Open Agenda

Audit, Governance and Standards Committee

Tuesday 22 November 2022
6.30 pm
Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

Supplemental Agenda No. 1

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Date:

Agenda Item 11

Item No: 11.	Classification: Open	Date: 22 November 2022	Meeting Name: Audit, Governance and Standards Committee
Report title:		Treasury Management Strategy and Capital Strategy 2023-24	
Wards or Groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the Audit, Governance and Standards committee note:

    a. The draft Treasury Management Strategy and Capital Strategy for 2023-24,

    b. The significant movements in the macro-economic environment and financial markets worldwide in 2022-23 and that this will require a reset of the Council's Treasury Management Strategy,

    c. That the council continues to invest in an ambitious long-term capital programme that provides significant ongoing benefits throughout the Borough and, in some cases, revenue streams to support council services.

BACKGROUND INFORMATION

2. Each year, council assembly agrees an annual strategy covering the management of council debt, capital and treasury investments. The strategy is to be agreed following consultation with the audit, governance and standards committee.

3. Treasury management is the management of the authority's cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activities including possible losses associated with council investment and the potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are therefore a crucial part of the financial management and governance arrangements of the council.

4. Since 2019-20, the council has been required to produce a capital strategy report (Appendix A) providing a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview

of how any associated risks are managed and the implications for future financial sustainability.

5. Southwark council has a long tradition of investing in local infrastructure and facilities that support the development of the borough for the benefit of residents and businesses. This investment has been sustained throughout austerity and the more recent pandemic, and has fundamentally supported the generation of new financial resources via a growing council tax base and business expansion. The resulting revenue streams have helped to support basic council services, and on-going capital investment will seek to enhance this income further.

6. Over the previous decade, there have been reliable returns from these income sources. As a result, there has been little need to conduct any fundamental review of capital strategies. Looking forward, there will be increased uncertainty not least as a consequence of the volatility of the economy and especially the impact of rising inflation and interest rates and central government policy on local government financing. These factors are likely to remain major influences on the Authority's treasury management strategy for 2023-24 and beyond.

7. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively. Adherence to this strategy is reported to Council Assembly mid-way through each year and at outturn.

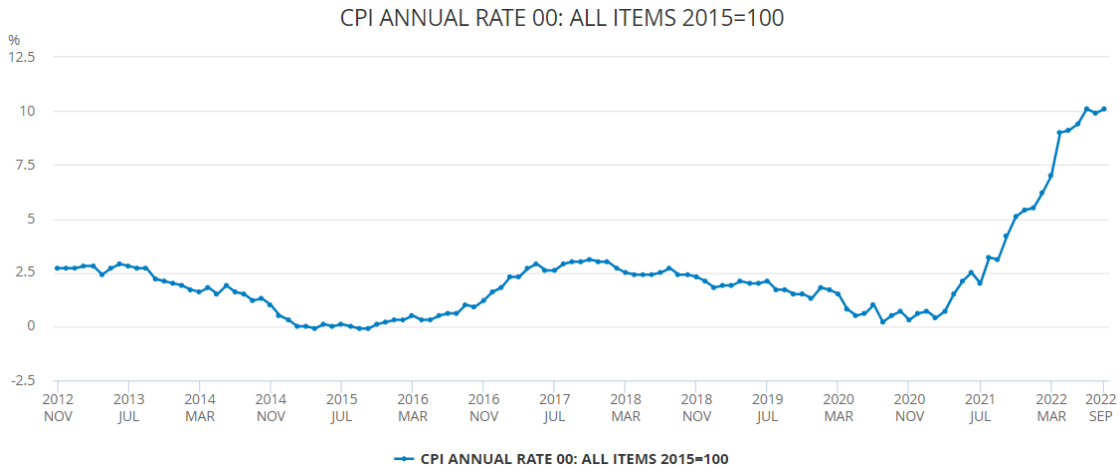
KEY ISSUES FOR CONSIDERATION

Economic Background

8. The economic landscape in 2022-23 has been shaped by the continuing war in Ukraine, political turmoil in the United Kingdom and rapidly worsening financial outlook both at home and abroad.

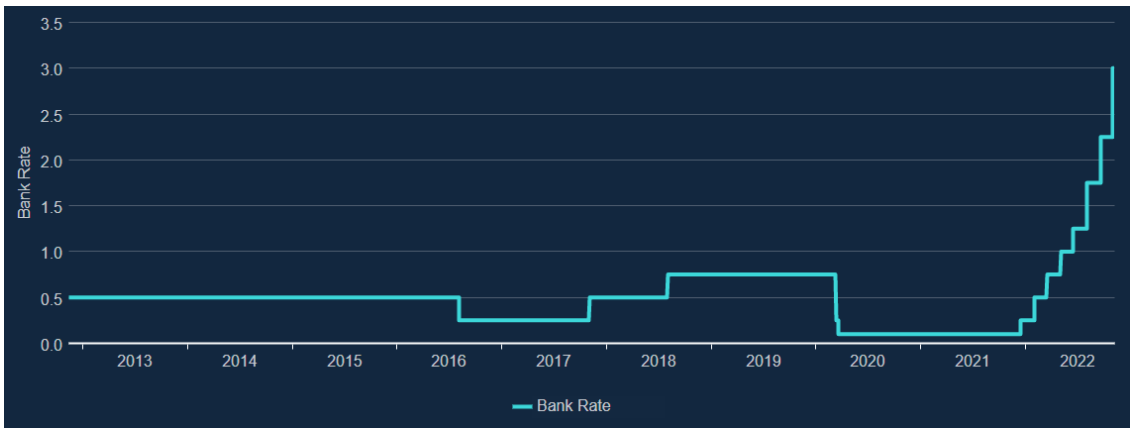
9. UK (and global) inflation has remained extremely high. CPI was 11.1% in October, the highest rate for 41 years, with energy costs a key driver. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October was dampened by the UK government stepping in to provide support to limit bills to £2,500 annually until 2024. The government subsequently amended this support at the Autumn Statement in November, increasing the cap to around £3,000.

CPI Inflation 2012 – 2022



10. From a base of 0.75% in March, the Bank of England's Monetary Policy Committee (MPC) pushed through interest rate rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September to 2.25%. However, in the last month the Bank has further increased the rate by by 0.75% to 3%.

Bank of England base rate 2013 - 2022



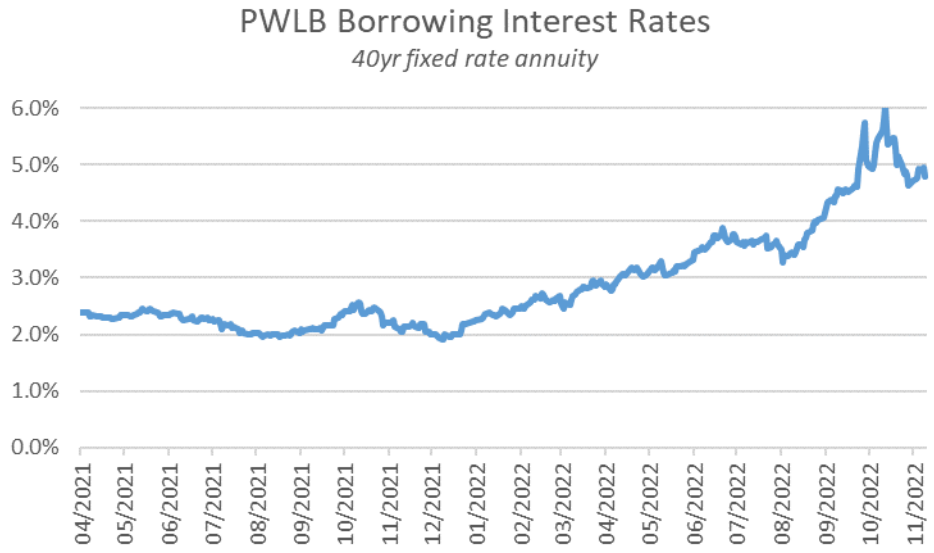
11. On 23 September 2022, the UK government, following a change of leadership, announced some measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK GDP's trend growth rate to 2.5%. This unsettled markets and triggered a series of events including;

- Devaluation of sterling against the dollar to its lowest ever level
- Sudden devaluation of UK gilts, boosting yields to levels not seen in ten years
- A major liquidity event in the UK Liability Driven Investment (LDI) Pensions sector, requiring serious intervention from the BOE including bond purchases and extended re-purchasing facilities.

12. A combination of BOE interventions and multiple fiscal policy u-turns from central government (following encouragement from the IMF)

returned some confidence to markets and averted further deterioration in the nation's finances.

13. The increases in both the BOE base rate and UK Gilts are driving up the cost of external borrowing significantly. Whilst the PWLB remains the cheapest option, the cost of new borrowing (and refinancing maturing debt) has increased from 1.9% in December 2021 to 4.79% as at 9 November 2022 – an increase of over 250% in the space of 11 months. Rates briefly touched 6% during the peak of the political crisis in October.



Treasury Management Strategy

14. Treasury management is the management of the authority's cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activity including possible losses associated with council investment and potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are a crucial part of the financial management and governance arrangements of the council.

15. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

16. Investments held for service purposes or for commercial profit are considered in the Capital Strategy.

17. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together

with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.

18. Full details of the Council's proposed Treasury Management Strategy for 2023-24 can be found at Appendix B.

Proposed Investment Strategy

19. The council's investment objectives for treasury management are to preserve principal, provide liquidity and secure a return on investments consistent with the prior objectives of security and liquidity. This is in line with investment guidance produced by the Ministry of Housing, Communities and Local Government (MHCLG) now rebranded Department for Levelling Up, Housing and Communities (DLHC).

20. The annual investment management strategy 2023-24 is attached at Appendix C. The strategy will allow investment across highly rated sovereigns, banks and other corporates, quasi-sovereigns and covered bonds whilst limiting excessive exposure to market volatility, and maintaining the overarching objective of ensuring appropriate security and liquidity. External fund managers will be utilised to implement the strategy when appropriate.

21. In considering the investment strategy for 2023-24 the council has taken independent advice from the external treasury advisor, in addition to ongoing engagement with the council's external fund managers, to ensure that any investment limits and restrictions remain appropriate to meet the investment objectives.

22. The investment strategy for the council for 2023-24 is proposed to remain unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated managers to access suitable investment opportunities.

Capital Strategy

23. This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy focuses on core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact the delivery of the programme and the governance framework required to ensure the capital programme is delivered providing value for money for residents of Southwark.

24. The capital strategy aligns with the priorities set out in the Southwark Plan and other key council strategies. The strategy is integrated with the medium-term financial strategy and treasury management strategy.

25. The strategy for 2023-24 can be found at Appendix A.

Minimum Revenue Provision

26. Each year, the General Fund sets aside sums known as the minimum revenue provision (MRP) to reduce its borrowing liabilities. The HRA may also set aside sums to reduce its own borrowing liabilities. The policy for MRP is set out in Appendix D and complies with the guidance issued by MHCLG in 2018.

27. Government guidance on the MRP requires that the general fund set aside prudent sums to reduce debt and long term liabilities (such as PFI schemes) arising from capital spend and that the council produces a statement on its MRP policy. MRP costs fall on revenue budgets and runs on for many years into the future, usually over the period for which the capital item provides an economic benefit or the duration of the revenue grant supporting the expenditure.

28. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, a local authority is required to charge a minimum revenue provision annually to its revenue account in respect of capital financing obligations that arise in that year or arose in any prior year. Capital financing obligations represent debt or long-term liabilities taken to fund capital expenditure.

29. A council may not change the total MRP it is liable for but may prudently modify the timing of payments to improve affordability and take account of individual spend and financing characteristics.

Prudential Indicators

30. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance and Treasury Management in the Public Services Code of Practice and Guidance published by the Chartered institute of Public Finance and Accountancy, backed by the Local Government Act 2003. The codes introduced a series of indicators and limits, which the council assembly should agree annually.

31. The indicators for approval relate to 2023-24 to 2025-26 and are set out at Appendix E. The indicators are of a technical nature and include a self-imposed authorised limit on debt, which the council assembly must determine each year. Approval will ensure that the council meets its obligations under the 2003 Act and that the strategic director of finance and governance can carry out their financial responsibilities in this area.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Director of Law and Governance

32. The constitution determines that agreeing the treasury management strategy is a function of the council assembly and that review and

scrutiny of strategies and policies is the responsibility of the audit and governance committee.

33. Financial standing orders require the strategic director of finance and governance to set out the treasury management strategy for consideration and decision by council assembly, and report on activity on a quarterly basis to cabinet and at mid and year-end to council assembly. Furthermore, all executive and operational decisions are delegated to the strategic director of finance and governance.

34. The Local Government Act 2003 and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Treasury Management in the Public Services Code of Practice and Guidance, published by the Chartered Institute of Public Finance and Accountancy, when considering borrowing and investment strategies, determining or changing borrowing limits or prudential indicators.

35. Section 15(1) of the 2003 Act requires a local authority “to have regard (a) to such guidance as the Secretary of State may issue”. This guidance is found in the Ministry of Communities and Local Government Guidance on Local Authority Investments updated February 2018 and there is statutory guidance on the Minimum Revenue Provision (MRP) produced under amendments made to section 21(1A) of the 2003 Act by section 238(2) of the Local Government and the Public Involvement in Health Act 2007.

36. Members are advised to give approval to the recommendations, ensuring continuing compliance with Government guidance and CIPFA’s codes.

Reasons for lateness

37. This report was completed as late as possible to give as much information as feasible on the council’s financial status.

Reasons for urgency

38. This report should be considered in good time to inform the budget setting process, finalising in February 2023.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
None		

APPENDICES

No.	Title
Appendix A	Capital Strategy 2023-24 to 2032-23
Appendix B	Treasury Management Strategy 2023-24
Appendix C	Annual Investment Management Strategy 2023-24
Appendix D	Annual Minimum Revenue Provision Statement 2023-24
Appendix E	Prudential Indicators - 2023-26

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Tim Jones - Departmental Finance Manager	
Version	Final	
Version Date	18 November 2022	
Key Decision	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	Yes	Yes
Strategic director of finance and governance	N/A	N/A
Cabinet Member	No	
Date report sent to constitutional team		18 November 2022

APPENDIX A

CAPITAL STRATEGY
2023-24 – 2031-32

1. INTRODUCTION AND BACKGROUND

This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy focuses on core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact the delivery of the programme and the governance framework required to ensure the capital programme is delivered providing value for money for residents of Southwark.

The capital strategy aligns with the priorities set out in the appropriate corporate plans and other key council strategies. The strategy is integrated with the medium-term financial strategy and treasury management strategy.

2. CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

The key principles underpinning the capital strategy are outlined below;

- The programme must support statutory and regulatory services at a minimum level over a period of time
- The programme should maintain revenue return on existing assets where investment is necessary, through lifecycle investment
- Capital investment decisions should reflect the aspirations and priorities included within the relevant corporate plans and supporting strategies (e.g Southwark 2030, Southwark Plan etc.);
- Schemes to be added to the capital programme will be subject to a gateway process through cabinet, prioritised according to availability of resources and scheme specific funding, council priorities and commitments and factors such as legal obligations, health and safety considerations and the longer-term impact on the council's financial position;
- The cost of financing capital schemes, net of revenue benefits, are profiled over the lifetime of each scheme and incorporated into the annual policy and resources strategy and budget;
- Commissioning and procuring for capital schemes will comply with the requirements set out in the council's constitution, financial regulations and contract standing orders.

Inclusion of specific projects within the overall programme will be subject to consideration of the following key drivers;

- **External Funding opportunities**: projects with external funding secured e.g grants, CIL, S.106 etc. are more likely to be approved, even if they would otherwise be considered a lower priority.

- **Climate Impact & Sustainability**: projects which make a significant contribution to the council's carbon reduction or sustainability targets may be prioritised over those which do not.
- **Equalities Impact**: projects which have a measurable impact on reducing inequality within the borough may be ranked above those which do not

The process for progressing schemes from concept to inclusion within the programme is outlined in Appendix A1;

Risk review is an important aspect of the consideration of any capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the council's low risk appetite. Subject to careful due diligence, the council may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the council's revenues or the ability to deliver its statutory duties more effectively and efficiently.

3. GOVERNANCE FRAMEWORK

The council's constitution requires the Council Assembly to agree the capital strategy and programme at least once every four years and in the event of a significant change in circumstances. The reports from the chief finance officer will consider the compliance of proposed schemes in the programme with the medium term financial strategy, the capital resources available to the council, the revenue implications of the proposed capital expenditure, and any other relevant information.

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

- Council Assembly approves the Southwark Plan which sets out the strategic priorities for the council;
- Council Assembly is ultimately responsible for approving the Capital Strategy, Treasury Management Strategy and capital programme;
- Cabinet receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the capital programme;
- Portfolio holders are assigned projects in line with their responsibilities;
- Scrutiny committees can call in Cabinet reports, receive and scrutinise reports;
- All projects progressing to the capital programme follow the constitution, and financial regulations;
- The capital programme and capital expenditure is subject to internal and external audit.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the Strategic Director of Finance and Governance.

Senior officer teams exist within directorates to monitor the delivery of the directorate capital programme. Directorate management teams must consider and

recommend all additions and variations to their directorate capital programme before being agreed by the Strategic Director of Finance and Governance and then by cabinet.

4. CAPITAL INVESTMENT PRIORITIES AND PLANS

The capital programme for the council is a long-term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving council dwellings and operational buildings is very long-term and as such will be considered accordingly in financial and asset management planning.

Capital investment plans are driven by the Southwark Plan, the council's key strategic document that sets out the council's vision, ambitions, values and priorities. Council assembly agreed to adopt the Southwark Plan on 23 February 2022.

The council will continue to prioritise work to tackle the Climate Emergency and more detail about the council's action to reduce carbon and improve the environment is set out in the Climate Emergency strategy. The Southwark Plan includes a commitment to making Southwark a Low Traffic Borough with more space for walking and cycling.

The application and planning for capital expenditure obligations and objectives can be considered over short, medium and long-term time horizons. Long-term forecasts are not easily predicted and the accuracy of all financial estimates will be limited. However, long-term forecasting is valuable in informing strategic plans taking account of the cumulative sustainability and affordability of existing and planned investment, which will need to be repaid over future periods. For major projects and investments, the funding and financial implications need to be planned well in advance. The council maintains an approved capital programme that covers a ten-year period. Prudential indicators for capital expenditure and financing are set out in Appendix E.

5. TREASURY MANAGEMENT

Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of resources will be met by prudential borrowing. The council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Each year the council assembly agrees an annual treasury management strategy covering the management of council's debt and cash investments (Appendix B).

6. ASSET MANAGEMENT PLANNING

Cabinet approved the new Asset Management Plan in January 2021. The Plan sets out the council's ambitions for existing stock and future investment decision-making. It was developed in consideration of the new Borough Plan and how the decisions that the council take around property can help to achieve these, prioritising climate change and recognising the hugely important role in providing and building stable communities.

The Councils future asset management decision-making will follow a clear and robust process, ensuring that decisions are aligned to corporate ambitions and are in the best interests of the Borough as a whole.

The new Asset Management Plan sets a policy framework for the efficient stewardship of the authority's property assets. It emphasises the strategic significance of a multi-billion pound property portfolio deployed in, and aligned to, the fulfilment of the Council's corporate priorities.

It is supplemented by a Commercial Property AMP, adopted in 2016, to provide additional detail in respect of this important part of the estate, which generates incomes that fund council services, whilst contributing to our borough's vibrancy and all levels of its economy.

The way in which the council uses scarce resources is a fundamental theme for the new Asset Management Plan. In the current financial climate, AMP 2021 envisages only essential, affordable investment aligned to strategic priorities:

- Acquisitions of land for new buildings
- Acquisitions of new stock of dwellings
- Investment opportunities within the existing stock
- Investing in the future of Canada Water
- Securing sustainable, high quality employment opportunities;
- Securing economic and infrastructure investment
- Delivering a sustainable response to Climate Emergency and achieving Carbon Net Zero for Southwark by 2030

The council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to prevailing market conditions.

7. COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

Returns from property ownership can both be income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is considered in assessing the attractiveness of a property for acquisition. However, yield is rarely the sole or primary objective of property acquisitions.

Historically, property has provided strong investment returns in terms of capital

growth and generation of stable income. However, property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The investment appraisal, external professional advice, local strategic knowledge (ensuring all investments are in Southwark) and risk assessment ensure that commercial investments remain proportionate to the size of the council and that the revenue impact can be managed, should expected yields not arise.

The strategy makes it clear that the council will continue to invest prudently to take advantage of opportunities as they present themselves, supported by our robust governance process.

The council is mindful that PWLB loans are not available to local authorities planning to buy investment assets primarily for yield.

8. LOANS AND OTHER LIABILITIES

The council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure.

By advancing loans to other bodies, the council is exposing itself to the risk that the borrower defaults on repayments. The council must therefore ensure that these loans are prudent and that the risk implications have been fully considered, and that the cumulative exposure of the council is proportionate and prudent.

The council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by Cabinet and will be subject to close, regular monitoring.

In addition to debt liabilities set out in the treasury management strategy, the council is committed to making future payments to cover any pension deficit. The pension fund is subject to a triennial valuation and the revenue implications are built into the Medium Term Financial Strategy.

9. REVENUE BUDGET IMPLICATIONS

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (or debt repayment in HRA) are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e. the amount funded from council tax, business rates and general government grants (see Prudential Indicators).

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend up to 50 years into the future. Capital investment decision-making is not only about ensuring that the initial allocation of capital funds meets corporate and service

priorities but also ensuring that the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long- term affordability is a key principle in any capital investment-appraisal decision. In approving the inclusion of schemes and projects within the capital programme, the Strategic Director of Finance and Governance must be satisfied that the proposed capital programme is prudent, affordable and sustainable.

10. KNOWLEDGE AND SKILLS

The council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

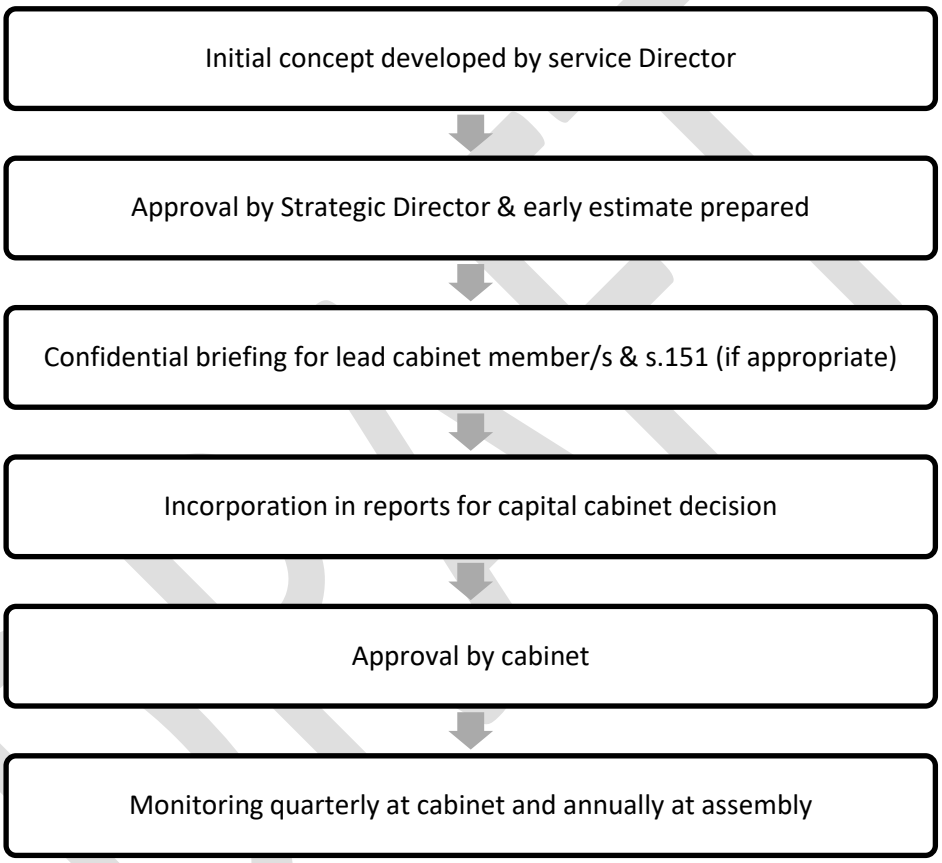
The council establishes project teams from all the professional disciplines across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

Internal and external training is provided for members to ensure they have up-to-date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Strategic Director of Finance and Governance.

APPENDIX A1

Flow Chart – Capital Programme approval process

The flow chart below outlines the process by which capital proposals receive approval within the overall programme. Actual expenditure against approved budgets remains subject to the provisions of the constitution with regards to procurement of goods/services and award of contracts.



APPENDIX B

TREASURY MANAGEMENT STRATEGY STATEMENT 2023-24

Introduction

1. Treasury management is the management of the authority's cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activity including possible losses associated with council investment and potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are a crucial part of the financial management and governance arrangements of the council.

2. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. Investments held for service purposes or for commercial profit are considered in the Capital Strategy.

4. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.

Net Borrowing Position

5. As at 30 September 2022, the council held £888m of borrowing and £198m of investments.

Borrowing strategy and debt management activity and position

6. The council has an ambitious capital programme, both to support the wide range of services it offers but also to build much-needed new council homes. In the past, revenue balances have been utilised to forestall the need to borrow externally. This approach is commonly known as internal borrowing. Internal borrowing is cheaper than external borrowing and remains the preferred source of financing in the short term whilst sufficient funds are available.

7. However, in September 2017, officers reported to cabinet that from 2017-18 onwards there would be an increasing need to borrow externally. Since then, external borrowing has gradually increased, both as a proportion of capital funding and in absolute terms. This has been necessary because of the scale of the capital programme.

8. Southwark has the 10th highest outstanding PWLB debt of all English councils. This is largely as a consequence of the size of Southwark's council housing estate and its position as the 4th largest social landlord in the country. This ranking is likely to rise based on the additional borrowing that will be required in coming years to fund the capital programme.

9. The most significant part of that programme remains new homes. To date, approximately £226m of external borrowing has been taken to fund the New Homes Programme and a further £674m has been previously earmarked as the sum that could be borrowed within prudential code and affordability limits. This amounts to £900m in total for new homes. This provision is being constantly reviewed, especially in the context of interest rate rises, rent caps and inflation.

10. The need to borrow externally has a revenue impact, and this is accounted for annually in the council's budget setting process, both for the Housing Revenue Account and the General Fund.

11. The PWLB remains the cheapest and most efficient source of external debt and the current strategy prioritises this over alternative funding sources which frequently incur additional unseen overheads including management fees, administration costs and balance sheet complexities which reduce transparency. Officers seek to ensure that the entire cost of borrowing is taken into account and that best value for money is achieved for taxpayers.

12. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

    Whilst internal borrowing and short-term borrowing provide a low cost interim solution, they effectively defer inevitable long term borrowing into subsequent periods. As interest rates are rising (and forecast to do so for some time), the strategy for 2023-24 is to borrow externally when rates are favourable to mitigate the risk of being forced into borrowing at even higher rates in future. The exact timing and amounts will be determined by the Strategic Director of Finance and Governance and with regard to advice from our external treasury advisors.

Liability Benchmark

13. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-today cash flow.

14. CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e. all balance sheet

resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, this indicates a borrowing requirement thus identifying where the Authority is exposed to interest rate, Liquidity and refinancing risks. Conversely, where external loans exceed the Liability Benchmark, this will highlight an over-borrowed position which will result in excess cash in the organisation requiring investment, thus exposing the Authority to credit and reinvestment risks and a potential cost of carry.

From the table below, this Liability Benchmark requires that cash and investment balances are kept to a minimum level of £140m at each year-end. This amount includes the Council's external fund managers' portfolio of £100m, and an internally managed cash balance of £40m, to maintain sufficient liquidity. The risks identified will then have to be managed over the coming years.

	Liability Benchmark £m	**2021-22 Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
1	HRA CFR	609	820	1,102	1,250	1,320
2	General Fund CFR	754	821	919	926	930
3	**Total CFR** *(Line 1+2)*	**1,363**	**1,641**	**2,021**	**2,176**	**2,250**
4	Less: Other long-term liabilities	81	81	76	71	66
5	**Loans CFR** *(Line 3+4)*	**1,282**	**1,560**	**1,945**	**2,105**	**2,184**
6	Less: External Borrowing	896	851	828	804	779
7	**Internal Borrowing / (Over Borrowing)** *(Line 5+6)*	**386**	**709**	**1,117**	**1,301**	**1,405**
8	Less: Usable reserves	372	322	297	272	247
9	Less: Working capital	175	265	265	139	70
10	**(Investments)/New Borrowing** *(Line 7-8-9)*	-161	122	555	890	1,088
11	**Net Borrowing Requirement** *(Line 10-6)*	735	973	1,383	1,694	1,867
12	Minimum Investment Balance	161	140	140	140	140
	Liability Benchmark: Year-End *(Line 11+12)*	**896**	**1,113**	**1,523**	**1,834**	**2,007**

15. The liability benchmark suggests the Council will require a minimum level of borrowing in 2023-24 of £410m to maintain the minimum investment level of £140m at year-end. The actual level of borrowing at year-end depends on whether the council's spending plans proceed as planned and on the actual timing of borrowing.

Investment Position and Activity

16. The council holds sizeable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 30 September 2021 were £143m.

17. Council resources that are not immediately required for current expenditure are invested in money market instruments in accordance with the MHCLG (now the Department of Levelling Up and Housing and Communities (DLUHC) Guidance on Local Authority Investments and the council's approved investment strategy. The guidance gives priority to security and liquidity and the aim is to achieve a yield commensurate with these principles.

18. Council investments are managed both in-house and delegated to two fund managers: Alliance Bernstein and Aberdeen Standard (formerly Aberdeen Asset Management). The focus for in-house investment is to meet variable near term cash liquidity requirements, principally using money market funds and other highly secure, liquid financial instruments

19. Any surplus cash resources not required in the short-term to fund council activities is placed with the council's two external fund managers. The fund managers invest for a longer term in UK government gilts, supranational bank bonds, certificates of deposits issued by major banks/ building societies and other financial instruments.

20. The use of fund managers has the advantage of diversification of investment risk, coupled with the services of professional fund managers, which over the longer-term, provides enhanced returns within the council's risk appetite. Although investments can be redeemed from the fund managers at short notice, the intention is to hold them for the medium term. Their performance and suitability in meeting the council's investment objectives are regularly monitored.

21. The distribution of council investments across counterparties by rating and maturity as at 30 September 2022 is set out in the table below:

	A		**AA**		**AAA**		**Total**	
Investment Maturity	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to 1 Year	55.4	28.0	48.8	24.7	82.7	41.8	186.9	94.5
1-2 Years	1.5	0.7	0.1	0.1	3.5	1.7	5.0	2.5
2-5Years	1.9	1.0	0.2	0.1	3.9	1.9	5.9	3.0
Total	**58.7**	**29.7**	**49.1**	**24.8**	**90.0**	**45.5**	**197.8**	**100.0**

AAA represents the highest credit quality, AA represents very high credit quality and A represents high credit quality.

22. On 4 November 2022, the Bank of England increased the base interest rate from 2.25% to a 14-year high of 3.00%. It sent the strongest signal yet that it thinks rates will not need to rise much above 4%. However, with price/wage expectations still elevated (with inflation currently above 11%) there is potential for rates to continue upwards.

23. The Authority's treasury management adviser Arlingclose is forecasting the Bank of England Bank Rate to peak at 5% in March 2023 and then stabilise.

24. To analyse the treasury management portfolio, the council measures the return against a composite investment benchmark of three-month SONIA and one to three year gilt index.

25. The rate of investment return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investing. This is in line with the requirements of the statutory guidance for local government treasury investment issued by MHCLG (now DLHUC)

26. The priorities for treasury management investment are, in order of priority, security, liquidity and yield. The objective therefore is to ensure that funds are available to meet council liabilities as they fall due.

27. It is important that the treasury management strategy is suitably flexible such that the council can take advantage of market opportunities and maintain appropriate asset diversification within the portfolio to best support the council's revenue budget, whilst retaining the overriding objectives of security and liquidity.

28. The 2022-23 investment strategy, agreed by Council Assembly in February 2022 allowed for sufficient flexibility in the implementation of the investment strategy for the council such that there is no requirement to change it further at this time.

APPENDIX C

THE ANNUAL INVESTMENT MANAGEMENT STRATEGY 2023-24

BACKGROUND

1. The guidance on local government investments produced by the Ministry of Housing, Communities and Local Government (MHCLG) now known as Department for Levelling Up, Housing and Communities (DLUHC) as updated in February 2018, requires that local authorities produce an annual investment strategy. The guidance promotes prudent management of investments with security and liquidity as priorities, while also considering yield.

2. Investments held as part of the council's pension fund are managed under a separate regulatory framework and are outside the scope of this strategy.

3. Investments held for service purposes or for commercial profit are considered within the capital strategy.

INVESTMENT OBJECTIVES

4. The council's treasury investment objectives are to preserve principal, provide liquidity and secure a reasonable return.

5. The council holds cash in the normal course of its business and any cash not immediately required for settling council liabilities should be invested until needed. Investments should be managed prudently and fall within two categories: specified investments and non-specified investments, as set out in government guidance. Specified investments are investments up to one year, as detailed below, with high liquidity and credit quality. Non-specified investments, as set out in paragraph 10 below, are investments that exceed one year and are potentially more responsive to liquidity, credit and market factors.

6. Prudent exposure to non-specified investments can help raise the overall level and diversification of investment returns over the long-term and so should be considered as part of an investment strategy, having regard to prevailing credit and market conditions. Investment exposure shall be diversified and managed with due care and attention.

7. All investments will be denominated in GBP sterling, comply with credit standards and investment limits. Exposure to share capital that is treated as capital expenditure is outside the scope of this strategy.

8. The Strategic Director of Finance and Governance is responsible for this strategy and its management. Fund managers may be appointed to assist in advising or executing elements of the strategy.

SPECIFIED INVESTMENTS

9. Specified investments shall consist of investments with a remaining term of up to one year in the following categories. Actual exposure shall be subject to investment limits, be managed prudently and have regard to prevailing credit and market conditions.

Specified investments **- in sterling, meeting credit standards and with remaining life not longer than 1 year**	
A	Term deposits, notice accounts, certificates of deposits, commercial paper, Notes, collateral backed lending, bills, bonds (including covered bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies.
B	Money Market Funds and short duration low volatility enhanced cash funds rated AAA/Aaa/AAA (Fitch/Moody's/S&P) with stable or variable net asset values.

NON-SPECIFIED INVESTMENTS

10. Non-specified investments shall consist of investments with a remaining term exceeding one year in the following categories of investments. Actual exposure shall be subject to investment limits, be managed prudently and have regard to prevailing credit and market conditions.

Non-specified Investments **- in sterling, meeting credit standards and with remaining life longer than 1 year**	
A	Term deposits, notice accounts, certificates of deposits, commercial paper, notes, collateral backed lending, bills, bonds (including covered bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies, pooled multiasset income funds.

CREDIT STANDARDS

11. Credit risk, the risk that an entity with which investments are held fails to meet its obligations to investors, shall be contained and credit ratings consulted.

12. The minimum credit ratings are set out in the tables and paragraphs below. While these ratings indicate a low risk of default and are well above the minimum regarded as investment grade, they may not always keep up with developments in turbulent markets Therefore, in managing exposure, attention should also be paid to developments in the financial and credit markets. Rating definitions are set out below.

Minimum Credit Rating Criteria

Minimum long term rating from one of the three rating agencies		
Fitch Ratings	Moody's Investor Services	Standard & Poor's
A-	A3	A-

13. Credit requirements shall not apply to investments issued or guaranteed by the UK Government, nationalised entities, UK local authorities, the council's clearing bank (RBS) or the cash manager custodian bank (BNY Mellon). Local authorities are not usually rated, but the Local Government Act 2003 provides sanctions in the event that an authority fails to meet its liabilities to lenders.

14. Ratings shall be reviewed frequently and at least monthly. In the event of significant adverse rating changes, investments may be recalled prior to maturity where it would be prudent to do so.

15. The Strategic Director of Finance and Governance shall have discretion to vary minimum rating and limits in response to market developments, cash flow volatility or operational requirements where prudent to protect the council's interests.

INVESTMENT LIMITS

16. Investment exposure shall be subject to the following limits.

Investment limits, subject to overall constraints and minimum ratings		
	Issuer/Institution	**Upper limits (percent or amount of council investment portfolio)**
A	UK National Government	No limit
B	UK Local Authorities	Up to 1 year £10m per issuer maximum 25% in total
C	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum rating AAA/Aaa/AAA	Up to 5.5 years 20% per issuer
D	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum rating AA-/Aa3/AA-	Up to 5.5 years 12.5% per issuer
E	Foreign sovereigns, supranational banks and quasi-sovereigns minimum rating A1-/A3/A-	Up to 1 year; 5% per issuer
F	Banks and building societies Minimum rating AAA/Aaa/AAA	Up to 5.5 years 20% per issuer
G	Banks and building societies minimum rating AA-/Aa3/AA-	Up to 3 years 12.5% per issuer

Investment limits, subject to overall constraints and minimum ratings		
	Issuer/Institution	**Upper limits (percent or amount of council investment portfolio)**
H	Banks and building societies long term rating A-/A3/A-	Up to 1 year; 5% per issuer
I	Other Corporate Entities long term rating AA-/Aa3/AA-	Up to 3 years 10% per issuer
J	Other Corporate Entities long term rating A-/A3/A	Up to 1 year; 5% per issuer
K	Money Market Funds above £1,000m in holdings	£50m per fund
L	Short duration low volatility enhanced cash funds	£10m per fund maximum 20% in total
M	Sterling Government Money Market Funds above £200m in holdings	£50m per fund
N	Multi asset income pooled fund	£10m in total
O	Royal Bank of Scotland (NatWest) and Bank of New York Mellon (custodian)	Up to 3 months £75m per issuer
Overall portfolio: maximum above 1 year maturity 65% maximum weighted average maturity 2.5 years (the maturity of floating rate instruments is treated as the next interest re-set date)		

RATING DEFINITIONS

17. Ratings are research- based opinions of rating companies (Fitch Ratings, Moody's and Standard & Poor's) on the ability of an entity or security to meet financial commitments such as interest, preferred dividends and repayment of principal in accordance with their terms. Ratings do not constitute recommendations to buy, sell or hold any security, nor do they comment on the adequacy of market price, or the suitability of any security for a particular investor.

18. Fitch Long Term Ratings are shown below

AAA	Highest credit quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events
AA	Very high credit quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A	High credit quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

19. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

20. The Fitch Short Term Ratings are shown below

F1	Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments
F3	Fair short-term credit quality.

21. Moody's Long Term Ratings are shown below

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.

22. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

23. Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations and are shown below.

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

24. Standard and Poor's (S&P) Long Term Rating

AAA	An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic

	conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

25. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

26. Standard and Poor's (S&P) Short Term Ratings are shown below

A-1	A short-term obligation rated A-1 is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

APPENDIX D

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2023-24

Background

1. Minimum Revenue Provision (MRP) is a statutory requirement to make a charge to the council's General Fund as provision for the repayment of the council's past capital debt and other credit liabilities.

2. The Local Government Act 2003 requires local authorities to have regard to the Department for Housing, Communities and Local Government *(now known as Department for Levelling Up, Housing and Communities - DLUHC) 'Guidance on Minimum Revenue Provision'.*

3. The broad aim of the Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by government grant, reasonably commensurate with the period implicit in the determination of that grant.

4. The Guidance requires the council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. This forms part of the Treasury Management Strategy considered by Council Assembly annually.

5. A prudent level of MRP on any significant asset or expenditure may be assessed on its own merits or in relation to its financing characteristics in the interest of affordability or financial flexibility.

6. The Strategic Director of Finance and Governance has delegated responsibility for implementing the Annual Minimum Revenue Provision Statement and executive, managerial, operational and financial discretion to determine MRP and any practical interpretation issues.

7. The Strategic Director of Finance and Governance may make additional revenue provisions, over and above those set out, and set aside capital receipts, balances or reserves to discharge financing liabilities for the proper management of the financial affairs of the HRA or the general fund.

Minimum Revenue Provision policy statement

8. MRP for all borrowing and credit arrangements is calculated on an annuity basis over the initial estimated life of the relevant assets. (This method effectively replicates how a standard repayment mortgage operates, with less principal repaid in the early years so that the total of interest and principal repaid each year remains constant over the mortgage period).

9. From April 2016 the annuity rates used for each year's capital expenditure funded by borrowing are based on the average PWLB rates for that year. For borrowing prior to April 2016 the annuity rate used is a weighted average

of historical PWLB loans from prior years. The calculation method and the rate or the period of amortisation shall be determined by the Strategic Director of Finance and Governance.

10. The Strategic Director of Finance and Governance shall determine how much and which capital expenditure is funded from borrowing and which from other sources. Where expenditure is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply, nor shall any annual MRP apply where spend is anticipated to be funded from capital receipts or grants due in the future but which is in the meantime funded from borrowing (subject to a maximum of three years or the year the receipt or grant is actually received, if sooner).

11. The asset life method shall also be applied to borrowing to meet expenditure which is treated as capital expenditure by virtue of either a direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations. The Strategic Director of Finance and Governance shall determine the asset life. When borrowing to construct an asset, the asset life may be treated as commencing in the year the asset first becomes operational and postpone MRP until that year.

12. Where capital expenditure involves repayable loans to third parties the council may make nil MRP where the capital receipts arising from principal repayments are applied to reduce the capital financing requirement.

13. Where capital expenditure involves a variety of different types of works and assets, the period over which the overall expenditure is judged to have benefit over shall be considered as the life for MRP purposes. Expenditure arising from or related or incidental to major elements of a capital project may be treated as having the same asset life for MRP purposes as the major element itself. An estimate of the life of capital expenditure may also be made by reference to a collection or grouping of expenditure type or types.

PFI & Leases

14. In the case of finance leases, on-balance sheet private finance initiative contracts or other credit arrangements, MRP shall be the sum that writes down the balance sheet liability. These are being written down over the PFI contract term.

15. Where former operating leases have been brought onto the balance sheet on 1 April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

The Annuity Method

16. The annuity method makes provision for an annual charge to the General Fund which takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the MHCLG (now DLUHC) "Meaning of Prudent Provision" which provides that "*debt [should be] repaid over a period that is reasonably commensurate with that for which the capital expenditure provides benefits*".

APPENDIX E

Prudential Indicators 2022-23 – 2025-26

1. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

2. The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the month 4 Capital Monitoring report taken to cabinet in September 2022.

2021-22 Actual £m	Capital Expenditure and Financing	2022-23 Forecast £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
101	General Fund	112	151	60	34
211	HRA	429	529	325	201
312	**Total Expenditure**	**541**	**680**	**385**	**235**
14	Capital Receipts	82	106	112	55
68	Capital Grants	83	101	25	12
71	Revenue and Reserves	69	69	69	70
-	External Contributions	19	11	10	10
159	Funded by Borrowing	288	393	169	88
312	**Total Financing**	**541**	**680**	**385**	**235**

Estimates of Capital Financing Requirement

3. The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

4. The implementation of International Financial Reporting Standard 16 'Leases' (IFRS 16) has been deferred to 1 April 2024. Existing leases may need to be reclassified leading to an increase in the council's reported CFR.

5. The CFR is forecast to rise over the next three years as capital expenditure financed by debt is expected to increase in line with council's planned capital programme.

2021-22 Actual £m	Capital Financing Requirement	2022-23 Forecast £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
754	General Fund	821	919	926	930
609	HRA	820	1,102	1,250	1,320
1,363	**Total CFR**	**1,641**	**2,021**	**2,176**	**2,250**

Gross Debt and the Capital Financing Requirement

6. In order to ensure that over the medium term debt will only be drawn for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. Actual external borrowing is expected to remain well under this value.

31-03-22 Actual £m	Debt	31-03-23 Forecast £m	31-03-24 Estimate £m	31-03-25 Estimate £m	31-03-26 Estimate £m
896	External Borrowing	968	1,381	1,739	1,953
81	Other Long Term Liabilities	81	76	71	66
977	**Total Debt**	**1,049**	**1,457**	**1,810**	**2,019**

7. Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

8. The operational boundary is based on the Authority's estimate of the most likely (i.e. significantly prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

2021-22 £m	Operational Boundary	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
1,550	Borrowing	1,016	1,431	1,783	1,995
81	Other Long-Term Liabilities	81	76	71	66
1,631	**Total Debt**	**1,097**	**1,507**	**1,854**	**2,060**

Authorised Limit for External Debt:

9. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 / Local Government Finance Act. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

2021-22 £m	Authorised Limit	2022-23 £m	2023-24 £m	2024-25 £m	2025-26 £m
2,000	Borrowing	1,251	1,788	2,250	2,532
120	Other Long-Term Liabilities	81	76	71	66
2,120	**Total Debt**	**1,332**	**1,864**	**2,321**	**2,598**

Ratio of Financing Costs to Net Revenue Stream

10. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

2021-22 Actual	Ratio of Financing Costs to Net Revenue Stream	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
7%	General Fund	6%	7%	8%	9%
9%	HRA	13%	17%	20%	22%

Debt Limits

11. There are three debt related treasury activity limits. The purpose of these is to manage the overall risk for the authority and limit the exposure to any adverse movement in interest rates. Debt shall be subject to the following limits:

Debt Limits	
Upper limit on fixed interest rates	100%
Upper limit on variable interest rates	20%

Debt maturity profile limits	Lower Limit	Upper Limit
Under 12 months	0%	35%
12 months and within 24 month	0%	35%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%
10 years and above	25%	100%

Adoption of the CIPFA Treasury Management Code

12. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code of Practice*. It fully complies with the Code's recommendations.

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MUNICIPAL YEAR 2022-23

COMMITTEE: **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)**
NOTE: Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or virginia.wynn-jones@southwark.gov.uk

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