

Cabinet

4 August 2026

Treasury Management Outturn Annual Report 2025/26

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer

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Summary

In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the requirement in the 2021 Code of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal [revenue and capital monitoring] report.

The Authority's treasury management strategy for 2025/26 was approved at the Council meeting of 27 February 2025. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. Successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The report was previously considered by the Audit Committee on 24 June 2026, the minutes of which are set out at section 8 of this report below.

1. Recommendations

- 1.1. The Cabinet is asked to note the comments of the Audit Committee, as set out in section 8 of the report.
- 1.2. The Cabinet is asked to note the treasury management outturn annual report.

2. Suggested reasons for decision

- 2.1. Section 7.1 (e) of the Council's Financial Rules state that the Chief Operating Officer shall report to Cabinet and the Audit Committee not later than September on treasury management activities in the previous year.

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 annual treasury outturn. In line with the Constitution an annual report must be taken to Cabinet detailing the Council's treasury management outturn within six months of the close of each financial year.

4. External Context

4.1. Economic background

- 4.1.1. The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February 2026.
- 4.1.2. After the initial fallout from US trade tariffs, the following months saw some improvements as equity markets made gains and bond yields eased modestly. However, in the UK this trend in bond yields reversed somewhat as an uncertain economic outlook together with concerns around the government's fiscal position and autumn Budget saw 'term premia' rise as investors demanded a higher return for holding gilts.
- 4.1.3. The Budget itself was more muted than had been expected. Despite a weak economic outlook, this helped UK markets perform better with gilt yields trending downwards, inflation easing, and expectations for cuts in Bank of England (BoE) Bank Rate increasing.
- 4.1.4. The end of February 2026 saw the start of the war between US/Israel and Iran. The conflict caused oil and other commodity prices to rise sharply as the shipping lanes in the region became effectively closed, restricting global oil supply. At the end of the period, the economic outlook remained highly uncertain in terms of its impact on inflation as well as countries' fiscal and monetary policy conditions around the globe.
- 4.1.5. Prior to the start of the war, headline UK consumer price inflation (CPI) inflation had generally been trending downwards, albeit the 3% in February 2026 was unchanged from January. Core CPI also stayed put at 3.1%. Inflation was expected to fall further over the coming months to the BoE's 2% target, but the war changed this. Inflation is now expected to rise again, but how quickly and by how much depends on the duration of the war and how long commodity prices are elevated.
- 4.1.6. The Office for National Statistics (ONS) reported the UK economy expanded by 0.1% in Q4 2025. This followed previous modest gains of 0.2% in Q2 and by 0.1% in Q3. Of the subsequent monthly figures, the ONS estimated that GDP showed no growth in January 2026. As this is from before the war started the impact on growth will not be seen formally in the data for a couple more months.

- 4.1.7. While the most recent labour market figures were slightly better than expected, the general trend has been one of persistent weakness. In the three months to January 2026, the unemployment rate rose to 5.2% (from 5.1%), while the employment rate held at 75.1%. Despite inflation being expected to rise in the coming months, labour market conditions remain loose and so any upward pressure on wages from general inflation is likely to be tempered by the weaker labour market environment.
- 4.1.8. After cutting Bank Rate to 3.75% in December 2025, the BoE's Monetary Policy Committee (MPC) voted 5-4 to hold rates in February 2026 and then unanimously to do so again in March. Until the war started, financial markets were expecting Bank Rate to be cut to 3.5% at the March meeting. However, the conflict in the Middle East quickly changed this. The MPC noted the risks to both inflation and growth and indicated they could move rates either up or down depending on the conditions. Financial markets quickly responded to this by pricing in rate hikes.
- 4.1.9. Following the March MPC meeting, Arlingclose, the authority's treasury adviser, revised its central interest rate view and now predicts Bank Rate will be held at 3.75%. However, the conflict makes the outlook for rates highly uncertain. In the short-term the risks are to the upside with the chance of higher Bank Rate should the MPC decide it wishes to quickly quash potential second-round effects from higher inflation. Further out, if Bank Rate is hiked quickly, the pace and magnitude of subsequent cuts could take it far lower than was previously anticipated as policymakers add significant stimulus to a much weaker economic growth outlook.
- 4.1.10. The US Federal Reserve had been cutting rates over the period, reducing Fed Funds Rate target range by 0.25% at its December meeting to 3.50%-3.75%. At the three subsequent meetings, the rate was held at the same range. Policymakers noted that while inflation was elevated, economic activity had been expanding but the war with Iran made the path of monetary policy highly uncertain. Despite this, the Fed still suggested that further rate cuts were likely in 2026 and 2027.
- 4.1.11. The European Central Bank (ECB) has kept its key interest rates on hold since June 2025, maintaining the deposit rate at 2.0% and main refinancing rate at 2.15%. At its March 2026 meeting, the ECB noted the war in the Middle East had significantly increased uncertainty, creating upside risks for inflation and downside risks for growth, leading it to revise up its forecasts accordingly.

4.2. Financial markets

- 4.2.1. After declining sharply early in the financial year following the announcement of US tariffs, sentiment in financial markets had improved but equity and bond markets remained volatile throughout. However, the latter part of the period was dominated by the US/Israel war with Iran, which saw equity markets fall sharply, and bond yields rise as concerns over the inflationary impact from sharply higher oil and other commodity prices outweighed the flight-to-quality into

government bonds often seen in conflicts.

- 4.2.2. Equity markets had been registering gains after the declines during the April sell-off, but the war reversed this and markets saw another sharp drawdown. Both the FTSE 100 and 250 fell by around 10% over the month from the start of the conflict to the end of the financial year.
- 4.2.3. The period saw significant volatility in gilt yields. The 10-year UK benchmark gilt yield started the year at 4.65% and ended at 4.86%. However, over this time the 10-year yield hit a low of 4.23% and a high of 4.95% in the space of a month. It was a similar picture for the 20-year gilt which started at 5.18% and ended at 5.45% with a low and high of 4.92% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.01% over the 12 months to 31st March.

4.3. Credit review

- 4.3.1. Medway Councils Treasury Management Advisors Arlingclose maintained its recommended maximum unsecured duration limit on most of the banks on its counterparty list at 6 months. The other banks remain on 100 days.
- 4.3.2. Earlier in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A-rating on Rating Watch Positive. Fitch later upgraded Clydesdale Bank and HSBC, but downgraded Lancashire CC and Close Brothers.
- 4.3.3. Moody's affirmed OP Corporate's rating at Aa3 In May 2025. Later in the period, Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland, Toronto-Dominion Bank, DZ Bank, Nordea and HSBC and downgraded Close Brothers. In the last quarter of 2025 S&P upgraded Clydesdale Bank, Allied Irish Banks and Bank of Ireland, and assigned Warrington Council a BBB+ rating.
- 4.3.4. After spiking in April 2025 following the US trade tariff announcements, UK credit default swap (CDS) prices had trended down before picking up modestly in October and November. After declining again in December and into the new calendar year, they rose sharply once again when the war in the Middle East started. They were still elevated at the end of the period, but prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.
- 4.3.5. Overall, European banks' CDS prices have generally been flatter and lower compared to the UK, as have Singaporean and Australian lenders while some Canadian bank CDS prices have remained elevated since the beginning of the period in part due to ongoing trade tensions with the US.
- 4.3.6. Financial market volatility is expected to remain, and CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

5. Local Context

- 5.1. On 31 March 2026, the Authority had net £714million borrowing/ £179million investments] of £534million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £'000	31.3.26 Actual £'000
General Fund CFR	543,647	628,945
HRA CFR	42,386	47,169
Total CFR	586,034	676,115
Less: Other debt liabilities*	(26,635)	(25,570)
Borrowing CFR	559,399	650,545
External borrowing**	(585,706)	(713,535)
Internal (over) borrowing	(26,307)	(62,991)
Less: Balance sheet resources		
Investments / (New Borrowing)	167,662	179,092

* transferred debt that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

The treasury management position at 31 March and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £'000	Movement £'000	31.3.26 Balance £'000	31.3.26 Rate %
Long-term borrowing				
- PWLB	(386,024)	(55,001)	(441,025)	4.37%
- LOBOs	(60,500)	10,000	(50,500)	4.17%
- Other	(47,510)	10,000	(37,510)	4.70%
Short-term borrowing	(90,001)	(94,499)	(184,500)	4.85%
Total borrowing	(584,035)	(129,500)	(713,535)	
Long-term capital debtors	115,516	36,599	152,115	5.91%
Long-term investments	17,741	(348)	17,394	3.96%
Short-term investments	20,148	(10,649)	9,499	3.86%
Cash and cash equivalents	14,256	(14,173)	84	3.35%
Total investments	167,662	11,430	179,092	
Net borrowing	(416,373)	(118,070)	(534,443)	

- 5.2. The significant movements in borrowing are because of significant capital expenditure, the need for exceptional financial support and ongoing capital investment in Medway Development Company.

6. Borrowing Strategy and Activity

- 6.1. As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 6.2. Gilt yields slightly decreased over most of the period; reflecting expectations of lower interest rates, a tepid economy and to some extent an improvement in the UK governments fiscal position following tax rises in the autumn budget. Subsequent to the war in the Middle East however, gilt yields saw a rapid rise to above the yield at the beginning of the financial year.
- 6.3. The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.72% at the end. The lowest available 10-year maturity certainty rate was 5.13% and the highest was 5.88%. Rates for 20-year maturity loans ranged from 5.71% to 6.37% during the period, and 50-year maturity loans from 5.46% to 6.24%. The cost of short-term borrowing from other local authorities has been similar to or a little above Base Rate for most of the period, with interest rates between 4.0% and 4.5%. However, as is commonly seen, rates rose higher towards the end of the financial year, with rates of 5.0% - 7.0% being seen.
- 6.4. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.
- 6.5. The PWLB HRA rate which is 0.4% below the certainty rate is available up to March 2027. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to replace the Authority's loans relating to the HRA maturing during this time frame. Loans to the value of £5million were borrowed during 2025/26.
- 6.6. **Loans Portfolio**
 - 6.6.1. At 31 March 2026 the Authority held £714million of loans, an [increase of £130million compared to 31 March 2025, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31 March 2026 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.03.25 Balance £'000	Net Movement £'000	31.03.26 Balance £'000	31.03.26 Weighted Average Rate %	31.03.26 Weighted Average Maturity (years)
Public Works Loan Board	(461,025)	(85,000)	(546,025)	4.47%	4.6
Banks (LOBO)	(60,500)	10,000	(50,500)	4.17%	31.0
Banks (fixed-term)	0	0	0	n/a	n/a
Local authorities (long-term)	(47,510)	10,000	(37,510)	4.62%	2.2
Local authorities (short-term)	(15,000)	(64,500)	(79,500)	4.78%	0.4
Total borrowing	(584,035)	(129,500)	(713,535)		

6.6.2. The average rate on the Authority's short-term loans at 31 March 2026 of £184.5million was 4.85%, this compares with 4.73% on £90million loans 12 months ago.

Table 3B: Long-Term Loans Analysis

Loan Type	Loanee	Loan Reference	Amount £'000	Rate (%)	Period (Years)
LOBO	Dexia Credit Local	100101	5,000	4.75%	17
LOBO	Dexia Credit Local	100102	5,000	4.75%	17
LOBO	Dexia Credit Local	100103	5,000	4.75%	7
LOBO	Dexia Credit Local	100111	10,000	3.64%	40
LOBO	Dexia Credit Local	100112	10,500	3.65%	40
LOBO	Dexia Credit Local	100115	10,000	4.08%	42
LOBO	KBC BANK	100109	5,000	4.73%	12
PWLB	PWLB	139757	1	3.00%	2
PWLB	PWLB	488658	6,880	4.75%	7
PWLB	PWLB	493735	20,000	4.60%	31
PWLB	PWLB	500241	19,144	3.44%	10
PWLB	PWLB	507797	5,000	2.35%	2
PWLB	PWLB	508849	5,000	1.92%	1
PWLB	PWLB	509172	5,000	2.07%	3
PWLB	PWLB	509183	5,000	2.12%	4
PWLB	PWLB	509184	5,000	2.19%	5
PWLB	PWLB	509185	5,000	2.36%	8
PWLB	PWLB	509186	5,000	2.40%	9
PWLB	PWLB	509187	5,000	2.42%	37
PWLB	PWLB	509188	5,000	2.41%	38
PWLB	PWLB	509189	5,000	2.41%	39
PWLB	PWLB	694425	5,000	4.62%	1
PWLB	PWLB	738579	5,000	5.01%	1
PWLB	PWLB	738581	5,000	5.01%	1

Loan Type	Loanee	Loan Reference	Amount £'000	Rate (%)	Period (Years)
PWLB	PWLB	738584	5,000	5.01%	1
PWLB	PWLB	747172	5,000	4.90%	1
PWLB	PWLB	770323	5,000	4.64%	3
PWLB	PWLB	770325	5,000	4.64%	3
PWLB	PWLB	770327	5,000	4.64%	3
PWLB	PWLB	770329	5,000	4.64%	3
PWLB	PWLB	770331	5,000	4.64%	3
PWLB	PWLB	770333	5,000	4.64%	3
PWLB	PWLB	777859	5,000	5.07%	1
PWLB	PWLB	778470	5,000	5.09%	1
PWLB	PWLB	784676	5,000	4.88%	2
PWLB	PWLB	784715	5,000	4.88%	2
PWLB	PWLB	784740	5,000	4.88%	2
PWLB	PWLB	785290	5,000	4.92%	2
PWLB	PWLB	785293	5,000	4.92%	2
PWLB	PWLB	801991	5,000	4.88%	1
PWLB	PWLB	802044	5,000	4.88%	1
PWLB	PWLB	802434	5,000	4.92%	1
PWLB	PWLB	802442	5,000	4.92%	1
PWLB	PWLB	802801	5,000	4.90%	1
PWLB	PWLB	802803	5,000	4.90%	1
PWLB	PWLB	804119	5,000	4.94%	1
PWLB	PWLB	804121	5,000	4.94%	1
PWLB	PWLB	804408	5,000	4.92%	2
PWLB	PWLB	804413	5,000	4.92%	2
PWLB	PWLB	809926	5,000	4.86%	1
PWLB	PWLB	809935	5,000	4.86%	1
PWLB	PWLB	810538	5,000	4.84%	1
PWLB	PWLB	810541	5,000	4.84%	1
PWLB	PWLB	810913	5,000	4.95%	2
PWLB	PWLB	810919	5,000	4.95%	2
PWLB	PWLB	810922	5,000	4.95%	2
PWLB	PWLB	862167	5,000	4.69%	2
PWLB	PWLB	862169	5,000	4.69%	2
PWLB	PWLB	862165	5,000	4.69%	2
PWLB	PWLB	862162	5,000	4.69%	2
PWLB	PWLB	862160	5,000	4.69%	2
PWLB	PWLB	882287	5,000	4.51%	1
PWLB	PWLB	888335	5,000	4.67%	3
PWLB	PWLB	888339	5,000	4.67%	3
PWLB	PWLB	888342	5,000	4.67%	3
PWLB	PWLB	888345	5,000	4.72%	3
PWLB	PWLB	889215	5,000	4.71%	3
PWLB	PWLB	889218	5,000	4.71%	3
PWLB	PWLB	896943	5,000	4.49%	2

Loan Type	Loanee	Loan Reference	Amount £'000	Rate (%)	Period (Years)
PWLB	PWLB	897378	5,000	4.46%	2
PWLB	PWLB	897998	5,000	4.56%	3
PWLB	PWLB	897995	5,000	4.56%	3
PWLB	PWLB	897998	5,000	4.56%	2
PWLB	PWLB	898397	5,000	4.60%	3
PWLB	PWLB	898399	5,000	4.60%	3
PWLB	PWLB	906086	5,000	4.48%	2
PWLB	PWLB	906089	5,000	4.48%	2
PWLB	PWLB	906092	5,000	4.53%	3
PWLB	PWLB	906863	5,000	4.49%	3
PWLB	PWLB	907263	5,000	4.51%	3
PWLB	PWLB	907283	5,000	4.51%	3
PWLB	PWLB	907730	5,000	4.54%	3
PWLB	PWLB	907734	5,000	4.54%	3
PWLB	PWLB	908851	5,000	4.77%	4
PWLB	PWLB	914592	5,000	4.76%	1
PWLB	PWLB	914547	5,000	4.76%	1
PWLB	PWLB	914551	5,000	4.76%	1
PWLB	PWLB	915235	5,000	4.71%	1
PWLB	PWLB	915760	5,000	4.72%	1
PWLB	PWLB	915757	5,000	4.69%	1
LA	GILLINGHAM UNITED CHARITIES		10	5.00%	24
LA	TEST VALLEY BOROUGH COUNCIL	B689	5,000	5.00%	1
LA	WEST YORKSHIRE COMBINED AUTHORITY	B698	5,000	4.65%	1
LA	TEST VALLEY BOROUGH COUNCIL	B702	5,000	4.50%	2
LA	TEST VALLEY BOROUGH COUNCIL	B703	2,500	5.00%	4
LA	CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY	B712	5,000	4.40%	1
LA	CAMBRIDGESHIRE & PETERBOROUGH COMBINED AUTHORITY	B735	5,000	4.50%	1
LA	DEVON COUNTY COUNCIL	B737	10,000	4.55%	2
Total long-term borrowing			529,035		

6.6.3. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

6.6.4. The Authority has £20m LOBO loans with call dates within the next 12

months. If the option is exercised and an increased rate proposed. If required, the Authority will repay the LOBO loans with available cash or by borrowing from other local authorities or the PWLB. One £10m LOBO loan was repaid 26/09/25 to Dexia Credit Local.

6.7. Other Debt Activity

- 6.7.1. After £1.065million repayment of prior years' transferred debt liabilities, total debt other than borrowing stood at £25.57million on 31 March 2026.

6.8. Treasury Management Investment Activity

- 6.8.1. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 6.8.2. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £'000	Net Movement £'000	31.3.26 Balance £'000	31.3.26 Income Return %
Banks & building societies (unsecured)	14,256	(14,173)	84	3.81%
Money Market Funds	20,148	(10,649)	9,499	4.15%
Other Pooled Funds - <i>Property funds</i>	17,741	(348)	17,394	3.99%
Total investments	52,146	(25,169)	26,977	

- 6.8.3. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.8.4. The Authority expects to be a long-term investor, and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

- 6.8.5. Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025 and to 3.75% in December 2025. Short term interest rates have largely followed these levels. Money market rates were between 3.6% and 4.5%.

6.9. Externally Managed Pooled Funds

- 6.9.1. £17.7million of the Authority's investments is invested in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £0.7million (3.96%).
- 6.9.2. During the 2025/26 financial year, financial markets were characterised by generally positive risk asset performance for much of the period, but with significant volatility, particularly at the beginning and end of the year. The period was effectively bookended by market disruption associated with US trade and foreign policy, initially following the announcement of US 'Liberation Day' tariffs in April 2025 and then, towards the year end, by the escalation of the US and Israel conflict with Iran in March 2026. Between these two episodes, market sentiment improved as inflation generally eased and expectations for further interest rate cuts increased, supporting both bond and equity markets.
- 6.9.3. For much of the year, the backdrop for government bonds became more constructive than had been the case in recent years. In the UK in particular, falling inflation and growing expectations of further Bank of England rate cuts supported sentiment, although yields remained volatile as investors also had to contend with fiscal concerns and an uncertain economic outlook. As a result, income returns remained attractive, while capital values were more variable. By the final quarter, however, the rise in oil and other commodity prices caused by the conflict with Iran raised concerns that inflation could move higher again and that further monetary easing could be delayed or even reversed, leading to renewed pressure on bond markets.
- 6.9.4. Equity markets also recovered well from the tariff-related weakness seen early in the financial year, supported by improving sentiment around inflation and interest rates, resilient corporate earnings and continued enthusiasm for artificial intelligence-related investment. AI remained a dominant theme in global equity markets throughout the year, although there was also concern that valuations in parts of the market had become too stretched and that an AI-driven bubble could unwind. Despite these concerns, equity markets generally made gains through much of the period before the deterioration in sentiment at the year-end as geopolitical risks intensified. For strategic pooled investments, this meant capital values were supported for much of the year, while income distributions continued to provide an important component of total return.
- 6.9.5. UK commercial property experienced a more stable backdrop than in the most difficult period following the sharp rise in yields in 2022 and 2023. Lower interest rate expectations and a firmer tone in markets for much of the year helped support valuations, although capital values

were broadly flat overall. Income remained the main driver of returns, with rental income providing a relatively resilient contribution. However, as with other asset classes, the environment became more uncertain towards the end of the period.

- 6.9.6. The combination of the above had a positive effect on the combined value of the Authority's funds since March 2025.
- 6.9.7. The Authority has budgeted £685,000 income from these investments in 2025/26. Income received up to 31 March 2026 was £686,000.
- 6.9.8. The change in the Authority's funds' capital values and income return over the year is shown in Table 4.
- 6.9.9. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

6.10. Statutory override

- 6.10.1. Further to consultations in April 2023 and December 2024 the Ministry for Housing Communities and Local Government (MHCLG) wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. The statutory override has been extended up until the 01 April 2029 for investments already in place before 1 April 2024. The override does not apply to any new investments taken out on or after 1 April 2024.

6.11. Non-Treasury Investments

- 6.11.1. The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
- 6.11.2. Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.
- 6.11.3. The Authority also held £154.9million of such investments in:
 - directly owned property £1.5million
 - loans to subsidiaries £153.4million

6.12. Compliance

6.12.1. The Chief Operating Officer reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

	2025/26 Maximum £'000	31.03.26 Actual £'000	2025/26 Limit £'000	Complied? Yes/No
Term Deposits - Local Authorities	0.00	0.00	25,000	Yes
Unsecured investments with banks and building societies	19,937	84	20,000	Yes
Money Market Funds	19,997	9,499	20,000	Yes
Strategic pooled funds	17,818	17,394	25,000	Yes

6.12.2. Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	2025/26 Maximum £'000	31.3.26 Actual £'000	2025/26 Operational Boundary £'000	2025/26 Authorised Limit £'000	Complied? Yes/No
Borrowing	(708,535)	(708'535)	(771,135)	(854,849)	Yes

7. Risk Management

7.1. 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.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Interest rate Risk	The Council will be subject to adverse interest rates relating to its treasury functions	The Council together with its treasury management advisors will review both existing and anticipated market conditions to ensure both the investment and borrowing strategies are the most beneficial to the council whilst ensuring it takes a prudent approach to risk.	B2
Liquidity risk	The Council will encounter liquidity issues which could impair its	Officers will look to keep an accurate cash flow forecast which will determine the likely call on liquid cash which in turn determines whether treasury	C3

Risk	Description	Action to avoid or mitigate risk	Risk rating
	ability to make timely payments.	actions (borrowing/investments) are needed/available.	

For risk rating, please refer to the following table:

Likelihood	Impact:
A Very likely	1 Critical
B Likely	2 Major
C Unlikely	3 Moderate
D Rare	4 Minor

8. Audit Committee

8.1. Discussion:

8.2. The Head of Corporate Accounts introduced the report. He highlighted that the net borrowing position had increased by £118m due to capital spending, in full (EFS) and the need to borrow in advance of the receipt of monies owed to the Council. The increase in borrowing meant borrowing levels rose above the Capital Finance Requirement (CFR).

8.3. The following issues were discussed:

8.4. **Lender Option, Borrower Option (LOBO)** – a Member commented that there were some loans which may be called in under LOBO rules over the next 12 months, he asked what the costs of reservicing such loans with further borrowing would be. The Head of Corporate Accounts stated that four loans which had been taken out at rates ranging from 3.6% to 4.75% could be called in, though the former loan was more likely to be called in than the others. If that loan was called in, the additional costs associated with a higher interest rate would add a pressure of around £60,000. If all four loans were called in, further borrowing would be taken at today's rates which would add a pressure of £130,000 to the budget.

8.5. **Medway Development Company (MDC)** – a Member requested an update on queries regarding the financial resilience of MDC discussed at previous meetings. The Chief Operating Officer stated that the cashflow analysis he requested had been undertaken and provided to Grant Thornton, however no conclusion had yet been reached.

8.6. **Finance costs** – a Member expressed concern at the rise in borrowing in the last year and, the cost of financing that borrowing. It was asked whether this would be affordable if interest rates were to rise. The Head of Corporate Accounts explained that the budget for 2025/26 had made assumptions that interest rates would fall, however this had not been the case, interest rates went up, this was exacerbated by an error in the budget build which had omitted some borrowing. Therefore, more borrowing at a higher cost than predicted was required leading to the overspend on the finance and interest budget of £6.3m for the year.

8.7. **Debt repayment** – in response to a question what debt had been repaid through property disposal, the Head of Corporate Accounts stated that £18m-

£19m had been realised and £2.9m had been used as capital receipts as part of the transformation budget. £1m had been added to the capital programme and £13.6m allocated to debt which allowed the Council to not take out additional borrowing which would have otherwise been required. Throughout the year £257m in debt had been redeemed, some of which was short term, a few days up to a few months. Some of that had been financed through new borrowing and it total £386m had been borrowed, which reflected the increased overall borrowing during the year.

8.8. **Debtors** – in response to a question about debtors to the Council, the Chief Operating Officer stated that finance were currently working on a briefing paper previously requested regarding an analysis of the debt owed to the Council.

8.9. **Decision:**

The Committee noted the treasury management outturn annual report.

9. Financial Implications

9.1. Overall, the Interest and Financing budget made a deficit of £5.853million over its targeted budget of £18.107million.

9.2. A breakdown of the Interest and Financing budget is shown in table 7 below:

Table 7: Interest and Finance Budget against spend:

	2024/25 Outturn £'000	2025/26 Budget £'000	2025/26 Outturn £'000	Variance to Budget £'000
Interest Earned	(11,758)	(11,948)	(12,159)	(211)
Interest Paid	21,265	22,381	28,591	6,210
KCC Principal	1,110	1,065	1,065	0
MRP	5,792	6,442	6,311	(132)
Treasury Costs	174	167	152	(15)
Total	16,583	18,107	23,960	5,853

9.3. 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.

10. Legal implications

10.1. For the financial year 2025/26 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

None

Background papers

None