

**TREASURY MANAGEMENT, INVESTMENT AND CAPITAL  
STRATEGIES 2022/23**

<b>Final Decision-Maker</b>	Council
<b>Lead Head of Service</b>	Ellie Dunnet – Head of Finance
<b>Lead Officer and Report Author</b>	John Owen – Finance Manager
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

This report sets out the draft Treasury Management Strategy, Investment Strategy and Capital Strategy for 2022/23 for consideration by the Audit, Governance & Standards Committee and recommendation to Council for adoption. The strategies are attached as Appendices A-C to this report.

**Purpose of Report**

This report requires discussion from the Committee.

**This report makes the following recommendations to this Committee:**

1. That the Treasury Management Strategy for 2022/23 attached as Appendix A to this report is agreed and recommended to Council for adoption, subject to any amendments arising from consideration of the Capital Programme by Policy and Resources Committee at its meeting on 19th January 2022.
2. That the Investment Strategy for 2022/23 attached as Appendix B to this report is agreed and recommended to Council for adoption.
3. That the Capital Strategy for 2022/23 attached as Appendix C to this report is agreed and recommended to Council for adoption.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	17 <sup>th</sup> January 2022
Policy & Resources Committee	19 <sup>th</sup> January 2022
Council	23 <sup>rd</sup> February 2022

# TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2022/23

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The Treasury Management function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the Strategic Plan objectives.	Head of Finance
<b>Cross Cutting Objectives</b>	The report recommendations support the achievements of the cross cutting objectives embedded within the Strategic Plan.	Head of Finance
<b>Risk Management</b>	Covered in Section 5 of this report.	Head of Finance
<b>Financial</b>	This report relates to the financial activities of the Council in respect of Treasury Management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
<b>Staffing</b>	None	Head of Finance
<b>Legal</b>	The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.	Legal Team
<b>Privacy and Data Protection</b>	None	Policy and Information Team
<b>Equalities</b>	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
<b>Public Health</b>	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
<b>Crime and Disorder</b>	None.	Head of Finance
<b>Procurement</b>	None.	Head of Finance

<b>Biodiversity and Climate Change</b>	There are no direct implications on biodiversity and climate change. Investment and capital strategy will be aligned and in keeping with the MBC Biodiversity and Climate Change Action Plan and MBC's Net Zero by 2030 commitment.	Biodiversity and Climate Change Manager
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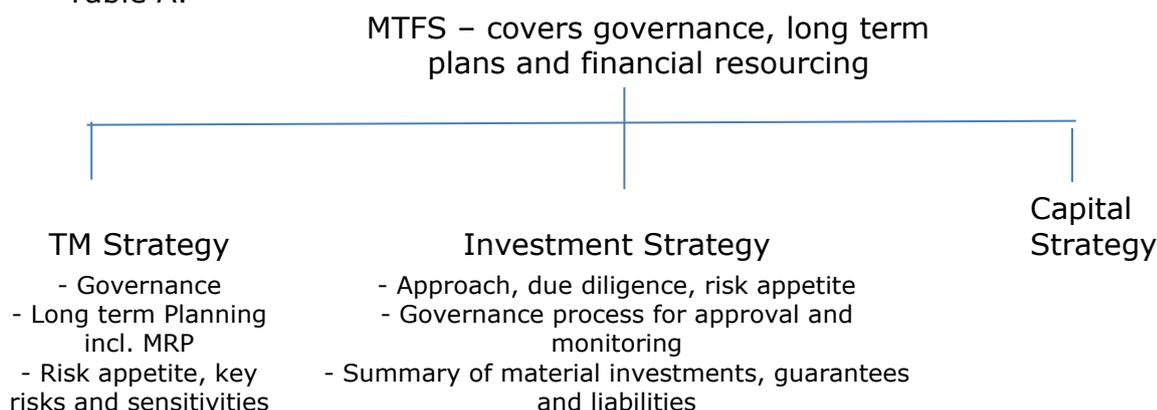
## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year must meet cash expenditure, to enable a best practice approach to longer term capital planning and to ensure the future success and wellbeing of the population, stakeholders and the area the Council serves. The Treasury Management, Investment and Capital Strategies assists the Council in achieving these objectives.
- 2.2 The council has adopted the Treasury Management in Public Services: Code of Practice 2017 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.3 CIPFA have revised the Code in December 2021 and has stated that a formal adoption is not required until the 2023/24 financial year, so the attached Strategies are compiled in line with the 2017 Code. Some key features of the 2021 Code are as follows:
- *Further strengthening on matters to be taken into account when setting and revising prudential indicators particularly decision making on capital investment, determining a capital strategy, prudence and affordability.*
  - *ESG in Capital Strategy – broadened to make clear the strategy should be address environmental sustainability in a manner which is consistent with their own corporate policies on the issue.*
  - *CIPFA key concern continues to be regarding leverage and borrowing to invest particularly for Commercial and Service Investment -with a clear statement regarding not being prudent to make any investment or spending decision that will increase capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.*
  - *Investment Management Practices (IMPs) – implemented in TM Code for Non-Treasury Investment and expected to follow same format used for Treasury Management Practices*
  - *Further clarification on ESG within TMP1 Credit and Counterparty Risk Management.*
- 2.4 CIPFA revised the 2011 edition of the Code in 2017 to ensure that local authorities take into account the risks involved with non-treasury investments. CIPFA have therefore recommended that authorities

development an Investment Strategy and a Capital Strategy which set out the Council’s risk appetite and specific policies and arrangements for non-treasury investments.

2.5 The three strategy documents are linked and support the overall Medium Term Financial Strategy (MTFS), alluding to the risk appetites around capital investment priorities and funding decisions including borrowing. Below is an illustration of how these documents are linked:

Table A.



## 2.6 Treasury Management Strategy Statement 2022/23

2.6.1 The first function of the Council’s Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

2.6.2 The second function of the Treasury Management operation is the funding of the Council’s capital plans. The capital plans provide a guide to the borrowing need of the Council, so this means longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.6.3 The current 2021/22 Treasury Management Strategy (TMS) was reviewed by this Committee and agreed by Council in February 2021. The current Strategy is to:

- Utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered;

- Increase previous counterparty limits due to the increased grant funding from Central Government in relation to COVID19 which were being held until grants were paid to individuals and businesses.

A mid-year monitoring report was considered by this Committee at its November 2021 meeting.

2.6.4 Essentially the Council is taking a similar stance with its Strategy for 2022/23. The Council is now in a borrowing position and has started to take on short term and long term funding and it will continue to assess the appropriate funding in line with the proposed capital programme.

2.6.5 The Treasury Management Strategy for 2022/23 is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and The Department of Levelling Up, Housing and Communities (DLUHC – this was formally MHCLG) and has been developed in line with currently approved spending and financing proposals.

2.6.6 Current Treasury Management investments as at 31st December 2021 total £55.59m. A list of these can be found within **Appendix D**.

2.6.7 The Council has short term borrowings of £9m with other local authorities to fund its capital programme, which is likely to increase before the end of 2021/22. A list of these can also be found within **Appendix D**.

2.6.8 The Council has been spreading the risk of borrowing with a mixture of long term and short term funding to ensure lower borrowing costs along with weighing up the risk of refinancing. This will continue during 2022/23 as the borrowing will increase to finance the Capital Programme.

2.6.9 A list of the counterparties the Council has on its lending list and the colour criteria can be found in **Appendix E**. The Council current account with Lloyds Bank is not included within the counterparty limits as it cannot be predicted what funds are accumulating during a day. The Treasury Management Practices (TMPs) ensure that the current account is kept to a minimum at the start of each working day.

2.6.10 The government is not included within the list of counterparties. The government's Debt Management Office (DMO) does not have accounts which work in the same way to recall funds on a daily basis to meet the Council's cashflow liabilities. An authority would request a fixed term deposit, which can be an overnight deposit, but it would be an administrative burden to roll these over each day if funds were not required. The money market funds are AAA rated funds which keeps in line with CIPFA's Security, Liquidity then Yield principles.

## 2.7 **Investment Strategy**

2.7.1 The Investment Strategy 2022/23 can be found in **Appendix B** which focuses on service investments (supporting local services by lending or buying shares) and non-treasury investments.

2.7.2 The Council has made third party loans to help support local organisations. A list of these and outstanding balances as at 31<sup>st</sup> December 2021 are as follows:

• Kent Savers	£25,000
• Cobtree Manor Estates Trust	£90,918
• One Maidstone CIC Ltd	£12,000
• Capital & Regional (Bus Station)	£178,000

2.7.3 There is also a provision of £1m in 2022/23 for Maidstone Property Holdings Limited to undertake refurbishments to various properties it currently leases from Maidstone Borough Council.

2.7.4 The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

## 2.8 Capital Strategy

2.8.1 The Capital Strategy 2022/23 can be found in **Appendix C** which gives 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 associated risk is managed and the implications for future financial sustainability.

2.8.2 The strategy forms part of the Council's integrated revenue, capital and balance sheet planning and requires annual approval by full Council. It sets out the long term context in which capital expenditure and investment decisions are made, and considers risk, reward and impact on the achievement of the Council's priority outcomes identified within the strategic plan.

2.8.3 The strategy for 2022/23 is an update with the latest capital proposal plans for the Council subject to review.

2.8.4 The Policy & Resources Committee will consider a capital programme for the period 2022/23 to 2026/27 at its meeting on 19<sup>th</sup> January 2022. The attached Strategy includes assumptions about the Capital Programme and it is not anticipated that the Capital Programme as finally agreed will differ significantly from these.

2.9 The following table shows the expected borrowing required to fund the draft capital programme. Internal borrowing will be fully utilised within 2020/21 programme, with the only internal sources of funding being New Homes Bonus and small capital receipts.

	<b>2021/22</b> <b>£m</b>	<b>2022/23</b> <b>£m</b>	<b>2023/24</b> <b>£m</b>
Capital Programme	33.179	27.530	31.099

External Funding Streams	(3.713)	(1.950)	(1.250)
Internal Funding Including Revenue Funding & MRP	(13.884)	(5.026)	(3.514)
Expected Borrowing	15.582	20.554	26.335

## 2.10 Revenue Funding

- 2.10.1 The strategy proposes the application of £3.216m New Homes Bonus, £0.336m Internal Borrowing and £1.623m Minimum Revenue Provision (MRP) to fund the capital programme in 2022/23.
- 2.10.2 The figure for New Homes Bonus has taken into account a proposal to be considered by Policy and Resources Committee that £1m be top sliced and used for revenue purposes.

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## 3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The Committee could decide not to recommend the strategies to Council. The Council must adopt strategies for 2022/23 and should the Committee decide not to recommend it would need to recommend an alternative to Council. The strategies are in line with the necessary codes and practice guides and take a low risk approach favouring liquidity and security over return. As such the approach set out within the strategy is considered suitable for this Council.
- 3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategies prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendments and the risks and benefits that the proposed amendments provide in order for the Council to make a fully informed decision on the recommendation.
- 3.3 **Option 3:** The Committee could agree the attached strategies and recommend them to Council. The attached strategies have been produced in line with current guidance from CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC). They have also been developed in line with advice and guidance from the Council's Treasury Management Advisors, Link Asset Services.

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## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The recommended option is Option 3, to recommend to Council the Treasury Management Strategy, Investment Strategy and the Capital Strategy for 2022/23.

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## 5. RISK

- 5.1 Detailed risk management policies are included within the Treasury Management Practices and have been included in both investment strategies and capital strategies to which the Council adheres. A brief description of these risks along with the Council's actions to mitigate these risks are as follows:

**Liquidity Risk** - Liquidity risk is the risk that cash will not be available when it is required. The Council has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. The Council also has the option of short-term borrowing.

**Interest Rate Risk** - Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. This risk is mitigated by borrowing and lending on a fixed rate basis. The Council will also seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points which are set out in the annual Treasury Management Strategy.

**Exchange Rate Risk** - Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

**Inflation Risk** - Inflation risk is the risk that unexpected changes in inflation expose the Council to greater costs or a shortfall in income than have been budgeted for. Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

**Credit and Counterparty Risk** - Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. Due to volatility of the financial market, Treasury Management staff will use information from various sources, e.g. brokers, Treasury Management Consultants and other local Authority experience to determine the credit worthiness of an institution and to decide if funds are at risk and agree best course of action with Director of Finance & Business Improvement.

**Refinancing Risk** - Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating

revenue and capital budgets. The Council currently borrows to fund a portion of its capital programme and will continue to do so in the coming years. In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

**Legal and Regulatory Risk** - Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss. The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The Authority will provide written evidence of its powers and authorities to any counterparty that requests us to do so. Counterparties will also provide their details to the Authority as a matter of course.

**Fraud, Error and Corruption Risk** - Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal checks which minimises such risks along with maintaining records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out. Delegated members of staff have the responsibility for the treasury management function for the Council and the Director of Finance & Business Improvement authorises who these are. The Council also has a Fidelity Guarantee insurance policy with Zurich Insurance which covers against loss of cash through fraud or dishonesty of employees.

**Risk Appetite** – The Council takes a slightly higher risk with its non-treasury investments compared to its treasury management investments due to the fact that treasury investments are mainly maintaining funds in high security instruments for when they are required and non-treasury decisions are for service delivery where there is a different risk profile.

## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

6.1 None

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## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

7.1 This report will be considered by Policy & Resources Committee on 19<sup>th</sup> January 2022 and adoption by Council on 23<sup>rd</sup> February 2022.

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## **8. REPORT APPENDICES**

8.1 The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy 2022/23.
  - Appendix B: Investment Strategy 2022/23.
  - Appendix C: Capital Strategy 2022/23.
  - Appendix D: Investment and Borrowing Position as at 31st December 2021.
  - Appendix E: Counterparty List
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## **9. BACKGROUND PAPERS**

9.1 None