Medway COUNCIL
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Audit Committee

30 October 2025

Treasury Management Strategy Mid-Year Review Report 2025/26

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Summary

This report gives an overview of treasury management activity since 1 April 2025 and presents a review of the Treasury Strategy approved by Council on 27 February 2025.

The key indicators are set out in the table below:

Indicator	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£000	£000	£000	£000
Capital Expenditure	131,596	62,096	25,561	10,525
General Fund (GF) Capital Financing Requirement (CFR) at year end	660,239	670,106	680,338	683,926
Housing Revenue Account (HRA) Capital Financing Requirement (CFR) at year end	48,130	58,858	65,260	64,943
Total Capital Financing Requirement at year end	708,369	728,964	745,598	748,870
External Borrowing	655,051	675,646	692,279	695,551
Underborrowing	53,318	53,318	53,318	53,318

The movement in the capital financing requirement is shown below:

GF Capital Financing Requirement	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£000	£000	£000	£000
Opening Balance	570,283	660,239	670,106	680,338
Add Unfinanced Capital Expenditure	55,555	29,247	16,867	10,526
Add Exceptional Financial Support	23,846	0	0	0
Add Long Term Debtors (Capital Loans)	37,600	22,800	22,800	22,800
Less Minimum Revenue Provision (MRP)	(6,574)	(7,840)	(8,124)	(8,452)
Less KCC Debt Repayment	(1,110)	(1,065)	(1,023)	(982)
Less Repayment of Capital Loans	(19,361)	(33,275)	(20,289)	(20,304)
Closing CFR	**660,239**	**670,106**	**680,338**	**683,926**

HRA Capital Financing Requirement	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£000	£000	£000	£000
Opening Balance	42,386	48,130	58,858	65,260
Add Unfinanced Capital Expenditure	5,974	11,253	6,704	0
Less Voluntary Revenue Provision (VRP)	(231)	(525)	(303)	(316)
Closing CFR	**48,130**	**58,858**	**65,260**	**64,943**

1. Recommendation

1.1. The Committee is requested to consider this report, note its contents and note that the report will also be referred to Cabinet and Full Council.

2. Budget and Policy Framework

2.1. Audit Committee is responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement along with Treasury Management Practices and associated Schedules.

2.2. There needs to be, as a minimum, a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.

2.3. This report is also scheduled for consideration by Cabinet on 16 December 2025 and full Council on 22 January 2026.

3. Background

3.1. In December 2021 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Prudential and Treasury Management

Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of service
- An overview of how the associated risk is managed
- The implications for future financial sustainability

3.2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially, before optimising investment return.

3.3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing requirements of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending liabilities. This management of longer-term cash may involve arranging long or short-term loans, or using long-term cash flow surpluses, and on occasion, debt previously incurred may be restructured to meet Council risk or cost objectives.

3.4. Accordingly, treasury management is defined as:

- "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.5. The Chartered Institute of Public Finance and Accountancy is currently consulting local authorities in respect of potential changes to the Codes. At this juncture, the focus seems to primarily be on the Non-Treasury investment aspects of local authority activity. Officers will provide an update on any material developments/changes in due course.

3.6. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

(i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

(ii) Creation and maintenance of Treasury Management Practices (TMP's) which set out the manner in which the Council will seek to achieve those policies and objectives.

(iii) Receipt by the Audit Committee, Cabinet and full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy, a mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year. (Quarterly reports are also required for the periods ending April to June and October to December.

(iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

(v) Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority, the delegated body is the Audit Committee.

3.7. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (Section 4);
- A review of the Council's borrowing strategy for 2025/26 (Section 5);
- A review of any debt rescheduling undertaken during 2025/26 (Section 6);
- A review of compliance with Treasury and Prudential Limits for 2025/26. (Section 7);
- A review of the Council's investment portfolio for 2025/26 (Section 9);
- An economic update for the first half of 2025/26 (Appendix).

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1. Full Council approved the 2025/26 Treasury Management Annual Investment Strategy on the 27 February 2025.

4.2. The Strategy stated that in the long-term aim of officers is to smooth out the maturity profile and reduce reliance on short-term borrowing but whilst holding some short-term debt to manage cash flow. However, as and a significant amount of capital receipts are expected in the next few years, a higher level of short to medium-term loans from other local authorities will be held in the immediate term. At 31 March 2025 short-term borrowing stood at £91million, and increased to £221million as at 30 September 2025. This figure includes £106 million due for repayment before 31 March 2026. The aim over the next few months will be to avoid increasing the overall amount due for repayment in 2025/26 and concentrate new borrowing for repayment in 2026/27 to 2028/29 with ideally no more than £10m maturing each month. Any new loans are likely to be a mixture from the Public Works Loans Board (PWLB) and other Local Authorities, using the most advantageous interest rates available at the time. Any further smoothing would require the use of longer-term funding from PWLB and although still higher than anticipated, interest rates are on a downward trajectory meaning this option will become less expensive. The current position is shown in the graph at 5.7.

5. Borrowing & Borrowing Limits

5.1. The purpose of the Capital Financing Requirement (CFR) is to demonstrate that Council borrowing is undertaken to fund capital expenditure only. The CFR represents the long-term assets of the Council that have not been funded from sources other than borrowing, such as grants and external contributions, capital receipts or revenue funding. External borrowing should not exceed the CFR over the medium term. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

5.2. An updated estimate of the CFR and borrowing position compared with the estimate included in the Treasury Strategy is shown in the table below:

CFR & Borrowing	Per 2025/26 Strategy £000	Revised Estimate £000
CFR 31 March 2026	675,135	708,369
External Debt	673,736	655,051
Under-borrowing	1,399	53,318
Estimated In Year Borrowing Required	117,303	69,611

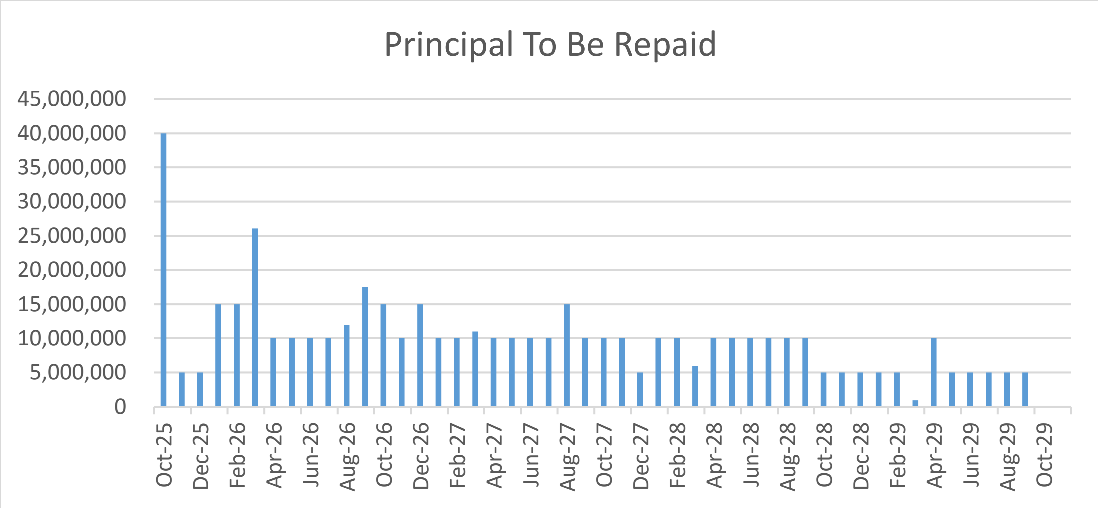
5.3. The revision compared with the estimates arise from the evolution of the capital programme including changes to profiling and funding since the Strategy was formulated in late 2024.

5.4. The Chief Operating Officer (S.151 Officer) reports that no difficulties are envisaged for the current or future years in ensuring that borrowing does not exceed CFR.

5.5. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in a longer-term scenario. It is a forecast of maximum borrowing requirement with some capacity for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Council's authorised borrowing limit for 2025/26 is £805.899 million and it will not exceed this limit.

5.6. One of the risks inherent within Treasury management is "Interest rate risk". This risk is high where a large proportion of an organisation's borrowing portfolio reach termination point at the same time. The organisation has then to re-finance a large proportion of their portfolio at a set point in time with the risk that interest rates may not be favourable. The recent strategy has been to reduce interest rate risk and smooth the borrowing repayment profile by taking out new borrowing for longer repayment terms. Progress towards this aim has been limited by the factors noted in 4.2 above.

5.7. The graph below shows the debt portfolio repayment profile for the next three years as at 30 September. All debts are being shown as repayable at term, although the LOBO's (Lender Option Borrower Option) have a variety of "call" periods of between 6 months and every 5 years. The risk of a call occurring is higher than before due to the current raised interest rates. One lender has exercised their option at the end of September meaning a loan for £10million was repaid and it is thought that the same lender could do the same for a further loan during 2026/27.



6. Debt Rescheduling

6.1. Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt repayments or rescheduling have been undertaken to date in the current financial year.

7. Compliance with Treasury and Prudential Limits

7.1. It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits, (affordable capital expenditure limits – Scottish local authorities). During the half year ended 30 September 2025, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2025/26. The Chief Operating Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

7.2. All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices.

8. Annual Investment Strategy

8.1. The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by the Authority on 27/02/2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Authority's investment priorities as being:

- Security of capital
- Liquidity
- Yield

8.2. The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs.

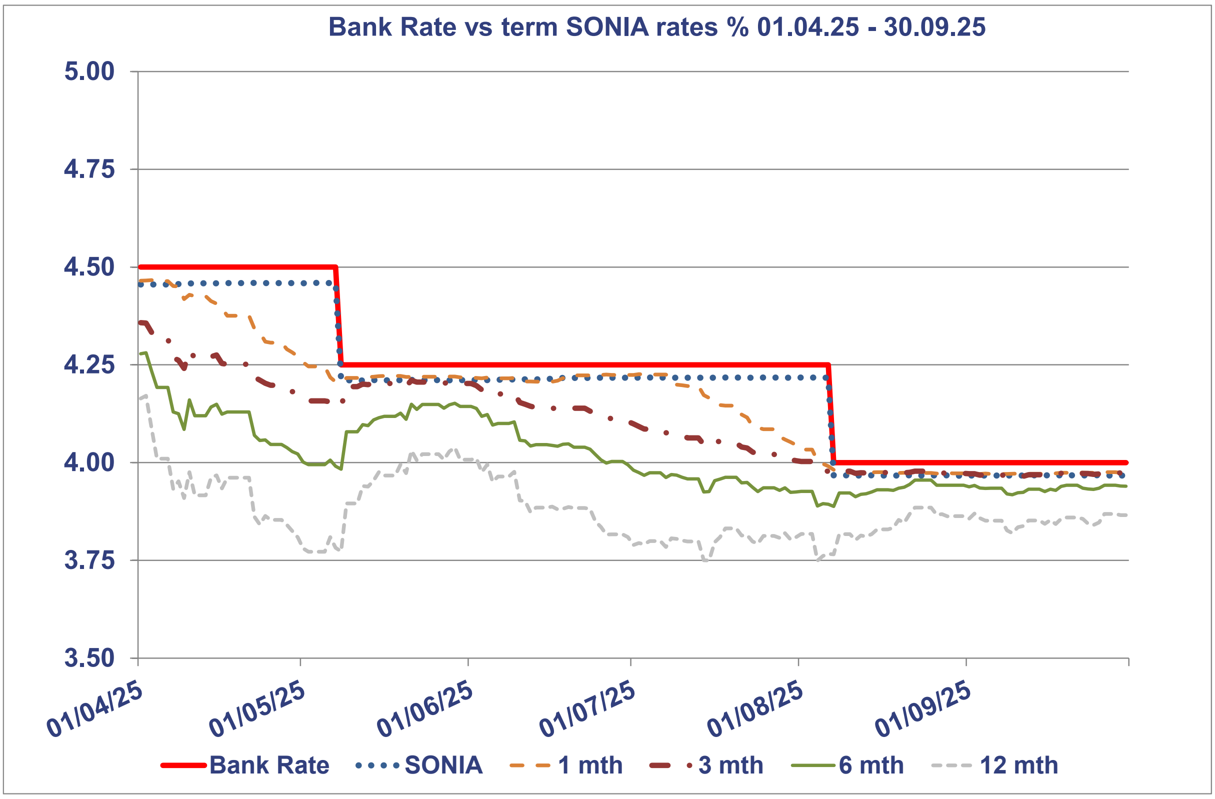
8.2.1. Creditworthiness - The UK's sovereign rating has proven robust through the first half of 2025/26. The Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 26 November 2025.

8.2.2. Investment Counterparty Criteria - The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management.

8.2.3. CDS prices - It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

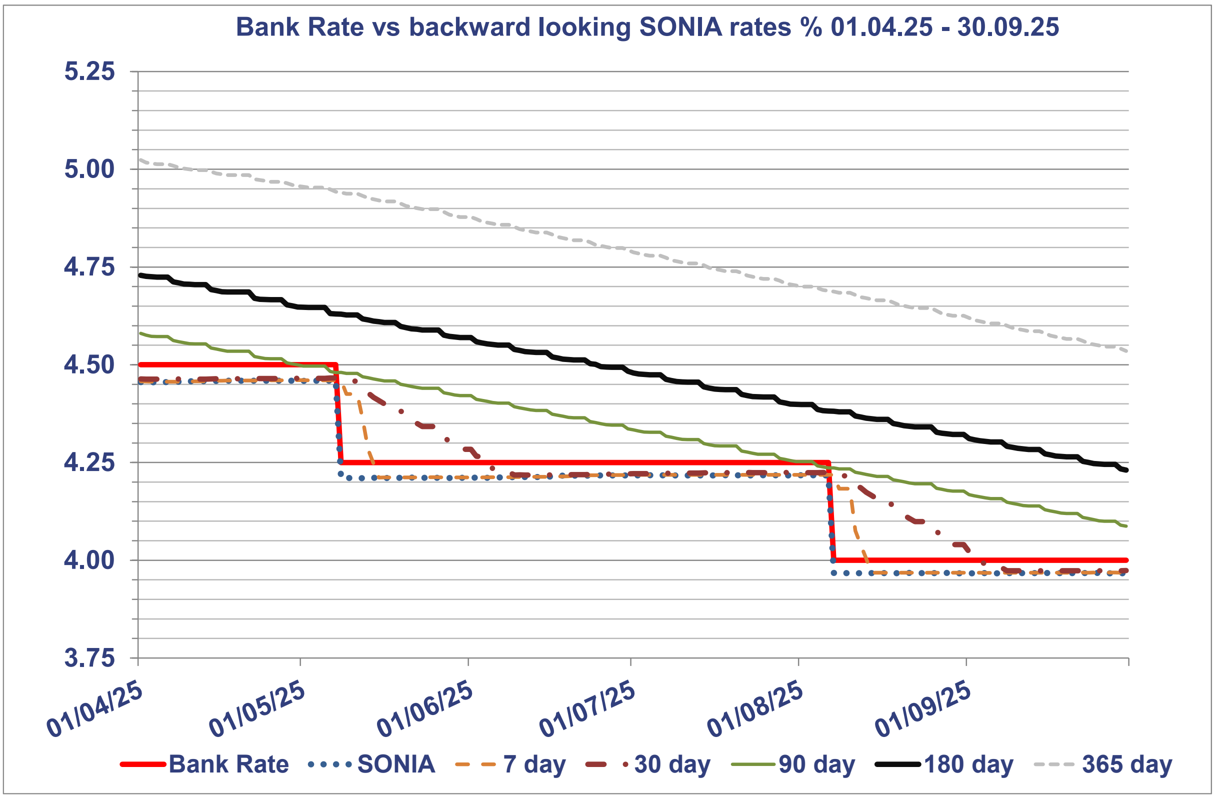
8.2.4. Investment balances - The average level of funds available for investment purposes during the first half of the financial year was £25.6million. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

8.3. Investment performance year to date as of 30 September 2025



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	4.50	4.46	4.47	4.36	4.28	4.17
High Date	01/04/2025	07/05/2025	03/04/2025	01/04/2025	02/04/2025	02/04/2025
Low	4.00	3.97	3.97	3.96	3.89	3.75
Low Date	07/08/2025	29/08/2025	16/09/2025	08/09/2025	07/08/2025	04/08/2025
Average	4.23	4.19	4.16	4.10	4.01	3.88
Spread	0.50	0.49	0.50	0.39	0.39	0.42

8.4. The table above covers the first half of 2025/26.



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.50	4.46	4.46	4.47	4.58	4.73	5.02
High Date	01/04/2025	07/05/2025	28/04/2025	06/05/2025	01/04/2025	01/04/2025	01/04/2025
Low	4.00	3.97	3.97	3.97	4.09	4.23	4.54
Low Date	07/08/2025	29/08/2025	04/09/2025	10/09/2025	30/09/2025	30/09/2025	30/09/2025
Average	4.23	4.19	4.20	4.24	4.34	4.48	4.79
Spread	0.50	0.49	0.49	0.49	0.49	0.50	0.49

8.5. The table above covers the first half of 2025/26.

9. Investment Portfolio 2025/26

9.1. In accordance with the Code, it is the Council’s priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite.

9.2. The investment portfolio yield on cash investments at 30 September 2025 ranges from 0.0% to 4.20%.

9.3. A full list of in house investments held as at 30 September is shown below:

Investments: Core Investments	Principle £	Interest %
CCLA Property Fund (September 2025 market value)	11,814,828	n/a
Patriza Hannover Property UT (September 2025 market value)	5,720,300	n/a
Lothbury Property Trust (April 2024 market value less redistributions to 14/08/25)*	282,559	n/a
Total Core Investments	**17,817,687**	n/a

Investments: Liquid investments	Principle £	Interest %
Svenska Handelsbanken	1,152	0.00%
Lloyds	10,766,923	4.04%
Barclays	4,579	0.00%
Santander	0	3.43%
CCLA Public Sector Deposit Fund	19,956,258	4.20%
Total Liquid Investment	**30,728,912**	4.14%
Total In house Investments	**48,546,599**	**n/a**

9.4. Members may like to note the overall performance of the investment in property funds in the current financial year as shown below.

	CCLA	Patrizia	Total		Lothbury*
	£000	£000	£000		£000
Opening Value 01 April 2025	11,566	5,683	**17,249**	Value as at 30 April 2024	3,632
Revaluation	249	37	**286**	Redistribution	(3,350)
Closing Value 30 September 2025	11,815	5,720	**17,535**	Awaiting Redistribution	283
Dividend Received	132	78	**210**		
Overall Gain/ (Loss)	**381**	**115**	**496**		

* 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 7 tranches to date with a total value of £3.35million, leaving a balance of £0.283million 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.

9.5. The current active portfolio includes investment in the Patrizia Hanover Property Unit Trust. The initial investment of £5million was made 2017/18, with the view that it was to be viewed as a long-term project. Since that time, values of property funds have suffered, partly as a result of the pandemic and changes to working practices, and as a result the value of the fund had reduced to as low as £4.774million in 2020/21 and as at 2023/24 was still below par at £4.89million. During 2024/25, planning permission was given to provide a data centre at one of the assets held by the fund, leading to a large increase in the valuation of the fund, with Medway's share valued at £5.694million as at 31/03/25.

9.6. Under normal accounting standards, any gains or losses in valuations would normally have to be taken through the Council's revenue account, but there has been a statutory override in place in recent years meaning that any gains or losses are held within an unusable reserve in the Council's balance sheet. Whilst this arrangement has been extended for existing pooling funds as at 31/03/2025 until 01/04/2029, many investors have seen this increase as an opportunity to request a redemption on their investment. As of 14 July 2025, redemption notices have been served on approximately 85% of the Trust's units and since this exceeds the threshold of two-thirds of units in issue, the Trust has initiated a formal consultation and decision-making process regarding its potential wind-down. An Extraordinary General Meeting (EGM) notice was produced at the end of September with Unitholders will be asked to submit formal responses by late November. Medway has taken the opportunity to request a redemption from the fund, and we are assuming that we should receive the current value, albeit as per the Lothbury redemption, this may happen over a period of time as the remaining assets are sold.

9.7. The Council's finance and interest net expenditure for 2025/26 as per Round 1, the latest published results is estimated to be contained within the approved budget as set out below:

	2024/25 Outturn	Budget 2025/26	Round 1 Forecast	Round 1 Variance
	£000	£000	£000	£000
Interest Earned	(11,758)	(5,842)	(5,842)	0
Interest Paid	21,265	16,238	16,238	0
KCC Principal	1,110	1,204	1,204	0
MRP	5,792	6,442	6,442	0
Treasury Costs	174	65	65	0
TOTAL INTEREST & FINANCING	**16,583**	**18,107**	**18,107**	**0**

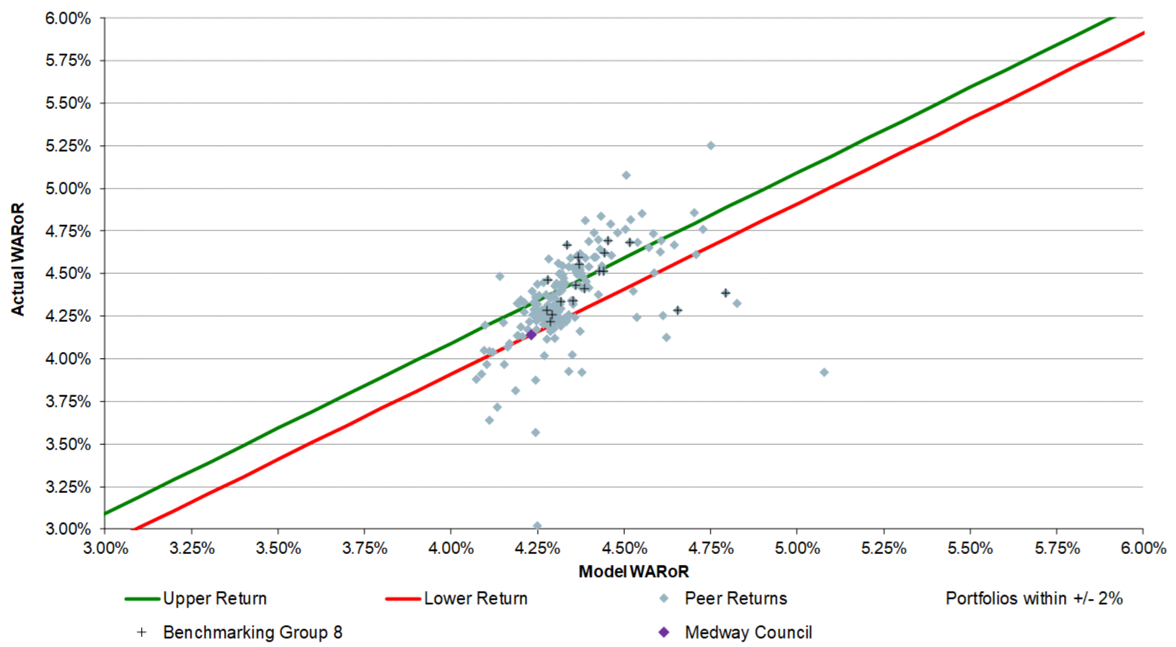
9.8. Investment Counterparty Criteria

9.8.1. The current investment counterparty criteria selection approved in the Treasury Strategy is meeting the requirement of the treasury management function.

9.9. Benchmarking

9.9.1. The in-house Treasury team, contribute to the Link Asset Services benchmarking club which produces quarterly reports. Shown below is a graph showing Medway's performance to September.

Population Returns against Model Returns



Medway Council	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
	4.14%	4.23%	-0.09%	4.14%	4.32%	Inline

9.9.2. The “x” axis of the graph shows the “Model Weighted Average Rate of Return”, this is easiest interpreted as the level of return we should expect for the level of risk that we are taking with our investment portfolio. This is then plotted against the “Actual Weighted Average Rate of Return” on the “y” scale, running diagonally upwards across the graph are two parallel lines, if a Council performance falls between these lines, then they are deemed to be receiving a return as would be expected for their level of risk, below these two lines and performance is considered below that expected and above then the return being received is above that expected. As can be seen Medway’s return is inline with expectations for our level of risk. However, the data includes only cash deposits and excludes property funds.

9.9.3. In assessing the risk inherent in an Investment Portfolio for the benchmarking, three factors are taken into account:

(i) The number of days to maturity of an investment. With a larger the number of days left to maturity the greater the risk that an adverse event could occur

(ii) The total number of days that the investment was originally invested for, again the longer an authority is comfortable to invest for the greater the risk it is willing to take.

(iii) The creditworthiness of the counterparties in which the authority invests.

9.9.4. The table below shows some detail from the June 2025 benchmarking data comparing Medway in-house performance against all participants of the benchmarking group: unitary authorities and other local councils.

Authority/Group	Model Weighted Average Rate of Return Bands	Risk: Weighted Average Maturity (Days)	Risk: Weighted Average Total Time (Days)	Risk: Weighted Average Credit Risk	Weighted Average Rate of Return
Medway	**4.14%-4.32%**	**0**	**0**	**2.05**	**4.14%**
Brighton & Hove CC	4.70%-4.88%	122	435	1.98	4.39%
East Sussex CC	4.35%-4.54%	81	175	1.33	4.62%
Kent CC	4.57%-4.75%	145	360	1.05	4.28%
Maidstone BC	4.42%-4.61%	69	191	1.00	4.68%
Sevenoaks DC	4.20%-4.38%	0	0	1.13	4.22%
Thanet DC	4.19%-4.37%	6	13	1.36	4.46%
Tonbridge and Malling BC	4.27%-4.45%	65	171	3.16	4.43%

10. Risk management

10.1. Risk and the management thereof is a feature throughout the Strategy and in detail within the Treasury Management Practices 1 published alongside the Treasury Management Strategy at the start of 2025.

11. Financial and legal implications

11.1. The finance and legal implications are highlighted throughout this report. The Council has delegated responsibility for the execution and administration of treasury management decisions to the Chief Operating Officer, who will act in accordance with the Council's policy statement and Treasury Management Practices.

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Appendices

Appendix 1 –Economic Update for the First Half of 2025/26

Background Papers

None