AUDIT, GOVERNANCE & STANDARDS COMMITTEE	15th January 2024

TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2024/25

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, Investment and Capital Strategy for 2024/25 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 2024/25 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 Cabinet at its meeting on 7th February 2024.
2. That the Capital Strategy for 2024/25 attached as Appendix B to this report is agreed and recommended to Council for adoption.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	15th January 2024
Corporate Services Policy Advisory Committee	17th January 2024
Cabinet	7th February 2024
Council	21st February 2024

TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2024/25

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.	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	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Senior 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, Investment 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 2024/25 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 2024/25**

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 2023/24 Treasury Management Strategy (TMS) was reviewed by this Committee and agreed by Council in February 2023. 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 2024/25. However, the authority will review the spending pattern of the Capital Programme to see if funds can be invested slightly longer term (greater than 1 year) and if further borrowing is required. The Council will continue to assess the appropriate funding (short term/long term) in line with the proposed capital programme.

2.5.6 The Treasury Management Strategy for 2024/25 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 2023 total £18.185m. A list of these can be found within **Appendix C**.

2.5.8 The Council has long term borrowings of £5m with the PWLB and short term borrowing with other Local Authorities of £4m. Details can 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 5.24%). The Council is reviewing investment options for the first £40m in February 2024 in line with e Capital Programme spending.

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 2024/25 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 investment Strategy is also included within Capital Strategy document, however the Council does not currently have any investments in property that are considered to be purely commercial in nature, i.e. primarily for yield. 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%. 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%. Current balance owing is £139,293. There has been no agreement to enter into further service loans in the immediate future.

2.6.3 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.

2.6.4 The strategy for 2024/25 is an update with the latest capital proposal plans for the Council subject to review.

2.6.5 The Executive will consider a capital programme for the period 2024/25 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.

2.6.6 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, internal borrowing and MRP.

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
External sources	1,605	5,421	2,979	13,486	21,356	9,963
Own resources - incl Internal borrowing/MRP	2,647	4,780	6,684	8,680	9,940	10,370
External Borrowing	37,673	85,560	80,888	46,637	20,046	38,238
TOTAL	**41,924**	**95,761**	**90,551**	**68,803**	**51,342**	**58,571**

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3. AVAILABLE OPTIONS

3.1 **Option 1:** The Committee could decide not to recommend the strategies to Council. The Council must adopt strategies for 2024/25 and should the Committee decide not to recommend it would need to recommend an alternative to Council. The strategies are in line with the necessary codes and practice guides and take a low risk approach favouring liquidity and security over return. As such the approach set out within the strategy is considered suitable for this Council.

3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategies prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendments and the risks and benefits that the proposed amendments provide in order for the Council to make a fully informed decision on the recommendation.

3.3 **Option 3:** The Committee could agree the attached strategies and recommend them to Council. The attached strategies have been produced in line with current guidance from CIPFA and the Department of Levelling Up, Housing and Communities (DLUHC). They have also been developed in line with advice and guidance from the Council's Treasury Management Advisors, Link Asset Services.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The recommended option is Option 3, to recommend to Council the Treasury Management Strategy and the Capital Strategy for 2024/25.

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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 Corporate Services Policy Advisory Committee on1 7th January 2024, Cabinet will agree the Capital Programme for 2024/25 to 2033/34 on 7th February 2024 and adopted by Council on 21st February 2024.

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 2024/25.
- Appendix B: Capital Strategy 2024/25.
- Appendix C: Investment and Borrowing Position as at 31st December 2023.
- Appendix D: Counterparty List

9. BACKGROUND PAPERS

9.1 None