

CABINET

5 FEBRUARY 2019

TREASURY MANAGEMENT STRATEGY 2019/20

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from: Phil Watts, Chief Finance Officer

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Summary

This report presents the Council's Treasury Management Strategy for the 2019/20 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

1. Budget and Policy Framework

- 1.1 Audit Committee is responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement. The Constitution also specifies the role of Cabinet in implementing and monitoring treasury management policies and practices.
- 1.2 Following scrutiny by Audit Committee, Cabinet will consider the Strategy taking into account this Committee's comments.
- 1.3 Final approval of the policy and the setting of prudential indicators is a matter for Council on 21 February 2019.

2. Background

- 2.1 The Council 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 Council's risk appetite, providing adequate liquidity initially before considering investment return.
- 2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council 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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

- 2.3 Medway Council defines its treasury management activities as: *“The management of the local authority’s investments and cash flows, 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”*.

3. Treasury Management Strategy 2019/20

- 3.1 The Strategy (Appendix A) has been prepared in line with CIPFA’s Local Authority Treasury Management Code, and sets out the Council’s borrowing requirement and strategy, its strategy in respect of investments, provides details of the Council’s current portfolio position and sets out the prudential and treasury indicators that will be used to monitor and measure treasury performance.

4. Audit Committee – 8 January 2019

- 4.1 The Audit Committee considered this report on 9 January 2018. Members considered a report which presented the Council’s Treasury Management Strategy for the 2019/20 financial year. The Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.
- 4.2 In response to a query, officers advised that the external borrowing figures did not include the £24.7m that Cabinet had recommended be added to the capital programme in respect of the Independent Autism Spectrum Disorder Special School.
- 4.3 Reference was made to the addition in the Strategy (para. 5.7 refers) that the Council would consider approving loans to social enterprises and similar organisations where the loan would be used to advance Council priorities. A Member queried whether any such loans had been agreed and were advised that a loan had been approved some years ago and repaid. A Member asked for further information outside the meeting about this case and how the process worked generally.
- 4.4 A Member queried why the lowest rating for investments in countries had been set at AA- when the Council did not invest outside of the UK. Officers advised this was based on advice from the Council’s treasury advisors and any proposals to invest in a country outside the UK would be taken after advice.
- 4.5 In response to a query regarding the possible further use of equity or money market products, officers advised that only a small amount had been invested in a money market fund, unlike many other councils where this was more common.

- 4.6 In terms of the Council's risk appetite and whether this might change, officers commented that the approach had not changed and there were no current plans to invest in higher risk areas.
- 4.7 A Member referred to the fact that external borrowing had replaced available cash balances to manage cash flow and asked if officers had any concerns about this. Members were advised that due to a reduction in reserves, additional external borrowing had been necessary. So far, most of the new borrowing had been for short term duration due to the relative attractiveness of short term rates. Going forward, there would be more longer term borrowing which would bring more certainty but also result in some increase in interest cost.
- 4.8 A Member noted that the authorised limit for external debt had increased and queried whether this was sustainable given the shrinking size of the organisation. Officers advised that borrowing was only allowed for approved capital projects and the increase in the capital programme led to an increase in the authorised limit.
- 4.9 A Member queried why LOBO (borrowing under lender's option/borrower's option) were included in the Strategy when such products were not being purchased. Officers advised that this was to provide some flexibility but any proposal to take out a LOBO loan would come to the Committee.
- 4.10 The Committee agreed to note the report and forward its comments on the Strategy to Cabinet.

5. Risk management

- 5.1 Risk and the management thereof is a feature throughout the strategy and in detail within the Treasury Management Practices 1. (Appendix 6 to Appendix A).

6. Diversity Impact Assessment

- 6.1 A Diversity Impact Assessment is set out at Appendix B. The Treasury Management Strategy does not directly impact on members of the public as it deals with the management of the local authority's investments and cash flows, 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. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group.

7. Financial and legal implications

- 7.1 The finance and legal positions are set out throughout the Treasury Strategy itself. In order to achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising the exposure to risk. In order to achieve this, investments are only placed with institutions which meet the criteria set out within this report. Investment durations do not exceed those as advised by Link Asset Services credit ratings which are associated with the specific institutions. Where the authority

is required to borrow to meet the needs of the authority, officers will seek advice from Link Asset Services on timings and options in order to ensure the best deal for the authority.

8. Recommendations

- 8.1 The Cabinet is asked to note the comments of the Audit Committee, as set out in section 4 of the report.
- 8.2 The Cabinet is asked to recommend approval of the Treasury Management Strategy 2018/2019, as set out in Appendix A to the report, to Full Council.
- 8.3 The Cabinet is asked to approve the Treasury Management Practices, as set out in Appendix C to the report.

9. Suggested reasons for decisions

- 9.1 Cabinet has the responsibility to make recommendations to Full Council on the approval of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement and has responsibility for the implementation of the Treasury Management Practices and associated schedules.

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Appendices

Appendix A - Treasury Management Strategy 2019/2020
Appendix B - Diversity Impact Assessment Screening Form
Appendix C - Treasury Management Practices

Background Papers

None