

## **SOUTHEND-ON-SEA CITY COUNCIL**

### **TREASURY MANAGEMENT STRATEGY 2026/27**

#### **1. Introduction**

- 1.1 The Treasury Management Strategy is written in compliance with the CIPFA Treasury Management Code of Practice requirement to review and report policy and strategy before the start of the year. This has been revised following publication of the revised Code of Practice.
- 1.2 The Treasury Management Strategy sets out how the financing costs may be achieved. It needs to be regularly monitored and modified in the light of changing external and internal circumstances.
- 1.3 The objective of the strategy is to optimise the income generated by surplus cash and minimise borrowing costs, consistent with a low level of risk, maintaining capital sums and maintaining liquidity.

#### **2. The Council's Budget**

- 2.1 The budget includes provision for the financing costs of the Council's Capital Investment Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.
- 2.2 The Council can be both a lender and borrower at the same time as it seeks to invest short-term surpluses and fund longer-term capital investment. The timing of the taking of borrowing is important to secure the most advantageous interest rates.
- 2.3 The net budget for financing costs and interest earned on balances is £13.3m (expenditure of £21.5m and income of £8.2m) in 2026/27.

#### **3. The Council's Cash Surplus and Cash Flow**

- 3.1 It is projected that surplus cash balances will average £112m (of which £51.5m is the estimated sum of medium and long term funds managed by external fund managers) during 2026/27 based on information currently available and historical spending patterns.

#### **4. Interest Earnings (in-house investments)**

- 4.1 At the date of this report, the Bank of England base rate was 3.75%. Based on economic forecasts it is very difficult to predict the timing and extent of any change in interest rates, however it has been assumed that during 2026/27 the bank base rate will start the year at that level and decrease further throughout the year. The average interest earned by the Council on its in-house lending is estimated to be 3.43% but this does depend on market conditions.
- 4.2 For in-house investments, sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £303k in external interest earned and a difference of £1m in average balances would make a difference of £34k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Chief Finance Officer.

#### **5. Long Term Borrowing**

- 5.1 There is no Central Government funding to support borrowing by the Council to fund capital projects. Under the Prudential Code the cost of any additional borrowing has to be financed by the Council.
- 5.2 The funding available to support capital investment is based on an assumption that the Council will take out up to £25M of borrowing during 2026/27. This is because the Council will have loan repayments during 2026/27 of £21.9M, £21.6M due to PWLB loan maturities relating to loans taken out in 2001 and 2002, and £0.3M due to the scheduled repayments of the L1 Renewables loan. In addition, this borrowing will allow the ability to continue to finance the Capital Investment Programme appropriately and to continue to effectively manage the cash balances of the Council. Any borrowing will be undertaken by the S151 officer at the appropriate market point for rates and with regard to the timing of the required PWLB repayments.
- 5.3 The Capital Financing Requirement (CFR) is the council's theoretical need to borrow but the Section 151 Officer can manage the council's actual borrowing position by either:
- 1 - borrowing to the CFR;
  - 2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
  - 3 - borrowing for approved future increases in the CFR (borrowing in advance of need).

The Council is likely to begin 2026/27 in the second of the above scenarios. However, as the 2026/27 financial year progresses a combination of scenarios 1, 2 and 3 will be considered, as appropriate.

- 5.4 This authority will only borrow in advance of need where there is a clear justification for doing so and will only do so for the current

approved capital investment programme or to finance future debt maturities.

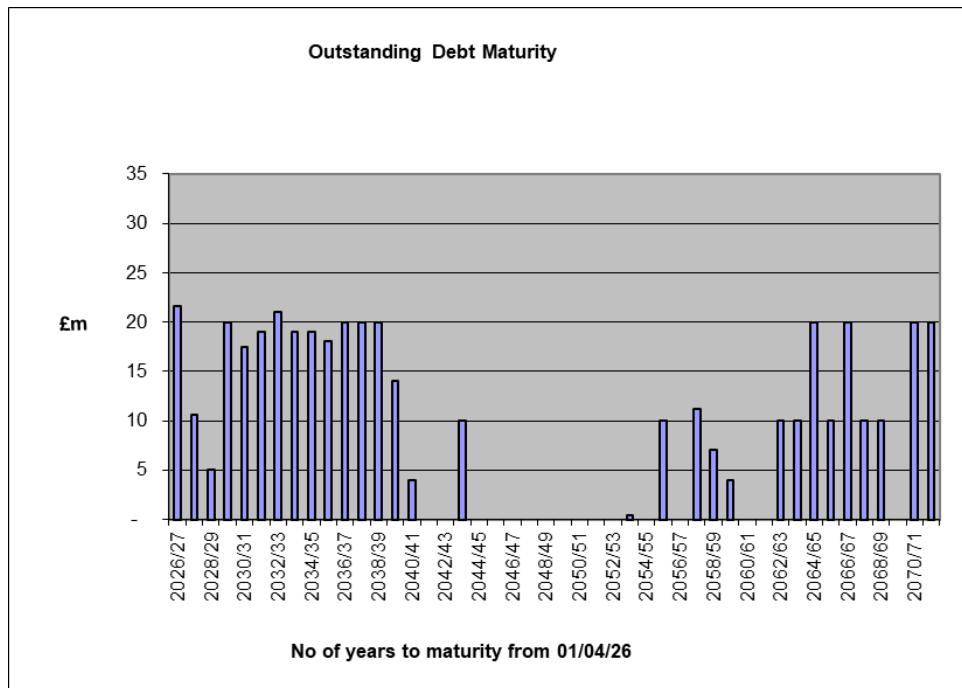
- 5.5 So far in 2025/26 no new PWLB loans have been taken out.
- 5.6 The Council's current outstanding PWLB loans for both General Fund and Housing Revenue Account, which will need to be repaid, are set out below:

<b>Southend-on-Sea City Council</b>		<b>Total (£m)</b>
Estimated opening position as at 1 April 2026	GF	267
	HRA	72
	<b>Total</b>	<b>339</b>
Estimated new loans in 2026/27	GF	25
	HRA	0
	<b>Total</b>	<b>25</b>
Repayments in 2026/27	GF	(15)
	HRA	(6)
	<b>Total</b>	<b>(21)</b>
Estimated closing position as at 31 March 2027	GF	277
	HRA	66
	<b>Total</b>	<b>343</b>

- 5.7 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998, remains under the management of ECC and is set out below. Southend City Council reimburses the debt costs incurred by the County. The Council is aware of the future direction of Local Government Reorganisation, but this debt currently remains as stated by the two sovereign parties.

<b>ECC transferred debt</b>	<b>Amount (£m)</b>
Opening position as at 1 April 2026	8.0
New loans in 2026/27	0
Repayments in 2026/27	(0.3)
Closing position as at 31 March 2027	7.7

- 5.8 The graph on the next page shows the repayment profile of the Council's PWLB borrowings if all new loans are included to reflect the funding of the proposed capital investment programme and the refinancing of debt.



It shows the gaps in the repayment profile and that there is no one year where the loan maturities are excessive.

The next maturity dates of any PWLB debt redemption are: September 2026 for a sum of £11.2M (General Fund: £8.1m, Housing Revenue Account (HRA): £3.1m) and March 2027 for a sum of £10.4M (General Fund: £7.5m, Housing Revenue Account (HRA): £2.9m). The loans were taken out in 2001 and 2002 with rates ranging from 4.75% to 5.5%.

5.9 The table below shows the average pool rate of the Council’s PWLB borrowings, for the 10 years from 2017/18.

Financial Year	General Fund %	Housing Revenue Account %	Total %
2017/18 Actual	4.77	4.32	4.62
2018/19 Actual	4.76	4.32	4.61
2019/20 Actual	3.83	4.23	3.93
2020/21 Actual	3.64	4.16	3.77
2021/22 Actual	3.51	4.16	3.66
2022/23 Actual	3.29	4.09	3.46
2023/24 Actual	3.29	4.09	3.46
2024/25 Actual	3.29	4.09	3.46
2025/26 Estimated	3.25	4.06	3.42
2026/27 Estimated	3.27	4.03	3.42

The average pool rate has decreased over those 10 years due to the decisions made by the S151 officer regarding the borrowing activity in financial years 2018/19, 2019/20 and 2021/22 and then the continued stewardship and financial management of our cash balances and

spending in the later years, which has avoided the need to further borrow in the high interest rate period that then prevailed. Loans taken out in those earlier financial years were taken out at rates between 1.52% and 2.38%, which are significantly lower than the average pool rate. In addition, from 2024/25 loans at higher rates than the average are being repaid upon maturity.

- 5.10 The potential for the early redemption of high interest loans is reviewed periodically, however the interest savings from the repayment of these loans is usually offset by the premiums that must be paid on their redemption and it has not yet been advantageous for the Council to discharge these loans prematurely. This followed advice from our treasury management advisers which demonstrated the excessive cost to the Council of any debt restructuring. Further advice from our treasury management advisers will be sought at the appropriate time about the potential for restructuring of debt and the timing of such a restructure.
- 5.11 Long term borrowing will normally be taken from the Public Works Loan Board (PWLB) since this is usually the most economic source available to the Council. If other sources are thought to be more advantageous and are permitted under the relevant legislation they will be considered.
- 5.12 As at 29 December 2025 rates of borrowing (from the PWLB) range from 4.40% for a 1 year loan through to 5.94% for a 25 year loan down to 5.70% for a 50 year loan (these rates include the certainty rate discount of 0.2%). During 2026/27 the investment and borrowing interest rates will be kept under review and the further use of balances will be considered in lieu of new borrowing where possible and where this is advantageous.
- 5.13 Where it is considered appropriate to take out new borrowing, regard will be given to the existing repayment profile (see 5.8 above) and the need for a spread of maturity dates to ensure that a significant value of loans do not mature at the same time. Loans are taken out for a range of periods in order that the Council continues to balance its debt profile over the longer term and so is not unduly exposed to the prevailing interest rates at the time of the possible debt replacement. However, given the prevailing PWLB interest rates, loans between 1 and 10 years currently offer the best value.

## **6. Monitoring and Review Arrangements**

- 6.1 During 2026/27, within 7 working days of each month end, the Section 151 Officer will receive a report detailing performance and any non-compliance with the treasury management policy. He will either approve the report or raise the necessary queries to satisfy himself in relation to:
  - (i) all transactions being properly authorised.
  - (ii) all transactions being with approved counterparties.

- (iii) all transactions being in accordance with the Council's approved policy.
- (iv) monitoring of security and liquidity (i.e. spread of investments by long term credit rating, financial sector, country, maturity profile).
- (v) in-house investment performance against SONIA (Sterling Overnight Index Average).
- (vi) investment performance for external fund managers for the relevant period.

6.2 In addition to the monthly reports:

- (i) quarterly reports submitted to Cabinet on the performance of the treasury management function.
- (ii) any changes affecting the treasury management strategy will be reported to Cabinet for recommending to Council for approval as part of that quarterly reporting.

6.3 Benchmarking that considers security and liquidity will be achieved by appropriate comparisons with relevant statistical data.