Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24 to 2027/28

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. There are no major changes to the Treasury Management Strategy (TMS) since 2022/23. In line with the Council's recovery plan, there has been a rigorous review of the capital programme and the funding of the programme. The capital programme is now fully funded from capital grants, capital receipts, developer contributions and the major repairs reserve, meaning that there is no new external borrowing required to support the programme, This is the first time that the Council has been in the position for some years and supports the Council in its aim to live within its means.

3. As reported in the 2022/23 TMS, the investment property portfolio is not generating a positive return for the Council, and these properties have been prioritised for disposal under the Council's Asset Disposal Strategy. To date six investment properties have been disposed of together with three sites originally acquired by the Council for re-development. Capital receipts generated to date total £173m and are expected to achieve £216m by 31 March 2023.

4. During 2022/23 the Council's 6 dormant companies have been dissolved and work continues on improving the governance of the remaining four companies, including the need for investments and loan facilities.

5. Steps to reduce the Council's debt areprogressing with the approval and implementation of the Asset Disposal Strategy. Temporary borrowing has been reduced by £154m to date from £337m at 31 March 2022 and is forecast to reduce by a further £50m to £133m by 31 March 2023 and be fully repaid by September 2023. This will significantly reduce the Council's exposure to interest rate risk and borrowing costs overall.

INTRODUCTION

6. 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.

7. 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.

8. The Treasury Management Strategy (TMS) for 2023/24 – 2027/28 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

9. 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 2021;
- the Treasury Management Code of Practice issued by CIPFA 2021.

10. 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

11. 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.

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

13. The TMS covers five main areas summarised below:

Section 1 Capital spending

- Capital strategy
- Commercial activity – referred to investments for service commercial purposes under the CIPFA Treasury Management Code
- 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

14. The Annual Investment Strategy (AIS) at Appendix 2 provides more detail on how the Council's surplus cash is to be invested in 2022/23 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

15. 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.

16. 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.

17. In line with the Council's financial recovery plan, the capital programme has been re-focussed to concentrate on schemes which are funded from capital grants, capital receipts, developer contributions and the major repairs reserve. Consequently, the revised capital programme does not require any new external borrowing.

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

2021/22 Actual £m		2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	Total £m
	Expenditure							
38	General Fund	29	36	20	8	5	4	102
13	HRA	11	10	8	10	10	14	63
51		**40**	**46**	**28**	**18**	**15**	**18**	**165**
	Funding							
	General Fund							
(13)	Government Grant	(26)	(31)	(16)	(5)	(3)	(2)	(83)
0	Capital Receipts	(3)	(4)	(4)	(3)	(2)	(2)	(18)
(1)	Developer contributions (s.106)	0	(1)	0	0	0	0	(1)
0	Revenue contributions	0	0	0	0	0	0	0
(16)	Capitalisation Direction	0	0	0	0	0	0	0
	HRA							
0	Government Grant	0	0	0	0	0	0	0
(2)	Capital Receipts	(5)	(2)	(3)	(1)	0	(1)	(12)
(11)	Major Repairs Reserve	(6)	(8)	(5)	(9)	(10)	(13)	(51)
0	Revenue contributions	0	0	0	0	0	0	0
0	Developer contributions (s.106)	0	0	0	0	0	0	0
(43)		**(40)**	**(46)**	**(28)**	**(18)**	**(15)**	**(18)**	**(165)**
8	**Net financing need for the year**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
210	Capitalisation Direction	57	32	23	17	12	6	357
218	**Total Financing Need for the Year**	**57**	**32**	**23**	**17**	**12**	**6**	**357**

18. A major change last year was 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.

19. As a result of improved financial information from closure of the accounts, the total Capitalisation Direction has been revised downward from a potential worst case of £782m to the current £357m.

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

- ➢ to finance any expenditure capitalised under the provisional 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).

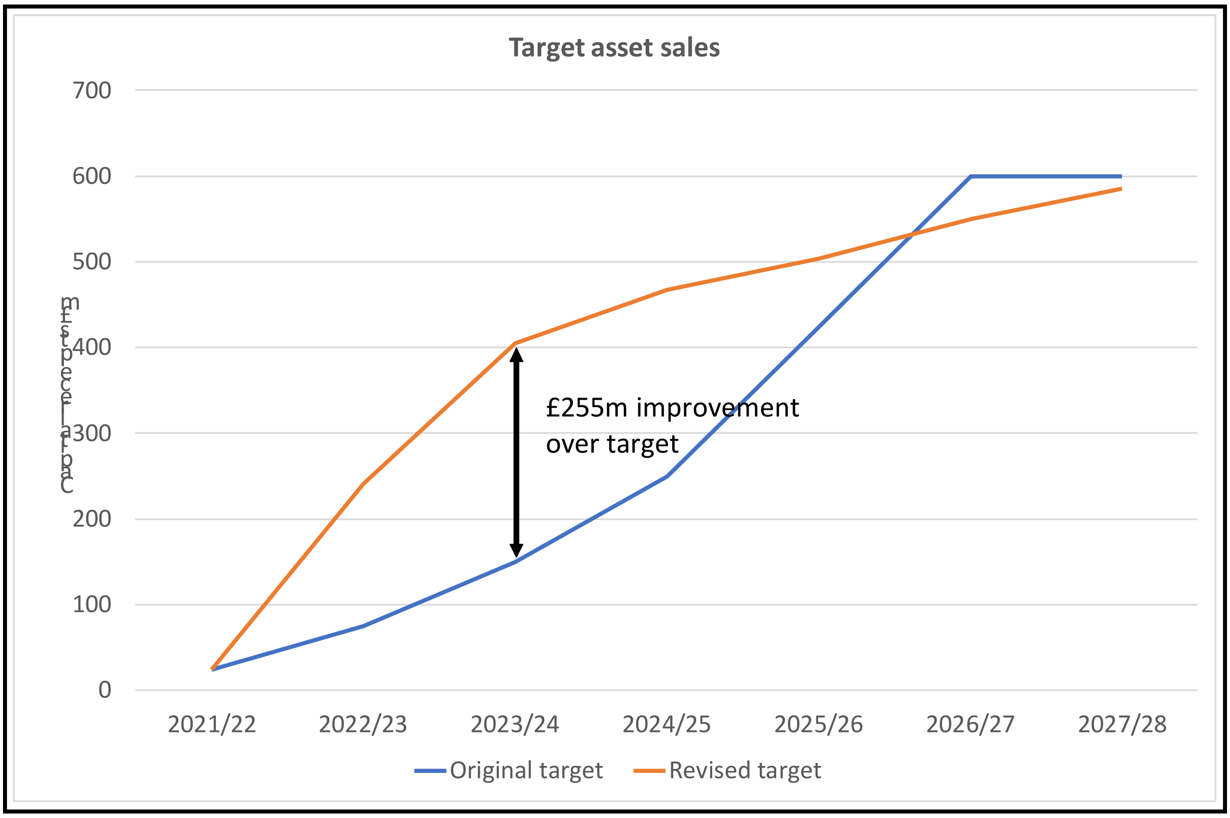
21. In addition, because the capital receipts have significantly exceeded forecasts for both 2022/23 and 2023/24, the Council has the potential to pay off the pension fund deficit – see paras 95 to 105 below.

22. As reported previously, 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.

23. In the event, the Asset Disposal programme has generated capital receipts significantly in excess of the target reported in the 2022/23 TMS – see Chart 1 below.

Chart 1 Target – potential asset sales



24. Increases in interest rates on temporary borrowing have increased interest charges for the Council during 2022/23 doubling interest on such borrowing to c. £3m. However, this has been mitigated by repaying temporary borrowing as loans have matured. Interest on temporary borrowing is expected to reduce to c. £1.7m in 2023/24 as the temporary loans are repaid in the period to September 2023.

Governance

25. All projects included in the capital programme have to have a full business case which is subject to review by finance, legal, CLT and by the Commissioners before being submitted for 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, unless there is a health and safety need for the expenditure.

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 £208m, including £106m of assets acquired as part of the previous policy of acquiring an investment portfolio;
- loans to third parties totalling £69m - see Table 14 and paragraphs 106 to 112 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. From the outset, the objectives were blurred 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 2022/23 is £6.7m. Capital financing charges are £8.6m. The value of investment property fell by £2.8m. This is a net loss of £5.2m on a portfolio costing £108m
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

Key issue	Assessment	Actions taken
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 £6.7m rental income from investment property is 6% 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 2022/23 is £6.2m per annum or 5.7% 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 a 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		5.79%
Investment cover ratio	more than 3	0.07
Loan to value ratio	less than 80%	101.25%
Benchmark returns	5.00%	-1.61%

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 4.14%. 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 £9m, the investment property portfolio is a cost to the Council rather than generating a return. Consequently, disposal of the investment property portfolio has been prioritised in the asset disposal programme. Disposal of the first six investment properties has realised a net loss of £1.9m but this is more than offset by the savings in debt charges.

36. The Council's investment in companies is summarised in Table 3 below. The Council has board representation on all companies.

Table 3 Investment in Council companies

Company name	Ownership	Nominal value £	Net worth 31/3/2022 £000s
Subsidiaries			
James Elliman Homes **	100%	1	(630)
Ground Rent Estates 5 Ltd **	100%	455,001	21
Development Initiative for Slough Housing Co Ltd	100%*	1	0
Slough Children First Ltd **	100%*	1	0
Joint Venture			
Slough Urban Renewal LLP ***	50%	100	9,478
Total		**455,104**	**8,869**

* companies limited by guarantee rather than share capital. The Council controls this company via voting rights
** Net worth based on 2020/21 accounts as 2021/22 accounts not yet published
*** net worth shown is the Council's 50% share

37. During 2022/23 the Council dissolved the following dormant companies as part of the Finance Action Plan

Table 4 Dormant companies dissolved in 2022/23

	Date of dissolution
Subsidiaries	
Slough Asset Management Ltd	05/07/2022
Herschel Homes Ltd	10/05/2022
DISH RP FP Ltd	06/09/2022
DISH CLS Ltd	07/06/2022
Slough Direct Services Ltd	07/06/2022
Associate	
DISH RP Ltd.	10/05/2022

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 and although it has property assets of £55m, it 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 was executed in August 2022 providing a £10m loan facility. Since the loan was advanced costs for remediating Nova House have escalated and the loan will need to be increased to £15m. Currently the loan is being repaid by GRE5 as claims are made to Homes England under the Grant Funding Agreement. However there remains some uncertainty over the extent to which the loan advances will be fully recoverable from the company. Therefore, there may be a need to impair the loan by up to £5m;

- 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 £0.450m.

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 2022, £34.4m 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 5 below shows that the CFR will decrease over the medium term. A major contributor to the size of the General Fund CFR is the £362m Capitalisation Direction (see Table 1 above) which is necessary to avoid the Council's General Fund being in deficit for the period 2021/22 to 2027/28. The CFR peaked at £893m in 2021/22 and is forecast reduce significantly as capital receipts generated from the Asset Disposal programme are applied to fund previous years' capital expenditure.

43. The size of the CFR is a major driver in the amount required to be charged to council tax as MRP. Because the Asset Disposal programme has generated accelerated capital receipts the CFR is forecast to reduce significantly compared with the 2022/23 TMS forecast. Consequently, MRP charges are forecast to reduce significantly.

Table 5 Capital Financing Requirement forecast (Prudential Indicator 2)

2021/22 Actual £m		2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
	CFR as at 31 March						
713	General Fund	536	394	347	337	327	319
184	HRA	184	184	184	184	184	164
897		**720**	**578**	**531**	**521**	**511**	**483**
	Annual change						
	General Fund	(177)	(142)	(47)	(10)	(10)	(8)
	HRA	0	0	0	0	0	(20)
0		**(177)**	**(142)**	**(47)**	**(10)**	**(10)**	**(28)**
	Reason for change						
	Net financing	0	0	0	0	0	0
	Capitalisation Direction	57	32	23	17	12	6
	Less repayment of debt	(216)	(164)	(63)	(20)	(16)	(28)
	Less MRP	(18)	(10)	(7)	(7)	(6)	(6)
0	**Net financing**	**(177)**	**(142)**	**(47)**	**(10)**	**(10)**	**(28)**

44. It should be noted that the 2021/22 figure of £897m for the CFR is provisional pending completion of the statement of accounts.

45. Table 6 below confirms that the Council's gross debt is not forecast to exceed the total of the CFR in the preceding year (i.e. 2022/23) plus the estimates of any additional CFR for current year and the following financial years (i.e. 2023/24 and succeeding years).

Table 6 Borrowing compared to the CFR (Prudential Indicator 3)

2021/22 Actual £m		2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
749	Gross Projected Debt	604	435	372	323	314	280
897	Capital Financing Requirement	720	578	531	521	511	483
148	**Under/(over) borrowing**	**116**	**143**	**159**	**198**	**197**	**203**

46. The impact of the Capitalisation Direction has been 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 £357m of revenue expenditure, which is being 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 7 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

Table 7 Ratio of capital financing costs to income (Prudential Indicator 4)

2021/22 Actual %		2022/23 Forecast %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
12.89%	General Fund	21.47%	15.92%	11.84%	8.69%	7.90%	7.61%
38.54%	HRA	36.56%	34.75%	32.16%	31.70%	30.72%	29.76%

48. The increase in the ratio of capital financing charges to income between 2021/22 and 2022/23 above reflects the first year that the amortisation of the Capitalisation Direction to effect which added £7m to MRP in 2022/23. However because of the accelerated capital receipts from the Asset Disposal programme, the ratio of capital financing costs to income has dropped from 27.87% forecast for 2022/23 last year down to 21.47%. Whilst this is still high compared with other authorities and represents a significant charge against the revenue budget, the impact of the accelerated capital receipts is forecast to bring the ratio down to levels comparable with other unitary authorities of between 5-7% over the medium-term. The HRA ratio remains in line with other housing authorities at 25-33% reflecting the nature of self-financing within the HRA.

49. Similarly expressed as a percentage of the net revenue budget capital financing charges (excluding interest receivable) which were originally forecast to exceed 30% of net revenue budget for the period 2022/23 to 2024/25 are forecast to significantly reduce as shown in Table 8 below. This brings the debt charges down to a level which is affordable for the Council.

50. The forecasts in Tables 7 and 8 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 or are diverted to other projects, then the reduction in the burden of debt charges on the Council budget will be undone.

Table 8 Ratio of capital financing charges to net revenue budget

2021/22 Actual %		2022/23 Forecast %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
17.98%		25.95%	19.70%	14.87%	11.59%	10.12%	9.89%

51. 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 7 shows a decrease of 8% between the outturn for 2021/22 and the five year estimate to 2027/28. This is because the increase in depreciation charges (which fund the Major Repairs Reserve) are expected to track the overall increase in rental income and because the HRA capital programme has been reduced to concentrate resources on the existing stock. 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

52. 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.

53. 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.

54. 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.

55. 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.

56. 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.

57. 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.

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. As reported in the 2022/23 TMS, the previous MRP Policy did not comply with Statutory Guidance on MRP nor had the policy actually been applied in practice leading to a material undercharge of MRP in previous years. Correction of the undercharge remains a key element of the Capitalisation Direction.

63. 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 the 2022/23 TMS, the MRP policy was amended last year to take effect from 1 April 2021. No changes are proposed to the MRP policy for the forthcoming year, which is set out at Appendix 1.

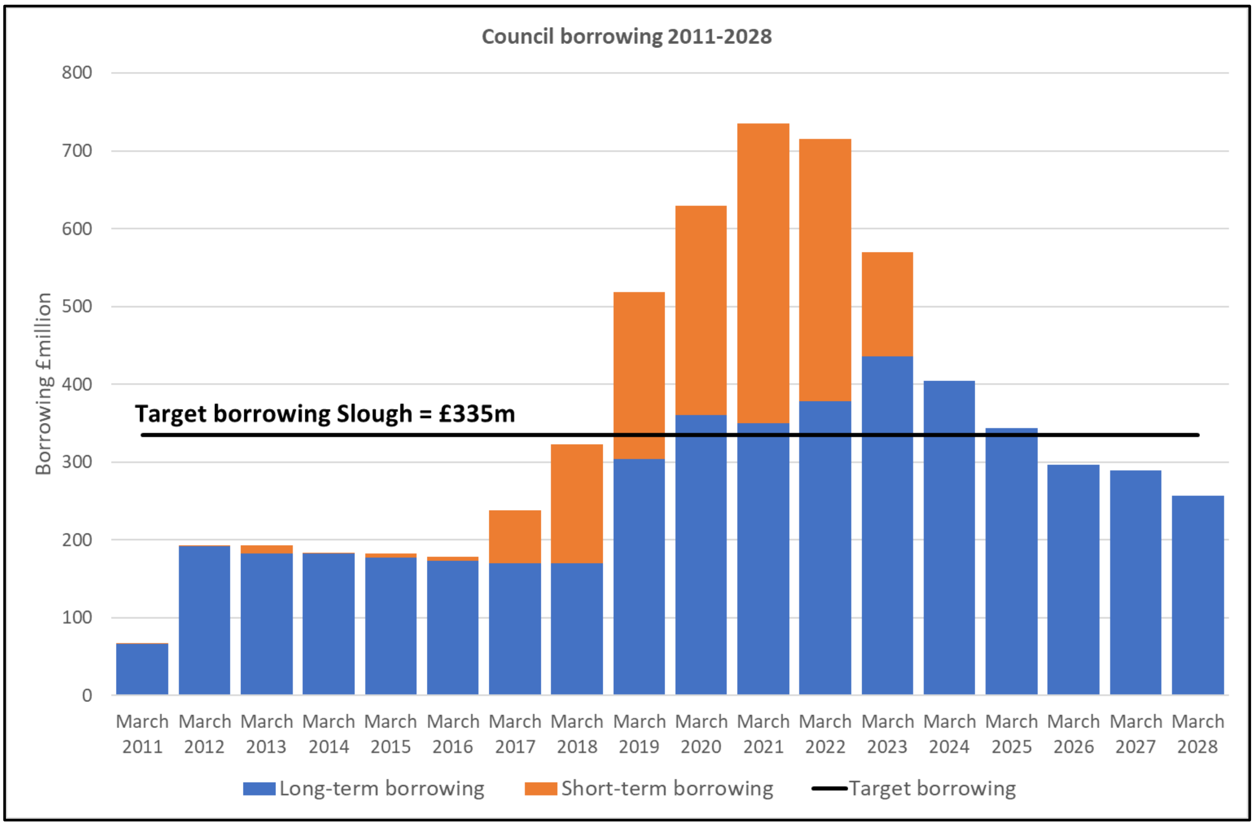
SECTION 2 - BORROWING

Overall borrowing strategy

64. 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.

65. 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. For the period 2016/17 to 2020/21 the Council's borrowing strategy was to use temporary borrowing from other local authorities to fund the capital programme as shown in Chart 2 below.

Chart 2 Total borrowing 2011 -2028



66. As previously reported whilst this approach served the Council well in keeping interest costs down compared with fixing borrowing through the PWLB, this exposed the Council to interest rate risk and the risk associated with replacing temporary borrowing as loans matured. Following the s.114 notice the number of local authorities willing to lend to the Council has reduced significantly.

67. In response to the s.114 notice and the Finance Action Plan, the 2022/23 TMS introduced a debt reduction strategy with the aim of reducing the Council's borrowing down to a target level of £335m which is a sustainable level of borrowing for an authority the size of Slough. As can be seen from Chart 2, the level of borrowing is forecast to reduce by £145m to £570m by 31

March 2023 and £404m by 31 March 2024. Thus bringing the Council's borrowing down to a sustainable and affordable level.

68. Currently inflation is driving interest rate rises. Inflation in Q4 of 2022 was at 10.9% - the highest rate for 30 years. The Bank of England is forecasting inflation to reduce to 5.2% by Q4 2023 and reduce to 1.4% by Q4 2024.

69. In response to the rise in inflation, the Bank of England Monetary Policy Committee (MPC) increased base rate from 2.25% to 3.0% on 11 November 2022, then 3.5% on 28 December 2022 and to 4.0% on 2 February 2023. The MPC forecast bank rate will peak at 5.2% in Q4 2023 and start to reduce in 2024 to 4.7% by Q4.

70. Given the above it remains key to the Council's financial recovery plan to reduce interest rate exposure from temporary borrowing and to continue to reduce borrowing overall.

Post-PWLB Interest Rate Change Borrowing Strategy

71. 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).

72. 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.

73. 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

74. 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.

75. 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.

76. 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

77. In view of the unsustainably high level of borrowing highlighted in Chart 2 above, the strategy remains to use capital receipts from the asset disposal programme to repay borrowing. As explained above the debt reduction strategy started last year is beginning to bear fruit with a £145m reduction in overall borrowing by 31 March 2023 and a further reduction to £404m in the following year. This will bring the overall borrowing down to sustainable level and in line with the target of £335m for the Council.

Limits on external borrowing

78. The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 9 below. The Authorised Limit has been increased in line with the CFR.

Table 9 Overall borrowing limits (Prudential Indicators 5a and 5b)

2021/22 Actual £m		2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
904	Authorised Limit:	793	638	587	574	562	530
794	Operational boundary	757	609	560	548	536	506

79. 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 5 plus 5%

- **Operational Boundary (Prudential Indicator 5b) –** This is the limit which external debt is not normally expected to exceed. The boundary has been set at the level of the CFR plus other financial liabilities (see Table 5 above).

80. 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)

81. 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. Table 10 below sets out current upper and lower limits for debt. The principal repayment profile for current council borrowing remains within these limits.

Table 10 Debt maturity profile limits (Prudential Indicator 7)

Maturity structure of fixed rate borrowing	Upper Limit %	Lower Limit %	Forecast maturity of fixed rate borrowing at 31 March 2023 £m	%	Compliance with set limits?
Under 12 months	70%	0%	134	23%	Yes
1 to 2 years	50%	0%	79	14%	Yes
3 to 5 years	35%	0%	65	11%	Yes
6 to 10 years	25%	0%	40	7%	Yes
10 to 20 years	50%	0%	155	27%	Yes
20 to 30 years			64	11%	
30 to 40 years			0	0%	
40 to 50 years			33	6%	
Total			**570**	**100%**	

82. The indicator is designed to control the Council's exposure to refinancing risks. The indicator covers the risk of replacement loans being unavailable, rather than interest rate risk. The Council has no Lender Option Borrower Option loans (LOBOs) with option dates as potential repayment dates. The Council converted its Barclays bank LOBO into a fixed rate loan in 2016, and this does not contain any option dates either.

83. Table 11 below sets out the upper limits for interest rate exposures. The Council has no variable interest rate loans in its portfolio; all loans are fixed interest rate loans. The Council is impacted by increasing interest rates at the point of re-financing. However this risk is being mitigated by repaying all temporary borrowing using capital receipts from asset sales.

Table 11 Interest rate exposures

Interest rate exposure indicator	2022/23 Forecast	2022/23 Limit	Complied?
Limits on fixed interest rates based on net debt	100%	100%	Yes
Limits on variable interest rates based on net debt	0%	60%	Yes

84. 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.

Policy on borrowing in advance of need

85. 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.

86. 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

87. 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).

88. 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.

89. 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

90. 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).

91. As at 31 December 2022 core cash and short-term investments totalled £155.6m. This is a temporary position arising from receiving capital receipts in advance of temporary loans maturing. These balances are being invested on a temporary basis with the Debt Management Office (£102.5m), money market funds (£44.2m) and a 3 month loan to another local authority.

Prospects for investment rates

92. Investment returns for short-term money have kept level with movements in base rate. As a result the Council is earning an average of 3.1% on balances with the Debt Management Office (DMO) and 2.7% with money market funds. Cash generated from the asset sales has been invested in the DMO over durations to match the maturity of temporary loans. This will yield nearly £1m in 2022/23.

93. As part of the response to the pandemic and lockdown, the Bank of England and the Government provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government provided large sums of grants to local authorities to help deal with the Covid-19 crisis; which caused some local authorities to have sudden large increases in cash balances searching for an investment home. The Government has started to recoup unused Covid grants, and consequently the amount of “spare” money on the local authority market has reduced significantly.

94. 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 12 below (the long-term forecast is for periods over 10 years in the future):

Table 12 Forecast investment returns

Average earnings in each year	
2022/23	2.00%
2023/24	3.00%
2024/25	3.00%
2025/26	2.50%
2026/27	2.50%
2027/28	2.00%
Long-term later years	2.00%

Pension pre-funding payment

95. 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 2022/23 which achieved a return of 2.6%. This was significantly better than investment in the money market for 12 months which was generating less.

96. In 2023/24, because the Council will have fully repaid all temporary borrowing by September and the Council is forecasting to generate an additional £200m of capital receipts in 2023/24, it is proposed that the Council enter into an agreement with Berkshire Pension Fund to use capital receipts remaining after repaying temporary borrowing to be used to pay off the Council’s pension fund deficit.

97. The actuary has provided a provisional rates and adjustment certificate following the March 2022 triennial funding valuation, which envisages the Council paying:

- Primary contributions for current service at 17.2% of pensionable pay for the period 2023/24 to 2025/26; and
- Secondary contributions in respect of the funding deficit of £51.1m at 31 March 2022 at c. £5.5m for the next 12 years.

98. By using capital receipts to fund a one-off payment to the pension fund of £51.1m in 2023/24, the Council would eliminate the need to pay secondary contributions to the pension fund on the basis of the 2022 valuation. This would save the revenue budget an average of £5.5m per annum for the next 12 years.

99. Normally employers pension contributions are a revenue charge. Making use of the flexible use of capital receipts powers would permit the Council to treat the one-off contribution as revenue expenditure funded from capital under statute and fund the payment from capital receipts.

100. DLUHC issued a revised Flexible Use of Capital Receipts for Transformation Projects Direction on 1 August 2022. Para 3 of the Direction permits local authorities to:

treat as capital expenditure, expenditure which:

i. is incurred by the Authorities that is designed **to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners**; and

ii. is properly incurred by the Authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.

iii. is not incurred with respect to redundancy payments, except where such redundancy costs are necessarily incurred and limited to the amounts available as statutory redundancy payments.

101. Taking the three points in turn:

Criterion	Analysis	Met?
Is the expenditure designed to: (a) **generate ongoing revenue savings in the delivery of public services and/or** (b) **transform service delivery to reduce costs and/or** (c) **transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners**	By paying off the pension fund deficit in one lump sum, there would be an ongoing saving to the Council of £5.5m per annum for the next 12 years and would save the Council having to pay interest on the deficit of £14.48m.	Yes
Would the expenditure be properly incurred for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024	The expenditure would be a one-off payment in the year beginning 1 April 2023	Yes
The expenditure is not incurred with respect to redundancy payments?	The expenditure would be solely concerned with paying off the pension fund deficit	Yes

102. Therefore the above analysis indicates that the expenditure would meet the criteria for classification as transformation expenditure.

103. Para 4 and 5 of the Direction sets out further stipulations regarding capital receipts, which requires the “transformation expenditure “ shall only:

- be met from capital receipts as defined by section 9 of the Local Government Act 2003 and the regulations made thereunder received in the years to which the Direction applies (ie. for the financial years beginning 1 April 2016 to 1 April 2024, inclusive; and
- that the capital receipts must be generated from disposals outside the group structure.

104. The capital receipts are being generated from disposals in the years commencing 1 April 2022 and 1 April 2023, so meet the first stipulation. The Council is not selling to any parties within its group structure. Indeed the Council is in the process of winding up companies within its group structure. Therefore, this meets the second stipulation.

105. The purpose of this section is to authorise the Director of Finance to enter into agreement with Berkshire Pension Fund to make a one-off payment to Berkshire Pension Fund to pay off the pension fund deficit, subject to there being sufficient capital receipts available after repaying all temporary borrowing and obtaining independent investment advice to mitigate any investment risk associated with the transaction.

Council policy on investing and managing risk

106. 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

107. 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.

108. The Council has long-term investments in the form of loans to third parties set out in Table 13 below. The loans to third parties generate an interest stream to the Council of £1.9m with an effective rate of 3.39%.

Table 13 Loans to third parties

Interest receivable 2021/22 £000s	Debtor	Balance at 31/3/2023 £000s	Interest receivable 2022/23 £000s	Rate %
1,551	James Elliman Homes	51,700	1,551	3%
420	SUR LLP - senior debt [1]	0	144	5%
0	SUR LLP - loan notes [2]	2,885	0	5%
N/A	GRE 5 Ltd [3]	9,613	578	6%
28	Slough Children First Ltd	5,000	71	1.41%
1	St Bernards School [4]	repaid	2	2.49%
2,000		**69,198**	**2,346**	**3.39%**

Notes:

1 The senior debt loan was fully repaid in December 2022. Loan advances had totalled £10m

2 The interest on the loan notes has been impaired as it is unlikely that the remaining sales of apartments at the Old Library Square Residential scheme will generate sufficient income to do anything more than repay the loan notes.

3 The loan advance of £10m to GRE5 was executed in August 2022.

4 St Bernards School prematurely repaid the £130,000 loan in October 2022,

109. Since the loan was executed in August 2022, the costs for remediating Nova House have escalated and the loan will need to be increased to £15m. Currently the loan is being repaid from claims against Homes England. However there remains some uncertainty over the extent to which the loan advances will be fully recoverable from the company. Therefore, there may be a need to impair the loan by up to £5m.

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

111. 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 loans generating a net return are the senior debt loan to SUR and the loan to GRE 5 Ltd.

112. Given the Council's financial position, any future loans to third parties should no longer be 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).

113. Last year the TMS increased the investment limit to £90m to provide headroom for further advances, subject to due diligence on the prospective debtor. Increasing the loan to GRE 5 Ltd by £5m would still leave headroom beneath the £90m limit of £15m. Consequently, there is no proposal to adjust this limit – see table 14 below.

Table 14 Investment limits (Prudential Indicator 6)

	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Actual principal invested beyond 364 days	69	74	71	71
Upper limit for principal sums invested for more than 364 days	90	90	90	90
Complied?	Yes	Yes	Yes	Yes

SECTION 4 - SUMMARY OF PRUDENTIAL INDICATORS (PIs)

114. 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.

115. 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.

116. The Director of Finance has confirmed that the PIs set out below are all expected to be complied with in 2022/23 and he does not envisage at this stage that there will be any difficulty in achieving compliance with the proposed indicators for 2023/24-2025/26.

PI Ref	Para ref	Prudential Indicator	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Proposed £m	2024/25 Proposed £m	2025/26 Proposed £m
1	17	Capital expenditure	51	40	46	28	18
2	43	Capital financing requirement	897	720	578	531	521
3	45	Net debt vs. CFR - under/(over) borrowed	148	116	143	159	198
4	47	Ratio of financing costs to revenue stream					
		General Fund	12.89%	21.47%	15.92%	11.84%	8.69%
		HRA	38.54%	36.56%	34.75%	32.16%	31.70%
5a	78	Authorised limit for external debt	904	793	638	587	574
5b	78	Operational debt boundary	794	757	609	560	548
6	113	Limit on surplus funds held for more than 364 days (i.e. non-specified investments)	90	90	90	90	90
7	81	Maturity structure of borrowing					
		Upper limit under 12 months	23%	70%	70%	70%	70%
		Upper limit 10 years or more	44%	50%	50%	50%	50%

SECTION 5 - LEGAL IMPLICATIONS

117. 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.

118. 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.

119. 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.

120. 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 11 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 2022/23 (approved by Council 10 March 2022)
2. Capital Strategy and Capital Programme: 2022/23 to 2026/27 (approved by Council 10 March 2022)

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 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

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.

  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 14 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

There are no changes to the approved counterparty list and the Council is currently complying with the current limits

	Minimum credit criteria	Max % of total investments/ £ limit per institution	Max. maturity period	Actual at 31/1/2023 £m	Complied?
Specified Investments					
DMADF – UK Government	N/A	100%	6 months*	81.5	Yes
Money market funds: CNAV and VNVAV	AAA	100%	Daily Liquidity	48.3	Yes
Local authorities	N/A	100%/£20m	10 years	5.0	Yes
Lloyds Bank plc (the Council's bankers)	A+	£20m £5m	Overnight deposits ** Up to 12 months	6.6	Yes
Term deposits with banks and rated building societies	A+		Up to 3 years	4.0	Yes
Current and Ex - Government Supported banks	A+	50%	Up to 1 year	0	N/A
Non-specified investments					
UK Government supported banks and Ex- Government supported banks	n/a	£70m or 50% of total investments	3 yrs.	0	N/A
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	0	N/A

* 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 Corporate 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) Audit and Corporate Governance Committee

- Review of the treasury management function as part of the Committee's overall review of the Council's corporate governance and risk management arrangements

(iii) Executive Director – Finance and Commercial

- 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.

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.