APPENDIX B

TREASURY MANAGEMENT STRATEGY STATEMENT 2025-26

Introduction

1. Treasury management is the management of the authority's cash flows, borrowings 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 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.

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

4. 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.

Borrowing Strategy, Debt Management and Net Borrowing Position

5. As at 30 September 2024, the council held £1,077m of external borrowings (£965m at 30 September 2023) and £39m of investments (£148m at 31 September 2023).

6. The council has an ambitious capital programme, to support the wide range of services it provides and 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.

7. Going forward due to the scale of the capital programme, external borrowing will be required to ensure its delivery.

8. Southwark has one of the highest outstanding Public Works Loans Board (PWLB) debt of all English councils. This is largely due to the size of Southwark's council housing estate and its position as the fourth largest social landlord in the country.

9. Given the size of its housing stock and the ambition to deliver new homes, the council has a significant Housing Investment Programme, which is partially financed by borrowing. For 2025/26, the forecast borrowing requirement is £105 million, with £88 million allocated to support the delivery of new homes.

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 (HRA) and the General Fund (GF).

11. The council can borrow from the PWLB, financial institutions and banks or directly from other local authorities.

12. Alternative sources of borrowing to the PWLB will be considered to ensure the lowest available rates are achieved and value for money is achieved for taxpayers. In the context of its efforts to address climate change, Council Assembly, in November 2023 approved the use of a Community Municipal Investment (CMI) opportunity as a borrowing option. This will support the delivery of projects within the council's climate action plan.

13. 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). It is anticipated that through two schemes £1.5m will have been raised by the end of 2024/25.

14. A CMI is a simple, low cost and proven way for the council to raise funding from residents for projects that contribute to achieving its net-zero carbon target by 2030. Through partnership with Abundance Investment, a crowdfunding web platform is established that allows investment in a safe and secure manner. CMI's therefore create engagement opportunities for councils with their local communities, while diversifying funding sources.

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

16. Whilst internal borrowing and short-term borrowing provide a low-cost interim solution, they effectively defer inevitable long-term borrowing into subsequent periods. In an uncertain interest rate environment, with some expectation of rate reductions the strategy for 2025-26 is to borrow externally when rates are favourable. The exact timing and amount will be determined by the Strategic Director of Resources with regard to advice from external treasury advisors.

Capital Financing Requirement and the Liability Benchmark

17. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), whilst usable reserves and working capital are the underlying resources available for investment. The council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing.

18. The council’s CFR is increasing over time reflecting the delivery of the capital programme. The table below shows the CFR for the General Fund and the HRA.

Capital Financing Requirement	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
General Fund CFR	852	935	992	1,021	1,012
HRA CFR	890	1,034	1,139	1,200	1,246
Total CFR	**1,742**	**1,969**	**2,131**	**2,221**	**2,258**
Less: Other debt liabilities	71	66	61	59	50
Loans CFR	**1,671**	**1,903**	**2,070**	**2,162**	**2,208**

19. In the 2021 revision of the Prudential and Treasury Management Codes, CIPFA introduced the liability benchmark. 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-to-day cash flow.

20. 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.

21. The liability benchmark is presented in the table below and shows estimates of the councils underlying need to borrow over the medium term.

Liability Benchmark (£m)	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
Capital Financing Requirement	**1,742**	**1,969**	**2,131**	**2,221**	**2,258**
Less: Other Balance Sheet Items	-720	-830	-768	-713	-663
Net Loans Requirement	**1,022**	**1,139**	**1,363**	**1,508**	**1,595**
Plus: Liquidity Allowance	63	52	43	40	40
Liability Benchmark	**1,085**	**1,191**	**1,406**	**1,548**	**1,635**
Current Loan Commitments	**1,085**	**978**	**962**	**942**	**930**

(Under) / Over benchmark: Borrowing Requirement	**-**	**- 213**	**- 444**	**- 606**	**- 705**

The table below illustrates how the net loans requirement is calculated.

Net Loans Requirement Reflected by:	**2023-24 Estimate £m**	**2024-25 Estimate £m**	**2025-26 Estimate £m**	**2026-27 Estimate £m**	**2027-28 Estimate £m**
Loans (including new borrowing)	1,085	1,191	1,406	1,548	1,635
Investments	- 63	- 52	- 43	- 40	- 40
Net Loans Requirement	**1,022**	**1,139**	**1,363**	**1,508**	**1,595**

Investment Position and Activity

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

23. Investment balances as at 30 September 2024 were £39m.These balances are held across five money market funds, which have high credit quality AAA scoring and the UK government Debt Management Account Deposit Facility.

24. The Bank of England Base Rate was reduced from 5.25% to 5.0% in August 2024. Further rate reductions are forecast by the council's treasury management advisor Arlingclose. They are predicting a rate of 4.25% in April reducing throughout the year to close at 3%.

25. To analyse the treasury management portfolio, the council measures the return against SONIA (Sterling Overnight Indexed Average).

26. 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 the Ministry of Housing, Communities and Local Government (MHCLG)

27. 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.

28. 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.

Environmental, Social and Governance (ESG) considerations

29. Environmental, social and governance (ESG) considerations are becoming increasingly important in investment decision making. The council strongly believes that integrating climate change and other ESG factors into the investment philosophy will protect and improve the risk profile of its investments over the long term.

30. Approaches to ESG investments and related data collecting and reporting are still evolving. The council will work continuously towards adopting latest guidelines and industry best practice in its approach to ESG aspects of its investments.

31. The council will review investment managers to ensure sound ESG practices, such as ESG disclosures, signatory to various ESG initiatives and standards, external assurance on ESG disclosures, or are actively developing/evolving their approach, allowing the accommodation of managers at different stages in their responsible investment journey.

32. The council's approach will evolve as more progress is undertaken on ESG reporting and as new wider ESG-focused products/funds become available.