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28 SEPTEMBER 2021

TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW REPORT 2021/22 – ADDENDUM REPORT

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 addendum report sets out the comments of the Audit Committee, which considered the Treasury Management Strategy Mid-Year Review Report 2021/22 on 23 September 2021.

1. Background

1.1 The Finance Business Partner – Corporate Services advised the Committee of the key issues in the report, including an explanation of the table at in the summary of the report which showed that the Council remained under borrowed compared with the Capital Financing Requirement (CFR) and that this would be expected to remain the case in the coming years. He stated that for the current year this level of under borrowing would be higher than expected owing to changes in the Capital Programme.

1.2 The Finance Business Partner – Corporate Services stated that he did not anticipate any large increases in interest rates, therefore, this had led to continued borrowing from other local authorities for short durations, and the risk of refinancing these borrowings was considered low. He explained that the repayment dates for borrowings, including LOBO loans, were reasonably spread. He also referred to liquid investments required for day to day requirements.

1.3 He referred to property investments and their performance as set out in paragraphs 5.3 and 5.4 of the report. The tables indicated that the dividends received exceeded the loss on property values by over £3M. He also referred to the Council’s performance which no longer out performed its peers, however, performance was within the expected range for the level risk taken. He concluded by stating that no debt rescheduling had taken place during the first six months of the year and that the Council had complied with the treasury and prudential limits.

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

1.5 **Short term borrowing from other local authorities –** in response to a question regarding short term borrowing including other local authorities, the Finance Business Partner – Corporate Services stated that some other local authorities had larger cash balances than Medway, therefore, they would be able to invest cash for longer terms. In Medway's case, the position was to keep cash levels low to avoid borrowing more than necessary.

1.6 **Liquid investments –** in response to a question regarding alternatives to liquid investments, the Finance Business Partner – Corporate Services did refer to the money markets as an alternative, however, the fees involved sometimes meant it was not worthwhile to do so.

1.7 **Performance –** in response to a question regarding the level of performance as shown in the graph set out in paragraph 5.7.1 of the report, the Finance Business Partner – Corporate Services stated that he hoped performance would not worsen, however, the Council's position on the graph was, in part, as a consequence of the Council having lower cash balances than some of its comparators. In response to a further question on the issue of performance, the Chief Finance Officer explained the rationale for holding low cash balances and that these needed to be held in low risk, liquid investments, principally bank deposits.

1.8 **Property investments –** in response to a question on the returns from property investments from Medway Development Company, the Finance Business Partner – Corporate Services stated that these returns would be included in the interest and financing element of the income and expenditure account.

1.9 **Benchmarking –** in response to a question around other types of investments which could be made and the risks associated with such investments, the Finance Business Partner – Corporate Services stated that beyond bank deposits and gilts, investments were inherently risky, including renewables. He also advised that the Government took a dim view of local authorities making investments outside of its own geographical area. Although the Council held some investment in properties located outside Medway, the amounts were modest especially in comparison to some other local authorities.

1.10 **Under borrowing –** in response to a question on the issue of the impact of under borrowing including whether this meant that capital investments could be accelerated and whether work on the capital programme was behind schedule, the Chief Finance Officer explained that the amount of borrowing had been less than was needed, which resulted in under borrowing. The Finance Business Partner – Corporate Services stated that sometimes capital schemes did not have accurate profiling, the effect of which was to front load the borrowing requirement. During discussion, reference was made to the process in place for the demolition of Splashes.

1.11 **Risk –** In response to a question referring to the levels of risk and return as set out in paragraph 5.7.4 of the report, and whether additional contextual information could be provided in future versions of the report, including how cash rich other local authorities were, the Finance Business Partner – Corporate Services stated that he would see what he could do. The Chief

Finance Officer stated that information on cash levels would be set out on the balance sheets of all local authorities. He explained how the Council funded its investments referring to grants, capital receipts and S106 funding, none of which had an impact on the CFR. However, if the Council borrowed the funding, there would be an impact on the CFR and in turn revenue provision would have to be made to repay the borrowing. In these cases, cash reserves would be built up and could be used to fund internal borrowing. The effect of this would be that overall borrowing would not increase in line with increases in the CFR, leading to a position of under borrowing. He also referred to other local authorities who may choose to use cash balances to undertake riskier investments, for example, solar farms.

2. Recommendation

2.1 The Committee considered this report, noted its contents and noted that the report will also be referred to Cabinet and Full Council.