

Audit Committee

31 July 2025

Treasury Management Report 2025/26: Quarter 1

Report from: Phil Watts, Chief Operating Officer

Authors: Andy McNally-Johnson, Head of Corporate Accounts
Claire Sharman, Finance Business Partner Technical Accounts

Summary:

This report gives an overview of treasury management activity for 2025/26 Quarter 1. The report was also be considered by Cabinet on 27 July 2025.

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 2025/26 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council 27 February 2025).
- A mid-year treasury review report
- An Outturn report

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

4. Interest Rate Forecasts

- 4.1. The Council has appointed MUFG Corporate Markets 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. For Housing Revenue Account (HRA) authorities, the lower HRA PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.
- 4.2. The forecast has proved robust over the period since February, setting out a central view that short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors. Nonetheless, the longer dated part of the forecast also reflects the increased level of Government borrowing over the term of the current Parliament and the weakness in the public finances, with the Government struggling to deliver on the efficiencies detailed in the 30 October Budget.
- 4.3. Moreover, there is still on-going debate as to when, and if, the Government's policies will lead to a material uptick in growth given their reliance on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- 4.4. Overall, our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in November and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data releases in the coming months.
- 4.5. International factors could also impact the prospect for longer dated gilt yield falls. President Trump's "big, beautiful bill" has successfully made its way through the House of Representatives in July and given that it will signal a continued large budget deficit position in the US finances, any uptick in Treasury yields will likely impact other developed economies markets too. There will also be a keen focus on whether US-driven tariff policies result in upward pressures on inflation.

Link's current and previous PWLB rate forecasts below are based on the Certainty Rate from 10 February 2025.

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

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

5. Borrowing

- 5.1. Total borrowing increased by less than £3 million during the quarter. However maturing loans were replaced by new loans with longer durations where available. The maturing loans had interest rates of between 0.55% and 2.1%. Loans are often arranged some time before the funds are received. The new loans received in Q1 have interest rates of 1.7% to 2% but these were arranged between May and June 2022. Recent loans, arranged between June 2023 and August 2023, are at rates between 5.3% and 5.85%.
- 5.2. The Council's CFR (capital financing requirement) for the year is shown below and represents a key prudential indicator.

CFR: General Fund	2024/25	2025/26	2025/26
	Actual*	Per Strategy	R1 Forecast
	£'000	£'000	£'000
Opening balance	453,888	510,469	513,997
Add unfinanced capital expenditure	18,101	106,648	55,169
Add Capitalisation of Revenue Costs Under EFS	20,239	18,500	14,742
Add Long Term Debtors (Capital Loans)	28,258	0	21,588
Less MRP	(5,350)	(6,780)	(6,447)
Less KCC Debt Repayment	(1,110)	(1,065)	(1,065)
Less Repayment of Borrowing from Capital Grants	(29)	0	0
Closing balance	513,997	627,772	597,984

CFR: HRA	2024/25	2025/26	2025/26
	Actual*	Per Strategy	R1 Forecast
	£'000	£'000	£'000
Opening balance	45,844	44,377	45,401
Add unfinanced capital expenditure	0	5,016	17,864
Less VRP	(443)	(390)	(481)
Closing balance	45,401	49,003	62,784

*CFR is provisional as work is continuing on the audit of the Statement of Accounts for 2024/25.

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

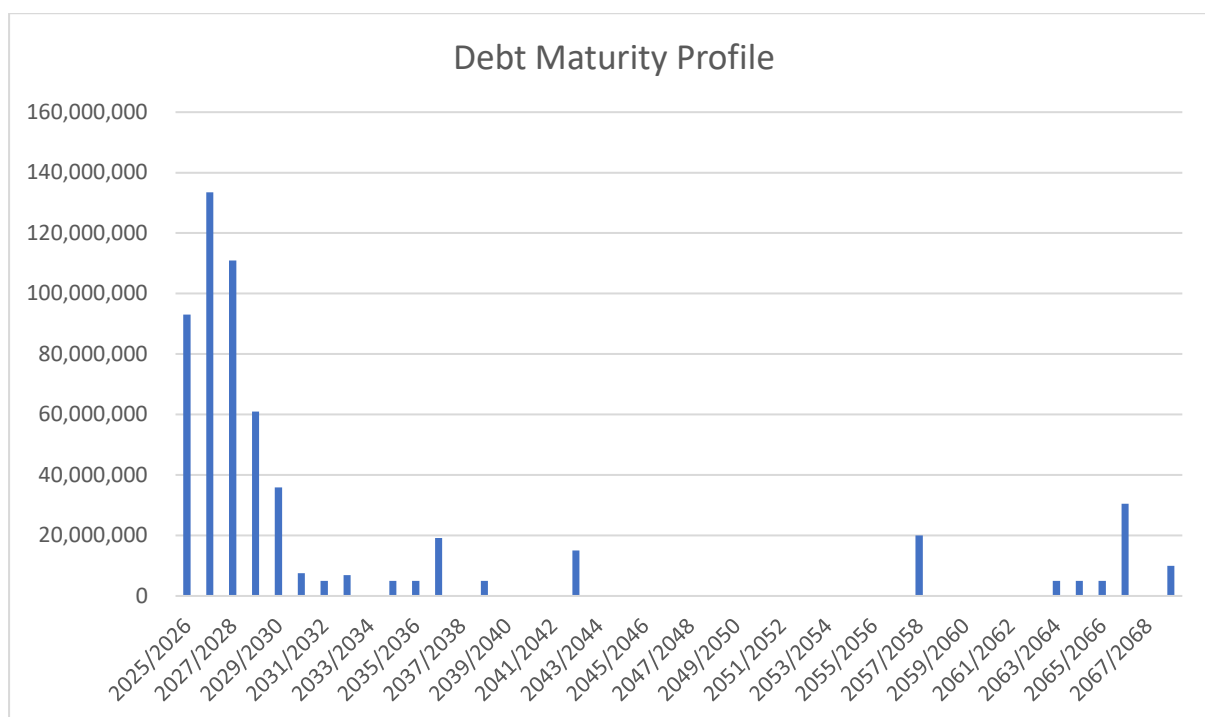
6. Treasury Position as at 30 June 2025

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 June 2025 the Council's treasury position was as follows:

Borrowing and investment levels:

	31/03/25	Rate	30/06/25	Rate
	£000		£000	
Long Term Borrowing – PWLB/LOBO	447,846	4.37%	335,500	4.77%
Long Term Borrowing – Other Local Authority	47,500	5.03%	62,000	4.94%
Long Term Borrowing – Growing Places/Salix/LEP	359	0.00%	359	0.00%
Short Term Borrowing	90,001	4.87%	90,010	4.87%
Total Debt (Principal)	585,706		487,869	
Capital Financing Requirement (CFR)	559,399		584,741	
<i>(Under)/Over Borrowing</i>	<i>26,308</i>		<i>(96,872)</i>	
Less investments (exc. Property Funds & Loans to Subsidiaries)	33,943	4.56%	30,238	4.21%
Less Loan to Kyndi Ltd	625	5.00%	574	5.00%
Less Loan to MDC (Land & Projects)	77,405	8.00%	60,305	7.00%
Less Loan to MDC (Private Rented Sector)	38,076	5.72%	56,576	5.63%
Less Property Fund Investments *	17,742	11.03%	17,626	1.05%
Net borrowing	417,915		322,550	

* 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 30/06/25. 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 because no formal approaches were made in quarter 1 by lenders requiring early repayment. LOBOs have therefore 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 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.

	CCLA	Patriza	Total
	£000	£000	£000
Opening Value 31 March	11,606	5,694	17,300
Revaluation	5	0	5
Closing Value 30 June	11,610	5,694	17,305
Dividend Received	137	40	177
Overall Gain/(Loss)	141	40	182

6.6. Members will be aware that the Lothbury Property Fund ceased on 31 May 2024 and redemptions against the final valuation of the fund are being made, as and when the portfolio is sold as detailed below:

	Lothbury
	£000
Closing Value	3,650
Dividend/Redistribution Received	(3,328)
Awaiting Redistribution	322

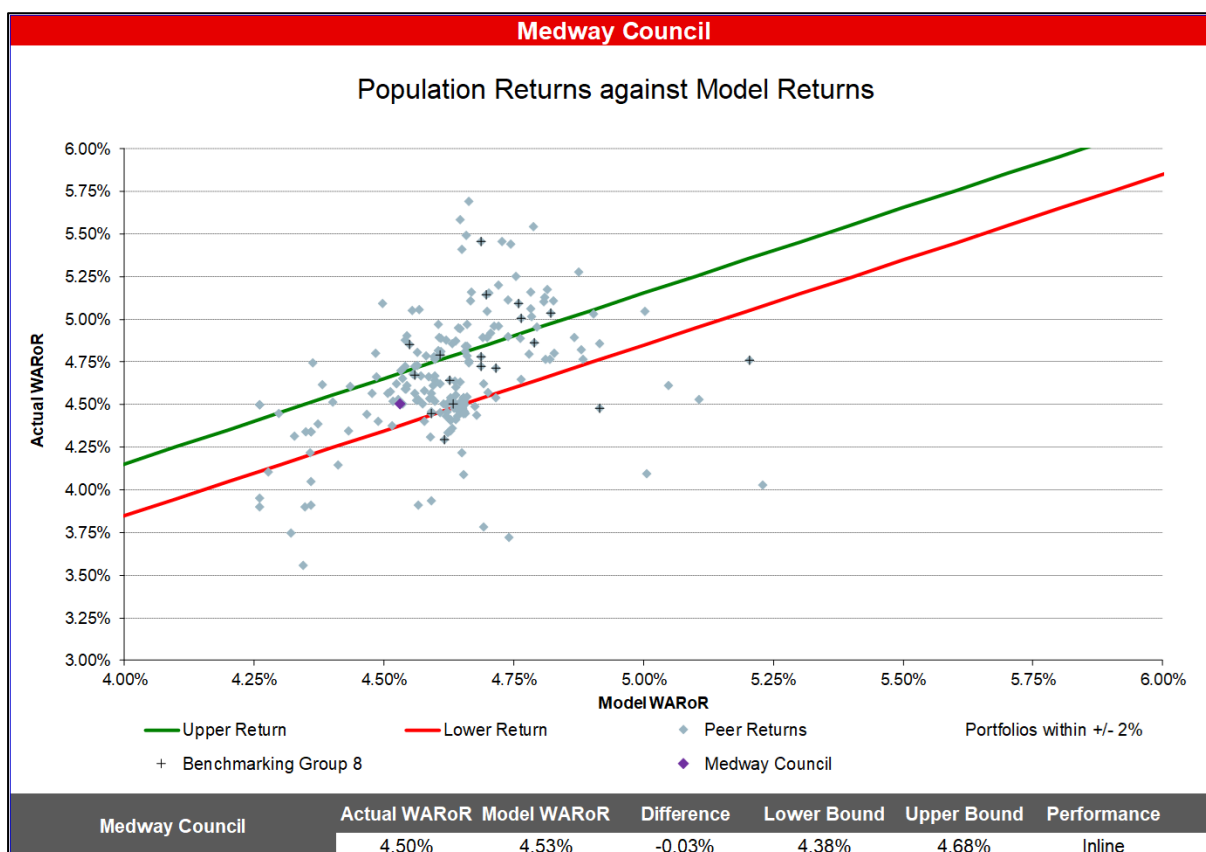
7. Debt Rescheduling

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.

8. Investments

8.1. At 30 June 2025 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 June 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

8.3.1. There were no breaches of the limits set in the Treasury Strategy during quarter 1.

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 1 were forecast to remain within the approved budget.

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

Interest and Finance Budget against spend:

	Budget 2025/26	Round 1 Forecast	(Under)/ Overspend
	£000	£000	£000
Interest Earned	(5,842)	(5,842)	0
Interest Paid	16,238	16,238	0
KCC Principal	1,204	1,204	0
MRP	6,442	6,442	0
Treasury Costs	65	65	0
Total	18,107	18,107	0

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:

Phil Watts, Chief Operating Officer, Gun Wharf,
Tel (01634) 332220 E-mail phil.watts@medway.gov.uk

Appendices

Appendix 1 Treasury Management Update

Appendix 2 Glossary of Terms

Background papers

None