

2024-25 Mid-Year Report to 30 September 2024

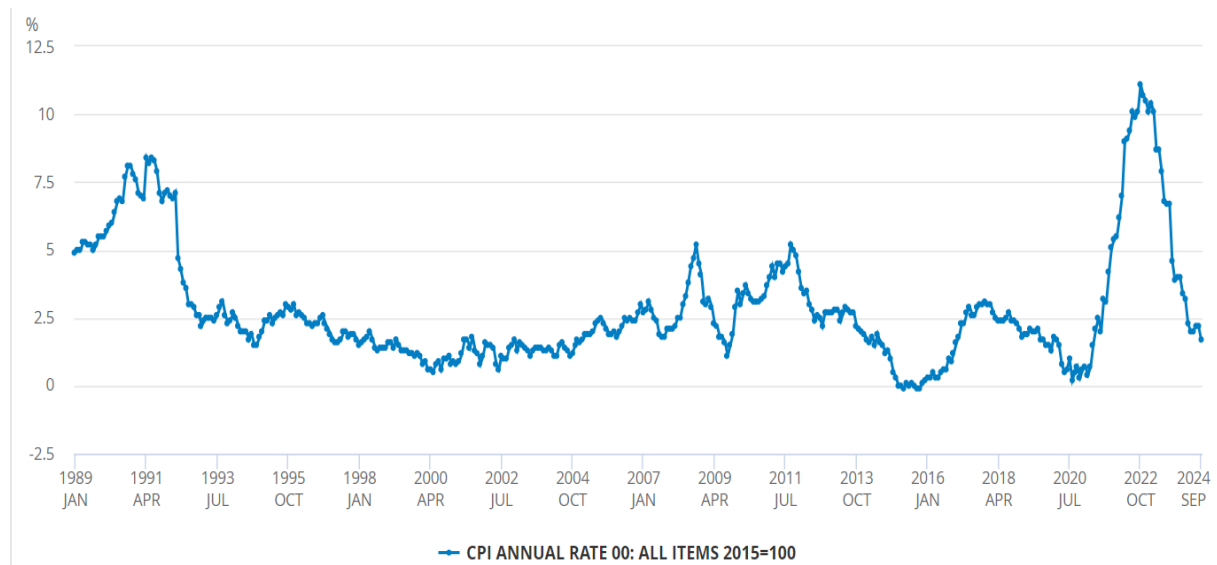
1 Introduction

- 1.1 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 30 September 2024 (the Reporting Period) and highlights any relevant issues.
- 1.2 All treasury activities have been conducted within the parameters of the Treasury Management Strategy Statement for 2024-25 (TMSS) which was approved on 7th March 2024.
- 1.3 Investment balances at the end of the reporting period were £22.7m. Returns on investments during the reporting period were £0.62m against an interest receivable budget for the of £0.45m, an over performance of £0.17m (37%) This can be accounted for by a combination of higher than budgeted investment returns and periodic higher balances resulting from cash flow fluctuations.
- 1.4 External borrowing reduced from £459.4m to £450.2m during the reporting period. The reduction of £9.2m reflects the net movement in PWLB, and the temporary loans taken to maintain the Council's agreed £10m liquidity buffer (cash balance).

2 Economic Summary

- 2.1 The Council uses the services of treasury management advisor Arlingclose. The following is extracted from their bulletins. UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August. The graph on the following page shows CPI inflation from 1989-2024.
- 2.2 With headline inflation lower, the BoE cut the Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. Following a decision to not change the Bank Rate at the September MPC meeting, the MPC on 7 November voted by a majority of 8-1 to reduce the Bank Rate to 4.75%.

CPI Inflation 1989-2024



3 Interest Rate Forecast

3.1 The Table below sets out Arlingclose’s latest Interest Rate forecast as of 11th November 2024. To calculate a Public Works Loan Board long term lending rate, add 60 basis points to the respective Gilt.

| | Current | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 |
|----------------------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Central Case | 4.75 | 4.75 | 4.50 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| Downside risk | 0.00 | 0.00 | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |
| 3-month money market rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Central Case | 4.95 | 4.80 | 4.60 | 4.35 | 4.10 | 3.90 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| Downside risk | 0.00 | 0.00 | -0.25 | -0.25 | -0.50 | -0.50 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |
| 5yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.30 | 4.20 | 4.10 | 4.05 | 3.95 | 3.90 | 3.90 | 3.90 | 3.95 | 4.00 | 4.05 | 4.05 | 4.05 |
| Downside risk | 0.00 | -0.40 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 |
| 10yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.41 | 4.40 | 4.30 | 4.30 | 4.25 | 4.20 | 4.20 | 4.20 | 4.20 | 4.25 | 4.25 | 4.25 | 4.25 |
| Downside risk | 0.00 | -0.40 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 |
| 20yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.84 | 4.80 | 4.75 | 4.70 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 | 4.65 |
| Downside risk | 0.00 | -0.40 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -0.80 | -0.80 | -0.80 |
| 50yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 |
| Central Case | 4.35 | 4.50 | 4.45 | 4.40 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 |
| Downside risk | 0.00 | -0.40 | -0.50 | -0.60 | -0.65 | -0.65 | -0.70 | -0.70 | -0.75 | -0.75 | -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%

4 Treasury Management Strategy Statement and Investment Strategy Update

4.1 During the reporting period, all treasury management operations were conducted in full compliance with the TMSS 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 TMSS. The Council has implemented a new treasury management cash flow and reporting system which went live on 1st October 2024. Staff are being trained to use the new system and it will replace manual systems previously in operation.

5 Treasury Management Outturn Position at 30 September 2024.

| | 31.3.24 £m | Rate % | 30.09.24 £m | Rate % |
|---------------------------------|---------------|--------------|----------------|--------------|
| PWLB | 446.4 | 3.47% | 421.2 | 3.49% |
| Long Term Fixed | 4.0 | 4.76% | 4.0 | 4.76% |
| LOBO | 9.0 | 3.88% | 9.0 | 3.88% |
| Long Term Borrowing | 459.4 | 3.49% | 434.2 | 3.51% |
| | | | | |
| Temporary Borrowing - Fixed | | | 16.0 | 5.30% |
| | | | | |
| Total External Borrowing | 459.4 | 3.49% | 450.2 | 3.57% |
| Investments | | | | |
| Money Market Funds | -21.3 | 5.28% | -22.7 | 5.01% |
| Net Indebtedness | 438.1 | | 427.5 | |

| Treasury Management Position | Actual at 30/09/2024 | |
|-----------------------------------|----------------------|-------------|
| | Amount (£m) | Rate (%) |
| Long-Term Borrowing | 434.2 | 3.51 |
| Short-Term Borrowing (Fixed Rate) | 16.0 | 5.30 |
| Total External Borrowing | 450.2 | 3.57 |
| Investments | 22.7 | 5.01 |
| Total Net Indebtedness | 427.5 | |

| Interest Receivable and Payable | Actual at 30/09/24 (£m) | 2024-25 Budget Q2 (£m) | Actual vs Budget (%) |
|---------------------------------|-------------------------|------------------------|----------------------|
| Interest Receivable | 0.62 | 0.45 | 137% |

6 Borrowing Activities

- 6.1 The table below shows the movement in external borrowing during the reporting period. There were some significant net cash outflows during the period which required accessing £30.5m of temporary loans to maintain the approved liquidity buffer. Temporary loans totalling £14.5m were repaid during the period.

| External Borrowing | Long-Term (£m) | Short-Term (£m) | Total (£m) |
|---------------------------|-----------------------|------------------------|-------------------|
| Balance 31 March 2024 | 459.4 | | 459.4 |
| Less PWLB Loans Repaid | -39.2 | | -39.2 |
| New PWLB Loans | 14.0 | | 14.0 |
| Temporary Loans Repaid | | -14.5 | -14.5 |
| New Temporary Loans | | 30.5 | 30.5 |
| Balance 30 September 2024 | 434.2 | 16.0 | 450.2 |

- 6.2 Arlingclose's advice was to defer long-term borrowing until such time as favourable PWLB rates were available. In August, £14m on new PWLB debt was taken.

7 Investment Activities

- 7.1 The Council's Investment balances at the end of the reporting period were £22.7m returning an average rate of 5.01%. 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.

8 Investment Performance

- 8.1 Returns on investments during the reporting period were £0.62m against an interest receivable budget for the reporting period of £0.45m, an over performance of £0.17m or +37%. The investment receivable forecast in the TMSS was £1.25m, based upon balances of £25m at 5% PA. This is unlikely to be achieved and should be considered in the context of using balances to reduce overall debt. Reductions in Bank Rate will have a detrimental impact on future investment returns.

9 Prudential and Treasury Management Indicators

- 9.1 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 2024/25 (£m) | Strategy 24/25 (£m) | Latest Projection Q2 (£m) | Variance (£m) |
|---|----------------------------|----------------------------------|----------------------|
| Capital Expenditure - GF | 46.4 | 35.4 | -11. |
| Capital Expenditure - HRA | 24.7 | 25.0 | 0.3 |
| Total Capital Expenditure | 71.1 | 60.4 | -10.7 |

Capital Financing Requirement

| Capital Financing Requirement 31st March 2025 (£m) | Strategy 24/25 £m | Latest Projection Q2 £m | Variance £m |
|--|----------------------------------|--|------------------------|
| General Fund | 502.8 | 506.0 | 3.2 |
| HRA | 174.0 | 166.7 | -7.3 |
| Total Capital Financing Requirement | 676.8 | 672.7 | 4.1 |

External Debt Prudential Indicators

| Authorised Limit for External Debt (£m) | 2024-25 (£m) | Revised* 2024-25 (£m) |
|--|-------------------------|--------------------------------------|
| Authorised Limit Excluding OLTL | 766.4 | 499.4 |
| External Debt as at 30 Sept 2024 | 450.2 | 450.2 |
| Headroom | -316.2 | -49.2 |

| Operational Boundary for External Debt (£m) | 2024-25 (£m) | Revised* 2024-25 (£m) |
|--|-------------------------|--------------------------------------|
| Operational Boundary Excluding OLTL | 510.9 | 477.1 |
| External Debt as at 30 Sept 2024 | 450.2 | 450.2 |
| Headroom | -60.7 | -26.9 |

+

*Revised limits subject to formal approval.

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 |
| Ratio 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 |
| Ratio of Financing Costs to Net Revenue Stream | 16.0% | 21.8% | 22.3% |

The HRA affordability framework has the HRA general reserve minimum set at a level of £4m. This is forecast to be maintained as is the Major Repairs Reserve of £5m. The minimum interest cover is set at 1.25 times and is calculated to be 3.5% based upon the HRA Business Plan.

Treasury Management Prudential Indicators

| Limits for Maturity Structure of Borrowing (%) | Upper Limit | Lower Limit | Actual at 30/06/24 |
|---|--------------------|--------------------|---------------------------|
| Under 12 months | 50% | 0% | 18% |
| 12 months and within 2 years | 70% | 0% | 18% |
| 2 years and within 5 years | 70% | 0% | 12% |
| 5 years and within 10 years | 70% | 0% | 15% |
| 10 years and above | 70% | 0% | 38% |