COUNCIL

18 FEBRUARY 2021

TREASURY MANAGEMENT STRATEGY 2021/22

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council

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 2021/22 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 consideration by Audit Committee, comments from which are set out at section 4 of the report, the Cabinet considered the Strategy (section 5 of the report), taking into account the Committee's comments.

1.3. Final approval of the policy and the setting of prudential indicators is a matter for full Council on 18 February 2021.

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 2021/22

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. A Diversity Impact Assessment has been undertaken on the Strategy, as set out in Appendix B to the report.

4. Audit Committee – 5 January 2021

4.1. The Audit Committee considered this report and appendices at its meeting on 5 January 2021 and its comments are summarised as follows:

4.2. This report provided details of the Council's Treasury Management Strategy for the 2021/22 financial year. The Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and the Minimum Revenue Provision Policy.

4.3. The Finance Business Partner – Corporate Services advised the Committee of the key issues in the report, highlighting the overall aim of the Strategy which was to keep borrowing as low as possible, therefore cash balances would also be relatively low, limiting the scope for long term treasury investments i.e. investments of cash balances rather than capital expenditure in pursuit of council objectives. He referred to Table 1 in paragraph 3.7.2 of the Strategy which showed the capital programme and funding up to 2023/24, as currently approved.

4.4. He provided a detailed explanation of the Capital Financing Requirement (CFR) and the Minimum Revenue Provision (MRP). He also made reference to the schedule of debt repayments highlighting the spike in 2022/23 which had been caused in the main by the Public Work Loans Board (PWLB) hike in interest rates in 2019 and the Covid-19 pandemic which had led to some short term borrowing.

4.5. Members then raised a number of questions and comments which included:

4.6. **Member priorities** – in response to a question, the Head of Finance Strategy confirmed that that there was one scheme currently being undertaken (St Mary's Amateur Boxing Club - £40,000) within this element of the Capital Programme.

4.7. **Borrowing** – in response to questions on borrowing, the Finance Business Partner – Corporate Services confirmed that the Council would use its own sources of funding (for example, reserves) for borrowing rather than borrow funds externally, when this was possible. He explained that the Council had borrowed some funds at the beginning of the Covid-19 pandemic for cash flow purposes given the uncertainty at the time regarding how the Government might provide financial support to local authorities.

4.8. He also explained that with regards to long term borrowing, the Council would no longer take out any more LOBO loans (unless this became an attractive option), such loans would now be sought, in the main, from the PWLB. He referred to the split between long term and short term loans, stating that the aim was to keep a short term cash flow of £10m with £25m available in borrowing and he also explained that the purchase of the Pentagon Centre had been financed by a number of long term loans.

4.9. In response to a question as to whether the Council had needed to borrow £45m at the beginning of the Covid-19 pandemic, and the implications arising from this decision, the Head of Finance Strategy advised that this figure related to two sums of funding which had been conflated back in March 2020 when the Council had acted to ensure businesses and local residents could be supported and cited examples of suppliers being paid on immediate terms and care places being provided to facilitate the transfer of patients from hospital in accordance with the Government's announcements to provide assistance but before any Government funding was provided, which had necessitated an increase in cashflow. The Chief Finance Officer had made this decision in accordance with the Covid-19 governance framework. She further advised the governance framework for decisions taken as part of the emergency response had been reported to the Cabinet and she would provide this information to the Committee.

4.10. In response to a question seeking confirmation on the LOBO rates, it was confirmed that these had not changed.

4.11. In response to a question regarding funding to cover Covid and HIF, the Head of Finance Strategy confirmed how funding for these matters had been provided, in particular the Council would initially incur costs regarding spend on the HIF programme and claim the costs back from Government.

4.12. **Property funds** – in response to a question, the Finance Business Partner – Corporate Services explained that dividends had held up quite well and one of the funds had increased its capital value in the last quarter, but overall, the investments had reduced in value. The Head of Finance Strategy advised the

Committee that these were long term investments and that property was still a safe asset over the long term. It was clarified that the purchase of the Pentagon Centre was capital expenditure and did not represent a treasury investment.

4.13. The Finance Business Partner – Corporate Services provided details of the Government's short term dispensation which benefitted the Council's by allowing any dividends to be paid into the Council's revenue account whilst any capital fluctuations (currently negative) could be treated in reserves. This dispensation was due to end in 2023/24 but could be extended by the Government.

4.14. **Local Government reorganisation debt** – in response to a question regarding the average cost of debt, the Finance Business Partner – Corporate Services explained that the figure of 4.579% was provided to him by Kent County Council and the Council had no control over this particular matter.

4.15. **Negative interest rates** – in response to a question, the Finance Business Partner – Corporate Services explained that any long term borrowing would still be determined by the market's view on borrowing across the overall period. He advised that the current position meant that the Council would earn very little on cash investments.

4.16. **Capital Financing Requirement (CFR)** – in response to a question regarding debt repayments during 2021/22 and 2022/23, the Finance Business Partner – Corporate Services explained that the £45m repayment due in 2021/22 will be refinanced during that year as a consequence of the rates imposed by the PWLB to discourage commercial investments by Local Authorities. He explained that the expected change in debt in 2021/22 (£104,683m) was a function of the capital expenditure it was expected to borrow.

4.17. He referred the Committee to table 4.1.5 in the Strategy and explained the reasons for the spike in 2021/22**.**

4.18. **Loans provided to wholly owned subsidiaries** – in response to a question as to how safe the Council's loans were to the Council's wholly owned subsidiaries, the Finance Business Partner – Corporate Services confirmed that a loan agreement was currently being drawn up with Medway Development Company Ltd (MDC) to ensure the Council's security over the assets. The Head of Finance Strategy advised that MDC was being loaned money to enable MDC to carry out the various tasks to deliver property and that whilst the risks sat with MDC they would also provide substantial assets. She also advised that the Cabinet received frequent reports from the subsidiaries, therefore, the Council was being informed of outputs and performance.

4.19. In response to a question regarding the value and the level of risk of these companies, the Chief Legal Officer advised that the Council had sought specialist legal advice in 2017 when the Council had decided to establish MDC, it had sought further specialist tax advice and was currently obtaining further specialist legal advice on the loan agreement to protect the Council's position. The Chief Legal Officer referred to the level of risk which would increase over time given the activities of MDC, however, the closer to the selling of the asset, the level of risk would start to decrease. Reports would continue to be submitted to the Cabinet and, as appropriate, to this Committee. He assured the Committee that the legal, tax and governance frameworks were in place to ensure that the risks would be mitigated as best as possible.

4.20. The Chief Legal Officer also provided details of the current investment which had been committed by the Council (£120m) for the first five projects with Mountbatten House scheduled as the next project subject to planning permission. He confirmed that the Cabinet had been informed of the spend so far, noting that spend would increase significantly given the works which were about to be undertaken, and the Committee would be apprised as developments were progressed.

4.21. During discussion, it was stated that the Committee should receive reports on a regular basis which set out the value and risk associated with the developments being undertaken by MDC.

4.22. In response to a question regarding how the debt was being underwritten, the Chief Legal Officer confirmed that the loan arrangement between the Council and MDC would include reference to the asset and the right for the Council to get its money back if necessary. The Council was treating MDC as if it had a short trading history and this was reflected in the loan rate.

4.23. The Committee considered the report, noted its contents and passed the comments set out above to Cabinet.

5. Cabinet – 2 February 2021

5.1. The Cabinet considered this report on 2 February 2021 and:

5.2. Noted the comments of the Audit Committee, as set out in section 4 of the report.

5.3. Recommended approval of the Treasury Management Strategy 2021/22, as set out in Appendix A to the report, to Full Council.

5.4. Approved the Treasury Management Practices, as set out in Appendix C to the report.

6. Risk management

6.1. Risk and the management thereof is a feature throughout the strategy and in detail within the Treasury Management Practices 1, which were approved by the Cabinet on 2 February 2021 (see paragraph 5.4 above).

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 Council is asked to note the comments of the Audit Committee and the Cabinet, as set out in sections 4 and 5 of the report.

8.2. The Council is asked to approve the Treasury Management Strategy 2021/22, as set out in Appendix A to the report.

Lead officer contact

Jonathan Lloyd, Finance Business Partner – Corporate Services
Telephone No: 01634 332787 Email: jonathan.lloyd@medway.gov.uk

Appendices

Appendix A - Treasury Management Strategy 2021/22
Appendix B - Diversity Impact Assessment

Background papers

None.