

## **Audit Committee**

**27 March 2024**

### **Treasury Management Report: Quarter 3**

Report from: Phil Watts, Chief Operating Officer

Author: Andy McNally-Johnson, Head of Corporate Accounts

#### **1. Recommendation**

1.1. The Committee is asked to note the treasury management report.

#### **2. Budget and Policy Framework**

2.1. 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 quarterly treasury reports.

#### **3. Background**

3.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

3.2. During 2023/24 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 23 February 2023).
- A mid-year treasury review report (Council 24 January 2024)

In addition, Audit Committee received reports for quarter 1, and quarter 3 (this report).

#### **4. Interest Rate Forecasts**

4.1. The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

4.2. Link's latest rate forecasts issued on 8th January and previous forecasts issued on 7th November are:

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Link Group Interest Rate View 07.11.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
<b>BANK RATE</b>	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

## 5. Borrowing

- 5.1. Total borrowing increased by £11.7 million since 31<sup>st</sup> March 2023, the start of the year.
- 5.2. The Council's CFR (capital financing requirement) for the year is shown below and represents a key prudential indicator.

<b>CFR: General Fund</b>	<b>2022/23 Actual* £000</b>	<b>2023/24 Per Strategy £000</b>	<b>2023/24 Q3 Forecast £000</b>
Opening balance	371,770	483,434	435,567
Add unfinanced capital expenditure	65,375	66,924	34,709
Less MRP	374	5,409	5,669
Less KCC Debt Repayment	1,204	1,156	1,156
Less repayment from Capital Receipts	0	52,411	0
Closing balance	435,567	491,382	463,451

\*CFR is provisional as work is continuing preparing the Statement of Accounts for 2022/23

<b>CFR: HRA</b>	<b>2022/23 Actual £000</b>	<b>2023/24 Per Strategy £000</b>	<b>2023/24 Q3 Forecast £000</b>
Opening balance	40,682	44,377	42,829
Add unfinanced capital expenditure	2,210	5,016	1,304
Less VRP	63	390	408
Closing balance	42,829	49,003	43,725

- 5.3. Borrowing is forecast to remain below the CFR and both the operational and authorised limits set in the treasury Strategy.

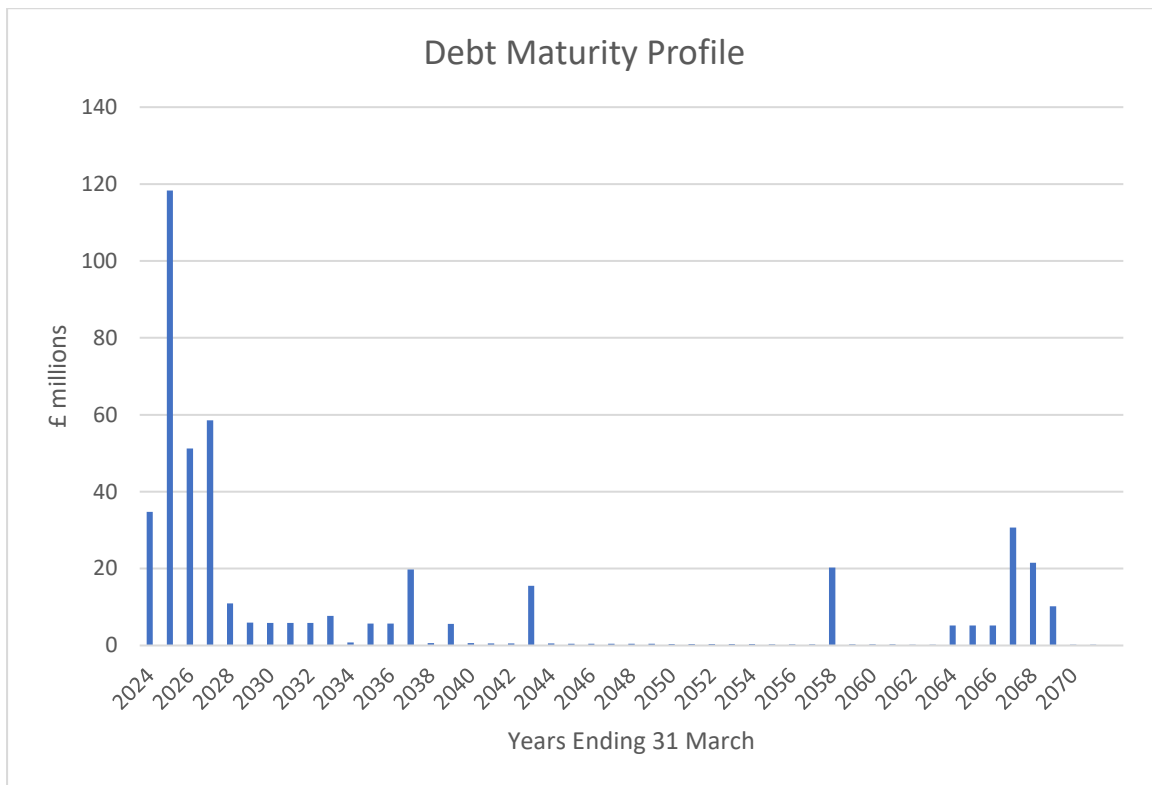
## 6. Treasury Position as at 31 December 2023

6.1. 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 December 2023, the Council's treasury position was as follows:

### Borrowing and investment levels:

	<b>31/03/23 £000</b>	<b>Rate</b>	<b>31/12/23 £000</b>	<b>Rate</b>
Long Term Borrowing – PWLB/LOBO	222,824	3.41%	227,824	3.75%
Long Term Borrowing – Other Local Authority	84,000	3.09%	82,500	4.03
Long Term Borrowing – Growing Places/Salix/LEP	473	0.00%	450	0.00%
KCC Debt (includes approx. £1m short term)	28,901	4.41%	28,034	4.41%
Short Term Borrowing	94,520	3.25%	103,600	3.61%
Total Debt (Principal)	430,718		442,408	
Capital Financing Requirement (CFR)	478,396		507,176	
<i>(Under)/Over Borrowing</i>	<i>(47,678)</i>		<i>(64,768)</i>	
Less investments (exc. Property Funds & Loans to Subsidiaries)	14,505	3.90%	21,918	5.14%
Less Loan to Kyndi Ltd	1,345	5.00%	1,206	5.00%
Less Loan to MDC	69,373	6.00%	74,173	8.00%
Less Property Fund Investments *	21,098	-12.27%	20,005	-15.35%
Net borrowing	324,397		325,106	

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



- 6.2. The table above shows the debt maturity profile as at 8 February 2024. Where contractual arrangements have been entered into for the renewal of loans or their direct replacement with new loans liability is shown at the expiry of the new or replacement loan.
- 6.3. 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 LOBOs outstanding as at 31 December 2023 have been shown as maturing at their full term. However, one £5m loan was redeemed in January 2024 (see paragraph 7.2)
- 6.4. Upper limits for the proportion of debt maturing within various bands of years were set at the start of the year as shown below. There has been no breach of these limits.

Maturity Structure of Fixed rate Borrowing during 2023/24	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%

- 6.5. Property fund investment and income are summarised below.

	<b>CCLA</b>	<b>Lothbury</b>	<b>Patriza</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening Value 31 March	11,848	4,152	5,098	21,098
Revaluation	-385	-458	-250	-1,093
Closing Value 31 December	11,463	3,694	4,848	20,005
Dividend Received	459	30	152	641
Overall Gain/ (Loss)	74	-428	-98	-452

6.6. Members will note the poor performance of the Lothbury Fund. The fund has suspended redemptions at present and had attempted to sell properties in a controlled manner to satisfy redemption requests and to restructure the portfolio to improve future returns. However, the Council has recently received an update that an EGM of Lothbury Property Trust was held on 29th February, to consider an extension to the termination date of the Fund from 31st March to 30th June to allow merger discussions with the UBS managed Triton Property Fund to conclude. However, the extension proposal did not receive the 75% approval threshold required for it to pass, and as such the fund termination date remains at 31st March 2024. It is projected that should the termination of the fund take place, the likely loss to the Council will be in the region of £1.3m and this has been factored into the Interest Earned budget forecast detailed at 10.2 to this report.

## 7. Debt Rescheduling

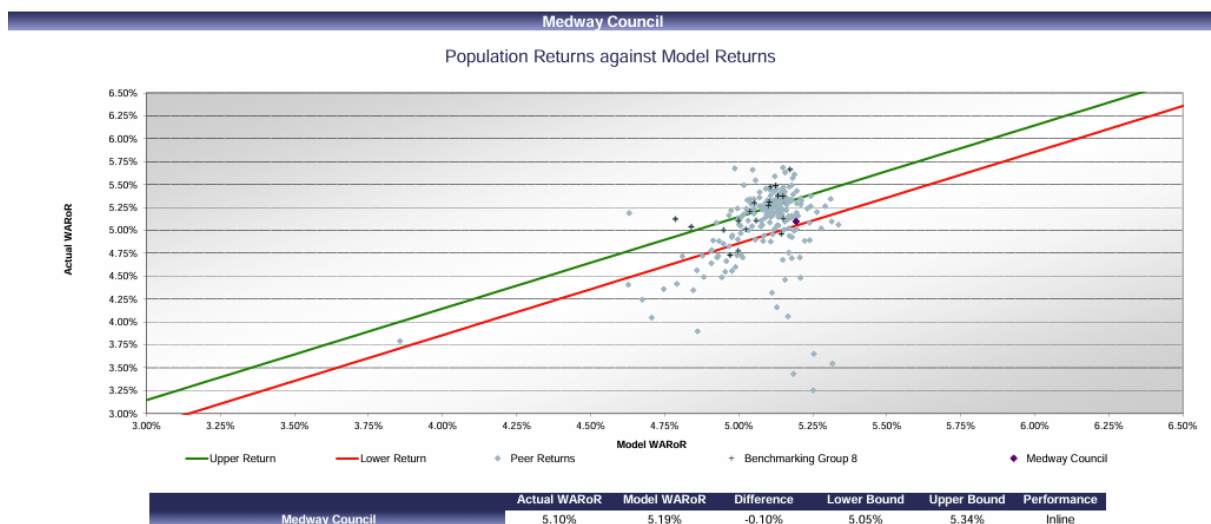
7.1. No debt restructuring was undertaken during quarter 1 as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.2. Since the end of 2023 the Council received notice from three LOBO lenders of an increase in interest rate. The Council exercised its right to repay the £5m principal in January 2024 at par. Previously, a LOBO of £5m was redeemed in August 2023 and a further LOBO of £10m repaid in December 2023.

## 8. Investments

8.1. On 31st December 2023 there were no investments with other local authorities.

8.2. 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 September 2023. Medway is the bold dot just above the red line showing our performance to be in line with our peers.



8.3. Compliance with Treasury Limits - There were no breaches of the limits set in the Treasury Strategy during the period.

## 9. Risk Management

9.1. 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.

## 10. Financial Implications

10.1. Overall, the Interest and Financing costs at round 4 were forecast to underspend the budget by £1,295,000 after drawing a contribution of £967,000 from reserves.

10.2. A breakdown of the Interest and Financing budget is shown below:  
Interest and Finance Budget against spend:

	<b>Budget 2023/24 £000</b>	<b>Round 4 Forecast £000</b>	<b>(Under)/Overspend £000</b>
Interest Earned	(5,841)	(8,718)	(2,877)
Interest Paid	13,430	15,384*	1,954
KCC Principal	1,204	1,156	(48)
MRP	6,442	6,077	(365)
Treasury Costs	65	106	41
<b>Total</b>	<b>15,300</b>	<b>14,005</b>	<b>(1,295)</b>

\* Interest paid is net of a contribution from reserves of £967,000

10.3. 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.

## 11. Legal implications

11.1. Our investments were managed in compliance with the Codes of Practices, guidance and regulations made under the Local Government Act 2003.

Lead officer contact:

Andy McNally-Johnson, Head of Corporate Accounts, Gun Wharf, 01634 333552,  
[andy.mcnallyjohnson@medway.gov.uk](mailto:andy.mcnallyjohnson@medway.gov.uk)

## Appendices

Appendix 1 Commentary by Link Asset Services on The Economy and Interest Rates

Appendix 2 Glossary of Terms

## Background papers

None