AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 16 January 2023
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett (Chairman), Bryant, Coulling (Parish Representative), Cox (Vice-Chairman), Forecast, Jeffery, Khadka, Knatchbull, Titchener (Parish Representative), Trzebinski and D Wilkinson

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

Issued on Friday 6 January 2023 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

MAIDSTONE Borough Council

INFORMATION FOR THE PUBLIC

In order to ask a question at this meeting, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Friday 13 January 2023). You will need to provide the full text in writing.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Friday 13 January 2023). You will need to tell us which agenda item you wish to speak on.

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Agenda Item 11

2022/23 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Code of Conduct Matters - Six Month Update	AGS	13-Mar-23	Officer Update	No	Claudette Valmond	Gary Rowland
Update on Kent Model Code of Conduct	AGS	13-Mar-23	Officer Update	No	Claudette Valmond	Robin Harris
Housing Benefit Subsidy Claim 2021/22	AGS	13-Mar-23	Governance	No	Georgia Hawkes	Zoe Kent
Fraud and Compliance Team Update	AGS	13-Mar-23	Officer Update	No	Georgia Hawkes	Zoe Kent
Annual Risk Management Report 2022/23	AGS	13-Mar-23	Governance	Yes	Alison Blake	Alison Blake
Internal Audit and Assurance Plan 2023/24	AGS	13-Mar-23	Governance	No	Katherine Woodward	Katherine Woodward
External Audit Plan 2022/23	AGS	13-Mar-23	Governance	No	Mark Green	Paul Holland
External Auditor's Progress Report and Sector Update	AGS	13-Mar-23	Governance	No	Mark Green	Paul Holland
Budget Strategy Risk Assessment Update	AGS	13-Mar-23	Officer Update	No	Mark Green	Mark Green

Agenda Item 13

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	16 January 2023

Annual Governance Statement – Mid-Year Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Director	Angela Woodhouse, Director of Strategy, Insight and Governance
Lead Officer and Report Author	Angela Woodhouse, Director of Strategy, Insight and Governance
Classification	Public
Wards affected	All

Executive Summary

This report provides the Committee with an update on those matters identified in the Annual Governance Statement for 2021-22 as requiring action.

Purpose of Report

For noting

This report makes the following recommendations to this Committee:

That the update on progress with the current Annual Governance Statement Action Plan, at Appendix A, be noted.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	16 January 2023

Annual Governance Statement – Mid-Year Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The four Strategic Plan objectives are: • Embracing Growth and Enabling Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place Effective corporate governance arrangements ensure the Council's priorities are understood and delivered.	Director of Strategy, Insight and Governance
Cross Cutting Objectives	The four cross-cutting objectives are: • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected Effective corporate governance arrangements ensure the Council's cross cutting objectives are understood and delivered.	Director of Strategy, Insight and Governance
Risk Management	The most significant risks from the Corporate Risk Register are included within the action plan in the Annual Governance Statement.	Director of Strategy, Insight and Governance
Financial	Carrying out the actions identified in the action plan helps to ensure that the Council maintains high governance standards.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Director of Strategy, Insight and Governance
Legal	Section 6(1) of the Accounts and Audit Regulations 2015 requires all local authorities to:	Interim Team Leader (Contentious

	a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and (b) prepare an annual governance statement; Under the Council's Constitution one of the functions of the Committee is to oversee the production of the Council's Annual Governance Statement. The Annual Statement demonstrates measures are in place to ensure good governance arrangements which enable the Council to meet its statutory requirements.	and Corporate Governance)
Privacy and Data Protection	Maintaining high standards in relation to privacy and data protection have been identified in the Annual Governance Statement as a key part of the governance framework and carried forward into the action plan and update.	Corporate Insight, Communities and Governance team
Equalities	Good governance will ensure the Council is adhering to the public sector equality duty. The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
Public Health	No implications	Public Health Officer
Crime and Disorder	No implications	Director of Strategy, Insight and Governance
Procurement	No implications	Director of Strategy, Insight and Governance
Biodiversity and Climate Change	Environmental impact is included in the review of the governance arrangements	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 The Annual Statement of Corporate Governance for 2021-22 was considered and approved by the Committee in July 2022 before being signed by the Leader and Chief Executive. The statement contained an Action Plan for 2022-23. This report provides an update on the progress made against the Action Plan as set out in Appendix A.

2.2 The actions outlined in Appendix A arose from areas identified in the corporate governance statement as requiring additional action to maintain the Council's governance standards.

2.3 A number of areas were identified for action including:

- Embedding the new process for Part II items
- Data Protection Action Plan
- Actions to ensure compliance with the Financial Management Code
- Learning from Governance Failings at other Local Authorities
- Community Governance Review
- Effective decision making and constitution
- Transparency of decision making on Garden Communities
- Key Corporate Risks

2.4 Progress has been made across all actions as outlined in Appendix A. The new process for part II items was introduced when the new governance model and constitution were brought in, in May 2022. The Monitoring Officer and Director of Strategy, Insight and Governance delivered training to officers across the council on the new process. The starting point for reports will always be in favour of publication of as much information as possible about the information considered and decisions the council takes, and only in limited circumstances should information be withheld, where there is a justification, in law, for doing so. Where this information is withheld it is via an appendix rather than the whole report.

2.5 Audit, Governance and Standards Committee received an update in November on progress against the Data Protection Action Plan as part of the Information Governance Report. Actions taken include a review of operational guidance, policies and procedures and then promotion to staff. Actions in progress include how we record and document staff reading and understanding policies and procedures and completing a review of CCTV which is currently underway.

2.6 With regard to the Community Governance Review, the terms of reference have been adopted and the first stage consultation is underway. It closes on 29 January with the proposals for 2nd stage consultation due to be agreed by D&GP Committee in March 2023.

2.7 A working group has just been set up to review the constitution and recommend any changes required to ensure effective decision making led by Councillors.

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3. AVAILABLE OPTIONS

3.1 The Committee could decide not to consider the Action Plan update provided at Appendix A, however the Action Plan is a key part of the Committee's governance remit. The Committee can also request further information to seek assurance on the progress of the Action Plan if required.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 As stated in section 3.1 considering the Action Plan is a key part of the Committee's governance remit. The Committee is asked to note the update provided on the actions developed as a result of the annual review of governance.

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5. RISK

5.1 This report is presented for information only. An update on the Key corporate risks has been included in the Annual Governance Statement Action Plan.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 The Committee is invited to provide feedback on progress with the Action Plan.

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 This report has been provided to update the Audit, Governance and Standards Committee and will be publicly available via the Committee papers on the Council's website. Any recommendations for further action by the Committee in regard to the Action Plan will be carried forward.

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8. REPORT APPENDICES

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

- Appendix A: Annual Governance Statement Action Plan Update

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9. BACKGROUND PAPERS

None.

Appendix A – Annual Governance Statement Action Plan Update

Corporate Governance Area	**Lead Officer**	**Update**
New Process for part II items embedded and officers trained	Director of Strategy, Insight and Governance	A training session was given by the Monitoring Officer and Director of Strategy, Insight and Governance on the new stage II process and approach. The session has been recorded and made available to all staff. The new process is working well and the Director provides advice as needed.
Data Protection Action Plan (previously reported to Audit Governance and Standards Committee)	Data Protection Officer	Progress on the plan was reported in November 2022, progress has been made with outstanding actions planned for implementation. Updates will continue to be given to Audit, Governance and Standards Committee
Actions to ensure compliance with the Financial Management Code: • Develop and embed a policy on Social Value • Review approach to investment appraisal for conformance with 'Principles in Project and Investment Appraisal' • Assess the usefulness of budget monitoring reports to the leadership team in supporting strategic decision making and identify scope for improving these as appropriate.	Director of Finance and Business Improvement	Social Value and Sustainability procurement policies have been agreed by the Executive (December 22) and will be implemented in the next 6 months. This will involve the communication of the new policies to staff and training and support on how to apply the policy in the procurement process. These principles are already being applied as part of the business cases being approved by the relevant MBC governance. The principles form part of the Financial Management code produced by CIPFA. We follow the code and ensure it is complied with. Budget monitoring reports will be reviewed. The aim is for the Head of Finance operate the current reports for the rest of the year to assess the

Corporate Governance Area	Lead Officer	Update
		effectiveness of them in supporting decision making during the in year monitoring and also the budget process. Recommendation on changes will be made for implementation in 23/24.
Learning from governance failings at other Local Authorities	Chief Executive	The Chief Executive continues to hold regular governance meetings, the Corporate Governance Group also considers external issues as part of their quarterly meeting to identify any lessons.
Community Governance Review: Following the Boundary Review at a district level a community governance review is proposed for 2022/23, this will be undertaken by the Democracy and General Purposes (D&GP) Committee	Democratic and Electoral Services Manager	The Community Governance Review is on track in accordance with the timetable agreed by D&GP Committee. Terms of Reference have been adopted and the first stage consultation is underway. It closes on 29 January with the proposals for 2nd stage consultation due to be agreed by D&GP Committee in March 2023.
Ensure effective decision making and a workable constitution. Review of constitution planned for December 2022 with the Democracy and General Purposes (D&GP) Committee	Director of Strategy, Insight and Governance and Monitoring Officer	D&GP have set up a working group to review the constitution including decision making. A member survey has been commissioned to identify any particular concerns or issues with the constitution. The group will consider each part of the constitution reporting to D&GP in March 2023.
Promoting decision making on Garden Communities ensuring information is publicly available and accessible and the role of the council as developer versus the role as the planning authority is clear.	Director of Regeneration and Place	The Local Plan Review continues to be led by the interim Local Plan Director, and progress monitored by the Planning & Infrastructure PAC. The garden community is overseen by the Director of Regeneration & Place, and progress reported to the Finance and Corporate PAC when new decisions are required. Now that the role of

Corporate Governance Area	Lead Officer	Update
		Homes England as co-promotor is more established and the Local Plan Review Hearings are underway, there is clarity in the public domain in respect of the two separate roles of the council in this project, with most key documents, other than those that are commercially sensitive, in the public domain
Corporate Risk: General and localised economic pressure leads to **contraction in retail sector,** limiting the appeal of Maidstone town centre threatening social cohesion and business rates income.	Director of Regeneration and Place	Actions were reported on this in November 2022. • Taking advantage of opportunities to support infrastructure investment • A targeted programme of place promotion campaign activities • Development of a Town Centre strategy to guide the reallocation of land uses within the Town Centre (including retail) This is now out to tender, with the successful firm expected to commence work in Jan 23, with a c 12-month commission. • A programme of town centre events and activities is now in place funded through covid response monies. UKSPF Local Government Plan intends to continue and expand this (subject to release of funding) • Covid related Business Support grants will continue to be focussed upon this sector in part. • The Council has now received a circa £1.2m Shared Prosperity Fund allocation for the next three years, and officers are in the process of preparing a draft investment

Corporate Governance Area	Lead Officer	Update
		plan for the monies for consideration by Members. • The Leader has agreed the LIP and it has been submitted; we are awaiting the outcome; we need to add reference to our successful bid to the safer Streets Fund which has secured £565k investment for community safety in the town centre. • The Council has submitted an EOI for the town centre / opportunity to become an Investment Zone under the previous government prospectus, the results are awaited.
Corporate Risk: General **financial uncertainty**, unexpected changes to government funding, failure to achieve income or savings targets, and increases in inflation places further financial restrictions on the Council resulting in difficulty maintaining standards or meeting aims.	Director of Finance and Business Improvement	Actions were reported on this in November 2022. • The MTFS has been updated to reflect impact of inflation and working with the CLT and Executive to ensure we have a set of savings options and agreed priorities to deliver a balanced budget for 23/24. • Lobbying to avoid unfavourable financial changes to government funding • Cost recovery through bidding for additional government support for one-off costs and strategic investments • Identifying measures to address future budget gaps • Maximise Council Tax to referendum limit
Corporate Risk: Inflation continues to rise and a significant economic event (e.g. further pandemic impacts, BREXIT, supply	Director of Regeneration and Place	Actions were reported in November 2022.

Corporate Governance Area	Lead Officer	Update
chain issues) causes **significant changes in construction costs which may also result in a contractor insolvency, as they are generally locked into delivering schemes at a fixed price, and so need to manage their exposure to rising costs in their supply chain**. For the Council, this leads to a narrowing gap between build price and end of property values, increased costs to the Council and a possible time lag in delivery of 1000 affordable new homes, owing to a lack of capacity in the construction sector.		• Exploration of suitable contractor frameworks to access. • Managing exposure levels to different contractors as the programme gathers momentum. • Delaying the letting of key contracts if tendering does not yield VFM proposals that are financially robust. • Careful scheme design evolution to enhance the "buildabilty" of new projects. • The internal team is also being strengthened by the creation of three new roles, which are currently being recruited to

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	16 January 2023

Treasury Management Mid-Year Review 2022/23

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Adrian Lovegrove– Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the activities of the Treasury Management Function for the first 6 months of the 2022/23 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

Purpose of Report

This report requires a decision from the Committee.

This report makes the following recommendations to this Committee:

- That the position of the Treasury Management Strategy as at 30 September 2022 be noted;
- That no amendments to the current procedures are necessary as a result of the review of activities in 2022/23.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	16 January 2023

- **CROSS-CUTTING ISSUES AND IMPLICATIONS**

Issue	Implications	Sign-off
Impact on Corporate Priorities	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
Cross Cutting Objectives	The report recommendations support the achievements of all the cross-cutting objectives in the way stated above.	Head of Finance
Risk Management	Covered in the risk section of this report.	Head of Finance
Financial	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
Staffing	None	Head of Finance
Legal	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. 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. Appropriate remedial action should be taken if at any time it appears likely that expenditure will exceed available resources. The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that the set budget will be exceeded. Having received a S114 report, members are obliged to take all reasonable practical measures to bring the budget back into balance.	Interim Team Leader (Contentious and Corporate Governance)

Privacy and Data Protection	None	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer
Public Health	None	Public Health Officer
Crime and Disorder	None	Head of Finance
Procurement	None	Head of Finance and Section 151 Officer
Biodiversity and Climate Change	There are no direct implications on biodiversity and climate change.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's Treasury Management Strategy for 2022/23 was approved at Council on 23rd February 2022. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit, Governance and Standards Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

An economic update for the first half of the 2022/23 financial year;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

Economics Update

The second quarter of 2022/23 saw:

- Growth Domestic Product (GDP) revised upwards in Q1 2022/23 to +0.2% quarter on quarter from -0.1%, which means the UK economy has avoided recession for the time being;

- Signs of economic activity losing momentum as production fell due to rising energy prices;

- Consumer Price Inflation (CPI) increased to 9.9% year on year in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;

- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;

- Bank Rate rise by 100 basis points (bps) over the quarter, taking Bank Rate to 2.25% with further rises to come;

- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

The UK economy grew by 0.2% quarter on quarter in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% month on month) and construction output (-0.8% month on month) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

The fall in the composite Purchasing Managers Index (PMI) from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% quarter on quarter in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% month on month in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3month year on year rate of average earnings growth rose from 5.2% in June to 5.5%.

CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90per barrel, we would expect to see fuel prices fall further in the coming months.

However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

Nonetheless, the rise in services CPI inflation from 5.7% year on year in July to a 30-year high of 5.9% year on year in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation was expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

The Monetary Policy Committee (MPC) has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Federal Reserve Board and European Central Bank raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

After a shaky start to the year, the Standard & Poors 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

Interest Rates

- The Council's treasury advisor, Link Group, provided the following forecasts on 27th September 2022 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by this Council on 23rd February 2022 in accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness.

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

There are no policy changes required to the TMSS for 2022/23. The details in this report update the position of the treasury management function and the economic position.

Investment Portfolio

The council held investments totalling £38.75m at the start of the year which has reduced to £22.75m on 30th September 2022. Investment levels have reduced due to further repayments of grants to Central Government and Section 106 payments to the County Council during the quarter.

A full list of investments held at this time is shown in **Appendix A**. All investments are held in either short term notice accounts or money market funds, to be readily available to fund the Council's liabilities, including the capital programme.

Investment income to 30th September 2022 totals £150k against a budget of £50k with an average rate of 0.92%.

Increase in interest rates by the Bank of England has increased the returns received on the Council's short term investments. With the forecasted interest rate increase, this is set to continue.

Debt Portfolio

The Council's capital financing requirement (CFR) for 2022/23 is £94.093m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the Public Works Loans Board (PWLB) or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). In practice, owing to slippage in the capital programme, it is unlikely that borrowing on this scale will be required in practice.

The Council has long term borrowing currently external borrowing of £5m from other with the PWLB. It has also committed to £80m future borrowing with Aviva Life & Pensions UK Limited which will be spread as follows;

£40m - February 2024
£20m - February 2025
£20m - February 2026

The interest rate forecast in the table under Interest Rates above show the bank rate peaking at 5% in September 2023, then starting to fall from December 2023. With current rates increasing, the Council are not looking to lock in any further borrowing (with the exception of short term liquidity purposes), and to use the Council's reserves where possible to fund the capital programme.

A list of the Council's current portfolio can also be found in **Appendix A**.

Prudential and Treasury Indicators

It is a statutory duty for the Council to determine and keep under review 'Affordable Borrowing Limits.' During the first six months of financial year 2022/23, the Council has operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators can be found in **Appendix B**.

The Director of Finance & Business Improvement confirms no indicator has been breached in the first half of 2022/23.

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3. AVAILABLE OPTIONS

3.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2022/23.

3.2 The Audit, Governance and Standard Committee proposes changes to the current procedures as the result of a review of activities with the first 6 months of 2022/23.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2022/23 as there are no justifications to make any changes.

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5. RISK

5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2022/23 report. This report is purely for information purposes and has no risk management implications.

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 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.

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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 - Investments-Borrowing 30th September 2022
- Appendix B - Prudential and Treasury Indicators

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9. BACKGROUND PAPERS

9.1 None

Maidstone Borough Council Investments/Borrowing as at 30th September 2022

Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	MBC Credit Limits	
						Maximum Term	Maximum Deposit
Aberdeen Standard Liquidity Fund	Money Market Fund	2,220,000			2.10%		£10,000,000
Federated Hermes Short-Term Sterling Prime Fund	Money Market Fund	9,530,000			2.09%		£10,000,000
Goldman Sachs International Bank	Fixed Term Deposit	3,000,000	14/04/2022	14/10/2022	1.48%	6 Months	£5,000,000
Landesbank Hessen	Fixed Term Deposit	2,000,000	26/04/2022	26/10/2022	1.42%	6 Months	£5,000,000
National Bank of Kuwait London	Fixed Term Deposit	3,000,000	06/05/2022	07/11/2022	1.72%	6 Months	£5,000,000
Landesbank Hessen	Fixed Term Deposit	3,000,000	29/07/2022	30/01/2023	2.36%	6 Months	£5,000,000
Total		22,750,000					

Current Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Public Works Loans Board	Central Government	2,000,000	11/11/2021	11/11/2071	1.73%
Public Works Loans Board	Central Government	3,000,000	30/12/2021	30/12/2071	1.56%
Total		5,000,000			

Committed Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2024	13/02/2064	2.87%
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2024	13/02/2074	2.87%
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2025	13/02/2075	2.87%
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2026	13/02/2076	2.87%
Total		80,000,000			
Total Committed Borrowing		85,000,000			

Prudential and Treasury Indicators

Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

2021/22 Actual %	2022/23 Estimate %	2022/23 Actual %
-0.17	2.22	-0.80
2021/22 Actual £000	2022/23 Estimate £000	2022/23 Actual £000
-33.70	501.53	-186.00

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. A negative figure shows investment income is higher than borrowing costs. This indicator is shown as a percentage and as a monetary value of the net revenue budget. Expected borrowing was not fully utlised during 2021/22 and the same is forecasted for 2022/23, which is the reason there is a negative result.

Capital Expenditure

2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
26.431	34.530	9.059

This indicator shows the total capital expenditure against budget.

Capital Financing Requirement

2021/22 Actual £m	2022/23 Original Est £m	2022/23 Revised Est £m
66.202	94.093	88.048

The Capital Financing Requirement (CFR) measures a vital component of an authority's capital strategy: the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. This measures the Authority's underlying need to borrow for a capital purpose. Borrowing can be made external or using the Council's own resorces (internal borrowing). This includes the current year's capital expenditure.

Actual External Debt

2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
9.000	27.554	5.000

This indicator shows the Council level of gross debt as at 30th September 2022.

Treasury Indicators

Authorised Limit for External Debt

	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Borrowing	11.000	67.388	9.000
Other Long Term Liabilities	2.010	1.473	1.473
Total	13.010	68.861	10.473

This is the main limit which is set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. This includes the level of external borrowing and the financial liability in regards to the leisure centre.

Operational Limit for External Debt

	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Borrowing	11.000	57.388	9.000
Other Long Term Liabilities	2.010	1.473	1.473
Total	13.010	58.861	10.473

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis. This limit acts as a warning but can be breached temporarily.

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	**16th January 2023**

TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2023/24

Final Decision-Maker	Council
Lead Head of Service	Adrian Lovegrove – Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the draft Treasury Management Strategy and Capital Strategy for 2023/24 for consideration by the Audit, Governance & Standards Committee and recommendation to Council for adoption. The strategies are attached as Appendices A-B 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 2023/24 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 the Executive at its meeting on 25 January 2023.
2. That the Capital Strategy for 2023/24 attached as Appendix B to this report is agreed and recommended to Council for adoption.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	16th January 2023
Corporate Services Policy Advisory Committee	18th January 2023
Executive	25th January 2023
Council	22nd February 2023

TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2023/24

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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
Cross Cutting Objectives	The report recommendations support the achievements of the cross cutting objectives embedded within the Strategic Plan.	Head of Finance
Risk Management	Covered in Section 5 of this report.	Head of Finance
Financial	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
Staffing	None	Head of Finance
Legal	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
Privacy and Data Protection	None	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	None.	Head of Finance
Procurement	None.	Head of Finance

Biodiversity and Climate Change	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

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 and Capital Strategies assists the Council in achieving these objectives.

2.2 CIPFA have revised the Prudential Code in December 2021 and has stated that a formal adoption is required for the 2023/24 financial year. The attached Strategies comply with this 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 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.*
- *Further clarification on ESG within TMP1 Credit and Counterparty Risk Management.*
- *Increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority. Where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose.*
- *Additional reporting of the Treasury Management requirements of the Treasury and Prudential indicators to Members on a quarterly basis.*

2.3 CIPFA's 2017 edition of the Code ensured 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. The Council's Service Investments are deemed minimal and details of these can be found within the Capital Strategy.

2.4 The 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.

MTFS – covers governance, long term plans and financial resourcing

TM Strategy
- Governance
- Long term Planning incl. MRP
- Risk appetite, key risks and sensitivities

Capital Strategy incl. Investment Strategy
-Corporate Priorities
-Capital investment ambition
- Risk appetite

2.5 **Treasury Management Strategy Statement 2023/24**

2.5.1 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.

2.5.2 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.

2.5.3 The current 2022/23 Treasury Management Strategy (TMS) was reviewed by this Committee and agreed by Council in February 2022. 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;

- Keeping investments short term to meet demand of liabilities when due.

2.5.4 A mid-year monitoring report is also being considered by this Committee.

2.5.5 Essentially the Council is taking a similar stance with its Strategy for 2023/24. 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.

2.5.6 The Treasury Management Strategy for 2023/24 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) and has been developed in line with currently approved spending and financing proposals.

2.5.7 Current Treasury Management investments as at 31st December 2022 total £28.13m. A list of these can be found within **Appendix C**.

2.5.8 The Council has long term borrowings of £5m with the PWLB, details can also be found within **Appendix C**. At the beginning of 2022/23, the Council procured £80m of future long term borrowing due to forecasts of interest rates increasing throughout the year. The first tranche of £40m will be received in February 2024 with £20m arriving in the following two financial years. These have been locked in at an interest rate of 2.89% over 50 year terms (current 50 year PWLB rates are 4.66%).

2.5.9 The Council will be 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.

2.5.10A list of the counterparties the Council has on its lending list and the colour criteria can be found in **Appendix D**. 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 Capital Strategy

2.6.1 The Capital Strategy 2023/24 can be found in **Appendix B** 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.

2.6.2 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.

2.6.3 The strategy for 2023/24 is an update with the latest capital proposal plans for the Council subject to review.

2.6.4 The Executive will consider a capital programme for the period 2023/24 to 2027/28 at its meeting on 25 January 2023. 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.

2.6.5 The following table shows the expected borrowing required to fund the draft capital programme over the next 5 years. External funding consists of S106 contributions and grant funding where internal funding is through New Homes Bonus and internal borrowing.

Source of Funding	2022/23 £000	Estimate 2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
External Sources	1,500	2,470	2,832	1,500	1,500	1,500
Own resources (including Internal borrowing)	7,950	5,450	5,450	5,450	5,450	5,450
External Borrowing	23,181	31,597	41,428	40,694	28,036	23,686
Total	**32,631**	**39,517**	**49,710**	**47,644**	**34,986**	**30,636**

3. AVAILABLE OPTIONS

3.1 **Option 1:** The Committee could decide not to recommend the strategies to Council. The Council must adopt strategies for 2023/24 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.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The recommended option is Option 3, to recommend to Council the Treasury Management Strategy and the Capital Strategy for 2023/24.

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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

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 This report will be considered by the Executive on 25th January 2023 and adoption by Council on 22nd February 2023.

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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 2023/24.
- Appendix B: Capital Strategy 2023/24.
- Appendix C: Investment and Borrowing Position as at 31st December 2022.
- Appendix D: Counterparty List

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9. BACKGROUND PAPERS

9.1 None

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

INDEX

1.1 Background

The Treasury Management Strategy Statement 2023/24 complies with the 2021 revised CIPFA Treasury Management Code and Prudential Code, details of which can be found in Key Considerations at the end of this Strategy Statement.

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the 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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
   - the capital plans, (including prudential indicators)
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Full Council. Under current constitutional arrangements this role would be undertaken by the Audit Governance and Standards Committee.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Executive Committee as part of the quarterly Budget Monitoring. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Authority
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

Training on the Treasury management and Capital Strategies was undertaken by Members on 17th January 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Finance. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Head of Finance.

1.5 Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2025/26

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
32.631	39.517	49.710	47.644	34.986	30.636

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Capital grants	1.500	2.470	2.832	1.500	1.500	1.500
Capital reserves	3.500	0.000	0.000	0.000	0.000	0.000
Revenue	4.450	5.450	5.450	5.450	5.450	5.450
Net financing need for the year	**23.181**	**31.597**	**41.428**	**40.694**	**28.036**	**23.686**

2.2 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £1.473m of such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

£m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement						
Total CFR	88.048	119.335	159.113	197.423	222.558	242.970
Movement in CFR	**22.316**	**30.346**	**38.528**	**37.061**	**23.885**	**19.162**

Movement in CFR represented by						
Net financing need for the year	23.181	31.597	41.428	40.694	28.036	23.686
Less MRP/VRP and other financing movements	-0.865	-1.251	-2.900	-3.634	-4.151	-4.524
Movement in CFR	**22.316**	**30.346**	**38.528**	**37.061**	**23.885**	**19.162**

2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum however, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority.

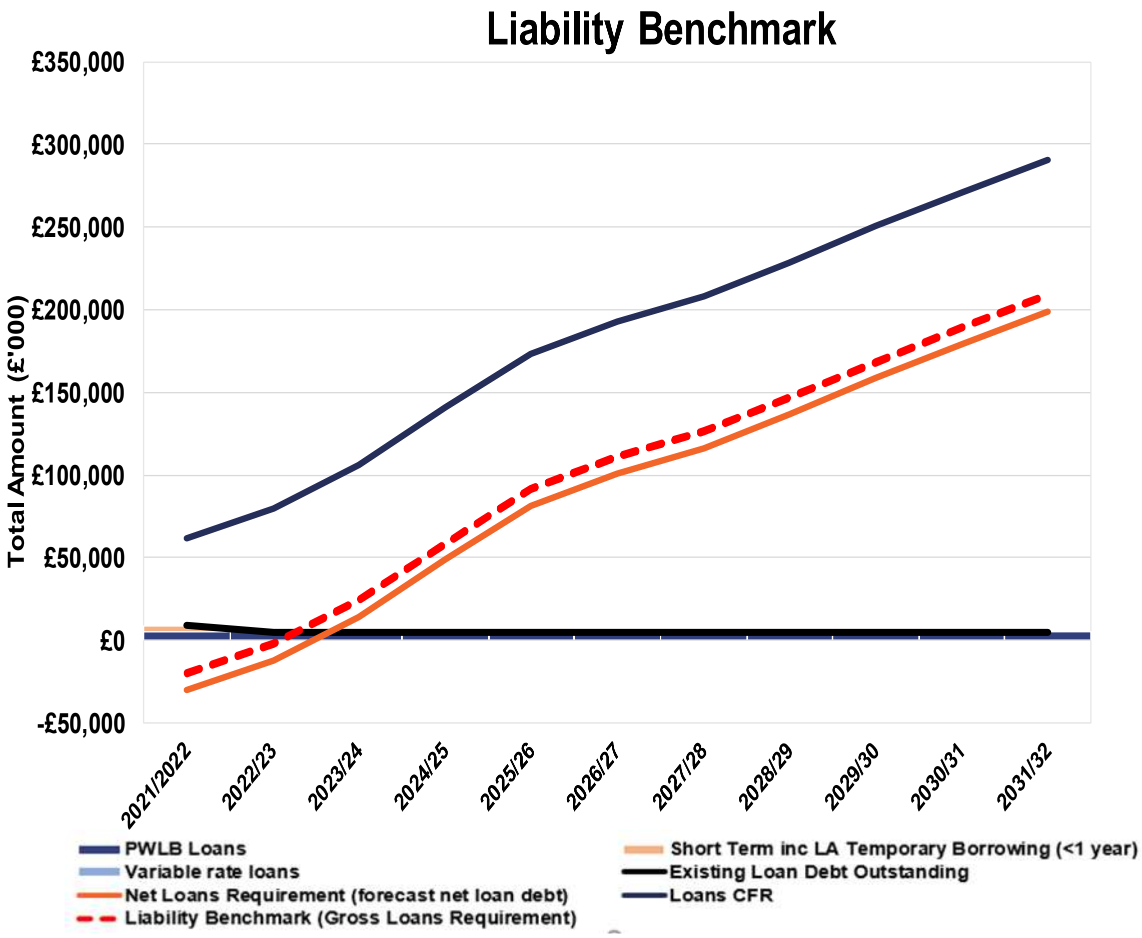
There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years. At the end of 2021/22, the Council had £9m of external borrowing (£4m short term LA borrowing and £5m 50 year PWLB. The Council repaid £4m LA borrowing in 2022/23 which leaves the £5m PWLB loans.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



Net Investment balance from 2021/22 was £19.75m. As the Capital Programme ramps up , the borrowing increases to net loans of of £161m over a 10 year period. This balance is expected to stay below the Loans CFR over this period.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

2.4 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

The Authority is recommended to approve the following MRP Statement

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets;

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to date are £0m.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31.3.22 and for the position as at 31.12.22 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual **31.3.22**	actual **31.3.22**	current **31.12.22**	current **31.12.22**
Treasury investments	£000	%	£000	%
Banks	26,000	67%	11,370	40%
Building societies - unrated	0	0%		0%
Building societies - rated	3,000	8%		0%
Local authorities	0	0%		0%
DMADF (H.M.Treasury)	0	0%		0%
Money Market Funds	9,750	25%	16,760	60%
Certificates of Deposit	0	0%		0%
Total managed in house	**38,750**	**100%**	**28,130**	**100%**
Bond Funds	0	0%		0%
Property Funds	0	0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**38,750**	**100%**	**28,130**	**100%**
Treasury external borrowing				
Local Authorities	4,000	44%		0%
PWLB	5,000	56%	5,000	100%
LOBOs	0	0%		0%
Total external borrowing	**9,000**	**100%**	**5,000**	**100%**
Net treasury investments / (borrowing)	**29,750**	**0**	**23,130**	**0**

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt						
Debt at 1 April	9.000	33.086	60.992	102.420	143.114	166.800
Expected change in Debt	23.181	27.597	41.428	40.694	23.686	28.860
Other long-term liabilities (OLTL)	1.473	0.905	0.309	0.000	0.000	0.000
Expected change in OLTL	-0.568	-0.596	-0.309	0.000	0.000	0.000
Actual gross debt at 31 March	**33.086**	**60.992**	**102.420**	**143.114**	**166.800**	**195.660**
The Capital Financing Requirement	**88.048**	**119.335**	**159.113**	**197.423**	**222.558**	**242.970**
Under / (over) borrowing	**54.962**	**58.343**	**56.693**	**54.309**	**55.758**	**47.311**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance, Resources and Business Improvement reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Ext Borrowing	37.181	68.778	110.206	150.900	178.936	202.622
Other LT Liab	1.473	0.905	0.309	0.000	0.000	0.000
Total	38.654	69.683	110.515	150.900	178.936	202.622

The Authorised Limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

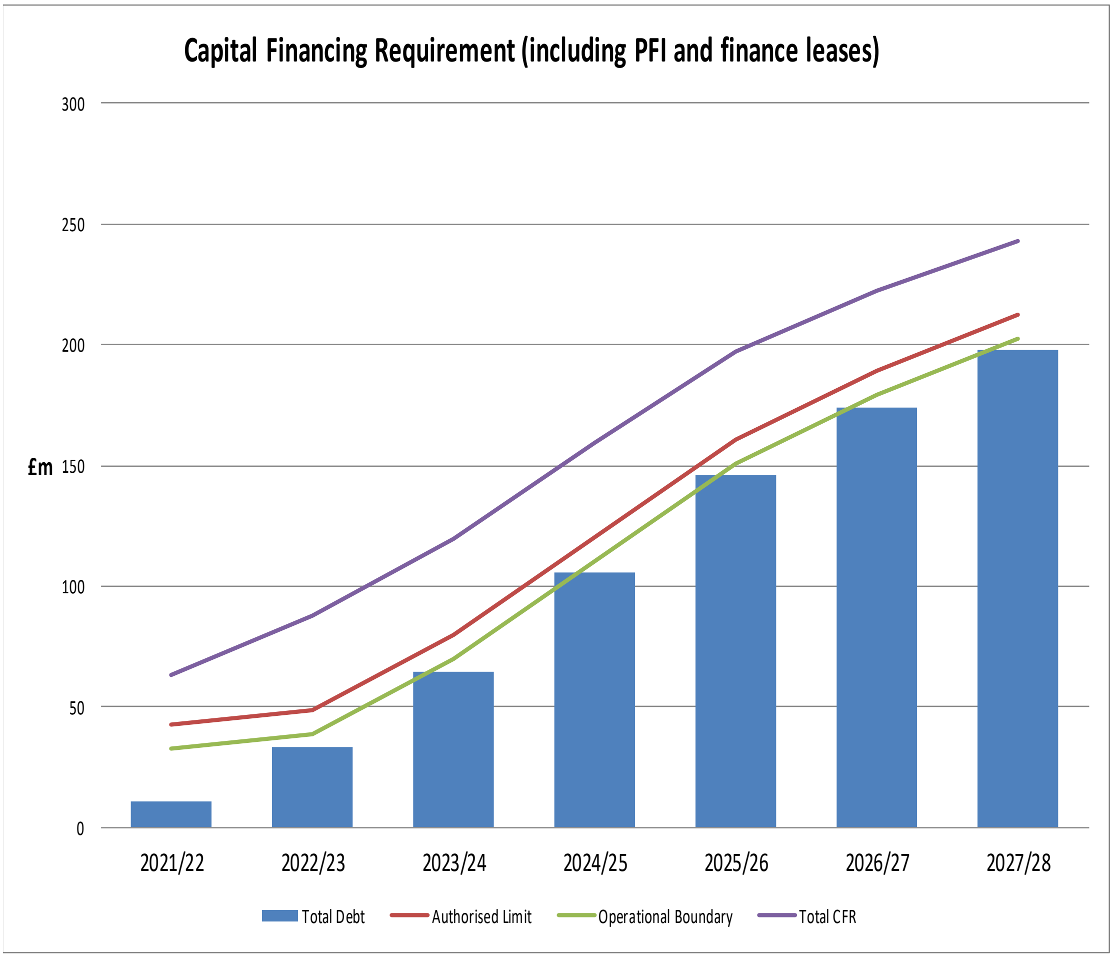
- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**
Ext Borrowing	47.181	78.778	120.206	160.900	188.936	212.622
Other LT Liab	1.473	0.905	0.309	0.000	0.000	0.000
Total	48.654	79.683	120.515	160.900	188.936	212.622

The graph below forecasts the Council's debt profile, Operational Boundary and Authorised Limit remains below its CFR.

PRUDENTIAL INDICATORS GRAPH

CAPITAL FINANCING REQUIREMENT including PFI and finance leases							
	Act 2021/22 £m	Est 2022/23 £m	Est 2023/24 £m	Est 2024/25 £m	Est 2025/26 £m	Est 2026/27 £m	Est 2027/28 £m
GF CFR	63.0	88.0	119.3	159.1	197.4	222.6	243.0
Total CFR	**63.0**	**88.0**	**119.3**	**159.1**	**197.4**	**222.6**	**243.0**
External Borrowing	9.0	32.2	63.8	105.2	145.9	173.9	197.6
Other long term liabilities	2.0	1.5	0.9	0.3	0.0	0.0	0.0
Total Debt	**11.0**	**33.7**	**64.7**	**105.5**	**145.9**	**173.9**	**197.6**
Authorised Limit	42.6	48.7	79.7	120.5	160.9	188.9	212.6
Operational Boundary	32.6	38.7	69.7	110.5	150.9	178.9	202.6



3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08.11.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance, Resources & Business Improvement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Audit, Governance & Standards Committee at the next available opportunity.

3.5 Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Audit, Governance & Standards Committee, at the earliest meeting following its action.

3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills		●
	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Authority's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 25%.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This Authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local

authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

Creditworthiness Policy
This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money Limit	Transaction limit	Time Limit
Banks *	**yellow**	**£8m**	**£8m**	**5yrs**
Banks	**purple**	**£7m**	**£7m**	**2 yrs**
Banks	**orange**	**£5m**	**£5m**	**1 yr**
Banks – part nationalised	**blue**	**£5m**	**£5m**	**1 yr**
Banks	**red**	**£5m**	**£5m**	**6 mths**
Banks	**green**	**£3m**	**£3m**	**100 days**
Banks	**No colour**	**Not to be used**	**£0m**	
Other institutions limit	**-**	**£3m**	**£3m**	**5yrs**

DMADF	**UK sovereign rating**	**unlimited**	**£5m**	**6 months**
Local authorities	**n/a**	**£8m**	**£8m**	**5yrs**
Housing associations	**Colour bands**	**£8m**	**£8m**	**As per colour band**
	Fund rating**	**Money Limit**	**Transaction limit**	**Time Limit**
Money Market Funds CNAV	**AAA**	**£10m**	**£10m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£10m**	**£10m**	**liquid**
Money Market Funds VNAV	**AAA**	**£10m**	**£10m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£8m**	**£8m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**£8m**	**£8m**	**liquid**

* Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see appendix 5.4.
** Please note: "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.

Creditworthiness.
Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they

have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

Limits
Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

a. **Non-specified treasury management investment limit.** The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 20% of the total treasury management investment portfolio.

b. **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits. In addition: -

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies/institutions;
- sector limits will be monitored regularly for appropriateness.

4.2 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations.
The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Against this view the Treasury officers expect the Council's average returns to be around the 3 month SONIA rate as investments will be short term to meet liabilities of the Capital Programme.

For its cash flow generated balances, the Authority will seek to utilise its call and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Changes of investment strategy

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit: -

Upper limit for principal sums invested for longer than 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£2m	£2m	£2m
Current investments as at 31/12/2022 in excess of 1 year maturing in each year	0	0	0

4.3 Investment Performance / Risk Benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month SONIA.

4.4 End of Year Investment Report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

4.5 External Fund Managers

£16.76m of the Council's funds is externally managed within Money Market Funds with following institutions:

- Goldman Sachs Asset Management International
- Aberdeen Standard Investments
- Federated Investors (UK) LLP
- CCLA – The Public Sector Deposit Fund

The Authority's external fund managers will comply with the Annual Investment Strategy. The agreements between the Authority and the fund managers additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager.

5 APPENDICES

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital Expenditure

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
32.631	39.517	49.710	47.644	34.986	30.636

5.1.2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators: -

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Interest Paid £000	1,079	2,374	3,907	5,209	5,896	6,488
Interest Paid (Aviva) £000	0	0	1,146	1,707	2,268	2,243
Interest Received £000	-320	-350	-320	-300	-280	-250
Net Revenue Exp £000	23,232	24,373	25,810	26,518	27,245	27,993
%	**3.27**	**8.31**	**18.34**	**24.95**	**28.94**	**30.30**

The estimates of financing costs include current commitments and the proposals in this budget report.

5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits: -

Maturity structure of fixed interest rate borrowing 2023/24

	Upper Limit %	Lower Limit %
Under 12 months	50	0
5 years to under 10 years	100	0
10 years and within 20 years	100	0
20 years and within 30 years	100	0
30 years and within 40 years	100	0
40 years and within 50 years	100	0

5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2022-2025

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

5.3 ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

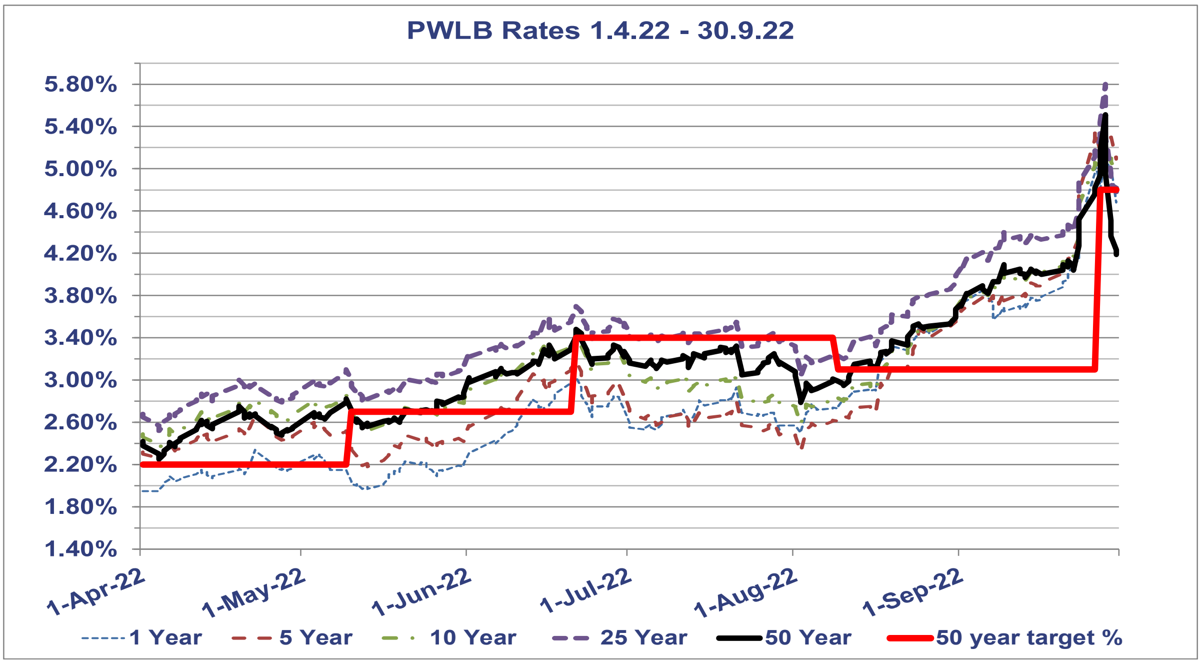
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 20% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**£ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	£8m	6 months (max. is set by the DMO*)
UK Government gilts	yellow	£8m	5 years
UK Government Treasury bills	yellow	£8m	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£8m	5 years
Money Market Funds CNAV	AAA	£10m	Liquid
Money Market Funds LNVAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£8m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£8m	Liquid

Local authorities	yellow	£5m	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£8m	

* DMO – is the Debt Management Office of HM Treasury

Use of external fund managers – It is the Authority's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Authority's investment strategy.

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager. This includes:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTMENTS: These are investments with institutions that score highly on environmental and societal responsibility scales as determined by third party, independent. This is an area which has been fastest growing in financial markets, even though

The ESG market is still in its infancy and there are still limited deals that meet the key criteria for borrowing and investing and therefore Security, Liquidity and Yield will remain the fundamentals of the strategy. We hope as the market develops, there will be more options and therefore we can adapt our criteria to support ESG during 2023/24.

5.5 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

THIS LIST IS AS AT 2.12.22

5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit Governance & Standards Committee/ Executive Committee / Full Council

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Governance & Standards Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe *(say 20+ years – to be determined in accordance with local priorities.)*
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following : -
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Key Considerations

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The revised Treasury Management Code will require an authority to implement the following: -

1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are: -

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include: -

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

MAIDSTONE BOROUGH COUNCIL
CAPITAL STRATEGY 2023/24

CONTENTS

1. INTRODUCTION

1.1. CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, requires councils to have a Capital Strategy. This document should provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.

1.2. Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium-Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.

1.3. The strategy focuses upon the long-term ambition of the Council for its local area, residents and business, and is aligned with the Strategic Plan in this regard. It is not purely a financial document but a whole organisation approach setting out how investment will support the delivery of the Council's strategic goals.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

2.1. Capital expenditure at Maidstone Borough Council plays a vital part in the Council's Strategic Plan, since long term investment is required to deliver many of the objectives of the plan.

2.2. The current Strategic Plan went through a thorough process of discussion and refinement over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four objectives, as follows:

- Embracing Growth and Enabling Infrastructure.
- Homes and Communities.
- A Thriving Place.
- Safe, Clean and Green.

The ways in which capital expenditure can support these priorities are described below.

Embracing Growth and Enabling Infrastructure

The Council has a vital role in leading and shaping our borough as it grows. This means being proactive in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

Separate objectives, set out below, address specifically the development of new housing, and other investments intended to make Maidstone a thriving place. In order to enable these developments to take place, investment in infrastructure will be needed. In general, infrastructure schemes are funded from the benefits gained from the development. To address any potential funding gap, the Council will enable infrastructure spending, to the extent that it meets our strategic priorities.

Accordingly, £5 million has been set aside within the current capital programme to contribute towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding.

The Property Services section carries out a 5-year cycle of condition surveys of Council property which provide a costed programme of essential replacement or refurbishment of building elements to ensure the proper, compliant and efficient operation of the buildings in accordance with the Asset Management Plan. There is no financial return from the projects, but they do eliminate the accumulation of a backlog of maintenance, reduce the risk of failure and interruption of service and the cost of reactive maintenance. £1.75m is set aside for this project.

£1.5m has been set aside to allow further investment in Maidstone House to make it an attractive place to work for staff and tenants, to protect existing rental income streams and to encourage prospective new tenants.

The emerging Town Centre strategy action plan will present short-, medium- and long-term projects for improvements in the Town Centre, as part of a wider package of town centre projects. The capital programme includes an indicative sum of £5.5m to assist with delivery of these projects

Home and Communities

The Strategic Plan seeks to make Maidstone a place where people love to live and can afford to live. This means a range of different types of homes, including affordable housing.

We aim, and are required by law, to address homelessness and rough sleeping. The Council has invested in temporary accommodation for homeless families, thereby ensuring a good standard of accommodation and providing a more cost-effective solution than is offered by the private sector.

The Leader of the Council announced his ambition to build 1,000 affordable homes in the shortest period possible. A development strategy setting out how this ambition can best be achieved was agreed by Policy & Resources Committee on 19th January 2022. It is likely that the whole programme will take ten years. The programme is likely to provide only Affordable Rented homes that will be let at 80% of market rent, capped at the Local Housing Allowance. The scheme has managed to secure a grant from the likes of Homes England of £58.6m and is estimated to cost £236.8m over this period. Expenditure in the initial years of the programme will be relatively modest as the focus will be upon land identification and acquisition, and the more costly works contracts will follow in the later years.

Private Rented Sector Housing Programme incorporates a number of schemes that are in the process of being developed. These will be the subject of separate committee reports at the point a decision to proceed or not is required. This budget includes the refurbishment works being undertaken at Granada House. Total cost of scheme is £48.2m.

The Council has a Temporary Accommodation programme to acquire housing on the open market for temporary accommodation, as it is more cost-effective to use our own property for this purpose and enables delivery of a revenue saving. It is proposed to buy further units in over the next three years to deal with the rising numbers of people who are being made homeless as a result of the current economic crisis. Cost of the project is £32m.

The Council also works with Kent County Council Social Services to deliver adaptations and facilities to enable disabled people to remain at home. This work forms part of the capital programme, although it is funded directly by central government grant. £8m has been provided in the capital programme for Disabled Facilities Grants.

A Thriving Place

The Strategic Plan seeks to make Maidstone a borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. This can be achieved through investment in the County town and rural service centres.

There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property within the borough to support wider regeneration objectives. These acquisitions both generate a return that supports the viability of the investment and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities which deliver value and support our strategic goals.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying joint venture partners. The amount available for direct investment by Maidstone Council is governed by the overall size of the capital programme, but we will adopt a flexible approach within this constraint in order to take advantage of investment opportunities that meet our criteria.

£2.75m is set aside for investment within the Lockmeadow Leisure Complex due to the current economic environment, further investment in the site will be needed to encourage both existing tenants to continue to operate and to also attract new ones in the future, as well as continuing to make it an attractive place to visit. This will help protect existing rental income streams and possibly increase them in due course.

Leisure Provision budget of £12m is in the Capital Programme to be used for the ongoing repairs and maintenance to Maidstone Leisure Centre.

The Fleet Replacement Programme has a budget of £3m set aside to replace vehicle located at the depot. Funding comes from capital receipts, including the sale of older vehicles when they reach the end of their useful life.

Safe, Clean and Green

The Council seeks to protect and where possible enhance our environment and to make sure our parks, green spaces, streets and public areas are of a high quality.

Mote Park Dam works have been ongoing for a couple of years to help prevent flooding to the park. There is a sum set aside of £20k for the completion of these works.

The Mote Park Kiosk has been closed for some time now, and works are required to enlarge it and the adjacent toilets to bring it up to standard and reopen it. Sums set aside for this project are £200k.

The Council works with the Environment Agency and Kent County Council as part of the Medway Flood Partnership to develop measures to manage and reduce flood risk. A capital budget of £1 million was set aside for a flood action plan following the last major floods in the Maidstone area in winter 2013/14. No large scale flood mitigation scheme was found to be feasible and individual household flood mitigation measures have been funded through central government grants. The residual budget of £550k is therefore being carried forward to fund further schemes that may be developed, including natural flood management schemes.

Play Areas and Parks Improvements have a budget of £610k to enable upgrades to play equipment and to allow for any works to be undertaken, particularly where there is a health & safety issue. There also Section 106 funded works for open spaces of £2m within the programme.

As part of the new waste collection contract the Council is planning to fund the capital costs of the new vehicle fleet, as it can access cheaper borrowing at lower rates than the contractor, and this will significantly reduce the costs of the contract. The budget sum of £5.8m in 2023/24 includes a contingency for potential material and labour cost increases during the manufacturing process. The capital cost of the fleet was included within the evaluation process to ensure value for money is achieved

A full list of the Council’s Capital Programme can be found within Table 1 on page 14.

Medium-Term Financial Strategy

2.3. The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council adopted a Strategic Plan for the period 2021 - 2045 in December 2018. The Strategic Plan has been refreshed in light of the Covid-19 pandemic. The overall strategic priorities remain the same, but specific areas of focus for the next five years have been agreed. So far as recovery from Covid-19 is concerned, the Council’s approach will be based around four themes: economic recovery, supporting resilience for communities and vulnerable people, adapting the way we work, and financial recovery.

2.4. The overall context for the MTFS is to consider the economic environment and the Council's own current financial position. The external environment is challenging because of an impending economic recession, high inflation and the state of the UK's public finances. The state of the international economy, with tensions between the superpowers, high energy prices and the continuing war in Ukraine, only serves to exacerbate these challenges. The Council is increasingly dependent on locally generated resources, whether from Council Tax or a range of other income streams, including parking income, planning fees and the Council's property portfolio. COVID-19 has led to a massive increase in public expenditure and has had an impact on income streams. Even though there has been some recovery, with some areas recovering more quickly than others. In assessing the Council's current financial position attention therefore needs to be paid to its resilience, including the level of reserves that it holds The MTFS supports the Council's need to become financially self-sufficient.

2.5. In drawing up the capital programme, there is therefore a focus on schemes that both meet strategic priorities and are self-funding. Specifically:

Property investment will build on the Council's existing property portfolio and assumes that we will continue to expand the portfolio, where appropriate, subject to identifying viable opportunities which support regeneration and economic development, as outlined within the Economic Development Strategy and the Local Plan.

- the Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves and supports the commitment to deliver 1000 affordable homes. Thereby addressing the need for new affordable homes in the borough as well as generating long term revenue returns through developing homes for market rent.

2.6. Below is a table of the latest draft capital programme which is due to be Discussed at Corporate Services Policy Advisory Committee on 18th January 2023.

The draft MTFS was considered by the Executive on 23rd November 2022.

Treasury Management Strategy

2.7. The Treasury Management Strategy sets out how the Council manages its investments and cash flows, including banking, money market and capital market transactions, and how optimum performance is assured whilst managing the risks associated with these activities.

2.8. These specific aspects of the Treasury Management Strategy addresses the Council's capital expenditure plans and how borrowing needs are met. Capital expenditure is funded from the internal resources, borrowing and third party contributions such as Section 106 and Community Infrastructure Levy (CIL) payments on new developments. The Council allocates some internal resources to fund capital expenditure, including revenue funding and internal borrowing, along with external funding via grant funding and borrowing externally. Long term borrowing costs have been budgeted for within the MTFS, although borrowing was initially short term in nature, for liquidity purposes. The Council currently has long-term loans with the PWLB, and whilst rates were starting to rise, it procured some forward funding to assist with the capital programme. Details of this borrowing can be found in 4.5 of this report.

2.9. The Prudential Code 2021 requires that Authorities include a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which (in nearly all authorities) reduce the level of actual debt required. This can be found within the Treasury Management Strategy Statement (TMSS) 2023/24.

Asset Management Plan

2.10. The longer term maintenance of the Council's capital assets is addressed by the Council's Asset Management Plan. The Asset Management Plan ensures that the Council's assets, as a resource, support the delivery of the Council's objectives by:-

- Providing a suitable standard of accommodation for services including those shared with other authorities
- Maintaining property assets and ensuring that they continue to represent an appropriate investment for the Council
- Providing an asset management service to the property holding company
- Meeting the needs of the local community by maintaining assets in parks and open spaces and other community assets
- Safeguarding local heritage through ownership and preservation of historic
  and scheduled ancient monuments.

The current capital programme includes a provision of £1.2 million for Corporate Property Improvements and improvements and £880k for works to industrial properties. There is also a provision of £2.75m for works to the offices of Maidstone House, based on the requirements of the Asset Management Plan.

The Asset Management Strategy is currently under review.

3. GOVERNANCE FRAMEWORK

Background

3.1. Capital expenditure proposals are developed in response to the Council's strategic priorities, as described in the previous section. Individual schemes are incorporated in the capital programme, which is included within the Council's Medium Term Financial Strategy.

3.2. The MTFS states that capital schemes will be reviewed and developed so that investment is focused on strategic priorities. The MTFS is updated on an annual basis, as part of the annual budget cycle.

3.3. Subsequent to preparation of the MTFS and its approval by Council each year, capital estimates form part of the annual budget that is submitted to Council for approval.

Developing capital expenditure proposals

3.4. The development of capital expenditure proposals follows certain core principles for the inclusion of schemes within the capital programme. Schemes may be included in the capital programme if they fall within one of the four following categories:

(i) Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;
(ii) Self-funding schemes focused on Strategic Plan priority outcomes;
(iii) Other schemes focused on Strategic Plan priority outcomes; and
(iv) Other priority schemes which will attract significant external funding.

3.5. All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:

(a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant service committee.
(b) Where schemes require the use of prudential borrowing, a business case must first be prepared setting out the viability and justification in terms of necessity or contribution to the delivery of strategic goals
(c) Where schemes might improve the Environmental, Social and Governance (ESG) issues that are important to the Council. Some examples would be:
    - Promoting greater environmental sustainability
    - Local Community benefits
    - Ethical sourcing practices

3.6. Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, they may still be included within the programme if they fall within one of the four categories set out above.

3.7. If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme, a prioritised list of schemes that can be added to the programme as future resources permit will be created and approved by the relevant Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

3.8. The MTFS requires the Council to identify actual funding before commencement of schemes. Accordingly, while schemes may be prioritised for the programme, ultimately commencement of any individual scheme can only occur once all the necessary resources have been identified and secured.

3.9. The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:

(a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;
(b) Opportunities to obtain receipts from asset sales as identified in the Asset Management Plan and approved for sale by Policy and Resources Committee;
(c) The approval of prudential borrowing when the following criteria also apply to the schemes funded by this method:

   i. financial viability of the schemes can be clearly evidenced;
   ii. the outcome returns economic value commensurate to the cost incurred by borrowing to fund the schemes;
   iii. after covering the cost of funding, a further benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.

(d) The use of residual one-off funding such as New Homes Bonus for capital purposes (after any topslice to support the revenue budget), in line with the Council's strategic plan priorities;
(e) Council's strategic plan priorities'. This is because NHB is now partially replaced by the Funding Guarantee, so we need to make the wording more generic ;
(f) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

3.10. Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals with reference to corporate priorities set out in the strategic plan. Corporate Service Policy

Advisory Committee recommends the capital programme which is then presented to Council in March each year.

3.11. Prior to any capital commitment being entered into, a detailed report setting out a full project appraisal and detailed financial projections is considered by the relevant service committee.

3.12. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). Further details are set out in section 4 of the Capital Strategy.

Performance Monitoring

3.13. The Council has a corporate project management framework that applies to most of the projects included within the capital programme. This provides for designation of a project manager and sponsor, and includes a mechanism for progress on corporate projects to be reported quarterly to a Corporate Projects Board.

3.14. The delivery of the capital programme and emerging schemes are also subject to oversight by the Strategic Investment Board, which meets regularly throughout the year. Membership of the board includes the Chief Executive (Chair), Director of Finance, Resources and Business Improvement, Director of Regeneration and Place, Monitoring Officer and Head of Finance.

3.15. Financial monitoring of capital projects is addressed by the Council's Financial Procedure Rules. Individual Member Service Committees receive quarterly reports on capital expenditure for the services for which they are responsible.

Capitalisation

3.16. Accounting principles govern what counts as capital expenditure. Broadly, it must yield benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which are charged directly to service revenue accounts.

3.17. The Council has adopted a minimum threshold of £10,000 for capitalisation.

Asset Disposals

3.18. The Council's policy for asset disposals is set out in a policy adopted by Policy and Resources Committee at its meeting on 25th July 2017.

3.19. The policy distinguishes between the following categories.

- Operational Property held and used by the Council for the direct delivery of services for which it has either a statutory or discretionary responsibility. Assets may be disposed of if they have reached the end of their economic or useful life.

- Investment Property held by the Council for revenue generation purposes, which should be assessed by its potential for improved rates of return by either better asset management, or disposal and re-investment of the receipt.

- Community assets such as open space. The Council will not usually dispose of areas of parks or other areas which are classed as public open space.

3.20. Certain schemes within the capital programme are partially funded through sale of some of the completed asset(s) to partner organisations. In this case, the capital scheme value is shown net of these receipts in the capital programme, as the receipt is ringfenced for this purpose.

4. FINANCING THE CAPITAL PROGRAMME

4.1. Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, however there are various borrowing options within the commercial sector which is open to the Authority. All capital expenditure must be financed, either from external sources (government grants, including New Homes Bonus, and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and other long-term liabilities). The planned Capital Programme 2023/24 to 2032/33 is set out in Table 1 below along with the planned funding for the programme in Table 2.

Table 1: Capital Programme 2023/24 to 2032/33

	Revised Estimate 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total (5 years) £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	Total (10 years) £000
Private Rented Sector Housing	2,273	3,090	6,765	6,832	9,578	6,861	**33,125**	6,046	6,046	2,015	970		**48,204**
1,000 Homes Affordable Housing Programme - Expenditure	7,600	6,123	20,080	22,825	25,487	22,442	**96,958**	27,890	27,239	31,040	30,609	23,094	**236,831**
Temporary Accommodation	4,330	12,000	12,000	8,000			**32,000**						**32,000**
Commercial Development - Maidstone East	200	156	623	623	468	100	**1,970**						**1,970**
Heather House Community Centre	150	319	701	351	75		**1,446**						**1,446**
Market Sale Housing Programme - Heather House & Pavilion Building													
Housing - Disabled Facilities Grants Funding	1,640	800	800	800	800	800	**4,000**	800	800	800	800	800	**8,000**
Springfield Mill - Phase 2	731												
Affordable Housing Programme - Trinity Place	500												
Acquisitions Officer - Social Housing Delivery P/ship	160	200					**200**						**200**
Street Scene Investment	70	50	50	50	50	50	**250**	50	50	50	50	50	**500**
Flood Action Plan	430	200	200	150			**550**						**550**
Electric Operational Vehicles	84												
Vehicle Telematics & Camera Systems	22												
Rent & Housing Management IT System	11												
Installation of Public Water Fountains	15												
Crematorium & Cemetery Development Plan	250												
Continued Improvements to Play Areas	126	50	50	60	60	60	**280**	60	60	60	60	60	**580**
Parks Improvements	152	50	60	70	70	80	**330**	80	80	80	80	80	**730**
Gypsy & Traveller Sites Refurbishment	1,421	600					**600**						**600**
Waste Crime Team - Additional Resources	25												
Section 106 funded works - Open Spaces	400	400	400	400	400	400	**2,000**	400	400	400	400	400	**4,000**
Expansion of Cemetery **(New scheme)**		80	120				**200**						**200**
Expansion of Crematorium **(New scheme)**		340					**340**						**340**
Purchase of New Waste Collection Vehicles **(New scheme)**		5,800					**5,800**			6,380			**12,180**
Communities, Housing & Environment Total	**20,589**	**24,468**	**38,730**	**38,871**	**28,737**	**24,733**	**155,539**	**29,057**	**29,935**	**29,366**	**29,519**	**16,294**	**289,710**
Mote Park Visitor Centre	1,307												
Mote Park Lake - Dam Works	486	20					**20**						**20**
Museum Development Plan		389					**389**						**389**
Leisure Provision	100	3,000	1,000	1,000	1,000	1,000	**7,000**	1,000	1,000	1,000	1,000	1,000	**12,000**
Tennis Courts Upgrade	20	20					**20**						**20**
Riverside Walk Works		250					**250**						**250**
Mote Park Kiosk Refurbishment & Extension **(New scheme)**	50	200					**200**						**200**
Town Centre Strategy **(New scheme)**		450	2,700	2,350			**5,500**						**5,500**
Economic Regeneration & Leisure Total	**1,963**	**4,329**	**3,700**	**3,350**	**1,000**	**1,000**	**13,379**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**18,379**

Asset Management / Corporate Property	1,261	875	175	175	175	175	**1,575**	175	175	175	175	175	**2,450**
Corporate Property Acquisitions	3,181	2,500	2,500	2,500	2,500	2,500	**12,500**	2,500	2,500	2,500	2,500	2,500	**25,000**
Kent Medical Campus - Innovation Centre	341		250				**250**						**250**
Lockmeadow Ongoing Investment	203	500	250	250	250	250	**1,500**	250	250	250	250	250	**2,750**
Garden Community	1,100	733	200	200	200	200	**1,533**						**1,533**
Infrastructure Delivery	1,000	1,000	1,000	1,000	1,000	1,000	**5,000**	1,000	1,000	1,000	1,000	1,000	**10,000**
Other Property Works	100	500	380				**880**						**880**
Biodiversity & Climate Change	250	2,788	1,540	500	500		**5,328**						**5,328**
Photovoltaic Panels		234					**234**						**234**
Feasibility Studies	122	50	50	50	50	50	**250**	50	50	50	50	50	**500**
Digital Projects	25	28	28	28	28	28	**140**	28	28	28	28	28	**280**
Software / PC Replacement	336	200	200	200	200	200	**1,000**	200	200	200	200	200	**2,000**
Maidstone House Works	1,000	500	250	250	250	250	**1,500**	250	250	250	250	250	**2,750**
Automation Projects	200												
New Ways of Working - Make the Office Fit for Purpose	40												
Fleet Vehicle Replacement Programme	900	456	457	270	96	250	**1,529**	300	300	300	300	300	**3,029**
Election Polling Booths **(New scheme)**	20												
Automation of Transactional Services **(New scheme)**		150					**150**						**150**
Corporate Services Total	**10,079**	**10,514**	**7,280**	**5,423**	**5,249**	**4,903**	**33,369**	**4,753**	**4,753**	**4,753**	**4,753**	**4,753**	**57,134**
Bridges Gyratory Scheme		206					**206**						**206**
Total		**206**					**206**						**206**
TOTAL	**32,631**	**39,517**	**49,710**	**47,644**	**34,986**	**30,636**	**202,493**	**34,810**	**35,688**	**35,119**	**35,272**	**22,047**	**365,429**

Table 2: Capital Financing

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	Total 23/24 to 32/33 £000
External sources	1,500	2,470	2,832	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,802
Own resources - incl Internal borrowing	7,950	5,450	5,450	5,450	5,450	5,450	4,450	4,450	4,450	4,450	4,450	49,500
External Borrowing	23,181	31,597	41,428	40,694	28,036	23,686	28,860	29,738	29,169	29,322	16,097	298,627
TOTAL	**32,631**	**39,517**	**49,710**	**47,644**	**34,986**	**30,636**	**34,810**	**35,688**	**35,119**	**35,272**	**22,047**	**365,429**

4.2. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out below; no assumptions have been made here about capital receipts.

Table 3: Replacement of debt finance

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000	Total £000
MRP	865	1,251	2,900	3,634	4,151	4,524	4,808	5,068	5,327	6,225	6,484	45,237
Capital receipts	1,400	300	300	300	300	300	300	300	300	300	300	4,400
TOTAL	**2,265**	**1,551**	**3,200**	**3,934**	**4,451**	**4,824**	**5,108**	**5,368**	**5,627**	**6,525**	**6,784**	**49,637**

4.3. The Council's full minimum revenue provision statement is included within the Treasury Management Strategy.

4.4. The cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £240m over the next 10 years. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing

	22/23 £000	23/24 £000	24/25 £000	25/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000	2032/33 £000
Brought forward	62,987	88,048	119,335	159,113	197,423	222,558	242,970	268,272	294,193	319,284	343,631
Capital Expenditure	32,631	39,517	49,710	47,644	34,986	30,636	34,810	35,688	35,119	35,272	22,047
External funding	-1,500	-2,470	-2,832	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500	-1,500
Own resources	-4,300	-4,200	-4,200	-4,200	-4,200	-4,200	-3,200	-3,200	-3,200	-3,200	-3,200
MRP	-865	-1,251	-2,900	-3,634	-4,151	-4,524	-4,808	-5,068	-5,327	-6,225	-6,484
TOTAL CFR	**88,953**	**119,644**	**159,113**	**197,423**	**222,558**	**242,970**	**268,272**	**294,193**	**319,284**	**343,631**	**354,494**

Borrowing Strategy

4.5. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. Due to increasing interest rates, the Council secured £80m of long term borrowing through Aviva Life & Pensions UK Limited to fund the increasing capital programme at a cost of 2.89%. The forward borrowing will be received due to be received on the following dates:

- February 2024 £40m
- February 2025 £20m
- February 2026 £20m

4.6. Projected levels of the Council's total outstanding debt (which comprises borrowing and other long-term liabilities) are shown below, compared with the capital financing requirement

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.03.23 forecast £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000	31.03.28 budget £000	31.03.29 budget £000	31.03.30 budget £000	31.03.31 budget £000	31.03.32 budget £000	31.03.33 budget £000
Debt (excl.PFI & leases)	32,181	63,778	105,206	145,900	173,936	197,622	226,482	256,220	285,389	314,711	330,808
Capital Financing Requirement	88,953	119,644	159,113	197,423	222,558	242,970	268,272	294,193	319,284	343,631	354,494

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this.

4.7. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised limit and operational boundary

Authorised Limit

	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m	31.03.28 budget £m	31.03.29 budget £m	31.03.30 budget £m	31.03.31 budget £m	31.03.32 budget £m
Borrowing	47.181	78.778	120.206	160.900	188.936	212.622	241.482	271.220	300.389	329.711
Other Long Term Liabilities	1.473	0.905	0.309	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	**48.654**	**79.683**	**120.51**	**160.9**	**188.94**	**212.622**	**241.482**	**271.22**	**300.389**	**329.711**

Operational Boundary

	31.03.23 forecast £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m	31.03.27 budget £m	31.03.28 budget £m	31.03.29 budget £m	31.03.30 budget £m	31.03.31 budget £m	31.03.32 budget £m
Borrowing	37.181	68.778	110.206	150.900	178.936	202.622	231.482	261.220	290.389	319.711
Other Long Term Liabilities	1.473	0.905	0.309	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total	**38.654**	**69.683**	**110.51**	**150.9**	**178.94**	**202.622**	**231.482**	**261.22**	**290.389**	**319.711**

4.8. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.9. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 7: Treasury Management Investments

	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000	31.03.27 budget £000	31.03.28 budget £000	31.03.29 budget £000	31.03.30 budget £000	31.03.31 budget £000	31.03.32 budget £000
Short-term investments	8,000	30,000	20,000	20,000	4,000	4,000	4,000	4,000	4,000	4,000
Longer-term investments	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Total	**10,000**	**32,000**	**22,000**	**22,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**	**6,000**

4.10. In years 2023/24 to 2025/26, it is envisaged short term balances will be high due to the forward loans with Aviva Life & Pensions UK Ltd which will be received in February of each financial year. This is expected to be short term as the funds will be utilised within the capital programme.

4.11. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance, Resources and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the council Policy & Resources Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

4.12. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. Full budget provision is made for capital financing costs within the Council's revenue budgets. This is based on estimates derived from the capital programme, and projected 50 year borrowing costs.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Financing costs (£m)	0.759	2.024	4.733	6.616	7.884	8.481
Proportion of net revenue stream (%)	3.266	8.305	18.338	24.950	28.938	30.298

4.13. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance, Resources and Business Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.

4.14. The Authority is required ti estimate and measure the Liability Benchmark which

Other Long Term-Liabilities

4.15. This section deals with other long term liabilities to which the Council has committed itself in order to secure capital investment. The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

4.16. The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments which is due to be finished in 2025/26. The principal element of this loan is reflected on the Council's Balance Sheet and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to revenue.

5. Investment Strategy

Service Investments: Loans

5.1. The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.

5.2. The Council has made loans to Kent Savers for £25,000 in 2017/18 which is repayable in 2027/28 at an interest rate of 1% and an interest free loan of £60,000 to One Maidstone CIC Limited which is to be repaid in 2022/23. A loan to Cobtree Manor Estates Trust towards the construction of the new car park which had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. There has been no agreement to enter into further service loans in the immediate future.

5.3. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. As these loans are very small materially, no loss allowance is required to be accounted for.

5.4. The Authority assesses the risk of loss before entering into a loan agreement assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

5.5. The Council does not currently have any investments in property that are considered to be purely commercial in nature, i.e. primarily for yield. 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.

5.6. The Director of Finance, Resources and Business Improvements confirms the authority has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest for the primary purpose of financial return.

6. KNOWLEDGE AND SKILLS

6.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Finance and Business improvement is a qualified accountant with over 16 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), and ACCA.

6.2. The Council also employs Link Asset Services for Treasury Management advice, who support with the provision of training to members.

6.3. Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance, Resources and Business Improvement and relevant committee (where appropriate) and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

6.4. Staff are kept updated on latest developments on Treasury, Non-Treasury and Capital through email bulletins and training courses through the Council's advisors Link Asset Services. The Council is also part of the Kent Treasury Benchmarking Group which meet to discuss ongoing issues every 6 months.

6.5. Training is offered to all Members on Treasury, Non-Treasury and Capital to prior to decision making on the relevant Strategies. The training is arranged for every 2 to 3 years.

7. RISK MANAGEMENT

7.1. The capital programme forms an increasingly important part of the Council's strategy for delivering its overall priorities. Accordingly, it is of fundamental importance that the associated risks are managed actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is managed at all levels.

Corporate

7.2. Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and Policy and Resources Committee. Risks are owned by named Directors and controls developed to mitigate risk. Risks at this level may be generic, relating to a number of capital projects, although it is possible that a single capital project could pose a corporate risk.

Financial

7.3. A Budget risk register seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.

7.4. Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.

7.5. For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

7.6. Individual service areas maintain risk registers, with identified risk owners and details of controls to mitigate risk.

Project

7.7. The Council's project management framework requires managers to maintain risk registers at a project level.

Appendix C

Maidstone Borough Council Investments/Borrowing as at 31st December 2022

Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	MBC Credit Limits	
						Maximum Term	Maximum Deposit
Handelsbanken	Call account	370,000			3.30%	12 Months	£5,000,000
Aberdeen Standard Liquidity Fund	Money Market Fund	8,790,000			3.28%		£10,000,000
Federated Hermes Short-Term Sterling Prime Fund	Money Market Fund	7,970,000			3.26%		£10,000,000
Landesbank Hessen	Fixed Term Deposit	3,000,000	29/07/2022	30/01/2023	2.36%	6 Months	£5,000,000
Standard Chartered Bank Sustainable Deposit	Fixed Term Deposit	3,000,000	10/11/2022	10/02/2023	3.36%	6 Months	£5,000,000
National Bank of Kuwait London	Fixed Term Deposit	3,000,000	06/05/2022	07/03/2023	3.55%	6 Months	£5,000,000
Landesbank Hessen	Fixed Term Deposit	2,000,000	26/10/2022	13/03/2023	3.65%	6 Months	£5,000,000

Total Investments		28,130,000					

Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Public Works Loans Board	Central Government	2,000,000	11/11/2021	11/11/2071	1.73%
Public Works Loans Board	Central Government	3,000,000	30/12/2021	30/12/2071	1.56%

Total Loans		5,000,000			

Committed Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2024	13/02/2064	2.87%
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2024	13/02/2074	2.87%
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2025	13/02/2075	2.87%
Aviva Life & Pensions UK Limited	Corporate Lender	20,000,000	13/02/2026	13/02/2076	2.87%

Total		80,000,000			

Total Committed Borrowing		85,000,000			

Counterparty List: 30/12/2022 Appendix D

	Fitch Rating		Moody's Ratings		Standard & Poors Ratings		
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Suggested Duration
Australia	AAA		Aaa		AAA		Not Applicable
Australia and New Zealand Banking Group Ltd.	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Macquarie Bank Ltd.	A	F1	A2	P-1	A+	A-1	R - 6 mths
National Australia Bank Ltd.	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Westpac Banking Corp.	A+	F1	Aa3	P-1	AA-	A-1+	O - 12 mths
Belgium	AA-		Aa3		AA		Not Applicable
BNP Paribas Fortis	A+	F1	A1	P-1	A+	A-1	R - 6 mths
KBC Bank N.V.	A+	F1	A1	P-1	A+	A-1	O - 12 mths
Canada	AA+		Aaa		AAA		Not Applicable
Bank of Montreal	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Canadian Imperial Bank of Commerce	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
National Bank of Canada	A+	F1	Aa3	P-1	A	A-1	R - 6 mths
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Toronto-Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Denmark	AAA		Aaa		AAA		Not Applicable
Danske A/S	A	F1	A2	P-1	A+	A-1	R - 6 mths
Finland	AA+		Aa1		AA+		Not Applicable
Nordea Bank Abp	AA-	F1+	Aa3	P-1	AA-	A-1+	O - 12 mths
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	O - 12 mths
France	AA		Aa2		AA		Not Applicable
BNP Paribas	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Credit Agricole Corporate and Investment Bank	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Credit Agricole S.A.	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Credit Industriel et Commercial	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
Societe Generale	A-	F1	A1	P-1	A	A-1	R - 6 mths
Germany	AAA		Aaa		AAA		Not Applicable
Bayerische Landesbank	A-	F1	Aa3	P-1	NR	NR	R - 6 mths
Commerzbank AG	WD	WD	A1	P-1	BBB+	A-2	G - 100 days
Deutsche Bank AG	BBB+	F2	A1	P-1	A-	A-2	N/C - 0 mths
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Landesbank Baden-Wuerttemberg	A-	F1	Aa3	P-1	NR	NR	R - 6 mths
Landesbank Berlin AG			Aa3	P-1			O - 12 mths
Landesbank Hessen-Thueringen Girozentrale	A+	F1+	Aa3	P-1	NR	NR	O - 12 mths
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	P - 24 mths
Norddeutsche Landesbank Girozentrale	A-	F1	A3	P-2	NR	NR	G - 100 days
NRW.BANK	AAA	F1+	Aa1	P-1	AA	A-1+	P - 24 mths
Netherlands	AAA		Aaa		AAA		Not Applicable
ABN AMRO Bank N.V.	A	F1	A1	P-1	A	A-1	R - 6 mths
Bank Nederlandse Gemeenten N.V.	AAA	F1+	Aaa	P-1	AAA	A-1+	P - 24 mths
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	O - 12 mths
ING Bank N.V.	AA-	F1+	Aa3	P-1	A+	A-1	O - 12 mths
Nederlandse Waterschapsbank N.V.			Aaa	P-1	AAA	A-1+	P - 24 mths

Counterparty List: 30/12/2022 Appendix D

	Fitch Rating		Moody's Ratings		Standard & Poors Ratings		
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Suggested Duration
Norway	AAA		Aaa		AAA		Not Applicable
DNB Bank ASA			Aa2	P-1	AA-	A-1+	O - 12 mths
Qatar	AA-		Aa3		AA		Not Applicable
Qatar National Bank	A	F1	Aa3	P-1	A+	A-1	R - 6 mths
Singapore	AAA		Aaa		AAA		Not Applicable
DBS Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Oversea-Chinese Banking Corp. Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
United Overseas Bank Ltd.	AA-	F1+	Aa1	P-1	AA-	A-1+	O - 12 mths
Sweden	AAA		Aaa		AAA		Not Applicable
Skandinaviska Enskilda Banken AB	AA-	F1+	Aa3	P-1	A+	A-1	O - 12 mths
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	O - 12 mths
Swedbank AB	AA-	F1+	Aa3	P-1	A+	A-1	O - 12 mths
Switzerland	AAA		Aaa		AAA		Not Applicable
Credit Suisse AG	BBB+	F2	A3	P-2	A-	A-2	N/C - 0 mths
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	O - 12 mths
United Arab Emirates	AA		Aa2		AA		Not Applicable
First Abu Dhabi Bank PJSC	AA-	F1+	Aa3	P-1	AA-	A-1+	O - 12 mths
United Kingdom	AA-		Aa3		AA		Not Applicable
Collateralised LA Deposit*							Y - 60 mths
Debt Management Office							Y - 60 mths
Multilateral Development Banks							Y - 60 mths
Supranationals							Y - 60 mths
UK Gilts							Y - 60 mths
Al Rayan Bank Plc			A1	P-1			R - 6 mths
Bank of Scotland PLC (RFB)	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Barclays Bank PLC (NRFB)	A+	F1	A1	P-1	A	A-1	R - 6 mths
Barclays Bank UK PLC (RFB)	A+	F1	A1	P-1	A	A-1	R - 6 mths
Close Brothers Ltd	A-	F2	Aa3	P-1			R - 6 mths
Clydesdale Bank PLC	A-	F2	A3	P-2	A-	A-2	G - 100 days
Co-operative Bank PLC (The)	B+	B	Ba1	NP			N/C - 0 mths
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Handelsbanken Plc	AA	F1+			AA-	A-1+	O - 12 mths
HSBC Bank PLC (NRFB)	AA-	F1+	A1	P-1	A+	A-1	O - 12 mths
HSBC UK Bank Plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	O - 12 mths
Lloyds Bank Corporate Markets Plc (NRFB)	A+	F1	A1	P-1	A	A-1	R - 6 mths
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	R - 6 mths
National Bank Of Kuwait (International) PLC	A+	F1			A	A-1	R - 6 mths
NatWest Markets Plc (NRFB)	A+	F1	A1	P-1	A-	A-2	R - 6 mths
Santander Financial Services plc (NRFB)	A+	F1	A1	P-1	A-	A-2	R - 6 mths
Santander UK PLC	A+	F1	A1	P-1	A	A-1	R - 6 mths
SMBC Bank International Plc	A-	F1	A1	P-1	A	A-1	R - 6 mths
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	R - 6 mths
Coventry Building Society	A-	F1	A2	P-1			R - 6 mths

Counterparty List: 30/12/2022 Appendix D

	Fitch Rating		Moody's Ratings		Standard & Poors Ratings		
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Suggested Duration
Leeds Building Society	A-	F1	A3	P-2			G - 100 days
Nationwide Building Society	A	F1	A1	P-1	A+	A-1	R - 6 mths
Principality Building Society	BBB+	F2	Baa2	P-2			N/C - 0 mths
Skipton Building Society	A-	F1	A2	P-1			R - 6 mths
West Bromwich Building Society			Ba3	NP			N/C - 0 mths
Yorkshire Building Society	A-	F1	A3	P-2			G - 100 days
National Westminster Bank PLC (RFB)	A+	F1	A1	P-1	A	A-1	B - 12 mths
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	B - 12 mths
United States	AAA		Aaa		AA+		Not Applicable
Bank of America N.A.	AA	F1+	Aa2	P-1	A+	A-1	O - 12 mths
Bank of New York Mellon, The	AA	F1+	Aa1	P-1	AA-	A-1+	P - 24 mths
Citibank N.A.	A+	F1	Aa3	P-1	A+	A-1	O - 12 mths
JPMorgan Chase Bank N.A.	AA	F1+	Aa1	P-1	A+	A-1	O - 12 mths
Wells Fargo Bank, NA	AA-	F1+	Aa1	P-1	A+	A-1	O - 12 mths

Key

Duration	**Limit**
Y - 60 mths	£ 8,000,000
P - 24 mths	£ 7,000,000
B - 12 mths	£ 5,000,000
O - 12 mths	£ 5,000,000
R - 6 mths	£ 5,000,000
G - 100 days	£ 3,000,000
N/C - 0 mths	£ -

Audit, Governance & Standards Committee	16 January 2023

External Auditor's Annual Report 2020/21

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	All

Executive Summary

This report from the Council's External Auditor, Grant Thornton concludes the annual audit process for 2020/21.

Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. That the external auditor's Annual Report, attached at Appendix 1, be noted.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	16 January 2023

External Auditor's Annual Report 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's ability to discharge its responsibilities in relation to the 2020/21 financial statements audit and value for money conclusion.	Director of Finance and Business Improvement
Cross Cutting Objectives	The recommendations set out above will not have any material impact on the cross-cutting objectives.	Director of Finance and Business Improvement
Risk Management	This report is presented for information only and has no decisions which give rise to risk management implications.	Director of Finance and Business Improvement
Financial	The Annual Report provides assurance that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.	Senior Legal Adviser – Corporate Governance
Privacy and Data Protection	None identified.	Director of Finance and Business Improvement
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer
Public Health	No implications identified.	Director of Finance and

		Business Improvement
Crime and Disorder	No implications identified.	Director of Finance and Business Improvement
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	There are no implications on biodiversity and climate change.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 The external auditor produces an annual report to conclude the audit process for the year. The purpose of the report is to ensure that the Council has secured proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

2.2 No significant issues were identified, although a number of improvement recommendations have been made, and an unmodified opinion was issued for the 2020/21 Statement of Accounts.

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3. AVAILABLE OPTIONS

3.1 As the committee charged with responsibility for overseeing the financial reporting process, the Audit, Governance and Standards Committee is asked to consider and note this report. The committee could choose not to consider this report; however, this option is not recommended since the report is intended to assist the committee in discharging its responsibilities in relation to external audit and governance.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The committee is asked to note this report. The report concludes the annual audit process for 2020/21 and it is considered appropriate for the committee to receive this information at this time.

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5. RISK

5.1 This report is presented for information only and has no decisions which give rise to risk management implications.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 No consultation has been taken in relation to this report.

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Next steps are outlined within Appendix 1.

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8. REPORT APPENDICES

- Appendix 1: Auditor's Annual Report 2020/21

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9. BACKGROUND PAPERS

None

Auditor’s Annual Report on Maidstone Borough Council

2020-21

November 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made

Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Maidstone, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained its financial position. The 2020/21 final outturn for the General Fund was a surplus of £1.2m .

Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.

We have made some improvement recommendations including the production of a workforce plan.

Governance

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

We have identified some improvement recommendations around risk management.

Improving economy, efficiency and effectiveness

The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in is use of resources.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

We have made some improvement recommendations around performance management and procurement.

Opinion on financial statements

We issued an unmodified opinion on the Council's 2020/21 financial statements on 18 November 2022.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

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Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on the following pages.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. The Council does not have a large property portfolio but does have some property holdings in borough. Covid has hit rental income but in the medium-term income levels are expected to return to pre Covid levels. While government grants have covered part of the general shortfall, councils have been left with increased financial uncertainty.

Throughout the huge uncertainty of last two financial years, the Council worked to minimise expenditure in all areas where appropriate and some of the capital programme was paused or delayed due to Covid-19. Alongside this, new, essential activity was introduced, such as the community support hub and bringing those who are homeless into accommodation, to address the impact of the pandemic on the residents of the district.

Precepts for 2020/21 for County, Fire and Police services were set in February 2020 before the effects of the pandemic were realised and as such district councils have had to pay these over as planned, while collection rates have been down, providing added pressures on cashflow.

At the onset of the pandemic play areas were closed and several services that were either non-essential or non-compatible with social distancing rules were suspended including food safety inspections and taxi driver knowledge tests. The Council's contractors also closed the leisure centre and the theatre. Meanwhile staff were diverted to Covid related work including resourcing the "Community Hub" and paying out Covid related support grants across the district.

The Council set its budget for 2020/21 in February 2020. The pandemic started in March 2020 and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. An updated Medium Term Financial Strategy (MTFS) was taken to Policy & Resources Committee in July 2020 and October 2020 papers for this committee included a further finance update. The impact of Covid was also included in the scheduled quarterly budget updates to Policy & Resources Committee along with further updates on the MTFS. At July 2020, it was projected that the Council would have an in-year deficit of £8.56m. This shortfall was to be funded by a mixture of government grants, although it was unclear at that time how much might be forthcoming, along with savings and use of reserves. The final outturn for the General Fund was an underspend of £1.2m which allowed larger than expected contributions to be made to reserves. This is laudable performance given the income losses incurred by the Council due in part to receipt of significant levels of Government Grant but also due to strong budgetary control. This outcome has had positive benefits for the Council's financial resilience in 2021/22 and beyond. A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget contained reliance on reserves and savings as recovery begins. Review of Council papers indicates the assumptions used for financial planning in 2020/21 and 2021/22 are sound. We have seen no evidence that inappropriate short term measures are being used to relieve current pressures.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement only covered the 2021/22 year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with the clarity now that 2022/23 was also be covered by a 1-year settlement. Recent indications from the Secretary of State is there may be a two year settlement for 2023/24 and 2024/25 but no formal announcement has yet been made.

Financial sustainability

The Council has a detailed financial plan covering the years to 2025/26. Given the uncertainty of the financial regime its plan has been drawn up using prudent assumptions on future income streams and three scenarios have been planned for adverse, neutral and favourable. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Budgets are discussed with Service Heads and then passed via Leadership Team and service committees to Policy and Resources Committee before going to full Council. There is discussion of the MTFS and potential savings. Savings and pressures are shown together in the MTFS. There is also an annual consultation exercise with residents to identify their budget priorities. The Council has a history of transparency in financial matters.

How the body plans to bridge its funding gaps and identifies achievable savings

The final budget is approved by Council. The Council has a history of delivering on savings and on its budget. Savings delivery is monitored at Policy and Resources Committee as part of the Budget Management Report.

As part of the 2021/22 budget setting process, budgets were reviewed and changes to the budget made adjusting for pressures, new initiatives, expected cost increases and income changes. The 2019/20 to 2022/23 financial plan highlighted a budget gap of £6.8m in the medium term with required savings of £21.7m, of which at February 2020 £.16.3m still needed to be identified. By February 2021 when the 2021/22 budget was set the medium-term budget gap had reduced to £2.8m with a residual gap of £1.8 m after already identified savings and use of reserves. The Council has a healthy reserves position so this expected draw down is not of immediate concern.

While savings potential has been affected by the pandemic, from our experience in previous years Maidstone has a history of successful delivery on savings and we have no reason to believe that this will not happen going forward post Covid.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The council's latest workforce strategy covers the period 2016 to 2020. It clearly links to the corporate plan and MTFS but needs to be updated. The revision is in hand but we understand this revision has been delayed by Covid 19. Given the shortfalls in staffing across the sector and wider economy , developing a new credible workforce strategy is crucial.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services, clearly defined responsibilities for budget management and Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The finance team is well established with significant experience of managing the Council's finances albeit there have been recent changes in key roles. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive Officer. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained.

Budget reports are issued to budget managers each month and service heads every quarter. Meetings will be held with finance staff as required and there is no requirement for set monthly meetings. The budget position is reported to P&R on a quarterly basis with other performance information.

The Council has adopted a Capital Strategy and has a capital planning process. These are regularly reviewed to reflect changing circumstances. The capital programme is agreed by the strategic investment board (SIB) before going to members Other than funding the replacement of assets which deliver services as well as recurring capital expenditure, the capital programme is used to support the council's objectives including housing and homelessness and property investment. During 2020/21 the capital programme is overseen by Policy & Resources Committee, while projects are subject to an appraisal and approval process.

Financial sustainability

The Council has the necessary resources for financial management including a financial system able to provide timely financial information; the necessary financial skills, experience and capacity in the finance team; and budget holders in the services, with clearly defined responsibilities for budget management. Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary provide effective challenge. The Finance team is well established with significant experience of managing the Council's finances.

The current corporate strategy covers the period 2019 to 2045 and was agreed in February 2020. The current priorities are:

- Embracing Growth and Enabling Infrastructure
- Safe, Clean and Green
- Homes and Communities
- A Thriving Place

The plan is underpinned by a number of strategies and plans including the MTFS, the Economic Development Strategy and the Housing Strategy

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led making forecasts more difficult. The Covid-19 pandemic has also made it more difficult to predict future costs and demand. However, in emerging from the pandemic a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will also be critical to ensure that budget holders and the Council as a whole are held to account for any future failure to deliver to agreed budgets. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical that there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long as a strong financial culture is maintained.

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. Whilst discretionary spends are the areas which predominately come under scrutiny when savings plans are being considered, there is of course review of costs for statutory services to provide best value, While we understand that splitting statutory and discretionary spend is not always straight forward, doing so would help a resident understand the choices faced by the Council .

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

In 2020/21 an additional role of the Council was to support the response to the pandemic. The response was coordinated at a county level by the Kent Resilience Forum (KRF), of which Maidstone Borough Council is a member. The Council has paid out over £30m in Covid grants, supporting local residents and businesses and providing advice to business. Planning for 2021/22 was challenging as the pandemic has created increased uncertainty around future funding. Subsequent to this year one year settlements have been provided for 2021/22 and 2022/23..

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope.

However, the Council does not have an up-to-date workforce plan or people strategy which has been reviewed to reflect the demands of the "new normal". As a sector local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. As previously mentioned, we would recommend the Council sets a clear timetable for production of the new workforce strategy.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

2020/21 has been a unique year for financial management given the impact of the pandemic including the temporary cessation of some services to deal with Covid demands and a changing profile of demands on services.

Financial sustainability

Within the corporate risk register the Council has identified a risk relating to a general financial downturn, unexpected changes to government funding or the failure to achieve income or savings targets creating financial pressures which make it more difficult to maintain standards or achieve the Council's objectives. It is noted that the latest Strategic Risk Register indicated this risk was marked as "red". Ways in which the Council is managing this risk include budget monitoring, the MTFS, scenario planning, the Commercial Investment Strategy and use of reserves. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Policy and Resources Committee meetings. A list of financial risks is included in budget papers sent to members when setting the Council's budget.

As the Council emerges from the pandemic, and the 'new normal' begins to be established – crucially, a normal which once again comes with financial constraints – the Council should assess which Covid driven working patterns and arrangements should continue in the post pandemic world. Our work and broader analysis of the sector indicates the Council will face significant financial challenges in future years and we will monitor this response in those years. Previous experience indicates the Council is well equipped to deal with these challenges.

Conclusion

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area.

Improvement recommendations

Financial Sustainability

	Recommendation One	Recommendation Two
Summary recommendation	Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.	A workforce plan or people strategy, aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.
Auditor judgement	While we understand that clearly differentiating costs is not always easy, no distinction is made in the financial information reported to Those Charged With Governance (TCWG) between statutory and discretionary spending. This approach would help members and residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.	The Council's latest workforce strategy covers the period 2016 to 2020. It clearly links to the corporate plan and MTFS but needs to be updated. The revision is in hand but we understand this revision has been delayed by Covid 19. Therefore the strategy has not been reviewed to reflect the demands of the "new normal". As a sector local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. We would recommend the Council sets a clear timetable for production of the new workforce strategy. Given the shortfalls in staffing across the sector and wider economy , developing a new credible workforce strategy is crucial.
Management comment	As part of the budget setting process we are clear to Members the impacts to services. This includes the impact to statutory and discretionary. The services cannot be considered by the split alone as there are some services that contribute to the overall budget position as they are income generating. There are also levels of service that can vary in statutory too. Therefore the recommendation is not fully supported. But we will ensure any savings and growth decisions consider if the service is statutory/discretionary.	Management accepts the need for an up-to-date workforce strategy. The strategy is reviewed formally on an annual basis, and the most recent review was reported to the Democracy and General Purposes Committee on 26 January 2022. The latest review addressed in particular the need for organisation culture change, given the changes in working practices arising from the Covid-19 pandemic.

The range of recommendations that external auditors can make is explained in Appendix B

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

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How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth.

The Annual Governance Statement for 2020/21 states ".The Council has in place a robust risk management framework and guidance and risk management is considered by the Audit Governance and Standards Committee."

The highest-level risks on the Corporate Risk Register are reported to and monitored by Corporate Leadership Team throughout the year. Further to this, risks updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge.

The risk management framework was approved in December 2020 and this provides guidance to staff on the risk management process. Roles and responsibilities are clearly defined and the guidance describes the process for identifying, evaluating and monitoring risk .

Risk was reported to Audit Governance and Standards Committee in March 2021 and March 2022 with budget risks being reported in September 2021. The Strategic risk register is reported to Policy & Resources Committee quarterly as part of wider reporting on finance and performance. The Strategic Risk Register contains 11 risks which in our expected range of risk (5 to 15 risks) to allow adequate review of those threats to Council objectives. Nine of the risks are rated red on mitigated risk scores and efforts should be made to mitigate these risks further .We note the risk report to Audit Governance and Standards Committee are only reported with unmitigated risk scores. We feel reporting mitigated risk scores as well would be more useful to members so that they can see the real level of risk faced by the council

The risk register reported to Policy and Resources Committee is clear showing current and mitigated risk score, current and planned controls. The full risk register documents the target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review. The Council should consider developing information provided to Members and Senior Management regarding risk and this can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

For 2022/23 we understand arrangement are for the Corporate Risk Register to be presented quarterly to the Corporate Services Policy Advisory Committee and the Executive.

We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff in tandem with the new risk management policy and providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

Governance

Internal Audit services are provided by Mid Kent Audit, a shared service organisation covering Maidstone, Ashford, Swale and Tunbridge Wells Borough Councils. Although the agreed plan had to be adjusted because of the pandemic, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion was provided to the Council by July 2021. Progress reports highlighting key issues and findings on reviews are reported to Audit, Governance and Standards Committee periodically. The Head of Internal Audit Opinion concludes that “the Council managed its internal controls to offer sound assurance on control effectiveness”, “corporate governance arrangements for the year ended 31 March 2021 comply in all material respects with guidance on proper practices” and “risk management arrangements at the Council for the year ended 31 March 2021 are effective and provide sound assurance”. Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Internal audit presented one “weak” assurance report in 2019/20. This related to Health and Safety and found weaknesses in monitoring of compliance and completion of mandatory training. No “weak” assurance reports were issued in 2020/21.

Counter fraud services are provided by Mid Kent Audit and the Revenue and Benefits shared service.

Counter fraud operations are underpinned by a Member code of conduct (undated) a staff code of conduct (dated 2007) and a whistleblowing policy (dated 2016). These documents have not been reviewed for some time and an updating of them is recommended. The anti-fraud, and corruption policy was last updated in January 2020

The annual work plans for internal audit are currently approved and overseen by the Audit Governance and Standards Committee. From our attendance at Audit Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

How the body approaches and carries out its annual budget setting process

The financial landscape made 2020/21 a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council indicates that arrangements are in place to model the uncertainties in the system notwithstanding the factors that are outside the Council’s control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the Council.

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, but the effects on the revenue budgets are minimal given the current rates of return on investments and costs of borrowing in a low interest rate world in place in 2020 and 2021.

How the body ensures effective processes and systems are in place to ensure budgetary control.

Budget managers have access to the finance system and can review budgets at any time. Budget reports are issued to budget managers each month and service heads every quarter. Meetings will be held with finance staff as required and there is no requirement for set monthly meetings. The budget position is reported to Policy & Resources Committee on a quarterly basis with other performance information. Review of Policy and Resources papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, generally stable and experienced. Although the previous established Head of Finance left the Authority earlier this year, a new Head of Finance with considerable public sector finance experience has taken up the post in July 2022. The S151 Officer is the Director of Finance and Business Improvement and sits on the Corporate Leadership Team.

Governance

It is clear that financial delivery is a key objective from the top down. 2020/21 has been a tough year financially for Maidstone and without a concerted effort across the council the year end position could have been troubling for financial sustainability. We consider budget management arrangements to be robust and we have found no areas of concern during our work.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides an appropriate level of scrutiny over external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to a failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorization in line with the wishes of the Council.

The administration changed at the elections in May 2021. The Council had been No Overall Control but has moved to a Conservative administration. The new Council has extensive plans for change. The old committee system is due to be replaced by a Cabinet system. We have no concerns as yet in relation to risks related to high turnover of Council members which can lead to inadequate understanding of the organization leading to poor decision making. The importance of maintaining a strong financial culture is vital in this context.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the pandemic responses have been deliberate and thought out.

We have noted that the Council has moved to a Cabinet system, following the May 2022 elections with the P&R Committee being discontinued from May 2022. As our report relates to 2020/21 we still make references to the P&R Committee throughout our report in the context of the arrangements in place for that year.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and declarations are sent to all Members and Senior officers for their completion. Rules on gifts and hospitality are included in the code of conduct. The gifts and hospitality register is retained by the Monitoring Officer and is available for inspection on request.

Officers are required to make a declaration every three years and on employment for new employees and to update if there are any changes. The gifts and hospitality register is held in Executive Support by Directorate and the policy is advised to staff on employment and reminders sent out in the staff newsletter, Inside Maidstone. This is also specifically done in early December each year to remind staff of expectations near to Christmas. We found no evidence of interests, gifts or hospitality not being declared.

Conclusion

We found no evidence or indication of significant risks to your governance arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations

Governance

	Recommendation Three	Recommendation Four
Summary recommendation	While we feel risk management arrangements are generally satisfactory, to further enhance the risk management approach the Council should consider: • Reporting current and mitigated risk scores to Audit, Governance and Standards Committee • Reporting risk to the Audit, Governance and Standards Committee every six months • Factors such as target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review should be reported to Members • Developing a comprehensive risk management training programme for members and staff.	Codes of conduct and the Whistleblowing Policy should be updated as soon as possible and annual thereafter.
Auditor judgement	Risk was reported to Audit Governance and Standards Committee in March 2021 and March 2022. We note the risk report to Audit Governance and Standards Committee are only reported with unmitigated risk scores. We feel reporting mitigated risk scores as well would be more useful to members so that they can see the real level of risk faced by the council. The full risk register documents the target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review. But this information is not reported to Members and Senior Management This could be included in report and can be linked to the three lines of defence model advocated by the Institute of Internal Auditors. We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff providing greater clarity of the importance of risk management. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.	Counter fraud operations are underpinned by a Member code of conduct (undated) a staff code of conduct (dated 2007) and a whistleblowing policy (dated 2016). These documents have not been reviewed for some time and an updating of them is recommended.
Management comment	The council is rolling out the use of a risk management tool (JCAD) to capture all risks and ensure we regular update progress to mitigate risks. The new tool is being rolled out with training by Internal Audit. This will allow further oversight and scrutiny of all risk.	Members are aware that the Member Code of Conduct needs to be reviewed. It is intended that this Council's Code of Conduct continues to align with those adopted elsewhere in Kent. The Monitoring Officer is therefore liaising with peers from other Kent authorities to develop a new Code of Conduct which has regard to the latest LGA guidance.

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Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

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How financial and performance information has been used to assess performance to identify areas for improvement

This year has been an incredibly challenging one for public services as a whole and Maidstone is no different. Kent was the first to see the Alpha variant of Covid-19 and this has meant the county has been particularly hard hit by the pandemic. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Maidstone played its part in the county wide effort to support residents and local business. Local government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

There is comprehensive quarterly performance reporting to Policy and Resources Committee integrated with reporting of financial results and strategic risks.

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last two years, understandably resources have not been available to focus on service improvement. As we emerge from the pandemic a focus on service improvement by comparing with others should be reintroduced.

The Council has a Data Quality Policy dated August 2011. While the policy looks comprehensive, this is overdue for review.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Corporate Strategy is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Strategy runs until 2045 .

As previously mentioned, the Council has a comprehensive approach to performance management.

We found no evidence of failure to meet minimum service standards or consider appropriate service delivery options. The organisation has a focus on long term development and not short-term expediency.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Partnerships and in particular shared services have been seen as a cost effective and efficient way to provide services by the Council for a number of years. The Council is flexible in its approach, working in partnership when it is efficient and economical to do so. Maidstone host Mid Kent Services. Mid Kent Services (MKS) is a partnership between Maidstone, Swale Borough Council and Tunbridge Wells Borough Council which started in 2008. Working together the objective is to improve and reduce the cost of services to residents across Mid-Kent. The governance arrangements for Mid Kent Services include the Shared Service Board (comprised of each Council's s151 Officers) that meet quarterly to review cost and performance, Exec Board (CEO's) that meet quarterly to review the direction and priorities and MKS Board (Leaders and CEO's) that meet bi-annually to have political oversight of direction and performance, including consideration of any expansion of shared services. It's important to note that any decisions coming from the above are made in line with the sovereign decision-making arrangements for each partner, with KPI's and budget management also forming part of the standard corporate reporting at each partner authority.

Improving economy, efficiency and effectiveness

A list of current shared service arrangements is included below.

Service	Host Authority	Other Authorities
Environmental Health	No host	Maidstone, Swale and Tunbridge Wells
Human Resources	Maidstone	Swale
ICT	Maidstone	Swale and Tunbridge Wells
Internal Audit	Maidstone	Ashford, Swale and Tunbridge Wells
Legal	Swale	Maidstone and Tunbridge Wells
Parking Enforcement	No host	Maidstone and Swale
Planning Support	Maidstone	Swale
Revenues and Benefits	No host	Maidstone and Tunbridge Wells

Leisure services are run by the Maidstone Leisure Trust The contract relationship has three layers – Council > Maidstone Leisure Trust > Operator. The leisure centre contract is reported back to the council via contract monitoring meetings held on a monthly basis. The contractor is monitored on performance against contract KPIs which include visitor numbers, customer satisfaction and financial performance. Officers also monitor the contractor's agility to emerging issues, which includes things like how they react to declines in certain areas, maximise opportunities in growing areas and contribute to public health initiatives. Issues of non-performance are managed via the monthly meeting process or escalated to senior officers where required. In terms of value for money the council receives a one third profit share after the contractor's fee threshold has been surpassed. It should be noted that 2020/21 was a difficult year for the leisure industry nationally with facilities being forced to close due to Government policy during the pandemic.

Serco Leisure (the operator) took advantage of their contractual position to recover their losses from the Council, less £5,000 payable by the Leisure Trust. This was partially offset by a contribution from the National Leisure Recovery Fund. In addition, Serco have not paid the annual £0.2m contribution due under the contract.

The Mid Kent Waste Collection Contract with Biffa Municipal Ltd is monitored through quarterly Partnership Board meetings, monthly contract meetings with the local Biffa management team and daily proactive inspections. Performance relating to health and safety, compliance with the contract specification and application of the performance mechanism is reported through the four tiers of contract management: local contract meetings, partnership monitoring meetings, Strategic Operations Group and Partnership Board. Maidstone Borough Council is the lead authority for the Mid Kent Contract; however, the Supervising Officer responsibility rotates biennially. Decision making responsibility remains with each individual authority, although agreement is sought across the Partnership to ensure consistency and a unified approach to contract management.

The Council also works with other agencies to co-ordinate and improve services and value for money.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Procurement support services across the organisation delivering front line and back-office services. The Council's approach to procurement is laid out clearly in the Procurement Standing Orders in the Constitution and an 'Maidstone Borough Council Approach to Procurement' and 'Purchasing Guide', published on the intranet. The whole process is co-ordinated and supported by a corporate procurement team, headed by a fully Chartered Institute of Purchasing and Supply (CIPS) qualified Procurement Manager. An internal audit review of procurement was completed in July 2022 and gave a 'sound' conclusion on the design and operation of controls, the second highest opinion of four available.

Improving economy, efficiency and effectiveness

We have not, however, been provided with a procurement strategy and we feel one should be produced to provide an overview of the Council procurement activities. The strategy should cover e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. The development of the strategy should have an eye on recent events and the introduction of the National Procurement Strategy for Local Government in England in 2018. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house approach.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements in conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2020/21.

The Council has no significant commercial ventures.

Conclusion

We found no evidence or indication of significant risks to your arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations

Improving economy, efficiency and effectiveness

	Recommendation Five	Recommendation Six
Summary recommendation	Consideration should be given to developing a programme of service reviews using such tools as benchmarking to identify best practice. Firstly, it could compare its performance reporting (in terms of number and types of KPIs against other Kent Districts) to determine whether others are capturing and reporting useful information the Council is not. Secondly, the Council could actually compare the performance of existing KPIs against other Councils (starting in Kent initially to determine whether the exercise is useful).	The Data Quality Policy should be updated as soon as possible and annually thereafter. This Strategy should set out how the Council is delivering transparency in a way which is safe, accurate and secure, and which complies with the relevant transparency regulations as well as the General Data Protection Regulations and the Data Protection Act 2018. The Strategy should define how good quality data is being collected and handled to inform evidence-based decision making.
Auditor judgement	Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last two years, understandably resources have not been available to focus on service improvement. As we emerge from the pandemic a focus on service improvement by comparing with others should be reintroduced.	The Council has a Data Quality Policy dated August 2011. While the policy looks comprehensive, this is overdue for review. Protecting and managing information is a key risk area with significant associated financial and reputation impacts.
Management comment	The current focus is to deliver savings options for the 23/24 budget that are driven by efficiencies, reductions and income opportunities. These are driven by professional experience of where efficiencies can be delivered or income can be recovered. These decisions are also supported by the in-year and previous years financial position. Invest to Save decisions are driven by key data on spend and comparisons to ensure the business case delivers a suitable return as investment decisions are driven by the need to make an appropriate rate of return. This is a key measure before approval can be given to progress a project. The 2024/25 budget process will be the main opportunity to start benchmarking services in more detail and driving further efficiencies.	The current Data Quality Policy was introduced in February 2017. A review of data policies is under way and the policy will be updated in the next 12 months.

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The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation Seven

Summary recommendation	We recommend a Procurement Strategy is developed and in addition to the explaining the Council's approach to procurement it includes the following: SMART (specific, measurable, achievable, realistic, and timely) objectives are clearly set out in the Strategy to allow the Council to assess whether the Strategy is delivering as intended. A framework for how the delivery of the Strategy will be achieved. An annual or biennial review against SMART objectives reported to the Resources and Strategy Committee would allow the Council to assess how successful the Strategy is in delivering its objectives.
Auditor judgement	While procurement processes are generally felt to be sound and this view was recently endorsed by Internal Audit, we have not been provided with a procurement strategy and we feel one should be produced. The strategy should cover e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. The development of the strategy should have an eye on recent events and the introduction of the National Procurement Strategy for Local Government in England in 2018. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house approach.
Management comment	We agree with the recommendation and have already started to implement changes. The aim is to develop an overall procurement strategy later in 23/24. We have Social Value and Sustainability policies and Modern Slavery in the Supply Chain Statements going through governance in December. There is also an aim to roll out contract management tool kit at the end of 22/23 and to ensure Contract Managers have the appropriate training and support during the first quarter of 23/24.

The range of recommendations that external auditors can make is explained in Appendix B

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial Sustainability

The pandemic has had a significant financial effect on the Council predominantly through the loss of income in areas as commercial rents and car parking. However, operational changes have led to a change in expenditure profiles which has partially offset losses.

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

There is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future. In the short term any unexpected shortfall in funding will be met from reserves.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. This funding was utilised in a variety of ways. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of losses incurred will be funded by Government Grant.

Governance

In response to the Covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Kent and Medway went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business. Staff were seconded to help with Covid related work and this had a knock-on effect to day-to-day services.

In response to the emerging risk of Covid19 in February 2020 an officer response group was set up and their responsibilities included representing the council at the daily multi agency meetings set up via the Kent Resilience Forum, maintaining situational awareness, feeding into the common operating picture (COP) reports for the council and providing guidance to officers on emerging HR matters. After declaration of an emergency, strategic leadership was provided by CLT and response was led by Heads of Service.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of the spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates to Policy and Resources Committee.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

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We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Improving economy, efficiency and effectiveness

In March 2020 there was an impact on business as usual and delivery of services mainly from staff working at home and some self-isolation. Some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated if necessary. The Council started a food delivery service for those shielding in partnership with NHS volunteers at the request of government and procured personal protective equipment to help staff carry out their roles. An initial assessment of the costs and loss of income arising from immediately apparent changes was also carried out and reported to management and members.

The Councils response to the Covid-19 emergency included providing temporary accommodation for rough sleepers and people at risk of homelessness, supporting vulnerable residents and the Council distributed millions of pounds in Business Grants.

Conclusion

We found no evidence or indication of significant risks to your Covid-19 arrangements as such no further risk-based work has been undertaken in this area.

Opinion on the financial statements

Audit opinion on the financial statements

We issued an unmodified opinion on the Council's 2020/21 financial statements on 18 November 2022.

Audit Findings Report

We reported the initial findings from our audit in our Audit Findings Report presented to the November 2021 Audit, Governance and Standards Committee. At that point our work was still in progress. Further work identified the need for a number of additional material amendments to the financial statements. We provided an updated Audit Findings Report to the November 2022 Audit, Governance and Standards Committee.

Whole of Government Accounts

We are required to carry out specified procedures on the Whole of Government Accounts consolidation pack under group audit instructions issued by the National Audit Office.

As the relevant values in the Council's financial statements do not exceed the thresholds specified in the 2020/21 group audit instructions no detailed work will be required.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

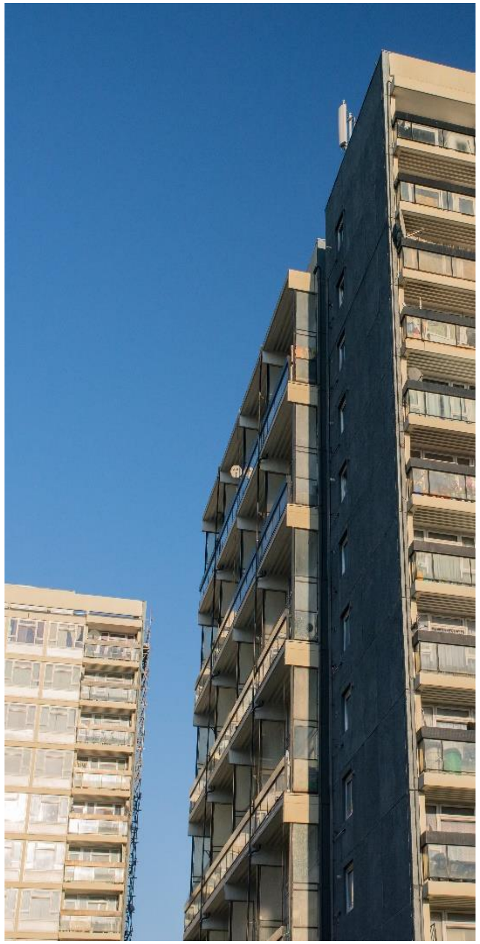
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council auditors as follows:

Type of recommendation	Background	Raised within this report
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Service to discuss and respond publicly to the report.	No
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	No
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes, see pages 13 and 14.

Appendix C - Use of formal auditor's powers

The following are formal powers that can be used by auditors:

Formal power	Used by auditor in 2020/21
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	Not required.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	Not required.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	Not required.
Advisory notice Under Section 31 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	Not required.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	Not required.

Audit, Governance & Standards Committee	**16 January 2023**

External Auditor's Progress Report & Sector Update

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	All

Executive Summary

This report from the Council's External Auditor, Grant Thornton provides an update on the progress of auditing the 2021/22 Statement of Accounts. At the time of writing this report the progress report had not been finalised and it will be circulated separately prior to the meeting.

Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. That the external auditor's audit progress report, attached at Appendix 1 (to follow), be noted.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	16 January 2023

External Auditor’s Progress Report & Sector Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council’s ability to discharge its responsibilities in relation to the 2021/22 financial statements audit and value for money conclusion.	Director of Finance and Business Improvement
Cross Cutting Objectives	The recommendations set out above will not have any material impact on the cross-cutting objectives.	Director of Finance and Business Improvement
Risk Management	This report is presented for information only and has no decisions which give rise to risk management implications.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2022, and details the council’s assets, liabilities and reserves at this date. The work of the external auditor provides independent assurance over this information.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.	Interim Team Leader (Contentious and Corporate Governance)
Privacy and Data Protection	None identified.	Director of Finance and Business Improvement

Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer
Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	Director of Finance and Business Improvement
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	There are no implications on biodiversity and climate change.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 The Council is required to have its audited Statement of Accounts approved by the Audit, Governance & Standards Committee, and for 2021/22 that deadline was 30th November 2022. However, Members will be aware from previous meetings that the final part of the external audit process for 2021/22 was not scheduled to commence until January 2023 due to resourcing issues on the part of the external auditor and the need to conclude the audit of the 2020/21 Statement of Accounts.

2.2 The external auditor's report (to follow) provides an update on progress to date as well as a sector update. Representatives from Grant Thornton will be present at the meeting to present the report and answer any questions.

3. AVAILABLE OPTIONS

3.1 As the committee charged with responsibility for overseeing the financial reporting process, the Audit, Governance and Standards Committee is asked to consider and note this report. The committee could choose not to consider this report; however, this option is not recommended since the report is intended to assist the committee in discharging its responsibilities in relation to external audit and governance.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The committee is asked to note this report. The report provides an update on the external audit process for 2021/22 and it is considered appropriate for the committee to receive this information at this time.

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5. RISK

5.1 This report is presented for information only and has no decisions which give rise to risk management implications.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 No consultation has been taken in relation to this report.

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Next steps are outlined within Appendix 1.

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8. REPORT APPENDICES

- Appendix 1: External Auditor’s Progress Report & Sector Update (to follow)

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9. BACKGROUND PAPERS

None

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	16 January 2023

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance, Resources and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

Current projections indicate that the Council will remain within budget for the current financial year. With the need to agree a budget for 2023/24 in February 2023, the focus of this report therefore moves to the position for 2023/24 and subsequent years.

The Provisional Local Government Finance Settlement for 2023/24, announced on 19 December 2022, sets the overall funding context for next year's budget. This provides assurance that the Council can set a balanced budget for 2023/24, provided that the Council adopts £1.1 million of savings proposals put forward by officers, and increases Council Tax up to the referendum threshold, ie by 3%.

Looking further forward, the position remains challenging, given uncertainty about the future path of inflation and local government funding. In particular, building price increases put delivery of the capital programme at risk.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable

Meeting	***Date***
Audit, Governance and Standards Committee	16 January 2023

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance, Resources and Business Improvement
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance, Resources and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance, Resources and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance, Resources and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance, Resources and

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Business Improvement
Privacy and Data Protection	No implications.	Director of Finance, Resources and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance, Resources and Business Improvement
Public Health	None identified.	Director of Finance, Resources and Business Improvement
Crime and Disorder	None identified.	Director of Finance, Resources and Business Improvement
Procurement	None identified.	Director of Finance, Resources and Business Improvement
Biodiversity and Climate Change	None identified.	Director of Finance, Resources and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

Revenue budget – current year

2.2 The Council set a balanced budget for 2022/23, including an additional provision of £1.3 million for the expected impact of higher inflation on the Council's input costs. Current financial monitoring indicates that we will remain within budget for the year. The main risk is the surge in numbers presenting as homeless and requiring temporary accommodation. This was estimated in the most recent quarterly monitoring reports as giving rise to an additional pressure in 2022/23 of around £600,000. Anticipated underspends elsewhere offset the £600,000 pressure and allowed the Council's budget to remain within balance overall.

2.3 The Council's balance sheet position remains strong. At the start of the financial year 2022/23, unallocated General Fund reserves amounted to £9 million. Short-term investments – cash or equivalent – amounted to £41 million. Long term borrowing remained modest, at £9 million.

Revenue budget – 2023/24 and subsequent years

2.4 In rolling forward the Medium Term Financial Strategy to cover the five years 2023/24 to 2027/28, scenario planning indicated that in the core scenario there would be a budget gap of £2.5 million in 2023/24, mainly owing to the impact of inflation on the Council's costs, with a steadily increasing budget gap in subsequent years.

2.5 Subsequent work to develop savings proposals has mitigated this position. Furthermore, government announcements in the form of the Chancellor's Autumn Statement on 17 November 2022 and the Provisional Local Government Finance Settlement of 19 December 2022 have helped to clarify the financial context.

2.6 The key elements of new information arising from these were as follows.

- The Council Tax referendum limit will be increased from 2% to 3%.

- Although business rates will be frozen in 2023-24, rather than increasing by inflation as in the past, local authorities will be fully compensated for the loss of the inflationary increase.

- It is proposed to create a new one-off Funding Guarantee, which will ensure that all authorities see at least a 3% increase in their Core Spending Power, before any decision they make about organisational efficiencies, use of reserves, and council tax levels. The Funding Guarantee is worth £2.6 million for Maidstone Borough Council and will have the effect of compensating the authority for a fall in income from New Homes Bonus.

Whilst New Homes Bonus has always been used at Maidstone in the past to fund the capital programme, rather than the revenue budget, the Funding Guarantee means that the Council will continue to be able to set aside funding to provide the housing subsidy inherent within the 1,000 Affordable Homes Programme.

2.7 Having developed savings proposals amounting to £1.1 million for 2023/24, and having factored in information about the funding context for 2023/24 from the Chancellor's Autumn Statement and the Provisional Local Government Finance Settlement, it is now expected that proposals for a balanced budget can be submitted to Council in February 2023. Looking further forward, the position remains challenging, given uncertainty about the future path of inflation and local government funding.

Capital programme

2.8 The Council has an ambitious capital programme, amounting to £230 million over five years. This will largely be funded from external sources, so borrowing will increase rapidly from the current low levels. In anticipation of higher interest rates, the Council committed in April 2022 to forward borrowing of £80 million, which will be drawn down between 2024 and 2026. On current expenditure projections, this provides funding for the Council to complete those Housing Programme schemes for which land has already been acquired.

2.9 The cost of completing capital projects depends on the pattern of price increases, given that future schemes still have to be tendered. With construction cost inflation in the region of 10%, current projections for scheme costs are unlikely to be achievable and some prioritisation of schemes will be required.

2.10 Further site acquisitions will be required in order to deliver the overall 1,000 Affordable Homes Programme, and the cost of finance for these schemes will depend on the future path of interest rates. As an indication of the current volatility in interest rates, long term (50 year) Public Works Loan Board rates have climbed from less than 3% when the Council borrowed forward in April 2022 to 5% in the aftermath of the September 2022 'mini' budget, before falling to 4% - 4.5% at the time of writing.

2.11 In summary, the Council has an ambitious capital programme, for which it has been able to manage funding risk, to an extent, by borrowing forward. However, the cost of delivering the programme is threatened by the rate of inflation.

Future financial position

2.12 The outlook for the UK economy will be very challenging over the next two years. The state of the overall UK economy impacts the Council in numerous ways. It increases pressure on expenditure budgets, notably the cost of providing temporary accommodation. It also reduces income, if (for example) the volume of activity in the Town Centre falls and car parking income reduces, and if households and businesses have difficult paying Council Tax and Business Rates. These risks are reflected in the risk register.

2.13 Stagnant economic growth will be accompanied, in the short term at least, by high inflation. The future path of inflation is unclear but there is risk that it may remain elevated for longer than mainstream projections currently indicate.

2.14 Inflation poses a particular challenge for the Council because, whilst input costs like salaries and contract costs are subject to inflation (and in some cases are explicitly linked to inflation indices), there are constraints on the amount by which income can be increased, in particular the Council Tax referendum limit. This makes inflation one of the top risks for the Council.

Other external factors

2.15 The Covid-19 pandemic shows how vulnerable the Council is to external factors, although in the event the financial impact of Covid-19 was mitigated through government support. The budget risk register includes an item entitled 'Financial impact from major emergencies such as Covid-19' to recognise such risks.

2.16 The overall performance of the economy impacts both the revenue budget and the capital programme. Rather than including this as a single generic risk, the risk register lists the ways in which this could impact the Council, eg failure to contain expenditure within agreed budgets, fees and charges fail to deliver sufficient income, etc.

2.17 In light of the risks described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
H	Adverse impact from changes in local government funding	The provisional local government finance settlement for 2023/24 provides some assurance about the position in the short term.	Impact – major (no change) Likelihood – possible (reduced)
I	Constraints on Council Tax increases	The increase in the Council Tax referendum limit to 3% has mitigated this risk to some extent, but the referendum limit remains well below the rate of inflation.	Impact – major (reduced) Likelihood – probable (no change)

2.18 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee's request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks' financial magnitude. The information is also set out in the form of a bar chart.

2.19 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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3. AVAILABLE OPTIONS

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Option 2 – It is recommended that the Committee notes the risk assessment.

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5. RISK

5.1 Risk is addressed throughout this report, so no further commentary is required here.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey is under way for the 2023/24 budget and the results will be reported to Members as part of the budget setting process.

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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.

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8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks

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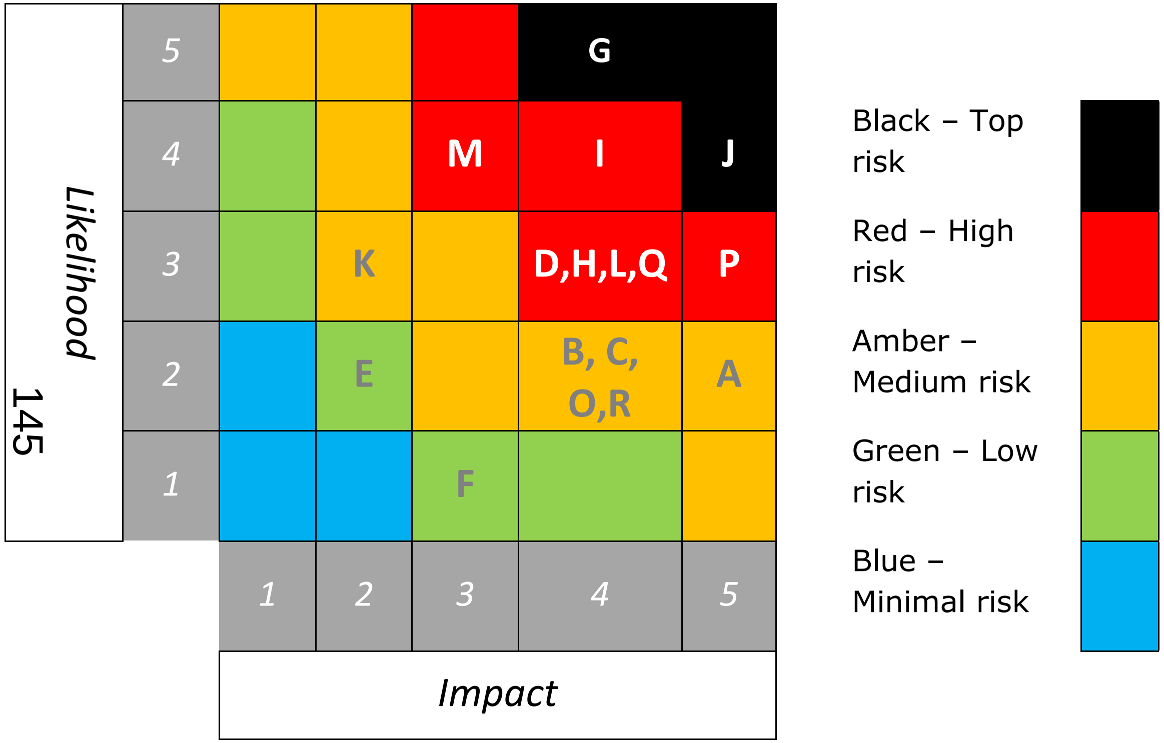
9. BACKGROUND PAPERS

None.

APPENDIX A

Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.

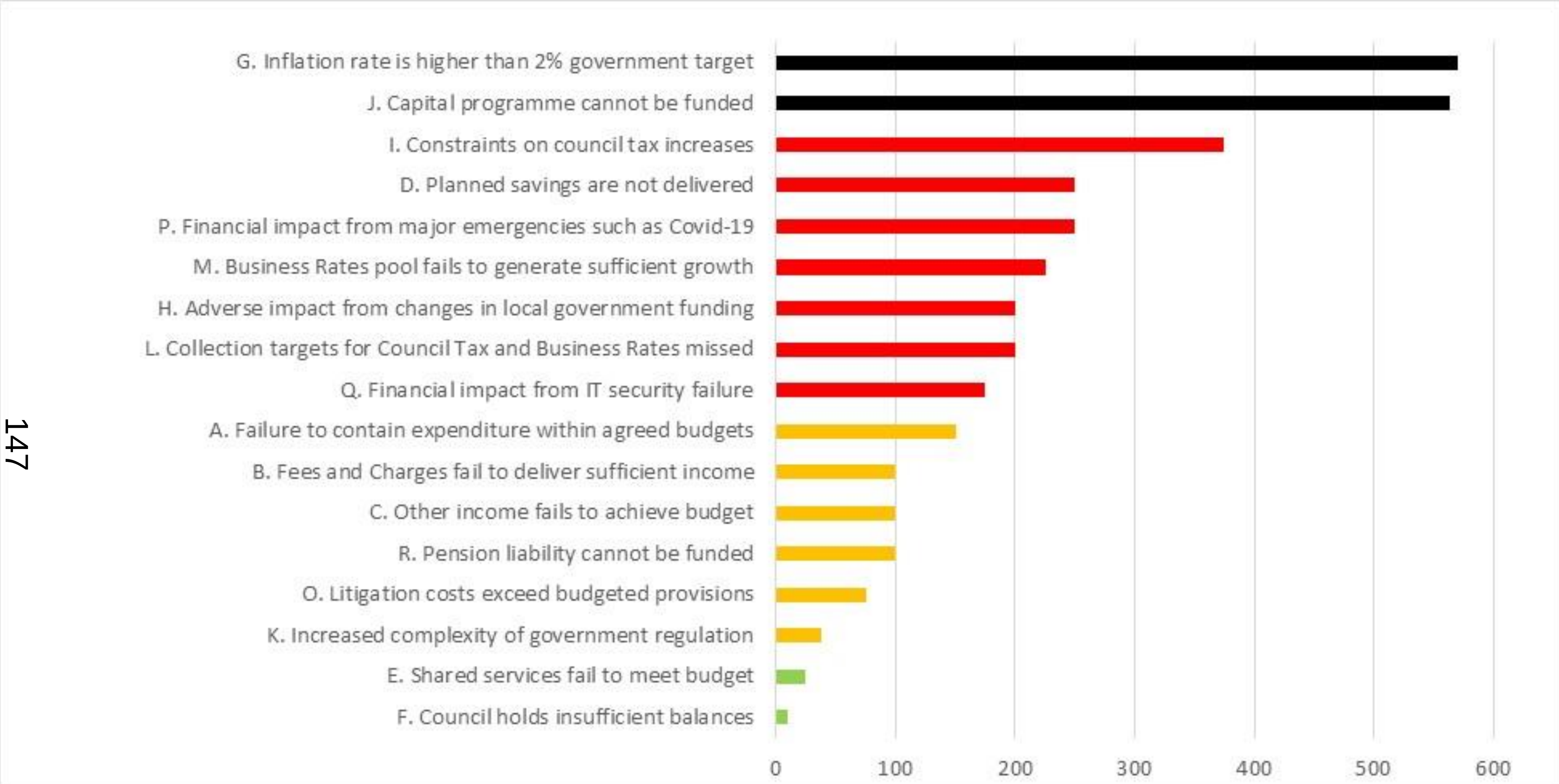


A. Failure to contain expenditure within agreed budgets	**J. Capital programme cannot be funded**
B. Fees and Charges fail to deliver sufficient income	**K. Increased complexity of government regulation**
C. Other income fails to achieve budget	**L. Collection targets for Council Tax and Business Rates missed**
D. Planned savings are not delivered	
E. Shared services fail to meet budget	**M. Business Rates pool fails to generate sufficient growth**
F. Council holds insufficient balances	**O. Litigation costs exceed budgeted provisions**
G. Inflation rate is higher than 2% government target	**P. Financial impact from major emergencies such as Covid-19**
H. Adverse impact from changes in local government funding	**Q. Financial impact from IT security failure**
I. Constraints on council tax increases	**R. Pension liability cannot be funded**

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)			Likelihood	Weighted
		Lower	Upper	Mid-point		
		£000	£000	£000	%	£000
G. Inflation rate is higher than 2% government target	1	400	800	600	95	570
J. Capital programme cannot be funded	2	500	1,000	750	75	563
I. Constraints on council tax increases	3	250	750	500	75	375
D. Planned savings are not delivered	4=	250	750	500	50	250
P. Financial impact from major emergencies such as COVID-19	4=	250	750	500	50	250
M. Business Rates pool fails to generate sufficient growth	6	150	450	300	75	225
H. Adverse impact from changes in local government funding	7=	100	900	400	50	200
L. Collection targets for Council Tax and Business Rates missed	7=	200	600	400	50	200
Q. Financial impact from IT security failure	9	100	600	350	50	175
A. Failure to contain expenditure within agreed budgets	10	200	800	600	25	150
B. Fees and Charges fail to deliver sufficient income	11=	200	600	400	25	100
C. Other income fails to achieve budget	11=	200	600	400	25	100
R. Pension liability cannot be funded	11=	200	600	400	25	100
O. Litigation costs exceed budgeted provisions	14	100	500	300	25	75
K. Increased complexity of government regulation	15	50	100	75	50	38
E. Shared services fail to meet budget	16	50	150	100	25	25
F. Council holds insufficient balances	17	100	300	200	5	10

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
A	**Failure to contain expenditure within agreed budgets** The Council overspends overall against its agreed budget for the year	Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.	- Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2022/23. - Strong controls over expenditure and established process for recovering from overspends	5	2	10
B	**Fees & Charges fail to deliver sufficient income** Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.	The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.	- Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised.	4	2	8
C	**Other income fails to achieve budget** In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.	The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy. Income generation from investment activities supports the revenue budget and is required in ordered to pay back capital investment.	- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project	4	2	8

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appraisal process and during the course of delivering the projects.			
D	**Planned savings are not delivered** Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget	The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation. Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.	4	3	12
E	**Shared Services** Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.	Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.	2	2	4
F	**Insufficient Balances** Minimum balance is insufficient to cover unexpected events OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves. The Council would not gain best value from its resources as Investment returns are low in the current market.	- The Council has set a lower limit below which General Fund balances cannot fall of £4 million. - At the beginning of the 2022/23 financial year unallocated General Fund reserves stood at £9 million.	3	1	3
G	**Inflation rate is higher than 2% government target**	Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.	- Allowances for inflation are developed from three key threads:	4	5	20

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Actual levels are significantly above or below target	Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally - MTFS core inflation projections are based on the government's 2% inflation target but an additional contingency of £1.3 million is included in the 22/23 budget			
H	**Adverse impact from changes in local government funding** The financial implications of the new local government funding regime, now unlikely to be introduced until 2025/26, remain unclear.	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.	- The Medium Term Financial Strategy to 2026/27 includes an adverse scenario which allows for a significant impact on the Council's resources, - The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.	4	3	12
I	**Constraints on council tax increases** The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.	The limit on Council Tax increases means that inflation levels in excess of the referendum limit have to be absorbed by making savings elsewhere.	- The budget for 2022/23 incorporates a Council Tax increase of 2%. - Budget planning is based around the assumption that Council Tax increases will be maximised within the constraints of the referendum limit in subsequent years. .	4	4	16
J	**Capital Programme cannot be funded** Reduction or total loss of funding sources means that the capital programme cannot be	The main sources of funding are: ○ Internal borrowing ○ PWLB borrowing	- Council has access to borrowing.	5	4	20

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
	delivered or demands on funding exceed available supply	○ New Homes Bonus ○ Capital Grants ○ Developer contributions (S106) A reduction in this funding will mean that future schemes cannot be delivered.	- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria. - Capital expenditure is monitored carefully against the borrowing limits that the Council sets itself.			
K	**Increased volume and complexity of government regulation** Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.	Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities. Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	3	6
L	**Business Rates & Council Tax collection** Council fails to maintain collection targets for business rates and council tax	Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected. Business rates amount to around £50 million in 2022/23 and Council Tax due amounts to around £120 million.	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.	4	3	12
M	**Business Rates pool** Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income	Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £14m in 2022/23.	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.			
O	**Litigation costs exceed budgeted provisions.** The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	- Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times.	4	2	8
P	**Financial impact from emergencies such as COVID-19** A resurgence of the pandemic or a similar emergency would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	- Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term	5	3	15
Q	**Financial impact from IT security failure** Local authorities have been subject to cyber attacks over the past few years, often with severe financial and service implications.	The Council might have to suspend normal financial transactions for a period of time.	- Anti-virus software - Regular communications with staff to warn about risks - Back-up arrangements with neighbouring authorities	4	3	12
R	**Pension liability cannot be funded** There are a range of risks associated with the pension liability, including pension fund investment performance, inflation in salaries and pensions, changes in longevity, and capacity of the organisation to support pension fund contributions.	Additional revenue costs will arise from an increased pension liability	- Regular actuarial valuations - Mitigating actions in the form of increases to employer pension contributions	4	2	8

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick		Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history