

<b>DECISION-MAKER:</b>	<b>AUDIT COMMITTEE</b>		
<b>SUBJECT:</b>	<b>REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2023/24</b>		
<b>DATE OF DECISION:</b>	<b>29 JULY 2024</b>		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR ENABLING SERVICES &amp; S151 OFFICER</b>		
<b><u>CONTACT DETAILS</u></b>			
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#### **STATEMENT OF CONFIDENTIALITY**

NOT APPLICABLE

#### **BRIEF SUMMARY**

The purpose of this report is to inform Audit Committee of the treasury management 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 Treasury Management (TM) performance for 2023/24 and the outturn on the 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 reporting of the outturn position for 2023/24 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators were previously approved by Governance Committee in February in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.
2.	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 the new Audit Committee mid-year and after the year-end. These reports enable 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.

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	No alternative options are relevant to this report.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
4.	Not applicable.
	<b>BACKGROUND</b>
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities. The basic principle of the new system is that local authorities will be free to borrow if their capital spending plans are affordable, prudent and sustainable.
6.	<p>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 treasury management function at least twice a year (mid-year and at year end).</p> <p>It also requires that monitoring of the treasury management indicators should be reported quarterly (along with the other prudential indicators) as part of the council's general revenue and capital monitoring, and we complied with this during 2023/24.</p>
7.	<p>The TM Strategy for 2023/24 was previously approved by Governance Committee on 13 February 2023. These were subsequently reviewed and revised as part of the Council's TM Strategy Statement for 2023/24 at Council on 6 March 2024 and Governance Committee on 22 April 2024.</p> <p>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 council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 6 March 2024.</p>
8.	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 treasury management objectives. 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. This report covers treasury activity and the associated monitoring and control of risk.
9.	This report:
	a) is prepared in accordance with the revised CIPFA TM 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 outturn 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 and reviewed on 6 March 2024.
	b)	There has been full compliance with the Prudential Indicators approved by Governance Committee on 13 February 2023 and reviewed on 6 March 2024.
	c)	<p>As we have an increasing borrowing requirement our overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.</p> <p>Throughout the year, 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.</p>
	d)	<p>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.</p> <p>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 our financial advisors. For further details on the funds' performance see Appendix 2, paragraphs 36 to 41.</p>
	e)	Total TM investment returns during 2023/24 were £3.3M at an average rate of 4.70% and an average balance of £69.82M.
	f)	<p>The differential between debt costs and investment earnings continued to widen, resulting in the continued use of internal resources in lieu of borrowing as the most cost effective means of financing capital expenditure.</p> <p>As a result, the average rate for repayment of debt, (the Consolidated Loans &amp; Investment Account Rate – CLIA), at 2.98%, is lower than that the expected Strategy figure of 3.15%. This is mainly as a result of maturing debt which was not replaced due to higher cash flows and increasing interest rates, so deferring borrowing until actually required. It is the intention to continue to monitor both short term and long term markets during 2024/25 whilst there is so much volatility in markets.</p>
	g)	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.
	h)	In achieving interest rate savings, the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be 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, for example, during the last 2 years we have borrowed £60M long term to introduce some certainty into the loan portfolio in a volatile interest environment.																					
	i)	As forecast net loan debt increased during 2023/24 from £306M to £330M (£24M) as detailed in Appendix 2, paragraph 5. Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) was £8.81M at an average interest rate of 3.00%																					
11.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2023/24.																						
12.	Appendix 2 summarises treasury activity during the year and covers: <ul style="list-style-type: none"> <li>• Borrowing Requirement and Debt Management</li> <li>• Investment Activity</li> <li>• Non – Treasury Investments</li> </ul>																						
<b>COMPLIANCE WITH PRUDENTIAL INDICATORS</b>																							
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 and reviewed on 6 March 2024.																						
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 indicators have 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.	<p><b>Table 1: Key Prudential Indicators</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Indicator</th> <th style="text-align: center;">Limit</th> <th style="text-align: center;">Actual at 31/3/2024</th> </tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt</td> <td style="text-align: center;">£1010M</td> <td style="text-align: center;">£366M</td> </tr> <tr> <td>Operational Limit for external debt</td> <td style="text-align: center;">£865M</td> <td style="text-align: center;">£366M</td> </tr> <tr> <td>Maximum external borrowing year to date</td> <td style="text-align: center;">£945M</td> <td style="text-align: center;">£316M</td> </tr> <tr> <td>Limit of fixed interest debt</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">88%</td> </tr> <tr> <td>Limit of variable interest debt</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">12%</td> </tr> <tr> <td>Limit for long term investments</td> <td style="text-align: center;">£30M</td> <td style="text-align: center;">£28M</td> </tr> </tbody> </table>		Indicator	Limit	Actual at 31/3/2024	Authorised Limit for external debt	£1010M	£366M	Operational Limit for external debt	£865M	£366M	Maximum external borrowing year to date	£945M	£316M	Limit of fixed interest debt	100%	88%	Limit of variable interest debt	50%	12%	Limit for long term investments	£30M	£28M
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<b>RESOURCE IMPLICATIONS</b>																							
<b>Capital/Revenue</b>																							
16.	This report is a requirement of the TM Strategy, which was approved at Council on 13 February 2023 and updated on 6 March 2024.																						
17.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 16 July 2024.																						
18.	The interest cost of financing the long term and short term loan debt is charged corporately to the Income and Expenditure account, and amounted to £8.44M in 2023/24. This is lower than originally budgeted mainly due to																						

	minimal new long term borrowing being taken as we continued to make use of internal balances and used short term borrowing as they provided value for money and minimised loan costs.
19.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2023/24 £3.3M was earned which was £1.4M higher than originally budgeted mainly due to higher than expected interest rates.
20.	The expenses of managing the council'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 amounted to £0.25M in 2023/24.
21.	To cover future risk of any loss on the CCLA pooled property fund due to the expectation that statutory override will cease in 2026/27, £0.80M was transferred to the Investment Risk Reserve. Further detail can be found in Appendix 2 paragraphs 39 to 41.
<b><u>Property/Other</u></b>	
22.	There are no specific property implications arising from this report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
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 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.
<b><u>Other Legal Implications:</u></b>	
24.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
25.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
26.	Not applicable. It should be note that the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2023/24.
<b>KEY DECISION?</b>	Yes/No
<b>WARDS/COMMUNITIES AFFECTED:</b>	NONE

<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	2023/24 Economic Background	
2.	Treasury Activity during 2023/24	
3.	Southampton Benchmarking 31st March 2024	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
<b>Documents In Members' Rooms</b>		
1.	None.	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
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.	The Medium Term Financial Strategy, Budget Capital Programme 2024/25 to 2028/29 – reported to Council 6 March 2024	