DECISION-MAKER:	GOVERNANCE COMMITTEE			
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2022/23TO 2025/26			
DATE OF DECISION:	14 FEBRUARY 2022			
REPORT OF:	EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION & S151 OFFICER			
CONTACT DETAILS				
AUTHOR:	**Name:**	Steve Harrison	**Tel:**	07392 864525
	E-mail:	steve.harrison@southampton.gov.uk		
Director	**Name:**	John Harrison	**Tel:**	023 8083 4897
	E-mail:	john.harrison@southampton.gov.uk		
STATEMENT OF CONFIDENTIALITY				
NOT APPLICABLE				

BRIEF SUMMARY

With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks, including the loss of invested funds and the revenue effect of changing interest rates.

Investment limits within this report have been increased to allow for a possible change in strategy.

GOVERNANCE COMMITTEE

It is recommended that Governance Committee:

	(i)	Approve the Council's Treasury Management (TM) Strategy and Indicators for 2022/23 to 2025/26, as detailed in appendix 1.
	(ii)	Note that at the time of writing this report it has been assumed that the budget proposals within the Medium Term Financial Strategy 2022/23 to 2025/26, Revenue Budget 2022/23 and Capital Programme 2020/21 to 2026/27 report, to be submitted to Council on the 23 February 2022, will be approved. Should the recommendations change and have any impact on the Prudential Indicators this will be reported to Council on 23 February 2022.
	(iii)	The Executive Director - Finance and Commercialism (EDFC) will report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring.
	(iv)	Endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

REASONS FOR REPORT RECOMMENDATIONS	
1.	In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the Treasury Management Strategy, as detailed in Appendix 1.
2.	This report only covers treasury investments, investments held for service purposes or that give rise to commercial profit are considered in a separate report being taken to Full Council on 23 February 2022.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital programme being reported at Full Council on 23 February 2022.
DETAIL (Including consultation carried out)	
	CONSULTATION
4.	The proposed Capital Programme report on which this report is based has been subject to separate consultation processes.
	BACKGROUND
5.	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. If opportunities arise long term borrowing would be considered in conjunction with our advisors, Arlingclose.
6.	CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management 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.
7.	The TM strategy takes into account the impact of the Council's proposed revenue budget and capital programme, to be report to Council on 23 February 2022, on the balance sheet position, the treasury prudential indicators and the current and projected treasury position. There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability in the Treasury Strategy as they are now reported as part of the Capital Strategy which will be approved at Council on 23 February. The economic background and outlook for interest rates (Annex 2 to Appendix 1) has also been taken into account in developing this strategy.
8.	The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is committed to achieving value for money, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To assist the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise on strategy and provide market information to aid decision making. However, it should be noted that the decisions are taken

	independently by the EDFC taking into account this advice and other internal and external factors.
9.	Both the CIPFA Code and government guidance require the Authority 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 Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
10.	Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
11.	The core elements of the 2022/23 Treasury strategy are: • To extend the use of short term variable rate debt to take advantage of the current market conditions of low interest rates. • To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk. • To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio. • To invest surplus funds prudently, the Council's priorities being: - Security of invested capital - Liquidity of invested capital - An optimum yield which is commensurate with security and liquidity. • To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.
RESOURCE IMPLICATIONS	
Capital/Revenue	
12.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.
13.	The forecast for borrowing costs in 2022/23 is £18.04M, of which £5.34M relates to the HRA. This is made up of interest on borrowing of £9.66M (based on an average debt portfolio of £351.31M at an average interest rate of 2.65% plus MRP and other costs of £8.38M. This is expected to rise to £26.93M (£7.70M HRA) by 2025/26 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. Investment income for 2022/23 is forecast at £1.02M based on an average portfolio of £48M at an average of 2.12%. If actual levels of investments and borrowing, and/or interest rates differ from that forecast, performance against budget will be correspondently different.
Property/Other	

14.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report</u>:	
15.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
16.	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 treasury management. 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 in order to invest and make a return remains unlawful.
<u>Other Legal Implications</u>:	
17.	None
POLICY FRAMEWORK IMPLICATIONS	
18.	This report has been prepared having regard with the CIPFA Code of Practice on Treasury Management.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None

<u>SUPPORTING DOCUMENTATION</u>

Appendices	
1.	Treasury Management Strategy 2022-23
2.	Treasury Management Practices
3.	Glossary of Treasury Terms
Annex 1	Treasury Management Policy Statement
Annex 2	Economic and Interest Outlook
Annex 3	Existing Investment & Debt Portfolio Position and Projections
Annex 4	Projected Movement on Capital Financing Requirement

Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	**No**
Privacy Impact Assessment	

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		**No**
Other Background Documents		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	