Report to Council

Treasury Management Quarter One Report 2023/24

Portfolio Holder: Cllr Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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1 November 2023

Reason for Decision

This report advises Council of the performance of the Treasury Management function of the Council for the first quarter of 2023/24 and provides a comparison of performance against the 2023/24 Treasury Management Strategy and 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 approval and outlines:

- An economic update for the first quarter of 2023/24;
- A review and updates of the Council's current Treasury Management position;
- Information on Council Borrowing;
- Updated Treasury Investment Activity;
- Treasury Performance for the Quarter;
- Treasury Management Prudential Indicators;

The Audit Committee is charged with the scrutiny of Treasury Management activities for Oldham Council, and it therefore considered and approved the contents of the Quarter One report at its meeting on 5 September 2023. The Committee was therefore content to commend the report to Cabinet. As such, Cabinet, at its meeting on 18 September 2023 approved the content of the report and was content to commend it to Council.

Council is, therefore, requested to approve the Treasury Management Quarter One report 2023/24 to ensure full compliance with the Code.

Recommendation

That Council approves the Treasury Management Quarter One Report.

Treasury Management Quarter One Report 2023/24 1 November 2023

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."

1.4 With effect from the start of 2023/24, following a competitive tendering process, the Council changed its treasury management advisors from The Link Group, Treasury Solutions to Arlingclose Ltd. The format of the treasury management reports has therefore changed in line with the advice received from Arlingclose Ltd.

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 This report provides an additional update to that previously received by Members to reflect the new requirement in the 2021 Code of quarterly reporting on treasury management prudential indicators. The treasury and prudential indicators are also incorporated at Appendix 1 to this report.

2.1.3 The Council's treasury management strategy for 2023/24 was approved at the Budget Council meeting on 1 March 2023. 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.

2.1.4 This Quarter One report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first quarter of 2023/24;
- A review and updates of the Council's current treasury management position;
- Information on Council Borrowing;
- Updated Treasury Investment Activity;

- Treasury Performance for the Quarter;
- Treasury Management Prudential Indicators;

2.2 **External Environment Quarter One 2023/24**

Economic Background

2.2.1 From the start of the quarter until May it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger and more persistent inflation data, particularly in the UK, changed the picture.

2.2.2 The UK situation was not welcome news for the Bank of England. Gross Domestic Product (GDP) growth was weak, confirmed at 0.1% in quarter 1 (Q1), although more recent monthly GDP data has been somewhat better. The housing market had stalled, consumer demand was weak but seemingly recovering despite higher interest rates, and labour demand remained strong, with repercussions for wage growth which is accelerating.

2.2.3 April data showed the unemployment rate increased to 3.8% (3mth/year) while the employment rate rose to 76.0%. Pay growth was 6.5% for total pay (including bonuses) and 7.2% for regular pay, the largest growth rate of the latter outside of the COVID pandemic. Once adjusted for inflation, however, growth in total pay and regular pay remained negative.

2.2.4 Inflation fell from its peak of 11.1% reached in October 2022, but the annual headline Consumer Price Index (CPI) inflation rate in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

2.2.5 After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's Monetary Policy Committee (MPC) reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. At both meetings the vote was 7-2 in favour of increasing rates, with the two dissenters preferring to keep rates on hold.

2.2.6 Interest rate expectations priced in further hikes in policy rates. Arlingclose Ltd., the Council's treasury adviser, revised its forecast to predict a further 0.5% of monetary tightening to take the Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting interest rates above 6%.

2.2.7 With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates at the end of their fixed rate period, there has been a lagged effect of the follow through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite the GfK (Nuremburg Society for Consumer Research) measure of consumer confidence rising to -24 in June, it is likely that confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually impact into services, whose expansion is slowing.

2.2.8 Despite the US Federal Reserve (Fed) increasing its key interest rate from 5.00% to 5.25% over the period, activity in the region continued to defy monetary tightening, particularly in labour markets which have so far appeared robust, supporting the Fed's assertions of two more rate hikes after it paused in June. Annual US inflation continued to ease, falling from 4.9% in April to 4.0% in May, the lowest level since March 2021. US GDP growth at 2% annualised in the first calendar quarter of 2023 was also significantly stronger than expected against the initial estimate of 1.3%.

2.2.9 In the Euro Zone, the picture was somewhat different. The European Central Bank (ECB) maintained its hawkish tone and increased its key deposit, main refinancing, and marginal lending interest rates to 3.50%, 4.00% and 4.25% respectively. There were signs of weakening activity, particularly in Germany whose manufacturing sector has been impacted by high energy prices and weaker global demand. However, inflation remained sticky; annual headline CPI fell to 5.5% in June while annual core inflation rose to 5.4% from 5.3%, which means the ECB is unlikely to stop monetary tightening.

Financial Markets

2.2.10 Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

2.2.11 Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%. The Sterling Overnight Index Average (SONIA) rate averaged 4.37% over the quarter.

Credit Review

2.2.12 Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank and the purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March, Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days.

2.2.13 Over the period, Standard and Poors (S&P) upgraded the NatWest Group and related entities to A+ (except NatWest Markets which was upgraded to A), revised the UK sovereign outlook to stable from negative, and upgraded both Barclays Bank PLC and Barclays Bank UK PLC to A+.

2.2.14 Fitch put the US sovereign rating on Rating Watch Negative following increased political partisanship which at the time was hindering the latest resolution to raising the debt ceiling. It also upgraded the outlook on the United Overseas Bank to stable, the outlook on the Clydesdale Bank to positive, and the outlook on the Bank of Montreal to stable.

2.2.15 Moody's withdrew Guildford BC's rating (who chose not to continue being rated) and affirmed the Aaa rating of the European Investment Bank.

2.2.16 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress but made no changes to the counterparty list or recommended durations over the quarter. Nevertheless, heightened market volatility is expected to remain a feature, at least in the near term and, 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 2023, the Authority had net borrowing of £90.216m arising from its revenue and capital income and expenditure. This had fallen to £80.516m by the end of Quarter 1.

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 2022/23 and includes the Quarter 1 forecast for 2023/24, 2024/25 and 2025/26. It also shows the financing 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.

Table 1 - Balance Sheet Summary

	31 March 2023 Actual £'000	31 March 2024 Forecast £'000
General Fund CFR	465,723	493,124
HRA CFR	-	-
Total CFR	**465,723**	**493,124**
Less: Other debt liabilities PFI	204,339	193,787
Borrowing CFR	**261,384**	**299,337**
External borrowing	160,996	185,996
Internal borrowing	**100,388**	**113,341**
Less: Usable Balance Sheet Resources	(154,194)	(145,453)
Less: Working capital	(25,713)	(25,713)
Net Investments	**(79,519)**	**(57,825)**

2.3.4 Table 1 shows the forecast CFR for 2023/24 is £493.124m, an increase of £27.401m compared to £465.723m at the end of 2022/23, but a reduction compared to the CFR of £503.278m approved in the 2023/24 Treasury Management Strategy at the 2023/24 Budget Council meeting. The CFR excluding other debt liabilities relating to Private Finance Initiative schemes is forecast at £299.337m an increase of £37.953m compared to the position at the end of 2022/23.

2.3.5 The table clearly highlights that the Council borrowing is well below the CFR and the Council is currently maintaining an under-borrowed position. This means 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. This along with rising interest rates for external debt means that the Council will continue to analyse and assess the market to determine the optimum time to externally borrow.

2.3.6 The treasury management position as at 30 June 2023 and the change over the quarter is shown in Table 2 below.

Table 2 - Treasury Management Summary

Borrowing/Investments	31 March 2023 Balance £'000	Movement £'000	30 June 2023 Balance £'000	30 June 2023 Average Rate %
Long-term borrowing				
- Public Works Loan Board	35,241	-	35,241	2.81%
- Lender Option Borrowing Option	85,500	-	85,500	4.33%
- Other	40,001	-	40,001	4.03%
Short-term borrowing	254	-	254	-
Total Borrowing	**160,996**	**-**	**160,996**	**-**
Long-term investments	15,000	-	15,000	4.25%
Short-term investments	20,000	(12,000)	8,000	4.28%
Cash and cash equivalents	35,780	21,700	57,480	4.35%
Total Investments	**70,780**	**9,700**	**80,480**	
Net Borrowing (total borrowing less total investments)	**90,216**		**80,516**	

As can be seen in the table above, borrowing has remained the same in the first three months of the year. However, borrowing is likely to increase during the year in line with planned capital expenditure. Overall, the level of investments has increased £9.700m since the end of 2022/23 due to the cash position of the Council.

2.4 **Borrowing**

2.4.1 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.

2.4.2 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.

2.4.3 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.

2.4.4 The chief objective when borrowing has been to strike an appropriately low risk balance between securing low 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.

2.4.5 There has been a substantial rise in the cost of both short and long-term borrowing over the last 18 months. In this reporting period (Q1), the Bank Rate rose from 4.25% at the beginning of April to 5.0% at the end of the first quarter and was also significantly higher than its level of 1.25% at the end of June 2022.

2.4.6 Gilt yields have faced upward pressure since early April following signs that UK growth has been more resilient and inflation stickier than expected. Consequently, PWLB borrowing rates continued to rise over the quarter. On 30 June, the PWLB certainty rates for maturity loans were 5.25% for 10-year loans, 5.36% for 20-year loans and 4.95% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.4.7 As at 30 June Oldham Council held £160.996m of loans. There has been no new borrowing undertaken in the first three months of the year so no movement from the position at 31 March 2023. Outstanding loans on 30 June (borrowing position) are summarised in Table 3 below.

Table 3 - Borrowing Position

Borrowing Sources	31 March 2023 Balance £'000	Movement £'000	30 June 2023 Balance £'000	30 June 2023 Weighted Average Rate %	30 June 2023 Weighted Average Maturity (years)
Public Works Loan Board	35,241	-	35,241	2.81%	18.12
Banks (LOBO)	85,500	-	85,500	4.33%	43.43
Banks (fixed term)	40,000	-	40,000	4.03%	46.05
Local Bonds (long-term)	1	-	1	1.00%	-
Local Bonds (short-term)	22	-	22	0.00%	-
Local Charitable Trusts (short-term)	231	-	231	1.94%	1
Total Borrowing	**160,996**	**-**	**160,996**		

LOBO Loans

2.4.8 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.

2.4.9 With market interest rates having risen, the probability of LOBOs being called has been higher than in the recent past. A total of £25.000m of LOBO loans had annual/semi-annual call option dates during the April-June quarter, however no lender exercised their option.

2.4.10 Currently Oldham Council has £40.500m LOBO loans with call dates during the remaining nine months of this financial year. Of this sum, £30.500m is held with Dexia Finance, and the remaining £10.000m split with two other providers, Danske Bank and KA Finanz. At the time of writing no call options have been exercised.

2.4.11 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 repay the LOBO loans with available cash or by borrowing from alternative sources or the PWLB, always providing that overall savings can be demonstrated.

2.5 Treasury Investment Activity

2.5.1 CIPFA published a revised the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation'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 At 30 June, the Council held £80.480m invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first quarter of 2022/23, the Authority's investment balances ranged between £70.870m and £80.480m 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 2023 Balance £'000	Movement £'000	30 June 2023 Balance £'000	30 June 2023 Income Return %
Banks & Building Societies (unsecured)	10,000	(10,000)	-	4.06%
Government (incl. Local Authorities)	10,000	(2,000)	8,000	4.35%
Money Market Funds	35,780	21,700	57,480	4.35%
Property Pooled Fund	15,000	-	15,000	4.25%
Total investments	**70,780**	**9,700**	**80,480**	

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 Bank Rate increased by 0.75%, from 4.25% at the beginning of April to 5% by the end of June, with the prospect of further increases to come. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. Money Market Rates for the quarter were between 4.04% and 4.80%.

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 and there has been no change in the value held over the quarter.

2.5.7 UK property markets continued to struggle as higher interest rates and bond yields and higher funding costs weighed on the sector. There was some improvement in May, building on signs of returning investor interest and transactional activity in calendar Q1 and a perception that the downturn in commercial real estate may be bottoming out. This has helped support capital values and rental income. The additional move upwards in yields in late May/June and the prospect of sluggish economic growth however constrain the outlook.

2.5.8 The combination of the above has had no effect on the combined value of the Authority's property funds since March 2023. Income returns remained broadly consistent at 4.25%.

2.5.9 The change in the Authority's funds' capital values and income return over the 3-month period is shown in Table 4.

2.5.10 The Authority has budgeted income from these investments in 2023/24. Income received for the period up to 30 June was £0.156m.

2.5.11 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

2.5.12 In April 2023 the Department for Levelling Up, Housing and Communities 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 31 March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary on the consultation outcome suggests not. The Council will discuss with Arlingclose the implications for the investment strategy and what the future implications will be. 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 Team Performance

	Budgeted Performance Rates / Benchmark SONIA Return %	Benchmark SONIA Return % Plus 5%	Actual Return
			%
Budgeted Investment Rates	4.400%		4.504%
Overnight SONIA	4.379%	4.598%	4.504%

2.6.2 The budgeted investment rate of 4.40% above included within the annual strategy for 2023/24 was based on the average rate over the full financial year as expectations were for a number of interest rate rises to take place during 2023/24. The actual rate achieved in the first quarter exceeds this budgeted rate.

2.6.3 Previously the benchmark return was measured on the London Interbank Bid Rate (LIBID) which was a forward-looking interest rate. The Bank of England replaced LIBID with SONIA in December 2021. SONIA is calculated differently to LIBID in that it is a backward-looking rate, based on actual results. In a rapidly increasing interest rate environment SONIA can increase quicker than the existing portfolio of investments. This can be shown above as the actual return is slightly lower than the benchmark.

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

Table 6 - Investment Limits

Investment Limit	Maximum during Q1 2023/24 £'000	Actual Position at 30 June 2023 £'000	Maximum Allowable in 2023/24 £'000	Compliance Yes/No
Any single organisation, except the UK Government	10,000	5,000	30,000	Yes
Any group of organisations under the same ownership	10,000	-	20,000	Yes
Any group of pooled funds under the same management	15,000	15,000	15,000	Yes
Unsecured investments with building societies	-	-	20,000	Yes
Money Market Funds	66,330	57,840	80,000	Yes
Strategic Pooled Funds	15,000	15,000	15,000	Yes

2.6.5 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 June 2023 £'000	2023/24 Operational Boundary £'000	2023/24 Authorised Limit £'000	Compliance Yes/No
Borrowing	160,996	312,000	332,000	Yes
PFI and Finance Leases	193,787	196,500	201,500	Yes
Total Gross Borrowing / Limit	**354,782**	**508,500**	**533,500**	Yes

2.6.6 The Operational Boundary represents the expected borrowing position for the Council for the year and was set at £508.500m.

2.6.7 The Authorised Limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 and for 2023/24 was set at £533.500m. Once this has been set, the Council does not have the power to borrow above this level although it can be revised if required.

2.6.8 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 2023/24.

2.7 Treasury Management Prudential Indicators

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

Liability Benchmark

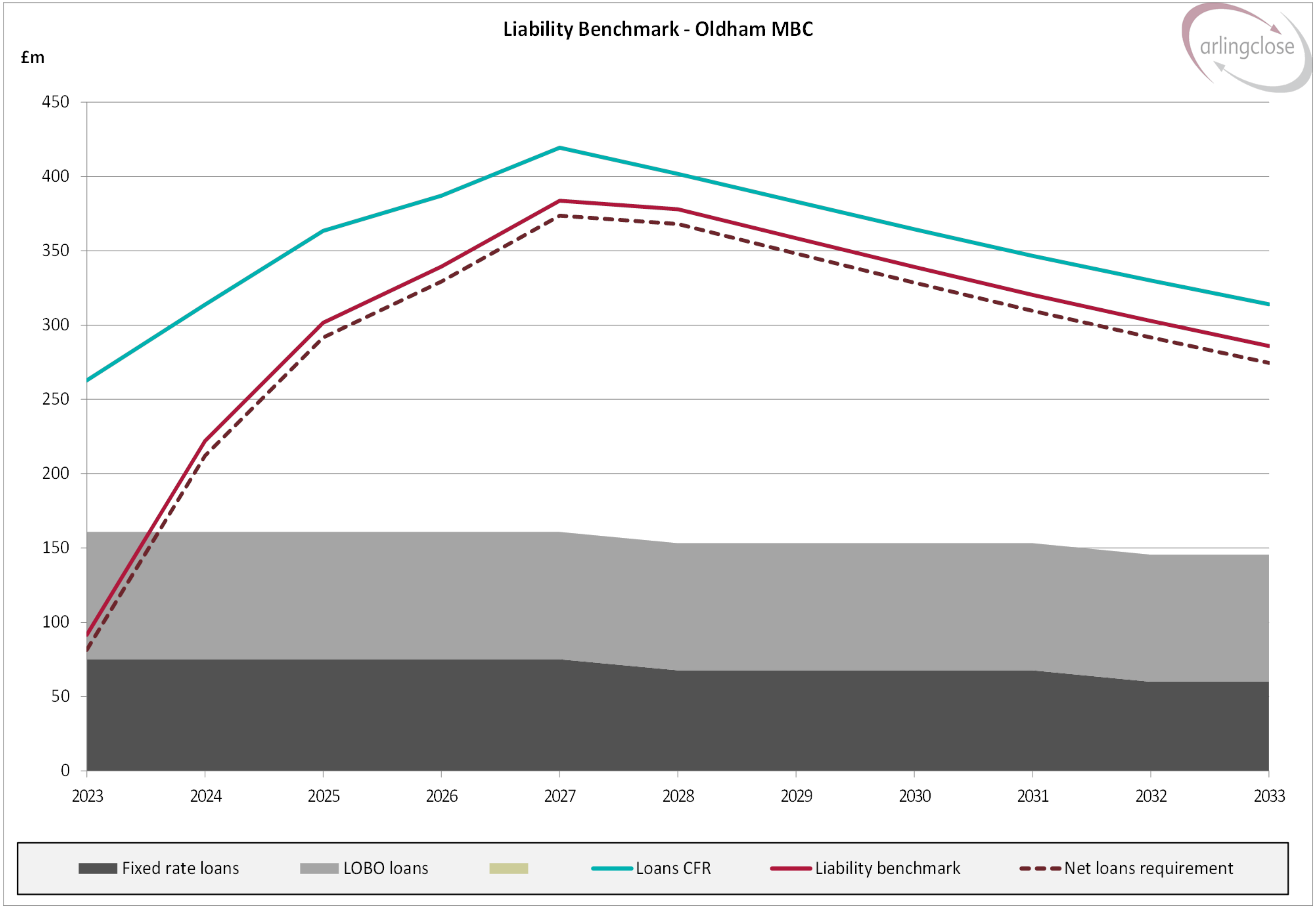
2.7.2 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term 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 £10.000m, the level required to manage day-to-day cash flow.

Table 8 - Liability Benchmark

Liability Benchmark Measurement	31 March 2023 Actual £'000	31 March 2024 Forecast £'000	31 March 2025 Forecast £'000	31 March 2026 Forecast £'000
Loans CFR	262,800	313,800	363,400	387,100
Less: Balance sheet resources	181,254	157,700	157,700	157,700
Net loans requirement	81,546	156,100	205,700	229,400
Plus: Liquidity allowance	10,000	10,000	10,000	10,000
Liability benchmark	**91,546**	**166,100**	**215,700**	**239,400**
Existing /forecast borrowing	**160,996**	**166,996**	**215,796**	**239,396**

2.7.3 As demonstrated by the liability benchmark in table 8 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.

2.7.4 Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing. Minimum Revenue Provision on new capital expenditure is forecast based on a 25 year asset life. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing



Liability Benchmark - Oldham MBC
£m
arlingclose
450
400
350
300
250
200
150
100
50
0
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
Fixed rate loans
LOBO loans
Loans CFR
Liability benchmark
Net loans requirement

2.7.5 Table 9 below sets out the maturity structure of borrowing at the end of the first quarter of 2023/24 compared to the upper and lower limits set in the Treasury Management Strategy for 2023/24.

Table 9 - Maturity Structure of Borrowing

Borrowing Timeframe	Upper Limit	Lower Limit	30 June 2023 Actual	Compliance Yes/No
Under 12 months	40%	0%	34.53%	Yes
12 months and within 24 months	40%	0%	3.11%	Yes
24 months and within 5 years	40%	0%	20.22%	Yes
5 years and within 10 years	40%	0%	4.82%	Yes
10 years to 20 years	50%	0%	3.11%	Yes
20 years to 30 years	50%	0%	3.11%	Yes
30 years to 40 years	50%	0%	3.11%	Yes
40 years to 50 years	50%	0%	15.55%	Yes
50 years to 60 years	50%	0%	12.44%	Yes

2.7.6 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.

Long-term Treasury Management Investments

2.7.7 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 10- Limit / Actual Investments exceeding one year

Limit /Actual Investments Exceeding One Year	2023/24	2024/25	2025/26	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

2.7.8 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.

2.8 Other Key Issues

2.8.1 The Council has a number of Lender Option Borrower Option (LOBO) loans that have a call date during the remainder of 2023/24. The lender has the option to increase the interest rate when each loan reaches its call date. As the Council is now operating in a rising interest rate environment, there may be opportunities to repay the Council's historical LOBO borrowing. The Council will investigate all opportunities and will ensure any repayments create revenue savings. No lender exercised their option during the first quarter of 2023/24.

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 Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are agreed by Council.

5 Consultation

5.1 There has been consultation with the Council's, Treasury Management Advisors, Arlingclose, and Senior Officers in the production of this report. The report was presented to Audit Committee at the meeting on 5 September 2023 for scrutiny. All matters raised by Audit Committee Members were addressed to the satisfaction of the Committee and the Committee was content to commend the report to Cabinet. At its meeting on 18 September 2023 Cabinet approved the report and commended it to Council.

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6 Financial Implications

6.1 All included within the report.

7 Legal Services Comments

7.1 None.

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 An Equality Impact Assessment is included at Appendix 2.

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FLC 14-23

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 Appendices 1 and 2.
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20 Appendices

Appendix 1 - Prudential and Treasury Indicators

Appendix 2 – Equality Impact Assessment

Appendix 1 - Prudential and Treasury Indicators

The following tables shows a summary of the prudential indicators for Quarter One 2023/24.

Capital Expenditure

Capital Expenditure/Financing	2022/23 Actual £'000	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000
Expenditure				
General Fund services	58,577	102,748	110,870	55,839
HRA	210	1,000	500	95
Total Capital Expenditure	**58,787**	**103,748**	**111,370**	**55,934**
Financing				
Grants & Contributions	**(32,411)**	(39,962)	(50,140)	(10,469)
Prudential Borrowing	**(16,868)**	(54,428)	(57,433)	(43,966)
Revenue	**(237)**	(1,063)	(500)	(95)
Capital Receipts	**(9,271)**	(8,295)	(3,297)	(1,404)
Total Financing	**(58,787)**	**(103,748)**	**(111,370)**	**(55,934)**

Capital Financing Requirement (CFR)

Capital Financing Requirement	31 March 2023 Actual £'000	31 March 2024 Forecast £'000	31 March 2025 Budget £'000	31 March 2026 Budget £'000
General Fund Services	465,723	493,124	530,488	541,248
Total CFR	**465,723**	**493,124**	**530,488**	**541,248**

Gross Borrowing and the Capital Financing Requirement

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 June 2023 £'000
Gross Borrowing (incl. PFI & leases)	365,335	379,782	418,481	421,398	354,782
Capital Financing Requirement	465,723	493,124	530,488	541,248	-

Debt and the Authorised Limit and Operational Boundary

Debt	Debt at 30 June 2023	2023/24 1 Quarter Estimate Operational Boundary	2023/24 1 Quarter Estimate Authorised Limit	Compliance? Yes/No
	£'000	£'000	£'000	
Borrowing	160,996	312,000	322,000	Yes
PFI and Finance Leases	193,787	196,500	201,500	Yes
Total Debt	**354,782**	**508,500**	**533,500**	

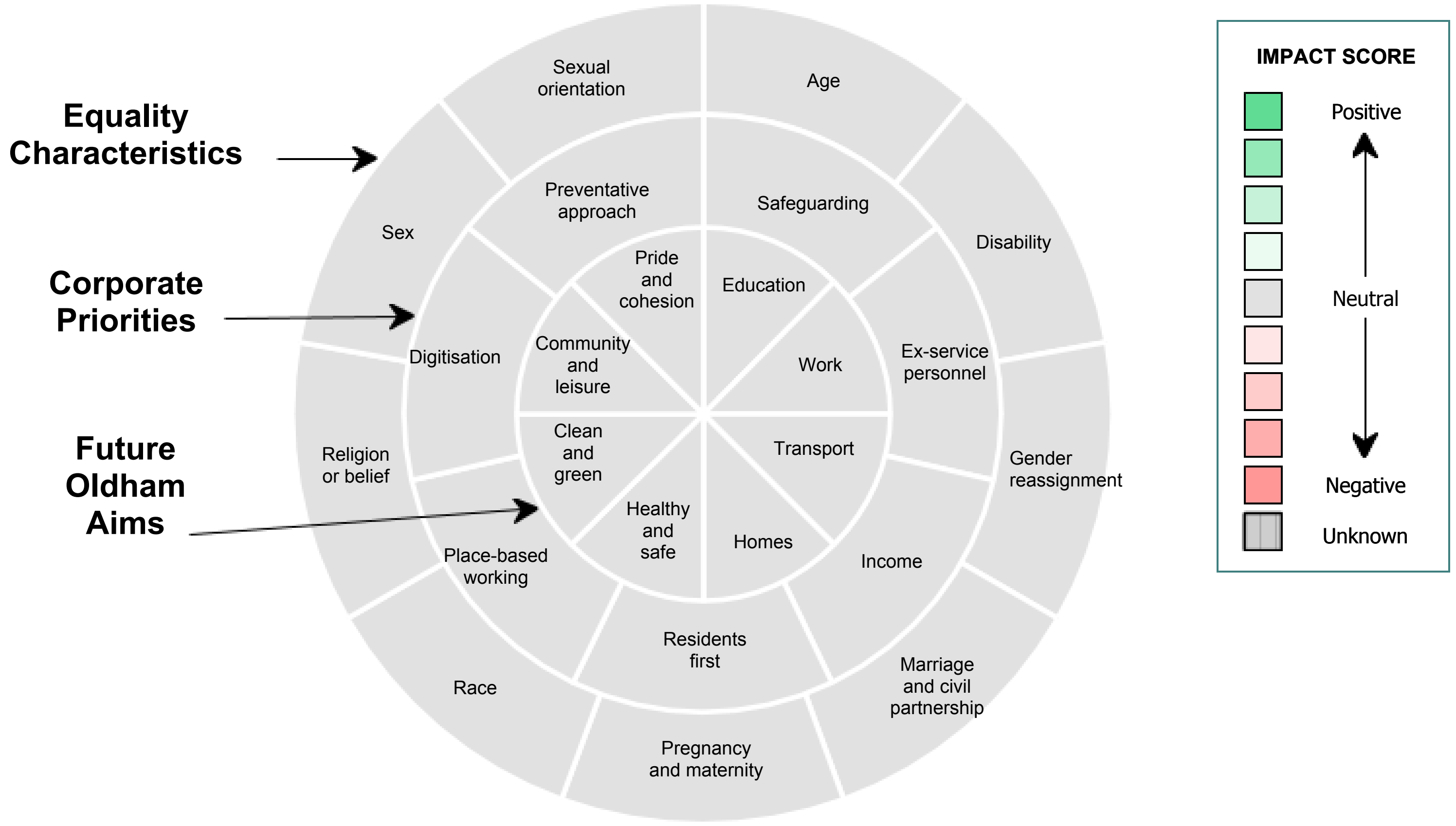
Proportion of Financing Costs to Net Revenue Stream

Financing Cost/Net Revenue Stream	2022/23 Actual £'000	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000
Financing costs (£m)	24,124	32,609	38,417	40,953
Proportion of net revenue stream	8.81%	11.91%	14.03%	14.95%

Equality Impact Assessment

Appendix 2

Treasury Management Quarter 1 Review 2023/24



Click to refresh Table

Treasury Management Review Quarter 1 2023/24

	Impact	Likelihood	Duration	Comment
Equality Characteristics				
Age	Neutral	Possible	Short Term	The report considers the performance of the Treasury Management function (within Finance) for quarter 1 2023/24 and as such, in isolation has no direct impact on Equality
Disability	Neutral	Possible	Short Term	As Above
Gender reassignment	Neutral	Possible	Short Term	As Above
Marriage and civil partnership	Neutral	Possible	Short Term	As Above
Pregnancy and maternity	Neutral	Possible	Short Term	As Above
Race	Neutral	Possible	Short Term	As Above
Religion or belief	Neutral	Possible	Short Term	As Above
Sex	Neutral	Possible	Short Term	As Above
Sexual orientation	Neutral	Possible	Short Term	As Above
Corporate Priorities				
Safeguarding	Neutral	Possible	Short Term	The report considers the performance of the Treasury Management function (within Finance) for quarter 1 2023/24 and as such, in isolation has no direct impact on Corporate Priorities
Ex-service personnel	Neutral	Possible	Short Term	As Above
Income	Neutral	Possible	Short Term	As Above
Residents first	Neutral	Possible	Short Term	As Above
Place-based working	Neutral	Possible	Short Term	As Above
Digitisation	Neutral	Possible	Short Term	As Above
Preventative approach	Neutral	Possible	Short Term	As Above
Future Oldham Aims				
Education	Neutral	Possible	Short Term	The report considers the performance of the Treasury Management function (within Finance) for quarter 1 2023/24 and as such, in isolation has no direct impact on Future Oldham Aims
Work	Neutral	Possible	Short Term	As Above
Transport	Neutral	Possible	Short Term	As Above
Homes	Neutral	Possible	Short Term	As Above
Healthy and safe	Neutral	Possible	Short Term	As Above
Clean and green	Neutral	Possible	Short Term	As Above
Community and leisure	Neutral	Possible	Short Term	As Above
Pride and cohesion	Neutral	Possible	Short Term	As Above