Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2022/23

Including commercial activities / non-treasury investments

Treasury Management Strategy executive summary

Introduction

1. All local authorities are required by law to approve a treasury management strategy (TMS), investment strategy and minimum revenue policy before the year to which they apply as part of the budget setting process. The TMS combines all three.

Key changes to the previous Treasury Management Strategy

2. The capital expenditure forecast in the previous TMS did not link back to the capital strategy which meant that the Prudential Indicators to limit borrowing and assess affordability of borrowing were misstated. If corrected the Council's borrowing would have exceeded the capital financing requirement, which whilst not unlawful would nevertheless have indicated that the Council was borrowing to support the revenue budget. The Capital Spending and Fund plans at Table 1 link back to the Capital Strategy to ensure consistency.

3. A requirement of statutory guidance since 2018 has been to set and report performance targets for investment property. The 2021 CIPFA Prudential Code states that it is not prudent to borrow for investment property and that authorities should rebalance their investment property portfolios where they have borrowed. No performance measures had been set or reported in previous years. Measured against standard benchmarks for investment property, the Council's investment property is yielding a negative rate of return and is fully leveraged contrary to the Prudential Code. A key recommendation is to dispose of all the investment property portfolio.

4. The TMS highlights that the Council has 11 companies, 6 of which are dormant and are therefore to be wound up. The Council has had no clear strategy for setting up companies and lacks overall coordination of the companies – a recommendation is to establish a Shareholders Committee to perform this function.

5. The Council's MRP policy previously approved for 2021/22 did not comply with statutory guidance and had not been applied in practice. Paragraphs 54 and 55 explain. Consequently:

   (a) MRP for 2021/22 was understated by £18m;

   (b) The affordability of borrowing was under-reported at 1.48% of net revenue stream for 2021/22 when it should have been 17.82%

6. The MRP policy has been re-written to fully comply with statutory guidance and correct understatements of MRP. Officers have liaised closely with DLUHC on amendments to legislation to improve the capital finance legislation and guidance.

7. The TMS highlights the comparatively high level of borrowing of the Council (Slough's borrowing is the third highest per capita amongst unitary authorities) and sets out a debt reduction strategy to bring borrowing onto a sustainable and affordable footing over the next 5 years.

8. Loans to third parties under the previous TMS were limited to James Elliman Homes Ltd and SUR LLP, even though the Council had advanced loans to Slough Children First Ltd. and St Bernards School. The TMS:

   (a) provides a more general authority to advance loans to third parties subject to due diligence on security and risk;

   (b) recommended interest rates levied cover the Council's capital financing costs and other related costs plus 1% for risk;

   (c) increases the limit for such advances to £90m to allow for advances to GRE5 Ltd.

INTRODUCTION

9. The Council is required to set a balanced annual revenue budget. The timing and nature of income and expenditure within the budget needs to be understood and managed so that cash is available when it is required (**Liquidity**). This is a key function of the Treasury Management operation.

10. The second key function is the funding of the Council's capital plans, which is the key driver for the borrowing needs of the Council. This may involve arranging new or replacement loans of the planned use of cash balances.

11. The Treasury Management Strategy (TMS) for 2022/23 – 2026/27 sets out the Council's approach to ensuring cashflows are adequately planned to ensure that the Council's capital programme and corporate investment plans are adequately funded, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services. Surplus monies are invested in low risk counterparties (**Security**), providing access to funds when required (**Liquidity**) before considering optimising investment return (**Yield**).

Background

12. The Council's Treasury Management Strategy has been set in line with:

- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended;
- Statutory Guidance on Minimum Revenue Provision issued by MHCLG (now DLUHC) 2018;
- Statutory Guidance on Local Government Investments issued by MHCLG (now DLUHC) 2018;
- the Prudential Code issued by CIPFA 2017;
- the Treasury Management Code of Practice issued by CIPFA 2017.

13. Consideration has also been given to updated versions of the above two CIPFA Codes issued in December 2021, but which do not take full effect until 2023/24.

14. The strategy also has regard to:

- the Markets in Financial Instruments Directive II (MiFID II);
- international Financial Reporting Standard (IFRS) 9 Financial Instruments; and
- the UK Money Markets Code issued by the Bank of England April 2021.

Treasury Management Policy Statement

15. In setting the Treasury Management Strategy, the Treasury Management Code recommends that an organisation's Treasury Management Strategy adopts the following to define the policies and objectives of its treasury management activities:

(a) The Council defines its treasury management activities as the management of the authority's borrowing, investments, and cash flows including 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.

(b) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instruments entered into manage these risks.

(c) The Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

16. In implementing the Treasury Management Code, Appendix 5 to this TMS sets out how the Council follows the key requirements of the Code.

17. The TMS covers five main areas summarised below:

Section 1 Capital spending

- Capital strategy
- Commercial activity
- Capital Finance Requirement (CFR)
- Affordability
- Minimum Revenue Provision (MRP) policy statement

Section 2 Borrowing

- Overall borrowing strategy
- Post-PWLB interest rate increase borrowing strategy
- Alternative Borrowing Options
- Limits on external borrowing
- Maturity structure of borrowing
- Policy on borrowing in advance of need
- Debt rescheduling

Section 3 Managing cash balances

- The current cash position and cash flow forecast
- Prospects for investment returns
- Pension pre-funding payment
- Council policy on investing and managing risk
- Balancing short and long term investments

Section 4 Summary of Prudential Indicators

Section 5 Legal Implications

18. The Annual Investment Strategy (AIS) at Appendix 2 provides more detail on how the Council's surplus cash is to be invested in 2021/22 and future years. In particular, the approved schedules of specified and non-specified investments have been revised to comply with DLUHC Guidance and the Council's actual investment activities.

SECTION 1 - CAPITAL STRATEGY

Capital spending plans

19. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

20. Table 1 summarises the Council's capital expenditure plans, both in terms of those projects agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current expectations for financing the capital expenditure.

21. In response to the section 114 Notice issued in July 2021, the capital programme has been rigorously reviewed to reduce the extent to which it was to be funded from borrowing. As a result, 35 schemes have either been cancelled, re-profiled and different sources of finance sought. Consequently, the reliance on borrowing in the capital programme has been reduced by 80% compared with the previously approved programme. Given that the Council was already experiencing slippage of about 40% in the capital programme, this exercise probably resets the capital programme to one which the Council has the capacity to deliver.

Table 1 Capital spending and funding plans (Prudential Indicator 1)

2020/21 Actual £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	Total £m
	Expenditure							
75	General Fund	38	46	8	8	8	6	114
49	HRA	13	22	24	25	7	14	105
124		**51**	**68**	**32**	**33**	**15**	**20**	**219**
	Funding							
	General Fund							
(11)	Government Grant	(13)	(36)	(6)	(4)	(4)	(3)	(66)
(4)	Capital Receipts	0	0	0	0	0	0	0
(2)	Developer contributions (s.106)	(1)	0	0	0	0	0	(1)
	Revenue contributions	0	0	0	0	0	0	0
	Capitalisation Direction	(16)	(6)	(2)	(2)	(2)	(2)	(30)
	HRA							
	Government Grant							0
(5)	Capital Receipts	(2)	(2)	(1)	(2)	(2)	0	(9)
(15)	Major Repairs Reserve	(11)	(15)	(13)	(10)	(5)	(14)	(68)
	Revenue contributions	0	(2)	(2)	(4)	0	0	(8)
(6)	Developer contributions (s.106)							0
(43)		**(43)**	**(61)**	**(24)**	**(22)**	**(13)**	**(19)**	**(182)**
81	**Net financing need for the year**	**8**	**7**	**8**	**11**	**2**	**1**	**37**
	Capitalisation Direction	223	84	66	47	33	23	476
	Total Financing Need for the Year	**231**	**91**	**74**	**58**	**35**	**24**	**513**

22. A major change this year from previous years is the inclusion of an additional line in Table 1 above to reflect the capitalisation direction being sought from the Department of Levelling Up, Housing and Communities (DLUHC). The purpose of the capitalisation direction is to allow the Council to classify revenue expenditure as capital expenditure – this is referred to as revenue expenditure funded from capital under statute (REFCUS). This allows the Council to then spread the cost of this expenditure over a number of years or finance from capital receipts.

23. As set out the Debt Recovery Strategy approved by Cabinet 20 September 2021, capital receipts generated from asset sales will be used:

- ➢ to finance the much reduced flexible use of capital receipts programme set out in the revenue budget report

- to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and
- to repay existing external debt and reduce the Capital Financing Requirement (CFR) and thus reduce the Minimum Revenue Provision (MRP).

24. The risks are that:

- slippage in the asset disposal programme could result in the need to set aside more MRP in the short-term pending receipts being realised;
- interest rates start to rise, thus increasing interest charges. This could be mitigated by fixing temporary borrowing through the PWLB to reduce the volatility from temporary borrowing rates.

Governance

25. All projects included in the capital programme have to have a full business case which is subject to approval by finance, legal, CLT and by the Commissioners before approval by Cabinet. The primary aim of this process is to ensure that any capital expenditure incurred is fully justified in the light of the need to reduce overall borrowing but also maintain service delivery. Consequently, there is a greater emphasis on schemes which are funded from capital grants or developer contributions.

Commercial activity

26. As well as investing in assets owned by the Council and used in the delivery of services, the Council can also invest, where appropriate, in:

- investment property for return;
- loans to third parties;
- shareholdings, and loans to limited companies and joint ventures

27. Such investments are treated as capital expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Annual Investment Strategy.

28. Currently the Council is invested in the following activities which fall within the category of commercial activity under the CIPFA Prudential Code:

- a substantial investment property portfolio currently valued at £95m, acquired under the direction of the now defunct Strategic Acquisition Board;
- loans to third parties totalling £77m - see Table 14 and paragraphs 116 to 122 below;
- investment in a number of Council companies summarised in Table 3 below.

29. The Council started investing in investment property in 2016/17 following Cabinet approval on 14 September 2015 to establish a Strategic Asset Board. From the outset, the Board had blurred objectives in that it was partly focussed on acquiring property for investment return and partly for acquiring property for regeneration. There were no targets set for returns or other performance measures.

30. CIPFA's guidance Prudential Property Investment issued 2019 advises that the following key issues should be taken into account when considering directly investing in property:

Key issue	Assessment	Actions taken
Transparency and democratic accountability -proposals should be compliant with the investment strategy;	The investment strategies have lacked targets for proposals to be measured against	Draft performance benchmarks set out in Table 2 below
Contribution – the contribution that investments make toward service delivery should be disclosed;	Gross rental income of £5.7m was disclosed in the 2021/22 Investment Strategy but not the contribution net of costs including operating and capital financing costs	Gross rental income for 2021/22 is £7.2m. Capital financing charges are £6.2m. The value of investment property fell by £1.6m. This is an overall net loss of £0.6m on a portfolio costing £138m
Performance indicators should be published to allow Members and the public assess the authority's risk exposure	The only indicator published in the 2021/22 Investment Strategy was gross yield of 5.78%, but takes no account of changes in market value of the investment property.	Performance set out in Table 2 below
Security – there should be a process in place for assessing risk of loss before entering into a transaction, including any security obtained	No demonstrable process in place	Due diligence process to include credit rating and company searches of all new tenants
Liquidity – the investment strategy should set out the procedures for accessing funds invested in property when needed	No exit strategy	The Council has approved an asset disposal strategy to realise capital receipts to reduce borrowing costs.
Proportionality – procedures for assessing the maximum amount that the revenue budget could reasonably support in terms of rent shortfalls	No assessment of the risk of loss to the revenue budget	At £7.2m rental income from investment property is 7% of the net revenue budget before the capitalisation direction.
Capacity, skills and culture – capacity of Members and officers to manage an investment property portfolio	No evidence that the capacity, skills and knowledge of Members and officers to manage an investment portfolio had been considered or the evidence to support such an assessment	Member training to be provided

31. Income generated from the investment property portfolio in 2021/22 is £7.2m per annum or 5.2% based on the cost of the assets. However this is a gross return and does not take account of the fact that the assets have all been acquired through borrowing, so are fully leveraged, and have suffered an 5% fall in value. Because the investment properties were acquired by borrowing, any returns would need to cover the full costs of capital finance (i.e. interest and MRP) plus operating costs (i.e. maintenance, insurance, rent concessions etc) before they generated a positive rate of return. This would mean generating a return of at least 5.5%.

32. The Statutory Guidance on Local Government Investments issued by the DCLG in 2018 requires local authorities to develop quantitative indicators to allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. Set out in Table 2 below is a range of key performance indicators recommended in the Guidance.

Table 2 Performance indicators

Indicator	Benchmark	Performance
Commercial income to net service expenditure		7%
Investment cover ratio	more than 3	1.36
Loan to value ratio	less than 80%	106%
Benchmark returns	5.00%	-0.60%

33. Because the investment portfolio has been entirely acquired using borrowing:

- investment cover ratio measures the extent to which investment income net of expenses cover interest expense. Good practice is that this should be in excess of 3 and that 2 is the minimum acceptable amount. The Council's investment cover ratio is below the minimum acceptable amount

- the loan to value ratio is more than the value of the assets. This is because the Council solely used borrowing to finance the acquisitions and values have fallen since acquisition. Consequently, the Council is at risk of realising losses of £9m from disposing of the investment portfolio at current values

- the rate of return on investment on the investment property portfolio is a negative c0.50%. Although the Council did not set a target, local authority pension funds with direct property investments typically have benchmark targets of around 5%.

34. Paragraph 51 of the Prudential Code 2021 states that to comply with the Code an authority must not borrow to invest primarily for financial return. Paragraph 53 of the Code goes onto say that authorities should not automatically exit such investments but seek to rebalance their portfolios.

35. As demonstrated in Table 2 above, against all the recommended performance indicators, the Council's investment property portfolio is performing significantly below the benchmark rate of return. Based on the above performance, notwithstanding that there is a potential unrealised loss of £7m, the investment property portfolio is a cost to the Council rather than generating a return. Therefore, the investment property will be included in the asset disposal programme. This will ensure full compliance with the Prudential Code.

36. The Council's investment in companies is summarised in Table 3 below. The Council has Board representation on all companies. However, there is no overall coordination of oversight of the Council's involvement in companies.

Table 3 Investment in Council companies

Company name	Share ownership	Nominal value £	Net worth 31/3/2021 £000s
Subsidiaries			
Slough Asset Management Ltd	100%	1	Dormant
James Elliman Homes **	100%	1	(630)
Herschel Homes Ltd	100%	1	Dormant
Ground Rent Estates 5 Ltd **	100%	455,001	21
Development Initiative for Slough Housing Co Ltd	100%*	1	0
DISH RP FP Ltd	100%	2	Dormant
DISH CLS Ltd	100%	2	Dormant
Slough Children First Ltd **	100%*	1	0
Slough Direct Services Ltd	100%	100	Dormant
Joint Venture			
Slough Urban Renewal LLP ***	50%	100	9,478
Associate			
DISH RP Ltd.	24%*	1	Dormant
Total		**455,211**	**8,869**

* companies limited by guarantee rather than share capital. The Council controls these companies via voting rights

** Net worth based on 2019/20 accounts as 2020/21 accounts not yet published

*** net worth shown is the Council's 50% share

37. 6 out of the 11 companies in Table 3 are dormant. Review of the companies as part of the accounts closedown indicates that there was no clear strategy for creating companies nor exiting them. As part of the Finance Action Plan, the dormant companies are being closed down.

38. The Council is not dependent on income generated from the companies, as they are generally not making a substantial return primarily for delivering service policy objectives for the Council. The investment in SUR was to deliver a return arising from profit distributions from site developments and has delivered a return in previous years. However, the performance of the companies represent a substantial financial risk to the Council:

- James Elliman Homes – the company is breaking even but has £51.7m of borrowing from the Council all secured on property owned the company, and has significantly higher levels of rent arrears from its tenants, than compared with the HRA;

- GRE5 – the loan agreement has yet to be executed, and there is uncertainty over the extent to which the loan advances will be recoverable from the company. Therefore, there may be a need to impair the loan by up to £3.6m;

- Slough Urban Renewal – the company has accumulated substantial costs, which would ordinarily be recoverable from future asset sales. However, given that the Council is looking to sever its involvement with SUR, then the Council will have to bear its half of the accumulated costs – estimated to be £4m.

Capital Financing Requirement (CFR)

39. The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

40. In addition to traditional capital expenditure on tangible assets, such as buildings, the CFR includes PFI schemes and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these contracts include an element of the charge to repay the financing provided by the PFI provider or the lessor. Consequently, the Council is not required to separately borrow for these schemes. At 31 March 2021, £35.8m of the CFR was in respect of PFI schemes and finance leases.

41. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

42. Table 4 shows that the CFR will increase over the medium term. The major contributor to the £187m increase in the General Fund CFR in 2021/22 is the £223m Capitalisation Direction (see Table 1 above) which is necessary to avoid the Council's General Fund being in deficit for understated costs in the years to 2021/22. The CFR is forecast to peak at £916m in 2022/23. The size of the CFR is a major driver in the amount required to be charged to council tax as MRP.

Table 4 Capital Financing Requirement forecast (Prudential Indicator 2)

2020/21 Actual £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
	CFR as at 31 March						
532	General Fund	720	730	692	612	504	398
194	HRA	184	187	195	204	204	204
726		**904**	**917**	**887**	**816**	**708**	**602**
	Annual change						
	General Fund	188	10	(38)	(80)	(108)	(106)
	HRA	(10)	3	8	9	0	0
0		**178**	**13**	**(30)**	**(71)**	**(108)**	**(106)**
	Reason for change						
	Net financing	8	7	8	11	2	1
	Capitalisation Direction	223	84	67	47	33	22
	Less repayment of debt	(35)	(50)	(75)	(100)	(119)	(112)
	Less MRP	(18)	(28)	(30)	(29)	(24)	(17)
0	**Net financing**	**178**	**13**	**(30)**	**(71)**	**(108)**	**(106)**

43. It should be noted that the 2020/21 figure of £726m for the CFR is provisional pending completion of the statement of accounts.

44. Table 5 below confirms that the Council's gross debt is not forecast to exceed the total of the CFR in the preceding year (i.e. 2021/22) plus the estimates of any additional CFR for current year and the following financial years (i.e. 2022/23 and succeeding years).

45. However, actual gross debt in 2020/21 exceeded the CFR by £46m. Whilst it is possible that sometimes external borrowing might exceed the CFR on a temporary basis, this is very unusual and indicates that the Council could have been borrowing for a revenue purpose. The Capital Strategy and the Treasury Management Strategy were prepared independent of each other in 2021 leading to the above position. Because there has been limited headroom

between the CFR and total borrowing in previous years, it meant that borrowing always ran the risk of exceeding the CFR. Had the Council continued with the capital programme and additional borrowing required as set out in the capital programme approved in March 2021, then the Council's borrowing would have exceeded the CFR for the period of that programme (i.e. 4 years). Hence it has been necessary to limit all new borrowing for capital expenditure in 2021/22 to all but essential works.

Table 5 Borrowing compared to the CFR (Prudential Indicator 3)

2020/21 Actual £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
772	Gross Projected Debt	675	615	529	414	303	258
726	Capital Financing Requirement	904	917	887	816	708	602
(46)	**Under/(over) borrowing**	**229**	**302**	**358**	**402**	**405**	**344**

46. The impact of the Capitalisation Direction is to restore the headroom between external borrowing and the CFR. Normally this would indicate that the Council has funded capital expenditure from internal borrowing. In Slough's case it reflects that the Council has had to capitalise £223m of revenue expenditure, which will then have to be repaid over the next 20 years or financed from capital receipts.

Affordability

47. The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, highlight the impact of capital financing costs (i.e. MRP and interest) on the Council's "bottom line". The estimates of financing costs include current commitments and the proposals in the Council's budget report. Table 6 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

Table 6 Ratio of capital financing costs to income (Prudential Indicator 4)

2020/21 Actual %		2021/22 Forecast %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
14.36%	General Fund	17.82%	27.87%	29.08%	27.24%	22.53%	16.17%
39.80%	HRA	38.54%	38.29%	37.79%	36.65%	37.21%	37.12%

48. For the medium-term, capital financing charges (loan interest, MRP and finance and PFI payments net of interest receivable) for the General Fund capital programme are forecast to exceed 20% of income receivable. By way of comparison, the ratio of capital financing charges for the General Fund and HRA at other unitary authorities tends to be around 5-7% and 25-33% respectively. Therefore, whilst the HRA ratio is roughly in line with other housing authorities, the General Fund ratio is considerably more and is a major pressure on the revenue budget.

49. Expressed as a percentage of the net revenue budget capital financing charges (excluding interest receivable) will exceed 30% for the next three years as shown Table 7 below. This is the result of the Council's over-ambitious capital programmes since 2016/17. The forecasts in Tables 6 and 7 are heavily dependent on capital receipts being generated from the asset disposal strategy. If receipts are not generated in the quantum forecast or to time, then the Council budget will continue to be heavily weighted to servicing the debt that has built up since 2016.

Table 7 Ratio of capital financing charges to net revenue budget

2020/21 Actual %	2021/22 Forecast %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
19.95%	24.18%	32.32%	33.33%	31.31%	26.21%	19.40%

50. The capital financing charges arising from the HRA capital programme increase in line with the forecast increase income, hence capital charges as a proportion of the HRA net revenue stream remain fairly steady. Table 6 shows a slight decrease of 2% between the outturn for 2020/21 and the five year estimate to 2026/27. This is because the increase in depreciation charges (which fund the Major Repairs Reserve) are expected to track the overall increase in rental income. As the HRA is statutorily ring-fenced there are no consequences for the General Fund arising from the HRA capital programme.

Minimum Revenue Provision Policy Statement

51. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

52. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.

53. Regulation 28 of the 2003 Regulations requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.

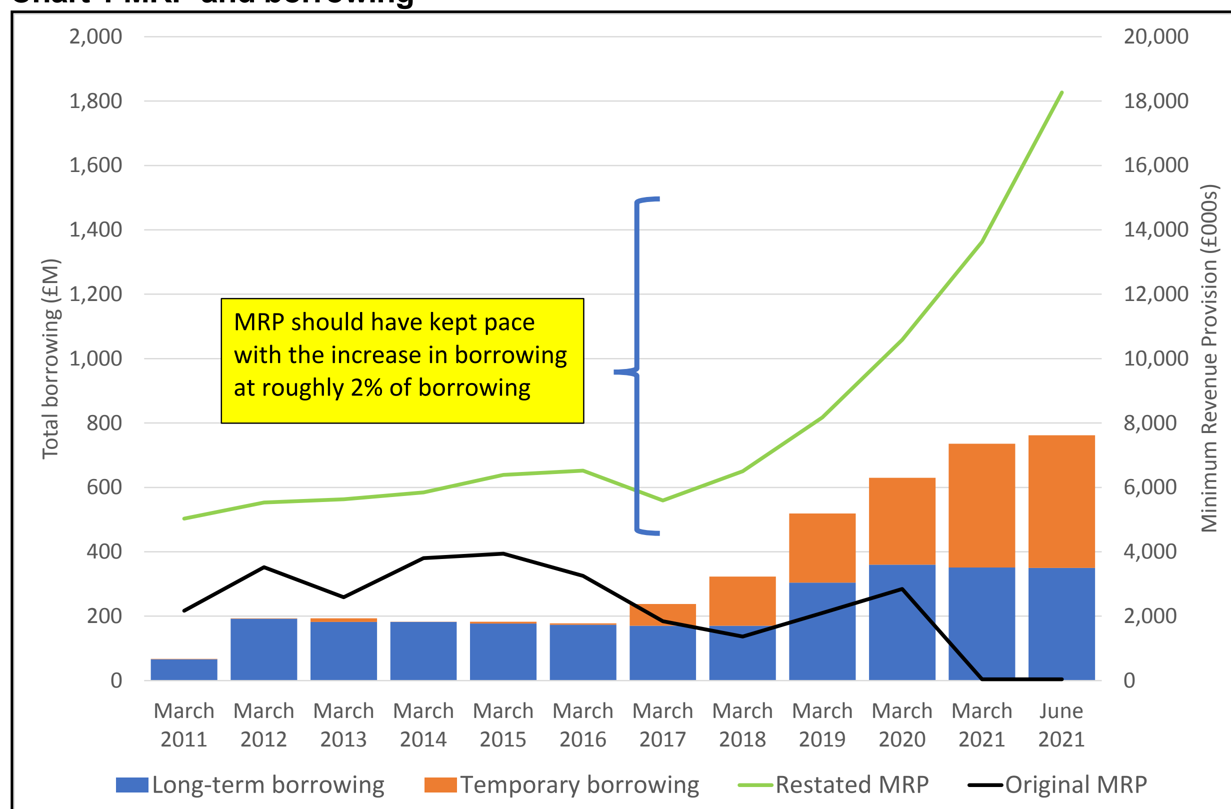
54. In setting a prudent level of MRP local authorities must "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

55. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

56. Therefore, the implication is that MRP bears a relationship to the overall level of borrowing of the Council. In other words if borrowing increases, the MRP should increase.

57. However, as Chart 1 below shows the MRP policy and the application of the policy have resulted in a material understatement of MRP for a number of years. The MRP charged or budgeted to be charged is the black line in the chart and the green line shows what the MRP charge should have been by correctly applying the MRP policy and complying with statutory guidance.

Chart 1 MRP and borrowing



58. The Guidance sets out four "possible" options for calculating MRP, as set out below,

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

59. Two main variants of Option 3 are set out in the Guidance (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge towards the later part of the asset's expected useful life and is increasingly becoming the most common MRP option for local authorities.

60. The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include:

Example	**MRP amortisation period**
Revenue expenditure capitalised under Direction from the Secretary of State	20 years
Loans or grants to third parties for capital purposes	Life of assets being financed by loan
Purchase of shares in limited companies	20 years

61. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

62. The Council approved an MRP policy for 2021/22 as part of its Capital Strategy on 8 March 2021 which in summary comprised:

- calculating MRP on all unfinanced capital expenditure using the annuity method under Option 3;
- setting MRP on finance leases and PFI schemes equivalent to the principal repayment element of the contracts;
- deducting the "saving" of £3.6m (amortised over 10 years) which would have applied had the Council used the annuity method prior to 1 April 2016, when it changed MRP policy; and
- using capital receipts to fund the MRP calculated.

63. The policy approved did not comply with legislation nor was it in line with the Statutory Guidance on MRP as follows:

- the use of capital receipts is prescribed in Regulation 23 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended. Primarily this is to finance capital expenditure or repay borrowing. It does not extend to meeting revenue expenditure, including MRP;
- the Statutory Guidance on MRP explains that Option 3 should only be used for self-financed borrowing (i.e. borrowing not supported from Revenue Support Grant [RSG]). Therefore, it should not have been applied to the £48m of supported borrowing outstanding at 31 March 2016, but should have continued to be calculated using Option 1 or 2;
- the Statutory Guidance states that changes in MRP policy should only be applied prospectively from the date of change. Therefore, deducting the "saving" of £3.6m did not comply.

64. Paragraph 19 of the Statutory Guidance on MRP permits the MRP policy to be amended during the year provided this is presented to full Council for approval. In view of the non-compliance issues highlighted in paragraph 63 above, the MRP policy has been amended to take effect from 1 April 2021. The changes are:

- MRP on supported borrowing will be calculated using Option 1 i.e. 4% of the closing Capital Financing Requirement from the previous financial year;
- MRP on unsupported borrowing will be calculated using the annuity method under Option 3.

65. Both changes bring the Council MRP policy in line with the Statutory Guidance on MRP. In addition, the deduction of the "saving" and the use of capital receipts to fund MRP will be reversed.

Application of the MRP policy

66. Notwithstanding that the Council had approved MRP policies in the past, the actual calculation of the MRP charge in previous financial years did not comply either with the approved policy nor the Statutory Guidance as follows:

- MRP should be based on the amount of capital expenditure which is unfinanced (i.e. capital expenditure which has been incurred but not financed from capital receipts, capital

grants, developer contributions or revenue contributions). However, since 2012/13, the MRP calculation has been based on the net change in borrowing in the year rather than capital expenditure incurred. This is a fundamental error of principle;

- the asset life method under Option 3 aligns MRP with the useful life of the asset. Although the approved MRP Policy was to calculate MRP based on asset lives, the MRP calculation has been based on the total net change in borrowing (see above) divided by the maximum asset life of the Council's assets i.e. 50 years. This approach has resulted in the average asset life used for MRP being significantly overstated (the average asset life is about 23-27 years), and consequently MRP being materially understated;
- when the Council changed MRP policy in 2016/17 to the annuity method, the MRP calculation omitted charging MRP on the residual CFR as at 31 March 2016; and
- the discount rate used in the annuity calculation of MRP did not vary with the life of the assets being financed nor did it link back to evidence of an appropriate interest rate. Although the term "appropriate interest rate" is not defined in the Statutory Guidance on MRP, the rate should reflect the rate for equivalent borrowing at the beginning of the year when MRP starts. Therefore given that the majority of the Council's borrowing is maturity borrowing, MRP has been recalculated using the certainty rate for new maturity loans offered by the PWLB at 1 April of the year when MRP started with the rate reflecting the asset life of the asset.

67. The failure to calculate the MRP in line with the policy is an accounting error. As the sums are material, the error has had to be corrected in previous financial years as a prior period adjustment of £26.8m in the 2018/19 accounts. The cumulative understatement of MRP for the period 2008/09 to 2021/22 is £70.031m including the prior period adjustment.

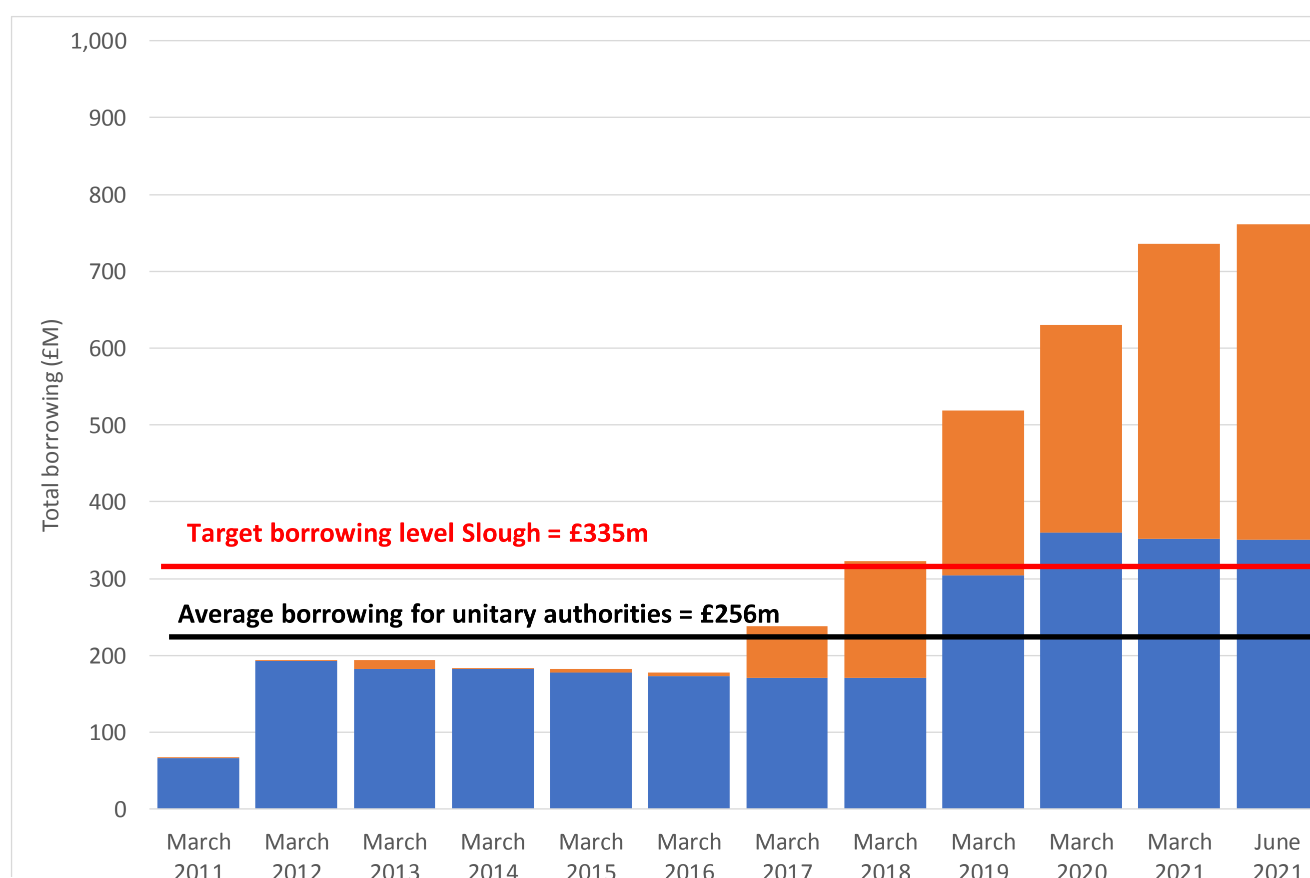
SECTION 2 - BORROWING

Overall borrowing strategy

68. One of the main functions 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 that 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. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

69. The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Since 2016/17 the Council's borrowing strategy has been to use temporary borrowing from other local authorities to fund the capital programme as shown in Chart 2 below.

Chart 2 Total borrowing to date



70. Whilst this approach has served the Council well in keeping interest costs down compared with fixing borrowing through the PWLB, it is not a sustainable approach long-term, because the principal of the loans must be repaid at some point in time.

71. In addition, this approach presents risk in that the Council may not be able to continue to borrow at low rates from other local authorities, and therefore potentially have to replace temporary borrowing at with fixed term borrowing at short notice which may not provide value for money.

72. Following the s.114 notice the number of local authorities willing to lend to the Council reduced a little. Notwithstanding this, the Council has been able to continue to renew and obtain new

temporary loans from other local authorities. However it remains a risk that the temporary loan market may not be as accessible in the future.

73. The capital strategy approved 8 March 2021 would have seen external borrowing increase to circa £900 million by 31 March 2022. This is three times the level which a local authority the size of Slough Borough Council can reasonably sustain of £335m.

74. In response to the s.114 notice and the Finance Action Plan, the capital programme for 2021/22 has been pared back so that only essential capital work is undertaken and that so far as possible all projects are fully funded from sources other than external borrowing.

75. Accordingly, the key factors influencing the 2022/23 strategy are:

- the need to reduce borrowing to a sustainable level,
- the current economic and market environment, and
- interest rate forecasts.

76. The Council is currently maintaining a fully borrowed position (excluding the capitalisation direction). This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This strategy is not considered prudent because it means that the Council is having to use a significant percentage of the net revenue budget to service the MRP and interest on the borrowing. Thus, reducing the ability of the Council to spend on service delivery.

77. Bearing in mind the risk posed by interest rates impacting on the Council's temporary borrowing portfolio, rates are monitored daily, to assess whether to lock into fixed rate borrowing from the PWLB. However, the risk with locking into PWLB borrowing is that the Council could end up paying premiums if it is able to repay borrowing before the maturity of the loan.

78. Currently rising inflation is driving interest rate rises. Inflation in January 2022 was at 4.6% - the highest rate for 30 years. The Bank of England is forecasting inflation to rise to about 6% in February and March 2022 peaking at around 7.25% in April 2022, but to then fall back to a little over 2% in two years time.

79. The Bank of England Monetary Policy Committee (MPC) increased base rate from 0.25% to 0.50% on 3 February 2022 in response to the rise in inflation. It is expected that base rate will rise to 0.75% at the next MPC meeting in March 2022, and will increase steadily to 1.25% by the end of 2022. Thereafter base rate is forecast to trend around 1.75% in 2023 and 2.00% in 2024.

80. If interest rates increase in line with expectations, then interest charges on borrowing could increase by £3.3m in 2022/23 and a further £1m in 2023/24. This makes it critical that assets are disposed of promptly through the asset disposal strategy to avoid the need to consider fixing interest rates by taking out fixed term loan debt.

Post-PWLB Interest Rate Change Borrowing Strategy

81. On 5 November 2020, the Public Works Loan Board (PWLB) reversed its decision to increase the cost of borrowing for local authorities for general fund purposes by 1%, bringing the rates offered in line with those for housing revenue account purposes. All new loans are therefore now subject to the relevant gilt yields +0.8% (certainty rate).

82. The Council's treasury management strategy permits borrowing from various sources, but it has not been previously anticipated that any alternatives to PWLB would need to be utilised, given the current low cost of PWLB funding.

83. The key advantage of PWLB is the speed and ease of transaction processing and the low fee and administration cost associated with the loans. Alternative types of funding could result in lengthy due diligence, consultancy costs, legal advice and fees and will be far more costly administratively.

Alternative Borrowing Options

84. There are a range of alternatives to borrowing from the PWLB, namely:

- commercial loans from banks
- pension fund institutional investors
- issuing a bond privately; or
- borrowing via the Municipal Bonds Agency.

85. However, given that the Council is having to seek a substantial capitalisation direction from central government in order to balance the budget lawfully, the Council is not an attractive proposition for other lenders. Therefore, these options are not available to the Council and the primary source of borrowing will remain the PWLB for fixed term borrowing (should the need arise to fix borrowing) and other local authorities for temporary borrowing.

86. Immediate liquidity needs can be satisfied by borrowing from other local authorities in the short term, consistent with the Council's current approved treasury management strategy.

Debt Reduction Strategy

87. In view of the unsustainably high level of borrowing highlighted in Chart 2 above, the strategy will be to use capital receipts from the asset disposal programme to repay borrowing. The loan portfolio at 31 March 2022 is forecast to be £640m and the target level would be to reduce borrowing by £366m bringing the Council's borrowing down to £305m (excluding PFI and finance lease liabilities), which would still be above average for unitary authorities – see table 8 below.

Table 8 external borrowing composition

31 March 2021 £m		31 March 2022 £m	Target borrowing £m
338	PWLB borrowing	315	315
13	Market loans	13	13
409	Temporary borrowing	312	7
760		**640**	**335**

88. The target capital receipts from asset sales over the next five years under the asset disposal programme are set out below. The aspirational aim for 2022/23 is to actually realise £100m of capital receipts, which would help improve the Council's financial position sooner.

Target asset sales	£m
2021/22	25
2022/23	50
2023/24	75
2024/25	100
2025/26	175
2026/27	175
	600

89. Although temporary borrowing bears much lower interest than PWLB borrowing, the short-term nature of the borrowing means that the loans can be repaid without incurring premiums for premature repayment. In contrast, if PWLB loans are repaid before their maturity date, the Council would be obliged to pay a premium to the PWLB as compensation for future interest foregone.

90. Therefore, the debt reduction strategy will be to use the target capital receipts to repay temporary borrowing in the first instance. This will save the Council interest in the medium-term and bring overall borrowing down below the target of £335m by 2025/26, as shown in Table 9 below.

Table 9 Borrowing projection

	31 March 2022 £m	31 March 2023 £m	31 March 2024 £m	31 March 2025 £m	31 March 2026 £m	31 March 2027 £m
External borrowing	641	582	498	385	276	233
PFI	30	29	28	26	24	23
Finance leases	4	4	3	3	3	2
Total borrowing	**675**	**615**	**529**	**414**	**303**	**258**

Limits on external borrowing

91. The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 10 below. The Authorised Limit has been increased in line with the CFR.

Table 10 Overall borrowing limits (Prudential Indicators 5a and 5b)

2020/21 Actual £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
	Authorised Limit:						
859	Borrowing and other long-term liabi	904	917	887	816	708	602
	Operational boundary:						
772	Borrowing	743	677	582	455	333	284
36	Other long-term liabilities	38	36	34	32	30	28
808	**Operational boundary:**	**781**	**713**	**616**	**487**	**363**	**312**

92. The limits are:

- **Authorised Limit for External Debt (Prudential Indicator 5a)** – This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. This has been set at the level of the CFR forecast in Table 6

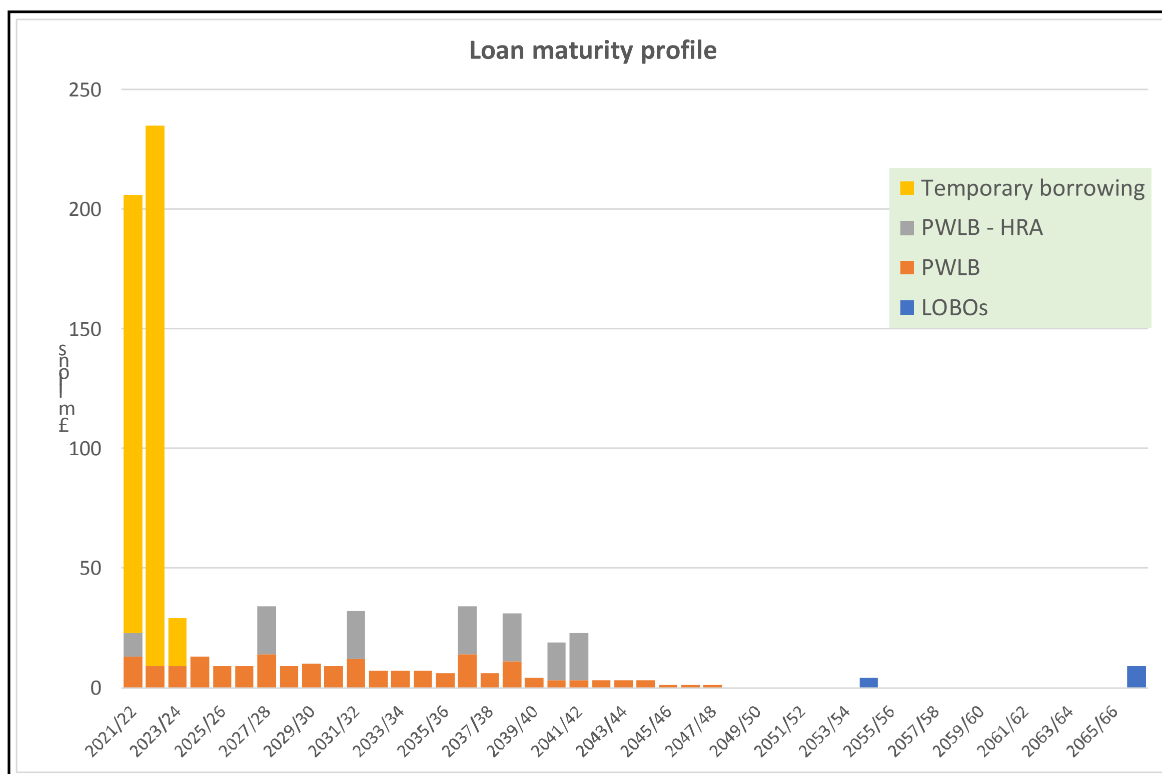
- **Operational Boundary (Prudential Indicator 5b)** – This is the limit which external debt is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years plus a tolerance of 10% on gross projected debt.

93. The Director of Finance reports that the Council complied with these prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Maturity structure of borrowing (Prudential Indicator 7)

94. Managing the maturity profile of debt is essential for reducing the Council's exposure to large fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost.

Chart 3 Maturity of borrowing



95. Table 11 below sets out current upper and lower limits for debt. The principal repayment profile for current council borrowing remains within these limits.

Table 11 Debt maturity profile limits (Prudential Indicator 7)

Actual maturity at 31 March 2021 %		Upper Limit %	Lower Limit %
55%	Under 12 months	70%	0%
1%	1 to 2 years	50%	0%
4%	3 to 5 years	35%	0%
9%	6 to 10 years	25%	0%
30%	more than 10 years	25%	0%
100%			

96. Table12 below sets out the upper limits for interest rate exposures.

Table 12 Interest rate exposures

	2021/22 Upper	2022/23 Upper	2023/24 Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	60%	50%

97. In the event that there is a much sharper rise in long and short term rates than currently forecast, then the balance of the loan portfolio will be revisited with a view to taking on further longer term fixed rate borrowing in anticipation of future rate rises – see paragraphs 65 and 66 above.

Policy on borrowing in advance of need

98. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

99. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism. There are no plans to borrow in advance of need while the Council reduces its overall borrowing over the next 5-6 years.

Debt rescheduling

100. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred).

101. The reasons for any rescheduling to take place will include:

- generating cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

102. Should an opportunity for debt rescheduling arise, it will be reported to the Audit and Governance Committee and full Council at the earliest meeting following its action.

SECTION 3 – MANAGING CASH BALANCES

The current cash position and cash flow forecast

103. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

104. As at 31 December 2021 core cash and short-term investments totalled £70.346m. The medium-term cashflow forecast is that it will remain around this level particularly while the Government provides Covid-19 funding for local businesses through grant support schemes channelled through local authorities. Treasury officers will work closely with the Corporate Finance team to monitor slippage within the capital programme and income through the Collection Fund, which will impact on cashflow levels.

Prospects for investment rates

105. Notwithstanding that base rate is forecast to rise to 2.00% by 2024 (see paragraphs 65 and 66), investment returns are likely to remain low during 2022/23 with little change in the following two years.

106. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid-19 crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on. It is expected that the surplus cash within the local authority market is likely to persist into 2022/23.

107. Money market fund (MMFs) yields remain low currently and are not expected to rise substantially.

108. Inter-local authority lending continues due to the plentiful levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government. However, borrowing rates are starting to increase in response to increases in base rate and inflation – currently rates for 12 month borrowing vary between 0.60% and 1.50%.

109. It is very difficult to say when investment returns from money market-related instruments may start rising so it may be best to assume that they will be sub 0.50% for the foreseeable future. Therefore, it may be preferable to invest temporarily with other local authorities in the event that the Council has surplus cash.

110. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are set out in Table 13 below (the long-term forecast is for periods over 10 years in the future):

Table 13 Forecast investment returns

Average earnings in each year	
2021/22	0.30%
2022/23	0.50%
2023/24	0.60%
2024/25	0.70%
2025/26	0.80%
2026/27	1.00%
Long-term later years	2.00%

Pension pre-funding payment

111. Prepaying pension fund contributions to the pension fund has been seen to provide a better rate of return than typical short-term investment returns for many local authorities for the past 15 years. The Council prepaid primary and secondary contributions to Berkshire Pension Fund for 2021/22 which achieved a return of 2.6%. This is significantly better than investment in the money market for 12 months which is currently generating less than 1%. Not only does prepaying pension fund contributions provide good value for money but it also reduces counter-party risk.

112. Berkshire Pension Fund will be offering employer authorities the option to prepay primary and secondary contributions in 2022/23 for one year, and in 2023/24 are likely to be offering employer authorities the option to prepay for three years. The advantage of prepaying for three years is that the authority benefits from the compounding of the discount offered over the three-year period, which would be equivalent to 4.8-5.3%.

113. Some audit firms have questioned the lawfulness of prepaying employers primary contributions as this would be contributions for pay not yet earnt. With this in mind, Berkshire Pension Fund would be encouraging member authorities considering prepaying both primary and secondary contributions to seek their own legal advice on the lawfulness of prepaying primary contributions.

114. The Director of Finance will enter into agreement with Berkshire Pension Fund to prepay secondary employer contributions to the Fund for 2022/23.

Council policy on investing and managing risk

115. The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but, at the same time, not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance.

Balancing short and long-term investments

116. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

117. The Council has long-term investments in the form of loans to third parties set out in Table 14 below. The loans to third parties generate an interest stream to the Council of £1.9m with an effective rate of 2.58%.

Table 14 Loans to third parties

Debtor	Balance outstanding at 31/3/2022 £000s	Interest receivable 2021/22 £000s	Rate %
James Elliman Homes Ltd	51,700	1,551	3%
SUR LLP - senior debt	3,109	418	5%
SUR LLP - loan notes	7,424	0	5%
GRE5 Ltd	9,339	N/A	N/A
Slough Children First Ltd	5,000	6	1.41%
St Bernards School	130	2	2.49%
Total	**76,702**	**1,977**	**2.58%**

118. No interest is receivable in respect of the loan to GRE5 Ltd regarding the de-cladding at Nova House, because the loan agreement has not yet been executed. In addition, review of the cashflows associated with GRE5 Ltd indicate that the loan limit of £10m approved in June 2021 may need to be increased to £12-15m. This is a risk to the Council as costs are continuing to be incurred without certainty of repayment.

119. The loans to James Elliman Homes Ltd, St Bernards School and Slough Children First Ltd have all been advanced at below commercial rates (known as soft loans).

120. All the loans are all for capital purposes, the Council incurs a Minimum Revenue Provision charge as these have all been financed from borrowing. The combination of MRP and interest mean that the Council is losing money on these loans. The only loan generating a net return is the senior debt loan to SUR.

121. Given the Council's financial position, any future loans to third parties should no longer provided as soft loans. Instead the interest rate charged should cover all the Council's capital financing costs (i.e. interest, MRP over the life of the loan plus 1% for risk).

122. For 2021/22 the Council set an upper limit of £79.458m for its longer-term investments based on the approved loan limits to James Elliman Homes and SUR LLP only. However, as Table 14 shows the Council has lent money to other organisations (GRE5, Slough Children First and St Bernards School) taking total loans outstanding to £77m. In addition, the Council has long-term investments in companies with a nominal value £0.5m. Therefore, the Council is close to the upper limit for long-term investments.

123. Notwithstanding that the Council's long-term investments of £77.5m are forecast to remain within the limits of £79.458m for 2021/22, it is proposed that the upper limit is increased to £90m to provide flexibility particularly if there are increases in the loan to GRE 5.

Table 15 Investment limits (Prudential Indicator 6)

	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Upper limit for principal sums invested for more than 364 days	79	90	90	90

SECTION 4 - SUMMARY OF PRUDENTIAL INDICATORS (PIs)

124. The purpose of prudential indicators (PIs) is to provide a reference point or "dashboard" so that senior officers and Members can:

- easily identify whether approved treasury management policies are being applied correctly in practice and,
- take corrective action as required.

125. As the Council's S151 officer, the Director of Finance has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

126. The Director of Finance has confirmed that the PIs set out below are all expected to be complied with in 2021/22 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the proposed indicators for 2022/23-2024/25.

PI Ref	Para ref	Prudential Indicator	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Proposed £m	2023/24 Proposed £m	2024/25 Proposed £m
1	21	Capital expenditure	124	51	68	32	33
2	42	Capital financing requirement	726	904	917	887	816
3	45	Net debt vs. CFR - under/(over) borrowed	(46)	229	302	358	402
4		Ratio of financing costs to revenue stream					
	47	General Fund	14.36%	17.82%	27.87%	29.08%	27.24%
	47	HRA	39.80%	38.54%	38.29%	37.79%	36.65%
5a	91	Authorised limit for external debt	859	904	917	887	816
5b	91	Operational debt boundary	808	781	713	616	487
6	123	Limit on surplus funds held for more than 364 days (i.e. non-specified investments)	61	79	90	90	90
7		Maturity structure of borrowing					
	95	Upper limit under 12 months	55%	70%	70%	70%	70%
	95	Lower limit 10 years or more	30%	25%	25%	25%	25%

SECTION 5 - LEGAL IMPLICATIONS

127. The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. The Council is also required to have regard to the CIPFA Treasury Management Code of Practice.

128. The CIPFA Treasury Management Code of Practice 2021 and the Secretary of State's Investment Code both require the Section 151 officer (Director of Finance) to present an Annual Treasury Management Strategy Statement, which includes an Annual Investment Strategy, for the forthcoming year for approval by the Full Council before the beginning of each financial year.

129. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions. The prudential and treasury indicators have to be set by the Full Council when the budget is set and are monitored during the year. The prudential indicators are included in section 4 of this report.

130. The Council is also required to approve a Treasury Management Policy Statement setting out the overarching framework for treasury management services within the Council. This statement is set out at paragraph 7 of this report and Appendix 5 sets out how the Council complies.

10. APPENDICES

1 Minimum Revenue Provision (MRP) Policy

2 Annual Investment Strategy

3 Approved Counterparty List

4 Approved Countries for Investments

5 CIPFA Treasury Management Code requirements including:

   a. Treasury Management Scheme of Delegation

   b. Treasury Management role of s.151 officer

BACKGROUND PAPERS

1. Treasury Management Strategy Statement 2021/22 (approved by Council 8 March 2021)
2. Capital Strategy and Capital Programme: 2021/22 to 2023/24 (approved by Council 8 March 2021)
3. CIPFA Prudential Code – Guidance Notes, 2017 and 2021
4. CIPFA Treasury Management Code - Guidance Notes 2017 and 2021

APPENDIX 1

Minimum Revenue Provision (MRP) policy statement

1. Having regard to current Guidance on MRP issued by MHCLG and the “options” outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2021:

   - For all supported borrowing, MRP will be calculated using Option 1, ie 4% of the closing CFR from the previous year;
   - all capital expenditure incurred since 2007/08 financed from unsupported borrowing, MRP will be based on expected useful asset lives (Option 3 – asset life), calculated using the annuity method;
   - asset lives will be arrived at after discussion with valuers, but on a basis consistent with depreciation policies set out in the Council’s annual Statement of Accounts, and will be kept under regular review;
   - MRP for finance leases and service concession contracts shall be charged over the primary period of the lease, in line with the Guidance,
   - for expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003 or Regulation 25(1) of the 2003 regulations, the ‘asset’ life should equate to the value specified in the statutory Guidance.

2. In applying ‘Option 3’:

   - MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the Statutory Guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational;
   - the estimated useful lives of assets used to calculate MRP should not exceed a maximum of 50 years except as otherwise permitted by the Guidance (and supported by valuer’s advice);
   - if no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life should be taken to be a maximum of 50 years.

APPENDIX 2

ANNUAL INVESTMENT STRATEGY

Investment policy

1. The Council's investment policy has regard to the following:

   - MHCLG' Guidance on Local Government investments (the "Guidance)
   - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
   - CIPFA Treasury Management Guidance Notes 2018

2. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The above guidance from MHCLG and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

   i. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

   ii. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings where applicable.

   iii. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

   iv. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

      - **Specified investments** are those with a high level of credit quality and subject to a maturity limit at the start of the investment of up to one year.

      - **Non-specified investments** are any financial investments that are not loans and do not meet the criteria to be treated as specified investments. These tend to be lower credit quality than specified investments and carry a higher degree of credit risk.

   v. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

   vi. This authority has engaged **external consultants**, (see paragraph 4-7 Appendix 5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

   vii. All investments will be denominated in **sterling**.

viii. As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

3. However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

4. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

5. After this main principle, the Council will ensure that:

- it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- it has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

7. Credit rating information is supplied by the Council's treasury advisors, Arlingclose Ltd. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing.

8. The Council takes into account the following relevant matters when proposing counterparties:

- the financial position and jurisdiction of the institution;
- the market pricing of credit default swaps for the institution;
- any implicit or explicit Government support for the institution;
- Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries; and
- core Tier 1 capital ratios.

9. Changes to the credit rating will be monitored and, in the event, that a counterparty is downgraded and does not meet the minimum criteria specified in Appendix 1, the following action will be taken immediately:

- no new investments will be made;
- existing investments will be recalled if there are no penalties; and
- full consideration will be given to recall or sale of existing investments which would be liable to penalty clause.

Specified and Non-specified investments

10. The MHCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on local authorities around the use of specified and non-specified investments.

11. A specified investment is defined as an investment which satisfies all of the conditions below:

- the investment and any associated cash flows are denominated in sterling;
- the investment has a maximum maturity of one year;
- the investment is not defined as capital expenditure; and
- the investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

12. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. In addition to the long-term investments listed in the table at the end of Appendix 1, the following non-specified investments that the Council may make include:

- **Green Energy Bonds -** Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning and legal aspects.

- **Social Housing Bonds** – Various fund managers facilitate the raising of financing housing associations via bond issues. The investment is therefore asset backed and provides enhanced returns. Officers will need to undertake due diligence on each potential investment in order to understand the risks and likelihood of default. This is a type of vehicle a number of local authorities are involved which not only helps to meet a local authority's statutory duty to house the homeless, but also provides a return in excess of short-term investment rates.

- **Loans** - The Council will allow loans (as a form of investment) to be made to organisations delivering services for the Council where this will lead to the enhancement of services to the Council's Stakeholders. The Council will undertake due diligence checks to confirm the borrower's creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type, risk and duration of the loan. A limit of £60 million for this type of investment is proposed with a duration commensurate with the life of the asset and Council's cash flow requirements. All loans will need to be in line with the Council's Scheme of Delegation and Key Decision thresholds levels.

- **Shareholdings in limited companies and joint ventures** – The Council currently invests in two forms of company:

  i. Trading vehicles which the Council has set up to undertake particular functions. These are not held primarily as investments but to fulfil Council service objectives. Examples include Slough Children First Ltd and James Elliman Homes Ltd. Any new proposals will be subject to due diligence as part of the initial business case. As these are not to be held primarily as investment vehicles, then there is an expectation that they will break even. Given that 7 out of the 11 companies that the Council has set up are dormant it is not envisaged that any new companies will be set up for the foreseeable future.

ii. Trading vehicles held for a commercial purpose where the Council is obliged to undertake transactions via a company vehicle. An example is the joint venture Slough Urban Renewal for undertaking regeneration of various sites across the council.

13. For any such investments, specific proposals will be considered by the Director of Finance after taking into account of the following:

- cash flow requirements
- investment period
- expected return
- the general outlook for short to medium term interest rates
- creditworthiness of the proposed investment counterparty
- other investment risks.

14. The nominal value of non-specified investments will be capped at £90m (see Table 12 above).

Country of Domicile

15. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

16. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch except the UK. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4. This list will be kept under review and any proposed changes to the policy reported to the next meeting.

Schedule of investments

17. The criteria for providing a pool of high quality short, medium and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are set out in Appendix 3.

18. Officers will monitor the impact of the UK's exit from the European Union on the names within the Council's counterparty list.

Other considerations

19. Sector limits will be monitored regularly for appropriate ness, to help mitigate concentration risk. This is the risk of having a significant proportion of the Council's investments in one sector of the market and that market failing.

20. To ensure sufficient liquidity, detailed cashflow forecasts will be kept by the Treasury team to provide as accurate a picture as possible of the movement and timing of income and expenditure and the resulting daily cash balances.

21. When considering placing investments or temporary borrowing, officers will refer to the cashflow forecast to determine the best duration for the transaction.

22. Under the Markets in Financial Derivatives II Directive (MiFID II), the Council would be classed as a retail investor with an option to opt-up to professional status. The Council opted up to professional status in 2017.

APPENDIX 3
Approved counterparty list

	Minimum credit criteria	Max % of total investments/ £ limit per institution	Max. maturity period
Specified Investments			
DMADF – UK Government	N/A	100%	6 months*
Money market funds: CNAV and VNVAV	AAA	100%	Daily Liquidity
Local authorities	N/A	100%/£20m	10 years
Lloyds Bank plc (the Council's bankers)	A+	£20m £5m	Overnight deposits ** Up to 12 months
Term deposits with banks and rated building societies	A+		Up to 3 years
Current and Ex - Government Supported banks	A+	50%	Up to 1 year
Non-specified investments			
UK Government supported banks and Ex- Government supported banks	n/a	£70m or 50% of total investments	3 yrs.
Pooled Vehicles: Enhanced Money Market Funds: UK Government and Government Guaranteed securities Pooled Property Funds Short – Term Investment – grade sterling denominated instruments	N/A	£25m	4yrs

* DMO – is the maximum period offered by the Debt Management Office of H.M.Treasury

** Over £20 million with the explicit agreement of the Director of Finance

APPENDIX 4

APPROVED COUNTRIES FOR INVESTMENTS

1. This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Lowest available rating	Approved Country
AAA	Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland USA
AA+	Canada Finland
AA	Abu Dhabi (UAE) France
AA-	Belgium Hong Kong Qatar United Kingdom

APPENDIX 5
CIPFA TREASURY MANAGEMENT CODE

1. The Council has formally adopted CIPFA's Code of Practice on Treasury Management 2021 and complies with the requirements of the Code as detailed in this Appendix. There are no changes to the requirements formally adopted in the 2017 update with regard to reporting which are summarised below:

    - Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.

    - Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives.

    - Presenting the Full Council with an annual TMSS statement, including an annual investment strategy and Minimum Revenue Provision policy for the year ahead (this report) a half year review report and an annual report (stewardship report) covering compliance during the previous year.

    - A statement of delegation for treasury management functions and for the execution and administration of statement treasury management decisions. (see below)

    - Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At Slough Borough Council this role is undertaken by the Audit and Governance Committee

Knowledge and Skills

2. The Council uses the knowledge and skills of its officers when considering treasury investment and borrowing decisions and where necessary it also relies on the expert knowledge of specialist external advisors.

3. Finance staff are professionally qualified to advise the Council on all areas of finance. Included within the team is an officer with specialist knowledge of treasury management. All finance staff undertake Continuous Professional Development and maintain knowledge and skills through regular technical updates from appropriate bodies and attending specialist courses. Staff follow the Treasury Management Practices approved by the Director of Finance.

4. Training for Members on treasury management matters does not appear to have occurred in the past year. A programme of training is being developed and will be open to all Members to assist in their understanding of the treasury management strategy.

Treasury management consultants

5. The Council uses Arlingclose Ltd as its external treasury management advisors.

6. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance

is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

7. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

8. The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council uses Arlingclose Ltd in relation to this activity.

Treasury Management Delegations and Responsibilities

9. The respective roles of the Council, Audit and Governance Committee and Section 151 officer are summarised below. Further details are set out in the Treasury Management Practices.

(i) Full Council

- Approval of annual strategy, mid-year review and Annual Report

(ii) Director of Finance

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.