CABINET

5 SEPTEMBER 2023

TREASURY MANAGEMENT OUTTURN ANNUAL REPORT

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 gives an overview of treasury management activity during 2022/23. Throughout the period the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	**2021/22 Actual £000**	**2022/23 Per Strategy* £000**	**2022/23 Actual £000**
Capital expenditure			
• General Fund	76,783	143,232	91,964
• HRA	7,362	9,270	9,182
• Total	84,145	152,502	101,146
Capital Financing Requirement:			
• General Fund	371,770	390,054	435,567
• HRA	40,682	52,547	42,829
External debt (principal only)	337,689	260,520	431,854
Investments:			
• Longer than 1 year (subsidiaries)	35,040	n/a	70,718
• Property Funds (redemption value)	25,011	22,999	21,098
• Under 1 year	27,603	11,603	14,505
• Total	87,654	34,602	106,321
Net borrowing	250,035	225,918	325,533

* Audit Committee January 2022
Investments "per Strategy" are actual values as at 30 November 2021 including property funds at original cost

Other prudential and treasury indicators are to be found in the main body of this report. The Chief Operating Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, the authorised limit, was not breached.

Work compiling the 2021/22 and 2022/23 Statements of Accounts is ongoing and may result is the figures presented in this report being revised later.

The report was previously considered by the Audit Committee on 1 August 2023, the comments of which are set out at section 12 to the report.

1. Recommendation

1.1. The Cabinet is asked to note the treasury management outturn annual report.

2. Suggested Reason for Decision

2.1 Section 7.1 (e) of the Council's Financial Rules state that the Chief Operating Officer shall report to Cabinet and the Audit Committee not later than September on treasury management activities in the previous year.

3. Budget and Policy Framework

3.1. The Council's Treasury Management Strategy and Policy are approved by Full Council following consideration by Cabinet and Audit Committee. The Audit Committee is responsible for approving the annual treasury outturn. In line with the Constitution an annual report must be taken to Cabinet detailing the Council's treasury management outturn within six months of the close of each financial year.

4. Background

4.1. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2. During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 24 February 2022).
- A mid-year treasury review report (Council 19 January 2023).

4.3. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

4.4. This Council also confirms that it has complied with the requirements under the Code to give prior scrutiny to all the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 26 September 2019 to support members' scrutiny role.

4.5. This annual treasury outturn report summarises:

- Capital activity during the year
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement)
- The actual prudential and treasury indicators
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness and the impact on investment balances
- Summary of interest rate movements in the year
- Detailed debt activity
- Detailed investment activity.

5. The Council's Capital Expenditure and Financing

5.1. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.2. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure all of which was financed during the year.

General Fund	**2021/22 Actual £000's**	**2022/23 Per Strategy £000's**	**2022/23 Actual £000's**
Capital expenditure	76,783	143,232	91,964
Financed in year (from receipts, grants, revenue contributions etc.)	30,734	65,021	26,589
Unfinanced (requiring borrowing)	**46,049**	**78,211**	**65,375**

HRA	**2021/22 Actual £000's**	**2022/23 Per Strategy £000's**	**2022/23 Actual £000's**
Capital expenditure	7,362	9,270	9,182
Financed in year	7,308	3,889	6,972
Unfinanced (requiring borrowing)	**54**	**5,381**	**2,210**

6. The Council's Overall Borrowing Need

6.1. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

6.2. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, treasury officers organise the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

6.3. *Reducing the CFR* – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure broadly that capital assets are charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision- MRP to reduce the CFR, this is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR – though Medway's policy is to provide Voluntary Revenue Provision [VRP] on HRA borrowing). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

6.4. The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through Voluntary Revenue Provision (VRP).

6.5. The Council's 2022/23 MRP Policy (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy 2022/23 on 24 February 2022.

6.6. The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR: General Fund	2021/22 Actual* £000	2022/23 Per Strategy £000	2022/23 Actual* £000
Opening balance	326,975	314,381	371,770
Add unfinanced capital expenditure (as above)	46,049	78,211	65,375
Less MRP	0	1,334	374
Less KCC Debt Repayment	1,254	1,204	1,204
Closing balance	371,770	390,054	435,567

*CFR is provisional as work is continuing preparing the Statement of Accounts for both 2021/22 and 2022/23

CFR: HRA	2021/22 Actual £000	2022/23 Per Strategy £000	2022/23 Actual £000
Opening balance	40,986	47,820	40,682
Add unfinanced capital expenditure (as above)	54	5,381	2,210
Less VRP	358	654	63
Closing balance	40,682	52,547	42,829

6.7. Borrowing activity is constrained by prudent indicators for gross borrowing and the CFR and by the authorised limit.

6.8. Gross borrowing and the CFR. To ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total capital financing requirement of the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2022 Actual £000	31 March 2023 Per Strategy £000	31 March 2023 Actual £000
Gross borrowing position (principal)	336,486*	260,520	431,854
CFR	412,452	442,601	478,396
Under- funding of CFR	75,967	182,081	46,542

* amended to include KCC debt

6.9. The authorised limit. The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table in 5.11 below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

6.10. The operational boundary. The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

6.11. Actual financing costs as a proportion of net revenue stream. This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2022/23 £000
Authorised limit	690,592
Maximum gross borrowing position during the year	430,718
Operational boundary	627,811
Average gross borrowing position	383,602
Financing costs as a proportion of net revenue stream (General Fund) *	4.70%
Financing costs as a proportion of net revenue stream (HRA)	14.20%

* The net revenue stream for 2022/23 is an estimated figure pending completion of the Statement of Accounts. The financing costs are gross of the £5,489,000 MRP holiday (see paragraph 14.3 below).

7. Treasury Position as at 31 March 2023

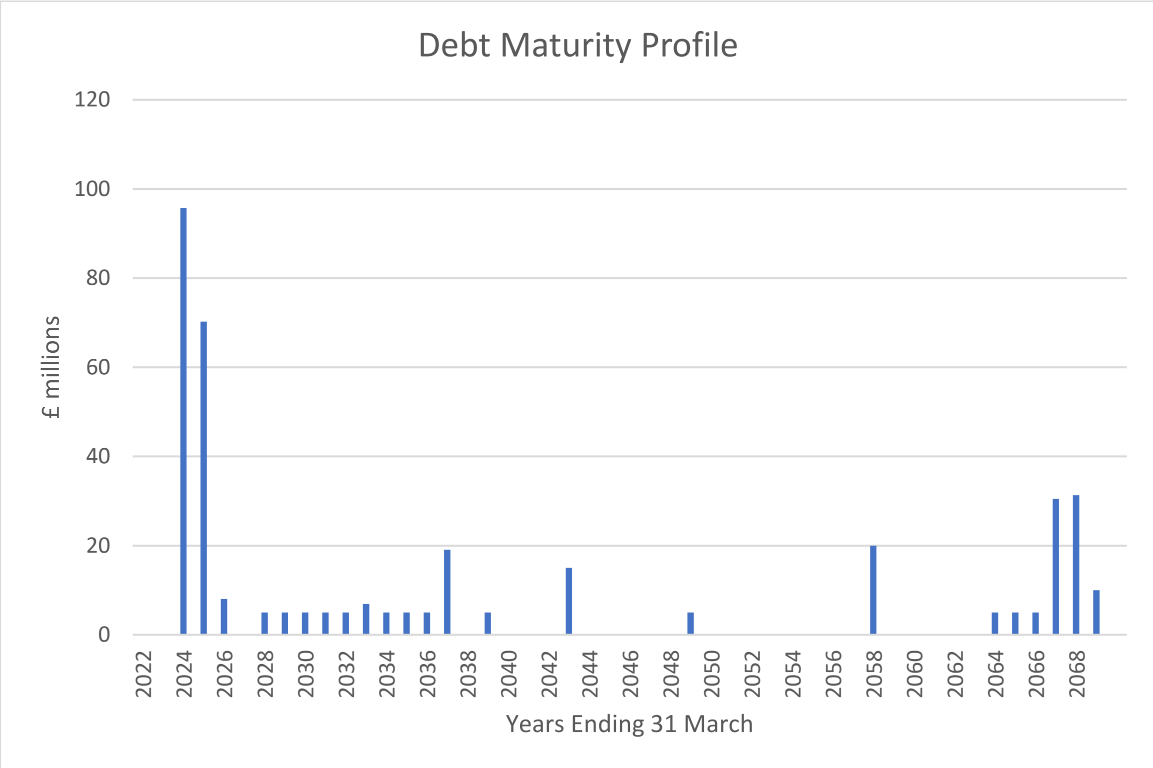
7.1. The Council's treasury management debt and investment position is organised by the treasury management officers to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's treasury, was as follows:

Borrowing and investment levels:

	31/03/22 £000	**Rate**	**31/03/23 £000**	**Rate**
Long Term Borrowing – PWLB/LOBO	225,320	3.35%	222,824	4.15%
Long Term Borrowing – Other Local Authority	10,000	0.61%	84,000	3.09%
Long Term Borrowing – Growing Places/Salix/LEP	1,060	0.00%	473	0.00%
KCC Debt (includes approx. £1m short term)	30,105	4.51%	28,901	4.41%
Short Term Borrowing	71,204	0.80%	95,656	3.25%
Total Debt (Principal)	337,689		431,854	
Capital Financing Requirement (CFR)	412,452		478,396	
(Under)/Over Borrowing	*(75,967)*		*(46,542)*	
Less investments (exc. Property Funds &	27,603	0.34%	14,505	3.90%

	31/03/22 £000	Rate	31/03/23 £000	Rate
Loans to Subsidiaries)				
Less Loan to Kyndi Ltd	2,300	5.00%	1,345	5.00%
Less Loan to MDC	32,740	6.00%	69,373	6.00%
Less Property Fund Investments *	25,011	17.45%	21,098	-12.27%
Net borrowing	250,035		325,533	

* The return on the property fund investments includes the change in capital value.



7.2. Of the £96m repayable in the year ending 31 March 2024 £25m will be replaced by loans contracted to commence later in 2023/24 and maturing in 2024/25.

7.3. The Ministry of Housing, Communities and Local Government (MHCLG) guidance since 2011 has been to show the maturity date for Lenders Options, Borrowers Options (LOBOs) as the next call date. The table does not follow this guidance because no formal approaches have been made by lenders requiring early repayment. LOBOs have therefore been shown as maturing at their full term.

7.4. Upper limits for the proportion of debt maturing within various bands of years were set at the start of the year as shown below. In addition to the percentage limits, up to 31st March 2023 approved Treasury Strategy limited borrowing repayable within 12 months to £100,000,000. The amount of such short-term loans between 16 March 2023 and 31 March 2023 was £100,678,000 due to the inclusion of the amount of KCC reorganisation debt repayable by 31 March 2024 (£1,156,046), From 1st April 2023 the short-term borrowing limit has increased to £150,000,000.

Maturity Structure of Fixed rate Borrowing during 2022/23	Upper Limit	Lower Limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

The investment portfolio is shown below.

INVESTMENT PORTFOLIO	Actual 31/03/22 £000	Actual 31/03/22 %	Actual 31/03/23 £000	Actual 31/03/23 %
Treasury investments				
Banks	8,416	9.60	16	0.01
Medway Council Subsidiaries	35,040	39.98	70,718	66.52
Total managed in house	**43,456**	**49.58**	**70,734**	**66.53**
Property funds	25,011	28.53	21,098	19.84
Cash fund managers	19,187	21.89	14,489	13.63
Total managed externally	**44,198**	**50.42**	**35,587**	**33.47**
TOTAL TREASURY INVESTMENTS	**87,654**	**100**	**106,321**	**100**

7.5. Property fund investment and income are summarised below.

	CCLA	Lothbury	Patriza	Total
	£000	£000	£000	£000
Opening Value	14,188	5,375	5,448	25,011
Revaluation	-2,340	-1,223	-350	-3,913
Closing Value	11,848	4,152	5,098	21,098
Dividend Received	500	142	201	843
Overall Gain/ (Loss)	-1,840	-1,081	-149	-3,070

7.6. All the property funds produced negative overall returns this year. Members should note however that under The Local Authorities (Capital and Accounting) (England) Regulations 2018 (SI 2028/1207) capital gains and losses are recorded in a Pooled Investment Funds Adjustment Account in the balance sheet and do not impact on revenue. This arrangement was scheduled to end on 31 March 2023, but has now been extended until 31 March 2025. The cumulative loss on the Adjustment Account at 31 March 2023 was £1,900,917.

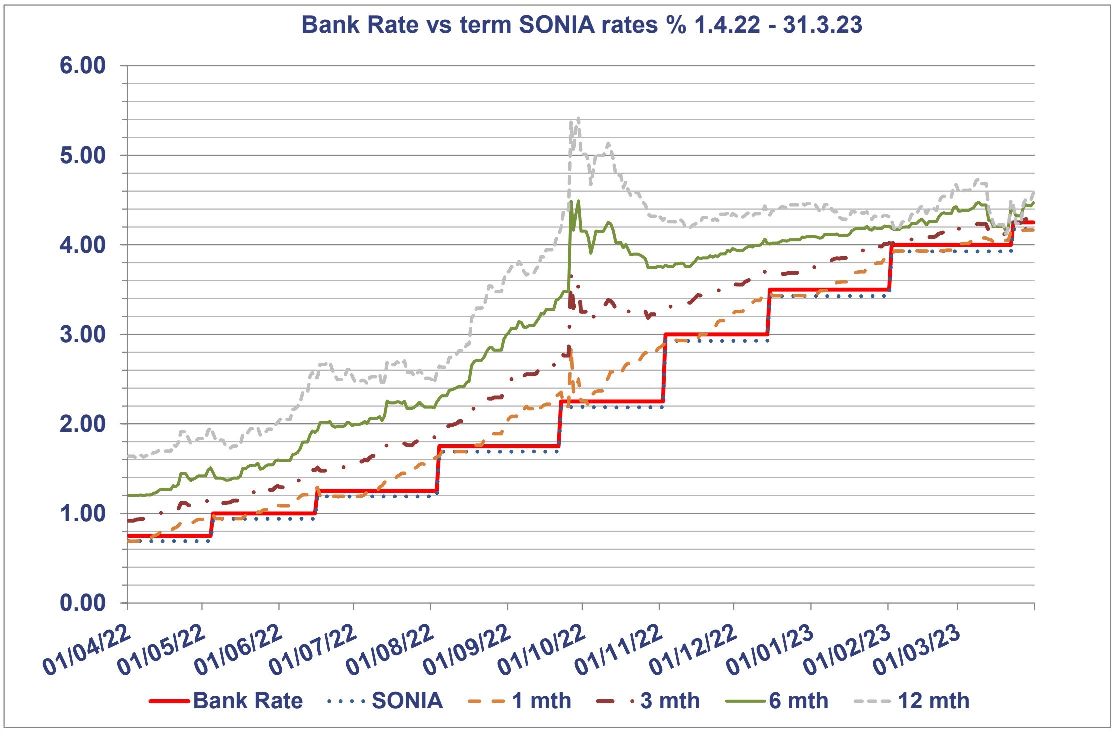
8. The Strategy for 2022/2023

8.1. The strategy for 2022/23 as set out before the start of the year was to aim to smooth out the maturity profile of debt. Although loans repayable before 31 March 2024 remain a large proportion of the debt portfolio, some £74m of new loans with durations of more than 12 months were taken during 2022/23.

8.2. Investment strategy and control of interest rate risk

8.2.1. This authority does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

8.2.2. Officers aimed to keep Investment balances to a minimum through the agreed strategy of using reserves and balances to support internal borrowing as far as possible.



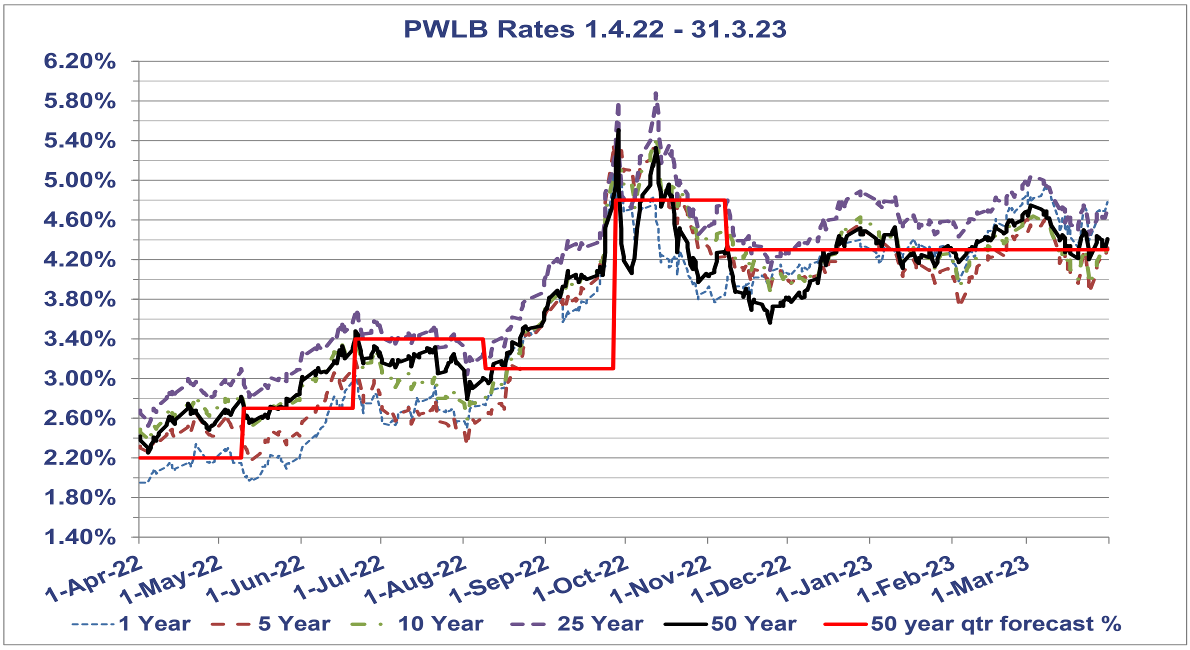
FINANCIAL YEAR TO QUARTER ENDED 31/3/2023						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	4.25	4.18	4.17	4.30	4.49	5.41
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	2.30	2.24	2.41	2.72	3.11	3.53
Spread	3.50	3.49	3.48	3.38	3.29	3.79

8.3. Borrowing Strategy and control of interest rate risk

8.3.1. During 2022-23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and it also minimised counterparty risk.

8.3.2. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

8.3.3. The strategy for 2022/23 had been to take longer term loans to reduce interest rate exposure and to smooth the maturity profile of the debt portfolio. However, the rapid rise in interest rates and the high differential between short and long-term interest rates made long-term borrowing unattractive and the emphasis was placed on borrowing short term where necessary. (See table at 6.1 above). PWLB rates over the year were as follows:



9. Borrowing Outturn for 2022/23

9.1. The borrowing strategy for the Council confirmed the holding of £101.8 million in Lenders Options, Borrowers Options (LOBO) debt. These are debts that are subject to immediate repayment or variation of interest chargeable and the option to repay, on request from the lender on the review dates. However, the lender can only apply this clause once within the lifetime of the LOBO.

9.2. One new long term PWLB loan of £5m was taken out and the balance of long-term borrowing from other local authorities stood at £84m (31 March 20221 £10m).

9.3. The Council continued to use cash balances to finance new capital expenditure when possible, to run down cash balances and minimise counterparty risk incurred on investments. This also maximised treasury management budget savings, as investment rates were much lower than most new borrowing rates. Details of the short-term borrowing at 1 April 2022 is shown in the table below:

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc brokerage)
Caerphilly County Borough Council	3,000	25/04/19	25/4/22	1.56%
Greater Manchester Combined Authority	10,000	25/02/22	25/5/22	0.58%
Kingston Upon Hull City Council	10,000	20/12/21	20/6/22	0.10%
West Yorkshire Combined Authority	5,000	14/03/22	14/9/22	1.00%
Fylde Borough Council	2,000	24/03/22	26/9/22	0.80%
Oxfordshire County Council	5,000	28/02/22	28/11/22	0.75%
West Yorkshire Combined Authority	5,000	14/03/22	14/12/22	1.15%
West Yorkshire Fire & Rescue Service	5,000	22/03/22	22/12/22	0.90%
Rugby Borough Council	5,000	23/01/20	23/1/23	1.66%
Warwickshire County Council	10,000	24/02/22	23/2/23	0.35%
Cambridgeshire & Peterborough Combined Authority	5,000	15/03/22	14/3/23	1.20%
Bolton Metropolitan Borough Council	5,000	14/03/22	23/3/23	1.20%
Kent County Council*	1,204		By 31/3/23	4.47%
Total Short-Term Borrowing at 31 March 2022	71,204			

* Kent County Council borrowing is the amount of local government reorganisation debt arising on the formation of Medway due for repayment in 2022/23.

9.4. New local authority loans taken during 2022/23 but repaid before 31 March 2023:

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc. brokerage)
Manchester City Council	5,000	25/05/22	24/6/22	0.94%
West Midlands Combined Authority	10,000	25/05/22	27/2/23	0.80%
Greater Manchester Combined Authority	5,000	14/06/22	14/7/22	1.08%
West Yorkshire Combined Authority	5,000	21/06/22	21/9/22	1.15%
Liverpool City Region Combined Authority	5,000	23/06/22	23/8/22	1.18%
Crawley Borough Council	5,000	23/06/22	23/8/22	1.13%
Cheshire West & Chester Council	5,000	24/08/22	31/8/22	1.56%
North Hertfordshire District	2,000	25/08/22	1/9/22	2.00%

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc. brokerage)
Council				
Gloucester City Council	5,000	25/08/22	19/10/22	2.00%
Kirklees Council	5,000	24/10/22	24/11/22	2.54%
Middlesborough Borough Council	5,000	25/11/22	30/1/23	3.03%
Derbyshire County Council	10,000	28/02/23	14/3/23	4.3%

9.5. The following short-term loans were still outstanding at 31 March 2023:

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc brokerage)
North Hertfordshire District Council	2,000	16/02/23	3/4/23	4.00%
West Midlands Combined Authority	10,000	24/10/22	24/4/23	1.15%
Middlesborough Borough Council	5,000	30/01/23	2/5/23	3.87%
Merseyside Fire & Rescue Service	2,000	23/05/22	22/5/23	1.40%
Barrow Borough Council	3,000	29/09/22	29/6/23	4.00%
Derbyshire County Council	5,000	31/03/23	25/7/23	4.75%
Middlesborough Teeside Pension Fund	5,000	23/02/23	25/9/23	Base Rate + 0.1%
Middlesborough Teeside Pension Fund	5,000	23/02/23	18/10/23	Base Rate +0.1%
Oxford City Council	5,000	24/11/22	30/10/23	3.90%
Oxfordshire County Council	5,000	14/12/22	6/11/23	4.10%
Oxfordshire County Council	5,000	16/12/22	23/11/23	4.10%
South Yorkshire Mayoral Combined Authority	5,000	8/12/22	7/12/23	4.05%
Leicester City Council	5,000	16/12/22	15/12/23	4.10%
West Midlands Combined Authority	10,000	27/02/23	26/2/24	2.60%
Derbyshire County Council	5,000	23/03/23	12/3/24	1.60%
Derbyshire County Council	5,000	23/03/23	21/3/24	1.60%
PWLB	7,500	30/07/97	30/11/23	4.88%
PWLB	5,000	20/03/19	20/9/23	4.5%
Kent County Council*	1,156		By 31/3/24	Est. 4.09%
Total Short-Term Borrowing at 31 March 2023	95,656			

* Kent County Council borrowing is the amount of local government reorganisation debt arising on the formation of Medway due for repayment in 2023/24. The rate payable is the estimated pool rate applicable to KCC's debt portfolio and is adjusted to actual interest incurred at the end of each financial year.

10. Debt Rescheduling

10.1. No debt restructuring was undertaken during 2022/23 as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

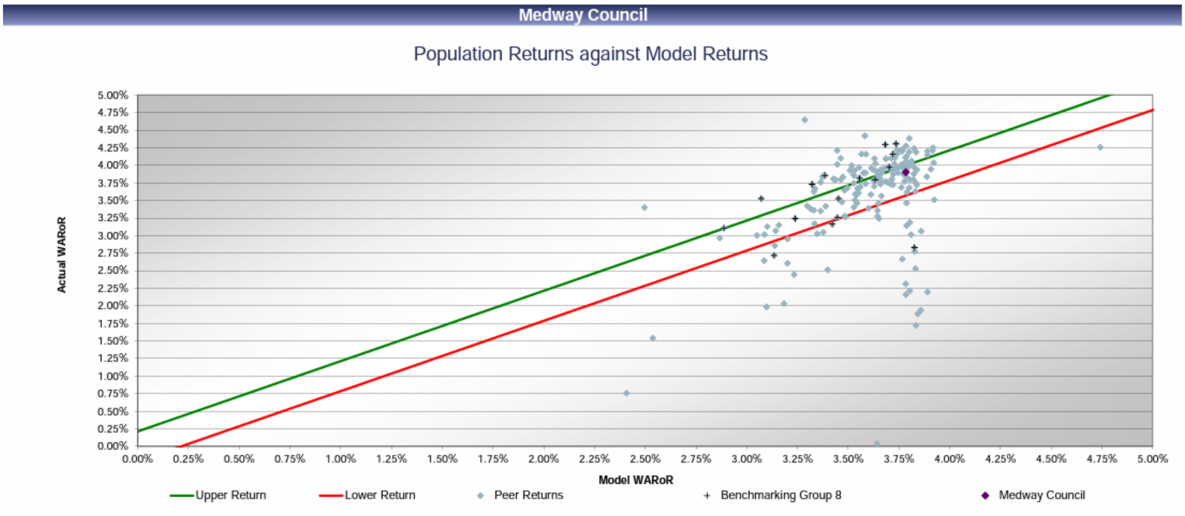
11. Investment Outturn for 2022/23

11.1. Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks and credit default swaps).

11.2. The average balance held in bank accounts and money market funds during the year was £18.6m producing an overall return of 1.925%. This money is held primarily for cash flow purposes and therefore does not benefit from higher rates obtainable for longer term deposits.

11.3. At 31st March 2023 there were no investments with other local authorities.

11.4. The Council's performance relative to our peer group is shown by the graph below, which is a snapshot produced by Link Asset Services as at March 2023. Medway is the bold dot just below the green line.



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Medway Council	3.90%	3.78%	0.12%	3.57%	4.00%	Inline

11.5. Compliance with Treasury Limits

11.5.1. Between 16th March 2023 and 31st March 2023 short term borrowing exceeded the limit set in the 2022/23 Treasury Strategy by £678,000 see paragraph 6.4 above. Compliance was restored on 1st April 2024.

12. Audit Committee

12.1. The Audit Committee considered the report on 1 August 2023. The minutes of the discussion are as follows:

12.2. Members considered the report which provided an overview of treasury management activity during 2022-2023 and compliance with legislative and regulatory requirements.

12.3. The Finance Business Partner – Technical Accounting highlighted the Council's borrowing did not exceed the Capital Finance Requirement (CFR). The CFR represented the value of long-term assets not funded by from grants, contributions, revenue funding or capital receipts. This demonstrated the Council had only borrowed to fund capital expenditure. In addition, the maximum outstanding borrowing during 2022-23 was £430.7m, below the authorised borrowing limit of £690.6m.

12.4. He advised Members that for a short period at the end of March 2023, the treasury strategy limit of £100m of debt repayable within 12 months was exceeded by £600,000 due an error which had omitted £1.1m of historic debt to Kent County Council. From April 2023, the short-term borrowing limit had increased to £150m.

12.5. The Council primarily used short-term borrowing, which it benefited from financially, however, the potential for interest rates rises was a known risk. Rates had risen faster than expected but were now thought to be near their peak. The Council would continue to borrow on a short-term basis in the expectation that debt maturing would be replaced with loans at a lower interest rate.

12.6. The Finance Business Partner – Technical Accounting added that return on investment had been in line with expectations, the approach outlined in the treasury strategy was to keep borrowing at a minimum which limited opportunities for treasury investment.

12.7. The value of property fund investments had fallen from £25m to £23m in the year due to a fall in value of commercial property. Whilst the value of the capital fund had fallen, the fund currently generated income of £800,000 a year.

12.8. Members then raised comments and questions which included the following:

12.9. **Financing Costs –** In response to request for further information regarding financing costs as a proportion of net revenue stream (HRA), the Finance Business Partner – Technical Accounting explained the figure was an affordability ratio and showed the Council's interest costs were a low percentage of the total income of the Council for the year.

12.10. **Income from loans to subsidiaries** – A Member commented that the return of £850,000 income from Kyndi and Medway Development Company (MDC) was positive and requested a breakdown of income from the two companies. The Finance Business Partner – Technical Accounting undertook to provide a briefing note which detailed income received from loans provided to Kyndi and MDC.

12.11. **Cost of Carrying Loans** – In response to a question whether carrying loans and holding a balance in the bank represented a significant cost to the Council, the Finance Business Partner – Technical Accounting explained that his aim was to keep any balance to a minimum, the Council had day to day cash and this reduced the cost of carry which was the difference between borrowing costs and the income from deposits.

12.12. **Minimum Revenue Provision (MRP) –** It was noted that most of the surplus in the interest and finance budget related to an adjustment recommended by Link Services and it was queried what would be the effect of the end of this arrangement. The Finance Business Partner – Technical Accounting stated that further MRP adjustments would not be required in future years and an annual MRP level of £5m – £6m would be expected in the future.

12.13. **Authorised Borrowing Limit** - In response to a question whether the £420m borrowed would be considered high in relation to the authorised limit of £690m, the Finance Business Partner – Technical Accounting explained the affordability of the borrowing was a matter for budget decisions and the role of the CFR was to ensure the Council was borrowing for capital purposes rather than the revenue account.

12.14. **Regulatory requirements** – In response to a question whether the Council was meeting its regulatory requirements Finance Business Partner – Technical Accounting confirmed that the Council was meeting its regulatory requirements.

12.15. **Economic Climate** - In response to a question regarding the risk the current economic climate posed to the Council, the Chief Operating Officer stated the report showed that the Council had only borrowed for investment. The investment decisions made, were at the time prudent however, the global economic environment had changed, and Interest rates and the cost of materials had risen. For some schemes such as MDC the value of rents and house prices had also risen, so the business case for those schemes could still be made. For other schemes such as the redevelopment of Splashes the Council would need to consider whether an increase in income would also be generated in light of the increased costs. The Chief Operating Officer also noted the Council's finances were under regular review as part of the risk register.

12.16. **Decision:**

a) The Committee noted the treasury management outturn annual report.

b) The Committee requested a briefing note which detailed income received from the Kyndi and MDC property funds.

13. Risk Management

13.1. Risk and the management thereof is a key feature throughout the strategy and in detail within the treasury management practices (TMP1) within the Treasury Strategy.

14. Financial Implications

14.1. Overall, the Interest and Financing budget made a surplus of £5,921,000 over its targeted budget of £12,315,000.

14.2. A breakdown of the Interest and Financing budget is shown below:

Interest and Finance Budget against spend:

	Budget 2022/23 £000	Actual 2022/23 £000	(Under)/Overspend £000
Interest Earned	(5,841)	(6,562)	(721)
Interest Paid	10,445	11,144	699
KCC Principal	1,204	1,204	0
MRP	6,442	437	(6,005)
Treasury Costs	65	171	106
Total	**12,315**	**6,394**	**(5,921)**

14.3. The underspend on MRP follows a report by Link Asset Services which concluded that provision in previous years had been too high. A reduction of £5,489,000 was applied to the charge originally calculated for 2022/23. No adjustments will be required for future years.

14.4. The body of the report outlines the significant financial implications. Any transactions undertaken on either investments or borrowings are governed by the London Code of Conduct, the Council's treasury policy statement, and the CIPFA Code of Practice on Treasury Management in Local Authorities.

15. Legal implications

15.1. For the financial year 2022/23 our investments were managed in compliance with the Codes of Practices, guidance and regulations made under the Local Government Act 2003.

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Appendices

Appendix 1 Commentary by Link Asset Services on The Economy and Interest Rates
Appendix 2 Glossary of Terms

Background papers

None