Medway Council
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Cabinet

30 July 2024

Treasury Management Outturn Annual Report 2023/2024

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer, Business Support and Digital

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Summary

This report gives an overview of treasury management activity during 2023/24. 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	**2022/23 Actual £000**	**2023/24 Per Strategy* £000**	**2023/24 Actual £000**
Capital expenditure			
• General Fund	91,964	109,123	53,984
• HRA	9,182	12,285	10.582
• Total	101,146	121,408	64,566
Capital Financing Requirement:			
• General Fund	435,567	491,383	453,631
• HRA	42,829	49,003	45,844
External debt (principal only)	405,891	463,363	464,783
Investments:			
• Longer than 1 year (subsidiaries)	70,423	n/a	88,148
• Property Funds (redemption value)	21,098	22,999	19,926
• Under 1 year	14,650	11,603	14,710
• Total	106,172	34,602	122,784
Net borrowing	299,719	428,761	341,999

* Audit Committee January 2023
Investments "per Strategy" are actual values as at 30 November 2022 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.

1. Recommendation

1.1. The Cabinet is asked to:

1.1.1. note the comments made by Audit Committee, as set out in section 12 of the report.

1.1.2. note the treasury management outturn annual report.

2. Suggested reasons 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 2023/24. 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 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).

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. Further training on treasury management issues was provided to Members of the Audit Committee on 29 November 2023 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 be either:
- 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	2022/23 Actual £000's	2023/24 Per Strategy £000's	2023/24 Actual £000's
Capital expenditure	91,964	143,232	53,984
Financed in year (from receipts, grants, revenue contributions etc.)	26,589	65,021	27,020
Unfinanced (requiring borrowing)	**65,375**	**78,211**	**26,964**

HRA	2022/23 Actual £000's	2023/24 Per Strategy £000's	2023/24 Actual £000's
Capital expenditure	9,182	9,270	10,582
Financed in year	6,972	3,889	7,159
Unfinanced (requiring borrowing)	**2,210**	**5,381**	**3,423**

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 2023/24 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 2023/24 MRP Policy (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy 2023/24 on 23 February 2023.

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

CFR: General Fund	**2022/23 Actual* £000**	**2023/24 Per Strategy £000**	**2023/24 Actual* £000**
Opening balance	351,833	314,381	415,630
Add unfinanced capital expenditure (as above)	31,023	78,211	26,964
Long Term Debtors - Capital Principle	31,237	n/a*	12,030
Long Term Debtors - Capital Interest	3,115	n/a*	5,945
Less MRP	374	1,334	5,669
Less KCC Debt Repayment	1,204	1,204	1,156
Closing balance	415,630	390,054	453,631

*The long-term debtors relate to capital loans provided to Medway Development Company Limited. These were not included in the 2023/24 Treasury Strategy as the costs were included at that time in the Capital Programme, which therefore meant that these were included un the unfinanced capital expenditure. Following advice from the Chartered Institute of Public Finance and Accountancy (CIPFA), it was determined that the value of the loans should be removed from the Capital Programme and accounted for as Capital Loans, and therefore these have been analysed as capital debtors as shown above.

CFR: HRA	**2022/23 Actual £000**	**2023/24 Per Strategy £000**	**2023/24 Actual £000**
Opening balance	40,682	47,820	42,829
Add unfinanced capital expenditure (as above)	2,210	5,381	3,423
Less VRP	63	654	408
Closing balance	42,829	52,547	45,844

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 2023 Actual £000	**31 March 2024 Per Strategy £000**	**31 March 2024 Actual £000**
Gross borrowing position (principal)	405,891	260,520	464,783
CFR	458,459	442,601	499,475
Under- funding of CFR	52,568	182,081	34,692

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 2023/24 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.

	2023/24 £000
Authorised limit	704,424
Maximum gross borrowing position during the year	464,783
Operational boundary	640,386
Average gross borrowing position	435,337
Financing costs as a proportion of net revenue stream (General Fund)	4.99%
Financing costs as a proportion of net revenue stream (HRA)	12.41%

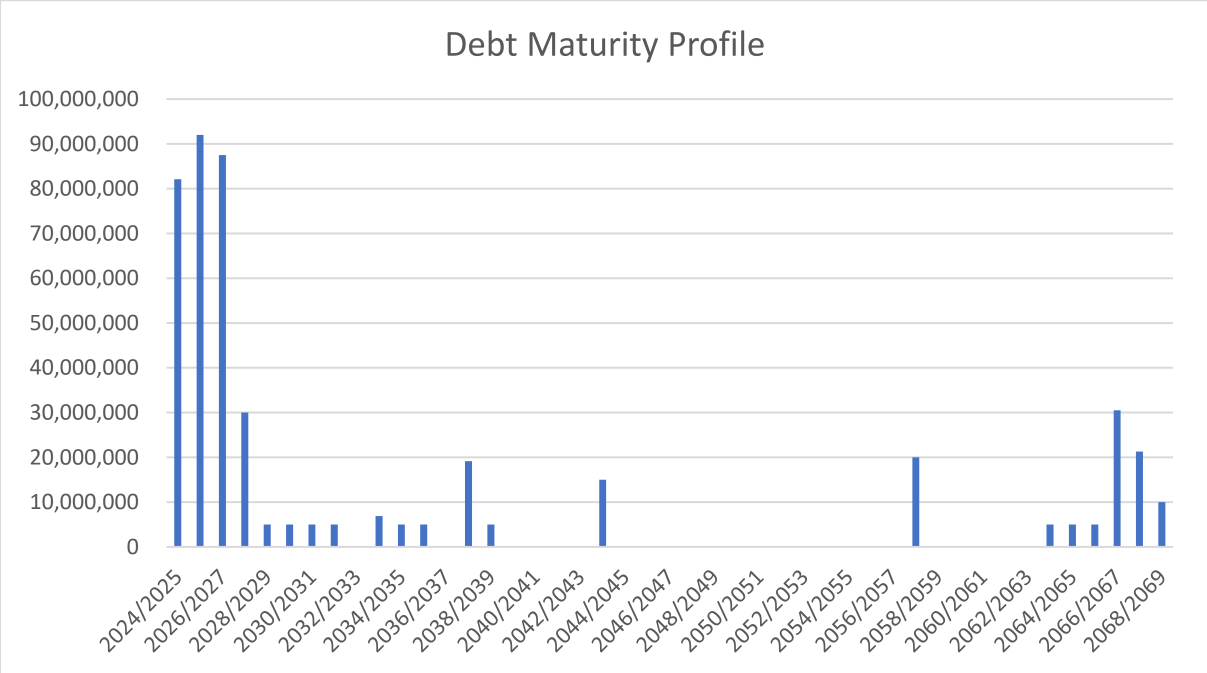
7. Treasury Position as at 31 March 2024

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 2023/24 the Council's treasury was as follows:

Borrowing and investment levels:

	31/03/23 £000	**Rate**	**31/03/24 £000**	**Rate**
Long Term Borrowing – PWLB/LOBO	224,212	4.15%	297,824	4.13%
Long Term Borrowing – Other Local Authority	84,000	3.09%	52,500	4.40%
Long Term Borrowing – Growing Places/Salix/LEP	482	0.00%	359	0.00%
Short Term Borrowing	97,196	3.25%	114,100	3.86%
Total Debt (Principal)	405,891		464,783	
Capital Financing Requirement (CFR)	458,459		499,475	
(Under)/Over Borrowing	*(52,568)*		*(34,692)*	
Less investments (exc. Property Funds & Loans to Subsidiaries)	14,650	3.90%	14,710	5.17%
Less Loan to Kyndi Ltd	1,140	5.00%	890	5.00%
Less Loan to MDC (Land & Projects)	69,284	6.00%	75,258	8.00%
Less Loan to MDC (Private Rented Sector)	0	n/a	12,000	5.98%
Less Property Fund Investments *	21,098	(12.27%)	19,926	(1.23%)
Net borrowing	299,719		341,999	

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



7.2. Of the loans repayable in the year ending 31 March 2025, the current strategy, should there be a need to replace with new loans, these will commence at the time the previous loan is due to mature, and the Council will look for these to mature within three years, where possible. Officers will review this strategy, which is purposely skewed towards the shorter term, to protect from being tied into long term interest rates that are currently higher than they are forecast to be in the coming years.

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. From 1st April 2023 the short-term borrowing limit has increased to £150,000,000.

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%

7.5. The investment portfolio is shown below.

INVESTMENT PORTFOLIO	Actual 31/03/23 £000	Actual 31/03/23 %	Actual 31/03/24 £000	Actual 31/03/24 %
Treasury investments				
Banks	16	0.02	10,528	8.57
Medway Council Subsidiaries	70,718	66.51	88,148	71.79
Total managed in house	**70,734**	**66.53**	**98,676**	**80.37**
Property funds	21,098	19.84	19,926	16.23
Cash fund managers	14,489	13.63	4,182	3.41
Total managed externally	**35,587**	**33.47**	**24,108**	**19.63**
TOTAL TREASURY INVESTMENTS	**106,321**	**100.00**	**122,784**	**100.00**

7.6. Property fund investment and income are summarised below.

	CCLA	Lothbury	Patriza	Total
	£000	£000	£000	£000
Opening Value	11,849	4,152	5,098	21,098
Revaluation	(462)	(502)	(208)	(1,173)
Closing Value	11,386	3,650	4,890	19,926
Dividend Received	575	143	194	912
Overall Gain/ (Loss)	113	(359)	(15)	(261)

7.7. 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 2024 was £3,073,525.

7.8. It should be noted that it was approved at a stakeholders meeting that the Lothbury Property fund would cease as at 31 May 2024. This means that losses on the final valuation would need to be accounted for within the Council's Interest and Financing budgets. The Council estimated this to be in the region of £1.3million and ensured there was a provision made for this as part of the 2023/24 Interest & Financing Outturn as detailed in 12.2 below.

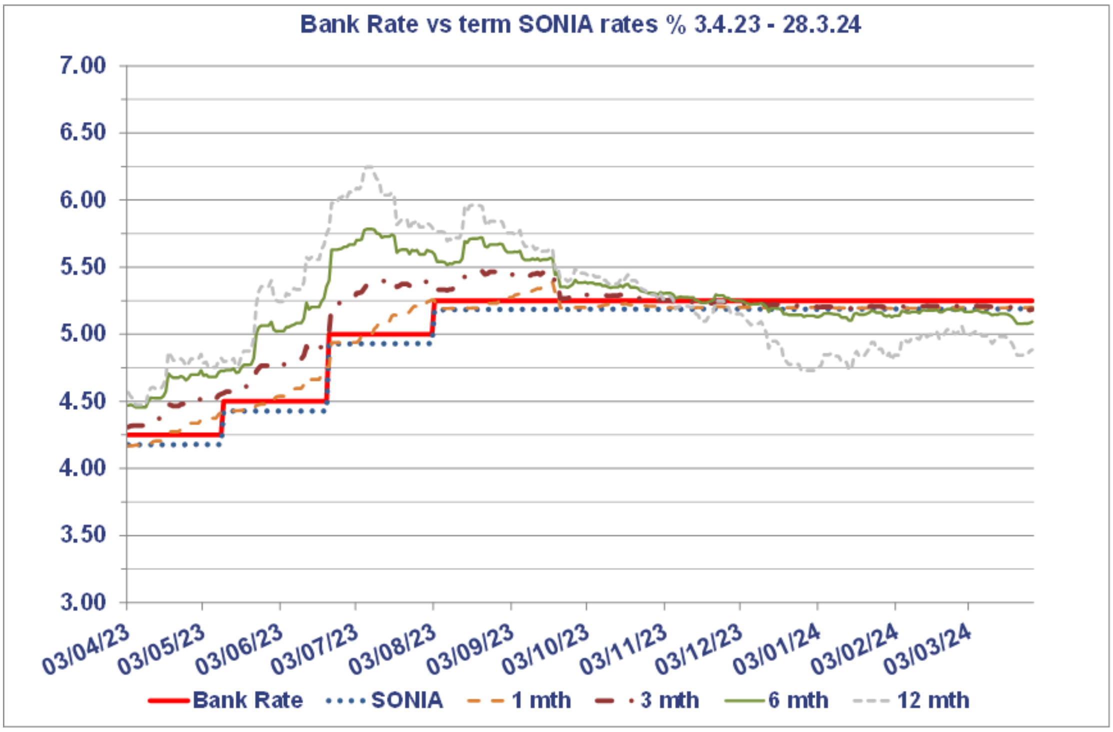
8. The Strategy for 2023/2024

8.1. The strategy for 2023/24 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 2025 (£82million) remain a large proportion of the debt portfolio, some £122.5m of new loans with durations of more than 12 months were taken during 2023/24. Whilst the majority of debt will need to be repaid within three years, it is hoped that economic conditions in the future will allow more longer term borrowing to assist with the smoothing of the maturity profile, and this strategy will be kept under constant review.

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.



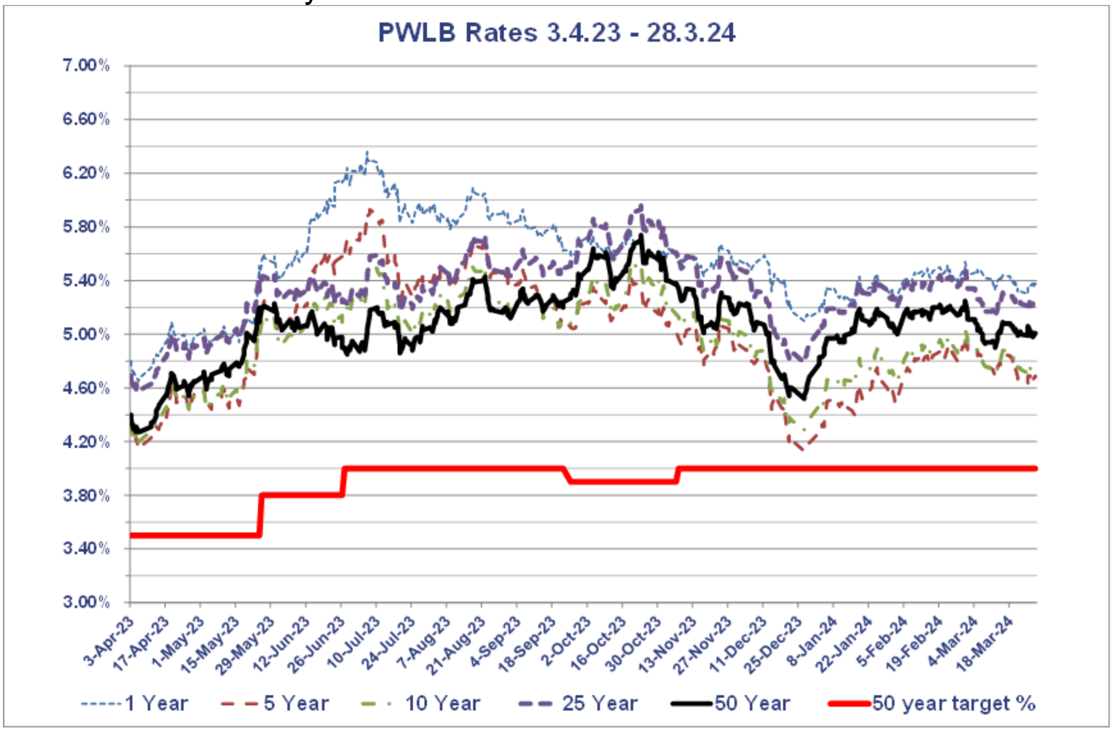
FINANCIAL YEAR TO QUARTER ENDED 28/03/2024						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	28/03/2024	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	5.03	4.96	5.02	5.13	5.23	5.25
Spread	1.00	1.01	1.22	1.17	1.33	1.77

8.3. Borrowing Strategy and control of interest rate risk

8.3.1. During 2023-24, 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 2023/24

9.1. The borrowing strategy for the Council confirmed the holding of £81.8 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. New long term PWLB and local authority loans totalling £95million were taken out and the balance of long-term borrowing from other local authorities stood at £52.5million (31 March 2023 £84million).

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 2023 is shown in the table below:

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc brokerage)
West Midlands Combined Authority	10,000,000	24/10/2022	24/04/2023	1.15%
Middlesbrough Borough Council	5,000,000	30/01/2023	02/05/2023	3.93%
Merseyside Fire And Rescue Service	2,000,000	23/05/2022	22/05/2023	1.40%
Barrow Borough Council	3,000,000	29/09/2022	29/06/2023	4.00%
Derbyshire County Council	5,000,000	31/03/2023	25/07/2023	4.75%
Trafford Council	5,000,000	03/04/2023	31/08/2023	4.70%
Middlesbrough Teeside Pension Fund	5,000,000	23/02/2023	25/09/2023	Base rate (variable)
Middlesbrough Teeside Pension Fund	5,000,000	23/01/2023	18/10/2023	Base rate (variable)
Oxford City Council	5,000,000	24/11/2022	30/10/2023	3.90%
Oxfordshire County Council	5,000,000	14/12/2022	06/11/2023	4.10%
Oxfordshire County Council	5,000,000	16/12/2022	23/11/2023	4.10%
South Yorkshire Mayoral Combined	5,000,000	08/12/2022	07/12/2023	4.05%
Leicester City Council	5,000,000	16/12/2022	15/12/2023	4.10%
West Midlands Combined Authority	10,000,000	27/02/2023	26/02/2024	2.60%
Derbyshire County Council	5,000,000	23/03/2023	21/03/2024	1.60%
Derbyshire County Council	5,000,000	14/03/2023	12/03/2024	1.60%
PWLB	5,000,000	20/03/2019	20/09/2023	1.66%
PWLB	7,500,000	29/09/1998	30/11/2023	4.80%

9.4. New local authority loans taken during 2023/24 but repaid before 31 March 2024:

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc. brokerage)
Trafford Council	5,000,000	03/04/2023	31/08/2023	4.70%
Worthing Borough Council	3,000,000	23/11/2023	05/01/2024	5.50%
Hastings Borough Council	5,000,000	23/11/2023	23/02/2024	5.55%
Police & Crime Commissioner's For Warwickshire	2,000,000	17/11/2023	26/01/2024	5.45%
Kirklees Council	5,000,000	24/11/2023	04/01/2024	5.50%
Newport City Council	5,000,000	18/12/2023	19/01/2024	5.60%
Cheshire East Council	6,500,000	07/12/2023	12/01/2024	5.80%
Cheshire East Council	6,500,000	12/01/2024	13/02/2024	5.45%
Newport City Council	2,000,000	22/03/2024	28/03/2024	6.10%

9.5. The following short-term loans were still outstanding at 31 March 2024:

Lender	Amount Borrowed £000	Date Commenced	Repayment Date	Annual Interest Rate (inc brokerage)
West Yorkshire Combined Authority	5,000,000	25/05/2023	22/05/2024	4.68%
South Yorkshire Mayoral Combined	5,000,000	20/06/2022	20/06/2024	1.76%
West Yorkshire Combined Authority	5,000,000	14/09/2022	21/06/2024	2.66%
West Yorkshire Combined Authority	5,000,000	21/09/2022	21/06/2024	2.66%
Caerphilly CBC	2,000,000	23/06/2022	24/06/2024	2.06%
Caerphilly CBC	2,000,000	23/06/2022	24/06/2024	2.06%
South Yorkshire Mayoral Combined	10,000,000	22/07/2022	22/07/2024	2.16%
Bridgend County Borough Council	5,000,000	25/07/2022	25/07/2024	2.66%
East Sussex County Council	5,000,000	22/06/2023	22/08/2024	5.36%
Cambridge City Council	5,000,000	25/07/2023	25/10/2024	5.91%
Gloucestershire County Council	5,000,000	25/07/2023	25/11/2024	5.56%
Test Valley Borough Council	5,000,000	20/12/2022	20/12/2024	4.31%
West Midlands Combined Authority	10,000,000	26/02/2024	24/02/2025	4.60%
West Of England Combined Authority	5,000,000	14/03/2022	14/03/2025	0.61%
Cambridgeshire & Peterborough Combined Authority	5,000,000	14/03/2023	14/03/2025	4.21%
Warwickshire County Council	10,000,000	23/03/2023	24/03/2025	4.46%
PWLB	5,000,000	27/03/2019	27/09/2024	1.59%
PWLB	12,000,000	01/03/2024	01/03/2025	5.48%
PWLB	8,100,000	11/12/2023	11/12/2024	5.52%

10. Debt Rescheduling

10.1. No debt restructuring was undertaken during 2023/24 as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

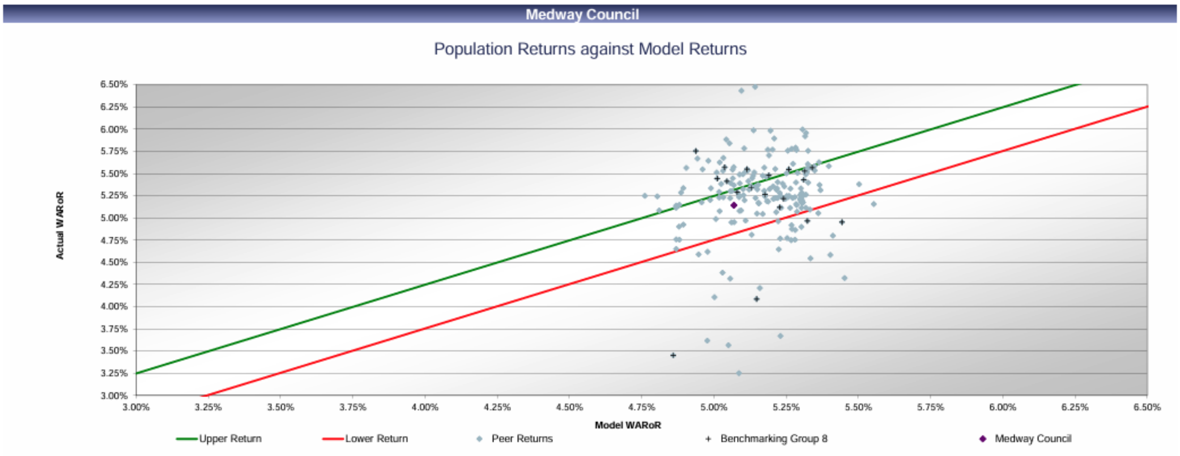
11. Investment Outturn for 2022/23

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 23 February 2023. 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 £17.6m producing an overall return of 4.17%. This money is held primarily for cash flow purposes.

11.3. At 31st March 2024 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 2024. Medway is the bold dot just below the green line.



Medway Council	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
	5.14%	5.07%	0.07%	4.82%	5.32%	Inline

11.5. Compliance with Treasury Limits

11.5.1. During 2023/24 there were no instances where the treasury limits were not complied with.

12. Audit Committee

12.1. The Audit Committee considered the report at its meeting on 15 July 2024 and its comments are set out below.

12.2. The Head of Corporate Accounts introduced the report. The purpose of Treasury Management was manage to the Council's cash flow and assist the funding of the capital programme. The report summarised the Treasury Management activities for 2023-2024 and compliance with indicators set out in the Treasury Management Strategy.

12.3. The Head of Corporate Accounts noted that borrowing had not exceeded the Capital Finance Requirement (CFR). This demonstrated that borrowing had only taken place to fund capital expenditure. Borrowing stood at £464m at the end of 2023-2024 significantly below the operational boundary of £644m.

12.4. The Council's debt maturity profile showed the Council the continued to borrow primarily for the short term on the advice on the Council's treasury management advisors. Interest rates were expected to fall in the near future.

12.5. Investment performance remained in line with expectations and benchmarking authorities. Property funds had fallen in value from an initial investment of £23m, in 2017 to a value of £19.9m as of 31 March 2024. However, those funds continued to generate income of around £900,000 a year which was credited to the revenue account. The Council continued took a risk averse approach to investment and kept borrowing to a minimum.

12.6. The Lothbury property fund had ceased in May 2024 and the Council expected to realise a loss of around £1.4m. Provision had been made in the 2023-2024 accounts to cover those losses.

12.7. The following issues were discussed:

12.7.1. **Capital Spend** - in response to a question why the spend on capital projects was lower than envisioned in the treasury strategy, the Head of Corporate Accounts explained that at the time of publication the strategy was an estimate, however, all of the expected spending had not taken place in the year. The Chief Operating Officer added there had been some slippage in works taking place on projects such as the Brook Theatre and Innovation Park Medway. Those projects remained part of the programme, so the monies would be spent in future years rather than there being an underspend.

12.7.2. **Treasury advisors** – in response to a question whether formal meetings were held with treasury advisors to review the debt maturity profile, the Head of Corporate Accounts stated that he held regular monthly meetings with advisors.

12.7.3. **Investment returns** - a Member commented that the return on investment appeared to have improved against benchmarking authorities, he asked whether this was a result of improved performance by the Council or weaker performance elsewhere. The Chief Operating Officer explained that investment returns on the Council's modest cash balances remained within the expected range for the level of risk associated with these investments.

12.7.4. **CFR** – It was asked whether there were any concerns that the Council may exceed the CFR limit following the additional borrowing the Council had undertaken. The Chief Operating Officer explained that the level of borrowing would ordinarily be closer to the CFR limit, so it was positive that the Council borrowing was below this. He added that he would expect the level of borrowing to be closer to the CFR this financial year with additional borrowing planned for revenue purposes, however, he was not concerned by the current situation.

12.7.5. **Property investment** – A Member expressed concern that the Medway Development Company (MDC) had moved towards a buy to rent strategy rather than buy to sell. It was asked whether the Council held too great a proportion of its investment in property. The Chief Operating Officer explained the Council was risk adverse in its investment strategy, property was the only significant investment made, but MDC had been created to develop sites that would otherwise not be developed.

12.7.6. He added that all investors had been affected by global events, however, the Garrison Point site had made a profit. Chatham Waterfront had proved more challenging which was why more units were under consideration for buy to rent rather than sell, however, as the market changed, MDC would respond accordingly.

12.8. The Committee noted the treasury management outturn annual report.

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.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Interest rate Risk	The Council will be subject to adverse interest rates relating to its treasury functions	The Council together with its treasury management advisors will review both existing and anticipated market conditions to ensure both the investment and borrowing strategies are the most beneficial to the council whilst ensuring it takes a prudent approach to risk.	CIII
Liquidity risk	The Council will encounter liquidity issues which could impair its ability to make timely payments.	Officers will look to keep an accurate cash flow forecast which will determine the likely call on liquid cash which in turn determines whether treasury actions (borrowing/investments) are needed/available.	CIII

Likelihood	**Impact:**
A Very likely B Likely C Unlikely D Rare	I Catastrophic II Major III Moderate IV Minor

14. Financial Implications

14.1. Overall, the Interest and Financing budget made a surplus of £1.357million over its targeted budget of £15.3million.

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

Interest and Finance Budget against spend:

	Budget 2023/24 £000	Actual 2022/23 £000	(Under)/Overspend £000
Interest Earned	(5,842)	(8,764)	(2,922)
Interest Paid	13,431	15,328	1,897
KCC Principal	1,204	1,156	(48)
MRP	6,442	6,077	(365)
Treasury Costs	65	145	80
Total	**15,300**	**13,943**	**(1,357)**

14.3. 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.

15. Legal implications

15.1. For the financial year 2023/24 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