DECISION-MAKER:		GOVERNANCE COMMITTEE		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2024/25 TO 2026/27		
DATE OF DECISION:		22 APRIL 2024		
REPORT OF:		EXECUTIVE DIRECTOR ENABLING SERVICES AND S151 OFFICER		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

With overall annual expenditure more than £600M and an extensive capital programme, the Council is required to actively manage its cash-flows daily. 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, 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:

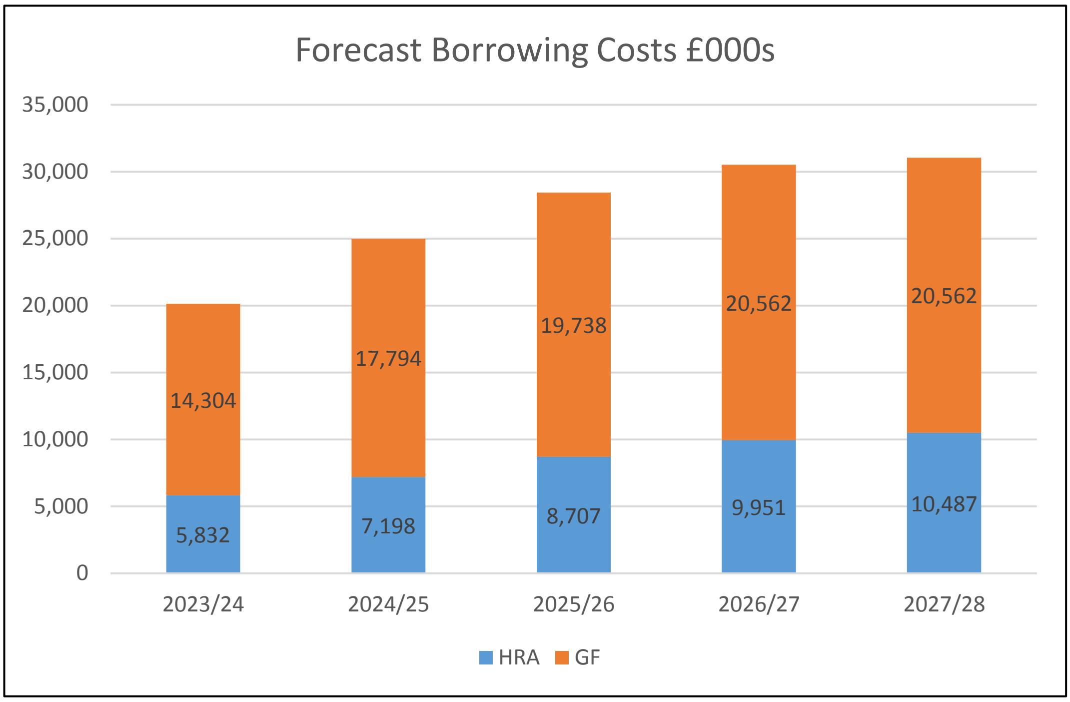
	(i)	Approve the Council's Treasury Management (TM) Strategy and Indicators for 2024/25 to 2027/28, as detailed in Appendix 1 (Treasury Management Strategy 2024-25).
	(ii)	Note the Executive Director for Enabling Services will report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring.
	(iii)	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.	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 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 for commercial profit were considered in a separate report to Full Council on 6 March 2024.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report taken at Full Council on 6 March 2024.
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 money on net interest costs. When opportunities arise long term borrowing is 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 during business.
7.	The Treasury Strategy considers the impact of the Council's proposed revenue budget and capital programme, reported to Council on 6 March 2024, on the balance sheet position, the treasury prudential indicators and the current and projected treasury position. The economic background and outlook for interest rates (Annex 2 to Appendix 1) has also been considered. There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability, as they are now reported in the Capital 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 Executive Director of Corporate Services, considering 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 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 2024/25 Treasury strategy are: • To constantly review longer term forecasts and to lock into longer and term rates through a variety of instruments as appropriate during the year, to provide a balanced portfolio against interest rate risk. • To secure the best 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	
<u>Capital/Revenue</u>	
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 2024/25 is £25.19M, of which £7.20M relates to the HRA. This is made up of interest on borrowing of £15.11M (based on an average debt portfolio of £385.90M at an average interest rate of 3.51% plus MRP and other costs of £10.08M. This is expected to rise to £33.05M (£10.49M HRA) by 2027/28 to accommodate the capital programme, utilisation of reserves and refinancing of borrowing. New long-term loans taken over the period of the strategy will be borrowed at an average rate of 4.95%. based on our advisors' forecast rates.

	
14.	Investment income for 2024/25 is forecast at £2.10M based on an average portfolio of £48M at an average of 4.36%. If actual levels of investments and borrowing, and/or interest rates differ from that forecast, performance against budget will be correspondently different.
15.	An application has been made to Government seeking Exceptional Financial Support (EFS) to help balance the budget for 2024/25 and provide for other costs and potential liabilities. The Government has now confirmed that it is minded to support the council by providing an EFS facility. A Ministerial Statement on 29 February has confirmed the this for Southampton City Council, and for several other local authorities.
16.	The EFS is in the form of a 'Capitalisation Direction'. Capitalisation is how the government permits local authorities to treat revenue costs as capital expenditure. It is a relaxation of the rules that require revenue costs to be met from revenue resources only and that councils should not "borrow" to fund revenue expenditure. Obviously, a local authority does not have to borrow to fund the capitalised expenditure as it can legitimately use capital receipts to do so. EFS is only available in 2024/25 to give the council time to develop further savings and transformation plans to reduce the structural budget deficits in future years.
17.	The EFS is that the council can use up to £121.58M of capital resources to fund revenue expenditure and other potential liabilities. The Council is not obliged to use the full value of the EFS, and this should be seen as a facility to use rather than permission to spend. EFS is not additional funding, and it must be repaid either through capital receipts or borrowing. The use of the EFS facility should therefore be kept to the minimum necessary. If the capitalisation direction is utilised, then a budget will be added to the capital programme in due course.

18.	Any new borrowing taken under this arrangement does not qualify for the PWLB certainty rate and incurs a premium of 1%, so any borrowing taken will be 1.2% above the certainty rate, an additional £0.12M interest for each £10M taken. Current forecast for the 20-year PWLB maturity borrowing is around 5%, so including the additional 1.2%, additional revenue interest costs will be £0.62M for every £10M borrowing taken. This will impact on the figures in table 10 and the limit for the GF would need to increase above the current 11%.
<u>Property/Other</u>	
19.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report</u>:	
20.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
21.	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 during 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 to invest and make a return remains unlawful.
<u>Other Legal Implications</u>:	
22.	None
POLICY FRAMEWORK IMPLICATIONS	
23.	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 2024-25
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
2.	Treasury Management Practices
3.	Glossary of Treasury Terms

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	