Council

27 February 2025

Treasury Management Strategy 2025 / 2026

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Finance Officer

Author: Andy McNally-Johnson, Head of Corporate Accounts

Summary

This report presents the Council's Treasury Management Strategy for the 2025/26 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 28 January 2025 and by the Cabinet on 11 February 2025, the comments and decisions of which are set out in sections 5 and 6 of the report below.

1. Recommendation

1.1. The Council is requested to note the comments of the Audit Committee, as set out in section 5 of the report and the decisions of the Cabinet, as set out in section 6 of the report.

1.2. The Council is asked to approve the Treasury Management Strategy 2025/26, as set out in Appendix A to the report.

2. Budget and policy framework

2.1. 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.

2.2. Following consideration by Audit Committee, the Cabinet considered the Strategy on 11 February 2025 taking into account the Audit Committee's comments.

2.3. Final approval of the policy and the setting of prudential indicators is a matter for Council on 27 February 2025.

3. Background

3.1. 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.

3.2. 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.

3.3. 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*".

4. Treasury Management Strategy 2025/26

4.1. 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.

5. Audit Committee

5.1. The Audit Committee considered the report at its meeting on 28 January 2025 and its comments are set out as follows:

5.2. The Head of Corporate Accounts introduced the report. He highlighted that the figures in the report were based on latest budget forecasts and any changes to plans in the Capital Programme would affect the Minimum Revenue Provision (MRP) requirement.

5.3. The Council had updated its Minimum Revenue Policy which was included in Appendix A to the report in line with CIPFA guidance.

5.4. The Council continued to operate within the Capital Finance requirement (CFR). The Debt Maturity profile shows that loans to be repaid will peak over the next months and the Council continued to focus on short term borrowing whilst interest rates were high. It was anticipated that interest rates would fall in the next 12 months, which would make longer term borrowing more advantageous at that stage. When interest rate conditions were right the Council would consider taking longer term borrowing to smooth the debt maturity profile.

5.5. The following issues were discussed:

5.6. **MRP** – further clarification was requested in relation to the updated MRP policy, the Chief Operating Officer explained that new guidance was in place from May 2024 that required loans to third parties which are commercial or principally to generate income be subject to MRP payments. It was the clear view of the Council that loans to its subsidiary Medway Development Company (MDC) were not commercial so would not be subject to MRP payments. External Auditors had taken a different view and discussions regarding this were ongoing, however, the Council had taken guidance from CIPFA prior to updating its MRP policy and he was confident that the policy met current requirements.

5.7. The Committee discussed the loans provided to the MDC; the Chief Operating Officer explained that the initial loans during the construction phase were at a higher rate than subsequent loans which were secured against MDC's assets and were charged at an interest rate 0.5% above what the rate of loans borrowed by the Council. The MDC loan facility had been extended to March 2028, but it was planned for the loans to be repaid to the Council in full. The weakness in the housing market had meant MDC had changed its strategy to include renting some units. There remained a number of sites the MDC could progress in the medium term.

5.8. **Alternative funding sources** – in response to a question regarding potential alternative sources of funding than loans the Chief Operating Officer stated the Council was exploring the sale of non-operational assets. The sale of those assets could be used instead of borrowing to fund the Capital Programme, to finance new initiatives or instead of Exceptional Financial Support (EFS). However, the disposal of assets would take some time, and the Council needed to invest resources such as recruiting surveyors and conveyancing lawyers to ensure it received the best value for those assets. He expected that receipts would begin to be received at the end of this financial year or early in the next year.

5.9. It was asked if the sale of those non-operational properties could be as transparent as possible, the Chief Operating Officer stated the property team would work with agents using a variety of methods to ensure the Council got the best value.

5.10. **Exceptional Financial Support** – it was asked if the table showing capital borrowing could show the EFS received from central government on a separate line, the Head of Corporate Accounts undertook to update the report prior to it being considered by Cabinet.

5.11. **Debt repayment to KCC** – it was asked how the proposed local government reorganisation would affect debt repayment to KCC, the Chief Operating Officer stated it would be a matter for discussion as part of the reorganisation.

5.12. **Decision:**

The Committee considered the report, noted its contents, and passed comments as set out in the minutes on for consideration by the Cabinet and recommendation to Full Council for approval.

6. Cabinet

6.1. The Cabinet considered the report on 11 February 2025 and its decisions are set out below:

6.2. The Cabinet noted the comments of the Audit Committee, as set out in Appendix D within the Supplementary Cabinet Agenda.

6.3. The Cabinet recommended the Treasury Management Strategy 2025/26, as set out in Appendix A to the report, to Full Council for approval.

6.4. The Cabinet approved the Treasury Management Practices, as set out in Appendix C to the report.

7. Risk management

7.1. 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 11 February 2025 (see paragraph 6.4 above).

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

Andy McNally-Johnson, Head of Corporate Accounts, Gun Wharf
Telephone No: 01634 333552 Email: andy.mcnallyjohnson@medway.gov.uk

Appendices

Appendix A - Treasury Management Strategy 2025/26
Appendix B - Diversity Impact Assessment Screening Form

Background papers

None