



## **CORPORATE GOVERNANCE COMMITTEE – 28 JANUARY 2022**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2022/23**

##### **Purpose of the Report**

1. The purpose of this report is to provide the Corporate Governance Committee with an opportunity to review the treasury management strategy statement and annual investment strategy for 2022/23.

##### **Background**

2. The Treasury Management Strategy statement and Annual Investment Strategy form part of the Medium Term Financial Strategy which will be considered by the Council at its meeting on 23 February 2022.
3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.
4. In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. The changes to the Codes reflect concern within Central Government about a trend towards authorities making investments in assets which are not required for service reasons, in an attempt to generate additional resources to assist the revenue budget. Most (but not all) of these investments have been in commercial property and many have been funded by external borrowing. There is a view that some of these investments have been made without authorities having the requisite skills to fully understand the investment. The requirements of the 2017 Code are to ensure that members are fully informed of the details of these types of investments, and in particular that they have a better understanding of the associated risks.
5. Subsequent guidance produced by the Secretary of State supports the code in requiring local authorities to prepare at least one investment strategy that will contain certain disclosures around risk, security, liquidity and yield when making these types of 'commercial' investments. The Council has had in place for some time its Corporate Asset Investment Fund (CAIF) Strategy which it first produced in 2014 prior to this guidance being produced. This has been updated annually since then, the most recent version is scheduled to be reported to the Scrutiny Commission in January 2022, and the Cabinet in February 2022, and when read in

conjunction with the Treasury Management Strategy and Statement; this fulfils the Council's obligations set out within this guidance.

6. The Council's Corporate Asset Investment Fund (CAIF) Strategy sets out the approach the Council will follow when considering the acquisition investments for the purposes of inclusion within the CAIF. It specifically documents the Council's requirements for ensuring effective due diligence, risk appetite, independent and expert advice and scrutiny arrangements, and performance monitoring by the Corporate Asset Investment Board, the Cabinet and the Scrutiny Commission as part of the regular monitoring of the MTFS.
7. The period covered by the Strategy has been aligned to the MTFS, but like the MTFS this will continue to be reviewed and refreshed on an annual basis and reported to the Cabinet and the Scrutiny Commission as appropriate. The CAIF Strategy will therefore be considered by the Cabinet and the County Council as part of the MTFS 2022-26 in February 2022.
8. The County Council has not and does not intend to borrow to fund the investments within the CAIF programme. The proposed investments in CAIF included with the MTFS 2022-26 are entirely funded from revenue reserves. Decisions on the availability and proportionality of funding to fund the Capital Programme, are made through the Capital Strategy (which includes funding for CAIF) are reviewed annually as part of the MTFS, and the Treasury Management Strategy Statement and Annual Investment Strategy. These documents take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.
9. On 20<sup>th</sup> December 2021 CIPFA published revised Treasury Management and Prudential Codes of Practice with formal adoption not until the 2023/24 financial year. Further details are provided in Annex 5 of the Appendix. The updated Codes will be reviewed to assess the impacts to the current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy Statement (TMSS) report.

### **Treasury Management Strategy Statement and Annual Investment Strategy**

10. The impact of the Covid-19 pandemic has reduced the number of lending options open to the council. Whereas the economic crisis of 2008 was characterised by a lack of liquidity in financial markets. The opposite is true of the current crisis. Regulatory requirements for increased capitalisation, coupled with unprecedented fiscal and monetary stimulus from central governments, have resulted in subdued demand for capital. Further to this, ratings actions, including the downgrade of the UK sovereign rating, have reduced the list of acceptable counterparties available.
11. In order to maintain a flexible, risk averse approach to treasury management, the limit for lending to overseas banks domiciled within a single country (other than the UK) has been increased from £30m to £50m. Although the maximum amount that can be invested in a single country has increased, the amount that can be invested in an individual institution will remain the same. This serves to expand the Council's lending capacity without increasing exposure to any individual institution.

12. Following the lasting implications of the COVID-19 pandemic, in particular, the way the pandemic demonstrated that unforeseeable events can very quickly cause significant uncertainty and shock financial markets, it is recognised that in exceptional circumstances the Director of Corporate Resources, in order to protect capital balances and liquidity, may have to take immediate action that breaches the limits within the policy on a temporary basis. The Committee noted at its meeting in January 2021 that action would only be taken as a last resort and that any such action taken would be reported, along with the rationale behind it, to the Corporate Governance Committee at the first opportunity. It was also agreed at the meeting that ideally the decision should be made in consultation with the Chairman of the Corporate Governance Committee and if immediate action was required and it was not possible to consult with the Chairman, the Chairman would be informed as soon as practicable afterwards.

### **Resource Implications**

13. The interest earned on revenue balances and the interest paid on external debt (which are directly correlated to the Treasury Management Strategy Statement and Annual Investment Strategy) will impact onto the resources available to the Council.

### **Equality and Human Rights Implications**

14. There are no discernible equality and human rights implications.

### **Recommendation**

15. The Committee is asked to comment on this report.

### **Background Papers**

Report to Corporate Governance Committee on 29 January 2021 – Treasury Management Strategy Statement and Annual Investment Strategy 2021/22:

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6492&Ver=4>

### **Circulation under the Local Issues Alert Procedure**

16. None

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**Appendices**

Appendix - Treasury Management Strategy Statement and Annual Investment Strategy  
2022/23