Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	30th April 2025
Subject:	Treasury Management Quarter 3 Report 2024-25
Chief Officer:	Annabel Scholes, Executive Director Corporate Resources (S151 Officer)
Contact Officer:	Xing Rong, Interim Strategic Finance Manager Treasury and Capital
Ward(s):	All
Exempt:	NO
Appendices:	None

1. Summary and Recommendations

1.1 This report sets out the Treasury Management Quarter 3 position (April – December) for Slough Borough Council for the year 2024/25.

Recommendation:

Audit and Corporate Governance Committee is recommended to review and comment on the Treasury Management Quarter 3 Report 2024-25

Reasons

The Committee has delegated responsibility to review the treasury management activity and performance. 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

This report is outside the scope for pre-publication commissioner review; please check the Commissioners' instruction 5 to CLT to sign off papers for further details.

Introduction

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments. It provides details of Slough Borough Council's (SBC) investment and borrowing activities for the period from 1 April 2024 to 31 December 2024 (the Reporting Period) and highlights any relevant issues.

2.2 All treasury activities have been conducted within the parameters of the updated Treasury Management Strategy for 2024-25 (TMS) which was approved by Full Council on 23rd January 2025

2.3 Investment balances at the end of the reporting period were £27.5m. Returns on investments during the reporting period were £0.92m against an interest receivable budget for the of £0.75m, an over performance of £0.17m (23%) This can be accounted for by a combination of higher than budgeted investment returns and periodic higher balances resulting from cash flow fluctuations.

2.4 External borrowing slightly increased from £459.4m to £459.8m during the reporting period. The increase of £0.4m reflects the net movement in temporary loans taken to maintain the Council's agreed £10m liquidity buffer (cash balance).

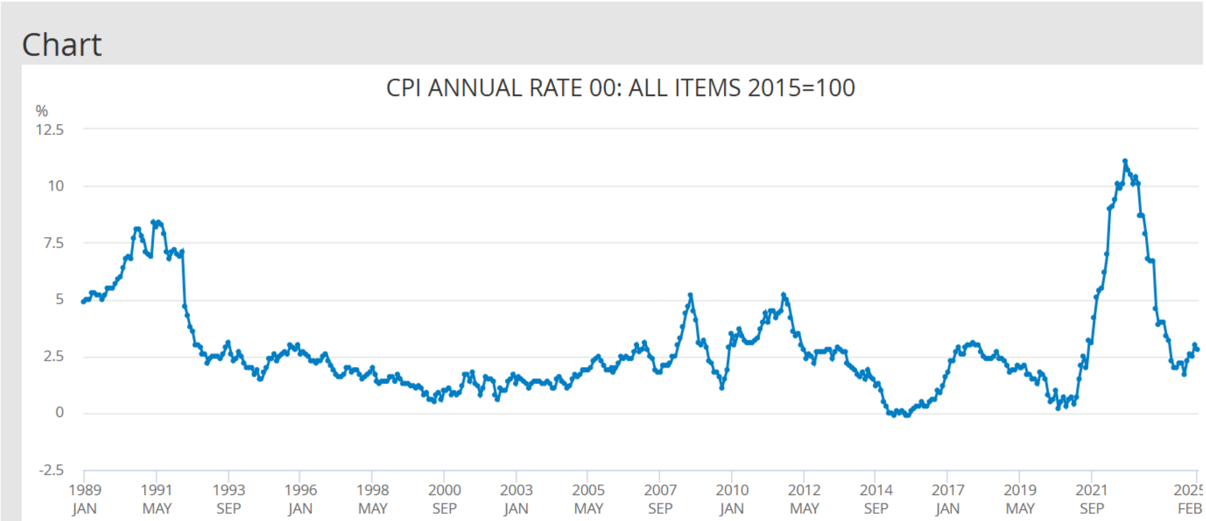
3 **Economic Summary**

3.1 UK consumer price inflation (CPI) rose by 2.5% in the 12 months to December, down from 2.6% in the twelve months to November. UK gross domestic product (GDP) grew by 0.1% in the fourth quarter of 2024 (October to December), following flat growth of third quarter of 2024 (June to September).

3.2 In the year to quarter 4 of 2024, the UK employment rate for people aged 16 to 64 years was estimated at 74.9%, this is above estimates of a year ago. The UK unemployment rate was 4.4%, this was the highest level since May 2024 and the UK economic inactivity rate decreased to 21.5%, a 0.5% decrease from the previous year.

3.3 As expected, The Monetary Policy Committee (MPC) held the Bank Rate at 4.75% in December. The council's treasury management advisor, Arlingclose, updated its interest rate and gilt yield estimates on 23 December 2024. Arlinclose was expecting the MPC would reduce the Bank Rate in a gradual manner and there would be a rate cut in February 2025. Long-term gilt yields had risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increased bond supply.

CPI Inflation 1989-2025



4 Interest Rate Forecast

4.1 The Table below sets out Arlingclose's interest rate forecast as of 23 December 2024. To calculate a Public Works Loan Board long term lending rate, we must add 80 basis points to the respective Gilt.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; National Wealth Fund Rate (Maturity Loans) = Gilt yield + 0.40%

5 Treasury Management Strategy Statement and Investment Strategy Update

5.1 During the reporting period, all treasury management operations were conducted in full compliance with the TMS and Treasury Management Practices Statements. There have been significant advances in cash flow management practices and careful monitoring is in place to ensure that cash balances maintain the £10m liquidity buffer as set out in the TMS. The Council has implemented a new treasury management cash flow and reporting system which went live on 1st October 2024, and which has replaced manual systems previously in operation.

6 Treasury Management Outturn Position at 31 December 2024.

	31.3.24 £m	Rate %	31.12.24 £m	Rate %
Borrowings	**459.4**	**3.49%**	**459.8**	**3.58%**
PWLB	446.4	3.47%	436.8	3.53%
Long Term Fixed	4.0	4.76%	4.0	4.76%
LOBO Vanilla	9.0	3.88%	9.0	3.88%
Temporary Borrowing	-		10.0	5.13%
Investment	**-21.3**	**5.28%**	**-27.5**	**4.78%**
MMF	-21.3	5.28%	-27.5	4.78%
Net Borrowings	438.1		432.3	

6.1 The table reflects the need for additional borrowing to be taken due to lower than anticipated levels of capital receipts from asset disposals.

	Actual at 31/12/2024	
	Amount (£m)	Rate (%)
Long-Term Borrowing	449.8	3.53%
Short-Term Borrowing (Fixed Rate)	10.0	5.13%
Total External Borrowing	**459.8**	**3.58%**
Investments	27.5	4.78%
Total Net Indebtedness	**432.3**	

Interest Receivable and Payable	Actual at 30/09/24 (£m)	2024-25 Budget Q3 (£m)	Actual vs Budget (%)
Interest Receivable	0.92	0.75	122.7%

7. Borrowing Activities

7.1 The table below shows the movement in external borrowing during the reporting period. As at 31 December 2024, the council's debt stood at £459.8m, with an average rate of 3.58%. Compared with 31 March 2024, the borrowing has increased by £0.4m. There were some significant unexpected net cash outflows during the period, including lower than anticipated receipts from asset disposals, which required accessing £40.5m of temporary loans to maintain the approved liquidity buffer. Temporary loans totalling £30.5m were repaid during the period. The Council ensures that over the medium-term debt will only be for capital purposes, by not exceeding the capital financing requirement.

External Borrowing	Long-Term (£m)	Short-Term (£m)	Total (£m)
Balance 31 March 2024	459.4		**459.4**
Less PWLB Loans Repaid	-63.7		**-63.7**
New PWLB Loans	54.0		**54.0**
Temporary Loans Repaid		-30.5	**-30.5**
New Temporary Loans		40.5	**40.5**
Balance 31 December 2024	449.7	10.0	**459.8**

7.2 Arlingclose's advice was to raise long-term borrowing until such time as favourable PWLB rates were available. As at 30 December, £54m of new PWLB loans were taken, with £63.7m having been repaid.

8. Investment Activities

8.1 The Council's Investment balances at the end of the reporting period were £27.5m returning an average rate of 4.78%. At the end of the last financial year investment balances were £21.3m indicating that average balances remain stable and above the £10m liquidity buffer. In accordance with Annual Investment Strategy investments have been placed with Money Market Funds to maximise security and liquidity.

9. Investment Performance

9.1 Returns on investments during the reporting period were £0.92m against an interest receivable budget for the reporting period of £0.75m, an over performance of £0.17m or +22.7%. The council's budgeted investment return for the full year of 2024/25 was £1.0m. The investment receivable forecast is £1.1m, based upon balances of £25m at 4.5% PA. This should be considered in the context of using balances to reduce overall debt. Reductions in the Bank Rate will have a detrimental impact on future investment returns, but this should be seen in the context of the Council's net borrowing position.

10. Prudential and Treasury Management Indicators

10.1 It is a statutory requirement to determine and keep under review prudential and treasury management indicators for the Council. Other Long-Term Liabilities such as Finance Leases and PFI are excluded in the figures below.

Capital Expenditure Prudential Indicators

Capital Expenditure	Revised 2024/25 Indicator £m	2024/25 Forecast £m	Variance £m
Capital Expenditure - GF	48.4	52.1	-3.7
Capital Expenditure - HRA	19.6	19.8	-0.2
Total Capital Expenditure	**68.0**	**71.9**	**-3.9**

Capital Financing Requirement

Capital Financing Requirement	Revised 2024/25 Indicator £m	2024/25 Forecast £m	Variance £m
Capital Expenditure - GF	506.1	503.4	2.7
Capital Expenditure - HRA	166.7	164.6	2.0
Total Capital Expenditure	**672.8**	**668.0**	**4.8**

External Debt Prudential Indicators

Authorised Limit for External Debt	2024-25 (£m)
Authorised Limit	499.4
Actual Debt as at 31 December 2024	459.8
Headroom	**-39.6**

Operational Boundary for External Debt	2024-25 (£m)
Operational Boundary	477.1
Actual Debt as at 31 December 2024	459.8
Headroom	**17.3**

Affordability Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream - This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

General Fund Financing Costs	2024/25 forecast	2025/26 budget	2026/27 budget
General Fund Financing Costs	25.4	26.5	26.5
Ration of Financing Costs to Net Revenue Stream	17.1%	16.5%	15.5%
HRA Financing Costs	**2024/25 forecast**	**2025/26 budget**	**2026/27 budget**
HRA Financing Costs	3.9	4.3	4.5

Ration of Financing Costs to Net Revenue Stream	16.0%	21.8%	22.3%

Maturity Structure of Borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Current Position
Under 12 months	50%	0%	22.7%
12 months and within 24 months	70%	0%	7.0%
24 months and within 5 years	70%	0%	14.6%
5 years and within 10 years	70%	0%	19.2%
10 years and above	70%	0%	36.5%

11. Implications of the Recommendation

11.1 Financial Implications

11.1.1 This report details the Council's Treasury Management and Investment activity for the first quarter of the 2024-25 Financial year 1st April – 31st December 2024. The Council is on a journey to get back onto a financially sustainable footing, a key element of which is by reducing debt, and by disposing of assets.

11.1.2 This report is for noting and for consideration going forward as part of effective governance of the Treasury Management of the Council. The Chief Financial 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.

11.2 Legal implications

11.2.1 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.

11.2.2 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 provide sufficient liquidity to meet corporate objectives.

11.2.3 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.

11.3 Risk management implications

11.3.1 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.

11.3.2 Key risks:

- That 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 future borrowing costs.

11.4 Environmental implications

11.4.1 There are no specific implications.

11.5 Equality implications

11.5.1 There are no specific implications.

11.6 Procurement implications

11.6.1 There are no specific implications.

11.7 Workforce implications

11.7.1 There are no specific implications.

11.8 Property implications

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

12. Background Papers

Updated Treasury Management Strategy Statement 2024-25