

**Medway Council**  
**Meeting of Audit Committee**  
**Thursday, 3 November 2022**  
**6.30pm to 7.06pm**

**Record of the meeting**

**Subject to approval as an accurate record at the next meeting of this committee**

**Present:** Councillors: Thorne (Chairman), Edwards, Gulvin and Osborne

**Substitutes:** Councillors: Rupert Turpin (Substitute for Tejan)

**In Attendance:** Steve Dickens, Democratic Services  
Wayne Hemingway, Head of Democratic Services  
Jonathan Lloyd, Finance Business Partner - Technical Accounting  
Phil Watts, Chief Operating Officer

**335 Apologies for absence**

Apologies were received from Councillor Tejan.

**336 Record of meeting**

The record of the meeting held on 5 October 2022 was agreed and signed by the Chairman as correct.

**337 Urgent matters by reason of special circumstances**

There were none.

**338 Disclosable Pecuniary Interests and Other Significant Interests**

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

Councillor Gulvin declared an OSI in agenda item 5 (Treasury Management Strategy Mid Year Review Report 2022-23) because he is a Director of Medway Development Company Ltd (MDC) and he is also the Chairman of the subsidiary company Medway Development Company (Land and Projects) Ltd.

He relied on a dispensation to take part and vote in any discussion.

Other interests

There were none.

**339 Treasury Management Strategy Mid Year Review Report 2022-23**

This report provided an overview of treasury management activity since 1 April 2022 and presented a review of the Treasury Strategy approved by Council on 24 February 2022.

The Finance Business Partner - Technical Accounting advised the Committee that work continued to balance the need to smooth the debt maturity profile whilst minimising costs for the revenue account. To achieve this the Council continued to use short term borrowing. Short term borrowing was £70 million on 31 March 2022. The amount repayable before 31st March 2022 had fallen to £20 million on 3 November 2022 due to a combination of repayments and replacement longer term loans being secured.

Borrowing remained within the Capital Financing Requirement (CFR) and cash investment was also low, this had impacted upon the return on investment, however, this was day to day cash, investment returns remained within expectations.

The recent rise in interest rates had caused a projected overspend on borrowing costs of approximately £700,000, as set out in paragraph 5.5 of the report.

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

**Lender Option Borrower Option (LOBO)** – In response to a question whether any providers had made contact regarding the potential for the early redemption of loans, the Finance Business Partner - Technical Accounting reported that he had received one exploratory phone call from a provider, however there had not been an offer. If such an offer was received the Council would consider whether it was in its interests to make early repayment.

In response to a further question, what would be the response if providers asked for early repayment, the Council would consider refinancing if it was beneficial, for example, to smooth out the debt maturity profile. The aim would be that repayments would better match the Minimum Revenue Provision (MRP).

**Debt Maturing in 2025** – In response to a question whether there was a plan in place for the high level of debt maturing in 2025, the Finance Business Partner - Technical Accounting stated the Council would consider at that time whether to pay the loans if it had the available monies or refinance.

**Interest rates** – In response to a question whether the Council had considered longer term borrowing due to changes in interest rates, the Finance Business

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Partner - Technical Accounting stated it was difficult to predict the cash flow accurately over the longer period and any decision would be dependent on the Capital Programme. He advised that there is a cost to holding borrowed funds before they were needed. The Capital Strategy was being considered and this would help inform any decision.

**Capital Finance Requirement (CFR)** – In response to a question regarding the CFR and debt to turnover ratio, the Finance Business Partner - Technical Accounting reported the CFR would rise when the Council invested. In the Annual Treasury Management Strategy report the Council reviewed the ratio of debt costs to net income of the authority for the HRA and the general fund, both of those figures were reasonable at the time calculated.

**Authorised borrowing limit** – In response to a question seeking clarification regarding the authorised borrowing limits, the Finance Business Partner - Technical Accounting stated the authorised borrowing limit represented the CFR plus a contingent amount. The borrowing limit would not exceed the CFR, except in the short term.

In response to another question regarding the authorised borrowing limit, the headroom was the difference between the authorised borrowing limit and the CFR. The headroom stood at £40m.

**Repayments from receipts, grants and contributions** - In response to a request for clarification on the figures in the table Movement in Capital Financing Requirement (page 15 refers) and whether it included receipts from the MDC, the Finance Business Partner - Technical Accounting stated the figures were assumptions relating to schemes where the Council had borrowed in lieu of capital receipts. The table assumed the receipt was received two years after investment and included receipts from MDC in 2024-25.

**Property Investment** – In response to a request to include the yield of separate investments including the property fund, the Finance Business Partner - Technical Accounting highlighted that table in paragraph 5.4 of the report provided the cumulative return on investment figures. However, this information was not split by individual funds, and he undertook to consider how this would be shown differently in future reports.

In response to a comment that the Council had made a reasonable return on property investment, the Finance Business Partner - Technical Accounting agreed and stated that there were other properties which were not considered a treasury investment. He also differentiated between treasury management property investments and other commercial investments, eg Pentagon Centre, which were treated as capital expenditure.

**Loan to MDC** – In response to a question regarding where the return on the loan provided to MDC was shown in the accounts, the Finance Business Partner - Technical Accounting stated those figures were shown in the finance and interest costs which were budgeted for each year but not shown in the Mid-Year Treasury Management Report.

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**Diversification of investment** – in response to a question whether the Council was considering different types of investment due to interest rate rises, the Finance Business Partner - Technical Accounting stated the Council had only day-to-day money available. His advice would be against speculative investment.

In response to a question whether investments in the property funds were easily accessible, the Finance Business Partner - Technical Accounting stated the Council could sell these investments, however there was normally a notice period of a few months, similar to other real estate trust investments.

**Interest rate charges** - In response to a question whether the overspend on borrowing took account of recent changes in interest rates, the Finance Business Partner - Technical Accounting stated the figure was based on worst case scenario assumptions of 5% interest rates and all programmed capital expenditure occurring before the end of the financial year.

**Benchmarking** - In response to a question regarding Medway's investment performance compared to other authorities, the Finance Business Partner - Technical Accounting stated the Council used day to day monies so did not have cash in hand to invest, this impacted on investment return and consequently the weighted average maturity and weighted average total time of investment were both at zero.

### **Decision:**

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

**Chairman**

**Date:**

**Steve Dickens, Democratic Services**

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