

Item No: 13.	Classification: Open	Date: 15 November 2023	Meeting Name: Audit, Governance and Standards Committee
Report title:		Treasury Management Strategy and Capital Strategy 2024-25	
Wards or Groups affected:		All	
From:		Strategic Director of Finance	

RECOMMENDATIONS

1. That the Audit, Governance and Standards committee note:
 - a. The draft Treasury Management Strategy and Capital Strategy for 2024-25, and its appendices:
 - Appendix A - Capital Strategy 2024-25 - 2033-34
 - Appendix B - Treasury Management Strategy 2024-25
 - Appendix C - Annual Investment Management Strategy 2024-25
 - Appendix D - Annual Minimum Revenue Provision Statement 2024-25
 - Appendix E - Prudential Indicators 2024-27
 - b. The intention to include Green Bonds (Community Municipal Investments) as a source of debt financing in relation to climate-related activities (see Appendix B).

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.

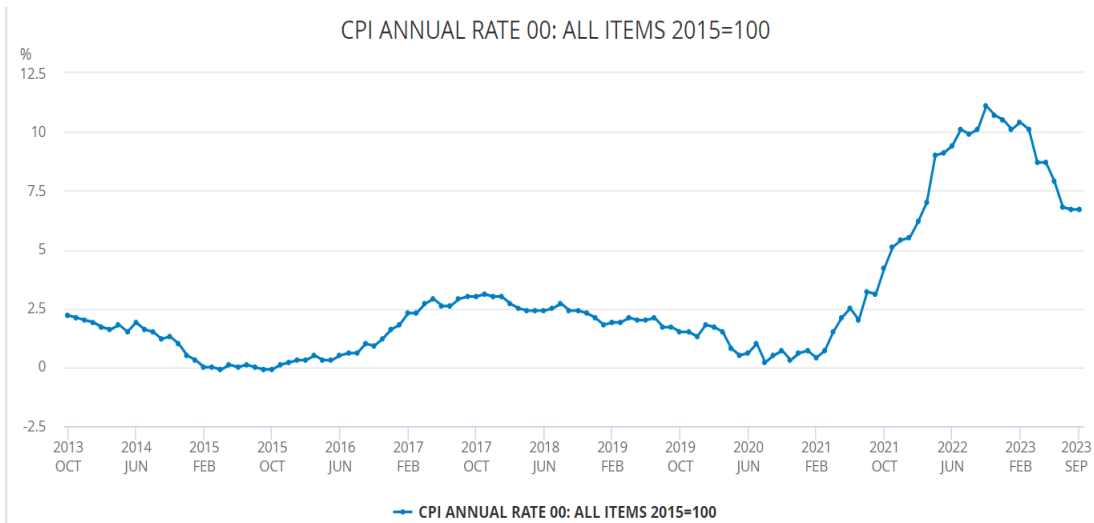
5. Southwark council has a long tradition of investing in local infrastructure and facilities that support the development of the borough for the benefit of residents and businesses. This investment has been sustained throughout austerity and the more recent pandemic, and has supported the generation of new financial resources via a growing council tax base and business expansion. The resulting revenue streams have helped to support basic council services. Over the previous decade, there have been reliable returns from these income sources
6. Looking forward, there is still significant uncertainty in the economy and especially from the impact of high inflation and interest rates. These factors are likely to remain major influences on the authority's treasury management strategy for 2024-25 and beyond.
7. Under financial delegation, the Strategic Director of Finance 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

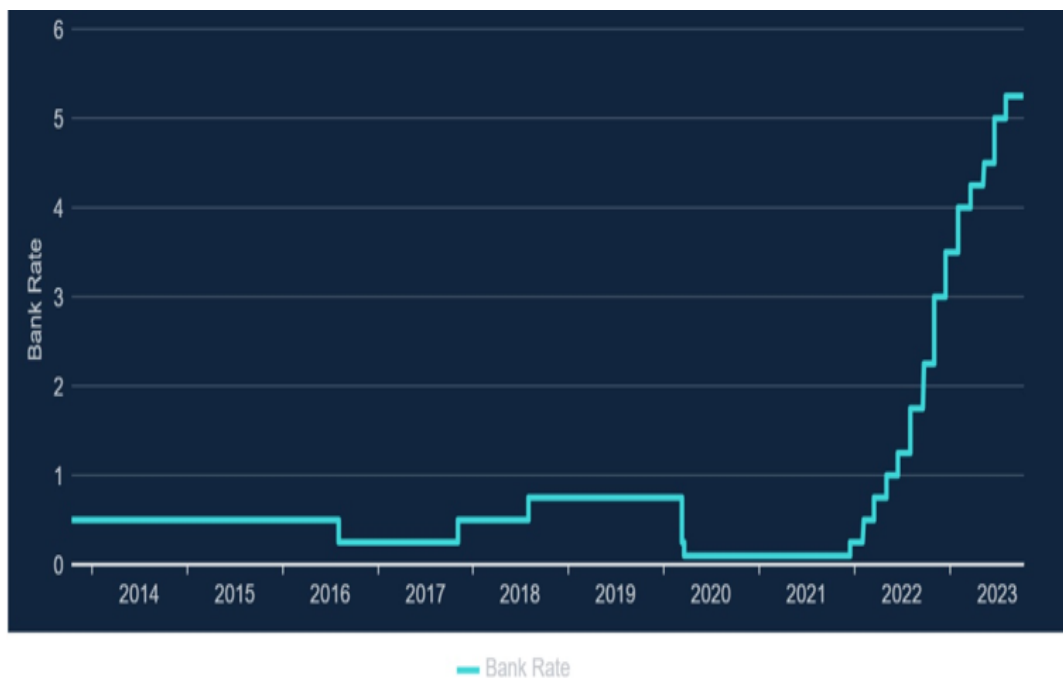
8. The Bank of England's Monetary Policy Committee continued tightening monetary policy over the last year and have reiterated their commitment to tightening policy further, if deemed necessary.
9. UK inflation has remained high. Consumer Price Index (CPI) rose by 6.7% in the 12 months to September 2023, the same rate as in August (the lowest rate since February 2022). On a monthly basis, CPI rose by 0.5% in September 2023, the same rate as in September 2022. The BoE has stated that CPI inflation is expected to decline significantly in the near term.
10. The economy grew marginally by 0.2% in August following the sharp fall in July. Analysts stated that higher borrowing costs and the higher cost of living was weighing on consumers and businesses.

CPI Inflation 2013 – 2023

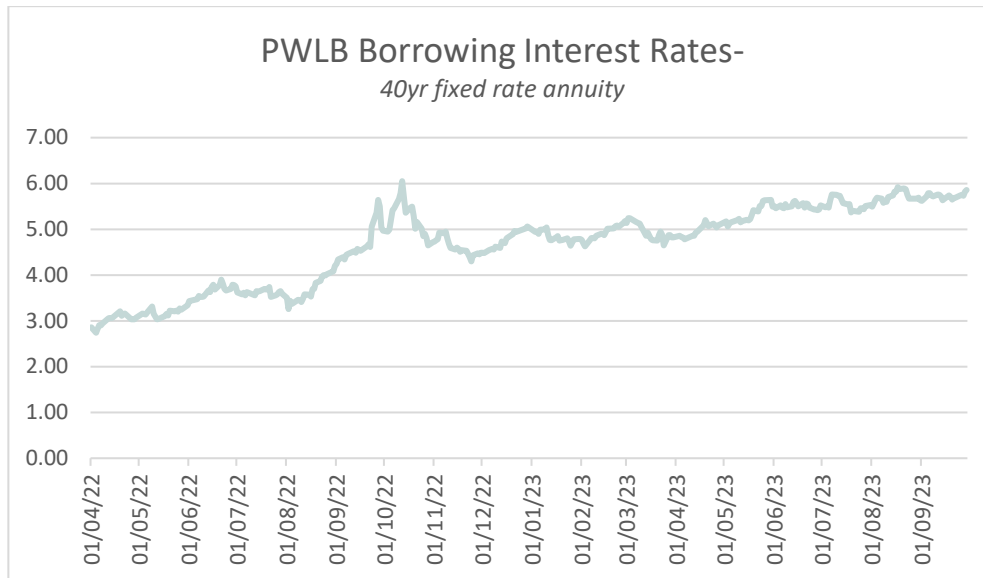


11. The BoE base rate rose from 0.75% in April 2022 to 5.25% in September 2023. Rates were held at 5.25%, ending a run of 14 consecutive rises after inflation started to slow down.
12. The UK economy returning to growth in August has fuelled expectations that interest rates will be left unchanged again in October. Market expectation is that interest rates will peak at this level.

Bank of England base rate 2013 - 2023



13. Whilst the Public Works Loan Board (PWLB) remains the cheapest option; the cost of new borrowing (and refinancing maturing debt) has steadily increased from 4.95% on 1st October 2022 to 5.86% as at 29 September 2023 – an increase of over 18% in the space of 12 months.



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 2021 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 rental income are considered in the capital strategy.
17. Under financial delegation, the Strategic Director of Finance 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 2024-25 can be found at Appendix B.

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 Department for Levelling Up, Housing and Communities (DLUHC).

20. The annual investment management strategy 2024-25 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 2024-25 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 current investment strategy remains to gradually disinvest from the external fund managers, by not reinvesting principal sums due on maturity, resulting in full disinvestment by the end of 2026-27. This is in order to reduce the need to borrow externally.
23. Low Volatility Net Asset Value Money Market Funds (MMFs) have been increased from three to five funds and the limit for each fund reduced from £50m to £30m each, in order to reduce exposure to risk.

Capital Strategy

24. The 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.
25. The capital strategy aligns with the priorities set out in the council's delivery plan and other key council strategies. The strategy is integrated with the medium-term financial strategy and treasury management strategy.
26. The capital strategy for 2024-25 can be found at Appendix A.

Minimum Revenue Provision

27. 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 the then Ministry of Housing, Communities and Local Government in 2018.

28. 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.
29. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and the DLUHC's Statutory Guidance on Minimum Revenue (4th edition) February 2018, 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.
30. 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

31. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance (2021 edition) and the Treasury Management Code of Practice published by the Chartered Institute of Public Finance and Accountancy, backed by the Local Government Act 2003. The code introduced a series of indicators and limits, which the council assembly should agree annually.
32. The indicators for approval relate to 2024-25 to 2026-27 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 can carry out their financial responsibilities in this area. Our plans are within the limits set by the indicators.

Community, Equalities (including socio-economic) and Health Impacts

33. This report monitors the council's compliance with the treasury management strategy and Council's prudential indicators as agreed in February 2023. This report has been judged to have no direct impact on local people and communities who are protected under the Equality Act.

Climate change implications

34. This report directly addresses funding of schemes that contribute towards emissions reduction and a borough that is resilient to the future changes in climate.

Resource implications

35. Resource will be required from the Finance and Climate Change teams within the council, to lead on the development of the CMI model, promotion of the investment opportunity and delivery of funded projects. This work will be undertaken by existing resource within the council.

Consultation

36. There has been no consultation on this report.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Assistant Chief Executive (Governance and Assurance) [AJW 3.11.2023]

37. The council's constitution determines that agreeing the treasury management strategy is a function of the council assembly and that the review and scrutiny of strategies and policies is the responsibility of the audit governance and standards committee. The constitution also requires council assembly to approve the capital strategy and programme at least once every four years. The draft treasury management strategy and capital strategy attached will proceed to council assembly for agreement.
38. Financial standing orders require the Strategic Director of Finance to set out the treasury management strategy for consideration and decision by council assembly, and report on activity on a regular 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.
39. 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.
40. 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 includes the Department for Levelling Up, Housing and Communities Guidance on Local Authority Investments updated February 2018 and on the flexible use of capital receipts which was updated in August 2022. Section 21(1A) of the 2003 Act also requires the local authority to have regard to any guidance issued under these provisions which includes the statutory guidance on the Minimum Revenue Provision (MRP).
41. The committee has to have due regard to the need to eliminate discrimination, advance equality of opportunity, and to foster good relations between people with protected characteristics and others in accordance with section 149 Equality Act 2010 when carrying out its functions.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
None		

APPENDICES

No.	Title
Appendix A	Capital Strategy 2024-25 to 2033-34
Appendix B	Treasury Management Strategy 2024-25
Appendix C	Annual Investment Management Strategy 2024-25
Appendix D	Annual Minimum Revenue Provision Statement 2024-25
Appendix E	Prudential Indicators 2024-27

AUDIT TRAIL

Lead Officer	Clive Palfreyman - Strategic Director of Finance	
Report Author	Tim Jones – Deputy s.151 Officer	
Version	Final	
Version Date	3 November 2023	
Key Decision	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Assistant Chief Executive – Governance & Assurance	Yes	Yes
Strategic Director of Finance	N/A	N/A
Cabinet Member	No	
Date report sent to constitutional team		6 November 2023