

Cabinet

8 April 2025

Treasury Management Report: Quarter 3

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer

Author: Claire Sharman, Finance Business Partner Technical Accounts

Summary

This report gives an overview of treasury management activity for 2024/25 Quarter 3. The report was also considered by the Audit Committee on 20 March 2025, the minutes of which are set out in section 11 to this report.

1. Recommendations

- 1.1. The Cabinet is asked to note the comments of the Audit Committee, as set out in section 11 to the report.
- 1.2. The Cabinet is asked to note the 2024/25 Quarter 3 treasury management report.

2. Suggested reasons for decision

- 2.1. In accordance with the Chartered Institute of Public Finance Accountancy's (CIPFA) Code of Practice for Treasury Management, there should be a report on treasury every quarter.

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 quarterly treasury reports.

4. Background

- 4.1. 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.
- 4.2. 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).

5. Interest Rate Forecasts

5.1. 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.

5.2. 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

6. Borrowing

6.1. Total borrowing increased by £58.3 million since 31st March 2024, the start of the year.

6.2. 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

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

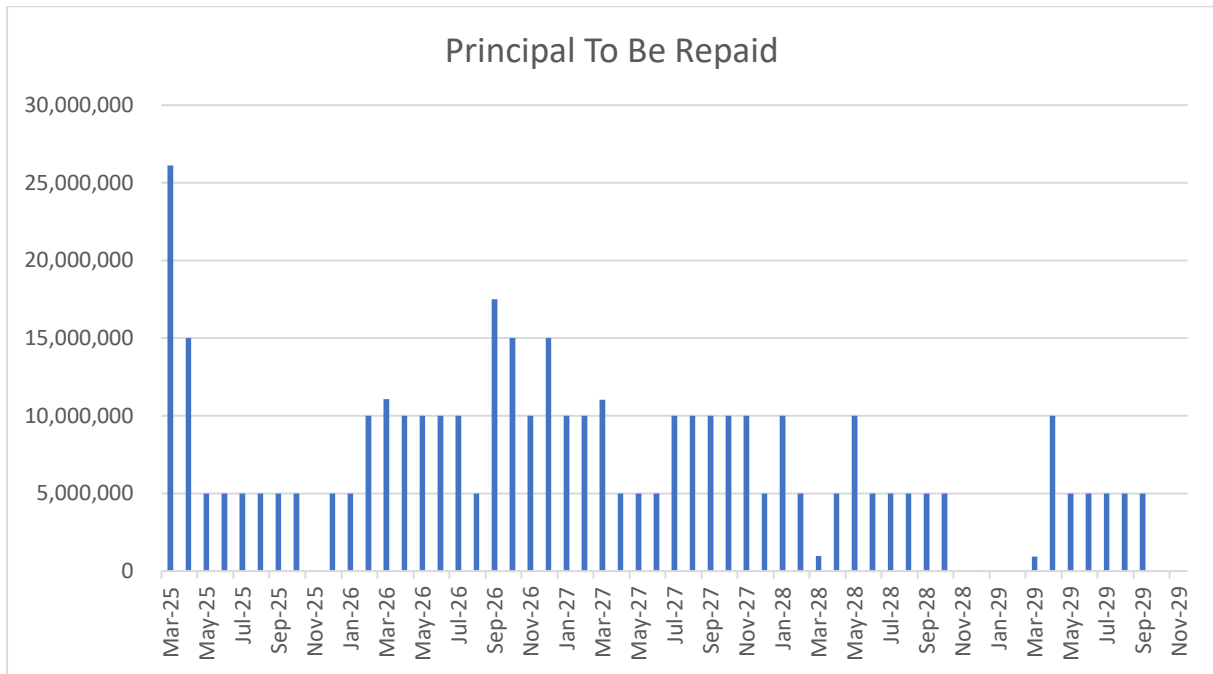
7. Treasury Position as at 31 December 2025

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 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	
<i>(Under)/Over Borrowing</i>	<i>(5,700)</i>		<i>(31,738)</i>	
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.



- 7.2. 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.
- 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 LOBOs outstanding as at 31 December 2024 have 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. 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%

7.5. Property fund investment and income are summarised below.

	CCLA £000	Patriza £000	Total £000		Lothbury* £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.

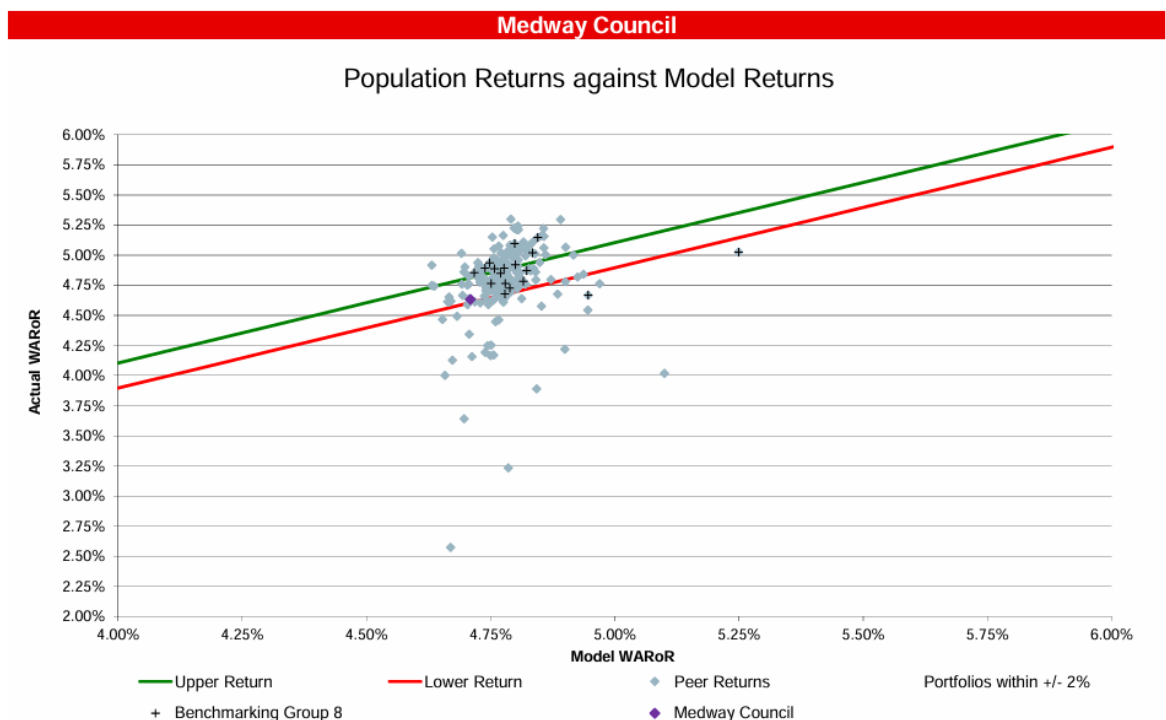
8. Debt Rescheduling

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

9. Investments

9.1. On 31st December 2024 there were no investments with other local authorities.

9.2. 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.



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

10. Risk Management

- 10.1. 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.

11. Audit Committee

- 11.1. The report was also considered by the Audit Committee on 20 March 2025, the relevant draft minute of this meeting is set out below:
- 11.2. Discussion:
- 11.3. The Head of Corporate Accounts introduced the report which highlighted treasury performance in quarter three. He reported that total debt stood at £551m at the end of quarter three, a £58m increase since the start of the financial year, c£31m below the Capital Finance Requirement (CFR).
- 11.4. The Council continued to prioritise short term borrowing, following the guidance of treasury advisors whilst seeking to balance the debt maturity profile where possible.
- 11.5. The Head of Corporate Accounts also noted that the local authority borrowing market had been difficult recently however, the Council was looking to take advantage of opportunities in the coming months.
- 11.6. With reference to Lender Option Borrower Option (LOBO) there had been no early redemptions in the quarter, there had been indications of potential requests in the new financial year and officers would update the Committee as required.
- 11.7. There had been an improved performance in the Council's property funds following a significant increase in the value of one fund which had recently received planning permission for a development. The value of the fund and the dividend had performed well, and it was hoped it would continue to do so into quarter four.
- 11.8. The following issues were discussed:
- 11.9. Debt Maturity Profile – Members welcomed the balancing of the Debt Maturity profile.
- 11.10. Treasury Investment re-evaluation – it was asked whether the recent improvements in investments valuations were greater than the loss made in relation to the Lothbury fund. The Chief Operating Officer explained that until the investment was redeemed it would not be reflected in the accounts as a profit or loss, however if it was redeemed at the current value, it would be a represent a profit larger than the loss incurred by the closure of the Lothbury fund.
- 11.11. Increase in Interest payments – in response to a query why interest payments had risen above budget, the Chief Operating Officer explained there had been a realignment in the budget which had meant that interest earned and interest

paid had both increased. Taken together interest and financing costs remained within budget.

11.12. Decision:

11.13. The Committee noted the treasury management report.

12. Financial Implications

12.1. 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)

12.2. 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.

13. Legal implications

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

Lead officer contact:

Claire Sharman, Finance Business Partner – Technical Account, Gun Wharf, 01634 331639, claire.sharman@medway.gov.uk

Appendices

Appendix 1 Commentary by MUFG on The Economy and Interest Rates

Appendix 2 Glossary of Terms

Background papers

None