

## Report to Audit Committee

# Treasury Management Half Year Review Report 2024/25

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### Reason for Decision

### Executive Summary

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

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

### Executive Summary

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

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

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

## **Recommendation**

That the Audit Committee:

- a) considers and comments upon the Treasury Management Half Year Review report;
- b) accepts the proposed revisions to the Maturity Structure of Borrowing outlined in section 2.10.5;
- c) accepts the proposed revision to the Flexible Use of Capital Receipts outlined in section 2.7 and Appendix 2;
- d) accepts the proposed revision to the Minimum Revenue Provision Policy outlined in section 2.8 and Appendix 4; and
- e) commends the report to 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 The Treasury Management Quarter 1 Update Report was presented to the Audit Committee for scrutiny on 24 July 2024.
- 2.1.3 This half year report provides an additional update to that previously received by Members to reflect the requirement of the 2021 Code of quarterly reporting on treasury management prudential indicators. It presents for approval the Treasury Management position, known as the semi-annual review at the end of September 2024. The treasury and prudential indicators are also incorporated at Appendix 1 to this report.
- 2.1.4 The Council's Treasury Management Strategy for 2024/25 was approved at a meeting on 28 February 2024. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring, and control of risk remains central to the Authority's Treasury Management Strategy.
- 2.1.5 This Half Year Review report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- An economic update for the second quarter of 2024/25;
  - A review and updates of the Council's current treasury management position;
  - Council Borrowing;
  - Treasury Investment Activity;
  - Treasury Performance for the first six months;

- Compliance
- Treasury Management Prudential Indicators;

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

## 2.2 External Environment Half Year Review 2024/25

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

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

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

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

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

2.2.6 The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025, and remaining there until early 2027.

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

2.2.8 The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of

easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

2.2.9 Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

2.2.10 **Financial markets:** Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial, and geopolitical issues meant it was a bumpy ride for bond investors during that time.

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

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

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

2.2.14 Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

## 2.3 The Oldham Council Treasury Position

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

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

2.3.9 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below and show the half year forecast compared to the Quarter 1 forecast and the closing position for 2023/24.

**Table 1 – Balance Sheet Summary**

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

- 2.3.10 Table 1 shows the forecast CFR for 2024/25 is £510.747m, an increase of £21.767m compared to £488.980m at the end of 2023/24. The CFR excluding other debt liabilities relating to Private Finance Initiative schemes is forecast to be £328.360m, an increase of £33.270m compared to the position at the end of 2023/24.
- 2.3.11 External borrowing is forecast to increase by some £40m to £233m by the end of the financial year. This is well below the CFR meaning the Council is maintaining an under-borrowed position. This indicates that the capital borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances, and cash flow has been used as a temporary measure. This strategy has been prudent in recent years as investment returns have been low and counterparty risk is still an issue that needs to be considered.
- 2.3.12 However, as the Council utilises its reserves to finance annual revenue expenditure, the capacity to do this will diminish and external borrowing will be required. The Council will continue to analyse and assess the market with respect to interest rate forecasts and counterparty risk to determine the optimum time to externally borrow.
- 2.3.13 The treasury management position as at 30 September 2024 and the change over the year to date is shown in Table 2 below.

**Table 2 - Treasury Management Summary**

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

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

## 2.4 Borrowing

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

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

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

2.4.4 The cost of short-term borrowing from other local authorities spiked to around 7% (Oldham

temporary borrowing spiked to 6.6%) in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month as expected. Shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

- 2.4.5 CIPFA's 2021 Prudential Code is clear that Local Authorities must not borrow to invest primarily for financial return and that it is not prudent for Local Authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.
- 2.4.6 Public Works Loan Board (PWLB) loans are no longer available to Local Authorities planning to buy investment assets primarily for yield, unless these loans are for refinancing purposes.
- 2.4.7 Oldham Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council, and it has no plans to do so in future.
- 2.4.8 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor, Arlingclose.
- 2.4.9 As at 30 September 2024, Oldham Council held £206.650m of loans. The Council has undertaken two new borrowings from Public Works Loan Board (PWLB) of £15m at 4.54% over 11 years and £10m at 4.45% over 10 years shown in the table below.

**Table 3 - Borrowing Position**

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

#### **LOBO Loans**

- 2.4.10 Oldham Council continues to hold £85.500m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate and terms, or to repay the loan at no additional cost.
- 2.4.11 Currently Oldham Council has £44.000m LOBO loans with call dates within the next 12 months. Of this sum, £19.000m is held with Dexia Finance, £10.000m with KBC Bank and the remaining £15.000m split with three other providers, Danske Bank, FMS Wertmanagement,



and KA Finanz. At the time of writing no call options have been exercised.

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

## 2.5 Treasury Investment Activity

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

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

**Table 4 - Treasury Investment Position**

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

2.5.3 Both the CIPFA Code and Government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.5.4 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

2.5.5 The Bank Rate reduced from 5.25% to 5.00% in August 2024, with short term interest rates largely being around these levels. The rates on money market rates fluctuated between 5.21% and 5.01% in the same period.

2.5.6 The Council in previous years has invested £15.000m in the Churches, Charities & Local Authorities (CCLA) pooled property fund. As this is a longer-term investment, short term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. This fund is forecast to generate an average total return in 2024/25 of £0.700m, representing 5.31% income return. The current value estimated is £13.103 and a full half year update is based upon our Treasury advisors financial modelling

and confirmation from the CCLA will be updated in the next reporting period once received. Analysis of the fund this year is shown below.

### **2.5.7 Performance**

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

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

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

### **2.5.8 Management activity**

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

### **2.5.9 Income/distributions levels**

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

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

### **2.5.10 Outlook**

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

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

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

2.5.12 The Council's investments have no defined maturity date, but are available for withdrawal after a notice period, but their performance and continued suitability in meeting the Councils

medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

### **Statutory Override**

2.5.13 In April 2023 the Ministry for Housing, Communities and Local Government published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31st March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority has provided for a loss of up to £2.000m, to mitigate the impact on the revenue budget of the statutory override not being extended and un-realised losses on pooled investment funds are required to be recognised.

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

## **2.6 Treasury Team Performance**

2.6.1 The Treasury Team measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 5 below.

**Table 5 – Treasury Performance**

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

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

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

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

2.7.2 The main recommendations of the review were:

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

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

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

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

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

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

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

## **2.8 Flexible Use of Capital receipts**

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

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

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

## **2.9 Compliance**

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

**Table 6 - Investment Limits**

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

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

**Table 7 – Operational Boundary and Authorised Limit**

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

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

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

2.9.5 Since the Operational Boundary is a management tool for in-year monitoring, it is not significant if the Operational Boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. No breaches have occurred, and it is not anticipated that there will be any breaches in 2024/25.

## 2.10 Treasury Management Prudential Indicators

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

### Liability Benchmark

2.10.2 This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing that the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £20.000m, the level required to manage day-to-day cash flow.

**Table 9 - Liability Benchmark**

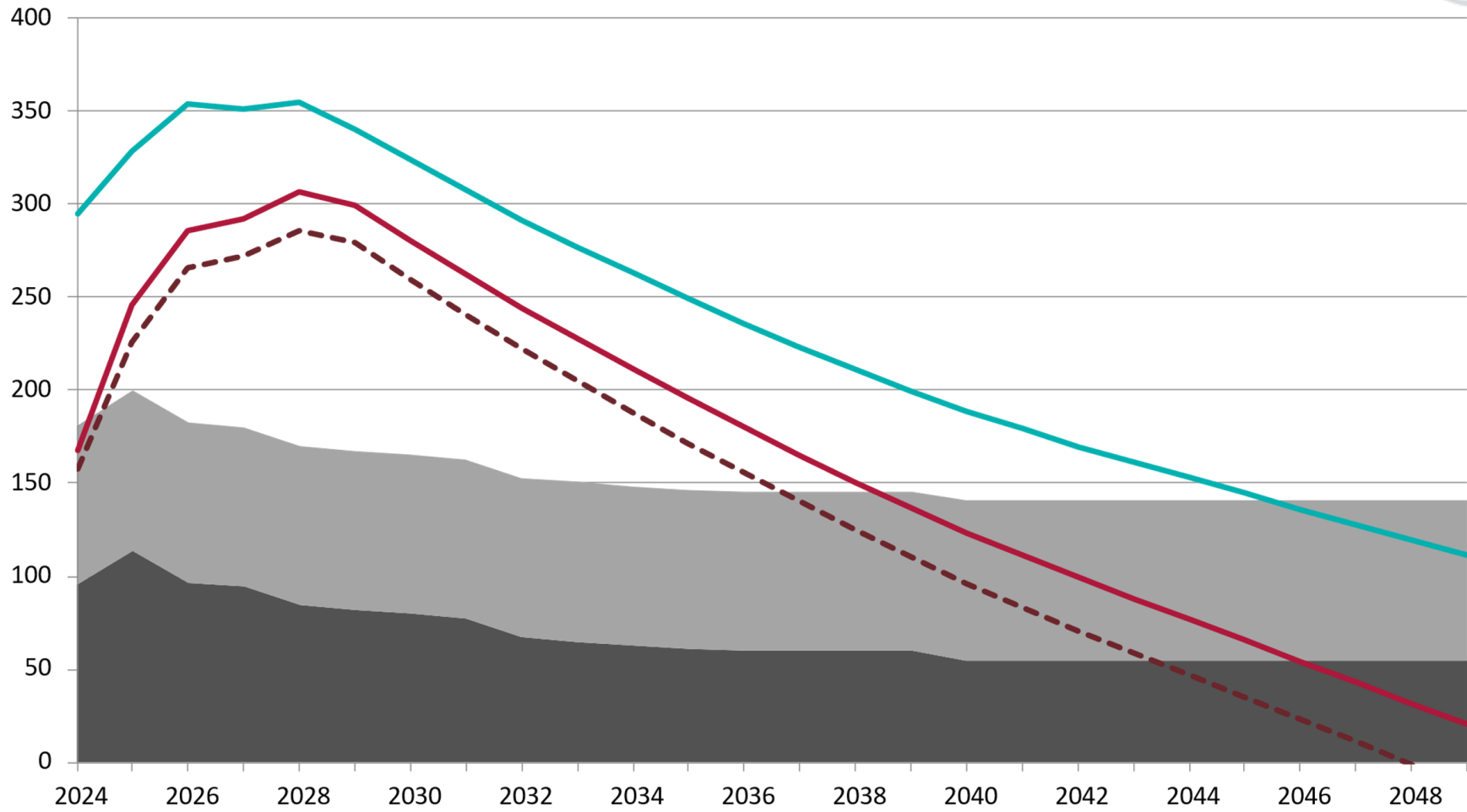
Liability Benchmark Measurement	31 March 2024 Actual £'000	31 March 2025 Forecast £'000	31 March 2026 Forecast £'000	31 March 2027 Forecast £'000
Loans CFR	295,090	328,360	353,056	348,520
Less: Balance sheet resources	132,737	97,736	82,736	72,736
<b>Net loans requirement</b>	<b>162,353</b>	<b>230,624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

2.10.3 As demonstrated by the liability benchmark in the table above, the Council expects to be a long-term borrower to finance the expected capital spend. There could be timing differences between when the Council externally borrows compared to when the expenditure is required due to the nature of capital works, but new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

# Liability Benchmark- Oldham MBC



£m



Fixed rate loans
  LOBO loans
 
 Loans CFR
  Liability benchmark
  Net loans requirement

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

**Table 10 –Maturity Structure of Borrowing**

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

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

**Table 11 –Revised Maturity Structure of Borrowing**

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

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



### 2.10.7 Long-term Treasury Management Investments

The purpose of the Long-Term Treasury Management indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term Treasury management limits are set out in the table below.

**Table 12- Limit / Actual Investments exceeding one year**

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

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

## 3 Options/Alternatives

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

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

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

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

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

## 4 Preferred Option

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

## 5 Consultation

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

5.2 The presentation of the Treasury Management Half Year Review Report to the Audit Committee for detailed scrutiny on 28 November 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 The proposals have been the subject of review by Finance officers and the Council's Treasury Management advisers in order to ensure compliance with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and statutory guidance on the Minimum Revenue Provision. I am satisfied that the recommended proposals would not be in breach of those regulations or statutory guidance and the preferred option is supported.

(Alex Bougatef – Interim Borough Solicitor and Monitoring Officer)

## **8 Co-operative Agenda**

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

## **9 Human Resources Comments**

9.1 None.

## **10 Risk Assessments**

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

## **11 IT Implications**

11.1 None.

## **12 Property Implications**

12.1 None.

## **13 Procurement Implications**

13.1 None.

## **14 Environmental and Health & Safety Implications**

14.1 None.

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

15.1 None.

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

16.1 No.

## **17 Key Decision**

17.1 Yes

**18 Key Decision Reference**

18.1 FCR-20-24

**19 Background Papers**

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

File Ref: Background papers are contained with Appendix 1

Officer Name: Paula Buckley/James Postle

Contact No: 0161 770 4247

**20 Appendices**

Appendix 1 - Prudential and Treasury Indicators

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

Appendix 3 - Arlingclose Review of Minimum Revenue Provision

Appendix 4 – Revised Minimum Revenue Provision Policy Statement

## Appendix 1 - Prudential and Treasury Indicators

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

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

### Capital Expenditure

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

### Capital Financing Requirement (CFR)

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with [MRP / loans fund repayments] and capital receipts used to replace debt.

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

### Gross Borrowing and the Capital Financing Requirement

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

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

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

The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year [except in Scotland: and to keep it under review]. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

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

Since the operational boundary is a management tool for in-year monitoring, it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

### Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans is charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

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

## **Appendix 2: Flexible Use of Capital Receipts Strategy**

### **Introduction**

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

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

### **Statutory Guidance**

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

### **The Council’s Strategy**

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

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

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

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

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

### **Summary of planned receipts**

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

### **Summary of planned use and savings**

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

**Table 1 – Planned Qualifying Expenditure**

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