DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MID-YEAR 2023/24		
DATE OF DECISION:		13 November 2023		
REPORT OF:		**EXECUTIVE DIRECTOR FINANCE & COMMERCIALISATION (S151 Officer)**		
CONTACT DETAILS				
Executive Direct	**Title:**	**Executive Director for Finance, Corporate Services & S151 Officer**		
	Name:	**Mel Creighton**	**Tel:**	**023 8083 3528**
	E-mail:	mel.creighton@southampton.gov.uk		
AUTHOR:	**Name:**	**Steve Harrison**	**Tel:**	**023 8083 4153**
	E-mail:	steve.harrison@southampton.gov.uk		

STATEMENT OF CONFIDENTIALITY		
NOT APPLICABLE		
BRIEF SUMMARY		
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2023/24 against the approved Prudential Indicators for External Debt and Treasury Management.		
RECOMMENDATIONS:		
It is recommended that Governance committee:		
	(i)	Notes the mid-year position for Treasury Management (TM) activities and Prudential Indicators.
	(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
REASONS FOR REPORT RECOMMENDATIONS		
1.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and as a minimum, formally report on their treasury activities and arrangements to Governance Committee mid-year and after the year-end. This report fulfils that requirement and enables those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.	
2.	In addition to the formal reports to Governance, from 1st April 2023 the 2021 Code introduced mandatory quarterly reporting of the TM prudential indicators and are included in the quarterly Revenue Financial Monitoring reports presented to Cabinet.	

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
3.	No alternative options are relevant to this report.	
DETAIL (Including consultation carried out)		
CONSULTATION		
4.	Not applicable.	
BACKGROUND		
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the system is that local authorities are free to borrow as long as their capital spending plans are affordable, prudent and sustainable.	
6.	CIPFA published a revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes were around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.	
7.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the TM function at least twice a year (mid-year and at year end).	
8.	The Authority's TM Strategy for 2023/24 was approved by Governance Committee on 13 February 2023. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2023.	
9.	This report:	
	a)	is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b)	presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c)	reports on the risk implications of treasury decisions and transactions;
	d)	gives details of the mid-year position on TM transactions in 2023/24; and
	e)	confirms compliance with treasury limits and Prudential Indicators.
10.	The report and appendices highlight that:	
	a)	Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 13 February 2023.
	b)	There has been full compliance with the Prudential Indicators approved by Governance Committee on 13 February 2023.
	c)	With an increasing borrowing requirement, the overall treasury strategy is to minimise both external borrowing and investments and to only

		borrow to the level of net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and to avoid the cost of carry in the current interest rate environment. Throughout the period, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.
	d)	CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define TM investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. As reported previously SCC holds £27M in the CCLA property fund which was reviewed following the revised CIPFA guidance, and it still meets our medium term investments objectives. This will remain under review in conjunction with the Council's TM advisors. For further details on the funds' performance see Appendix 2, paragraphs 26 to 30.
	e)	Total TM investment returns for 2023/24 are currently forecast at £2.8M and during the period April to September achieved an average rate of 4.39%.
	f)	The differential between debt costs and investment earnings continues, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure, whilst balances can support it. The average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), is forecast at 3.33% this is higher than last year (2.96%) due to new borrowing being taken at higher rates than maturing debt and previous new borrowing. We defer borrowing until actually required to minimise costs unless a good opportunity was to present itself.
	g)	Both short term and long term markets are continuously monitored, whilst there is so much volatility in markets and the long term rates are expected to fall in the medium term.
	h)	Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs. With reducing balances, this strategy will not be achievable in the future.
	i)	In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.
	j)	Net loan debt during April to September has decreased from £306M to £299M (£7M) but is expected to rise to £387M by the end of 2023/24, as detailed in Appendix 2, paragraph 3.

		Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) is forecast at £11.2M at an average interest rate of 3.33%
11.	Appendix 1 summarises the economic outlook and events in the context of which the Council is operating its treasury function during 2023/24.	
12.	Appendix 2 summarises treasury activity during the year to date and covers: • Borrowing Requirement and Debt Management • Investment Activity • Non – Treasury Investments	

COMPLIANCE WITH PRUDENTIAL INDICATORS

13. It can be confirmed that the Council has complied with its Prudential Indicators for 2023/24, approved by Governance Committee on 13 February 2023.

14. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2023/24. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity, with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 4.

15. ***Table1: Key Prudential Indicators***

Indicator	Limit	Actual at 30/9/2023
Authorised Limit for external debt	£1010M	£361M
Operational Limit for external debt	£865M	£361M
Maximum external borrowing year to date	£945M	£313M
Limit of fixed interest debt	100%	87%
Limit of variable interest debt	50%	13%
Limit for long term investments	£30M	£28M

OTHER

16. IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Therefore, no accounting changes have been made from 1st April 2023 and proposed changes will be reported as part of the next Strategy report.

RESOURCE IMPLICATIONS

<u>Capital/Revenue</u>

17. This report is a requirement of the TM Strategy, which was approved at Council on 13 February 2023.

18. The capital and revenue implications are considered as part of the quarterly financial monitoring reports and MTFS updates.

19.	The interest cost of financing the Authority’s long term and short term loan debt is charged corporately to the Income and Expenditure account. The forecast is £12.35M for 2023/24. There is pressure on the budget due to interest rates rising faster expected and the increasing draw on reserves to balance the overall council budget.
20.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. Total TM investment returns for 2023/24 are currently forecast at £2.1M which is higher than original forecast of £1.8M and has helped offset increased debt interest.
21.	The expenses of managing the Authority’s loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses are forecast at £0.28M for 2023/24.
<u>Property/Other</u>	
22.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report</u>:	
23.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of TM. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely to invest and make a return remains unlawful.
<u>Other Legal Implications</u>:	
24.	None.
RISK MANAGEMENT IMPLICATIONS	
25.	Overall responsibility for TM remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council’s TM objectives. The Authority 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. This report covers treasury activity and the associated monitoring and control of risk.
POLICY FRAMEWORK IMPLICATIONS	
26.	Not applicable. This report has been prepared in accordance with the CIPFA Code of Practice on TM.
KEY DECISION?	~~Yes~~/No

<table>
<tr><td colspan="3">WARDS/COMMUNITIES AFFECTED:</td><td colspan="2">NONE</td></tr>
<tr><td colspan="5"><u>SUPPORTING DOCUMENTATION</u></td></tr>
<tr><td colspan="5">Appendices</td></tr>
<tr><td>1.</td><td colspan="4">2023/24 Economic Background</td></tr>
<tr><td>2.</td><td colspan="4">Treasury Activity during 2023/24</td></tr>
<tr><td>3.</td><td colspan="4">Southampton Benchmarking 30th September 2023</td></tr>
<tr><td>4.</td><td colspan="4">Compliance with Prudential Indicators</td></tr>
<tr><td>5.</td><td colspan="4">Glossary of Treasury Terms</td></tr>
<tr><td colspan="5">Documents In Members’ Rooms</td></tr>
<tr><td>1.</td><td colspan="4">None.</td></tr>
<tr><td colspan="5">Equality Impact Assessment</td></tr>
<tr><td colspan="4">Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.</td><td>~~Yes~~/No</td></tr>
<tr><td colspan="5">Privacy Impact Assessment</td></tr>
<tr><td colspan="4">Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.</td><td>~~Yes~~/No</td></tr>
<tr><td colspan="5">Other Background Documents
Equality Impact Assessment and Other Background documents available for inspection at:</td></tr>
<tr><td colspan="2">Title of Background Paper(s)</td><td colspan="3">Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</td></tr>
<tr><td>1.</td><td colspan="2">The Medium Term Financial Strategy, Budget
Capital Programme 2023/24 to 2027/28 –
reported to Council 22 February 2023</td><td colspan="2"></td></tr>
</table>