

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 14th October 2019

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WARD(S): All

PORTFOLIO: Cllr. Hussain, Lead Member for Governance and Customer Services

PART I **NON-KEY DECISION**

TREASURY MANAGEMENT ANNUAL REPORT

1 Purpose of Report

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance. Members are requested to note the report which summarises treasury activity in 2018-19 and the first part of 2019-20.

2 Recommendation(s)/Proposed Action

The Cabinet is requested that the Treasury Management activities for 2018/19 and the beginning of 2019/20 as set out in the body of this report be noted.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan

The report helps achieve the Five Year Plan by contributing to the Council's overall financial planning processes.

4 Other Implications

(a) Financial

The Financial implications are contained within this report.

(b) Risk Management

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
Cabinet is requested that the Treasury Management	Counterparty risk- the risk that an institution the council has	The council will work closely with its Treasury advisors to	9	The council has made a conscious decision not to

activities for 2018/19 and the beginning of 2019/20 as set out in the body of this report be noted.	invested is failing or likely to fail resulting in credit loss. Interest rate risk- if interest rates rise the risk that the council will be subject to higher interest costs. If there is a reduction in interest rates or fund prices are affected by a worsening economy lower dividends from funds invested in and a depreciation of the capital value.	mitigate interest rate risk. The council has an approved counterparty list contained in the Treasury Strategy setting out the institutions it can invest in, the maximum periods it can invest for and the total value for investing in individual institutions. This counterparty list is constantly under review by its Treasury advisors	put money in unsecured and low yielding banks and Building Societies deposits.
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Risk	Mitigating action	Opportunities
Legal	None	None
Property	None	None
Human Rights	None	None
Health and Safety	None	None
Employment Issues	None	None
Equalities Issues	None	None
Community Support	None	None
Communications	None	None
Community Safety	None	None
Financial: Detailed in the report and above	As Identified	Returns out perform the budgeted income
Timetable for delivery	None	None
Project Capacity	None	None
Other	None	None

(c) Human Rights Act and Other Legal Implications

None Identified

(d) Equalities Impact Assessment

No identified need for the completion of an EIA

5 **Supporting Information**

5.1 **Background**

- 5.1.1 The Treasury Management Strategy for 2018/19 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 5.1.2 The Code also recommends that members are informed of Treasury authority is embracing best practice in accordance with CIPFA's recommendations.
- 5.1.3 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 5.1.4 In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Authority to report on any financial instruments entered into to manage treasury risks. This report summarises treasury activity in 2018-19 and the first part of 2019-20.

5.2 **External Context**

5.2.1 **The Economic background**

UK Consumer Price Inflation (CPI) for June 2019 was 2.0% year/year, coming in at consensus and meeting the Bank of England's inflation target. The most recent labour market data for the three months to May 2019 showed the unemployment rate remain at a low of 3.8% while the employment rate of 76.0% dipped by 0.1%, the first quarterly decrease since June to August 2018. The 3-month average annual growth rate for pay excluding bonuses was 3.6% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.7%.

- 5.2.2 There was a rise in quarterly GDP growth in the first calendar quarter for 2019 to 0.5%, from 0.2% in Q4 2018 with stockpiling ahead of the (now delayed) 29th March Brexit distorting data. Production and construction registered positive output and growth, however at the end of June 2019, seasonally adjusted Market UK Construction PMI (Purchasing Manager's Index) logged a record-low figure of 43.1, suggesting that construction has suffered a largest contraction in output since April 2009. GDP growth was 1.8% year/year, however with the service sector slowing and a weaker global backdrop the outlook was for subdued growth.

- 5.2.3 Politics has been a big driver over the last quarter. The 29th March Brexit deadline was extended to 12th April and then to 31st October 2019: there is still no clear consensus as to the terms on which the UK will leave the EU. The struggling British high street has continued to dominate headlines with the Arcadia group being saved from collapse in June following an agreement for rent reductions from landlords. The car industry has also struggled in the UK and beyond with announcements of cuts to 12,000 jobs across Europe by Ford.
- 5.2.4 With the deterioration in the wider economic environment, compounded by Brexit-related uncertainty and the risk of a no-deal Brexit still alive, the speech by Bank of England Governor Mark Carney in early July signalled a major shift to the Bank's rhetoric and increased the possibility of interest rate cuts, rather than the Bank's erstwhile 'gradual and limited' rate hike guidance.
- 5.2.5 Globally, tensions between the US and China became progressively more fraught with US President Donald Trump threatening to more than double tariffs on some Chinese goods. There were also moves in both the US and UK to block or restrict access to markets by Chinese telecoms giant Huawei. Amid low inflation and a weak economy in the Eurozone Mario Draghi signalled in late June that another round of stimulus (QE) may be likely. The US and EU have also carved the path for interest rates to be cut in the future.
- 5.2.6 Financial markets: 2018 was a year to forget in terms of performance of riskier asset classes, most notably equities. However, since the beginning of 2019 markets have rallied, and the FTSE 100 is up over 10% in pure price terms for the first 6 months of the calendar year. Nearly all of these gains were realised in the last quarter of FY 2018/19, as Q1 2019/20 has only seen a modest increase of around 2%. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. Gilt yields fell - the 5-year benchmark gilt yield falling to 0.63% at the end of June from 0.75% at the start of April. There were falls in the 10-year and 20-year gilts over the same period dropping from 1.00% to 0.83% and from 1.47% to 1.35% respectively. Money markets rates stabilised with 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.60%, 0.68% and 0.92% respectively over the period. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. The US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) in March 2019 and this relationship remained and broadened throughout the period. History has shown that a recession hasn't been far behind a yield curve inversion. Germany sold 10-year Bunds at -0.24% in June, the lowest yield on record. Bund yields had been trading at record lows in the secondary market for some time, however the negative yield in the primary market suggests that if investors were to hold until maturity, they are

guaranteed to sustain a loss - highlighting the uncertain outlook for Europe's economy.

5.2.7 Credit background: Credit Default Swap (CDS) spreads fell slightly across the board during the quarter, continuing to remain low in historical terms. After hitting around 97bps at the start of the period, the spread on non-ring-fenced bank NatWest Markets plc fell back to around 82bps at the end of June, while for the ring-fenced entity, National Westminster Bank plc, the spread fell from 67bps to 58bps. The other main UK banks, as yet not separated into ring-fenced and non-ring-fenced from a CDS perspective, traded between 28 and 59bps at the end of the period. S&P upgraded RBS Group and its subsidiaries, including National Westminster Bank PLC, Nat West Markets PLC, The Royal Bank of Scotland and Ulster Bank Ltd. S&P raised the long-term issuer ratings by one notch due to RBS Group's strengthened credit fundamentals following a long period of restructuring. S&P believes the group and its subsidiaries have enhanced their capacity to manage the current UK political and economic uncertainties. There were minimal other credit rating changes during the period. Moody's revised the outlook on Barclays Bank PLC to positive from stable to reflect the bank's progress in its restructuring plans, including de-risking the balance sheet, improving its risk profile and profitability and resolving litigation issues in the US. Moody's also revised the outlook to stable from negative for Goldman Sachs International Bank, reflecting a slowdown in loan growth as well as a stronger revenue growth for sales and trading.

5.3 Debt Management

	Balance on 01/04/2018 £'000	Maturing Debt £'000	Transfers £'000	New Borrowing £'000	Balance on 31/03/2019 £'000	Increase/ (Decrease) in Borrowing £'000
CFR	434,564				552,936	
Short Term Borrowing ¹	152,000	(338,500)	5,083	394,500	213,083	61,083
Long Term Borrowing	170,341	(1,042)	(5,083)	140,000	304,216	133,875
TOTAL BORROWING	322,341				517,299	194,958
Other Long Term Liabilities	43,967	(2,246)			41,721	(2,246)
TOTAL EXTERNAL DEBT	366,308				559,020	192,712
Average Rate % / Life (yrs)	3.32% / 16.64yrs				2.06% / 13.59yrs	

5.3.1 The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31/03/2019 was £552.936 million.

5.3.2 The Authority's chief objective when borrowing money 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. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.3.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

5.3.4 At 1st April 2018 the Authority held £237.371 million of loans, as part of its strategy for funding previous years' capital programmes.

5.3.5 In July 2018, the council undertook £50m of long term PWLB borrowing in two tranches of £25m for twenty and thirty years and rates of 2.12% and 2.36% respectively. The loans were taken out on an Equal Instalment of Principal (EIP) basis meaning that the principal amount is amortised over the life of the loan. The purpose of the borrowing was the replacement of short-term borrowing held with other local authorities to mitigate against the risk of potential interest rate rises. However there was no cost of carry as the application for new PWLB borrowing coincided with the purchase of the new Council Headquarters on 24th July 2018.

5.3.6 With short-term interest rates having remained much lower than long-term rates, it was more cost effective to borrow short term to fund capital expenditure. Short term borrowing will continue to be the most cost effective means of funding £118.372m of capital expenditure. However, the Council acknowledges that this position will not be sustainable over the medium term and the Authority expects it will need to borrow £107.977m for capital purposes by the end of 2019-20. Borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Authority's treasury advisor. While short term borrowing is

¹ Loans with maturities less than 1 year.

currently cheaper there is a risk that the council could be exposed to future interest rate rises. While interest rates are not expected to rise in the short term the council has converted some of its temporary borrowing into longer term PWLB borrowing in order to reduce its exposure to this interest rate risk. Most of the longer term borrowing has been on an Equal Instalment of Principle basis whereby a repayment of the principle sum is made every six months alongside an interest payment. The table below shows that a total of £178m longer term PWLB borrowing has been taken out since the start of the 2018-19 financial year- £140m in 2018-19 and £38m thus far in 2019-20. The council will continue to explore new opportunities to take out new longer term borrowing in order to reduce its exposure to interest rate rises in the future.

Loan Ref	Start Date	Maturity Date	Length of Loan Years	Principle	Interest Rate	Type	Principle Outstanding	Financial Year
507555	24/07/2018	26/07/2038	20	25,000,000	2.12	EIP	23,750,000	2018-19
507556	24/07/2018	24/07/2048	30	25,000,000	2.36	EIP	24,166,667	2018-19
507959	30/10/2018	30/10/2068	50	20,000,000	2.59	Maturity	20,000,000	2018-19
508164	11/12/2018	13/12/2038	20	20,000,000	2.08	EIP	19,500,000	2018-19
508766	14/03/2019	14/03/2044	25	50,000,000	2.22	EIP	50,000,000	2018-19
509380	21/06/2019	21/06/2039	20	25,000,000	1.69	EIP	25,000,000	2019-20
509540	25/07/2019	25/07/2034	15	13,000,000	1.4	EIP	13,000,000	2019-20
				178,000,000				

5.3.7 The PWLB remains an attractive source of borrowing for the Authority as it offers flexibility and control. Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy. This is because for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

5.3.8 The council currently has £194.5m short term borrowing and the table below summarises the current position.

Start Date	End date	No. of Days	Loan Amount	Interest Rate %
18/03/2019	16/03/2020	364	2,000,000	1.15
23/05/2019	23/08/2019	92	2,000,000	0.78
29/03/2019	30/09/2019	185	5,000,000	1.05
31/05/2019	29/05/2020	364	2,000,000	1
26/03/2019	24/03/2020	364	5,000,000	1.15
15/04/2019	15/10/2019	183	5,000,000	1
11/03/2019	11/09/2019	184	5,000,000	1.05
20/03/2019	20/09/2019	184	5,000,000	1.07
08/04/2019	31/10/2019	206	5,000,000	1.02
01/02/2019	01/11/2019	273	5,000,000	1
06/02/2019	06/11/2019	273	5,000,000	1.02
19/02/2019	19/08/2019	181	5,000,000	1
03/04/2019	01/04/2020	364	5,000,000	1.1
07/08/2019	10/09/2019	34	5,000,000	0.65
13/02/2019	22/01/2020	343	5,000,000	1.08
14/03/2019	20/02/2020	343	5,000,000	1.1
19/06/2019	19/03/2020	274	5,000,000	0.85
30/04/2019	28/04/2020	364	5,000,000	1.1
23/05/2019	21/05/2020	364	2,000,000	0.99

Start Date	End date	No. of Days	Loan Amount	Interest Rate %
12/04/2019	14/10/2019	185	5,000,000	1.05
28/05/2019	28/11/2019	184	5,000,000	0.85
28/06/2019	26/06/2020	364	2,000,000	0.9
19/02/2019	19/11/2019	273	3,000,000	1
05/03/2019	05/12/2019	275	2,000,000	1.1
28/02/2019	30/08/2019	183	2,500,000	0.98
29/03/2019	29/01/2020	306	2,000,000	1
30/07/2019	30/04/2020	275	7,000,000	0.85
07/12/2018	06/12/2019	364	5,000,000	1
07/03/2019	19/12/2019	287	5,000,000	1
25/02/2019	20/08/2019	176	3,000,000	0.98
14/08/2019	12/08/2020	364	5,000,000	0.83
31/05/2019	29/05/2020	364	3,000,000	1
14/03/2019	13/03/2020	365	5,000,000	1.12
11/03/2019	11/09/2019	184	5,000,000	1.05
18/03/2019	16/03/2020	364	2,000,000	1.15
01/03/2019	02/12/2019	276	5,000,000	1.1
25/02/2019	27/08/2019	183	2,000,000	0.98
31/05/2019	29/11/2019	182	5,000,000	0.8
28/06/2019	26/06/2020	364	2,000,000	0.9
30/11/2018	29/11/2019	364	5,000,000	1.05
15/08/2019	14/02/2020	183	3,000,000	0.75
25/02/2019	02/01/2020	311	5,000,000	1.05
28/05/2019	28/04/2020	336	5,000,000	1
21/01/2019	21/01/2020	365	4,000,000	1.1
01/02/2019	31/01/2020	364	5,000,000	1
22/05/2019	22/11/2019	184	4,000,000	0.8
17/06/2019	15/06/2020	364	5,000,000	0.98
			194,500,000	

5.3.9 PWLB Borrowing

PWLB Certainty Rate and Project Rate Update

The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2018. The application for the certainty rate needs to be submitted to CLG by 30th September to access this reduced rate for a further 12month period from 1st November 2019 should it be required.

Debt Rescheduling:

The increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premia was still relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

5.3.10 A year after their commencement, the £125.8m of loans borrowed on 28th March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. If the increases in gilt yields and PWLB redemption rates seen at the end of this quarter prevail in subsequent months, they may present early loan repayment opportunities at close to par. Early repayment or rescheduling will first

be assessed against the requirements of the HRA business plan and any future borrowing requirements. Where rescheduling is appropriate, the Authority will consider alternative refinancing to achieve cost savings and a reduction in risk. (Conventional PWLB to PWLB debt restructuring is limited by the new borrowing and repayment spread.) The Authority is currently considering options for debt rescheduling in conjunction with its Treasury Management advisors.

5.3.11 LOBOs:

The Authority holds £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 Authority has the option to either accept the new rate or to repay the loan at no additional cost. £4m of these LOBOS had options during 2018-19 none of which were exercised by the lender. The Authority acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options. Barclays Bank have foregone the right to increase interest rates in the future so this is now treated as a long term, fixed rate market loan.

5.4 Investment Activity

5.4.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment activity 2018-19

Investments	Balance on 01/04/2018 £'000	Investments Made/Transferred £'000	Maturities/ Investments Sold/Transferred £'000	Balance on 31/03/2019 £'000	Average Rate % and Average Life (years)
Short Term Investments	17,200	49,000	(18,054)	48,146	
Long Term Investments	21,774	26,700		48,474	
Cash Equivalents	4,750	435,885	(423,385)	17,250	
TOTAL INVESTMENTS	43,724			113,870	3.37%/3.69 years

The £113.87m balance on 31st March 2019 is broken down further below:

Type of Investments	Principle Sum Outstanding £m	Valuation £m
Money Market Funds	17.25	17.25
Pooled Property Fund	10	11.17
Other Pooled Funds	8.5	8.465
Local Authorities	44	44
Municipal Bonds Agency	0.05	0.05
Slough Urban Regeneration Loan Note	4.146	4.137
James Elliman Homes	29.924	23.668
	113.87	108.74

5.4.2 Security of capital remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19 which defined "high credit quality". The authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.4.3 The Council's budgeted investment income for 2018-19 was estimated at £2.896m (£2.258m 2017-18) and it achieved £2.754m (£2.172m in 2017-18). The average cash balances were £66.599m during 2018-19. Also income of £0.223m was realised by making an upfront payment to the pension scheme.

5.4.3 Externally Managed Funds:

The council has invested a total of £10m into a Property Fund The Local Authorities' Property Fund is administered by CCLA Investment Management limited (a company specialising in fund management on behalf of Churches, Charities and Local Authorities) (CCLA). The Fund was launched in 1972, was valued at £599 million on 31st March 2016 and has a track record of income distribution yield of over five per cent per annum paid quarterly. The distribution yield is after property management costs and CCLA's fund management fee of 0.65 per cent. The fund has outperformed the Investment Property Databank (IPD) Balanced Property Unit Trusts index which is their benchmark over the past 10 years. Due to high entry fees this is seen as a long term investment with at least a 5 years time horizon. During 2018-19 the CCLA fund, generated £483,799 a return of 4.84%, which has thus far proved the highest returning of our investments. Also the £11.170m valuation as at 31st March 2019 is considerably higher than the £10m Principal Sum invested.

5.4.4 On 25th July 2018, the council invested £1m in the CCLA Diversified Income Fund, and a further £2.5m on 17th October 2018. This is another pooled fund administered by CCLA Investment Management and recommended by the council's Treasury advisors, Arlingclose. The Fund is suitable for long term investors seeking a balanced return of income and capital growth for whom control of relative risk is important. It is projected to generate income for the council at a yield of over 3%.

5.4.5 The council also has £5m invested in the Columbia Threadneedle Strategic Bond Fund. It is a Strategic Bond Fund which invests in a mix of Investment Grade Corporate Bond, High Yield and Emerging Market Bonds. The fund produced dividends of £153,053 during 2018-19 a return of 3.06% which is the second best performing of all our investments. At the end of March 2019, the fund had depreciated slightly by 1.18% with a valuation of £4.941m since the council first invested in the fund in October 2015. However the valuation at the end of July 2019 was £5.051m meaning that the fund has appreciated in value by just under £51,000.

All three funds are supported by our Treasury Advisors, are secure and offer reasonable liquidity. The values of the funds vary (Variable Net Asset Value) but are an excellent way of diversifying the council's investment portfolio

5.4.6 Short Term Local Authority Investments

In March 2019, the council borrowed a £50m EIP loan from PWLB at 2.22%. As the council could not repay temporary loans from other Local Authorities until the loans reach maturity, the proceeds have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. At the end of March 2019, the council had £44m in short term investments with other local authorities for periods of between 1-3 months. This has now reduced to £10m as at the end of July 2019.

5.4.7 Safe Custody Arrangements

The Council set up a custody account with King & Shaxson in February 2012. By opening a custody account with King & Shaxson, the Council now has the ability to use a number of approved investment instruments as outlined in the 2017/18 Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds. By establishing custody arrangements, the Council is better-placed to consider the use of alternative investment instruments in response to evolving credit conditions. At the beginning of 2017-18 the council had two Floating Rate Note Covered Bonds with the Leeds Building Society and Abbey Treasury Services (part of Santander UK Bank) respectively. The bonds are secured against mortgages and are exempt from bail-in risk. Both are AAA rated so there is little credit risk, and the rate the council receives is linked to the 3 month LIBOR rate that re-fixes every three months so there is very little interest rate risk also. The Abbey Treasury Services Floating Rate Note Bond matured in April 2017 and the Leeds Building Society Floating Rate Note Bond matured in February 2018. However as the council's cash balances have diminished there is less scope to use the custodian account and the council now has no investments in alternative investment instruments.

5.4.8 Investment Activity in 2019/20

Investments	Balance on 01/04/2018 £'000	Investments Made	Maturities/ Investments Sold £'000	Balance on 31/08/2019 £'000	Avg Rate % and Avg Life (yrs)
Short Term Investments	48,146	20,000	(58,146)	10,000	
Long Term Investments	48,474	5,950		54,424	
Cash Equivalents	17,250	175,820	(187,820)	5,250	
TOTAL INVESTMENTS	113,870			69,674	3.53%/6.48 years

The £69.674m is broken down further below:

Type of Investments	£m
Money Market Funds	5.25
Pooled Property Fund	10.0
Other Pooled Funds	5.0
Diversified Income Fund	3.5
James Elliman Homes	35.874
Local Authority	10.0
Municipal Bonds Agency	0.05
Slough Urban Regeneration Loan Note	0
	69.674

5.4.9 Specified Investments:

The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

5.4.10 Non-specified Investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Current Limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£25m
Total investments with institutions domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	£75m

5.4.11 Budgeted Income and Outturn

The average cash balances have been £90.016m so far in 2019-20. The UK Bank Rate has been maintained at 0.75% since 2nd August 2018. Short-term money market rates have remained at low levels (see Table 1 in Appendix 2).

The Authority's budgeted investment income for the year is estimated at £2.483m. The following table shows the current projection for both interest payable and receivable in 2019-20.

Interest Receivable Projection	2019-20
Columbia Threadneedle Strategic Bond Fund Threadneedle	(141)
CCLA Property Fund	(479)
HRA Internal Loan	(283)
Wexham Nursery loan Note	(78)
James Elliman Homes	(1,109)
Money Market Funds	(121)
Upfront Payment Pension Scheme	(216)
CCLA Diversified Income	(131)
Temporary Investments	(88)
Interest on Bank Accounts	(30)
	(2,676)
Interest Payable Projection	2019-20
PWLB Loans	8,953
Market Loans	540
Temporary Loans	1,818
	11,311

5.4.12 Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2019	3.79	AA-	3.75	AA-
30/06/2019	4.14	AA-	3.85	AA-

Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

AAA = highest credit quality = 1

D = lowest credit quality = 26

- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

5.5 Non-Treasury Investments

5.5.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in Ministry of Housing, Communities and Local Government's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

5.5.2 As at 31st March 2019, the Council held £107.76m of such investments in

- directly owned property £73.693m
- shareholding in James Elliman Homes £11.969m
- loans to James Elliman Homes £17.955m
- Wexham Nursery Loan Note £4.146m

A full list of the Authority's non-treasury investments is shown in Appendix 4.

These investments generated £4.25m of investment income for the Authority after taking account of direct costs, representing a rate of return of 5.68%.

5.5.3 During 2019-20, the council has purchased the following properties for investment purposes in order to continue the council's policy of purchasing income generating assets to support the revenue budget.

Property	Capital Expenditure	Annual Rent Due	% Return on Investment	Type
Odeon, Churchill Way, Basingstoke	8,473,686.10	611,245.00	7.21%	Retail
Acquasulis House, 12-14 Bath Road	7,676,350.02	443,867.00	5.78%	Office
Freehold interest of 21, Roydsdale Way, Euroway Industrial Estate, Bradford, West Yorkshire	12,899,916.28	774,304.00	6.00%	Distribution
Purchase 233-249 High Street	4,061,322.64	259,608.00	6.39%	Retail
	33,111,275.04	2,089,024.00	6.31%	

5.5.4 A further £5.95m in capital loans has been made to James Elliman Homes during 2019-20 and the principle for the Wexham Nursery Loan Note was fully repaid on 8th July 2019. All non-Treasury investments made for the purpose of generating income yield at least 5% which compares favourably to the best performing Treasury Investment the CCLA Property Fund which generated 4.84% income in 2018-19.

5.6 Compliance with Prudential Indicators

5.6.1 The Authority confirms compliance with its Prudential Indicators for 2019/20, which was set in February 2019 as part of the Authority's Capital Strategy Statement.

5.7 Outlook for Remainder of 2019-20

5.7.1 Having increased interest rates by 0.25% in November 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) is now expected to maintain Bank

Rate at this level for the foreseeable future. There are, however, upside and downside risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

The resignation of Theresa May has added further political uncertainty. Boris Johnson appears to be the frontrunner to become Prime Minister and also appears to favour exiting the EU on 31st October. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline.

With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently and global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process engender more uncertainty for business and consumer confidence and for economic activity.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Gilt yields have fallen to recent lows. Resolution of global political uncertainty would see yields rise but volatility arising from both economic and political events continue to offer longer-term borrowing opportunities for those clients looking to lock in some interest rate certainty.

6 **Comments of Other Committees**

None.

7 **Conclusion**

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2018/19 and the first quarter of 2019/20. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

8 **Appendices Attached**

- 1 - Prudential Indicators
- 2 - Money Markets and PWLB Rates
- 3- Maturity Rates for New Investments
- 4- Non-Treasury Investments

9 **Background Papers**

Financial detail provided from the Council's Treasury Management System and General Ledger.

Capital Financing Requirement

Estimates of the Authority's cumulative maximum external borrowing requirement for 2019/20 to 2022/23 are shown in the table below:

	31/03/2019 Actual £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000	31/03/2022 Estimate £'000
Gross CFR	552,936	621,590	650,400	671,623
Less: Other Long Term Liabilities	(41,727)	(40,740)	(37,104)	(35,163)
Borrowing CFR	511,209	580,850	611,296	636,460
Less: Existing Profile of Borrowing	(517,299)	(580,258)	(610,123)	(631,200)
Internal (Over) Borrowing	(6,090)	592	1,173	5,260
Usable Reserves	(81,228)	(83,522)	(85,823)	(88,368)
Net Borrowing Requirement/(Investment Capacity)	(75,138)	(82,930)	(84,650)	(83,108)

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2019 Actual £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000	31/03/2022 Estimate £'000
CFR	552,936	621,590	650,400	671,623
Gross Debt	559,026	599,026	629,053	651,304
Difference	(6,090)	22,564	21,347	20,319
Borrowed in excess of CFR? (Yes/No)	Yes	No	No	No

Except in the short term, external debt (i.e. borrowing for any purpose and other long-term liabilities) should not exceed the CFR. Borrowing in excess of CFR as at 31st March 2019 was a short term issue on the basis that the council, on the advice of it's Treasury Advisors, took out additional £50m PWLB borrowing on 14th March 2019. This was done for the purpose of reducing the value of the council's short term borrowing and therefore reducing the overall amount of interest rate risk the council is exposed to. However the council needed to wait until the temporary loans matured before it could repay this short term borrowing.

Usable Reserves

Estimates of the Authority's level of Usable Reserves for 2019/20 to 2021/22 are as follows:

	31/03/2019 Actual £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000	31/03/2022 Estimate £'000
Usable Reserves	(81,228)	(83,522)	(85,823)	(88,368)

Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Section 151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak in 2018-19 was £182m.

	Authorised Limit (Approved) as at 31/03/2019 £000s	Operational Boundary (Approved) as at 31/03/2019 £000s	Actual External Debt as at 31/03/2019 £000s
Borrowing	528	538	517
Other Long-term Liabilities	41	41	41
Total	569	579	558

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2019/20 £	Maximum during Q1 2019/20 £/%
Upper Limit for Fixed Rate Exposure	£350m	£314m
Compliance with Limits:	£314m	Yes
Upper Limit for Variable Rate Exposure	£300m	£176m
Compliance with Limits:	£176m	Yes

(c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 23/08/2019 £000s	% Fixed Rate Borrowing as at 23/08/2019	Compliance with Set Limits?
under 12 months	75	0	202,570	36.13%	Yes
12 months and within 24 months	50	0	8,939	1.59%	Yes
24 months and within 5 years	50	0	40,817	7.28%	Yes
5 years and within 10 years	75	0	69,363	12.37%	Yes
10 years and within 15 years	95	0	64,978	11.59%	Yes
15 years and within 20 years	95	0	62,917	11.22%	Yes
20 years and within 25 years	95	0	74,341	13.26%	Yes
25 years and above	95	0	36,750	6.56%	Yes

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date²)

(d) Total principal sums invested for periods longer than 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2018/19 Approved £000s	31/7/2019 Actual £000s	31/03/2020 Estimate £000s	31/03/21 Estimate £000s
	45,000	18,500	18,500	18,500

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2019	0.75	0.5509	0.5684	0.6044	0.7159	0.8284	0.9310	0.97	1.01	1.10
30/4/2019	0.75	0.5550	0.5743	0.6074	0.6919	0.8169	0.9713	1.04	1.11	1.19
31/5/2019	0.75	0.5590	0.5758	0.6014	0.6709	0.7471	0.8701	0.87	0.90	0.95
30/6/2019	0.75	0.5478	0.5614	0.5968	0.6488	0.7261	0.8295	0.83	0.85	0.90
Average	0.75	0.5532	0.5700	0.6025	0.6819	0.7796	0.9005	0.93	0.97	1.04
Maximum	0.75	0.5590	0.5758	0.6074	0.7159	0.8284	0.9713	1.04	1.11	1.19
Minimum	0.75	0.5478	0.5614	0.5968	0.6488	0.7261	0.8295	0.83	0.85	0.90
Spread	--	0.0112	0.0144	0.0106	0.0671	0.1023	0.1418	0.21	0.26	0.29

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2019	249/19	1.63	1.61	1.88	2.43	2.49	2.40	2.36
30/04/2019	208/19	1.62	1.61	1.91	2.44	2.49	2.40	2.37
31/05/2019	167/19	1.75	1.88	2.22	2.69	2.71	2.61	2.58
28/06/2019	129/19	1.66	1.72	2.04	2.56	2.58	2.46	2.44
	Low	1.62	1.61	1.88	2.43	2.49	2.40	2.36
	Average	1.67	1.71	2.01	2.53	2.57	2.47	2.44
	High	1.75	1.88	2.22	2.69	2.71	2.61	2.58

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2019	334/19	1.34	1.28	1.45	1.78	1.99	2.07
30/04/2019	249/19	1.59	1.61	1.89	2.23	2.43	2.50
31/05/2019	209/19	1.57	1.61	1.92	2.24	2.43	2.50
28/06/2019	167/19	1.78	1.90	2.24	2.54	2.70	2.74
	Low	1.34	1.28	1.45	1.78	1.99	2.07
	Average	1.57	1.60	1.88	2.20	2.39	2.45
	High	1.78	1.90	2.24	2.54	2.70	2.74

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2019	0.8900	0.9100	0.9200	1.7900	1.8100	1.8200
30/04/2019	0.9100	0.9100	0.9200	1.8100	1.8100	1.8200
31/05/2019	0.8900	0.9100	0.9600	1.7900	1.8100	1.8600
28/06/2019	0.9100	0.9100	0.9100	1.8100	1.8100	1.8100
Low	0.89	0.91	0.91	1.79	1.81	1.81
Average	0.90	0.91	0.93	1.80	1.81	1.83
High	0.91	0.91	0.96	1.81	1.81	1.86

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£5m 4 years	£5m 10 years
A+	£15m 2 years	£15m 3 years	£15m 5 years	£5m 3 years	£5m 5 years
A	£15m 13 months	£15m 2 years	£15m 5 years	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	£15m 5 years	£5m 13 months	£5m 5 years
None	£3m 12 months	n/a	£5m 25 years	n/a	£5m 5 years
Pooled funds	£10m per fund				

This table must be read in conjunction with the notes below

† The time limit is doubled for investments that are secured on the borrower's assets

* But no longer than 2 years in fixed-term deposits and other illiquid instruments

** But no longer than 5 years in fixed-term deposits and other illiquid instruments

NON-TREASURY INVESTMENTS

James Elliman Homes						
Principal	60% of Principal	Start	End	Interest Rate %	No.of Days	Interest Due
2,223,610.00	1,334,166.00	01-Apr	01-Apr	5	365	66,708.30
2,000,000.00	1,200,000.00	01-Apr	01-Apr	5	365	60,000.00
2,500,000.00	1,500,000.00	01-Apr	01-Apr	5	365	75,000.00
3,200,000.00	1,920,000.00	17-Apr	01-Apr	5	349	91,791.78
3,000,000.00	1,800,000.00	20-Jul	01-Apr	5	255	62,876.71
5,000,000.00	3,000,000.00	09-Aug	01-Apr	5	235	96,575.34
5,000,000.00	3,000,000.00	28-Sep	01-Apr	5	185	76,027.40
2,000,000.00	1,200,000.00	19-Dec	01-Apr	5	103	16,931.51
1,500,000.00	900,000.00	31-Jan	01-Apr	5	60	7,397.26
1,500,000.00	900,000.00	15-Mar	01-Apr	5	17	2,095.89
2,000,000.00	1,200,000.00	15-Mar	01-Apr	5	17	2,794.52
29,923,610.00	17,954,166.00					558,198.71
Wexham Nursery Loan Note						
Principal		Start	End	Interest Rate %	No.of Days	Interest Due
9,700,000.00		01/04/2018	21/12/2018	7.015	264	492,164.71
7,880,245.00		21/12/2018	18/01/2019	7.015	28	42,406.51
6,422,704.00		18/01/2019	15/03/2019	7.015	56	69,125.89
4,145,793.00		20/03/2019	01/04/2019	7.015	12	9,561.45
						613,258.56

Strategic Property Acquisitions						
Property	Capital Expenditure	Annual Rent Due	2018-19	% Return on Investment	Type	
Leasehold interest of the 5th Floor, Hatfield Car Park	228,042.00	20,000.00	12,000.00	8.77%	Strategic	
100A Wexham Road	807,201.45				Strategic	
Purchase of Cornwall House	1,727,902.65	62,250.00	46,848.00	3.60%	Office	
Land South Side Stoke Road (Stoke Wharf)	2,116,944.07				Strategic	
Leaseplan 165 Bath Road	19,807,613.04	1,100,000.00	1,140,000.00	5.55%	Office	
Land at Norway Drive	235,000.00				Strategic	
Halfords 380 Bath Road	4,288,918.25	281,775.00	281,775.00	6.57%	Warehouse-retail	
5 Hillersdon	368,000.00				Strategic	
174-178 High Street (WH Smith)	5,310,540.96	310,000.00	238,600.00	5.84%	Retail	
202-206 High Street (BHS)	2,932,546.76				Retail	
Waitrose Gosport - Stoke Road	3,717,512.07	220,000.00	219,999.96	5.92%	Retail	
Wickes West Street Wolverhampton	7,077,765.32	482,640.00	482,640.00	6.82%	Warehouse-retail	
Gala Bingo, 3 Bath Road	4,291,617.53	40,000.00	20,000.00	0.93%	Strategic	
Lego, 33 Bath Road	13,809,326.02	1,153,230.00	547,679.97	8.35%	Office	
Upton Lodge 2A Yew Tree Road	6,361,391.90	347,000.00	86,800.00	5.45%	Office	
Unit 26 Wexham Business Village	612,519.16	10,000.00		1.63%	Office	
	73,692,841.18	4,026,895.00	3,076,342.93	5.69%		
202-206 High Street the old BHS building was sold on 29th March 2018. Total Capital Receipt generated was £3.8m						