Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	20th March 2024
Subject:	Treasury Management Report April to September 2023-24 (H1)
Chief Officer:	Adele Taylor, Executive Director of Finance & Commercial (S151 Officer)
Contact Officer:	Moji Olusanya, Head of Treasury
Ward(s):	All
Exempt:	N0
Appendices:	Appendix 1 – Treasury Management Report April to September 2023-24 (H1)

1. Summary and Recommendations

1.1 This report sets out the mid-year Treasury Management position for Slough Borough Council's April to September 2023-24 (H1).

Recommendation:

That the Committee

Review and comment on the Treasury Management Mid-Year Report April to September 2023-24 (H1) at Appendix 1.

Reasons

The Committee should assess the performance of investment activity and the associated risks, taking account of external advice that has been provided by the Council's Treasury advisers – Arlingclose. 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 as appropriate.

Commissioner Review

The commissioners note the content of this report.

2. Introduction

2.1 This H1 Report documents the Treasury activities of the Council from 1st April 2023 to 30th September 2023, its borrowings, investments and cash balances. It demonstrates SBC's compliance to the approved Treasury Management Strategy, policies and its overall recovery vision.

2.2 The Council has delegated the authority to review the H1 Treasury Management activities to this Committee. 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.

2.3 In the future years, Finance department via the Treasury team would report on mid-year earlier in the year - around December. The report has not been ready earlier due to issues around record keeping, historic issues and changes in staffing.

2.4 The Council's Treasury Management Strategy 2023/24 (TMS) was presented to Cabinet for recommendation on 27th February 2023 approved by Full Council on 9th March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue impact of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy. This strategy adopted a different approach from previous years to ensure that financial risks were properly identified, monitored and controlled.

2.5 The Treasury Management Strategy for 23/24 focused on using funds received from asset disposals to reduce Council's liabilities, with assumed capital receipts to 31st March 2024 of over £400m. However actual net receipts are now forecast to total some £225m including £31m forecast for the current year.

2.6 External advice has been sought from Arlingclose, the Council's treasury management advisors. This is set out in Appendix 1 (H1) and includes a summary of the external context.

3. Local Context

3.1 30th September 2023, the Council had total external borrowing (excluding PFI and leases) of £430m 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	510.7
Capitalisation Direction	149	86.9
Housing Revenue Account CFR	174	174.0
Total CFR	**853**	**771.6**
Less: *Other debt liabilities	33.1	31.2
Loans CFR	**819.9**	**740.4**
External borrowing**	590.5	502.4
Internal/Under borrowing	185.4	238.0
Less: Balances sheet resources***	-	-
Loans CFR	819.9	740.4

* Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt
***the above table includes numbers which are yet to be finalised as they are subject to audit. This includes Balance sheet resources figures that are yet to be confirmed.

3.2 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 September 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	30.9.23 Balance £m	30.9.23 Rate %
***Long-term borrowing				
- PWLB	433.97	16.97	417.0	3.04
- LOBOs	13.0	0.0	13.0	4.15
- Other		0.0		
***Short-term borrowing	143.5	-143.5	0	
Total borrowing	**590.47**	**-160.47**	**430.0**	
***Long-term investments	119.0	-119.0	0	0
***Short-term investments	22.0	1.81	23.81	5.10
**Cash and cash equivalents				
Total investments	**141.0**	**-120.81**	**23.81**	
Net borrowing	**449.5**	**-281.28**	**406.19**	

*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.

3.3 At 30th September 2023 the Council held £430m of loans, a decrease of £16.47m 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 September are summarised in Table 3A below.

4. Borrowing Activity

4.1 CIPFA's 2021 Prudential Code emphasises that local authorities should not borrow to invest primarily for financial returns. Local authorities should not make any investment or spending decision that increase the capital financing requirement, resulting in new borrowing, unless such decisions are directly and primarily related to the functions of the local authority. Local authorities are no longer permitted to secure PWLB loans for purchasing investment assets primarily for yield unless the loans are for refinancing purposes.

4.2 The Council has not 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 the future.

Table 3A: Borrowing Position

	31.3.23 Balance £m	**Net Movement £m**	**30.9.23 Balance £m**	**30.9.23 Weighted Average Rate %**
Public Works Loan Board	433.97	-16.97	417.0	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	-143.5	0	
Total borrowing	**590.47**	**-160.47**	**430.0**	

4.3 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During April to September 2023-24 (H1), the Council's investment balances ranged between £141m and £nil 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	30.9.23 Balance £m	30.9.23 Income Return %	30.9.23 Weighted Average Maturity Days
Banks & building societies (unsecured)	0.21	0.31	0.52	0	1
Government (incl. local authorities)	119.0	-106	13.0	5.18	3
Money Market Funds	22.0	-11.19	10.81	5.33	1
Total investments	**141.21**	**-116.88**	**24.33**		

4.4 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

Debtor	Balance at 30/9/2023 £000s	Interest receivable 30/09/2023 £000s	Rate %
James Elliman Homes	51,700	1,551	3%
SUR LLP - senior debt	0	0	5%
SUR LLP - loan notes	2,885	144	5%
GRE 5 Ltd	2131	286	6%
Slough Children First Ltd	5,000	71	1%
St Bernards School	0	0	1.41%
	61,716	**2,052**	**3.40%**

4.5 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	Actual % Interest rate	Bank Bench mark %	Over/ Under	LA Bench mark %	Over/ Under %
PWLB LOBO LOANS	417 13	3.12 4.17	5.50 5.50	Under Under		
Total borrowing	**430**					
PFI and Finance leases	31.25					
Total debt	**461.25**					
DMO	13	5.18	5.25	Under	4.93	Over
MMF	10.81	5.33	5.25	Over	4.93	Over
Total treasury investments	23.81					
Net Debt	**437.44**	**n/a**	**n/a**	**n/a**		

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

5. Implications of the Recommendation

5.1 Financial implications

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

5.1.2 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.

5.1.3 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of September around 5.55 – 6%. this is higher than those at the beginning of April. The rates on DMADF deposits also rose, ranging between 5.17%

and 5.26% by the end of September and Money Market Rates between 5.18% and 5.33%. Given the risk of short-term unsecured bank investments, the Council has invested mainly with DMADF & Low Volatility Money Market Funds.

5.2 Legal implications

5.2.1 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.

5.2.2 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.

5.2.3 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.

5.3 Risk management implications

5.3.1 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.

5.3.2 The key risks for future investment activity are:

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.

5.3.3 In general, LOBO loans come with the risk of interest rates rising. However, as Slough Borough Council has relatively low coupon levels and presently performing above benchmark level, rate rise risk affecting the Council's LOBO Loans is considered very minimal.

5.4 Environmental implications

5.4.1 There are no specific implications.

5.5 Equality implications

5.5.1 There are no specific implications.

5.6 Procurement implications

5.6.1 There are no specific implications.

5.7 Workforce implications

5.7.1 There are no specific implications.

5.8 Property implications

5.8.1 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.

6. Background Papers

None