## Report to Council

# Treasury Management Half Year Review Report 2023/24

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

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### 13 December 2023

#### Reason for Decision

This report advises the Council of the performance of the Treasury Management function of the Council for the first six months 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 review and outlines:

- An economic update for the first half of the year of 2023/24;
- A review and updates of the Council's current treasury management position;
- Council Borrowing;
- Treasury Investment Activity;
- Treasury Performance for the first six months;
- Treasury Management Prudential Indicators;

The Audit Committee is charged with the scrutiny of Treasury Management activities for Oldham Council, and therefore considered and approved the contents of the Half Year Report at its meeting of 31 October 2023. The Committee was therefore content to commend the report to Cabinet. As such, Cabinet, at its meeting on 11 December 2023 approved the content of the report and was content to commend it to Council

Council is, therefore, requested to approve the Treasury Management Half Year Report 2023/24 to ensure full compliance with the Code.

**Recommendation**

That Council approves;

- The Treasury Management Half Year Report 2023/24
- Approves the proposed revisions to the Operational Boundary and Authorised Limit as presented at paragraph 2.6.9.

**Treasury Management Half Year Review Report 2023/24 13 December 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."

## 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 5 September 2023. This report provides the Treasury Management position at the end of September 2023

2.1.3 The Council's Treasury Management Strategy for 2023/24 was approved at a 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 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 2023/24;
- A review and updates of the Council's current treasury management position;
- Council Borrowing;
- Treasury Investment Activity;
- Treasury Performance for the first six months;
- Treasury Management Prudential Indicators;

2.1.5 The Treasury and Prudential Indicators are incorporated at Appendix 1 to this report.

## 2.2 External Environment Half Year Review 2023/24

Economic Background

2.2.1 UK inflation remained stubbornly high over much the period compared to the US and Euro Zone, keeping expectations elevated of how much further the Bank of England (BoE) would increase rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

2.2.2 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly Gross Domestic Product (GDP) data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

2.2.3 July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

2.2.4 Inflation continued to fall from its peak as annual headline Consumer Prices Index (CPI) inflation declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

2.2.5 The Bank of England's Monetary Policy Committee (MPC) continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further increase in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

2.2.6 Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

2.2.7 Following the September MPC meeting, Arlingclose, the Authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

2.2.8 The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the widely recognised GfK measure of consumer confidence hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to Standard and Poors (S&P) /Chartered Institute of Purchase and Supply) (CIPS) survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

2.2.9 The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

2.2.10 Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

2.2.11 The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

2.2.12 Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline Consumer Prices Index (CPI) fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

<u>Financial Markets</u>

2.2.13 Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

2.2.14 Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Index Average Rate (SONIA) averaged 4.73% over the period.

<u>Credit Review</u>

2.2.15 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, 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. This stance continued to be maintained at the end of the period.

2.2.16 During the second quarter of the year, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

2.2.17 Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

2.2.18 Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on lending to Warrington Borough Council to a maximum of 100 days.

2.2.19 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

2.2.20 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 remains 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 at the end of Quarter 1 but, a presented at Table 2, had risen to £87.401m 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 2022/23 and includes the half year forecast for 2023/24, 2024/25 and 2025/26. 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 2022/23..

**Table 1 – Balance Sheet Summary**

| | 31 March 2023 Actual £'000 | 31 March 2024 Quarter 1 Forecast £'000 | 31 March 2024 Half Year Review Forecast £'000 |
|---|---|---|---|
| General Fund CFR | 465,723 | 493,124 | 487,634 |
| HRA CFR | - | - | - |
| **Total CFR** | **465,723** | **493,124** | **487,634** |
| Less: Other debt liabilities PFI | 204,339 | 193,787 | 193,787 |
| **Borrowing CFR** | **261,384** | **299,337** | **293,847** |
| External borrowing | 160,996 | 185,996 | 173,496 |
| **Internal borrowing** | **100,388** | **113,341** | **120,351** |
| Less: Usable Balance Sheet Resources | 154,194 | 145,453 | 128,953 |
| Less: Working capital | 25,713 | 25,713 | 20,000 |
| **Net Investments** | **(79,519)** | **(57,825)** | **(28,602)** |

2.3.4 Table 1 shows the forecast CFR for 2023/24 is £487.634m, an increase of £21.911m compared to £465.723m at the end of 2022/23, but a reduction compared to the forecast CFR of £493.124m at the end of the first quarter. The CFR excluding other debt liabilities relating to Private Finance Initiative schemes is forecast at £293.847m an increase of £32.463m compared to the position at the end of 2022/23 but £5.490m lower than the Quarter 1 forecast.

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 raising 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 September 2023 and the change over the year to date is shown in Table 2 below.

**Table 2 - Treasury Management Summary**

| Borrowing/Investments | 31 March 2023 Balance £'000 | Movement £'000 | 30 September 2023 Balance £'000 | 30 September 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 | (7,000) | 13,000 | 4.63% |
| Cash and cash equivalents | 35,780 | 9,815 | 45,595 | 4.90% |
| **Total Investments** | **70,780** | **2,815** | **73,595** | |
| **Net Borrowing (total borrowing less total investments)** | **90,216** | | **87,401** | |

As can be seen in the table above, borrowing remains unchanged from the start of the financial year. However, borrowing is likely to increase in line with planned capital expenditure during the latter part of the year. Overall, the level of investment has increased £2.815m 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. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

2.4.6 UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30 September, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.4.7 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.

2.4.8 As at 30 September 2023, Oldham Council held £160.996m of loans. There has been no new borrowing undertaken in the year to date so no movement from the position at 31 March 2023. Outstanding loans on 30 September (borrowing position) are summarised in Table 3 below.

**Table 3 - Borrowing Position**

| Borrowing Sources | 31 March 2023 Balance £'000 | Movement £'000 | 30 September 2023 Balance £'000 | 30 September 2023 Weighted Average Rate % | 30 September 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 | 4.71% | 1 |
| **Total Borrowing** | **160,996** | **-** | **160,996** | | |

<u>LOBO Loans</u>

2.4.9 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.

2.4.10 With market interest rates having risen, the probability of LOBOs being called has been higher than in the recent past. A total of £35.000m of LOBO loans had annual/semi-annual call option dates during the period April-September, however no lender exercised their option.

2.4.11 Currently Oldham Council has £34.000m LOBO loans with call dates during the remaining six months of this financial year. Of this sum, £10.000m is held with Dexia Finance, and the remaining £24.000m split with three other providers, Danske Bank, KBC Bank 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 repay the LOBO loans with available cash or by borrowing from alternative sources or the PWLB, always providing that overall savings can be demonstrated. Given the revised interest rate forecasts referred to earlier in this report, the probability of the LOBO options being exercised is reducing.

**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 September 2023, the Council held £73.595m invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first six months of 2023/24, the Authority's investment balances ranged between £70.870m and £86.330m 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 September 2023 Balance £'000 | 30 September 2023 Income Return % |
|---|---|---|---|---|
| Banks & building societies (unsecured) | 10,000 | (10,000) | - | 4.06% |
| Government (incl. Local Authorities) | 10,000 | 3,000 | 13,000 | 4.77% |
| Money Market Funds | 35,780 | 9,815 | 45,595 | 4.90% |
| Property Pooled Fund | 15,000 | - | 15,000 | 4.43% |
| **Total investments** | **70,780** | **2,815** | **73,595** | |

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 1%, from 4.25% at the beginning of April to 5.25% by the end of September. 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 in the first six months ranged between 4.04% and 5.35%.

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 first half of the year. This investment has average earnings of 4.43%.

2.5.7 UK property markets were more settled during the second quarter of financial year 2023/24 (July – September) when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

2.5.8 The combination of the above had a no effect on the combined value of the Authority's property funds since March 2023. Income returns have risen slightly in the second quarter at 4.43%.

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 September was £0.311m.

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 to 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% | | 4.710% |
| Overnight SONIA | 4.751% | 4.989% | 4.896% |

2.6.2 The budgeted investment rate of 4.40% (shown 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 six months 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 period to 30 September 2023 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 Q2 2023/24 £'000 | Actual Position at 30 September 2023 £'000 | Maximum Allowable in 2023/24 £'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 | 15,000 | 15,000 | 15,000 | Yes |
| Unsecured investments with building societies | - | - | 20,000 | Yes |
| Money Market Funds | 71,330 | 45,595 | 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 September 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 originally 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.

2.6.9 Due to the reduction in the CFR during the year (as advised at paragraph 2.3.4 and Table 1) it is proposed that both the Operational Boundary and the Authorised Limit are reduced. The proposed limits are presented in Table 8 below and show a reduction in the Operational Boundary from £508.500m to £494.000m and the Authorised Limit from £533.500m to £519.000m.

**Table 8 – Proposed Revised Operational Boundary and Authorised Limit**

| Borrowing /Limits | 2023/24 Revised Operational Boundary £'000 | 2023/24 Revised Authorised Limit £'000 |
|---|---|---|
| Borrowing | 297,500 | 317,500 |
| PFI and Finance Leases | 196,500 | 201,500 |
| **Total Gross Borrowing / Limit** | **494,000** | **519,000** |

## 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

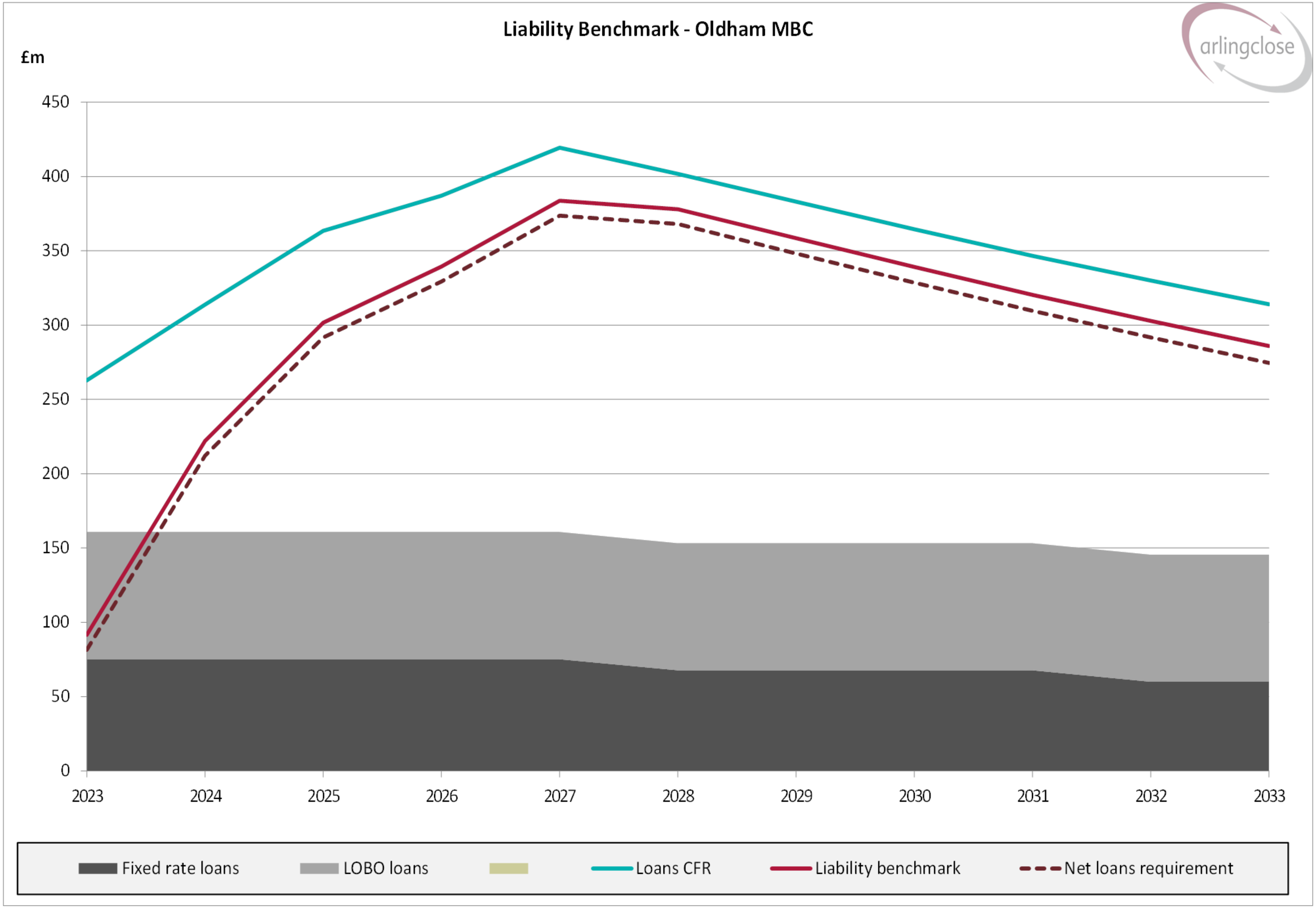
2.7.2 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term 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 9 - 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 | 292,300 | 347,900 | 388,500 |
| Less: Balance sheet resources | 181,254 | 157,900 | 158,200 | 158,500 |
| **Net loans requirement** | 81,546 | 134,400 | 189,700 | 229,400 |
| Plus: Liquidity allowance | 10,000 | 10,000 | 10,000 | 10,000 |
| **Liability benchmark** | **91,546** | **144,400** | **199,700** | **239,400** |
| **Existing /forecast borrowing** | **160,996** | **173,496** | **207,496** | **230,396** |

2.7.3 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.

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
arlingclose
£m
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 10 below sets out the maturity structure of borrowing at the end of the first six months of 2023/24 compared to the upper and lower limits set in the Treasury Management Strategy for 2023/24.

**Table 10 - Maturity Structure of Borrowing**

| Borrowing Timeframe | Upper Limit | Lower Limit | 30 September 2023 Actual | Compliance Yes/No |
|---|---|---|---|---|
| Under 12 months | 40% | 0% | 24.26% | Yes |
| 12 months and within 24 months | 40% | 0% | 3.11% | Yes |
| 24 months and within 5 years | 40% | 0% | 30.48% | 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 11- 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.

## 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 Audit Committee 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 in the production of this report.

5.2 The Treasury Management Half Year Review Report was presented to Audit Committee at its meeting on 31 October 2023, for scrutiny. All matters raised by Audit Committee Members were addressed to the satisfaction of the Committee in accordance with the requirements of the CIPFA Code of Practice and the Committee was content to commend the report to Cabinet. At its meeting of 11 December 2023 Cabinet approved the report and commended it to Council.

## 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 Yes.

**17** **Key Decision**

17.1 Yes

**18** **Key Decision Reference**

18.1 FLC 16-23

**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 Appendix 1
Officer Name: Talei Whitmore
Contact No: 0161 770 4424

**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 half year 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 | 75,831 | 129,301 | 63,972 |
| HRA | 210 | 764 | 628 | 95 |
| **Total Capital Expenditure** | **58,787** | **76,595** | **129,930** | **64,067** |
| | | | | |
| **Financing** | | | | |
| Grants & Contributions | **(32,411)** | (29,464) | (58,478) | (13,469) |
| Prudential Borrowing | **(16,868)** | (39,002) | (64,945) | (49,959) |
| Revenue | **(237)** | (1,078.97) | (630) | (95) |
| Capital Receipts | **(9,271)** | (7,049.77) | (5,877) | (544) |
| **Total Financing** | **(58,787)** | **(76,595)** | **(129,930)** | **(64,067)** |

**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 | 487,634 | 528,112 | 550,202 |
| **Total CFR** | **465,723** | **487,634** | **528,112** | **550,202** |

**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 September 2023 £'000 |
|---|---|---|---|---|---|
| Gross Borrowing (incl. PFI & leases) | 365,335 | 367,283 | 389,872 | 400,652 | 354,782 |
| Capital Financing Requirement | 465,723 | 487,634 | 528,112 | 550,202 | - |

**Debt and the Proposed Revised Authorised Limit and Operational Boundary**

| Debt | Debt at 30 June 2023 | 2023/24 Half Year Revised Operational Boundary | 2023/24 Half Year Revised Authorised Limit | Compliance? Yes/No |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | |
| Borrowing | 160,996 | 297,500 | 317,500 | Yes |
| PFI and Finance Leases | 193,787 | 196,500 | 201,500 | Yes |
| **Total Debt** | **354,782** | **494,000** | **519,000** | |

**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 | 27,607 | 32,957 | 35,179 |
| Proportion of net revenue stream | 8.81% | 10.06% | 11.56% | 12.13% |