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
	0	0	0		
Banks (fixed term)	0	0	0		
Local authorities (long-term)	338.5	(195.0)	143.5	1.49	
Local authorities (short-term)					
Total borrowing	**716.91**	**(126.44)**	**590.47**		

Table 3B: Long-dated Loans borrowed.

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.

<u>Other Debt Activity</u>

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.

<u>Treasury Investment Activity</u>

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*

<u>Treasury Management Indicators</u>

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