

Cabinet

13 February 2024

Treasury Management Strategy 2024/25

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer

Author: Jonathan Lloyd, Finance Business Partner – Technical Accounting

Summary

This report presents the Council's Treasury Management Strategy for the 2024/25 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The report was previously considered by the Audit Committee on 10 January 2024 and the minutes of this are set out at section 6 of the report.

1. Recommendations

- 1.1. The Cabinet is requested to note the comments from the Audit Committee, as set out in section 6 of the report.
- 1.2. The Cabinet is asked to recommend the Treasury Management Strategy 2024/25, as set out in Appendix A to the report, to Full Council for approval.
- 1.3. The Cabinet is asked to approve the Treasury Management Practices, as set out in Appendix C to the report.

2. Suggested reasons for decisions

- 2.1. 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.

3. Budget and policy framework

- 3.1. 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.
- 3.2. 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 29 February 2024.

4. Background

- 4.1. 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.
- 4.2. 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.
- 4.3. 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"*.

5. Treasury Management Strategy 2024/25

- 5.1. 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.

6. Audit Committee

- 6.1. The Audit Committee considered the report at its meeting on 10 January 2024 and its comments are set out as follows:
- 6.2. The Finance Business Partner – Technical Accounting introduced the report and highlighted that it was based upon the current Capital Programme, any changes in the programme would result in changes to the forecast position such as the Minimum Revenue Provision.
- 6.3. The Finance Business Partner – Technical Accounting reported that the Council continued to operate within the Capital Finance Requirement, this confirmed the Council did not borrow to meet revenue costs.
- 6.4. The Council was not borrowing for longer than necessary as shown by the CIPFA liability benchmarking and the Debt Maturity Profile shows the Council is not locked into current high interest rates.
- 6.5. The Finance Business Partner – Technical Accounting noted there were no proposed significant changes to Treasury Management Practices.
- 6.6. The following issues were discussed:
- 6.7. **Borrowing in lieu of business rates** – it was noted that borrowing in lieu of business rates was planned to increase and it was queried whether income from business rates was also expected to increase. The Finance Business Partner – Technical Accounting explained that spending on Capital Projects would likely increase receipts from business rates.
- 6.8. **Refinancing Loans** – in response to a question whether the Council had difficulty refinancing its loans the Finance Business Partner – Technical Accounting confirmed the Council had no problem refinancing its loans. The Local Authority loan market had reduced; however the Council could borrow from the Public Loans Works Board (PLWB), which was borrowing from central government which, at present was often cheaper than borrowing from other local authorities. The advantage of the local authority market for borrowing was that it can be arranged in one day, whereas PLWB take a week to arrange. The PLWB lends to all Council at the same rate.
- 6.9. **Council balance** – in response to a question how the Council ensures it has enough day to day cash in hand available, the Finance Business Partner – Technical Accounting stated that the Council aimed to hold around £10m as a cash balance at any one time.
- 6.10. **Borrowing in lieu of other recipients** – further detail was requested related to the Council borrowing in lieu of income from capital, the NHS and rents. The Chief Operating Officer explained the Council had borrowed to invest in Innovation Park Medway to encourage businesses to set up at that location. The infrastructure costs of developing Innovation Park Medway could be paid at a later date with capital receipts received from that investment. This

arrangement was put in place prior to recent national economic changes and business case for the project was currently being reviewed.

- 6.11. Borrowing in lieu of NHS grants was related to the development of the Healthy Living Centre in Chatham and borrowing in lieu of rents related to the HRA programme and the former Debenhams site. The borrowing will be serviced through rent receipts.
- 6.12. **Environmental, Social and Governance Policy (ESG)** – in response to a query whether an ESG Policy Had been developed the finance business partner – Technical Accounting explained that there was a requirement to give regard to ESG, however, a detailed policy was not in place because the Council invest very little save for monies to MDC and Kyndi. The Council does not have the resources to investigate the investment policies of banking or property companies it invests in.
- 6.13. **Market Risk Management** – Further explanation was requested of paragraph 1.88 of the Treasury Management Practices, the Chief Operating Officer confirmed the market risk management was a proxy for testing credit worthiness of the institutions that the Council invest in. The Finance Accounting Partner added that when depositing into banks he would check the banks credit worthiness however, all deposits are short term so the risk to the Council is low.
- 6.14. **Decision**
- 6.15. The Committee considered this report, noted its contents and passed comments to Cabinet and for consideration and recommendation to Full Council for approval.
- 6.16. The Committee agreed to send the self assessment to Overview and Scrutiny Chairpersons with an accompanying note regarding training.

7. Risk management

- 7.1. Risk and the management thereof is a feature throughout the strategy and in detail within the Treasury Management Practices 1. (Appendix C).

8. Financial and legal implications

- 8.1. The finance and legal positions are set out throughout the Treasury Management Strategy itself. To achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising the exposure to risk. 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 to ensure the best deal for the authority.

Lead officer contact

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Appendices

Appendix A - Treasury Management Strategy 2024/25
Appendix B - Diversity Impact Assessment Screening Form
Appendix C - Treasury Management Practices

Background papers

None