

<b>Item No:</b> 2.3	<b>Classification:</b> Open	<b>Date:</b> 21 February 2024	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Treasury Management Strategy and Capital Strategy 2024-25	
<b>Wards or Groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance	

## RECOMMENDATIONS

1. That council assembly approves the Treasury Management Strategy and Capital Strategy for 2024-25, and its appendices:
  - a. Appendix A - Capital Strategy 2024-25 to 2033-34
  - b. Appendix B - Treasury Management Strategy 2024-25
  - c. Appendix C - Annual Investment Management Strategy 2024-25
  - d. Appendix D - Annual Minimum Revenue Provision Statement 2024-25
  - e. Appendix E - Prudential Indicators 2024-25 to 2026-27.

## 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, borrowings 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.

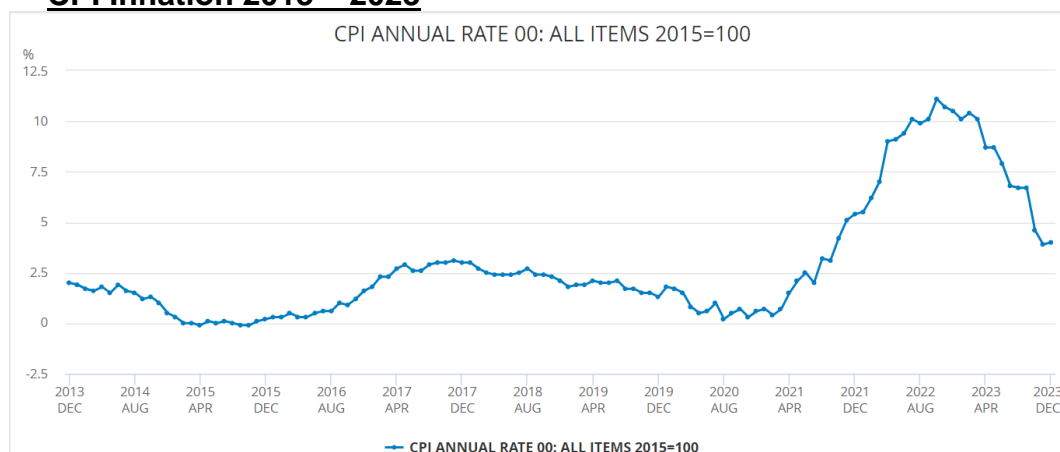
6. Looking forward, there is still significant uncertainty in the economy and especially from the impact of high inflation and interest rates. These factors are likely to remain major influences on the authority's treasury management strategy for 2024-25 and beyond.
7. Under financial delegation, the 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

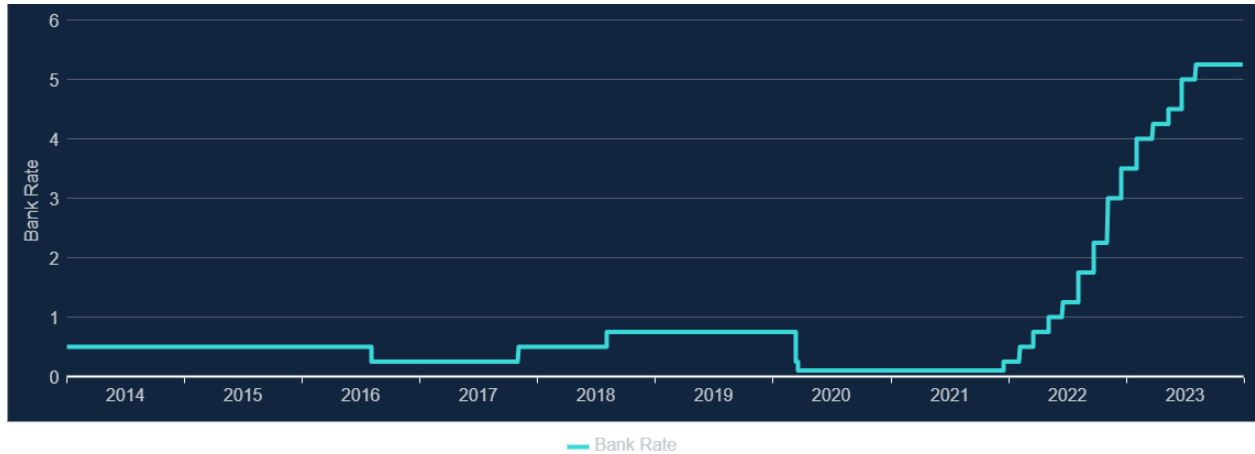
8. The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024-25.
9. UK inflation has remained high. Consumer Price Index (CPI) rose by 4% in the 12 months to December 2023, up from 3.9% in November.
10. On a monthly basis, CPI rose by 0.4% in December 2023, the same rate as in December 2022.
11. The downward trend in inflation rates ended in December, but levels remain below those forecast by the Bank of England for Q4 2023.
12. Headline inflation is likely to fall further into Q2 2024, but these figures are unlikely to convince MPC members that a near term rate cut is currently necessary.

### CPI Inflation 2013 – 2023

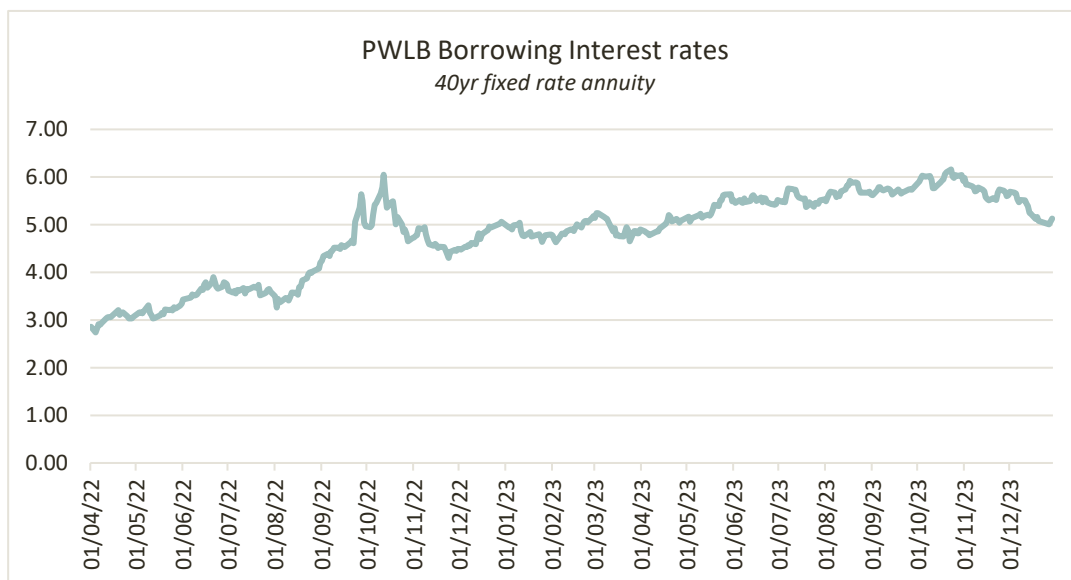


- The BoE base rate rose from 0.75% in April 2022 to 5.25% in September 2023. Rates were held at 5.25%, ending a run of 14 consecutive rises after inflation started to slow down.

**Bank of England base rate 2013 – 2023**



- Whilst the Public Works Loan Board (PWLB) remains the most efficient and economic option; the cost of new borrowing (and refinancing maturing debt) has steadily increased from 4.94% on 01 January 2023 to 5.13% as at 29 December 2023.



**Treasury Management Strategy**

- 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.

16. 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.
17. Investments held for service purposes or for rental income are considered in the capital strategy.
18. 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.
19. Full details of the council's proposed treasury management strategy for 2024-25 can be found at Appendix B.

### **Investment Strategy**

20. 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).
21. 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.
22. 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.
23. The current investment strategy is 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 will reduce the need to borrow externally.
24. The council holds cash not immediately required for expenditure in Low Volatility Net Asset Value Money Market Funds (MMFs). This is implemented

through an optimal number of funds with a limit of £30m each, in order to reduce exposure to risk and maximise investment return.

### **Capital Strategy**

25. 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.
26. 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. Governance arrangements around new capital projects will be enhanced. All new capital bids will be considered by the Corporate Management Team (CMT) ahead of cabinet approval to ensure affordability; and by priority with reference to statutory requirements, the council development plan and its long term ambitions
27. The capital strategy for 2024-25 can be found at Appendix A.

### **Minimum Revenue Provision**

28. 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. The policy wording has been streamlined, removing narrative that is no longer relevant, to make it more precise. Ultimately, the application is the same as in previous years i.e. MRP is charged for all General Fund borrowing over the estimated useful life of assets on an annuity basis.
29. 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 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.
30. 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.

31. 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.
32. DLUHC issued its third consultation on its proposed changes to minimum revenue provision (MRP) regulations and guidance for English local authorities in December 2023. There are no further changes to policy since the second consultation, but the draft regulations have been tidied up, and draft guidance has been published for the first time. It is expected that the revised regulation will apply from April 2024. The key changes are listed below:
  - To limit the scope for no MRP to be made on parts of the capital financing requirement (CFR) i.e. to prevent practices such as local authorities exempting MRP for investment assets
  - To limit the use of capital receipts in-year instead of an MRP charge
  - To ensure that the CFR outstanding on a capital loan does not exceed the recoverable amount (i.e. the principal outstanding minus the expected credit loss)
33. The headline changes above are not anticipated to impact Southwark significantly but officers are reviewing the draft guidance to ascertain if there are any other potential implications.

### **Prudential Indicators**

34. 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.
35. 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**

#### **Community impact statement**

36. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

#### **Equalities (including socio-economic) impact statement**

37. This report is not considered to contain any proposals that would have a significant equalities impact.

#### **Health impact statement**

38. This report is not considered to contain any proposals that would have a significant health impact.

#### **Climate change implications**

39. 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**

40. There are no resource implications.

#### **Consultation**

41. There has been no consultation on this report.

### **SUPPLEMENTAL ADVICE FROM OTHER OFFICERS**

#### **Assistant Chief Executive (Governance and Assurance) [AJW 17.01.2024]**

42. The council's constitution determines that agreeing the treasury management strategy is a function of the council assembly. The constitution also requires council assembly to approve the capital strategy and programme at least once every four years. The treasury management strategy and capital strategy attached is being reported to council assembly for agreement.
43. 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.
44. 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.
45. 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).

46. Council assembly 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. This report has been judged to have no direct impact on local people and communities who are protected under the Equality Act.

## 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

<b>Lead Officer</b>	Clive Palfreyman – Strategic Director of Finance	
<b>Report Author</b>	Caroline Watson – Senior Finance Manager – Treasury and Pensions	
<b>Version</b>	Final	
<b>Version Date</b>	1 February 2024	
<b>Key Decision</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Assistant Chief Executive – Governance & Assurance	Yes	Yes
Strategic Director of Finance	N/A	N/A
Cabinet Member	No	N/A
<b>Date report sent to constitutional team</b>	8 February 2024	