

## **Cabinet**

**10 February 2026**

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

#### **Appendix 3**

##### **1. Audit Committee**

- 1.1. The report was previously considered by the Audit Committee on 27 January 2026, the draft minutes are set out below.
- 1.2. The Head of Corporate Accounts introduced the report which was scheduled for consideration by Cabinet on 10 February. He reported that borrowing had increased by £71.8m during the first three quarters of the year, however, it remained below the Capital Financing Requirement (CFR).
- 1.3. The Council continued to prioritise short-term borrowing on the advice of treasury advisors, with £487m scheduled to be repaid over the next three years. Interest rates remained at a higher level than expected, however, as rates fall the Council would consider opportunities to borrow over the longer term to smooth the debt maturity profile.
- 1.4. The Council remained in line within its upper limit of 50% of debt maturing in the next 12 months, and there are also regular debt maturities of around £10m per month so the Council can take opportunities afforded by any capital receipts received to repay rather than reservice debt.
- 1.5. Property investment values remained slightly below the original cost of investment; however values have risen during this financial year and the Council had benefited from dividends.
- 1.6. The Council requested redemption of funds from its investment in PATRIZIA on 26 September, however redemption requests within 10 working days of the end of the quarter are held over until the end of the following quarter so it was not possible for the redemption to take place before the end of quarter three. Subsequent to the request, redemptions were suspended until an extraordinary general meeting to consider the potential merger of the fund was considered on 6 March 2026. The Head of Corporate Accounts stated that it was likely that requests for redemption would be successful following

the extraordinary general meeting on 6 March. Though this could not be guaranteed at this stage.

- 1.7. The Head of Corporate Accounts added that the majority of monies from the Lothbury fund had now been received, with £129,000 of the £3.65m expected remained outstanding and the balance would be received shortly. Investment performance as a whole remained in line with peers.
- 1.8. The following issues were discussed:
  - 1.8.1. **Borrowing** – in response to a question what the key drivers for the increase in borrowing were, the Head of Corporate Accounts stated the increase in borrowing, reflected the ongoing schemes in the Capital Programme for example temporary accommodation costs were nearly £40m. In addition, Exceptional Financial Support (EFS) was required to balance the budget in 2025-26 and this was also shown in the borrowing figures.
  - 1.8.2. The Committee discussed the impact of the increased borrowing on revenue costs. The Chief Operating Officer stated that the 2025-26 budget was built on projections from Treasury advisors that interest rates would fall to around 4%. The Capital Programme was considered affordable at the time under those assumptions. However, PWLB rates had not fallen during the first half of the year as expected. This was in part due to the cost of gilts which were linked to PWLB loan rates. The higher-than-expected interest costs had created a budget pressure of £7m which would be reported in quarter monitoring.
  - 1.8.3. **PATRIZIA Fund** – A Member asked if the Council could change its mind and remain in the PATRIZIA fund should it wish to do so. The Head of Corporate Accounts stated that the Council could change its mind regarding redemption if it wished. The fund continued to perform well and this may encourage some investors to continue with the investment.
  - 1.8.4. The Chief Operating Officer added that if the Council wished to reverse its decision to seek redemption, a further decision would be required by Cabinet but his advice would be not to reconsider the original decision at this stage.
  - 1.8.5. It was asked if the Council had made a profit or loss on its property investments taking into account inflation. The Chief Operating Officer stated that the Council invested in property at a time when advice from CIPFA and government was to encourage commercial activity, this had subsequently been reversed following a number of high profile failures across the country, however taking all factors such as the value of the fund and dividends into account, the Council had made a profit on its commercial investments.
  - 1.8.6. **MDC Loans** – the performance of loans to MDC (Medway Development Company) was queried. The Chief Operating Officer explained there were two types of loans to MDC, the initial loan which was not secured against the

assets and was therefore charged at a premium rate. The subsequent loan was held against the assets so attracted a lower interest rate and was originally scheduled to be paid following sales of the properties purchased. The majority of development is nearly complete with Garrison Point 100% occupied and Chatham Wharf close to being fully occupied. However, the sales market was currently weak and the company had decided to pivot to the private rental market. As a consequence, loans would be repaid over a longer period, but the risk to the Council was significantly reduced.

1.8.7. It was asked whether the accounting requirements of loans provided to the MDC affected profitability. The Head of Corporate Accounts stated that those loans remained profitable to the Council when taking into account Minimum Revenue Provision and Interest Rates.

1.8.8. **Investment Risk** – The Independent Member asked if there was a mechanism to assess the risk associated with the companies the Council invested in. The Head of Corporate Accounts stated that the Council received regular updates on the risk of institutions the Council held monies with and would act on their advice.

1.9. **Decision:**

The Committee noted the treasury management report.