www.slough.gov.uk
Slough Borough Council

Growing a place of opportunity and ambition

Date of issue: Tuesday, 9 January 2024

MEETING:	**AUDIT AND CORPORATE GOVERNANCE COMMITTEE** (Councillors O'Kelly (Chair), Akram (Vice Chair), E. Ahmed, Anderson, Rana, W. Sabah, Shaik and Zarait) **CO-OPTED INDEPENDENT MEMBERS:** Naira Bukhari, Tony Haines, Rupa Sidpara and Jen Simpson.
DATE AND TIME:	WEDNESDAY, 17TH JANUARY, 2024 AT 6.30 PM
VENUE:	COUNCIL CHAMBER - OBSERVATORY HOUSE, 25 WINDSOR ROAD, SL1 2EL
DEMOCRATIC SERVICES OFFICER: **(for all enquiries)**	SHABANA KAUSER 07821 811 259

NOTICE OF MEETING

You are requested to attend the above Meeting at the time and date indicated to deal with the business set out in the following agenda.

STEPHEN BROWN
Chief Executive

AGENDA

PART I

AGENDA ITEM	REPORT TITLE	PAGE	WARD
	Apologies for absence.		
1.	Declarations of Interest *All Members who believe they have a Disclosable Pecuniary or other Interest in any matter to be considered at the meeting must declare that interest and, having regard to the circumstances described in Section 9 and Appendix B of the Councillors' Code of Conduct, leave the meeting while the matter is discussed.*	-	-

sustainable forest

AGENDA ITEM	REPORT TITLE	PAGE	WARD
2.	Minutes of the Last Meeting held on 22 November 2023	1 - 8	All
3.	Action Progress Report	9 - 16	All
4.	Update on Internal Audit	To Follow	All
5.	Treasury Management Outturn 2022/23	17 - 36	All
6.	Treasury Management Quarter 1 2023/24	37 - 56	All
7.	Proposed Audit Fees	To Follow	All
8.	Work Programme 2023/24	57 - 58	All
9.	Members Attendance Record	59 - 60	All
10.	Date of Next Meeting - 20th March 2024	-	-

Press and Public

Attendance and accessibility: You are welcome to attend this meeting which is open to the press and public, as an observer. You will however be asked to leave before any items in the Part II agenda are considered. For those hard of hearing an Induction Loop System is available in the Council Chamber.

Webcasting and recording: The public part of the meeting will be filmed by the Council for live and/or subsequent broadcast on the Council's website. The footage will remain on our website for 12 months. A copy of the recording will also be retained in accordance with the Council's data retention policy. By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

In addition, the law allows members of the public to take photographs, film, audio-record or tweet the proceedings at public meetings. Anyone proposing to do so is requested to advise the Democratic Services Officer before the start of the meeting. Filming or recording must be overt and persons filming should not move around the meeting room whilst filming nor should they obstruct proceedings or the public from viewing the meeting. The use of flash photography, additional lighting or any non hand held devices, including tripods, will not be allowed unless this has been discussed with the Democratic Services Officer.

Emergency procedures: The fire alarm is a continuous siren. If the alarm sounds Immediately vacate the premises by the nearest available exit at either the front or rear of the Chamber and proceed to the assembly point: The pavement of the service road outside of Westminster House, 31 Windsor Road.

Audit and Corporate Governance Committee – Meeting held on Wednesday, 22nd November, 2023.

Present:- Councillors O'Kelly (Chair), E. Ahmed (Vice-Chair), Akram, Anderson, W. Sabah, Shaik and Zarait

Also present under Rule 30:- Councillors Mann and Muvvala

Apologies for Absence:- Councillor Rana and Naira Bukhari

PART 1

25. Declarations of Interest

Councillor O'Kelly declared that he was chair of governors at St Mary's Church of England Primary School. He stayed and participated in the meeting.

26. Minutes of the Last Meeting held on 13th September 2023

Councillor Ahmed proposed an amendment to Minute 19 as follows:

Current wording:

"The Vice-Chair stated that he would continue to ask questions that he deemed relevant in regard to agenda items and would not be advised whether what he was asking was appropriate or repetition. Councillor Akram stated that she was leaving the meeting due to the discourteous manner in which the Vice-Chair had spoken to her."

Amendment proposed by Councillor Ahmed, seconded by Councillor Shaik:

"The Vice-Chair stated that he would ask questions that he deemed relevant in regard to the agenda items and asked Councillor Akram not to make political scores but instead ask the specific questions if she has to the committee. Councillor Akram stated that she was leaving the meeting due to the discourteous manner in which the Vice-Chair had spoken to her."

The amendment to the minutes was put to the vote and lost, with 2 votes for, 3 against and 1 abstention.

Resolved - That the minutes of the meeting held on 13th September 2023 be approved as a correct record.

27. Action Progress Report

A Member asked for an update following the meeting held on 1 November 2023 between the Chair, Commissioners, Monitoring Officer and Group Leaders regarding the committees terms of reference. The Chair informed the meeting that he was awaiting a formal written response from the Lead Commissioner. The Deputy Monitoring Officer confirmed that the committee was properly constituted and able to conduct its business. Councillor Anderson stated that in his view no progress had been made since the last meeting and he did not believe the committee was properly constituted, therefore he would be staying as a member of the committee but would be abstaining on all resolutions made by the committee for the duration of the meeting.

Resolved – That details of the Action Progress Report be noted.

(Councillor Anderson abstained from voting on the above)

28. Slough Children First Governance Review - Update on Progress

The Committee received the latest update report that summarised progress made on actions recommended following the Slough Children First (SCF) Governance Review.

The Assistant Director, Legal and Governance reminded Members of the background to the company and the governance review that had been undertaken. It was reported that some indicators had moved from ‘Green’ to ‘Amber’ since the previous update to the committee in September. These included the need for updated contractual key performance indicators (KPIs), formal contract monitoring meetings, reporting against the business and improvement plan and risk management. The steps being taken in each of these areas was summarised and it was noted that significant progress had been made which provided the reasonable prospect of improvements in the RAG ratings in the next report. One of the key areas of the progress was the development of a clear and focused business and improvement plan, including the updated KPIs, for which Cabinet approval would be sought in December 2023.

The new Chair of SCF, Simon Baker, and Nina Robinson, SCF Independent Non-Executive Director were welcomed to the meeting. Mr Baker acknowledged that the company’s governance was an important part of the Council’s wider recovery plan and outlined some of the areas of improvement that the SCF Board was prioritising.

Several members of the committee expressed concerns that some of the ‘Amber’ rated areas, such as updated KPIs, financial controls and risk management, were basic requirements expected of any well-run company and sought assurance that sufficient action was in place to move them to ‘Green’ in the short term. It was responded that the company had put in place new leadership during the year, including the recruitment of a permanent Director of Children’s Services/Chief Executive of SCF in January 2023 and the new chair had been appointed in August 2023, and this was accelerating improvements. However, the legacy issues the company faced and considerable pressures on the costs, demands and complexity of children’s services meant that it would take time to put in place and embed the necessary improvements.

A councillor highlighted that the Council's spending on children's services had risen significantly over the past decade to circa £40m, but it was not apparent that this additional investment had delivered a comparative improvement in service provision. The Chief Executive of SCF responded to the points raised and highlighted that significant financial controls had been put in place; that the average cost of placements was lower than in 2016 and the lowest in the South East; and that the actions taken to reduce legal costs and improve staff recruitment and retention were showing signs of success. Members requested that benchmarking data with Berkshire and comparative local authorities regarding the unit costs per child to the service be circulated to members of the committee. SCF representatives provided reassurance that the company was committed to driving down costs and to improve services for children.

Other issues raised included the change in the rating of the company's internal audit arrangements from 'Green' to 'Red' following a review of historic internal audit reports and the failure of the company to produce an annual report for 2022/23. Assurance was given that the internal audit and risk management issues were being addressed. The Cabinet would consider the requirement for the company's annual report in December.

In addition to the reports to the Audit & Corporate Governance Committee the opportunities for Members to scrutinise the progress of the company at Cabinet and through the Corporate Improvement Scrutiny Committee work programme were highlighted and the Chair of SCF invited Members who wished to discuss the issues raised in more detail would be welcome to contact him outside of the meeting.

At the conclusion of the discussion the report was noted.

Resolved – That progress made as set out in Appendix 1 to the report be noted.

(Councillor Anderson abstained from voting on the above)

29. Internal Audit Progress Report Quarter 3 2023/24

The Internal Audit Manager introduced the report setting out progress on the implementation of internal audit reports and actions for 2021/22 and 2022/23 and actions being taken by the Corporate Leadership Team and Department Leadership Teams to respond to internal audit reports and associated outstanding actions.

Details regarding internal audit actions were outlined as

- 2021/22 - 229 actions (70%) of actions due had been completed, with a further 98 actions that were overdue the agreed date of implementation. 9 of these were rated high, 55 medium and 34 low rated.

- 2022/23 - 90 actions (40%) of actions due had been completed, with a further 75 (33%) of actions not yet due for completion. 60 actions were overdue the agreed date of implementation - 18 of these were rated high, 30 medium and 12 low rated.
- 2023/24 – 67 recommendations made of which there were 15 high, 36 medium and 16 low rated. 46 recommendations had not been allocated an action owner due to audit reports not having been finalised. 14 actions (21%) not yet due for completion. 7 actions were overdue the agreed date of implementation -none of which were rated high, 4 medium and 3 low rated.

It was brought to Members attention that the implementation of AuditBoard was currently underway with an expected 'go-live' date of 15th December 2023. This would assist in building value-adding, fit for purpose audit services that would cater for the Council's present and future requirements.

A Member expressed concern that given the number of current vacancies within the internal audit team, the internal audit plan as agreed by the Committee in July 2023, would not be delivered; and asked what measures were being taken to address this. The Committee were informed that vacancies had been advertised and an update would be provided at the next meeting. In the event no suitable applications were received, option to bring in temporary resources, if required, would be considered. It was anticipated that AuditBoard would significantly assist the internal audit team in efficiencies and management of workload.

In response to how internal audit work was linked to external audit it was explained that it impacted on the council's Annual Governance Statement and provided indicators as to whether value for money was being delivered.

Resolved - That details of the report be noted, specifically

- that a detailed review of all outstanding recommendations continues to be carried out. The output from which has been shared with the Departmental Leadership teams for actioning overdue and other outstanding actions. Update analysis has been provided as of 3rd October 2023.
- the current and future resourcing issues that affect the delivery of the current audit plan for the financial year.
- the implementation of AuditBoard is currently underway with expected 'go-live' date of 15th December 2023. This will help build a value-adding, fit for purpose audit services that will cater for the Council's present and future requirements.

(Councillor Anderson abstained from voting on the above)

30. Risk Management Strategy

The Executive Director, Finance and Commercial presented details of the new draft Risk Management Strategy. The document set out the Council's strategy and approach to the management of risk, demonstrating its intention to continue to develop the maturity of Enterprise Risk Management (ERM) across the organisation during 2023/24 and beyond to support the delivery of the Council's strategic priorities and outcomes. The Committee was reminded that the strategy would be referred to Cabinet for formal adoption.

Members welcomed the draft strategy. It was noted that prior to submitting the strategy to Cabinet for consideration, Section Part 3 – Roles and Responsibilities - of the document would be updated be reflect that Cabinet had responsibility for approving the document.

Resolved -

(a) That the Risk Management Strategy for 2023/24 be endorsed which incorporates:

i. Revised likelihood measures.
ii. A quadrant-based system of risk treat allocation.
iii. An outcome orientated approach to defining risk.
iv. Pursuance of a systemised solution to the recording and management of risks.

(b) Recommend that the Risk Management Strategy be referred to Cabinet for approval.

(Councillor Anderson abstained from voting on the above)

31. Audit of Accounts 2018/19 Progress Update

Julie Masci from Grant Thornton, the Council's external auditor, introduced a report on the Audit of the Accounts 2018/19. The report had been prepared to seek to understand the root causes that led to the significant problems with the 2018/19 audit and included a range of interviews with Council officers. The objectives had been to learn lessons and avoid a repeat of the mistakes made during that period and help the Council put in place an adequate financial framework for the future.

The conclusion was that there had not been a single dominant causal factor, but the problems had been caused by a range of issues, some of which were linked to wider problems in the Council at that time. Key factors included the reduced size of the finance team at a time when demands were increasing due to increasing complexity of accounting transactions, particularly relating to property; the extensive use of interim staff; weaknesses in account processes and systems; poor quality or missing working papers; and issues relating to organisational culture with the finance function not sufficiently valued within the wider organisation.

There had been significant focus on these issues since the Section 114 Notice had been issued in July 2021, with a comprehensive Finance Action Plan being developed and implemented. It was recognised that the depth of the problems in the Council and wide ranging set of actions to achieve the required improvements meant that it would take some considerable time to deliver and embed the action plan.

The Committee welcomed the report. Members asked a number of questions including about the current status of the 2018/19 accounts. It was noted that all audit work had been completed in relation to 2018/19 and the formal Letter of Representation from the Section 151 Officer and Chair of the Audit & Corporate Governance Committee was awaited shortly and would complete the process. An update was provided on the national local government audit backlog which would impact on the process and timescale for closing the accounts for subsequent years. It would not be value for money to carry out further detailed work on the financial statements for prior years until the national guidance was received.

Members discussed some of the specific lessons learned including accounting systems and processes and the importance of a strengthened internal audit function identifying any problems at a much earlier stage so the Council could address them.

At the conclusion of the discussion the committee thanked Ms Masci and her colleagues at Grant Thornton for the report which was then noted.

Resolved – That details of the report be noted.

(Councillor Anderson abstained from voting on the above)

32. Annual Governance Statement Progress Update

The Assistant Director, Legal and Governance, provided an update on progress against the Action Plan in the Annual Governance Statement 2022/23 (AGS). The AGS was a critical part of the Council's corporate governance processes and reviewing action against previous year's AGS's provided a means to assess whether appropriate focus was being applied to the improvement required.

The AGS contained a list of issues identified for specific action and progress against each of these was outlined. Specifically, measures implemented to supporting new and inexperienced members were highlighted.

Members were informed that the next update report would include a rating on whether satisfactory progress has been made to mark actions as complete. This would in turn inform which actions were required to be included in the development of the next annual governance statement.

A Member asked whether closing of outstanding statement of accounts for previous years was on track. The Executive Director, Finance and Commercial provided an update position on outstanding accounts as –

- 2018/19 Accounts awaiting final sign-off from the auditors, Grant Thornton.
- 2019/20 Accounts prepared and sent to external audit.
- 2020/21 Accounts partially prepared but yet to be fully completed, in light of 2019/20 waiting audit.
- 2021/22 to be completed (work had started)
- 2022/23 to be completed (work had started)

Work was ongoing to complete all outstanding accounts and the latest position was subject to national guidance being issued around catch up arrangements for outstanding external audits across the country.

Julie Masci, from the Council's external auditors Grant Thornton, reiterated that the council was expected to produce statement of accounts but the level of audit required on these by external auditors was dependent on government guidance. It was anticipated that accounts up to 22/23 would not require detailed audits - recognising the failings of previous years and focus on recent years to see whether value for money was being delivered.

Resolved - That details of the update be noted.

(Councillor Anderson abstained from voting on the above)

33. Work Programme 2023/24

Resolved - That details of the work programme 2023/24 be noted.

34. Members Attendance Record

Resolved - That details of the Members attendance record be noted.

35. Date of Next Meeting - 17th January 2024

The date of the next meeting was noted as 17th January 2024.

Chair

(Note: The Meeting opened at 6.30 pm and closed at 8.32 pm)

This page is intentionally left blank

SLOUGH BOROUGH COUNCIL
AUDIT & CORPORATE GOVERNANCE COMMITTEE
ACTION PROGRESS REPORT

22 November 2023

<table>
<tr><th>Minute reference</th><th>Agenda item and Action required</th><th>Lead Officer</th><th>Status / Comment</th></tr>
<tr><td></td><td>Slough Children First Governance Review – Update on Progress

Benchmarking data with Berkshire and comparative LA's re framework placement costs to the service to be circulated to Committee Members.</td><td>Executive Director, Children's Services</td><td>Benchmarking – Framework Placement Costs

• Benchmarked data for Residential placements as per South Central Framework

<table>
<tr><td>Local Authority:</td><td>Benchmark</td><td></td></tr>
<tr><td>ON CONTRACT CRC Placements
(for new placements made since 01/10/2022, excluding RPA & residential schools/placements with education)</td><td>Weekly fee
(including extras)</td><td>Slough Children First</td></tr>
<tr><td>Average fee (mean)</td><td>£5,378</td><td>£4,708</td></tr>
<tr><td>Lowest fee (actual lowest)</td><td>£2,600</td><td>£2,975</td></tr>
<tr><td>Highest fee (actual highest)</td><td>£14,250</td><td>£5,950</td></tr>
<tr><td>OFF CONTRACT Spot Placements
(for new placements made since 01/10/2022, excluding RPA & residential schools/placements with education)</td><td>Weekly fee
(including extras)</td><td>Slough Children First</td></tr>
<tr><td>Average fee (mean)</td><td>£6,766</td><td>£5,045</td></tr>
<tr><td>Lowest fee (actual lowest)</td><td>£1,214</td><td>£1,214</td></tr>
<tr><td>Highest fee (actual highest)</td><td>£34,960</td><td>£11,000</td></tr>
</table>
</td></tr>
<tr><td></td><td>Risk Management Strategy

Strategy to be updated prior to submission to Cabinet – Section Part 3 Roles and Responsibilities, Cabinet – insert additional bullet point under role description
• Approve the Risk Management Strategy
Document to be tidied up eg alignment of text and bullet points, tables not split over pages.</td><td>Internal Audit Manager

Internal Audit Manager</td><td>Completed. Scheduled for February 2024 Cabinet meeting.

Completed. Document updated.</td></tr>
</table>

Assistant Director, ICT and Digital, Simon SharkeyWoods will be in attendance at the meeting to provide members with an update as to current progress on outstanding audit actions for ICT and Digital, as attached in the following appendix.

Overdue High Risk Actions By Aged Analysis (as at 15 December 2023)

> 1 Year < 2 Years

Year	Report Title	Recommendation	Rating	Action Owner	ED/AD	Directorate	Service	Implementation Date	Status	Days (as at 15 December 2023)	Age Analysis
21/22	24.21/22 GDPR Governance	The Data Flow Capture Spreadsheet will be updated to include the following areas: • name and contact details of joint controller (if applicable); • categories of individuals; • names of third countries or international organisations that personal data are transferred to (if applicable); • safeguards for exceptional transfers of personal data to third countries or international organisations (if applicable); • Data Protection Act 2018 Schedule 1 Condition for processing; • GDPR Article 6 lawful basis for processing; • link to retention and erasure policy document; and • whether personal data retained and erased in accordance with the retention policy document - reasons for not adhering to retention policy document (if applicable).	High	Alex Cowen	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	437	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will ensure that its IT estate is brought up to date in terms of patching as soon as possible	High	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/10/2022	Overdue	406	> 1 Year < 2 Years
22/23	7.22/23 Leavers Process	We will ascertain why a leavers report was not provided to IT for April 2022 and take any action to ensure reports are provided consistently. Where reports are not received in the first week of the month, the IT Team will confirm with HR whether there any leavers.	High	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	437	> 1 Year < 2 Years

> Six Months < 1 Year

Year	Report Title	Recommendation	Rating	Action Owner	ED/AD	Directorate	Service	Implementation Date	Status	Days (as at 15 December 2023)	Age Analysis
22/23	14.22/23 Follow Up IT Business Continuity and Disaster Recovery	The DR Policy The Council will document a Disaster Recovery Policy, independent of the Disaster Recovery Plan	High	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/03/23	Overdue	255	> Six Months < 1 Year

Overdue Medium Risk Actions By Aged Analysis (as at 15 December 2023)

> 1 Year < 2 Years

Year	Report Title	Recommendation	Rating	Action Owner	ED/AD	Directorate	Service	Implementation Date	Status	Days (as at 15 December 2023)	Age Analysis
21/22	24.21/22 GDPR Governance	The Information and Records Management Policy will be reviewed and updated to include details on managing the security of records and disciplinary information. In addition, the Corporate Retention Schedule will be updated to include: • format of the record (electronic, paper etc.); • storage location; • record owner; • retention trigger; • action at the end of retention period (review for further retention, anonymise, destroy etc.); and • method of disposal. Following this, the Schedule will be fully completed and referenced in the Information and Records Management Policy accordingly.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	24.21/22 GDPR Governance	The Council will formally document and agree the lawful bases for the different types of data processed by the organisation. This will include the rationale for the lawful bases as relevant. Subsequently, this will be communicated to relevant staff.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/06/22	Overdue	533	> 1 Year < 2 Years
21/22	24.21/22 GDPR Governance	The Council will ensure that all forms used to capture consent under GDPR cover: • the name of the organisation/any third-party controllers who will rely on the consent; • a copy of the privacy notice or reference to this and where it is available; • why the organisation wants the data (the purposes of the processing); • what the organisation will do with the data (the processing activities); • whether the data will be shared with any other organisations; • the fact that data subjects can withdraw their consent at any time; and • a recording of explicit consent (rather than implied), including the date when consent was given.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/06/22	Overdue	533	> 1 Year < 2 Years

21/22	24.21/22 GDPR Governance	The Council will ensure that a register of third parties to whom 'in scope' (personal) data is transferred to is in place and records: • name of the third party; • whether there will be sharing of personal data with the third party (if it is a general register for all third parties/contracts etc.); • whether a formal contract or other legal act is in place; • contract owner; • whether the contract contains the required contractual data confidentiality terms and conditions / clauses; • start and end dates of the contract; and • other contractual protections that have been put in place/assessed (especially where a contract is not in place), such as reviewing the third party's terms and conditions or privacy notices, or the use of a signed data/information sharing agreement. In addition, the Council will ensure that any Terms and Conditions used within agreements are in line with ICO guidance, and that data sharing agreements cover: • the purpose, or purposes, of the sharing, including aims and benefits; • the potential recipients or types of recipient of the data, the circumstances in which they will have access and their contact details; • procedures for including additional organisations in the data sharing arrangement and for dealing with cases where an organisation needs to be excluded from the sharing; • the data to be shared, including permissions for certain data items (i.e. only to be accessed by trained staff); • basis for sharing (lawful basis); • data quality – accuracy, relevance, compatibility/usability etc.; • data security, including for the transmission of data; • retention of shared data, including procedures for dealing with cases where	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/03/22	Overdue	624	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will ensure documentation is retained for its 'gold' image, including applications to be installed or standard applications to be disabled/removed	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will document within a policy its approach to how default accounts in computers and network devices should be securely configured. This will include the renaming and disabling of default accounts	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will retain a central register of all shared accounts in use, with the justification for this recorded. This will then be subject to periodic review with a view to remove shared accounts where possible	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will document a user account access management procedure covering areas.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will document an administrator account management policy/procedure covering areas	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will document a boundary firewall policy covering different areas.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The IT Password Policy will be updated	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/09/22	Overdue	441	> 1 Year < 2 Years
21/22	29.21/22 Cyber Essentials	The Council will review administrator account levels of access with respect to general browsing (social media etc.) and webmail with a view to restrict this as relevant.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/10/22	Overdue	410	> 1 Year < 2 Years

22/23	7.22/23 Leavers Process	We will define the process for the permanent deletion of leaver user accounts and how this can be extended including who must authorise this, as well as what action to take when leaver notifications are missing information, such as the user's leaving date. We will also complete the date of next review placeholder on the Starter/Leaver Process document and make the new version available to staff.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/10/22	**Overdue**	**410**	**> 1 Year < 2 Years**
22/23	7.22/23 Leavers Process	We will establish an approval process where user accounts need to remain active for longer than three months. This will require approval of the Group Manager – IT and relevant Associate Director of the department the employee relates. We will also follow up on user accounts that have been approved to be extended to ensure they are permanently deleted after the extension period.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	30/11/22	**Overdue**	**380**	**> 1 Year < 2 Years**

> Six Months < 1 Year

Year	Report Title	Recommendation	Rating	Action Owner	ED/AD	Directorate	Service	Implementation Date	Status	Days (as at 15 December 2023)	Age Analysis
21/22	29.21/22 Cyber Essentials	The Council will periodically review and update the Internet Browser's in use across its IT estate.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/12/22	**Overdue**	**349**	**> Six Months < 1 Year**
21/22	29.21/22 Cyber Essentials	The Council will ensure that auto updates are enforced on all devices where possible, including mobile devices	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/12/22	**Overdue**	**349**	**> Six Months < 1 Year**
22/23	7.22/23 Leavers Process	We will establish a six-monthly dip sample of starters, leavers and current user access over the period to ensure starters and leavers have been processed and current user access is consistent with the role of the related employees	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/12/22	**Overdue**	**349**	**> Six Months < 1 Year**
22/23	14.22/23 Follow Up IT Business Continuity and Disaster Recovery	IT Business Continuity Plan	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/05/23	**Overdue**	**198**	**> Six Months < 1 Year**
22/23	14.22/23 Follow Up IT Business Continuity and Disaster Recovery	Lessons Learnt The Council will document a formal “lessons learnt” process for IT business continuity and disaster recovery. This will include the use of a template report and action plan.	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/03/23	**Overdue**	**259**	**> Six Months < 1 Year**

><Six Months

Year	Report Title	Recommendation	Rating	Action Owner	ED/AD	Directorate	Service	Implementation Date	Status	Days (as at 15 December 2023)	Age Analysis

22/23	14.22/23 Follow Up IT Business Continuity and Disaster Recovery	Business Impact Analysis (BIA)	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	29/09/23	**Overdue**	**77**	**Three Months**
22/23	14.22/23 Follow Up IT Business Continuity and Disaster Recovery	Applications List The Council will ensure that a central register of all applications is retained with priority of recovery for applications, either individually or by group	Medium	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	29/09/23	**Overdue**	**77**	**Three Months**

Overdue Low Risk Actions By Aged Analysis (as at 15 December 2023)

> 1 Year < 2 Years

Year	Report Title	Recommendation	Rating	Action Owner	ED/AD	Directorate	Service	Implementation Date	Status	Days (as at 15 December 2023)	Age Analysis
21/22	29.21/22 Cyber Essentials	The Council will document the business requirement for external access to its routers and firewalls with approval of this retained	Low	Simon Sharkey Woods	Sarah Hayward	Strategy and Improvement	ICT and Digital	31/12/22	Overdue	349	> Six Months < 1 Year

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	17th January 2024
Subject:	Treasury Management Outturn Report 2022-23
Chief Officer:	Adele Taylor, Executive Director of Finance & Commercial (S151 Officer)
Contact Officer:	Thomas Mulloy, Director of Strategic & Corporate Finance
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 1 – Treasury Management Outturn Report

1. Summary and Recommendations

1.1 This report sets out the Treasury Management Outturn position for Slough Borough Council's for the year 2022/23.

Recommendations:

The Committee is recommended to

1. Review and comment on the Treasury Management Outturn Report at Appendix 1;
2. Refer the report to Cabinet for noting as part of the Council's budget setting process.

Reasons

The Committee should assess the performance of investment activity and the associated risks, taking account of external advice. This will allow the Committee to assure itself that the Council is taking prudent decisions and if it has any concerns, to make recommendations to Cabinet or Full Council to address these concerns.

Commissioner Review

The Commissioners note the report and that the opening and closing balances could be subject to change following the ongoing review of the Councils Balance Sheet.

2. Report

Introductory paragraph

2.1 This Outturn Report documents the Treasury activities of the Council during the financial year 1st April 2022 to 31st March 2023, its borrowings, investments and cash balances. It demonstrates SBC's compliance to the approved Treasury Management Strategy, policies and its overall recovery vision.

Options considered

2.2 The Council could choose not to report the Treasury Management Outturn to this Committee, instead reporting it to Full Council as part of the budget setting process. However, this is not recommended, as learning from previous investment decision-making and from other local government failures has emphasised the importance of member oversight to assess the performance of any investment programme and the associated risks.

In the past, Committee members have been provided with training on local authority finance and investment and borrowing powers to inform a review of reports. A new Member training for this current committee on Treasury Management will take place at 5.30pm on 17th Jan 2024 by Council's treasury management Advisors, Arlingclose.

Background

2.3 The Council's Treasury Management Strategy 2022/23 (TMS) went to Cabinet for recommendation on 27th February 2023 and to Full Council on for approval on 9th March 2023. This strategy adopted a different approach from previous years to ensure that financial risks were property identified, monitored and controlled.

2.4 External advice has been sought from Arlingclose, the Council's treasury management advisors. This is set out in Appendix A and includes a summary of the external context.

2.5 On 31st March 2023, the Council had net borrowing of £449.5m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m
General Fund CFR	635
Housing Revenue Account CFR	174
Total CFR	**809**
Less: *Other debt liabilities	33.1
Borrowing CFR	**775.9**
External borrowing	590.5
Internal/Under borrowing	**185.4**

* Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt2.6 The Council has pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position on 31st March 2023 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary (*)

	31.3.22 Balance £m	Movement £m	31.3.23 Balance £m	31.3.23 Rate %
***External Long-term borrowing	378.41	68.56	446.97	3.07
***External Short-term borrowing	338.50	(195.0)	143.5	1.49
Total borrowing	**716.91**	**(126.44)**	**590.47**	
***Long-term investments	14.00	105.0	119.0	3.9
***Short-term investments	14.13	7.87	22.0	2.16
**Cash and cash equivalents				
Total investments	**28.13**	**112,87**	**141.0**	**3.52**
Net borrowing	**688.78**	**(239.31)**	**449.47**	**2.46**

*Subject to audit

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

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

2.7 On 31st March 2023 the Council held £590.47m of loans, a decrease of £126.44m compared to the position as of 31st March 2022. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3A: Borrowing Position

	31.3.22 Balance £m	Net Movement £m	31.3.23 Balance £m	31.3.23 Weighted Average Rate %	31.3.23 Weighted Average Maturity (years)
Public Works Loan Board	365.41	68.56	433.97	3.07	13
Banks (LOBO) (Lender's Option Borrower's Option)	13.0	0	13.00	4.15	56
Banks (fixed term)	0	0	0		
Local authorities (long-term)	0	0	0		
Local authorities (short-term)	338.5	(195.0)	143.5	1.49	

2.8 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £22m and £141 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.22 Balance £m	Net Movement £m	31.3.23 Balance £m	31.3.23 Income Return %	31.3.23 Weighted Average Maturity days
Banks & building societies (unsecured)	4.0	(4.0)	0		
Government (incl. local authorities)	14.0	105.0	119.0	4.20	34
Money Market Funds	10.13	11.87	22.0	2.16	1
Total investments	**28.13**	**112.87**	**141.0**		

2.9 The Council has also invested in non-treasury investments, being those for service purposes or for commercial purposes (primarily financial return). These investments are shown in table 5 below.

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	0	144	5%
0	SUR LLP - loan notes	2,885	0	5%
N/A	GRE 5 Ltd	9,929	598	6%
0	Slough Children First Ltd	5,000	0	1.41%
1	St Bernards School	repaid	2	2.49%
1,972		**69,514**	**2,295**	**3.82%**

2.10 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £m	Budget £m	Over/ (under)	Actual % Interest rate
Total borrowing	590.7	570.0	20.7	
PFI and Finance leases	33.06	34	(0.9)	
Total debt	623.8	604	19.8	2.90
Total treasury investments	141.0	141.0	0	3.52
Net Debt	**482.8**	**502.1**	**19.8**	**2.46**

Information on compliance with specific investment limits is shown in Appendix A.

3. Implications of the Recommendation

3.1 Financial implications

3.1.1 This report details the Council's Treasury Management and investment activity as at 31st March 2023. The Council is on a journey to get back onto a financially sustainable footing, principally by reducing debt, and by disposing of assets.

3.1.2 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.1.3 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September 2023 after the Government's 'mini budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period, some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10-year maturity certainty rate stood at 4.33% on 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

3.2 Legal implications

3.2.1 The Local Government Act 2003 provides the Council with the power to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Council is under a duty 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, provide that, in complying with this duty, the Council must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management Code of Practice.

3.2.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.2.3 Full Council is required to approve a Treasury Management Strategy and investment decisions must be made in accordance with that. Any decision to depart from this Strategy must be agreed by Full Council.

3.3 Risk management implications

3.3.1 Best practice and learning from other local government failures has identified that a failure to properly review and monitor investment activity can expose the Council to significant financial risk. It is critical that delegated authority is set at an appropriate level, performance is assessed against the principles set out in the TMS, performance is regularly monitored at senior officer level and by elected members, consideration is given to including aspects of the investment strategy in the internal audit programme and that the Council does not rely on investment activity to avoid making service decisions to meet reduced budgets.

3.3.2 The key risks for future investment activity is:

Asset sales either do not generate the expected receipts or are delayed. The mitigation is using external consultants to ensure best consideration is achieved through a managed asset disposal plan; and

Interest rates rise thus increasing borrowing costs. The temporary borrowing portfolio is at risk of interest rate rises. This can be mitigated by locking into PWLB borrowing and shifting the focus away from temporary borrowing.

3.4 Environmental implications

3.4.1 There are no specific implications.

3.5 Equality implications

3.5.1 There are no specific implications.

3.6 Procurement implications

3.6.1 There are no specific implications.

3.7 Workforce implications

3.7.1 There are no specific implications.

3.8 Property implications

3.8.1 In order to reduce the overall level of borrowing and finance the capitalisation direction, the Council will have to generate capital receipts. The Council is currently managing the asset disposal plan to generate these receipts.

4. Background Papers

None

APPENDIX A

Treasury Management Outturn Report 2022/23

Introduction

In 2003 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

The Council's Treasury Management Strategy for 2022/23 went to Cabinet for recommendation on 27th February 2023 and to Full Council on for approval on 9th March 2023.The Council had previously borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by the full Council on 27th Feb 2023.

External Context – Provided by External Advisors Arlingclose

Economic background: The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets: Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review: Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

Slough Borough Council Context

On 31st March 2023, the Council had net borrowing of £449.5m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m
General Fund CFR	635
Housing Revenue Account CFR	174
Total CFR	**809**
Less: *Other debt liabilities	33.1
Borrowing CFR	**775.9**
External borrowing	590.5
Internal/Under borrowing	**185.4**

* Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

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

The treasury management position on 31st March 2023 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary (*)

	31.3.22 Balance £m	Movement £m	31.3.23 Balance £m	31.3.23 Rate %
***External Long-term borrowing	378.41	68.56	446.97	3.07
***External Short-term borrowing	338.50	(195.0)	143.5	1.49
Total borrowing	**716.91**	**(126.44)**	**590.47**	
***Long-term investments	14.00	105.0	119.0	3.9
***Short-term investments	14.13	7.87	22.0	2.16
**Cash and cash equivalents				
Not Total investments	**28.13**	**112,87**	**141.0**	**3.52**
Net borrowing	**688.78**	**(239.31)**	**449.47**	**2.46**

*subject to audit

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

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

Borrowing Update

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. Public Works and Loans Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

Borrowing Strategy and Activity

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

The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period, some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10-year maturity certainty rate stood at 4.33% on 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.

On 31st March 2023 the Council held £590.47m of loans, a decrease of £126.44m compared to the position as of 31st March 2022. Outstanding loans on 31st March 2023 are summarised in Table 3 below.

Table 3A: Borrowing Position

	31.3.22 Balance £m	**Net Movement £m**	**31.3.23 Balance £m**	**31.3.23 Weighted Average Rate %**	**31.3.23 Weighted Average Maturity (years)**

Public Works Loan Board	365.41	68.56	433.97	3.07	13
Banks (LOBO) (Lender's Option Borrower's Option)	13.0	0	13.00	4.15	56
Banks (fixed term)	0	0	0		
Local authorities (long-term)	0	0	0		
Local authorities (short-term)	338.5	(195.0)	143.5	1.49	
Total borrowing	**716.91**	**(126.44)**	**590.47**		

<u>Table 3B: Long-dated Loans borrowed.</u>

Lender	**Repayment Method**	**Amount £m**	**Rate**
Public Works Loan Board	MATURITY	1,000	4.45
Public Works Loan Board	MATURITY	500	4.95
Public Works Loan Board	MATURITY	5,000	4.70
Public Works Loan Board	MATURITY	3,000	4.15
Public Works Loan Board	MATURITY	5,000	4.15
Public Works Loan Board	MATURITY	5,000	4.72
Public Works Loan Board	MATURITY	4,000	3.67
Public Works Loan Board	MATURITY	4,000	3.85
Public Works Loan Board	MATURITY	20,000	3.08
Public Works Loan Board	MATURITY	20,000	3.44
Public Works Loan Board	MATURITY	20,000	3.50
Public Works Loan Board	MATURITY	15,841	3.49
Public Works Loan Board	MATURITY	20,000	3.30
Public Works Loan Board	MATURITY	20,000	3.47
Public Works Loan Board	EIP	19,375	2.12
Public Works Loan Board	EIP	21,250	2.36
Public Works Loan Board	MATURITY	20,000	2.59
Public Works Loan Board	EIP	16,000	2.08
Public Works Loan Board	EIP	42,000	2.22
Public Works Loan Board	EIP	20,625	1.69
Public Works Loan Board	EIP	9,967	1.40
Public Works Loan Board	EIP	13,913	1.07
Public Works Loan Board	EIP	37,500	1.85

Public Works Loan Board Public Works Loan Board	MATURITY MATURITY	40,000 50,000	4.54 4.80
		433,971	
Barclays Capital Dexia Municipal Agency Depfa ACS Bank	MATURITY MATURITY MATURITY	4,000 4,000 5,000 **13,000**	4.76 3.75 3.99
Total		**446,971**	

PWLB loans are repayable by one of three methods:

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

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

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

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

LOBO loans: The Council continues to hold £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Maturity dates are between 2054 and 2066. No banks exercised their option during the year.

Other Debt Activity

Although not classed as borrowing, the Council also had £29.54m of PFI (Private Finance Initiative) finance for 2022/23 and £3.52m of finance leases.

After £1.34m repayment of prior years' liabilities, total debt other than borrowing stood at £33.06m on 31st March 2023, taking total debt to £623.8m.

Treasury Investment Activity

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

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £22m and £141 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.22 Balance £m	Net Movement £m	31.3.23 Balance £m	31.3.23 Income Return %	31.3.23 Weighted Average Maturity days
Banks & building societies (unsecured)	4.0	(4.0)	0		
Government (incl. local authorities)	14.0	105.0	119.0	4.20	34
Money Market Funds	10.13	11.87	22.0	2.16	1
Total investments	**28.13**	**112.87**	**141.0**		

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Bank of England Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6–12-month maturities.

By end March 2023, the rates on DMADF (Debt Management Account Deposit Facility) deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.46% - 0.55% p.a. in early April and between 3.98% and 4.07% at the end of March.

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

Non-Treasury Investments

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

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

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	0	144	5%
0	SUR LLP - loan notes	2,885	0	5%
N/A	GRE 5 Ltd	9,929	598	6%
0	Slough Children First Ltd	5,000	0	1.41%
1	St Bernards School	repaid	2	2.49%
1,972		**69,514**	**2,295**	**3.82%**

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £m	Budget £m	Over/ (under)	Actual % Interest rate

Total borrowing	590.7	570.0	20.7	
PFI and Finance leases	33.06	34	(0.9)	
Total debt	623.8	604	19.8	2.90
Total treasury investments	141.0	141.0	0	3.52
Net Debt	**482.8**	**502.1**	**19.8**	**2.46**

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2022/23 Maximum	**31.3.23 Actual**	**2022/23 Operational Boundary**	**2022/23 Authorised Limit**	**Complied?**
Borrowing	£681m	£590.7	£720m	£756m	Yes
PFI and Finance Leases	**£36m**	**£33.06m**	**£37m**	**£37m**	Yes
Total debt	**£717m**	**£623.8m**	**£757m**	**£793m**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for 0 days since 1st April 2022.

Table 8: Investment Limits

	Minimum Credit Criteria	Max. % or amount per Institution	Max. Maturity Period	**31.3.23 Actual**	**Complied?** Yes/No

Specified Investments					
DMADF – UK Government	N/A	100%	6 mths	£12m	Yes
Money Market Funds	AAA	100%	Daily	£22m	Yes
Local Authorities	N/A	100%/£20m	10 yrs	0	Yes
Lloyds Bank plc (the Council's bankers)	A+	£20m £5m	Overnight Up to 12mths	£206k	Yes
Term deposits with banks & rated building societies	A+	£5m	Up to 3 yrs	0	Yes
Current & Ex – Government Supported banks	A+	50%	Up to 1yr	0	N/A
Unspecified Investments					
UK Government supported banks	N/A	£25m	4yrs	0	N/A
Enhanced Money Market Funds	N/A	£25m	4yrs	0	N/A
Pooled Property Funds	N/A	£25m	4yrs	0	N/A
Short Term Investment grade Sterling instruments	N/A	£25m	4yrs	0	N/A

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

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

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

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

	31.3.23 Actual	2022/23 Target	Complied?
Portfolio average credit score	AAA	A	Yes

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

	31.3.23 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	18.8%	70%	0%	Yes
12 months and within 24 months	5.7%	50%	0%	Yes
24 months and within 5 years	20.5%	35%	0%	Yes
5 years and within 10 years	15%	25%	0%	Yes
10 years and above	40%	40%	0%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	69	0	0
Limit on principal invested beyond year end	90	90	90
Complied?	Yes	Yes	Yes

This page is intentionally left blank

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	17th January 2024
Subject:	Treasury Management Report Q1 2023-24
Chief Officer:	Adele Taylor, Executive Director of Finance & Commercial (S151 Officer)
Contact Officer:	Thomas Mulloy, Director of Strategic & Corporate Finance
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 1 – Treasury Management Report Q1 2023-24

1. Summary and Recommendations

1.1 This report sets out the Treasury Management position for Slough Borough Council's for Q1 of 2023-24.

Recommendations:

The Committee is recommended to

1. Review and comment on the Treasury Management Report Q1 2023-24 at Appendix 1.
2. Consider whether any recommendation should be made to Audit and Governance Committee.

Reasons

The Committee should assess the performance of investment activity and the associated risks, taking account of external advice. This will allow the Committee to assure itself that the Council is taking prudent decisions and if it has any concerns, to make recommendations to Cabinet or Full Council to address these concerns.

Commissioner Review

The Commissioners note the report and that the opening and closing balances could be subject to change following the ongoing review of the Councils Balance Sheet.

2. Report

Introductory paragraph2.1 This Q1 Report documents the Treasury activities of the Council from 1st April 2023 to 30th June 2023, its borrowings, investments and cash balances. It demonstrates SBC's compliance to the approved Treasury Management Strategy, policies and its overall recovery vision.

Options considered

2.2 The Council could choose not to report the Q1 Treasury Management activities to this Committee, instead reporting it to Full Council as part of the budget setting process. However, this is not recommended as learnings from previous investment decision-making and from other local government failures has emphasised the importance of member oversight to assess the performance of any investment programme and the associated risks. The Council's current treasury management strategy confirms that delegation of the role of scrutiny of the treasury management activities sits with this committee and training is being provided to committee members on 17 January 2024 to support this function.

Background

2.3 The Council's Treasury Management Strategy 2023/24 (TMS) went to Cabinet for recommendation on 27th February 2023 and to Full Council on for approval on 9th March 2023. This strategy adopted a different approach from previous years to ensure that financial risks were property identified, monitored and controlled.

2.4 External advice has been sought from Arlingclose, the Council's treasury management advisors. This is set out in Appendix 1 and includes a summary of the external context.

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

Table 1: Balance Sheet Summary

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

* Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

2.6 The Council has pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position on 30th June 2023 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary (*)

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

*Subject to audit

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

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

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

Table 3A: Borrowing Position

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

2.8 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During Q1 2023-24, the Council's investment balances ranged between £141m and £35.36 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

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

2.9 The Council has also invested in non-treasury investments, being those for service purposes or for commercial purposes (primarily financial return). These investments are shown in table 5 below.

Table 5: Non-Treasury Investments

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

2.10 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

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

Information on compliance with specific investment limits is shown in Appendix 1.

3. Implications of the Recommendation

3.1 Financial implications

3.1.1 This report details the Council's Treasury Management and investment activity as at 30th June 2023. The Council is on a journey to get back onto a financially sustainable footing, principally by reducing debt, and by disposing of assets.

3.1.2 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.1.3 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of June around 4.25 - 5% higher than those at the beginning of April. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of June and Money Market Rates between 4.70% and 4.83%. Given the risk of short-term unsecured bank investments, the Council has invested mainly with DMADF & Low Volatility Money Market Funds.

3.2 Legal implications

3.2.1 The Local Government Act 2003 provides the Council with the power to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Council is under a duty 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, provide that, in complying with this duty, the Council must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management Code of Practice.

3.2.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.2.3 Full Council is required to approve a Treasury Management Strategy (TMS) and investment decisions must be made in accordance with that. Any decision to depart from this Strategy must be agreed by Full Council. The Council's TMS Appendix 5 confirms how the Council complies with the CIPFA Treasury Management Code. This confirms that the Audit and Corporate Governance Committee has responsibility for scrutinising treasury management activities.

3.3 Risk management implications

3.3.1 Best practice and learning from other local government failures has identified that a failure to properly review and monitor investment activity can expose the Council to significant financial risk. It is critical that delegated authority is set at an appropriate level, performance is assessed against the principles set out in the TMS, performance is regularly monitored at senior officer level and by elected members, consideration is given to including aspects of the investment strategy in the internal audit programme and that the Council does not rely on investment activity to avoid making service decisions to meet reduced budgets.

3.3.2 The key risks for future investment activity is:

Asset sales either do not generate the expected receipts or are delayed. The mitigation is using external consultants to ensure best consideration is achieved through a managed asset disposal plan; and

Interest rates rise thus increasing borrowing costs. The temporary borrowing portfolio is at risk of interest rate rises. This can be mitigated by locking into PWLB borrowing and shifting the focus away from temporary borrowing.

3.4 Environmental implications

3.4.1 There are no specific implications.

3.5 Equality implications

3.5.1 There are no specific implications.

3.6 Procurement implications

3.6.1 There are no specific implications.

3.7 Workforce implications

3.7.1 There are no specific implications.

3.8 Property implications

3.8.1 In order to reduce the overall level of borrowing and finance the capitalisation direction, the Council will have to generate capital receipts. The Council is currently managing the asset disposal plan to generate these receipts.

4. Background Papers

None

APPENDIX A

Treasury Management Report Q1 2023/24

Introduction

In 2003 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

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

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

External Context – Provided by External Advisors Arlingclose

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Slough Borough Council Context

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

Table 1: Balance Sheet Summary

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

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

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

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

Table 2: Treasury Management Summary (*)

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

**subject to audit*

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

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

Borrowing Update

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. Public Works and Loans Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

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

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

Borrowing strategy and activity

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

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

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

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

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

Table 3A: Borrowing Position

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

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

Table 3B: Long-dated Loans borrowed

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

PWLB loans are repayable by one of three methods:

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

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

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

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

LOBO loans: The Council continues to hold £13m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Maturity dates are between 2054 and 2066. No banks exercised their option during the year.

Other Debt Activity

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

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

Table 4: PFI & Leases

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

Treasury Investment Activity

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

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

Table 5: Treasury Investment Position

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

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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

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

Non-Treasury Investments

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

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

Table 6: Non-Treasury Investments

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

Treasury Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 7 below.

Table 7: Performance

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

Compliance

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

Table 8: Investment Limits

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

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

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

Table 9: Debt and the Authorised Limit and Operational Boundary

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

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for 0 days since 1st April 2023.

Treasury Management Prudential Indicators

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

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

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

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

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

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3. Long-term Treasury Management Investments**:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

Actual principal invested for more than 365 days

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

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

This page is intentionally left blank

AUDIT AND CORPORATE GOVERNANCE COMMITTEE
2023/24 WORK PROGRAMME

Meeting Date
20 March 2024
Standing Items • Internal Audit Quarterly Progress Report - Q4 2023/24 • Risk Management Update – Q3 & Q4 2023/24 Other Items • Annual Internal Audit Plan 2024/25 • Counter Fraud Policy Approval

This page is intentionally left blank

MEMBERS' ATTENDANCE RECORD 2023/24

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

COUNCILLOR	**19/07/23**	**13/09/23**	**22/11/23**	**17/01/24**	**20/03/24**
E.Ahmed	P	P	P		
Akram	P* (until 6.48pm)	P* (until 8.50pm)	P		
Anderson	Ap	P* (until 8.52pm)	P		
O'Kelly	P	P	P		
Rana	P	P	Ap		
W.Sabah	P* (until 6.48pm)	P* (until 8.50pm)	P		
Shaik	P	P	P		
Zarait	Ap	Ap	P		
CO-OPTED INDEPENDENT MEMBER					
Naira Bukhari	Ap	P	Ap		

P = Present for whole meeting
P* = Present for part of meeting
Ap = Apologies given
Ab = Absent, no apologies given

This page is intentionally left blank