

Audit Committee

20 March 2025

Treasury Management Report: Quarter 3

Report from: Phil Watts, Chief Operating Officer

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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 2024/25 the minimum reporting requirements were that the full Council should receive the following reports:
- An annual treasury strategy in advance of the year (Council 29 February 2024).
 - A mid-year treasury review report (Council 23 January 2025)

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

4. Interest Rate Forecasts

- 4.1. The Council has appointed MUFG (previously Link) as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB (Public Works Loan Board) 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. MUFG's latest interest and PWLB rate forecasts issued on 11th February are:

| MUFG Corporate Markets Interest Rate View 10.02.25 | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 | Mar-28 |
| BANK RATE | 4.50 | 4.25 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month ave earnings | 4.50 | 4.30 | 4.30 | 4.00 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month ave earnings | 4.40 | 4.20 | 4.20 | 3.90 | 3.70 | 3.70 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month ave earnings | 4.40 | 4.20 | 4.20 | 3.90 | 3.70 | 3.70 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.60 |
| 5 yr PWLB | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 | 4.00 |
| 10 yr PWLB | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.70 | 4.60 | 4.50 | 4.50 | 4.40 | 4.40 |
| 25 yr PWLB | 5.80 | 5.70 | 5.60 | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 5.00 | 4.90 | 4.90 | 4.80 |
| 50 yr PWLB | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.70 | 4.60 | 4.60 | 4.50 |

5. Borrowing

- 5.1. Total borrowing increased by £58.3 million since 31st March 2024, 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.

| CFR: General Fund | 2023/24 Actual* £000 | 2024/25 Per Strategy £000 | 2024/25 Q3 Forecast £000 |
|---|---------------------------------|--|---|
| Opening balance | 415,630 | 483,434 | 453,632 |
| Add unfinanced capital expenditure | 26,964 | 66,924 | 38,676 |
| Add Projected Extraordinary Financial Support | 0 | 0 | 23,171 |
| Add Long Term Debtors (Capital Loans) | 29,115 | 0 | 90,911 |
| Less MRP | (5,782) | (5,409) | (5,350) |
| Less KCC Debt Repayment | (1,156) | (1,156) | (1,110) |
| Less repayment of Capital Loans | (11,140) | (52,411) | (62,585) |
| Closing balance | 453,632 | 491,382 | 537,346 |

| CFR: HRA | 2023/24 Actual £000 | 2024/25 Per Strategy £000 | 2024/25 Q3 Forecast £000 |
|------------------------------------|------------------------------------|--|---|
| Opening balance | 42,829 | 44,377 | 45,844 |
| Add unfinanced capital expenditure | 3,423 | 5,016 | 0 |
| Less VRP | (408) | (390) | (443) |
| Closing balance | 45,844 | 49,003 | 45,401 |

- 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 2025

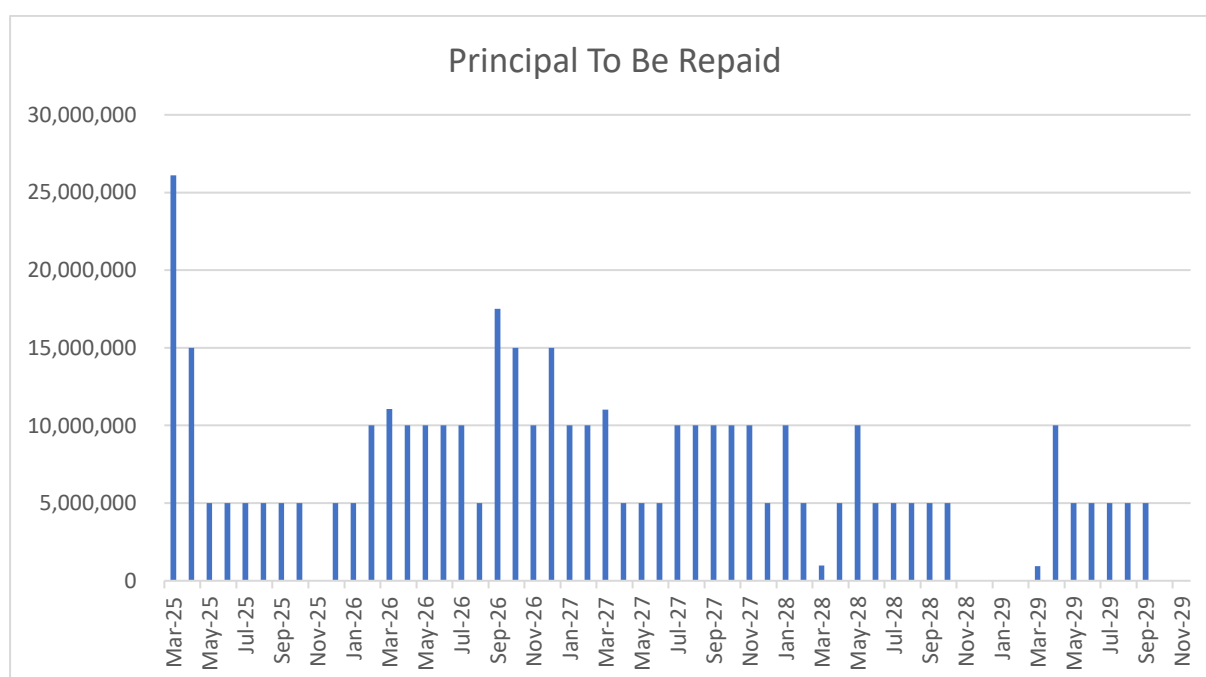
- 6.1. The Council's treasury management debt and investment position is organised by the treasury management officers to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve 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 2024 the Council's treasury position was as follows:

Borrowing and investment levels:

| | 31/03/24 £000 | Rate | 31/12/24 £000 | Rate |
|--|------------------|----------|------------------|-------|
| Long Term Borrowing – LOBO | 81,800 | 4.13% | 60,500 | 4.07% |
| Long Term Borrowing – PWLB | 216,024 | 4.05% | 311,024 | 4.15% |
| Long Term Borrowing – Other Local Authority | 52,500 | 4.40% | 52,500 | 4.90% |
| Long Term Borrowing – Growing Places/Salix/LEP | 450 | 0.00% | 350 | 0.00% |
| KCC Debt (includes approx. £1m short term) | 28,901 | 4.41% | 26,635 | 4.41% |
| Short Term Borrowing | 114,100 | 3.81% | 100,000 | 4.51% |
| Total Debt (Principal) | 493,775 | | 551,009 | |
| Capital Financing Requirement (CFR) | 499,475 | | 582,747 | |
| (Under)/Over Borrowing | (5,700) | | (31,738) | |
| Less investments (exc. Property Funds) | 14,529 | 5.17% | 28,743 | 4.67% |
| Less Loan to Kyndi Ltd | 890 | 5.00% | 718 | 5.00% |
| Less Loan to MDC | 75,258 | 7.79% | 80,065 | 8.00% |
| Less Loan to MDC (Private Rental Sector) | 12,000 | 5.98% | 12,002 | 6.48% |
| Less Property Fund Investments * | 22,999 | (15.36%) | 17,999 | 9.04% |
| Net borrowing | 368,099 | | 411,482 | |

* The return on the property fund investments includes the change in capital value and no longer includes Lothbury due to the cessation of the fund.



- 6.2. The chart above shows the debt maturity profile as at 6 March 2025. 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 2024 have been shown as maturing at their full term.
- 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 2024/25 | 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.

| | CCLA | Patrizia | Total | | Lothbury* |
|---------------------------|-------------|-----------------|--------------|-------------------------|------------------|
| | £000 | £000 | £000 | | £000 |
| Opening Value 31 March | 11,566 | 4,890 | 16,455 | Value as at 30 April | 3,650 |
| Revaluation | 123 | 800 | 923 | Redistribution | (3,208) |
| Closing Value 31 December | 11,689 | 5,690 | 17,379 | Awaiting Redistribution | 441 |
| Dividend Received | 444 | 121 | 565 | | |
| Overall Gain/ (Loss) | 567 | 921 | 1,488 | | |

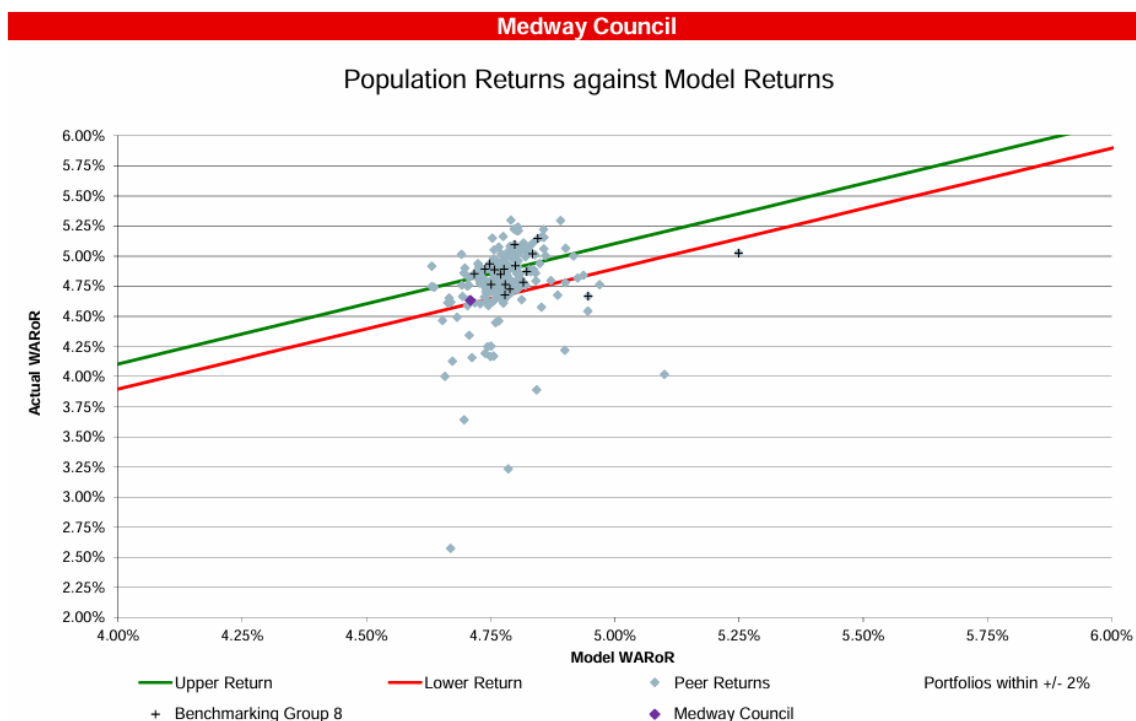
* Lothbury Property Fund ceased on 31 May 2024. The trustees of the fund are redistributing the final fund valuations (30 April 2024) in tranches as properties are sold. The Council has received 5 tranches to date with a total value of £3.208million, leaving a balance of £0.441million still to be received. The fund gives monthly statements as to the projected value of assets still to be sold, and based upon the latest statement, officers are confident that the Council will receive the remaining value of monies as soon as the properties the fund holds are sold.

7. Debt Rescheduling

- 7.1. No debt restructuring was undertaken during quarter 3 as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investments

- 8.1. On 31st December 2024 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 December 2024. 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 3 were forecast result in an underspend of £2.89million against a budget of £19.211million. A breakdown of the Interest and Financing budget is shown below:

| | Budget 2024/25 £000 | Round 3 Forecast £000 | (Under)/Overspend £000 |
|-----------------|------------------------|--------------------------|---------------------------|
| Interest Earned | (5,842) | (11,611) | (5,769) |
| Interest Paid | 17,342 | 20,934 | 3,593 |
| KCC Principal | 1,204 | 1,110 | (94) |
| MRP | 6,442 | 5,792 | (649) |

| | | | |
|----------------|---------------|---------------|----------------|
| Treasury Costs | 65 | 91 | 26 |
| Total | 19,211 | 16,316 | (2,895) |

10.2. 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.

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Appendices

Appendix 1 Commentary by MUFG on The Economy and Interest Rates

Appendix 2 Glossary of Terms

Background papers

None