Appendix 2

Treasury Management Quarter 3 Report 2024/25

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Reason for Decision

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 Council of the performance of the Treasury Management function for the third quarter 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; and
- Treasury Management Prudential Indicators.

Recommendation

That the Audit Committee considers and comments upon the Treasury Management Quarter 3 report and the Treasury Management activity and projected outturn.

Treasury Management Q3 Update **23 July 2025**

1 Background

1.1 The Council must have 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 in line with the Council's Treasury Management Strategy, 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 Half Year Update Report was presented to the Audit Committee for scrutiny on 28 November 2024, Cabinet 2 December 2024 and subsequently approved at Council 20 January 2025.

2.1.3 This Quarter 3 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 review at the end of December 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 Quarter 3 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; and
- Treasury Management Prudential Indicators;

2.2 External Environment Review 2024/25

Economic background:

2.2.1 The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to Gross Domestic Product (GDP) growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%

2.2.2 The UK annual Consumer Price Index (CPI) inflation remained above the Bank of England (BoE) 2% target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices rose 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, and remained elevated at 3.6% in November against a forecast of 3.5% and compared to 3.3% in the previous month.

2.2.3 UK economy GDP registered no growth (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the ONS. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in October, following the same size decline in September

2.2.4 The labour market continued to loosen, but the ONS data still require treating with some caution. Recent figures reported the unemployment rate rose to 4.3% (3mth/year) in the three months to October 2024 and economic inactivity fell to 21.7%. The ONS reported pay growth over the same three-month period at 5.2% for both regular earnings (excluding bonuses) and for total earnings.

2.2.5 The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting (5-4 vote to cut). At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. The meeting minutes suggested a reasonably dovish tilt to rates with the outlook for economic growth a concern among policymakers as the Bank downgraded its Q4 GDP forecast from 0.3% to 0.0%.

2.2.6 The November Monetary Policy Report (MPR) showed the BoE expected GDP growth to pick up to around 1.75% (four-quarter GDP) in the early period of the forecast horizon before falling back. The impact from the government's Autumn Budget pushed GDP higher in 2025 than was expected in the August MPR, before becoming weaker. The outlook for CPI inflation showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. Over the medium-term, once the near-term pressures eased, inflation was expected to stabilise around the 2% target. The unemployment rate was expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

2.2.7 Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

2.2.8 The US Federal Reserve continued cutting interest rates during the period, reducing the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected into 2025, but uncertainties around the potential inflationary impact of President-elect Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

2.2.9 The European Central Bank (ECB) also continued its rate cutting cycle, reducing its three key policy rates by 0.25% in December. Euro zone inflation rose above the ECB 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Financial markets:

2.2.10 Financial market sentiment was generally positive over the period, but economic, financial and geopolitical issues meant the ongoing trend of bond yield volatility very much remained. In the last few months of the period, there was a general rising trend in yields due to upwardly revised interest rate and inflation expectations, causing gilt yields to end the period at substantially higher levels to where they began.

2.2.11 Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at a high of 4.57%, having reached a low of 3.76% in mid-September. While the 20-year gilt started at 4.40%, ended at a high of at 5.08% and hit a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.01% over the period to 31st December.

Credit review:

2.2.12 In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days.

2.2.13 2.2.13 Fitch revised the outlooks on Royal Bank of Scotland, NatWest Markets PLC, and National Westminster Bank to positive from stable, while affirming their long-term ratings at A+.

2.2.14 Moody's upgraded the ratings on National Bank of Canada to Aa2 from Aa3, having previously had the entity on Rating Watch for a possible upgrade. Moody's also upgraded the ratings on The Co-operative Bank to A3 (from Baa3) and downgraded the ratings on Coventry Building Society to A3 (from A2) and Canada's Toronto-Dominion Bank to Aa2 (from Aa1).

2.2.15 S&P also downgraded Toronto-Dominion Bank, to A+ from AA-, but kept the outlook at stable.

2.2.16 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 also remained generally more muted compared to previous periods.

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

2.3 The Oldham Council Treasury Position

2.3.1 On 31 March 2024, the Authority had net borrowing of £113.980m arising from its revenue and capital income and expenditure. This had fallen to a 2424/25 year end projection £107.086m at the end of Quarter 1,and £92.736 at the half year end. A revision of the capital programme and year to date activity forecasts a figure of £107.920m as at 31 December 2024 as reported in Table 1.

2.3.2 The actual and planned level of capital expenditure are the drivers of borrowing for capital purposes. Appendix 1 shows the actual level of capital expenditure at the end of 2023/24 and includes the Q3 forecast for 2024/25, 2025/26 and 2026/27. It also shows the financing sources, including the level of prudential borrowing.

2.3.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below and show the Q3 forecast compared to the closing position for 2023/24.

Table 1 – Balance Sheet Summary

	31-Mar-24 Actual £'000	31-Mar-25 Q3 £'000
General Fund CFR	488,980	525,040
Total CFR	**488,980**	**525,040**
Less: Other debt liabilities (PFI)	193,890	188,935
Borrowing CFR	**295,090**	**336,105**
External borrowing	181,110	233,185
Internal borrowing	**113,980**	**102,920**
Less: Usable Balance Sheet Resources	**(132,737)**	**(92,736)**
Less: Working capital	**(17,957)**	**(48,903)**
Net Investments	**(36,714)**	**(38,719)**

2.3.4 Table 1 shows the forecast CFR for 2024/25 is £525.040m, an increase of £36.060m 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 £336.105m, an increase of £41.015m compared to the position at the end of 2023/24.

2.3.5 External borrowing is forecast to increase by some £50m to £233m by the end of the financial year. This is well below the CFR meaning the Council is maintaining an under-borrowed position. This indicates that the capital borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances, and cash flow has been used as a temporary measure. This strategy has been prudent in recent years as investment returns have been low and counterparty risk is still an issue that needs to be considered.

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

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

Table 2 - Treasury Management Summary

Borrowing/Investment	31.3.24 Balance £'000	Movement £'000	31.12.24 Balance £'000	31.12.24 Average Rate %
Long-term borrowing				
- PWLB	35,241	30,000	65,241	3.40%
- LOBOs	85,500	0	85,500	3.91%
- Other	40,001	0	40,001	4.06%
Short-term borrowing	20,368	14,887	35,255	5.51%
Total borrowing	**181,110**	**44,887**	**225,997**	**0**
Long-term investments	13,354	142	13,496	5.14%
Short-term investments	10,000	(10,000)	-	0.00%
Cash and cash equivalents	13,360	23,915	34,435	5.03%
Total investments	**36,714**	**14,057**	**47,931**	
Net borrowing	**144,396**	**30,829**	**178,065**	

2.3.8 As can be seen in the table above, borrowing has increased by £45m 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 £14.057m since the end of the year due to the cash position of the Council. Overall net borrowing has increased by £30.829m

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 their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies

2.4.3 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%.

2.4.4 Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

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 31 December, Oldham Council held £226m of loans. The Council has undertaken three new borrowings from Public Works Loan Board (PWLB) during the financial year of £15m at 4.54% over 11 years and £10m at 4.45% over 10 years and £15m at 4.79% over 10 years shown in the table below.

Table 3 - Borrowing Position

Borrowing Sources	31.3.24 Balance £'000	Movement £'000	30.12.24 Balance £'000	30.9.24 Weighted Average Rate %	30.12.24 Weighted Average Maturity (years)
Public Works Loan Board	35,241	30,000	65,241	3.40%	14.99
Banks (LOBO)	85,500	-	85,500	3.91%	41.92
Banks (fixed-term)	40,000	-	40,000	4.06%	44.54
Local Authorities (short term)	20,000	15,653	35,653	5.19%	0.00
Local Bonds (long-term)	1	-	1		
Local Bonds (short-term)	22	-	22	0.00%	
Local Charitable Trusts (short-term)	231	2	233	4.90%	
Total borrowing	**180,996**	**45,655**	**226,650**	**0**	

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 £34.000m LOBO loans with call dates within the next 12 months. Of this sum, £14.000m is held with Dexia Finance, £10.000m with KBC Bank and the remaining £10.000m split with two other providers, 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 31 December 2024, the Council held £34.435m of Money Market Funds, representing income received in advance of expenditure plus balances and reserves held.at the third quarter in the year, the Authority's investment balances ranged between £15.740m and £51.330m 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 2024 Balance £'000	Movement £'000	31-Dec 2024 Balance £'000	31-Dec-24 Income Return %
Government (incl. Local Authorities)	10,000	(10,000)		
Money Market Funds	13,360	21,075	34,435	5.11%
Property Pooled Fund	13,354	142	13,496	5.14%
Total Investments	**36,714**	**11,217**	**47,931**	

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, and again to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on money market rates fluctuated between 4.74% and 5.21% 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 £0.690m, representing 5.14% income return. The current value estimated is £13.496 as at 31 December 2024 as provided by the fund

2.5.7 **Performance**

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

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

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

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

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

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

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

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

2.5.11 The Authority has budgeted income from these investments in 2024/25. Income received for the period up to 31 December 2024 was £0.520m.

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. A further consultation on the override was included in MHCLG's annual consultation on the provisional local government finance settlement published in December 2024; the consultation closed on 15 January 2025 and outcome expected February 2025. Whether the override will be extended beyond this date is unknown but commentary from both consultations suggest unlikely. The Authority has provided for a loss of up to £2.000m, to mitigate the impact on the revenue budget of the statutory override not being extended and un-realised losses on pooled investment funds are required to be recognised.

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

2.6 Treasury Team Performance

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

Table 5 – Treasury Performance

	Budgeted Performance Rates/Benchmark SONIA Return %	Benchmark SONIA Return % Plus 5%	31.09.24 Income Return % (Actual)
Budgeted Investment Rates	5.17%		5.11%
Overnight SONIA	4.95%	5.20%	5.01%

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 £1.288m has been achieved.

2.7 Minimum Revenue Provision (MRP) Regulations

2.7.1 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.

2.7.2 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).

2.7.3 A revised MRP Policy prepared in conjunction with the Authorities Treasury Management Advisors was presented to and approved at Council 20 January 2025 and future years implications are included within MTFS and were approved at the Budget Council meeting of 6 March 2025.

2.8 Compliance

2.8.1 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 31 December 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	13,496	15,000	Yes
Unsecured investments with building societies	-	-	20,000	Yes
Money Market Funds	47,860	34,435	80,000	Yes
Strategic Pooled Funds	13,617	13,496	15,000	Yes

2.8.2 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 31 December 2024 £'000	2024/25 Operational Boundary £'000	2024/25 Authorised Limit £'000	Compliance Yes/No
Borrowing	226,650	335,250	350,250	Yes
PFI and Finance Leases	182,387	183,500	186,000	Yes
Total Gross Borrowing / Limit	**415,585**	**518,750**	**536,250**	Yes

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

2.8.4 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.

2.8.5 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.

2.9 Treasury Management Prudential Indicator

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

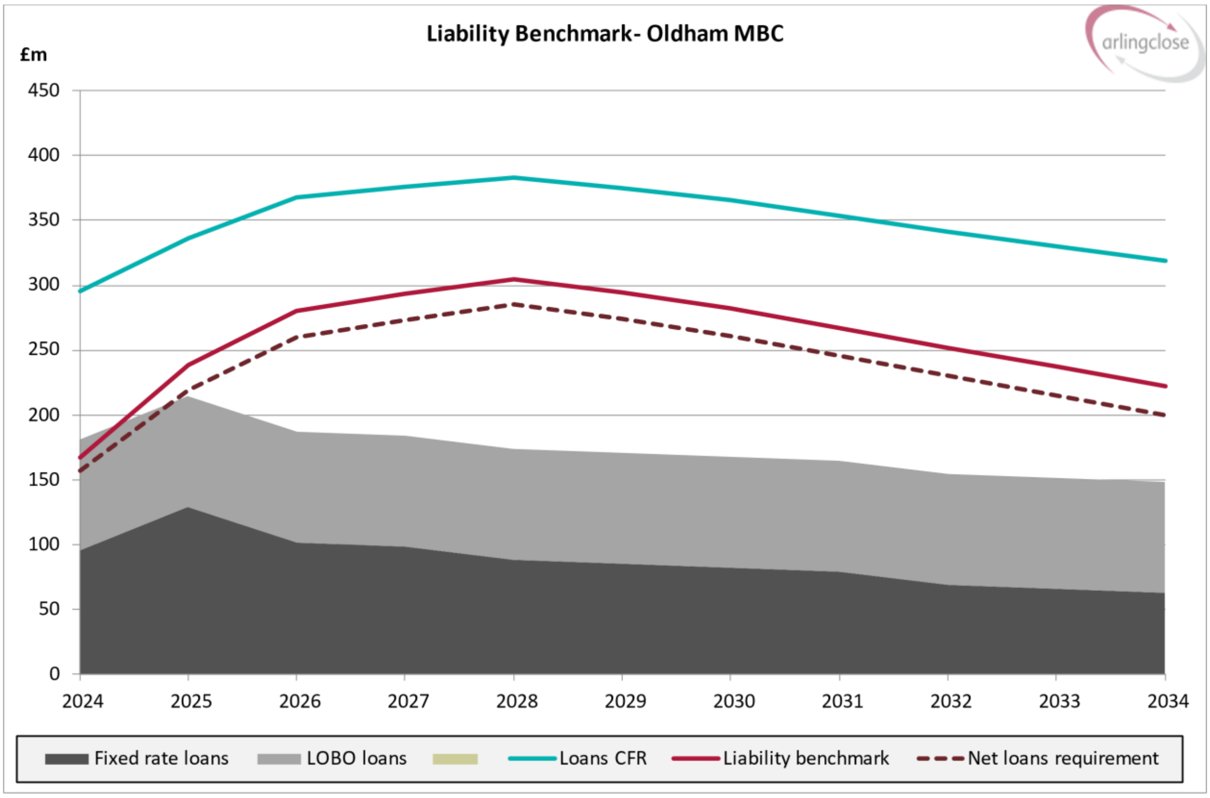
Liability Benchmark

2.8.7 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

	31.3.24 Actual £'000	31.3.25 Estimate £'000	31.3.26 Estimate £'000	31.3.27 Estimate £'000	31.3.28 Estimate £'000
Loans CFR	294,939	336,105	367,859	375,795	382,506
Less: Balance sheet resources	(155,354)	(132,736)	(122,736)	(117,736)	(112,736)
Net loans requirement	**139,585**	**203,369**	**245,123**	**258,059**	**269,770**
Plus: Liquidity allowance	10,000	20,000	20,000	20,000	20,000
Liability benchmark	**149,585**	**223,369**	**265,123**	**278,059**	**289,770**

2.8.8 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
arlingclose
£m
450
400
350
300
250
200
150
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50
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2024
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2026
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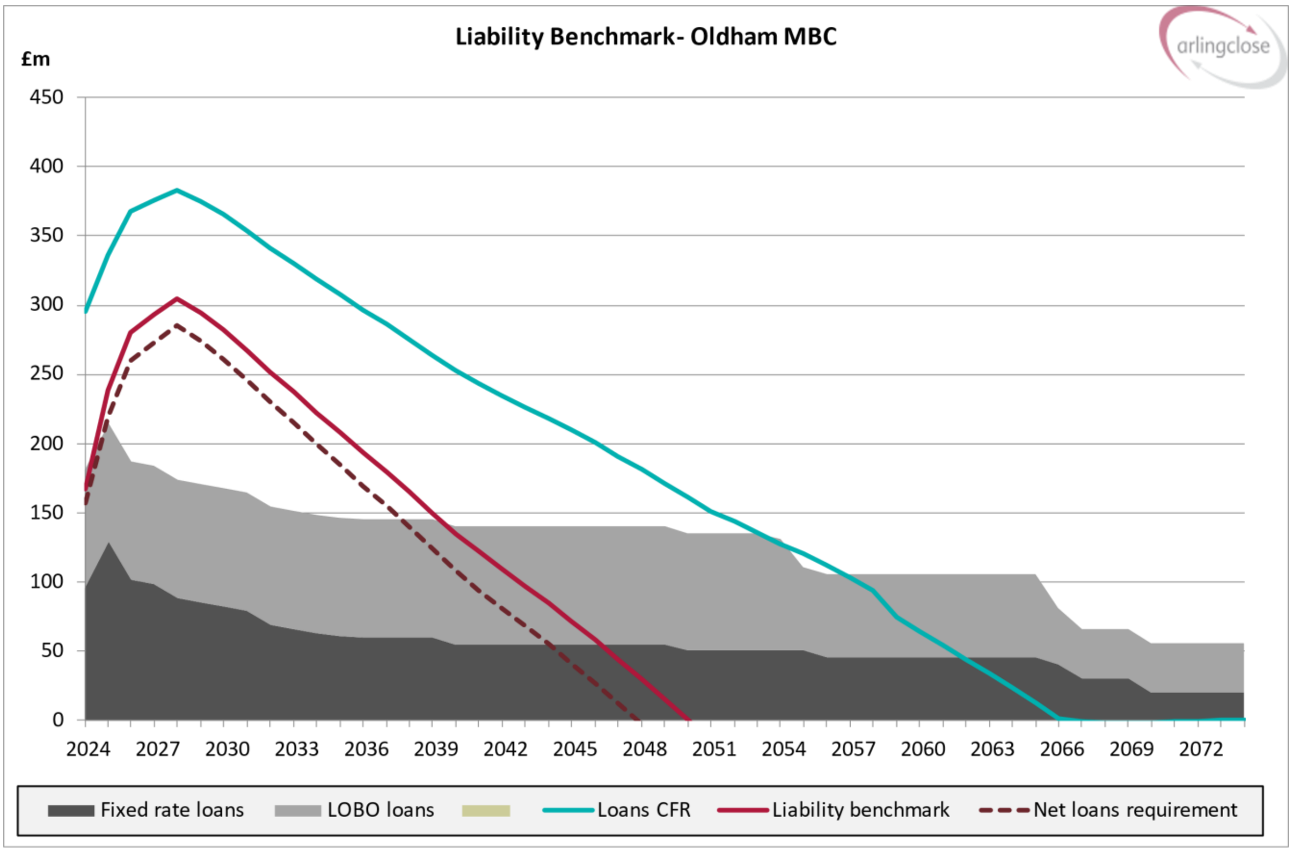
Fixed rate loans
LOBO loans
Loans CFR
Liability benchmark
Net loans requirement



Liability Benchmark- Oldham MBC
arlingclose
£m
450
400
350
300
250
200
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2024
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2033
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2051
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2063
2066
2069
2072
Fixed rate loans
LOBO loans
Loans CFR
Liability benchmark
Net loans requirement

2.8.9 Table 10 below sets out the maturity structure of borrowing at the end of the 3rd quarter 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	31 December 2023 Actual	Compliance Yes/No
Under 12 months	35%	0%	32.78%	Yes
12 months and within 24 months	35%	0%	2.21%	Yes
24 months and within 5 years	35%	0%	21.71%	Yes
5 years and within 10 years	35%	0%	10.07%	Yes
10 years to 20 years	50%	0%	8.86%	Yes
20 years to 30 years	50%	0%	2.21%	Yes
30 years to 40 years	50%	0%	2.21%	Yes
40 years to 50 years	50%	0%	19.93%	Yes
50 years to 60 years	50%	0%	0%	Yes

2.8.10 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.

2.8.11 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:

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

2.8.12 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 Council 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.

4 Preferred Option

4.1 N/A

5 Consultation

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

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 No

18 Key Decision Reference

18.1 N/A

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
Email:	paula.buckley@oldham.gov.uk

20 Appendices

Appendix 1 - Prudential and Treasury Indicators

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 3rd quarter of 2024/25.

Capital Expenditure

Capital Expenditure/Financing	2023/24 Actual £'000	2024/25 Forecast £'000	2025/26 Budget £'000	2026/27 Budget £'000
Expenditure				
General Fund services	81,147	87,061	105,308	29,474
HRA	64	200	3193	206
Total Capital Expenditure	**81,211**	**87,261**	**108,501**	**29,680**
Financing				
Grants & Contributions	(32,621)	(32,583)	(60,800)	(9,737
Prudential Borrowing	(40,448)	(47,567)	(39,855)	(17,480)
Revenue	(1,606)	(233)	(3,193)	(206)
Capital Receipts	(6,536)	(6,878)	(4,653)	(2,568)
Total Financing	**(81,211)**	**(87,261)**	**(108,501)**	**(34,838)**

Capital Financing Requirement (CFR)

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

Capital Financing Requirement	31 March 2024 Actual £'000	31 March 2025 Forecast £'000	31 March 2026 Budget £000 £'000	31 March 2027 Budget £'000
General Fund Services	488,980	525,040	551,535	554,025
Total CFR	**488,980**	**525,040**	**551,535**	**554,025**

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 2024 Actual £'000	31 March 2025 Forecast £'000	31 March 2026 Budget £'000	31 March 2027 Budget £'000	Debt at 30 September 2024 £'000
Gross Borrowing (incl. PFI & leases)	357,075	412,304	448,799	434,168	415,585
Capital Financing Requirement	488,980	525,040	551,535	523,364	525,040

Debt and the 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 31 December 2024	2024/25 Half Year Revised Operational Boundary	2024 /25 Half Year Revised Authorised Limit	Compliance? Yes/No
	£'000	£'000	£'000	
Borrowing	226,650	332,250	350,250	Yes
PFI and Finance Leases	182,387	183,500	186,00	Yes
Total Debt	**415,585**	**518,750**	**536,250**	

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

Proportion of Financing Costs to Net Revenue Stream

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

	2023/24 Outturn £000	2024/25 Forecast £000	2025/26 Budget £000	2026/27 Budget £000	2027/28 Budget £000	2028/29 Budget £000	2029/30 Budget £000
Financing costs	24,124	14,002	17,341	20,068	22,016	22,383	22,836
General Fund	298,906	302,600	321,700	341,346	351,773	363,968	380,746
Proportion of net revenue stream	8.07%	4.63%	5.39%	5.88%	6.26%	6.15%	6.00%

PWLB Rates for Comparison

For context, the changes in interest rates during the quarter were:

	31/3/24	31/12/24
Bank Rate	5.25%	4.75%
1-year PWLB certainty rate, maturity loans	5.36%	5.19%
5-year PWLB certainty rate, maturity loans	4.68%	5.10%
10-year PWLB certainty rate, maturity loans	4.74%	5.40%
20-year PWLB certainty rate, maturity loans	5.18%	5.84%
50-year PWLB certainty rate, maturity loans	5.01%	5.66%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.