COUNCIL

24 FEBRUARY 2022

TREASURY MANAGEMENT STRATEGY 2022/23

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 2022/23 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The Audit Committee considered this report at its meeting on 4 January 2022 and its comments are set out at section 4 of the report. The report was then considered by the Cabinet on 8 February 2022, the outcome of which is set out at section 5.

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, the Cabinet considered the Strategy (section 5 of the report), taking into account the Audit Committee's comments set out at section 4.

1.3. Final approval of the policy and the setting of prudential indicators is a matter for Council on 24 February 2022.

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 2022/23

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 – 4 January 2022

4.1. The Audit Committee considered this report at its meeting on 4 January 2022 and it comments are set out as follows:

4.2. This report provided details of the Council's Treasury Management Strategy for the 2022/23 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 Finance Business Partner – Corporate Services advised the Committee that the overall aim of the Strategy was to keep borrowing and cash balances as low as possible, thereby limiting long term treasury investment in cash. He also advised the Committee that the Strategy had been produced in accordance with the CIPFA 2017 Prudential and Treasury Management Codes, however at the time of writing CIPFA had just issued revised 2021 Treasury Management and Prudential Codes and future versions of the Strategy would be based on these.

4.4. He highlighted a number of issues within the Strategy including the capital programme, the capital financing requitement (CFR), minimum revenue position (MRP) policy, long term and short term borrowing, the operational boundary, debt rescheduling and treasury management practices.

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

4.5.1. **Capital finance requirement (CFR)** – in response to a question on how the CFR was set given it was increasing every year, the Finance Business Partner – Corporate Services advised that the CFR was a function of the Capital Programme, which was approved by Members. He made reference to the Ratio of Financing Cost to Net Revenue Stream indicator shown in Appendix 3 as a demonstration that the programme is affordable. There was a wider discussion on the size of the Council's Capital Programme to which it was stated that this was a matter for Members, when making decisions.

4.5.2. **Short term borrowing** – in response to a question in relation to increases in interest rates and whether short term borrowing would remain sensible, the Finance Business Partner – Corporate Services advised that whilst it was not expected for interest rates to increase significantly, he would take advice from Link (the Council's external advisors) and the Chief Finance Officer as required.

4.5.3. **Money markets** – in response to a question on investment in the money markets, the Finance Business Partner – Corporate Services advised that the Council would have very little money to invest in this area and would not make significant yields.

4.5.4. **Direct financing** – in response to a question on whether the Council could enter the money markets direct, the Finance Business Partner – Corporate Services advised that the reason for anyone entering the market directly would likely be to borrow a significant amount of funding, e.g. in excess of £50m. In Medway's case, he advised that long term borrowing would be sought from the PWLB (Public Works Loan Board) or other local authorities for short term borrowing. He advised to enter the money markets would require the Council to have a credit rating and to borrow a significant amount of money.

4.5.5. **Quantative easing (QE)** – in response to a question on the potential impact of QE, the Finance Business Partner – Corporate Services advised that where the Bank of England had been buying gilts, this would lead to an increase in the price of gilts and therefore, a reduction in the yield. As QE was reduced, the reverse could be expected, creating an upward pressure on rates. These types of factors would be included in Link's advice to the Council. He also advised that it was a matter of judgement as to when to decide to consider long term borrowing and cited the historical LOBO borrowing, which when taken out, it had not been anticipated that interest rates would have subsequently fallen.

4.5.6. **Member training** – in response to a question relating to Member training, the Finance Business Partner – Corporate Services advised that he would take this up with the Chief Finance Officer and Head of Finance Strategy.

4.5.7. **Officer attendance** – a Member expressed concern that it was not possible for the officer to attend this meeting remotely.

4.5.8. **Use of borrowing in lieu** – in response to a question where concern was expressed about borrowing in lieu of future monies, for example, business rates, capital receipts and S106 (table 1 in the Strategy), the Finance Business Partner – Corporate Services advised that table 1 had been split out to reflect prudential borrowing (long term borrowing) and he referred to other borrowing such as in lieu of capital receipts, giving the example of the flats being built at Chatham Waterfront, which would yield capital receipts once sold, for which MRP would not be provided. He explained that borrowing in lieu of future business rates was revenue funding, therefore, MRP would be provided whilst S106 (developer contributions) would not require MRP as the contributions would be used to provide for debt repayment.

4.5.9. Concern was also expressed about such matters like business rates where there might be changes to this regime in the next 5 years and the impact that this could have on Council borrowing and the risks associated with this.

4.5.10. **Member priorities** – in response to a question, the Finance Business Partner – Corporate Services advised that Member priorities were a relatively small part of the Capital Programme funded by capital receipts.

4.5.11. **Investment in property funds** – in response to a question around commercial property and the possible impacts of Covid, the Finance Business Partner – Corporate Services advised that investment in property was riskier than putting money in the bank, however, these returns had been doing quite well recently despite Covid. He advised that risk was taken account of as part of the diversification of the Council's investments.

4.5.12. **Kent County Council reorganisation debt** – in response to a question regarding the Kent County Council (KCC) reorganisation debt, and what the penalty would be to settle this debt, the Finance Business Partner – Corporate Services advised that whilst this had been looked at in the past, it would not be cost effective as KCC would demand a premium to settle the debt.

4.6. The Committee considered this report, noted its contents and passed its comments on to Cabinet.

5. Cabinet – 8 February 2022

5.1. The Cabinet considered this report on 8 February 2022 and:

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

5.3. The Cabinet recommended approval of the Treasury Management Strategy 2022/23, as set out in Appendix A to the report, to Full Council.

5.4. The Cabinet 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, which were approved by the Cabinet on 8 February 2022 (see paragraph 5.4 above).

7. Financial and legal implications

7.1. The finance and legal positions are set out throughout the Treasury Management 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 requested to note the comments from the Audit Committee, as set out at section 4 of the report and the decisions of the Cabinet, as set out at section 5 of the report.

8.2. The Council is asked to approve of the Treasury Management Strategy 2022/23, 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 2022/23
Appendix B - Diversity Impact Assessment Screening Form

Background papers

None