

Meeting Name:	Audit, Governance and Standards Committee
Date:	13 November 2024
Report title:	Treasury Management Strategy and Capital Strategy 2025-26
Ward(s) or groups affected:	N/A
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Strategic Director of Resources

RECOMMENDATIONS

1. That the Audit, Governance and Standards committee note the draft Treasury Management Strategy and Capital Strategy for 2025-26, and its appendices:
 - Appendix A - Capital Strategy 2025-26 to 2035-36
 - Appendix B - Treasury Management Strategy 2025-26
 - Appendix C - Annual Investment Management Strategy 2025-26
 - Appendix D - Annual Minimum Revenue Provision Statement 2025-26
 - Appendix E - Prudential Indicators 2025-26 to 2027-28

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

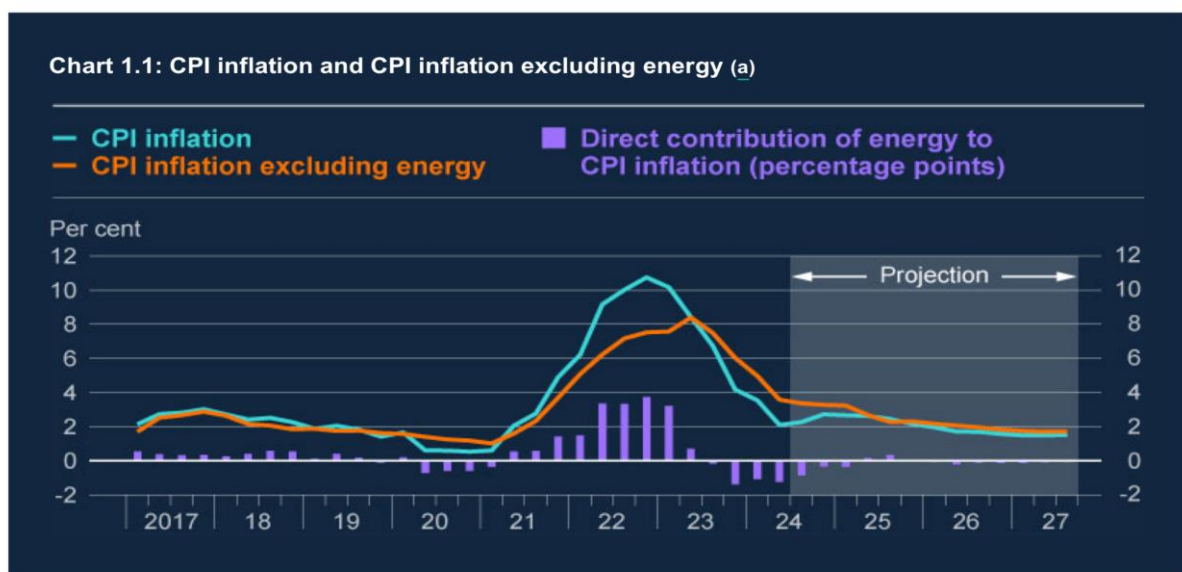
of how any associated risks are managed and the implications for future financial sustainability.

5. There remains 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 2025-26 and beyond.
6. Under financial delegation, the Strategic Director of Resources 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

7. The Autumn Budget 30 October 2024 was described by the independent Office for Budget Responsibility as "one of the largest fiscal loosening's of any fiscal event in decades". The economic outlook for the UK from April 2025 to March 2026 will also depend upon geopolitical factors including the US election and developments in the middle east and Ukraine. Inflation remains a central concern and it is to be seen how markets settle to the perceived inflationary impact of the budget. Overall, the UK economy is expected to experience modest recovery.
8. Inflation Easing: Inflation has continued its downward trajectory through 2024-25 and is expected to normalise across 2025/26 and fall within the Bank of England's 2% target range. This was achieved in September 2024 with a rate of 1.7%. The chart below is from the Monetary Policy Committee (MPC) August report. The MPC next meets on November 7 2024.



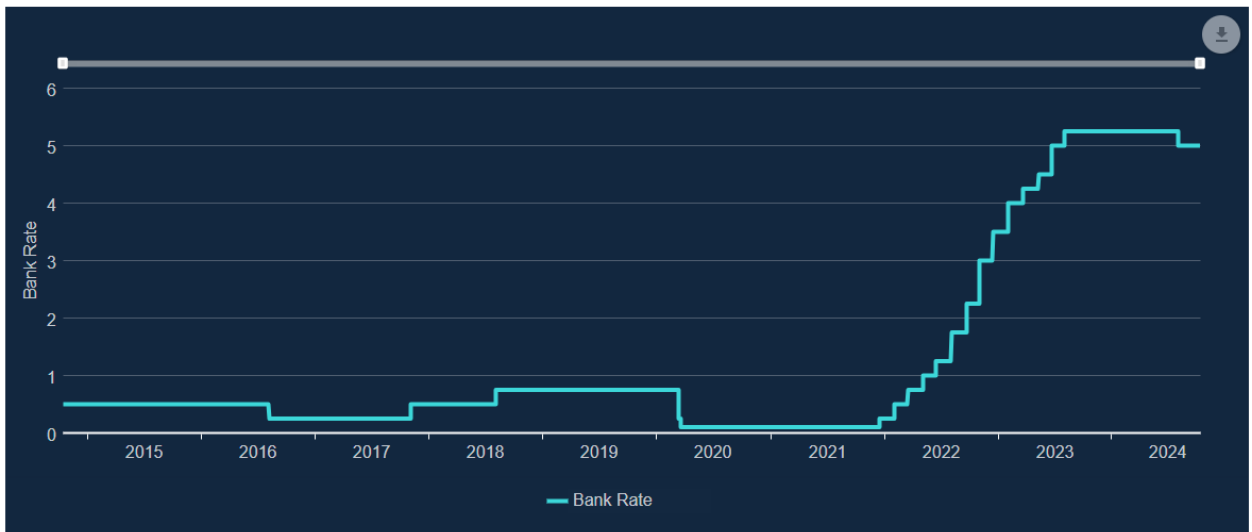
Sources: Bloomberg Finance L.P., ONS and Bank calculations.

9. Interest Rates: The Bank of England's monetary policy will be key to containing

inflation. If inflation is under control by 2025, interest rates could remain stable or be gradually reduced. Bank Rate was reduced in August 2024 from 5.25% to 5%. Some commentators have suggested inflationary pressures within the budget may lead to the MPC slowing the pace of reduction. The Gilt market has seen rates increases and the Debt Management Office has said it will sell £297 billion of bonds this year (the second largest sell off on record). Sentiment at the end of October 2024 suggests that rates may remain higher for longer.

Bank of England base rate 2013 – 2024

Official Bank Rate



10. The council's treasury management advisor Arlingclose predict further reductions to 4.25% by April 2025. Their expectation is that Bank rate will be 3% in March 2026. They will provide a refreshed forecast after the 7 November MPC meeting.
11. The Public Works Loan Board (PWLB) remains the most efficient and economic borrowing option.

Treasury Management Strategy

12. 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.
13. 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.

14. Investments held for service purposes or for rental income are considered in the capital strategy.
15. Under financial delegation, the Strategic Director of Resources is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together
16. with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.
17. Full details of the council's proposed treasury management strategy for 2025-26 can be found at Appendix B.

Investment Strategy

18. 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).
19. The annual investment management strategy 2025-26 is attached at Appendix C. The strategy allows investment across a variety of instruments.
20. In considering the investment strategy for 2025-26 the council has taken independent advice from the external treasury advisor.
21. It is anticipated that the majority of investments will be 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, to reduce exposure to risk and maximise investment return.

Capital Strategy

22. 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.
23. The capital strategy aligns with the priorities set out in the Council 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's development plan and its long-term ambitions.
24. The capital strategy for 2025-26 can be found at Appendix A.

Minimum Revenue Provision

25. 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 Ministry of Housing, Communities and Local Government (MHCLG) 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.
26. 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.
27. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and the MHCLG'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.
28. 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

29. 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.
30. The indicators for approval relate to 2025-26 to 2027-28 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 Resources 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

31. 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

32. This report directly addresses funding of schemes that contribute towards emissions reduction and a borough that is resilient to the future changes in climate. The council can raise capital via the issuance of Green Bonds or other similar peer-to-peer (P2P) loan agreements, known as Community Municipal Investments (CMI) through its partnership with Abundance. The Green bonds issuance is a new scheme which gives residents the opportunity to invest in sustainable projects and green initiatives within the local community to support the council's target of becoming a net zero Council by 2030

Resource implications

33. 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

34. There has been no consultation on this report.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Assistant Chief Executive (Governance and Assurance)

35. 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.
36. Financial standing orders require the Strategic Director of Resources 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 Resources.
37. 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.
38. 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.
 - (b) to such other guidance as the Secretary of State may by regulations specify for the purposes of this provision.

39. This guidance includes the MHCLG 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).
40. The committee must 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 2025-26 to 2035-36
Appendix B	Treasury Management Strategy 2025-26
Appendix C	Annual Investment Management Strategy 2025-26
Appendix D	Annual Minimum Revenue Provision Statement 2025-26
Appendix E	Prudential Indicators 2025-2028

AUDIT TRAIL

Lead Officer	Clive Palfreyman - Strategic Director of Resources	
Report Author	Caroline Watson – Chief Investments Officer	
Version	Final	
Version Date	4 November 2024	
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 Resources	N/A	N/A
Cabinet Member	No	
Date report sent to constitutional team		4 November 2024