership	50
Street lighting	15,329	General fund	13	Oldham ownership	20
Gateways to Oldham	45,765	HRA	13	Oldham ownership	50
Building schools for the future	26,161	General fund	14	Convert to academy status	30 assumed

14.3 Of these Arlingclose would not advise that the MRP being made for Chadderton is changed. Chadderton is a wellbeing centre. The agreement is technically a LIFT (Local Improvement Finance Trust) rather than PFI arrangement although these are for all intents and purposes the same type of arrangement. Oldham has the option but not the obligation to purchase this asset for £4,891k at the end of the contract, if it does not exercise this option the asset will revert back to ownership by the LIFT private sector operator. Oldham do not yet know whether the option will be exercised. Based on this it is not suitable to spread MRP over a period longer than the contract period as the asset may no longer be providing benefit to council tax payers over this time.

14.4 Arlingclose would advise that MRP can be made over the asset life of schools even though one school has already been converted to academy status and the remaining two will convert before the end of the PFI contract. The schools will remain a service benefit to council tax payers over their asset life so charging MRP in this way is still fair. It is not uncommon for councils to be required to continue making MRP after an asset's disposal, particularly if no capital receipt is received for the asset sale that can be applied to reduce the CFR (which would be the case here as Oldham would not be expected to receive any cash for the asset being transferred to an academy).

14.5 Arlingclose do not have information on the expected remaining asset life of these schools so have assumed 30 years for their calculations. Oldham should update this with the correct period which may result in higher or lower short term savings.

14.6 Oldham do not have to spread MRP over the longer asset life for schools and can retain their current methodology if they wish. This will result in lower short term savings than are outlined in this report.

14.7 Arlingclose would advise that MRP can be spread over the remaining asset life rather than the remaining contract period for all other PFI assets where Oldham and Arlingclose have a clear estimation of remaining asset life.

14.8 Arlingclose would recommend that MRP over the remaining asset life should be made on an annuity basis based on the PWLB certainty rate at the time of policy change. This is line with other assets as is outlined in section 13.0. Although the implicit interest rates in the PFI arrangement will be higher than this interest rate, these are less relevant when MRP is being applied over an asset life that is quite different to the contract length that this implicit interest rate will have been calculated based on.

15.0 Savings and Costs from Recommendations

15.1 Adopting these recommendations will result in short term savings because of the change to the annuity method and the lengthening of the MRP provision period for PFI assets. Reducing the discrepancy between the CFR and MRP made will incur costs in the general fund and savings in the HRA, removing the adjustment A will incur costs.

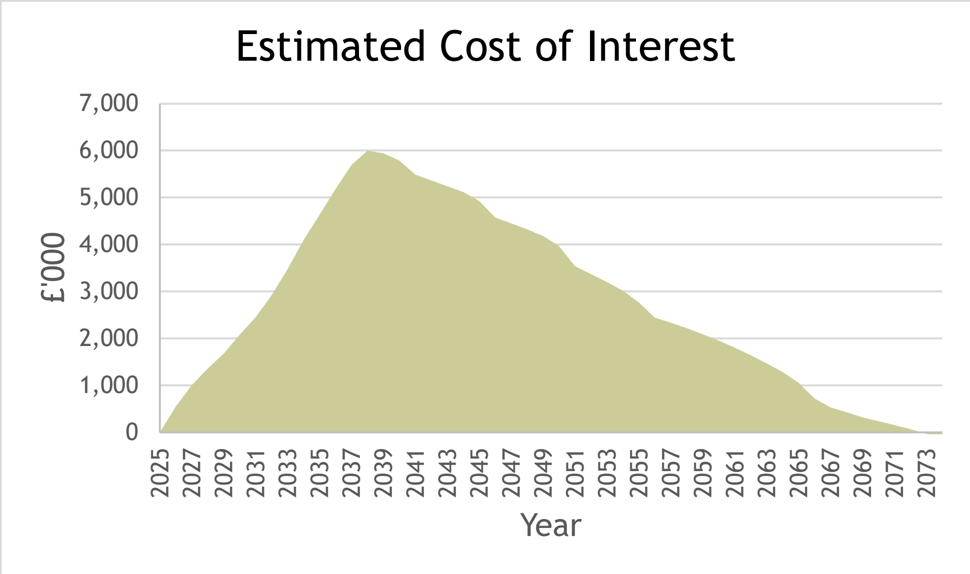
15.2 It is important to understand that when the MRP charge is reduced this leads to less cash being available for Oldham, conversely if the MRP charge is raised more cash is available for Oldham. This is because MRP is an accounting charge that does not involve any cash expenditure. When the MRP charge is raised in order to set a balanced budget Oldham has to spend less cash on other things, driving up cash levels. The reverse is true when the MRP charge is lowered.

15.3 Less cash will lead either to lower investment income or higher borrowing costs depending on the Oldham's overall cash position. Short term interest rates can be used to estimate what these costs will be in future years. If the Council planned to borrow on a long term, fixed rate basis to cover any cash shortfall these costs may be a little higher.

15.4 The effect of lower investment income or higher borrowing costs is cumulative: as lower amounts of MRP are charged each year the cash shortfall gets increasingly bigger. Adopting the changes recommended in this report will mean an increasing large borrowing need until 2037 when higher MRP cost will begin to reduce this additional need over time. With the exception of minor savings in the years 2073 and 2074 borrowing costs will not be less in any year than if the previous method was maintained: it is only the amount they are larger by that decreases in later years.

15.5 Additional borrowing costs are likely to be considerable given then higher interest rate environment we are now in. On a central case estimate for future interest rates costs are likely to be around £137,064k over a 50 year period, ranging from nothing to £5,997k in any given year. Costs are dependent on how high future interest rates will be which is very uncertain over a 50 year period. The profile of estimate future additional interest rate costs is shown in Figure 2 below:

Figure 2: Estimated additional interest costs:



15.6 Oldham will need to consider these additional costs carefully. Any change to the MRP policy that results in lower MRP costs will ultimately incur higher interest costs. Indeed, any spreading out of costs at all through the MRP process as opposed to expensing them all in year will incur higher interest costs!

15.7 Arlingclose continue to believe that a move to the annuity method remains prudent and within the letter and spirit of guidance. As discussed above it results in a smoother overall cost profile for council tax payers. Due to the time value of money it is a cost effective option on a net present value basis.

15.8 Arlingclose also believe that making MRP over the asset life rather than PFI contract life for PFI assets is the more prudent method as it is charging council taxpayers over the period with which they benefit from the asset. Arlingclose judge that this is still the case for schools which will become academies at the end of the PFI contract.

15.9 The MRP policy changes recommend result in an overall savings over a 50 year period on a net present value basis. This is typically regarded as the 'acid test' of whether a change is appropriate.

15.10 If Oldham adopted all the recommendations above the savings of this over the next 10 years' based on past actual capital expenditure to 31st March 2024 are given in table 6 below. In the bottom two rows these total savings are split as to those attributable to the general fund (GF) and those attributable to the HRA:

Table 6: Savings over 10 years be adopting recommendations based on known capital expenditure to 31st March 2024:

Year Ended 31st March:	2025 £'000	2026 £'000	2027 £'000	2028 £'000	2029 £'000	2030 £'000	2031 £'000	2032 £'000	2033 £'000	2034 £'000
MRP saving	13,382	13,988	13,922	11,058	14,158	15,075	16,667	17,292	16,032	14,224
Extra interest (cost)	-	(557)	(1,008)	(1,365)	(1,686)	(2,078)	(2,453)	(2,918)	(3,477)	(4,096)
Total saving	13,382	13,431	12,914	9,693	12,472	12,997	14,214	14,373	12,555	10,128
Total saving (GF)	*7,757*	*7,747*	*8,153*	*5,677*	*8,095*	*7,778*	*7,622*	*6,631*	*4,363*	*1,522*
Total saving (HRA)	*5,625*	*5,684*	*4,761*	*4,015*	*4,377*	*5,218*	*6,591*	*7,742*	*8,191*	*8,606*

15.11 Total savings are £126,159k over the next 10 years, or £95,046k if these savings are discounted using a nominal green book rate of 5.6% for up to and including 30 years and 5.1% for over 30 years.

15.12 Total savings attributable to the general fund are £65,347k over the next 10 years, or £50,669k if these savings are discounted using a nominal green book rate as above.

15.13 Total savings attributable to the HRA are £60,811k over the next 10 years, or £44,377k if these savings are discounted using a nominal green book rate as above.

15.14 The quoted Treasury 'green book' rate is 3.5% up to 30 years and 3.0% thereafter. Arlingclose have used the green book rate as our discount rate but as the quoted rates are real rates (including inflation) these have been converted into nominal rates (not including the effect of inflation). This is because our calculations already include the effect on inflation because we are accounting for increased interest (which incorporates inflation) on lower cash levels. Using a real discount rate double counts the effect of inflation. If you were to use a real discount rate you would typically not include interest within your calculations.

15.15 Nominal interest rates are higher than real interest rates. If inflation is guaranteed to be zero you may be happy that 3.5% represents the cost to you of having money in one year's time as opposed to now. However if you know that inflation will reduce the value of your money by 2% over a year you will want extra compensation for this in the nominal (actual) interest rate offered.

15.16 The nominal discount rate used is dependent on assumptions around future inflation. Arlingclose have assumed inflation of 2% (the Bank of England's target) over the next 50 years. This is a fairly standard assumption.

15.17 Over the life of making MRP on MRP alone there is a cost of £11,709k if the recommendations are adopted: this is the additional MRP for the adjustment A, plus the correction of the underprovision of MRP for the general fund minus the correction for the overprovision of MRP for the HRA. A cost of £20,759k is attributable to the general fund whilst there are savings of £9,050k attributable to the HRA.

15.18 There is no overall cost or savings on an undiscounted basis of just the move to an annuity method or the shift to asset life for PFI assets as the same MRP ultimately needs to be provided for.

15.19 As discussed in sections 15.2 to 15.6 above the lowering of the MRP charge in early years is expected to lead to overall higher interest costs of £137,064k. Of this £51,749 would be attributable to the general fund and £85,315k to the HRA. These could be higher or lower depending on how high or low future interest rates are. Oldham will need to carefully consider these costs if it wishes to follow Arlingclose recommendations and make these changes to their MRP policy.

15.20 On a discounted basis due to the time value of money overall lifetime savings of £40,896k can be identified. £16,687k of these savings would be for the general fund and £24,209k for the HRA. The size of this saving is dependent on the discount rate used which involves a degree of subjectivity.

15.21 The savings that arise from this change of method will in actuality be greater than the above as they can also be applied to future capital expenditure that forms the CFR. However knowing exactly what these savings will be at the present time is not possible as it is not certain how much capital expenditure will be incurred in future. However by using information from the forecasted 2024/25 position and projections for expected debt funded capital expenditure up until 2028/29 can give us an estimate. Savings are estimated as indicated in table 7. In the bottom two rows these total savings are split as to those attributable to the general fund (GF) and those attributable to the HRA:

Table 7: Savings over 10 years be adopting recommendations based on known past and estimated future capital expenditure:

Year Ended 31st March:	2025 £'000	2026 £'000	2027 £'000	2028 £'000	2029 £'000	2030 £'000	2031 £'000	2032 £'000	2033 £'000	2034 £'000
MRP saving	13,382	14,902	15,533	12,770	16,145	16,890	18,268	18,667	17,306	15,389
Extra interest (cost)	-	(557)	(1,041)	(1,449)	(1,823)	(2,272)	(2,695)	(3,205)	(3,809)	(4,478)
Total saving	13,382	14,345	14,492	11,321	14,322	14,618	15,573	15,462	13,497	10,911
Total saving (GF)	*7,757*	*8,661*	*9,730*	*7,306*	*9,945*	*9,400*	*8,982*	*7,720*	*5,306*	*2,304*
Total saving (HRA)	*5,625*	*5,684*	*4,761*	*4,015*	*4,377*	*5,218*	*6,591*	*7,742*	*8,191*	*8,606*

15.22 Total savings are estimated to be £137,923k over the next 10 years, or £103,770k if these savings are discounted using a nominal green book rate.

15.23 Total savings attributable to the general fund are £77,112k over the next 10 years, or £59,393k if these savings are discounted using a nominal green book rate.

15.24 Total savings attributable to the HRA are £60,811k over the next 10 years, or £44,377k if these savings are discounted using a nominal green book rate. No additional HRA debt funded capital expenditure requiring MRP has been assumed in future, so these saving are the same as those outlined in table 6.

15.25 As above over the life of making MRP there is an overall cost of £11,759k if the recommendations are adopted due to making MRP on the adjustment A and an overall underprovision of MRP.

15.26 On a discounted basis due to the time value of money overall lifetime savings of £45,103k can be identified. £20,894k of these savings would be for the general fund and £24,209k for the HRA. The size of this saving is dependent on the discount rates used which involves a degree of subjectivity.

16.0 Other Recommendations to Consider

16.1 Oldham should consider reviewing the asset lives of non-PFI assets that form the existing CFR. If asset lives are longer than they have been historically judged to be the MRP can be spread over a higher number of years and will thus be a lower cost per year. Conversely however if asset lives are shorter than they have been judged to be costs will need to be spread over a shorter number of years so this strategy is not without risk. The resource implication and cost involved in assessing asset life should also be considered against any potential savings that can be made.

16.2 Oldham have correctly included no asset lives longer than 50 years in line with current guidance. Currently guidance does however let a longer than 50 life be used in circumstances where: *"a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years"*. For any larger value assets within the CFR where Oldham believes it is likely that asset life is longer than 50 years it may be worth the cost of seeking a professional opinion so as to extend asset lives and make MRP savings. This will not be possible for land however, which has an unlimited asset life but where MRP must be spread over a minimum of 50 years.

16.3 When capital expenditure is incurred in the future, financing in the form of grants, capital receipts or direct revenue funding should where possible be applied to the shorter term assets. This allows for longer term assets to form the CFR and a lower MRP cost as the cost of these assets can be spread over a longer period.

17.0 Recent Changes to MRP Regulations

17.1 As mentioned in sections 3.4 and 3.5 above there have been recent changes to MRP legislation and statutory guidance. These were largely aimed at preventing more controversial MRP practices by a small number of authorities. They have not had a significant impact for most authorities.

17.2 The main changes can be summarised as follows:

- More MRP regulations have been put into law as well as guidance. This means that contravention of them can be regarded as 'illegal' rather than just not adhering to guidance.
- The new guidance states that 'local authorities should not change their MRP policy or methodologies where the primary objective of any change is to reduce the revenue charge.'.
- MRP must be made on the whole CFR unless there is a pre-existing exemption in place for this (for example the HRA CFR does not normally require MRP). The CFR is defined as being calculated from the balance sheet.
- Capital receipts cannot be used to directly replace MRP in a single year: however they can still be applied to reduce the CFR and therefore MRP in future years. There are specific exemptions for capital loans.
- Capital loans are loans which a local authority has made to a third party which the authority is required to treat as capital expenditure. Principal repayments received on these loans can still be applied to reduce the MRP charge in year. However authorities will be required to make an MRP charge that is as a minimum equal to the expected credit loss charge for these loans.

17.3 Changes take effect from 1st April 2025 except for the final bullet point above which came into effect on 7th May 2024.

17.4 Given Oldham's current and recommended MRP practices Arlingclose do not consider that the changes to regulation around MRP is going to have a significant impact on Oldham. Arlingclose would recommend that recommendations suggested in this report are implemented in this financial year, as doing so next year may be more problematic as the change in policy results in a saving.

17.5 Arlingclose are expecting closer scrutiny from auditors around MRP. By removing the adjustment A, making prudent MRP on the loan to Manchester airport and ensuring MRP made is in line with the CFR Arlingclose believe that adopting these recommendations will demonstrate prudence.

17.6 Oldham should be mindful that if capital loans are made in future as a minimum MRP at least equal to the ECL charge will be required. It will no longer be possible to make these loans whilst incurring no MRP costs. In most instances the ECL charge will not be overly large, although in the events that the borrower experiences financial difficulties that charge can rise substantially.

18.0 Conclusions

18.1 Based on current calculations Oldham are underproviding MRP by £1,158k on the general fund are overproviding MRP by £9,050k on the HRA.

18.2 Arlingclose would recommend that MRP is provided for Oldham's current adjustment A amount of £19,602k. The costs of this will be outweighed in the short term by other MRP policy changes recommended and making this MRP is in line with guidance and demonstrates prudence.

18.3 Arlingclose would recommend the MRP equal to the ECL charge is made for the loan to Manchester Airport Group: this MRP charge is likely to be small at around £22k for the 2024/25 financial year.

18.4 Arlingclose recommend that Oldham move from a straight line method to an annuity method for all the pre-2008 supported borrowing CFR and all MRP made on an asset life basis. The PWLB certainty rate should be used at the date of imposition of this policy (31st March 2024) for historical assets, for new future assets the PWLB certainty rate for the year of acquisition should be used. Assets that have historically had the annuity method applied since acquisition should continue to use their 2.88% annuity rate.

18.5 Arlingclose would recommend making MRP over the remaining asset life of PFI assets rather than PFI contract length. This is recommend for all PFI assets that are expected to continue to provide a benefit to council tax payers over their lifetime: these include schools assets which have or are expected to be converted to academy status before the end of the contract.

18.6 Arlingclose would recommending continuing with their current method of making MRP finance lease assets and the transferred debt.

18.7 Adopting these changes is expected to make savings of £13,382k in 2024/25: £7,757k of these would be attributable to the general fund and £5,625k to the HRA. £126,159k in savings are expected over the next 10 years £65,347k of these would be attributable to the general fund and £60,811k to the HRA.

18.8 Although the annuity method results in short term savings and long term costs Arlingclose believes that it is prudent as it gives a smoother profile of overall costs to Oldham once interest costs are taken into consideration.

18.9 Moving to asset life rather than PFI contract length for PFI assets also results in short term savings and long term costs. However Arlingclose believe it if prudent to charge council tax payers in line with when they are receiving the benefit of the asset rather than the PFI contract length.

18.10 Further savings will be realised in future as the annuity method is applied to future expected debt funded capital expenditure. These savings are expected to be £137,923k over the next 10 years: £77,112k attributable to the general fund and £60,811k to the HRA.

18.11 Reducing the MRP charge does increase interest costs to the authority. These would be expected to be around £137,064k over the next 50 years. Oldham should carefully consider these cost when changing their MRP policy.

18.12 New MRP regulations were published in April 2024 most of which take effect from 1st April 2025. Arlingclose would not expect these to have a significant impact on Oldham.

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Revised Annual Minimum Revenue Provision Statement 2024/25

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The Guidance provides suggested methods for the calculation of MRP that the DLUHC consider to be prudent, however the Guidance and legislation do not define what is prudent. It is for each Council to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

The current MRP policy has not been changed since 2017/18, when the basis for charging for capital expenditure incurred before 1st April 2008 was amended from a 4% reducing balance charge (the regulatory method) to a straight-line charge over 50 years. The changes to the financial landscape which the Council is now faced, including recent increases in interest rates and inflationary impacts across all Council service areas mean it is sensible to review the Policy now.

Any change to the Council's MRP Policy needs to consider:

- Its appropriateness and compliance with the MRP guidance.
- Affordability, prudence and sustainability with regard to current revenue budgets of the Authority, balanced against deferring costs of future Council Taxpayers.
- The Authority's future capital programme in terms of complexity, variability and deliverability.
- Capital Financing Requirement (CFR) forecasts and the level of borrowing proposed by the Authority in future years.
- S151 officer consideration of what constitutes a prudent provision

Current Minimum Revenue Provision Policy

For non-PFI or Finance lease assets the Council makes MRP based on the expected asset life on a straight-line basis. For a small number of assets the annuity method is used using a rate of 2.88%. This rate is based on the PWLB certainty rate for the 40-year life of the assets at the time of acquisition.

For PFI and finance lease assets MRP is made in line with principal write downs of the lease liability, which broadly on an annuity basis, over the length of the PFI/Lease contract.

There is a capitalised loan to the Manchester Airports Group that forms part of the CFR. The CFR for this loan will be written down in full in a single year in 2058/59 when the loan is expected to be repaid. The Capital receipt from the loan principal repayment will be used to reduce the CFR instead of making MRP.

As a result of the national HRA refinancing in 2012 the Council has a negative HRA CFR (excluding the Housing PFI Contracts) of -£9.050m. HRA MRP, other than in relation to PFI Assets is made.

Proposed Changes to existing Policy

It is proposed to use the annuity method as opposed to the straight-line method for MRP being made on the asset life basis and the pre-2008 supported borrowing CFR. The interest rate to be used when calculating the annuity will be the PWLB certainty rate for annuity loans for the remaining life of assets (42 years for the pre 2008- supported borrowing CFR) at the date of the policy change (1st April 2024) for existing borrowing and average certainty rate for annuity loans for the relevant lives of assets in the year of acquisition for subsequent capital expenditure.

It is proposed to make MRP over the asset life rather than contract length for PFI Assets where the ownership of the assets pass to the council at the end of the contract or the assets continue to provide a benefit to the council over their life.

It is proposed to remove Adjustment A from the calculation of the MRP on pre-2008 supported borrowing.

It is proposed to reduce the HRA overprovision of MRP to nil.

Rationale for Changes

Annuity Method

The annuity method is an acceptable method for making MRP and is explicitly mentioned in the statutory guidance on MRP. The annuity method spreads the total capital financing costs (MRP plus interest) evenly over the asset life, similar to a repayment mortgage. When MRP is made it increases the Council's cash balances, therefore, reducing overall debt costs or increasing income from investment balances. The straight-line approach keeps MRP itself even, but as interest costs reduce over time, it front loads the total financing costs.

As the annuity method is an approach where overall costs to council taxpayers over the life of an asset is even is more prudent as council taxpayers are getting an even benefit from the assets. However, it should be noted that overall costs are slightly higher when using the annuity method as the principal is repaid more slowly resulting in higher overall interest costs. Conversely, when factoring in the time value of money the annuity method becomes a more suitable option.

PFI Useful Asset Lives

The council consider that it is prudent to provide for MRP over the asset life rather than the contract period. This is provided that the, where the asset life is longer than the contract length, the Council are likely to gain ownership of the asset or the asset is likely to continue to provide a service related benefit to council taxpayers after the contract is over. This is because making MRP over the life of the asset fairly charges council tax-payers over the period that benefits are received from the asset.

Removal of Adjustment A

Adjustment A is based on historical discrepancies between the pre-and post-2008 methodologies for calculating MRP. It is referred to in the guidance under the "regulatory method" for calculating MRP. The regulatory method was to make MRP on a 4% reducing balance method. Adjustment a is applied to the proportion of the CFR that relates to pre-2008 supported borrowing.

When the Council amended its MRP policy to provide for supporting borrowing on a straight-line basis from the regulatory method it retained an Adjustment A of £19.602m. Although the statutory guidance does not prohibit the use of Adjustment A where the regulatory method is not used, the only reference to this adjustment is contained within the regulatory method section of the statutory guidance.

In order demonstrate prudence, ensure compliance with the statutory guidance and to be able to demonstrate that the Council is providing for the CFR in full over time with MRP.

Correction of the overprovision of HRA MRP

The overprovision of MRP in the HRA CFR of -£9.050m will be made in line with the general approach to making HRA MRP, which will be an annuity asset life method over the average asset life of other assets in the HRA which is 50 years. This will ensure that the HRA CFRis written down to zero over time.

Revised MRP Policy Statement

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance

- For capital expenditure incurred before 1st April 2008 MRP will be determined on an annuity basis using the PWLB certainty rate at the date of the policy change (1st April 2024) assuming a remaining life of 42 years.

- For capital expenditure incurred after 31st March 2008 up to 31st March 2023, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using the PWLB certainty rate for the remaining asset life at the date of the policy change, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For PFI assets where the asset passes to the Council at the end of the contract or the Council continues to receive service benefit from the assets beyond the life of the contract

MRP will be determined over the remaining life of the assets on an annuity basis using the PWLB certainty rate for the remaining life at the time of the policy change.

- For assets acquired by leases or the Private Finance Initiative (where the asset does not pass to the Council at the end of the contract or the Council does not receive service benefits beyond the life of the contract) , MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

- No MRP will be charged in respect of non- PFI assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

- MRP on transferred debt is provided for on an annuity basis in line with schedules sent to the Council from the Lead authority administering the debt.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

Based on the Authority's capital financing requirement (CFR) at 31st March 2023, the charges for MRP under the revised and previous MRP policies is shown below:

	31/03/2024 CFR (£000)	Existing 24/25 MRP (£000)	Proposed 24/25 MRP (£000)	Difference (£000)
Pre -2008 Supported Borrowing	116,337	2,742	805	1,937
Asset Life MRP	158,530	7,701	5,876	1,825
Loans	9,677	0	0	0
PFI Schemes & Finance leases	193,857	11,654	1,897	9,757
Transferred Debt	27	5	5	0
Adjustment A	19,602	0	137	-137
HRA CFR	-9,050	0	-41	41
Total	**488,980**	**22,102**	**8,680**	**13,422**

Overall MRP Payment Profile

The profile of total MRP payments expected over the next 50 years under both policies is shown in the table below:

	1-10 years (£000)	11-20 years (£000)	21-30 years (£000)	31-40 years (£000)	41-50 years (£000)	Total (£000)
Current Policy	243,626	127,553	47,851	42,663	7,057	468,751
Revised Policy	97,306	112,351	102,981	102,527	64,138	479,303
Saving (Cost)	**146,320**	**15,202**	**-55,130**	**-59,863**	**-57,081**	**-10,553**

Overpayments: In earlier years, the Authority has made voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is planned to utilise the brought forward amount from 2023/24 in 2024/25 as part of the review of MRP policy.

MRP Overpayments	**£m**
Actual balance 31.03.2023	4.8
Approved draw down 2023/24	(3.8)
Expected balance 31.03.2024	1
Planned draw down 2024/25	(1)
Forecast balance 31.03.2025	0

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