

## **Audit Committee**

**27 January 2026**

### **Treasury Management Report 2025/26: Quarter 3**

Report from: Phil Watts, Chief Operating Officer

Authors: Andy McNallyy-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 3. The report will also be considered by Cabinet on 10 February 2026.

#### **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 (Council 22 January 2026)

In addition, Audit Committee received reports for quarter 1 (31 July 2025), and quarter 3 (this report).

## 4. Interest Rate Forecasts

- 4.1. The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts and commentary on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
<b>BANK RATE</b>	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

## 5. Borrowing

- 5.1. Total borrowing increased by £71.8million since 1 April 2025, 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.

<b>CFR General Fund</b>	<b>2024/25 Actual £'000</b>	<b>2025/26 Per Strategy £'000</b>	<b>2025/26 Forecast £'000</b>
Opening Balance	485,804	510,469	545,913
Add Unfinanced Capital Expenditure	18,101	77,526	65,841
Capitalisation of Revenue Costs Under EFS	20,239	18,800	28,132
Long Term Debtors - Capital Principle	22,576	20,000	26,350
Long Term Debtors - Capital Interest	5,682	1,000	7,431
Less MRP	(5,350)	(6,780)	(7,077)
Less Debt Repaid from Capital Grants/Contributions	(29)	0	(703)
Less KCC Debt Repayment	(1,110)	(1,065)	(1,110)
Less Property Review Capital Receipts	0	0	(15,269)
<b>Closing Balance</b>	<b>545,913</b>	<b>619,950</b>	<b>649,508</b>

<b>CFR HRA</b>	<b>2024/25 Actual £'000</b>	<b>2025/26 Per Strategy £'000</b>	<b>2025/26 Forecast £'000</b>
Opening Balance	42,829	47,363	42,386
Add Unfinanced Capital Expenditure	0	8,317	12,272
Less VRP	(443)	(461)	(461)
<b>Closing Balance</b>	<b>42,386</b>	<b>55,219</b>	<b>54,197</b>

- 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 2025, the Council's treasury position was as follows:

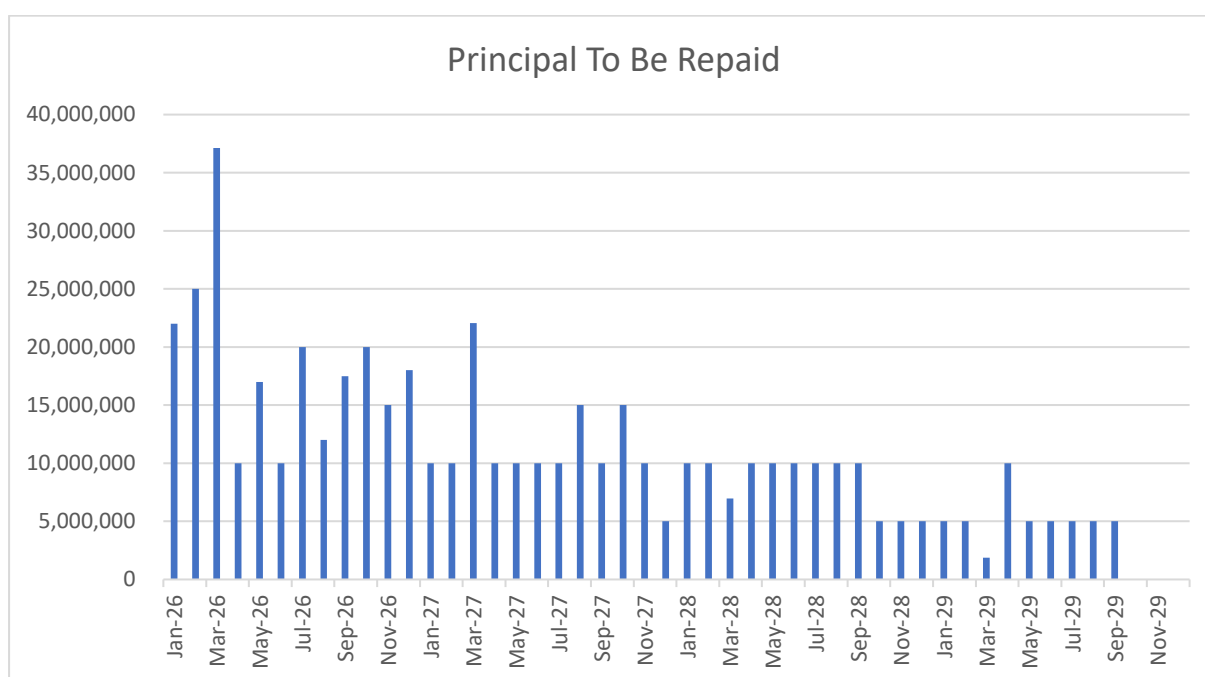
### Borrowing and investment levels:

	31/03/2025 £000s	Rate	31/12/2025 £000s	Rate
Long Term Borrowing PWLB/LOBO	447,846	4.37%	376,525	4.33%
Long Term Borrowing Other Local Authority	18,600	5.03%	37,500	4.53%
Long Term Borrowing - Growing Places/Salix/LEO	359	0.00%	359	0.00%
KCC Debt (includes approx £1m Short Term)	28,901	4.41%	26,635	4.41%
Short Term Borrowing	90,001	4.87%	216,510	4.69%
Total Debt (Principal)	585,707		657,530	
CFR	588,300		703,705	
(Under)/Over Borrowing	(2,593)		(46,176)	
Less Invesrmant exc Property Funds	33,943	4.56%	11,720	3.62%
Less Loan to Kyndi Ltd	625	5.00%	853	5.00%
Less Loans to MDC (Land & Projects)	77,405	8.00%	37,355	7.00%
Less Loans to MDC (Private Rented Sector)	38,076	5.72%	100,579	5.43%
Less Property Fund Investments *	17,742	11.03%	17,807	3.83%
	417,916		489,215	

- \* 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. Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing of £112m was undertaken in the quarter from the PWLB / Market at an average rate of 4.28%. It should be noted however, that the Council also repaid principal of £100m during the quarter with an average interest rate of 4.42%.
- 6.3. The Council is due to repay a further £84m during the final quarter of 2025/26 with an average interest rate of 4.6% as illustrated in the chart below, and this

will in most cases require further borrowing, further compounded by the need to borrow to fund capital spend during that time.



- 6.4. The chart above shows the debt maturity profile as at 31 December 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.
- 6.5. 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 2025 have been shown as maturing at their full term.
- 6.6. 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 2025/26	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%

6.7. Property fund investment and income are summarised below.

	<b>CCLA</b>	<b>Patrizia</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening Value 31 March	11,606	5,694	17,300
Revaluation	200	178	378
Closing Value 31 December	11,806	5,873	17,678
Dividend Received	401	118	519
Overall Gain/ (Loss)	601	297	897

- 6.8. The current active portfolio includes investment in the Patrizia Hanover Property Unit Trust. The initial investment of £5million was made in 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 £5.87million as at 31/12/25.
- 6.9. 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.
- 6.10. In June, redemptions at PATRIZIA Hanover Property Unit Trust (PATH) reached 66%. As a result, the PATH Board set out to review PATH's future options.
- Knight Frank Investment Management LLP (KFIM) was engaged by PATRIZIA Hanover Real Estate Investment Management Limited (the Manager) in its capacity as manager of PATH to provide independent advice on the Fund's future.
  - KFIM held confidential meetings with unitholders representing 99% of units to understand investors needs and intentions in August.
  - The conclusion of these meetings was that PATH cannot continue in its current form and that a fund merger was worth considering.
  - KFIM completed a formal process in October to determine the most suitable merger candidate.
- 6.11. Whilst Medway took the opportunity to request a redemption from the fund in September 2025, a note was sent to all unit holders November 2025 which relayed that the effect of the process the fund is currently in, means that until after the EGM (6 March 2026) all redemptions are suspended. The prospect of a merger supersedes the redemption process.

6.12. 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
Value as at 31 March	3,650
Redistribution	(3,521)
Awaiting Redistribution	129

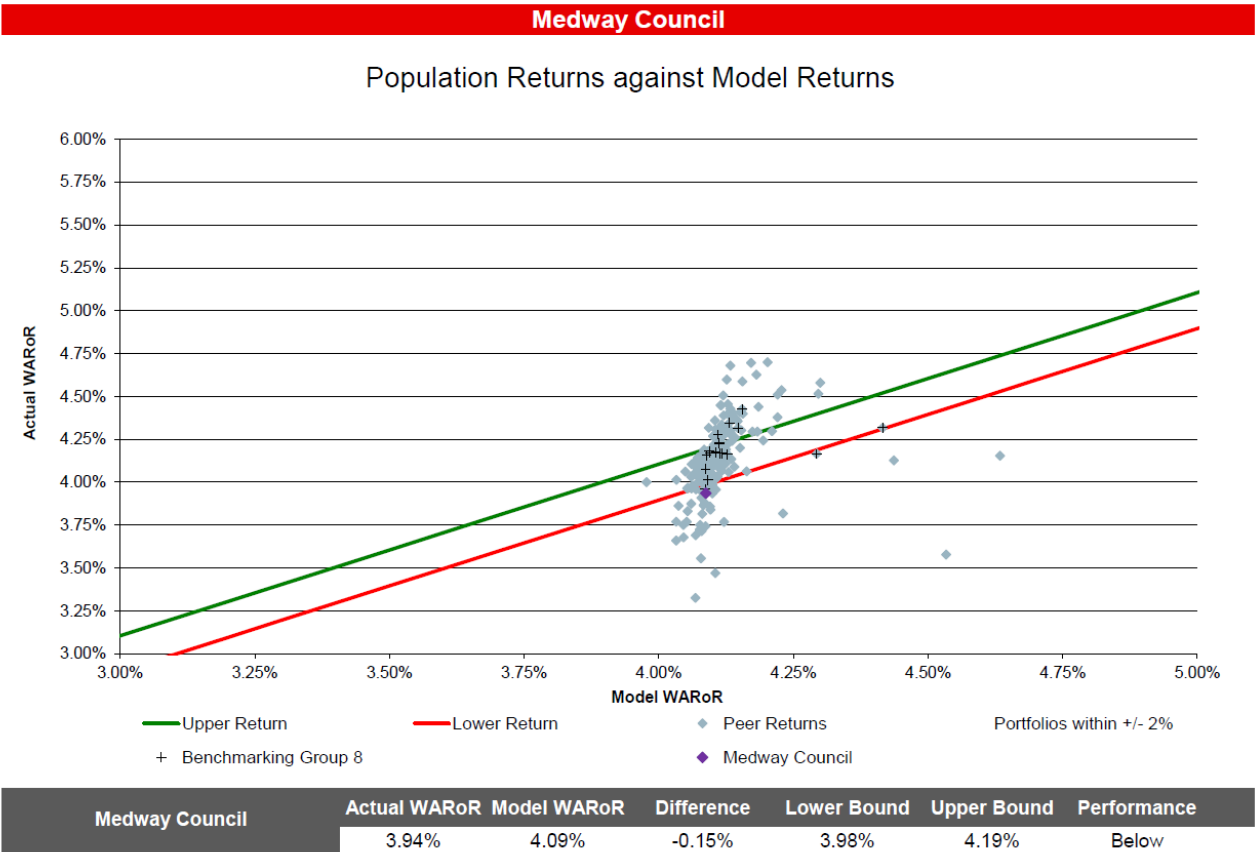
7. Debt Rescheduling

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 31 December 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 December 2025. Medway is the bold dot just below the red line showing our performance just below some of 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 2 were forecast to remain within the overall budget of £18.107million, but higher than anticipated interest rates may result in a worsening position for Round 3 monitoring. A breakdown of the Interest and Financing budget is shown below:

	<b>Budget 2025/26</b>	<b>Round 2 Forecast</b>	<b>(Under)/ Overspend</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Interest Earned	(11,948)	(11,642)	307
Interest Paid	22,381	22,257	(124)
KCC Principal	1,065	1,065	0
MRP	6,442	6,285	(157)
Treasury Costs	167	142	(25)
<b>Total</b>	<b>18,107</b>	<b>18,107</b>	<b>0</b>

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.

### Lead officer contact:

Andy McNally-Johnson, Head of Corporate Accounts, Gun Wharf

Telephone No: 01634 333552 Email: [andy.mcnallyjohnson@medway.gov.uk](mailto:andy.mcnallyjohnson@medway.gov.uk)

Claire Sharman, Finance Business Partner – Technical Account, Gun Wharf

Telephone No: 01634 331639 Email: [claire.sharman@medway.gov.uk](mailto:claire.sharman@medway.gov.uk)

## Appendices

Appendix 1 Commentary by MUFG on The Economy, Interest Rate Forecasts, Annual Investment Strategy, Borrowing and Approved countries for investments.

Appendix 2 Glossary of Terms

## Background papers

None