

## **CABINET**

**4 FEBRUARY 2020**

### **TREASURY MANAGEMENT STRATEGY 2020/21**

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from: Phil Watts, Chief Finance Officer

Author: Jonathan Lloyd, Finance Business Partner – Corporate Services

#### **Summary**

This report presents the Council's Treasury Management Strategy for the 2020/21 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 The 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, comments from which are set out at section 4 of the report, 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 20 February 2020.

#### **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 2020/21**

- 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 – 7 January 2020**

- 4.1 The Audit Committee considered this report and appendices at its meeting on 7 January 2020 and its comments are summarised as follows:
- 4.2 The Committee considered a report regarding the Council’s Treasury Management Strategy for the 2020/21 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.
- 4.3 The Committee’s attention was drawn to a review of Minimum Revenue Provision (MRP) undertaken by the Council’s treasury advisors which revealed that an over-provision had been made over a number of years. The Council therefore proposed to offset MRP by an over-provision from 2019/20 onwards, a view which was supported by its treasury advisors and CIPFA. However, Grant Thornton did not presently consider this was permissible under the regulations so the Council were seeking legal advice on the proposal. Depending on the outcome of this, the report to Cabinet may need to be amended. The issue would be resolved before the February Council meeting and Members would be updated on the outcome.
- 4.4 The revenue implications of this proposal were queried and Members were advised that the revenue budget currently assumed a contribution to unusable reserves and the proposed change would allow this contribution to be allocated to useable reserves in order to help improve the financial sustainability of the Council.
- 4.5 A discussion took place about the recent rise in rates by the Public Works Loan Board (PWLb) and whether there were any other options available to the Council for borrowing. Members were advised that most borrowing recently was with other local authorities rather than the PWLB. It was possible

that other lenders such as insurance companies may enter the market and the Council would monitor this to see if they offered competitive rates.

- 4.6 Some concern was expressed about high levels of Council borrowing to fund the capital programme and whether the Council was borrowing significantly more than the average. Officers advised that the estimated borrowing figures for the next few years reflected the Council's ambitious regeneration programme and the Council was not out of step with similar councils. The Council would only ever borrow what it could afford to repay. The Council's treasury advisors considered its approach to be prudent.
- 4.7 Following comments about how the report could be difficult to understand in places, it was agreed that reports should be made clearer in future without losing any of the detail. Members' thoughts on this would be welcomed.
- 4.8 The Committee agreed to note the report and forward its comments 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 C)

## **6. Diversity Impact Assessment**

- 6.1 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. A Diversity Impact Assessment is attached at Appendix B.

## **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. Recommendation**

- 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 2020/21, 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.

### **Lead officer contact**

Jonathan Lloyd, Principal Technical Accountant  
Telephone No: 01634 332787 Email: [jonathan.lloyd@medway.gov.uk](mailto:jonathan.lloyd@medway.gov.uk)

### **Appendices**

Appendix A - Treasury Management Strategy 2020/21  
Appendix B - Diversity Impact Assessment  
Appendix C - Treasury Management Practices

### **Background Papers**

None