

Medway Council
Meeting of Audit Committee
Tuesday, 27 January 2026
6.30pm to 8.32pm

Record of the meeting

Subject to approval as an accurate record at the next meeting of this committee

Present: Councillors: Browne (Chairperson), Bowen, Hackwell BEM, Lawrence and Chandra (Co-Optee)

Substitutes: Councillor McDonald (Substitute for Nestorov)

In Attendance: Steve Dickens, Democratic Services Officer
James Larkin, Head of Internal Audit and Counter Fraud
Andy McNally-Johnson, Head of Corporate Accounts
Claire Sharman, Finance Business Partner – Technical Accounts
Phil Watts, Chief Operating Officer

562 Apologies for absence

An apology for absence was received from Councillor Nestorov.

563 Record of meeting

The record of the meeting held on 30 October 2025 was agreed and signed by the Chairperson as correct.

564 Urgent matters by reason of special circumstances

There were no urgent matters. A Member noted that the meeting was held on Holocaust Memorial Day and the Committee sent its best wishes to families that were remembering loved ones.

565 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

Other interests

There were none.

566 Risk Strategy Annual Review

Discussion:

The Chief Operating Officer introduced the report, he highlighted the Corporate Risk Management Group of senior officers which undertook oversight and review of the risk register, had been reinstated and had considered the proposed amendments to the risk strategy. He highlighted the following changes to the strategy.

The Risk Register was now held on a single platform which was accessible to all relevant officers and held all known risks, from specific projects, through departmental risks to Council wide risks. The role of the Corporate Risk Management Group would be to review the Risk Register providing, advice and proposing mitigations.

The definitions for likelihood and impact had been reviewed and updated. This included a default time period for considering the likelihood of a risk event being set at 12 months, though longer could be considered in certain circumstances. In relation to impact it was proposed that the word 'catastrophic' be changed to 'critical' which provided a more objective view of the potential impact of a risk taking place.

The following issues were discussed:

Risk Platform - in response to a question on what platform was the register managed, the Chief Operating Officer stated that it was held on a single live database which relevant officers would be able to update as required. The Corporate Risk Management Group would periodically review, provide challenge and consider potential mitigations to the risks presented to them.

Risk Management Group – further information was requested for the reasoning to re-instate the Risk Management Group. The Chief Operating Officer stated that previously the group had too wide a remit, considering issues such as emergency planning and business continuity on a regular basis which meant that the group was unfocused and included more junior membership. The re-instated group would be made of members of the Corporate Management Team and would be focused solely on the risk register.

The Chief Operating Officer was asked for further information on the role of the group. The Chief Operating Officer explained that the group would review the risk register, offer challenge, propose mitigations to reduce risk and provide assurance to the Council that risk was managed effectively.

Impact definition – a Member commented that they believed the definition of catastrophic represented an accurate view of the level of concern that should

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be held for some risks. The Chief Operating Officer stated he felt the term was too emotive, and critical was more objective without diminishing the level of risk that was present.

Role of the Audit Committee – the Committee discussed whether the Audit Committee had a role in reviewing the Risk Register on the basis that the Committee needed to be assured that risk was managed effectively and the Committee had powers to review any documentation to provide that assurance.

The Chief Operating officer stated that the Overview and Scrutiny Committees scrutinised the relevant part of the Risk Register for that Committee and Cabinet reviewed the register on a quarterly basis. It was the view of officers that it would require a change in the Constitution to enable the Committee to review the Risk Register. He undertook to discuss the issue further with the Assistant Director of Legal and Governance and provide a formal response to the Committee following the meeting.

Identification of risk – a Member commented that the Council could do more to consider whether it identified risk effectively. The Head of Internal Audit and Counter Fraud stated that identification of potential risks was completed at the service level, which enabled controls to be put in place to mitigate the risk such as segregation of duties. In this way detection of risk was part of mitigation.

Decision:

- a) The Committee considered the 2026/27 Risk Strategy as set out in Appendix 1 to the report and submitted comments to Cabinet.
- b) The Chief Operating Officer to discuss with the Assistant Director, Legal and Governance whether Audit could consider the Risk Strategy on a periodic basis and provide a response to the Committee following the meeting.

567 Treasury Management Report 2025/26: Quarter 3

Discussion:

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).

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 fell the Council would consider opportunities to borrow over the longer term to smooth the debt maturity profile.

The Council remained in line within its upper limit of 50% of debt maturing in the next 12months, and there were also regular debt maturities of around £10m

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per month so the Council could take opportunities afforded by any capital receipts received to repay rather than reservice debt.

Property investment values remained slightly below the original cost of investment; however values had risen during this financial year and the Council had benefited from dividends.

The Council had 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 were 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.

The Head of Corporate Accounts added that the majority of monies from the Lothbury fund had now been received. £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.

The following issues were discussed:

Borrowing – in response to a question on 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.

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.

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. 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.

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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.

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 was 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.

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.

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.

Decision:

The Committee noted the treasury management report.

568 Treasury Management Strategy 2026/27

Discussion:

The Head of Corporate Accounts introduced the report, he highlighted that figures were based upon quarter two budget monitoring and any changes to the Capital budget would have consequential affects for the minimum revenue provision (MRP). It was envisioned that external borrowing would increase over the next three years.

The Debt Maturity profile showed debt repayment peaking over the next two to three years, before falling as the Council continued to prioritise short term loans on the advice of treasury advisors. The Council would continue to consider opportunities for significant receipts over the next period including disposal of

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assets which could be used to reduce debt. As interest rates fell the Council would look to spread the debt maturity profile.

The Head of Corporate Accounts added that the Minimum Revenue Provision (MRP) guidance had been updated in 2024, and the Strategy reflected these changes which specifically addressed the Council's position with regard to the MRP and loans to subsidiaries.

The following issues were discussed:

Fixed term Interest Rates loans - in response to a question whether the Council had exceeded its upper limit for fixed term interest rate loans to subsidiaries, the Chief Operating Officer explained that the PSR loans Interest rate changed on an annual basis so was not a fixed rate, which meant the upper limit had not been breached as the fixed rate loan was £125m.

Economic Analysis – the Independent Member requested further information regarding the economic analysis which had been undertaken to support the strategy and the risk to the Council. The Head of Corporate Accounts stated that the Council treasury Advisors had provided an analysis of interest rates and the PWLB rate and this had informed the strategy. Advisors continued to provide regular updates on the economic outlook.

Housing Revenue Account (HRA) – it was asked whether the Housing Revenue Account affected the CFR. The Head of Corporate Accounts stated the HRA had its own CFR limit, this was then combined with other borrowing to provide an overall figure for both borrowing and the CFR for the Council.

Exceptional Financial Support (EFS) – further information was requested in relation to what the effect of EFS borrowing would have on the strategy. The Head of Corporate Accounts stated that the EFS would be repaid under the MRP guidance. The guidance required payment of the EFS over two twenty years.

Risk Management – it was asked what steps had been undertaken to ensure the HRA strategy was affordable over the longer period. The Chief Operating Officer stated that the HRA business plan was produced with the assistance of consultants which took in a wide variety of market conditions and was subject to significant scrutiny on an annual basis.

A Member questioned whether it was prudent to borrow at current levels with Local Government Reform scheduled to take place over the next two years with a successor authority being responsible for the debt. The Chief Operating Officer stated that the benefits of the Capital Programme would accrue over the longer term so although there would be debts, there would also be significant assets for the successor authority. In addition, the benefits of the scheme would save on revenue spending in the future, for example the total costs of building and operational costs of the lifetime of the CareFor Medway scheme were balanced with current costs if private sector costs remained the same.

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However, it was expected that private care costs would continue to rise so the scheme was affordable in the long term, in addition this scheme would ensure that Medway Council had an influence on the care market.

Refinancing – it was asked if the majority of debt was refinanced rather than repaid. The Head of Corporate Accounts stated that some debt was repaid when large receipts were received and where cash flow allowed, debt was repaid rather than refinanced. The Head of Corporate Accounts undertook to provide further information where debt was repaid rather than refinanced in future reports.

The Chief Operating Officer added that overall debt was rising, so debt was refinanced. Repayment was planned for the longer period which was managed under the MRP. A Member raised concerns that the debt had increased by £80m this financial year and was planned to increase by £120m next year. The Chief Operating Officer acknowledged this rise in debt, however it was linked to growth in the Councils assets.

Decision:

- a) The Committee noted the reports contents and submitted comments to Cabinet and recommendation to Full Council for approval.
- b) The Head of Corporate Accounts to include debt repaid and debt refinanced in future reports.

569 Internal Audit Update 1 August to 30 November 2025

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the report. He highlighted that 23% of reviews had been delivered by the end of November with a further 19% underway. The Committee was asked to consider amendments to the planned work for the remainder of the year. He added that there was a new section to the standard report which identified common themes across audit reviews.

The following issues were discussed:

Local Plan – further information was requested regarding the proposal to remove the local plan from planned audit work. The Head of Internal Audit and Counter Fraud stated that the Local Plan would receive external scrutiny which provided some assurance to the Council.

Overdue Actions – the Committee discussed actions which were more than six months overdue. Concern was raised that some implementation dates had been revised on more than one occasion and remained outstanding. The Head of Internal Audit and Counter Fraud explained that some overdue actions were largely completed. For example there remained one element of the review related to petty cash remained outstanding and the rest of the actions had been

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completed. The Council tolerated a level of risk in relation to those incomplete actions.

The Chief Operating Officer added that audit reviews had identified a number of actions, however, Council resources were stretched and officers had to prioritise what could be completed. Where actions were incomplete due to other priorities, the Council had tolerated some risk. With regard to petty cash, finance resources were severely stretched. The Chief Operating Officer stated that it remained his ambition to strengthen the Corporate Finance resource within the service, however, there was a senior staff vacancy, and a further upcoming senior staff member was due to leave in the near future which would cause delay in implementation of a restructure.

Decision:

- a) The Committee noted the outputs and performance against the Internal Audit Plans for Medway for the period 1 August to 30 November 2025 as detailed at Appendix 1.
- b) The Committee approved the revisions to the agreed internal audit plan for Q3-Q4 detailed in section eight of the update report.
- c) The Committee agreed the revised implementation dates requested by services in section nine of the update report.

570 Counter Fraud Update 1 August to 30 November 2025

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the report. He highlighted that 382 cases had been concluded in the period with a saving of £515,666 to the Council. This brought the total savings of Counter Fraud Activity for the year to 30 November to £665,194. This compared to a total cost of £288,938 of the service to Medway Council for the year.

The Head of Internal Audit and Counter Fraud added that the Committee had previously asked him to liaise with procurement regarding the anti-fraud policies of suppliers. It was unlikely that many suppliers to the Council had specific anti-fraud policies, particularly the smaller suppliers, however, the Council's Counter Fraud and Corruption strategy applies to suppliers so he would liaise with the Head of Category Management to communicate to suppliers their responsibilities under the strategy.

The following issues were discussed:

Fraud Prevention – in response to a question whether there were any measurements of fraud prevention, the Head of Internal Audit and Counter Fraud stated that it was difficult to measure the fraud that was prevented. It would have to rely on services to report any application which was rejected due to possible fraud, which would need to be reviewed by the service which would

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require significant resources. He stated that the Council had to rely on the controls measures it had put in place and the fraud awareness training and counter fraud activity.

Contractors – in response to a question whether any work had been undertaken with new contractors in terms of anti-fraud policies, cyber security and due diligence regarding their history, the Head of Internal Audit and Counter Fraud stated that he was not aware of this being tested during the procurement process. The Chief Operating Officer undertook to request a briefing from Category Management to be provided to the Committee following the meeting.

National Fraud Initiative – it was asked what resources were required to complete work related to the National Fraud Initiative and did it represent value for money. The Head of Internal Audit and Counter Fraud explained the Council submitted data in October, then received potential matches the following January. However, the information received represented a snapshot in time, for example the electoral register provided information based on the canvass in August. The potential matches received in January, with the exception of duplicate payments, were subject to an initial check which could be undertaken quickly. Matches against HMRC data were sample tested as investigation was resource intensive compared to potential returns. The initial checks undertaken by counter fraud took around 8.1 days of staff resources.

With the exception of council tax, the matches were passed to the relevant service to complete initial checks and referred to the Counter Fraud team if concerns were identified. Few potential matches were referred back to the Counter Fraud Team for further investigation. For council tax, once initial checks had taken place review letters could be sent out and accounts corrected. There were relatively few cases proceeding to court because in some areas like the single person council tax discount the monies owed did not meet the public interest, because the cost of prosecution was greater than the monies that could be recovered.

Decision:

- a) The Committee noted the outputs and performance of the Counter Fraud Team for Medway for the period 1 August to 30 November 2025 as detailed at Appendix 1.
- b) The Committee thanked the team for their hard work and success during the year.

571 Exclusion of the press and public

Decision:

The Committee excluded the press and public during consideration of the following report because consideration of this matter in public would disclose information falling within one or more of the descriptions of exempt information

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contained in Schedule 12A to the Local Government Act 1972, and, in all the circumstances of the case, the public interest in maintaining the exemption, outweighs the public interest in disclosing the information.

572 Fraud Risk Register 2026-27

Discussion:

The Head of Internal Audit & Counter Fraud Shared Service introduced the report. He highlighted that there were only a small number of changes to the register from last year, a new table had been added to include the areas with the highest residual risk. Those areas would be the focus of more in depth review of risk assessments during the forthcoming year.

The following issues were discussed:

Workstream – the Committee discussed with areas of highest risk and controls, the Head of Internal Audit and Counter Fraud stated that ensuring controls were in place was the responsibility of the relevant service. Taking account of those controls, the areas of highest residual risk would be the focus of counter fraud activity for the team.

Cyber – in response to a question whether the Council had the necessary expertise to investigate cyber security, the Head of Internal Audit and Counter Fraud stated that the Council could contract external auditors if this was an area of concern, although it would be at an additional cost to the Council.

Decision:

The Committee reviewed the draft Fraud Risk Register for 2026-27 and endorsed the assessments undertaken by the Counter Fraud Team.

Chairperson

Date:

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