

**TREASURY MANAGEMENT STRATEGY 2020/21**

**1 Introduction & Background**

The Council is required to adopt the CIPFA Treasury Management in the Public Services: Code of Practice and it is a requirement under that Code of Practice to produce an annual strategy report on proposed treasury management activities for the year.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

In accordance with the Treasury Management code, the Council defines treasury management activities as:

"The management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks `The purpose of the Treasury Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

In accordance with the MHCLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

**2 Key Principles**

The key principles of the CIPFA Treasury Management in the Public Services: Code of Practice is that:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.
- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

In setting the Treasury Management Strategy, the Council must have regard for the following

factors:

- The current treasury position and debt portfolio position
- The prospects for interest rates
- The approved Capital Programme
- Limits on treasury management activities and prudential indicators

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 effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

According to the Prudential Code- the professional code of practice to support local authorities in taking capital investment decisions- the Council's prime policy objective of its investment activities is the security and liquidity of funds. Therefore the Council should avoid exposing public funds to unnecessary or un-quantified risk. The Council should consider the return on their investments; however, this should not be at the expense of security and liquidity. It is therefore important that the Council adopt an appropriate approach to risk management with regard to its investment activities. The Council employs a Treasury Management advisor, Arlingclose, to assist in the management of risk.

### 3 **External Context**

#### **External Context**

**Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was

0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

**Credit outlook:** Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

**Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

#### **4 Local Current Position**

As at 31 December 2019, the Council held £569.133m borrowing (£125.841m being HRA self-financing) borrowing and £32.075m investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

**Table 1: Balance Sheet Forecast**

<b>Slough Borough Council</b>					
<b>Balance Sheet Summary and Projections</b>					
<b>31<sup>st</sup> March</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<b>Actual £m</b>	<b>Estimate £m</b>	<b>Forecast £m</b>	<b>Forecast £m</b>	<b>Forecast £m</b>
General Fund Capital Financing Requirement	395	509	603	635	655
HRA Capital Financing Requirement	158	164	168	178	178
<b>Total Capital Financing Requirement</b>	<b>552</b>	<b>673</b>	<b>771</b>	<b>813</b>	<b>833</b>
Less: Other long-term liabilities *	(42)	(39)	(56)	(54)	(54)
<b>Loans Capital Financing Requirement</b>	<b>510</b>	<b>634</b>	<b>715</b>	<b>759</b>	<b>779</b>
Less: External borrowing **	(517)	(588)	(676)	(713)	(733)
<b>Internal (over) borrowing</b>	<b>(7)</b>	<b>46</b>	<b>39</b>	<b>46</b>	<b>46</b>
Less: Usable reserves	(81)	(85)	(89)	(93)	(97)
<b>Net Borrowing Requirement/(Investments)</b>	<b>(88)</b>	<b>(39)</b>	<b>(50)</b>	<b>(47)</b>	<b>(51)</b>

\* finance leases and PFI liabilities that form part of the Council's debt

\*\* shows only loans to which the Council is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves are the underlying resources available for investment. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2020/21.

The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £216m over the forecast period.

## **5 Borrowing Strategy**

The Council currently holds £569 million of loans, an increase of £110 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow an additional £19m in 2019/20

**Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

**Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

**Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except [your local] Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

**Municipal Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

**LOBOs:** The Council holds £9m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. None of these LOBOS have options during 2019/20, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

**Short-term and Variable Rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

**Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

**Table 2: Current Borrowing Position**

PWLB/ Market/ LA	Type	Loan	Start Date	Maturity	Principal (£)	Type
PWLB	Fixed	487800	02/08/2004	25/03/2028	1,000,000	Pooled
PWLB	Fixed	488859	02/08/2004	25/09/2029	500,000	Pooled
PWLB	Fixed	489227	28/10/2004	15/10/2031	5,000,000	Pooled
PWLB	Fixed	490923	22/12/2005	01/05/2036	3,000,000	Pooled
PWLB	Fixed	490924	22/12/2005	01/08/2036	5,000,000	Pooled
PWLB	Fixed	494837	01/10/2008	01/08/2038	5,000,000	Pooled
PWLB	Fixed	497999	30/09/2010	29/09/2021	4,000,000	Pooled
PWLB	Fixed	498000	30/09/2010	29/09/2024	4,000,000	Pooled
PWLB	Fixed	498001	30/09/2010	30/09/2027	4,000,000	Pooled
PWLB	Fixed- EIP	507555	24/07/2018	26/07/2038	23,750,000	Pooled
PWLB	Fixed- EIP	507556	24/07/2018	24/07/2048	24,166,667	Pooled
PWLB	Fixed	507959	30/10/2018	30/10/2068	20,000,000	Pooled
PWLB	Fixed- EIP	508164	11/12/2018	13/12/2038	19,000,000	Pooled
PWLB	Fixed- EIP	508766	14/03/2019	14/03/2044	49,000,000	Pooled
PWLB	Fixed- EIP	509380	21/06/2019	21/06/2039	24,375,000	Pooled
PWLB	Fixed- EIP	509540	25/07/2019	25/07/2034	13,000,000	Pooled
PWLB	Fixed	509818	02/09/2019	03/03/2031	20,000,000	Pooled
PWLB	Fixed	500578	28/03/2012	28/03/2028	20,000,000	HRA Self Financing
PWLB	Fixed	500579	28/03/2012	28/03/2037	20,000,000	HRA Self Financing
PWLB	Fixed	500580	28/03/2012	28/03/2042	20,000,000	HRA Self Financing
PWLB	Fixed	500581	28/03/2012	28/03/2041	15,841,000	HRA Self Financing
PWLB	Fixed	500582	28/03/2012	28/03/2032	20,000,000	HRA Self Financing

<b>PWLB/ Market/ LA</b>	<b>Type</b>	<b>Loan</b>	<b>Start Date</b>	<b>Maturity</b>	<b>Principal (£)</b>	<b>Type</b>
PWLB	Variable	500583	28/03/2012	28/03/2022	10,000,000	HRA Self Financing
PWLB	Fixed	500584	28/03/2012	28/03/2039	20,000,000	HRA Self Financing
Market	L/T Fixed	64	12/07/2004	10/07/2054	4,000,000	Pooled
Market	L-T LOBO	65	07/04/2006	07/04/2066	5,000,000	Pooled
Market	L-T LOBO	66	28/04/2006	28/04/2066	4,000,000	Pooled
LA	ST Variable	2100003468	25/02/2019	02/01/2020	5,000,000	General Fund
LA	ST Variable	2100003443	21/01/2019	21/01/2020	4,000,000	General Fund
LA	ST Variable	2100003467	13/02/2019	22/01/2020	5,000,000	General Fund
LA	ST Variable	2100003476	29/03/2019	29/01/2020	2,000,000	General Fund
LA	ST Variable	2100003451	01/02/2019	31/01/2020	5,000,000	General Fund
LA	ST Variable	2100003504	15/08/2019	14/02/2020	3,000,000	General Fund
LA	ST Variable	2100003522	21/10/2019	18/02/2020	2,000,000	General Fund
LA	ST Variable	2100003505	19/08/2019	19/02/2020	5,000,000	General Fund
LA	ST Variable	2100003471	14/03/2019	20/02/2020	5,000,000	General Fund
LA	ST Variable	2100003512	28/08/2019	28/02/2020	5,000,000	General Fund
LA	ST Variable	2100003514	10/09/2019	10/03/2020	5,000,000	General Fund
LA	ST Variable	2100003474	14/03/2019	13/03/2020	5,000,000	General Fund
LA	ST Variable	2100003473	18/03/2019	16/03/2020	2,000,000	General Fund
LA	ST Variable	2100003472	18/03/2019	16/03/2020	2,000,000	General Fund
LA	ST Variable	2100003516	16/09/2019	16/03/2020	3,000,000	General Fund
LA	ST Variable	2100003499	19/06/2019	19/03/2020	5,000,000	General Fund
LA	ST Variable	2100003513	19/09/2019	19/03/2020	5,000,000	General Fund
LA	ST Variable	2100003460	26/03/2019	24/03/2020	5,000,000	General Fund
LA	ST Variable	2100003535	25/11/2019	01/04/2020	2,000,000	General Fund

<b>PWLB/ Market/ LA</b>	<b>Type</b>	<b>Loan</b>	<b>Start Date</b>	<b>Maturity</b>	<b>Principal (£)</b>	<b>Type</b>
LA	ST Variable	2100003484	03/04/2019	01/04/2020	5,000,000	General Fund
LA	ST Variable	2100003485	30/04/2019	28/04/2020	5,000,000	General Fund
LA	ST Variable	2100003492	28/05/2019	28/04/2020	5,000,000	General Fund
LA	ST Variable	2100003503	30/07/2019	30/04/2020	7,000,000	General Fund
LA	ST Variable	2100003520	31/10/2019	30/04/2020	5,000,000	General Fund
LA	ST Variable	2100003533	19/11/2019	19/05/2020	5,000,000	General Fund
LA	ST Variable	2100003493	23/05/2019	21/05/2020	2,000,000	General Fund
LA	ST Variable	2100003536	29/11/2019	29/05/2020	5,000,000	General Fund
LA	ST Variable	2100003530	29/11/2019	29/05/2020	5,000,000	General Fund
LA	ST Variable	2100003490	31/05/2019	29/05/2020	2,000,000	General Fund
LA	ST Variable	2100003491	31/05/2019	29/05/2020	3,000,000	General Fund
LA	ST Variable	2100003507	30/08/2019	29/05/2020	4,000,000	General Fund
LA	ST Variable	2100003537	02/12/2019	02/06/2020	5,000,000	General Fund
LA	ST Variable	2100003531	02/12/2019	02/06/2020	3,000,000	General Fund
LA	ST Variable	2100003498	17/06/2019	15/06/2020	5,000,000	General Fund
LA	ST Variable	2100003500	28/06/2019	26/06/2020	2,000,000	General Fund
LA	ST Variable	2100003501	28/06/2019	26/06/2020	2,000,000	General Fund
LA	ST Variable	2100003509	14/08/2019	12/08/2020	5,000,000	General Fund
LA	ST Variable	2100003506	20/08/2019	18/08/2020	2,000,000	General Fund
LA	ST Variable	2100003529	28/11/2019	28/08/2020	5,000,000	General Fund
LA	ST Variable	2100003532	06/12/2019	07/09/2020	5,000,000	General Fund
LA	ST Variable	2100003515	11/09/2019	09/09/2020	5,000,000	General Fund
LA	ST Variable	2100003517	27/09/2019	25/09/2020	1,500,000	General Fund
LA	ST Variable	2100003518	30/09/2019	28/09/2020	5,000,000	General Fund



PWLB/ Market/ LA	Type	Loan	Start Date	Maturity	Principal (£)	Type
LA	ST Variable	2100003521	24/10/2019	22/10/2020	2,000,000	General Fund
LA	ST Variable	2100003519	31/10/2019	29/10/2020	2,000,000	General Fund
LA	ST Variable	2100003524	01/11/2019	30/10/2020	5,000,000	General Fund
LA	ST Variable	2100003523	01/11/2019	30/10/2020	3,000,000	General Fund
LA	ST Variable	2100003525	06/11/2019	04/11/2020	5,000,000	General Fund
LA	ST Variable	2100003526	07/11/2019	05/11/2020	3,000,000	General Fund
LA	ST Variable	2100003527	07/11/2019	05/11/2020	2,000,000	General Fund
LA	ST Variable	2100003528	22/11/2019	20/11/2020	5,000,000	General Fund
LA	ST Variable	2100003534	25/11/2019	23/11/2020	1,000,000	General Fund
LA	ST Variable	2100003539	18/12/2019	16/12/2020	2,000,000	General Fund
LA	ST Variable	2100003538	20/12/2019	22/06/2020	2,000,000	General Fund
					<b>569,132,667</b>	

## **6 Housing Revenue Account Self-Financing**

Central Government completed its reform of the Housing Revenue Account Subsidy system at the end of 2011/12. Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government. The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Code recommends that authorities present this policy in their TMSS.

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

As part of the reform of the HRA Housing Revenue Account Subsidy system at the end of 2011/12, the HRA needed to make a payment of £136m to the Government. £126m of this was financed by PWLB loans listed above. £10m was in respect of an internal loan from the General Fund. The General Fund currently charges 2.83% interest on this amount or £283,000 per annum.

## **Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £18m and £64m. Levels are expected to decrease during the forthcoming year in order to finance an expanding capital programme.

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest 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 receiving unsuitably low investment income.

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Negative Interest Rates:** If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** Given the increasing risk and falling returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2020/21 where opportunities arise. This is especially the case for the estimated £30m that is available for longer-term investment. The Council has reduced the amount it invests in short-term unsecured bank deposits, certificates of deposit and money market funds to around 35% of its total investments. Most of these investments are for the management of the Council's short term cash flow, and are invested in either instant access call accounts or notice accounts where the exposure is for a maximum of 95 days.

**Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 3: Approved Investment Counterparties and Limits**

<b>Credit Rating</b>	<b>Banks Unsecured</b>	<b>Banks Secured</b>	<b>Government</b>	<b>Corporates</b>	<b>Registered Providers</b>
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£5m 4 years	£5m 10 years
A+	£15m 2 years	£15m 3 years	£15m 5 years	£5m 3 years	£5m 5 years
A	£15m 13 months	£15m 2 years	£15m 5 years	£5m 2 years	£5m 5 years

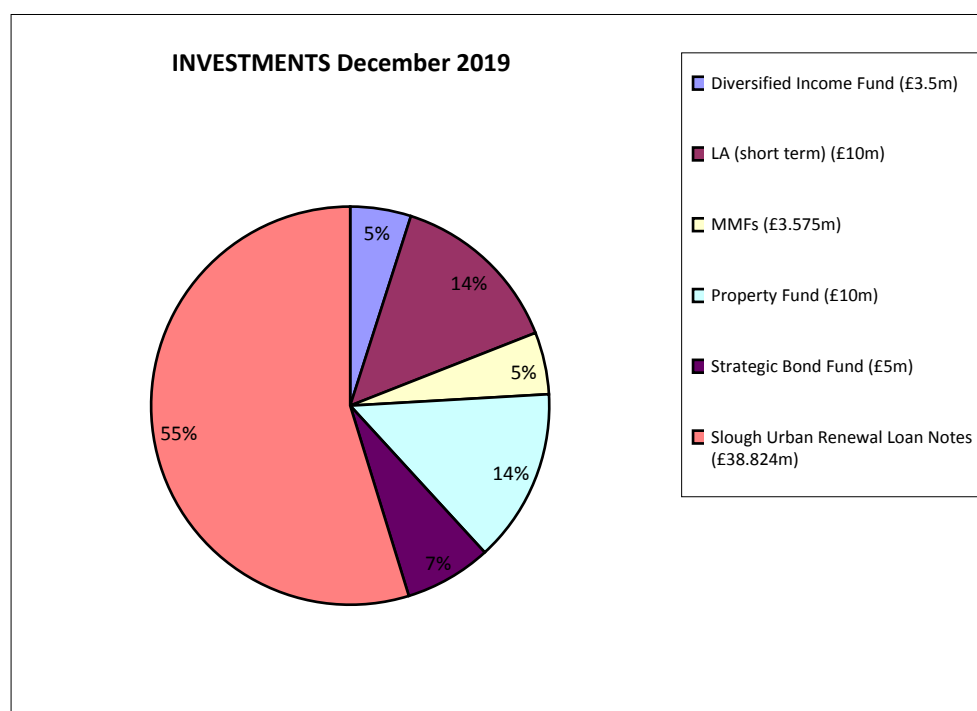
Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
A-	£15m 6 months	£15m 13 months	£15m 5 years	£5m 13 months	£5m 5 years
None	£3m 12 months	n/a	£5m 25 years	n/a	£5m 5 years
Pooled funds	£10m per fund				

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.

In addition, the Council may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

The current level of investments and the type of institution invested in is summarised in Table 4 below:

**Table 4: Current Investments**



£3.575m of the above is in instant access accounts (i.e. Call Accounts and Money Market Funds).

## 8 Investment Opportunities

**Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

**Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Slough Urban Renewal (SUR):** The Council has entered into a partnership with Morgan Sindall, a Private Sector developer, for the regeneration of Slough. Under this partnership, the Council land assets are transferred into the SUR vehicle. The Council then receives a loan note from the SUR for the value of the land transferred. This loan note is then repaid by the SUR over time and the Council will receive interest on the loan note of between 3% and 7%.

## 9 Risk Management

**Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,

- any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

## 10 Investment Limits

The Council’s revenue reserves available to cover investment losses are forecast to be £85 million on 31st March 2020. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£15 million**. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below:

Table 5: Investment Limits

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker’s nominee account	£25m per broker
Foreign countries	£10m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£10m in total

	<b>Cash limit</b>
Loans to unrated corporates	£5m in total
Money Market Funds	£60m in total
Slough Urban Renewal Loan Notes	£10m above land value

## 11 **Non-Treasury Investments**

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority has purchased property for investment purposes and has also made loans and investments for service purposes- the Council has made equity loans totalling £40.824m to James Elliman Homes a wholly owned subsidiary of the council. The aims of James Elliman Homes include increasing housing supply whilst providing “affordable homes” and /or better quality homes for vulnerable client groups and key workers not currently entitled to council housing, or those facing too long a waiting time in temporary accommodation.

Such loans and investments will be subject to the Authority’s normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. On 14 September 2015, Cabinet approved the introduction of the Strategic Acquisition Strategy, which provided a framework for the Council to operate commercially and undertake a new approach to asset investment through the acquisition of land and/or property generating income up to £25m (inclusive of acquisition costs). Following a subsequent report in November 2016, the budget for strategic asset purchases was increased to £50m. A further £50m budget for Strategic acquisitions was approved by Full Council in June 2018. In approving the Strategy, the drivers were to acquire income generating assets to offset continued reductions in central government grant and for the Council to realise the regenerative benefits associated with purchasing sites to bring forward housing and commercial development.

A further £20m will be available for the purchase of Strategic income generating assets in 2020-21 to allow the Strategic Acquisition Board “headroom” to buy and sell assets within the asset portfolio to maximise income for the Council.

### **How investments are decided upon**

A strategic acquisition can be defined as the acquisition of land or properties that will allow the Council to expedite key outcomes contained within the 5 Year Plan. To be considered strategic, it is suggested that acquisition must make a significant contribution towards regeneration objectives and/or provide a commercial return on investment that will improve the financial resilience of the Council:

#### **a) Property Investments**

Under commercial investment objectives, a strategic acquisition would typically:

- Generate income through a satisfactory level of return, with a net initial yield range between 5% and 9%, and/or
- Improve investment value of commercial assets over time in addition to the level of returns through rental growth.

#### **b) Regeneration**

Under regeneration objectives, a strategic acquisition will typically:

- Deliver large scale development that will provide attractive, accessible places to live and work and do business; or

- Allow the redevelopment of smaller development sites in key locations that have stalled, or
- Enable the Council to acquire land required to deliver infrastructure projects, or
- Enable collaborative working with adjoining owners to maximise land value; or
- Improve the image of Slough to a status that fully recognises the strategic importance and benefits offered by the town as a sub-regional gateway to and from London.
- Generate additional capital and revenue income to support the financial projections set out in the Medium Term Financial Plan.

Whilst the acquisition of strategic regeneration sites will typically be dependent on land becoming available for sale, the Council will be proactive and will consider off market acquisitions and the use of Compulsory Purchase Orders as required.

### **How decisions are made**

In order to balance the objectives of introducing a streamlined approach (to avoid losing acquisition opportunities through delays in process) with high levels of probity, a Strategic Acquisition Board (“SAB”) was introduced.

The SAB meet on a monthly basis and is chaired by the Interim Director of Regeneration. The standing members of the SAB include the:

- Leader of the Council
- Interim Director of Regeneration
- Director of Transformation
- Service Lead Finance
- Service Lead Regeneration Development

The SAB has a remit to:

- Consider acquisition recommendations
- Review proposed land acquisition and/or property investment proposals, taking into account the extent to which the proposition fulfils the Council’s policy objectives against a set of agreed criteria.
- Make strategic acquisition and investment decisions on behalf of the Council.
- Oversee and monitor the performance of approved acquisition and investments.
- Report acquisitions to the Capital Strategy Board and Cabinet.
- Dispose of assets acquired via the SAB.

The SAB has a responsibility to monitor the performance of the investment portfolio, ensuring that individual assets are performing thereby maximising rental returns and selling assets when they no longer perform.

When a strategic acquisition is identified by Asset Management an agreed Acquisition Protocol is followed.

### **Any controls in place**

When acquiring investment assets, it is important to have a well balanced portfolio which can counteract significant market changes. As the portfolio expands, each asset acquired is considered in line with the existing portfolio e.g. if the majority of the portfolio were industrial then it would need to be balanced with further office and retail property, or if the portfolio income was very insecure then it could be balanced by investments with longer projected income.

Officers apply a defined list of property specific criteria when making recommendations to the SAB on investment acquisitions using agreed property based criteria.

All acquisition opportunities presented to the SAB are supported by a financial appraisal and business case. Before approving any acquisition, the SAB requires confirmation that the

acquisition will not increase the Council's ongoing revenue costs, including the cost of borrowing and officer time.

The appraisal and business case assess how the strategic acquisition will be financed. They:

1. Consider if the investment achieves corporate objectives.
2. Confirm that for the acquisition of land the price is reasonable (allowing for a special purchase consideration) and supported by an independent valuation.
3. Confirm that for the acquisition of a standing investment the price is reasonable and supported by an independent valuation (reference will be made to previously identified added value opportunities).
4. Confirm there is a market requirement.
5. Where appropriate, there is secure rental income taking into account risks associated with the security of future payments, including (where appropriate) sensitivity analysis for void periods.
6. Identify whole life costs (where appropriate).
7. Identify the most appropriate funding source(s) and confirm availability.
8. Clarify that the Council's Finance Section has assessed the business case and confirmed a suitable return on investment.

The financial appraisals considered by the SAB identify all costs and assumed income to assist informed decision making on whether the acquisition is suitable. In the case of revenue generating assets, assets are assessed by comparing the anticipated net income against the rate of return the Council could otherwise expect to achieve on its capital.

In all instances, acquisitions must be supported by advice from the Section 151 Officer.

The Authority's existing non-treasury investments are listed in Appendix B.

## **12 Treasury Management Indicators**

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

- Upper limits on variable rate exposure. This indicator identifies a maximum limit for variable interest rates based upon the debt provision net of investments.
- Upper limits on fixed rate exposure. Similar to the previous indicators, this covers a maximum limit on fixed interest rates
- Total principal funds invested for a period longer than 364 days. These limits are set to reduce the need for early sale of an investment and are based on the availability of investments after each year-end
- Maturity Structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed will be:

<b>LIMITS ON INTEREST RATE EXPOSURE</b>			
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Limit on Principal invested beyond year end	£45m	£45m	£45m
Upper limit on fixed interest rate exposure	£350m	£550m	£550m
Upper limit on variable interest rate exposure	£300m	£350m	£350m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate. Following recent discussions at the Council's Treasury Management Group and based on the Council's Current Strategy to utilise lower



rates for short-term borrowing where possible in order to reduce pressure on the Revenue budgets, the above limits have been revised for the 2020/21 financial year onwards.

**Mature 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 fixed rate borrowing will be:

<b>MATURITY STRUCTURE OF BORROWING</b>				
	<b>Existing Level (£m)</b>	<b>Existing Level (%)</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months	217,784	38.27%	0%	75%
12 months and within 24 months	22,939	4.03%	0%	50%
24 months and within 5 years	30,817	5.41%	0%	50%
5 years and within 10 years	70,196	12.33%	0%	75%
10 years and within 15 years	62,306	10.95%	0%	95%
15 years and within 20 years	81,167	14.26%	0%	95%
20 years and within 25 years	48,008	8.44%	0%	95%
Over 25 years	35,917	6.31%	0%	95%
	<b>569,133</b>			

**13 Other Items**

There are a number of additional items that the Authority is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

**Policy on the use of financial derivatives** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

**Policy on apportioning interest to the HRA:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest

payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk

**Investment training:** The needs of the Authority's treasury management staff for training in investment management are assessed every three months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

**Investment advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

**Investment of money borrowed in advance of need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £804 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

### **Financial Implications**

The budget for investment income in 2020/21 is £2.258 million, based on an average investment portfolio of £50.714 million at an interest rate of 4.45%. The budget for debt interest paid in 2020/21 is £11.567 million, based on an average debt portfolio of £569.841 million at an average interest rate of 2.03%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Also in order to alleviate pressure on the Revenue Budget the Council will Capitalise Borrowing Costs for qualifying assets. A qualifying asset constitutes an asset that takes a substantial period of time to get ready for its intended use (commonly Assets under Construction).

### **Other Options Considered**

The MHCLG Guidance and the CIPFA Code do not prescribe any particular Treasury Management Strategy for local authorities to adopt. The Chief Finance officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## **Appendix A – Arlingclose Economic & Interest Rate Forecast November 2019**

### **Underlying assumptions:**

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

### **Forecast:**

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>3-month money market rate</b>														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.25
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>1yr money market rate</b>														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	0.23
<b>Arlingclose Central Case</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>	<b>0.85</b>
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.60
<b>5yr gilt yield</b>														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	0.37
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.55</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.60</b>	<b>0.57</b>
Downside risk	-0.35	-0.50	-0.50	-0.45	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.56
<b>10yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>0.80</b>	<b>0.80</b>	<b>0.85</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.95</b>	<b>0.95</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>0.88</b>
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.45
<b>20yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
<b>Arlingclose Central Case</b>	<b>1.20</b>	<b>1.20</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.40</b>	<b>1.40</b>	<b>1.30</b>
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45
<b>50yr gilt yield</b>														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
<b>Arlingclose Central Case</b>	<b>1.20</b>	<b>1.20</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.35</b>	<b>1.35</b>	<b>1.40</b>	<b>1.40</b>	<b>1.30</b>
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

## Appendix 2 – Non-Treasury Investments- Strategic Acquisitions

Property	Capital Expenditure	Annual Rent Due	2019-20 Projection	2020-21	% Return on Investment	Type
Leasehold interest of the 5th Floor, Hatfield Car Park						Strategic
100A Wexham Road						Strategic
Purchase of Cornwall House						Office
Land South Side Stoke Road (Stoke Wharf)						Strategic
Leaseplan 165 Bath Road						Office
Land at Norway Drive						Strategic
Halfords 380 Bath Road						Warehouse-retail
5 Hillersdon						Strategic
174-178 High Street (WH Smith)						Retail
202-206 High Street (BHS)						Retail
Waitrose Gosport - Stoke Road						Retail
Wickes West Street Wolverhampton						Warehouse-retail
Gala Bingo, 3 Bath Road						Strategic
Lego, 33 Bath Road						Office
Upton Lodge 2A Yew Tree Road						Office
Unit 26 Wexham Business Village						Office
Odeon, Churchill Way, Basingstoke						Retail
Acquasulis House, 12-14 Bath Road						Office
Freehold interest of 21, Roydsdale Way, Euroway Industrial Estate, Bradford, West Yorkshire						warehouse
Purchase 233-249 High Street						Retail
	<b>106,302,285.66</b>	<b>6,081,127.00</b>	<b>5,281,806.97</b>	<b>5,828,490.02</b>	<b>5.72%</b>	

The above table shows the amount of capital expenditure made in purchasing assets for investment purposes. The assets will produce a rental income from tenants which can be used to support the council's Revenue Budget.

### James Elliman Homes

Date of Loan	Principal	Equity 40% of Principal	an 60% of Princi	Annual Interest on Loan @ 5%
17/07/2017	2,223,610.00	889,444.00	1,334,166.00	66,708.30
19/07/2017	2,000,000.00	800,000.00	1,200,000.00	60,000.00
12/01/2018	2,500,000.00	1,000,000.00	1,500,000.00	75,000.00
17/04/2018	3,200,000.00	1,280,000.00	1,920,000.00	96,000.00
20/07/2018	3,000,000.00	1,200,000.00	1,800,000.00	90,000.00
09/08/2018	5,000,000.00	2,000,000.00	3,000,000.00	150,000.00
28/09/2018	5,000,000.00	2,000,000.00	3,000,000.00	150,000.00
19/12/2018	2,000,000.00	800,000.00	1,200,000.00	60,000.00
08/02/2019	1,500,000.00	600,000.00	900,000.00	45,000.00
15/03/2019	1,500,000.00	600,000.00	900,000.00	45,000.00
15/03/2019	2,000,000.00	800,000.00	1,200,000.00	60,000.00
23/05/2019	3,000,000.00	1,200,000.00	1,800,000.00	90,000.00
04/07/2019	2,950,000.00	1,180,000.00	1,770,000.00	88,500.00
08/11/2019	2,950,000.00	1,180,000.00	1,770,000.00	88,500.00
02/01/2020	2,000,000.00	800,000.00	1,200,000.00	60,000.00
	<b>40,823,610.00</b>	<b>16,329,444.00</b>	<b>24,494,166.00</b>	<b>1,224,708.30</b>

James Elliman Homes is a wholly owned subsidiary of Slough Borough Council set up to acquire properties in the Slough area for rental to the following principal customers- those in need of temporary accommodation, those considered to be key workers and for market rental. Thus far the council has made loans to James Elliman Homes totalling £40,823,610. For this sum the council receives interest, payable at 5% on 60% of the principle sum loaned. For the remaining 40% the council receives equity shares.