APPENDIX A

Treasury Management Report Q1 2023/24

Introduction

In 2003 the Council 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 Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This quarterly report provides an additional update and includes the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators.

The Council's treasury management strategy for 2023/24 went to Cabinet for recommendation on 27th February 2023 and to Full Council on for approval on 9th March 2023. The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

External Context – Provided by External Advisors Arlingclose

Economic background: From the start of the quarter until May it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger and more persistent inflation data, particularly in the UK, changed the picture.

The UK situation was not welcome news for the Bank of England. GDP growth was weak, confirmed at 0.1% in Q1, although more recent monthly GDP data has been somewhat better. The housing market has stalled, consumer demand is weak but seemingly recovering despite higher interest rates, and labour demand remained strong, with repercussions for wage growth which is accelerating.

April data showed the unemployment rate increased to 3.8% (3mth/year) while the employment rate rose to 76.0%. Pay growth was 6.5% for total pay (including bonuses) and 7.2% for regular pay, the largest growth rate of the latter outside of the Covid pandemic. Once adjusted for inflation, however, growth in total pay and regular pay remained negative.

Inflation fell from its peak of 11.1% reached in October 2022, but annual headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. At both meetings the vote was 7-2 in favour of increasing rates, with the two dissenters preferring to keep rates on hold.

Interest rate expectations priced in further hikes in policy rates. Arlingclose, the Council's treasury adviser, revised its forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates at the end of their fixed rate period, there has been a lagged effect of the feed through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite the GfK measure of consumer confidence rising to -24 in June, it is likely confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually feed into services, whose expansion is slowing.

Despite the US Federal Reserve increasing its key interest rate to 5.00-5.25% over the period, activity in the region continued to defy monetary tightening, particularly in labour markets which have so far appeared robust, supporting the Fed's assertations of two more rate hikes after it paused in June. Annual US inflation continued to ease, falling from 4.9% in April to 4.0% in May, the lowest level since March 2021. US GDP growth at 2% annualised in the first calendar quarter of 2023 was also significantly stronger than expected against the initial estimate of 1.3%.

In the euro zone, the picture was somewhat different. The European Central Bank maintained its hawkish tone and increased its key deposit, main refinancing, and marginal lending interest rates to 3.50%, 4.00% and 4.25% respectively. There were signs of weakening activity, particularly in Germany whose manufacturing sector has taken a hit from high energy prices and weaker global demand. However, inflation remained sticky, annual headline CPI fell to 5.5% in June while annual core inflation rose to 5.4% from 5.3%, which means the ECB is unlikely to stop monetary tightening.

Financial markets: Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%. The Sterling Overnight Rate (SONIA) averaged 4.37% over the quarter.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days.

Over the period S&P upgraded NatWest Group and related entities to A+ (except NatWest Markets which was upgraded to A), revised the UK sovereign outlook to stable from negative, and upgraded both Barclays Bank PLC and Barclays Bank UK PLC to A+.

Fitch put the US sovereign rating on Rating Watch Negative following increased political partisanship which at the time was hindering the latest resolution to raise the debt ceiling. It also upgraded the outlook on United Overseas Bank to stable, the outlook on Clydesdale to positive, and the outlook on Bank of Montreal to stable.

Moody's withdrew Guildford BC's rating (who chose not to continue being rated) and affirmed the Aaa rating of the European Investment Bank.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress but made no changes to the counterparty list or recommended durations over the quarter. Nevertheless, heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Slough Borough Council Context

On 30th June 2023, the Council had net borrowing of £433m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m	**31.3.24 Forecast £m**
General Fund CFR	635	531
Housing Revenue Account CFR	174	174
Total CFR	**809**	**705**
Less: *Other debt liabilities	33.1	31.3
Borrowing CFR	**775.9**	**673.7**
External borrowing**	590.5	549.5
Internal/Under borrowing	185.4	124.2

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt
** shows only loans to which the Council is committed and excludes optional refinancing

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th June and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary (*)

	31.3.23 Balance £m	Movement £m	30.6.23 Balance £m	30.6.23 Rate %
***Long-term borrowing				
- PWLB	433.97	-13.62	420.4	3.11
- LOBOs	13.0	0.0	13.0	4.15
- Other				
***Short-term borrowing	143.5	-108.5	35.0	1.84
Total borrowing	**590.47**	**-122.12**	**468.35**	
***Long-term investments	119.0	-119.0	0	0
***Short-term investments	22.0	13.36	35.36	4.23
**Cash and cash equivalents				
Total investments	**141.0**	**-105.6**	**35.36**	
Net borrowing	**449.5**	**-16.5**	**433.0**	

subject to audit

**These are company's assets that are cash or can be converted into cash immediately. Cash equivalents include bank accounts and marketable securities such as commercial paper and short-term government bonds. Cash equivalents should have maturities of three months or less.

***Long term borrowing/ investments are repaid/matures over a period longer than a year.
Short -term borrowing/ investments are repaid/matures over a period shorter than or a year.

Borrowing Update

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 Council. Public Works and Loans 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.

The Council has not in this quarter invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in future.

The Council has reviewed its capital programme in light of the Prudential Code 2021 requirements and PWLB lending arrangements to ensure that borrowing to invest primarily for commercial return is no longer undertaken.

Borrowing strategy and activity

As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

There has been a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. In this quarter, Bank Rate rose from 4.25% at the beginning of April to 5.0% at the end of the quarter and was also significantly higher than its level of 1.25% at the end of June 2022.

Gilt yields faced upward pressure since early April following signs that UK growth has been more resilient and inflation stickier than expected. Consequently, PWLB borrowing rates continued to rise over the quarter. On 30th June, the PWLB certainty rates for maturity loans were 5.25% for 10-year loans, 5.36% for 20-year loans and 4.95% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

A new PWLB HRA rate which is 0.4% below the certainty rate has been made available from 15th June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

At 30th June 2023bthe Council held £468.35m of loans, a decrease of £122.12m compared to the position as at 31st March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.23 Balance £m	**Net Movement £m**	**30.6.23 Balance £m**	**30.6.23 Weighted Average Rate %**
Public Works Loan Board	433.97	-13.62	420.4	3.11
Banks (LOBO) Lender's Option Borrower's Option	13.0	0	13.0	4.15
Banks (fixed-term)	0	0	0	
Local authorities (long-term)	0	0	0	
Local authorities (short-term)	143.5	-108.5	35.0	1.84
Total borrowing	**590.47**	**-122.12**	**468.35**	

The Council's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Council's short-term loans at 30th June 2023 on £35m was 1.84%, this compares with 1.49% on £143.5m loans 3 months ago.

Table 3B: Long-dated Loans borrowed

	Repayment Method	Reference no	Loan Balance	Loan Rate
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	487800	1,000,000.00	4.45
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	488859	500,000.00	4.95
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	489227	5,000,000.00	4.70
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	490923	3,000,000.00	4.15
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	490924	5,000,000.00	4.15
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	494837	5,000,000.00	4.72
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	498000	4,000,000.00	3.67
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	498001	4,000,000.00	3.85
PWLB PUBLIC WORKS LOAN BOARD	EIP	507555	19,375,000.00	2.12
PWLB PUBLIC WORKS LOAN BOARD	EIP	507556	21,249,999.97	2.36
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	507959	20,000,000.00	2.59
PWLB PUBLIC WORKS LOAN BOARD	EIP	508164	15,500,000.00	2.08
PWLB PUBLIC WORKS LOAN BOARD	EIP	508766	42,000,000.00	2.22
PWLB PUBLIC WORKS LOAN BOARD	EIP	509380	20,000,000.00	1.69
PWLB PUBLIC WORKS LOAN BOARD	EIP	509540	9,966,666.69	1.40
PWLB PUBLIC WORKS LOAN BOARD	EIP	509818	13,913,043.47	1.07
PWLB PUBLIC WORKS LOAN BOARD	EIP	509819	25,000,000.00	1.85
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	509820	40,000,000.00	4.54
PWLB PUBLIC WORKS LOAN BOARD	MATURITY	607670	50,000,000.00	4.80
PUBLIC WORKS LOAN BOARD	MATURITY	500578	20,000,000.00	3.08
PUBLIC WORKS LOAN BOARD	MATURITY	500579	20,000,000.00	3.44
PUBLIC WORKS LOAN BOARD	MATURITY	500580	20,000,000.00	3.50
PUBLIC WORKS LOAN BOARD	MATURITY	500581	15,841,000.00	3.49
PUBLIC WORKS LOAN BOARD	MATURITY	500582	20,000,000.00	3.30
PUBLIC WORKS LOAN BOARD	MATURITY	500584	20,000,000.00	3.47
TOTAL PWLB			**420,345,710.13**	
BARCLAYS CAPITAL	MATURITY	164	4,000,000.00	4.76
DEXIA MUNICIPAL AGENCY	MATURITY	166	4,000,000.00	3.75
DEPFA ACS BANK	MATURITY	165	5,000,000.00	3.99
TOTAL LOBO			**13,000,000.00**	
TOTAL LOANS as at 30/06/23			**433,345,710.13**	

PWLB loans are repayable by one of three methods:

(i) Maturity: half-yearly payments of interest only, with a single repayment of principal at the end of the term.

(ii) EIP (Equal Instalments of Principal): equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

(iii) Annuity or ER (Equal Repayments): fixed half-yearly payments to include principal and interest.

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

LOBO loans: The Council continues to hold £13m 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 or to repay the loan at no additional cost. Maturity dates are between 2054 and 2066. No banks exercised their option during the year.

Other Debt Activity

Although not classed as borrowing, the Council also had £28.07m of PFI (Private Finance Initiative) finance for 2023/24 and £3.18m of finance leases.

After £1.81m repayment of prior years' liabilities, total debt other than borrowing stood at £31.25m on 30th June 2023, taking total debt to £499.6m.

Table 4: PFI & Leases

	2022/23	2023/24
Capital balance		
Building leases	3,519,001	3,180,481
PFI	29,542,965	28,072,925
	33,061,966	**31,253,406**
Repaid		
Building leases	(536,432)	(338,520)
PFI	(803,596)	(1,470,040)
	(1,340,028)	**(1,808,560)**

Treasury Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £141m and £35.36 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 5: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	30.6.23 Balance £m	30.6.23 Income Return %
Banks & building societies (unsecured)	0	0	0.16	
Government (incl. local authorities)	119.0	-98	21.0	4.52
Money Market Funds	22.0	-7.64	14.36	3.81
Total investments	**141.0**	**-105.64**	**35.52**	

Both the CIPFA Code and government guidance require the Council 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 Council'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.

The Bank of England Rate increased by 0.75%, from 4.25% at the beginning of April to 5% by the end of June, with the prospect of further increases to come. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of June and Money Market Rates between 4.70% and 4.83%.

Given the risk of short-term unsecured bank investments, the Council has invested mainly with DMADF & Low Volatility Money Market Funds.

Non-Treasury Investments

The definition of investments in the CIPFA's revised 2021 Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

Table 6: Non-Treasury Investments

Interest receivable 2022/23 £000s	Debtor	Balance at 30/6/2023 £000s	Interest receivable 30/06/2023 £000s	Rate %
1,551	James Elliman Homes	51,700	1,551	3%
144	SUR LLP - senior debt	0	144	5%
0	SUR LLP - loan notes	2,885	0	5%
598	GRE 5 Ltd	9,929	598	6%
71	Slough Children First Ltd	5,000	71	1.41%
2	St Bernards School	0	0	-
2,366		**69,514**	**2,364**	**3.40%**

Treasury Performance

The Council 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 7 below.

Table 7: Performance

	Actual £m	Budget £m	Over/ (under)	Actual % Interest rate
Total borrowing	468.35	468.35	0	
PFI and Finance leases	31.25	31.25	0	
Total debt	499.6	499.6	0	2.95
Total treasury investments	35.36	35.36	0	4.23
Net Debt	**433.0**	**433.0**	**0**	**3.59**

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 8 below.

Table 8: Investment Limits

	Minimum Credit Criteria	Max. % or amount per Institution	Max. Maturity Period	30.6.23 Actual	Complied? Yes/No
Specified Investments					
DMADF – UK Government	N/A	100%	6 mths	£21m	Yes
Money Market Funds	AAA	100%	Daily	£14.36m	Yes
Local Authorities	N/A	100%/£20m	10 yrs	0	Yes
Lloyds Bank plc (the Council's bankers)	A+	£20m £5m	Overnight Deposits** Up to 12mths	£159k	Yes
Term deposits with banks & rated building societies	A+		Up to 3 yrs	0	Yes
Current & Ex – Government Supported banks	A+	50%	Up to 1yr	0	N/A
Unspecified Investments					
UK Government supported banks	N/A	£70m or 50% of total investments	3yrs	0	N/A
Enhanced Money Market Funds	N/A	£25m	4yrs	0	N/A
Pooled Property Funds	N/A	£25m	4yrs	0	N/A
Short Term Investment grade Sterling instruments	N/A	£25m	4yrs	0	N/A

* DMO – is the maximum period offered by the Debt Management Office of HM Treasury
** Over £20 million with the explicit agreement of the Director of Finance

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 9: Debt and the Authorised Limit and Operational Boundary

	Q1 2023/24 Maximum	30.6.23 Actual	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied?
Borrowing	468.35	468.35	609	638	Yes
PFI and Finance Leases	31.25	31.25			
Total debt	**499.6**	**499.6**			Yes

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. Total debt was above the operational boundary for 0 days since 1st April 2023.

Treasury Management Prudential Indicators

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

1. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a rating to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a rating based on their perceived risk.

	30.6.23 Actual	**2023/24 Target**	**Complied?**
Portfolio average credit score	AAA	A	Yes

2. **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.6.23 Actual	**Upper Limit**	**Lower Limit**	**Complied?**
Under 12 months	17.3%	70%	0%	Yes
12 months and within 24 months	0.9%	50%	0%	Yes
24 months and within 5 years	15.0%	35%	0%	Yes
5 years and within 10 years	9.1%	25%	0%	Yes
10 years and above	57.7%	40%	0%	Yes

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.

3. Long-term Treasury Management Investments**:** The purpose of this indicator is to control the Council'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:

Actual principal invested for more than 365 days

	2023/24	**2024/25**	**2025/26**
Actual principal invested for more than 365 days	£0m	£0m	£0m
Upper limit for principal sums invested for more than 365 days	£90m	£90m	£90m
Complied?	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.