CABINET

7 FEBRUARY 2023

TREASURY MANAGEMENT STRATEGY 2023/24

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council

Report from: Phil Watts, Chief Finance Officer

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Summary

This report presents the Council's Treasury Management Strategy for the 2023/24 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 and the Cabinet, final approval of the policy and the setting of prudential indicators is a matter for Council on 23 February 2023.

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 2023/24

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.

3.2. In particular following specific changes are set out in the strategy:

- A limit of £100m has applied from 2020/21 for fixed rate loans to subsidiaries. Members are requested to increase this limit to £125m to reflect increased requirements at Medway Development Company. The interest rate set on such loans will take account of market rates, the security offered, the risk of default, and the requirements to comply with State Aid rules.
- Members are requested to approve an increase in the monetary limit for borrowing at variable rates excluding LOBOs (which includes all loans maturing within 12 months) from £100m to £150m. Significant amounts of capital receipts are expected in the next few years which makes longer term borrowing less appropriate.

4. Audit Committee – 10 January 2023

4.1. The Audit Committee considered this report at its meeting on 10 January 2023 and its comments are set out as follows:

4.2. This report provided Council's Treasury Management Strategy for the 2023/24 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

4.3. The Finance Business Partner – Technical Accounting highlighted that the aim of the strategy is to keep borrowing as low as possible. This means cash levels have remained low for day-to-day requirements and consequently interest earned on cash has been limited.

4.4. The Finance Business Partner – Technical Accounting drew members' attention to proposed changes in the Strategy, ie an increase the limit of fixed rate loans from £100m to £125m for Council subsidiary companies to meet the requirements of Medway Development Company (MDC) and to increase the monetary limit for borrowing at variable rates, excluding lender option, borrow option (LOBOs) to £150 million from £100million.

4.5. Prudential and Treasury indicators had been reported on a quarterly basis and had continued to operate within the Capital Finance Requirement.

4.6. The Liability benchmark at 4.2.2 of the report (page 62 refers) showed the additional loans which the Council would be expected to require in future years.

4.7. **LOBO –** In response to a question from a member whether any providers had made contact regarding the potential for early redemption of loans, the Finance Business Partner - Technical Accounting reported there had been no further contact since the last meeting of the Audit Committee, however interest rates meant there was no significant incentive for such offers.

4.8. **Capital Spending -** A member commented that a significant rise in capital spending was expected in the next few years, however much of the funding would be time limited grants from central government. The member asked whether long term borrowing had been used for short term requirements. The Finance Business Partner - Technical Accounting explained the Council would have undertaken more short-term borrowing however liability benchmarking proved that borrowing had not taken place for longer than necessary.

4.9. The Chief Operating Officer added that any borrowing over 12 months was considered long term. The capital programme required a significant level of borrowing for Medway Development Company (MDC) in the short term.

4.10. **Interest Rates –** In response to a question whether the strategy took into account forecasts for significant interest rate rises the Business Finance Partner - Technical Accounting stated that treasury advisors had been consulted and significant interest rises were not expected. In addition, liability benchmarking discouraged borrowing in advance of need.

4.11. **Loans to Subsidiaries -** In response to a question regarding whether repayments from third parties had been received the Business Finance Partner Technical Accounting stated MDC had not yet made any repayments however, receipts meant they had borrowed less from the Council than had been expected.

4.12. **Return on investment -** A member commented that borrowing of £150 million is a significant sum and the Council would be liable should the return on investment be less than expected. The Chief Operating Officer stated when the MDC had been set up it had taken loans from the Council to develop housing, that had been a risk the Council had accepted. However, sales on the first development had progressed well with 75% of units sold. If circumstances changed the Council’s risk could be mitigated through private renting rather than sale of properties.

4.13. A member commented that the sale of units had progressed well and asked when the repayments to the Council would be expected to be paid. The Chief Operating Officer stated that the Council could not confirm when monies would be received.

4.14. A member commented that deposits would be received when the first residents had moved in which was expected in the next month. Those deposits would offset future borrowing. The first two sales had taken place on the Chatham Wharf development and the private renting sector would be considered if necessary.

4.15. The member added that the benefit of the capital project was also part of the regeneration of Chatham and without it, private sector interest in Chatham’s regeneration would not have happened.

4.16. Decision:

The Committee noted the Treasury Management Strategy 2023/24 as and recommended its approval to Full Council after consideration by 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. Financial and legal implications

6.1. 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.

7. Recommendations

7.1. The Cabinet is requested to note the comments from the Audit Committee, as set out in section 4 of the report.

7.2. The Cabinet is asked to recommend the Treasury Management Strategy 2023/24, as set out in Appendix A to the report, to Full Council for approval.

7.3. The Cabinet is asked to approve the Treasury Management Practices, as set out in Appendix C to the report.

8. Suggested reasons for decisions

8.1. 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

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Appendices

Appendix A - Treasury Management Strategy 2023/24
Appendix B - Diversity Impact Assessment Screening Form
Appendix C - Treasury Management Practices

Background papers

None