Oldham Council

Report to Audit Committee

Treasury Management Quarter Three Report 2023/24

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

Officer Contact: Sarah Johnston, Director of Finance

Report Author: Paula Buckley Finance Manager
Ext.

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Reason for Decision

This report advises the Audit Committee of the performance of the Treasury Management function of the Council for the third 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 review and outlines:

- An economic update for the third 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 Quarter;
- Treasury Management Prudential Indicators;

The report is presented to the Audit Committee to enable it to have the opportunity to review and scrutinise the Quarter three Treasury Management report prior to its presentation to Cabinet and Council.

Recommendation

That the Audit Committee, considers and comments upon the Treasury Management Quarter three report and the Treasury Management activity and projected outturn and after such consideration, commends the report to Cabinet.

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 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 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 Quarter three 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;
- Council Borrowing;
- Treasury Investment Activity;
- Treasury Performance for the Quarter;
- Treasury Management Prudential Indicators;

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

Economic Background

2.2.1 UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.

2.2.2 Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

2.2.3 July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay respectively.

2.2.4 Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

2.2.5 The BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25 basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

2.2.6 Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

2.2.7 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, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.

2.2.8 The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the December FOMC meeting.

2.2.9 The European Central Bank continues to resist market policy loosening expectations, but the

Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects). 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.

Financial Markets

2.2.10 Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.

2.2.11 Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the 3 month period.

Credit Review

2.2.12 Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

2.2.13 In October, Moody’s revised the outlook on the UK’s Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

2.2.14 Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody’s to Baa1.

2.2.15 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress, but no changes were made to recommended durations over the period.

2.2.16 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 £91.319m arising from its revenue and capital income and expenditure. This had risen to £108.992m by the end of Quarter 3.

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 3 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	493,269
HRA CFR		
Total CFR	**465,723**	**493,269**
Less: Other debt liabilities PFI	204,339	193,752
Borrowing CFR	**261,384**	**299,517**
External borrowing	160,996	180,991
Internal borrowing	100,388	118,526
Less: Usable Balance Sheet Resources	(154,194)	(111,182)
Less: Working capital	(15,871)	(40,871)
Net Investments	**(69,677)**	**(33,527)**

2.3.4 Table 1 shows the forecast CFR for 2023/24 is £493.269m, an increase of £27.546m 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 £38.133m 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 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 31 December 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	31 December 2023 Balance £'000	31 December 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	1.94%
Total Borrowing	**160,996**	**-**	**160,996**	**-**
Long-term investments	13,896	(453)	13,444	4.92%
Short-term investments	20,000	(10,000)	10,000	4.89%
Cash and cash equivalents	35,780	(7,220)	28,560	5.06%
Total Investments	**69,676**	**(17,673)**	**52,004**	
Net Borrowing (total borrowing less total investments)	**91,319**		**108,992**	

2.3.7 As can be seen in the table above, borrowing has remained the same in the nine months of the new financial year. Overall, the level of investments have decreased £17.673m since the end of 2022/23 due to the use of cash to fund the capital programme whilst interest rates remain high for long term borrowing. Short term borrowing of the order of £20m is anticipated in the final quarter of the year which will be repaid early in the new financial year. Due to the timing of funding, local authorities cash balances tend to be higher at the start of the financial year and then gradually decrease until the end of the financial year.

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 Interest rates have seen substantial rises over the last two years, although these rises began to plateau in the later months of 2023. Rates over the last 3 quarters were at the peak between June and October, since then they have fallen back to lows last seen in April 2023.

2.4.6 Gilt yields have remained volatile, facing upward pressure following signs that UK growth had been more resilient and inflation stickier than expected. However more recent signs of slowing inflation and the perception of an increasingly struggling economy have now begun to change this sentiment, resulting in falling gilt yields and, consequently, PWLB rates.

2.4.7 On 31st December, the PWLB certainty rates for maturity loans were 4.19% for 10 year loans, 4.90% for 20-year loans and 4.67% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.4.8 As at 31 December Oldham Council held £160.996m of loans. There has been no new borrowing undertaken in the nine months of the year so no movement from the position 31 March 2023, as part of its strategy for funding previous years' capital programmes. As noted in 2.3.7 above, it is anticipated that short term borrowing will need to be undertaken during the final quarter of the financial year that will be repaid early in the new financial year. Outstanding loans on 31 December (borrowing position) are summarised in Table 3 below.

Table 3 - Borrowing Position

Borrowing Sources	31 March 2023 Balance £'000	Movement £'000	31 December 2023 Balance £'000	31 December 2023 Weighted Average Rate %	31 December 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**		

2.4.9 .

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 With market interest rates having risen, the probability of LOBOs being called has been higher than in the recent past. A total of £50.500m of LOBO loans had annual/semi-annual call option dates during the nine month period April-December, however no lender exercised their option.

2.4.12 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 over 4 loans, and the remaining £25.500m is 4 separate loans with four other providers, Danske Bank and KA Finanz, FMS

Wertmanagement and KBC Bank. At the time of writing no call options have been exercised.

2.4.13 Council officers have liaised with treasury management advisors, Arlingclose, over the likelihood of the options being exercised for LOBO's 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

2.5.10 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.

2.5.11 At 31 December, the Council held £52.004m invested funds, representing income received in advance of expenditure plus balances and reserves held. During the nine month period of 2023/24, the Authority's investment balances ranged between £41.484m 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	31 December 2023 Balance £'000	31 December 2023 Income Return %
Banks & building societies (unsecured)	10,000	(10,000)	-	4.06%
Government (incl. Local Authorities)	10,000	-	10,000	5.02%
Money Market Funds	35,780	(7,220)	28,560	5.06%
Property Pooled Fund	13,896	(453)	13,444	4.92%
Total investments	**69,676**	**(17,673)**	**52,004**	

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 1.25%, from 4.25% at the beginning of April to 5.25% by the end of December. Short term rates peaked at 5.6% for 3-month rates and 6.6% for 12-month rates during the period, although these rates subsequently began to reduce towards the end of the period. Money Market Rates also rose and were between 5.30% and 5.39% by the end of December.

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 generated an average total return of £0.356m 4.92%, income return which is used to support services in year but has seen and £1.556m unrealised capital loss following Covid.

2.5.7 Investor sentiment for UK commercial property remained subdued with caution showed by buyers and sellers. With interest rates and bond yields remaining relatively high and investors demanding higher yields, property prices remained under pressure. The outlook for offices remains challenging from changing working practices. This was evident in the capital value of the Councils CCLA property fund which were below those in March and September.

2.5.8 The combination of the above had a negative effect on the value of the councils property funds since March 2023. Income returns have however increased to 4.92% compared to at 4.25% at the beginning of the year.

2.5.9 The change in the Authority's funds' capital values and income return over the 9-month period to 31 December 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 31 December was £0.356m, whilst a further £0.173m has been declared and is due to be received in January.

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.

<u>Statutory Override</u>

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 for the investment strategy and what action may need to be taken. 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 Annual Investment Rates	4.400%		4.901%
Overnight SONIA	5.190%	5.450%	5.334%

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 nine 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. The benchmark of SONIA plus 5% has not been achieved however the actual rate achieved for overnight investments over the 3 month period is higher than the average SONIA rate over the period.

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.

Consultations

2.6.5 In December DLUHC published two consultations: a "final" consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a "call for views" on capital measures to improve sector stability and efficiency closing on 31st January.

2.6.6 Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.

2.6.7 In its call for views on capital measures, Government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage 'invest-to-save' activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

2.6.8 Oldham Council officers have responded to the consultation with it's views and impact any changes will have.

Table 6 - Investment Limits

Investment Limit	Maximum during Q1 2023/24 £'000	Actual Position at 31 December 2023 £'000	Maximum Allowable in 2023/24 £'000	Compliance Yes/No
Any single organisation, except the UK Government	10,000	-	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	13,617	13,444	15,000	Yes
Unsecured investments with building societies	-	-	20,000	Yes
Money Market Funds	63,505	10,040	80,000	Yes
Strategic Pooled Funds	13,617	13,444	15,000	Yes

2.6.8 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 31 December 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

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

2.6.10 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.

2.6.11 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

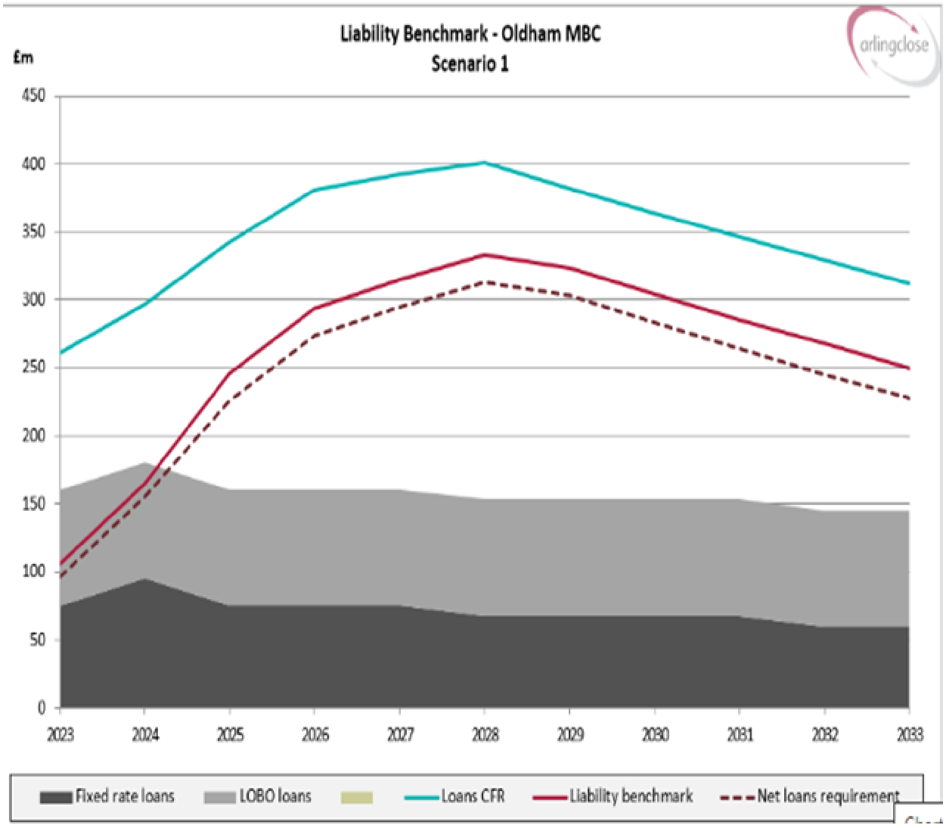
2.7.2 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term 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. This is increasing in 24/25 to £20.000m.

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	261,384	296,775	334,491	371,000
Less: Balance sheet resources	171,168	152,053	105,186	95,186
Net loans requirement	**90,216**	**144,722**	**229,305**	**275,814**
Plus: Liquidity allowance	10,000	10,000	20,000	20,000
Liability benchmark	**100,216**	**154,722**	**249,305**	**295,814**
Existing /forecast borrowing	**160,996**	**180,991**	**229,305**	**275,814**

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



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	31 December 2023 Actual	Compliance Yes/No
Under 12 months	40%	0%	27.37%	Yes
12 months and within 24 months	40%	0%	0.00%	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 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 summer months. 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 higher 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.

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 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 presentation of the Treasury Management Quarter three Report to the Audit Committee for detailed scrutiny on 26 March 2024 will be in compliance with the requirements of the CIPFA Code of Practice. The report will then be presented to Cabinet and then subsequently Council for approval.

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, including crime and disorder in accordance with section17 of the Crime and Disorder Act 1998

15.1 None.

16 Oldham Equality Impact Assessments, including implications for Children and Young People

16.1 Not Applicable

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 FLC

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/Talei Whitmore
Contact No:	0161 770 6608 / 4924

20 Appendix 1 - Prudential and Treasury Indicators

Appendix 1 - Prudential and Treasury Indicators

The following tables shows a summary of the prudential indicators for Quarter 3 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	78,702	99,055	80,981
HRA	210	764	628	95
Total Capital Expenditure	**58,787**	**79,466**	**99,683**	**81,076**
Financing				
Grants & Contributions	**(32,411)**	(29,069)	(43,835)	(28,633)
Prudential Borrowing	**(16,868)**	(41,477)	(49,637)	(51,646)
Revenue	**(237)**	(1,079)	(630)	(95)
Capital Receipts	**(9,271)**	(7,841)	(5,581)	(702)
Total Financing	**(58,787)**	**(79,466)**	**(99,683)**	**(81,076)**

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	490,527	516,878	541,308
Total CFR	**465,723**	**490,527**	**516,878**	**541,308**

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 31 December 2023 £'000
Gross Borrowing (incl. PFI & leases)	365,335	374,551	411,692	446,122	354,748
Capital Financing Requirement	465,723	490,527	516,878	541,308	-

Debt and the Authorised Limit and Operational Boundary

Debt	Debt at 31 December 2023	2023/24 Quarter 3 Estimate Operational Boundary	2023/24 Quarter 3 Estimate Authorised Limit	Compliance? Yes/No
	£'000	£'000	£'000	
Borrowing	160,996	312,500	297,500	Yes
PFI and Finance Leases	193,752	197,250	194,750	Yes
Total Debt	**354,748**	**509,750**	**492,250**	

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	21,135	29,943	35,831
Proportion of net revenue stream	8.81%	7.12%	10.11%	11.52%