

Audit Committee – Supplementary agenda no 1.

A meeting of the Audit Committee will be held on:

Date: 28 January 2025

Time: 6.30pm

Venue: Meeting Room 1 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

Items

5. **Audit Findings Report 2023-24 and Interim Auditor's Annual Report 2023-24** (Pages 3 - 42)

Appendix E – Interim Annual Audit Report 2023-24

This report sets out the findings of external auditors Grant Thornton in their review of the Council's arrangements to secure Value for Money in 2023/24 as required by the Local Audit and Accountability Act 2014.

For further information please contact Steve Dickens, Democratic Services Officer on Telephone: 01634 332051 or Email: democratic.services@medway.gov.uk

Date: 24 January 2025

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Appendix E – Interim Annual Audit Report 2023-24

This report sets out the findings of external auditors Grant Thornton in their review of the Council's arrangements to secure Value for Money in 2023/24 as required by the Local Audit and Accountability Act 2014.

The Auditors carried out their fieldwork in the period July to October 2024, however, the internal review of the report had not been completed in time to be reported to the November 2024 meeting of the Audit Committee.

The Auditor's report raises a number of findings and recommendations which are summarised in the table beginning on page 25 of the report. Management's responses are also presented in the table within the report. However, as many of the arrangements reflected in this review are reported to Members outside the Audit Committee at Medway (primarily to the Cabinet), the commentary below is intended to provide further context to Audit Committee Members in considering the Auditor's report.

Auditor finding and recommendation	Further commentary from management to support responses reflected in the Auditor's report
<p>Significant weakness: balancing the budget and maintaining reserves. Key recommendation to address forecast overspend, replenish reserves and clarify position on Minimum Revenue Provision (MRP).</p>	<ul style="list-style-type: none"> • Medway's Cabinet are responsible for managing expenditure within the budget approved by Council. The budget position has been a consistently high focus and priority during the year, with the introduction of monthly revenue budget forecasting reported to the Corporate Management Team from April 2024, and savings and improvement actions reported through the Financial Improvement and Transformation (FIT) plan to Cabinet quarterly since Q2 2024/25. • The Council considers its position on MRP is clear and supported by advice from CIPFA. As this matter was not raised by the Auditors during the completion of the fieldwork, it has not been possible to discuss this matter to date. We intend to work with the Auditors to enable them to close this

Auditor finding and recommendation	Further commentary from management to support responses reflected in the Auditor's report
	matter during the audit of the 2024/25 statements.
Significant weakness: failure to comply with statutory reporting requirements. Key recommendation to publish accounts for 2024/25 by statutory deadline of 30 June 2025.	<ul style="list-style-type: none"> As reported to the Audit Committee in November 2024, the Council's Statement of Accounts for 2023/24 were published by 31 May 2024, the statutory deadline.
Weakness: scope for increasing the granularity of data shared with Members. Improvement recommendation to consider introducing granular reporting on the FIT plan and maintain momentum on savings delivery.	<ul style="list-style-type: none"> Arrangements are in place for progress against the delivery of all activity in the FIT Plan to be reported to the Cabinet, with quarterly reporting in place since Q2 2024/25.
Weakness: scope for increasing the use of scenario planning. Improvement recommendation to consider enhancing scenario planning in medium term financial projections.	N/A
Weakness: internal satisfaction surveys indicated though large numbers of staff were aware of the Counter Fraud Strategy, only a small number had read it. Improvement recommendation to increase staff awareness around the Counter Fraud and Corruption Strategy.	N/A
Weakness: high value, fluctuating budget forecasts early in the year undermine the credibility of the budget. Improvement recommendation to direct additional resource towards the budget setting process and work closely with budget holders.	<ul style="list-style-type: none"> Arrangements are in place for initial budget projections produced for the Medium Term Financial Outlook reported to the Cabinet in August to be reviewed, and for these revised projections to be reflected in the Draft Budget reported to the Cabinet in November. These projections are again reviewed and updated ahead of the Proposed Budget being reported to the Cabinet in February, to ensure the budget approved by Council in

Auditor finding and recommendation	Further commentary from management to support responses reflected in the Auditor's report
	<p>February each year is based on the most up to date data and projections available.</p> <ul style="list-style-type: none"> Identifying variances at an early stage of the monitoring process allows the Council to identify and take management action to address projected overspends, with this revised position then reflected in forecasts as the year progresses. The budget monitoring reports to Cabinet throughout 2023/24 and 2024/25 demonstrate that this activity has been effective in reducing the projected overspends and does not in our view undermine the credibility of the projections on which the budget was based.
<p>Weakness: delays identified in completing investigations within the agreed timescales. Improvement recommendation to ensure sufficient capacity to respond to Local Government and Social Care Ombudsman investigations sufficiently within agreed timescales.</p>	<p>N/A</p>

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Medway Council

Interim Auditor's Annual Report for the
year ended 31 March 2024

28 January 2025



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, based on the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction



Purpose of the Auditor's Annual Report

This report brings together a summary of all the work we have undertaken for Medway (the Council) during 2023/24 as the appointed external auditor. The core element of the report is the commentary on the Value for Money (VfM) arrangements.

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Responsibilities of the appointed auditor

Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023/24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

Value for money

We report our judgements on whether the Council has proper arrangements in place regarding arrangements under the three specified criteria:

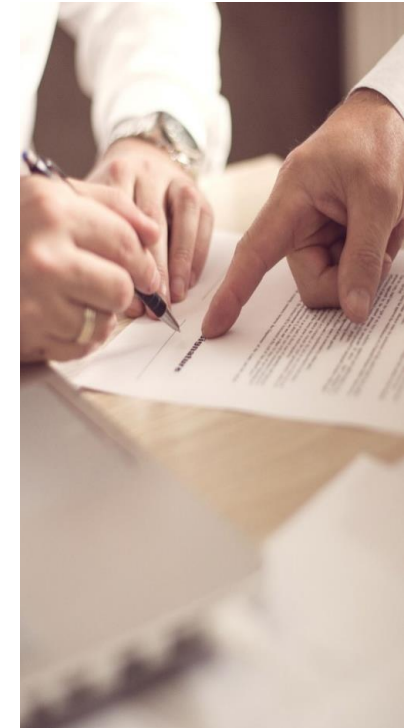
- financial sustainability
- governance
- improving economy, efficiency and effectiveness

The Value for Money auditor responsibilities are set out in Appendix B.

Auditor powers

Auditors of a local authority have a duty to consider whether there are any issues arising during their work that require the use of a range of auditor's powers.

These powers are set out on page 10 with a commentary on whether any of these powers have been used during this audit period.





Executive summary

Executive summary

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The NAO has consulted and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditors Annual Report ("the Report") with those charged with governance by a nationally set deadline each year (30 November) and for the audited body to publish the Report thereafter. These new requirements will be introduced from November 2025. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible. Our summary findings are set out below. Our recommendations for 2023/24 and management responses are summarised in the section starting on 94.



Financial sustainability

We identify a significant weakness in respect of financial sustainability. The Council's General Fund Reserve stood at £10.065 million on 1 April 2023 - just £65,000 above its estimated minimum prudent level. The Council, even after exceptional financial support, was forecasting a deficit of £11.221 million by the end of quarter 2 in 2024/25. We also note that the Council should clarify its approach to minimum revenue provision (MRP) as a matter of urgency. The Chief Operating Officer has shared with us an e-mail exchange with CIPFA colleagues in which he explains his position in terms of MRP on loans to MDC Ltd. We will review this further during our audit of the 2024/25 accounts. We identify a key recommendation around financial sustainability. We also identify one improvement recommendation around savings data and one improvement recommendation around scenario planning. The Council does have a Financial Improvement and Transformation Plan in place, but at the time of writing our report, there was scope for increasing the granularity of data shared with members and scope for increasing the use of scenario planning.



Governance

We identify a significant weakness in respect of accounts preparation. Draft accounts for 2022/23 should have been published in May 2023 but were delayed until December 2024. The Council will need to comply with much closer deadlines in future years, and for this reason we raise a key recommendation. We also identify two improvement recommendations around counter fraud and recruiting appropriate resources for the budget setting process.

We note that by the end of the second quarter of 2024/25, the Council was forecasting a variance against budget of £11.221 million. At quarter 1, the variance had stood at £16.473 million. High value, fluctuating variances incurred early in the year undermine the credibility of the budget. Where the budget is based on latest data, high value fluctuations are less likely early in the year. Robust budget data will be essential if the Council is to maintain grip over improving its financial position.

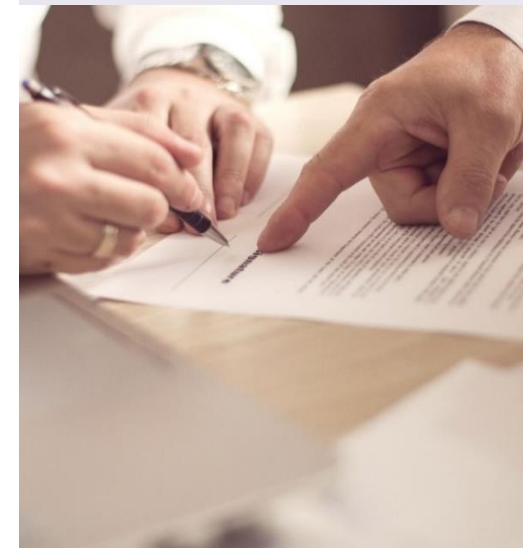


Improving economy, efficiency and effectiveness

The Council has broadly effective arrangements in place for improving economy, efficiency and effectiveness. We raised one improvement recommendation around responding to Ombudsman recommendations within agreed timescales.



Due to the challenges with the 2023/24 audit, and the disclaimed audit opinions issued in respect of the prior year's accounts, we will be issuing a disclaimed audit opinion by the end of February 2025, following the Audit Committee meeting on 28 January 2025.



Executive summary (continued)



Overall summary of our Value for Money assessment of the Council's arrangements

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. A summary of our judgements are set out in the table below.

Criteria	2022/23 Auditor judgement on arrangements	2023/24 Risk assessment	2023/24 Auditor judgement on arrangements	Direction of travel
Financial sustainability	R We raised two key recommendations around addressing the forecast overspend and monitoring savings proposals. We also raised two improvement recommendations around keeping strategies up to date.	We identified a risk of significant weakness for 2023/24 around the budget deficit and the balance on the General Fund Reserve.	R We identify a significant weakness in arrangements for achieving a balanced budget and managing the reserves balance. We also note that the Council should clarify its approach to minimum revenue provision as a matter of urgency. We identify two improvement recommendations around savings data and scenario planning.	↔
Governance	R We raised a key recommendation recommending that the Council publish draft accounts for 2022/23 by 28th February 2024.	We identified a risk of significant weakness for 2023/24 around the accounts and audit timetable.	R We identify a significant weakness in arrangements for preparing draft accounts. Although the Council has largely caught up with the backstop timetable, it will need to comply with closer deadlines in future years. We identify two improvement recommendations around counter fraud and resourcing the budget setting arrangements.	↔
Improving economy, efficiency and effectiveness	A We did not identify any significant weaknesses from our work. An improvement recommendation around strategies applied to this area.	We did not identify any risks of significant weakness for 2023/24.	A We did not identify a significant weakness in arrangements for 2023/24. We identified one area for improvement, around Local Government and Social Care Ombudsman findings.	↔

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (continued)



Significant weakness identified in Financial Sustainability arrangements

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We reviewed the Council's arrangements to deliver financial sustainability and have concluded that there was a significant weakness in arrangements.

Balancing the budget and maintaining reserves

The Council started 2024/25 with a balance of £10.065 on its General Fund Reserve – just £65,000 more than the Council's assessed minimum prudent amount. A forecast overspend of £11.221 million was identified by the Council at the end of quarter 2 of 2024/25.

With the General Fund Reserve so close to its minimum prudent amount, the Council cannot afford not to focus on managing outturn. The Council will also need to continue to be mindful though of its reserves position.

The Council made capital loans to MDC Ltd (a subsidiary undertaking) for £76 million (including long term loans, £85 million). Under current arrangements, the Council is not charging the revenue account with minimum revenue provision on the loans of £76 million. The Council should review findings from a recent government consultation on minimum revenue provision for capital loans and clarify its approach.

Key recommendation 1

The Council must urgently address the forecast budget overspend for 2024/25. The Council should be clear about its strategy for replenishing reserves to appropriate levels.

The Council is not at present charging minimum revenue provision to the revenue budget for the capital value of the £76 million loans. Our view is that this is not consistent with the current capital financing regulations and the Council should clarify the position and any potential financial impact as a matter of urgency.



Executive summary (continued)



Significant weakness identified in Governance arrangements

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We reviewed the Council's arrangements for governance and have concluded that there was a significant weakness in arrangements.

Preparing unaudited accounts

Our Interim Auditors Annual Report for 2022/23 recommended that accounts for 2022/23 be published by 28th February 2024. They were published in December 2024. The statutory due date had originally been 31st May 2023. We recognise that delayed accounts have been common across the local government sector in recent years and that Medway Council has worked hard to catch up. However, new requirements set out by the government in July 2024 will require more robust compliance with deadlines in future years. Non-compliant Councils will be named by the government publicly. For 2024/25, the Council is going to need to publish unaudited accounts (including group accounts) by 30th June 2025. Our audit of those accounts will need to be complete by 27th February 2026. The timetable will need to be significantly brought forward compared to the two most recent years and for this reason, we raise a key recommendation.

Key recommendation 2

Draft accounts (including group accounts) for 2024/25 should be published in line with their statutory deadline (30th June 2025) and supported by a comprehensive set of working papers, and sufficient capacity to service an audit to completion. Our audit will need to be complete by 27th February 2026.





Use of auditor's powers

Use of auditor's powers

We bring the following matters to your attention:

2023/24

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.

No such recommendations have been made in 2023/24.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make an application to the Court.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not make an application for judicial review.



Value for Money Commentary on arrangements

The current local government landscape

It is within this context that we set out our commentary on the Council's value for money arrangements in 2023/24 and make recommendations where any significant weaknesses or improvement opportunities in arrangements have been identified.



National context

Local government in England remains a challenged sector. In recent years, generationally significant levels of inflation put pressure on councils' General Fund revenue and capital expenditure. The associated cost of living crisis drove an increase in demand for council services such as social care and homelessness. At the same time, the crisis impacted adversely on key areas of council income that were needed to service the increase in demand, for example fees and charges and the collection rates for council tax, business rates and rents.

For Housing Revenue Accounts, inflation in recent years led to cost increases often outstripping rent rises. In the coming years, new legal duties on landlords are expected to increase costs further, without there necessarily being any additional funding to cover the new costs. At the same time, high construction prices are making it harder for councils to invest in the new accommodation which might have helped make savings in the revenue account, for example on temporary accommodation and homelessness. Housing Revenue Accounts are under further pressure due to regulatory challenges in housing quality in the light of national issues in respect of cladding and damp/mould issues.

In January 2024, the UK government announced an additional £600 million for local government, but the Spring Budget for 2024 brought little in the way of any further support. Rising costs of delivering services, coupled with workforce shortages in key areas, supply chain fragility, and rising interest rates for servicing debt, brought a level of crisis to the local government sector perhaps never experienced before. Current warning signs of difficulty include:

- Seven councils issuing eleven section 114 notices between 2019 and 2023, compared with two councils issuing notices between 2001 and 2018, with an increasing number of other councils publicly warning of a section 114 risk;
- Twenty councils being with government approval for exceptional financial support during 2024/25, totalling approximately £1.5 billion. Only six of these councils had previously issued a section 114 notice.; and

The Local Government Association warning that councils in England face a funding gap of £4 billion over 2023/24 and 2024/25.

The general election that took place on 4 July 2024 led to a change in government, and changes to government policy and legislation relating to the sector are emerging at the time of producing this report. In October 2024, the Autumn Budget included measures that are expected to provide a 3.2% real-terms increase in total local government core spending power next year (2025/26).



Local context

Medway Council is a unitary authority located on the north coast of Kent. The Council provides all local government services (including housing) for around 280,000 people. Deprivation is higher in Medway than is average for England. Medway is ranked as the 68th most deprived upper tier local authority out of 151 in England (with 1st being the most deprived) and life expectancy in Medway is below the England average for both sexes. The percentage of households living in the social rented sector increased over the last decade, whereas across England as a whole, it reduced.

The population of Medway is relatively young (median age 38 years compared to the English median of 40 years) but there is, nevertheless, a rapidly growing older contingent. By 2030, the Council estimated that 20% of its residents will be aged over 65. The main towns in Medway include (from west to east) Strood, Rochester, Chatham, Gillingham, and Rainham. The towns are densely populated but there are larger, more sparsely populated rural areas on the Hoo Peninsula (north Medway) and in Cuxton, Halling and Riverside (west Medway). In recent years, the Council has championed high-profile regeneration and placemaking projects. However, the Local Plan is still in consultation.

Financial sustainability



We considered how the audited body:

Commentary on arrangements

Assessment

ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;

In January 2024, CIPFA stated, in a report commissioned by the Council, that "Medway Council is in a grave situation in relation to its financial sustainability". We concur with this assessment. The Council reported a net overspend of £6.7 million in 2023/24, having already reported a net overspend of £6.049 million in 2022/23.

By the end of 2023/24, the Council's General Fund stood at £10.065 million. It was just £65,000 above its assessed minimum prudent amount of £10 million. To balance the budget for 2024/25 without making any further draw on the General Fund, the Council applied for and was granted exceptional financial support of up to £14.742 million. The Council's medium term financial plan (prepared in February 2024) showed a further budget gap, which again was likely to require exceptional financial support of up to an additional £10.1 million in 2025/26.

By the end of the first quarter of 2024/25, even after exceptional financial support, the Council was already forecasting an overspend for 2024/25 of £16.473 million. By the end of quarter 2, this had fallen to a forecast overspend of £11.221 million, but this remained a significant figure. Variances of this value, occurring this early in the financial year, cast doubt on the credibility in general of the arrangements that were in place for budgeting and forecasting at the time that the exceptional financial support was applied for. As it stands, the Council's overall financial situation seems at best precarious.

Over the course of 2023/24, the Council's external debt increased from £405.8 million to £464.7 million. We note that some £100 million will soon fall due for renewal, leaving the Council potentially exposed to interest rate risks in future years. At the same time, the Council has made loans of some £76 million to its subsidiary undertaking MDC Ltd (£85 million once long-term loan included). The Council is not at present charging minimum revenue provision (MRP) to the revenue budget for the capital value of the £76 million loans. Our view is that this is not consistent with the current capital financing regulations and the Council should clarify the position and any potential financial impact as a matter of urgency. The Chief Operating Officer has shared with us an e-mail exchange with CIPFA colleagues in which he explains his position in terms of MRP on loans to MDC Ltd. We will review this further during our audit of the 2024/25 account.

Our Interim Auditor's Annual Report for 2022/23 made a Key Recommendation that included comments around establishing medium term financial sustainability and rebuilding the reserves. This remains urgent.

R

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

Financial sustainability (continued)



We considered how the audited body:

Commentary on arrangements

Assessment

plans to bridge its funding gaps and identifies achievable savings

On 30th April 2024, the Cabinet approved a new "One Medway Financial Improvement and Transformation (FIT) Plan" and introduced robust arrangements for reporting progress against the Plan to the Corporate Management Team. Granular reporting to members had not yet been introduced at the time we completed our work. The Council should consider introducing granular reporting on savings progress for members.

By November 2024, out of the total savings target of £33 million in the FIT Plan Tracker, £19 million was showing as delivered after the second quarter of 2024/25. This was 58% of the total target, so was assessed as on track. Whilst this is good progress, it will be important that momentum is maintained around delivering the other planned savings.

The FIT Plan extends to March 2025. It will be important that the current rate of momentum is maintained over the life of the plan.

A

plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The One Medway FIT Plan sets out the areas for improvement in relation to each strategic priority and outlines transformation plans which range across statutory and discretionary areas of spending. The Council is developing the way it uses benchmarking and comparison information and uses service-specific data to inform strategy and delivery. The Council's planning for the 2024/25 budget assumed that exceptional financial support would be forthcoming.

The FIT Plan analyses the improvements the Council plans in order of corporate priority they relate to. Planned savings that map clearly against the Council's corporate priorities include new brokerage efficiencies for Adult and Children's Social Care; proactive demand management for Children's Social Care and new residential placements; rationalisation of SEND transport; and planning fee increases (to generate additional fees and charges). Monitoring arrangements are set out within the plan - with named owners, critical success factors and milestone dates all shown.

Quarter 2 data showed that 58% of the planned savings for 2024/25 had been delivered. Given the precariousness of the Council's underlying position, the rate of delivery so far will need to continue over the rest of the year. The financial position remains at risk. As previously noted, granular reporting to members would be beneficial.

A

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

Financial sustainability (continued)



We considered how the audited body:

Commentary on arrangements

Assessment

<p>ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system</p>	<p>We note on page 13 of this report that the Council's approach to charging minimum revenue provision needs to be clarified.</p> <p>In other respects, the Council's financial plans are broadly consistent with other organisational plans including savings and transformation plans and capital investment plans and a new Workforce Strategy for 2024 to 2028. We note that some plans are being reviewed and updated, particularly in the light of the Council's medium-term budget gap. We note that there has been a £36.5 million underspend on the capital budget. The variance on the capital budget is primarily attributable to a Council decision to pause a major project - the Innovation Park Medway schemes. This was paused due the effect of raised interest rates. The scheme is now being reviewed to reconsider options.</p>	<p>R</p>
<p>identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans</p>	<p>The Council identifies potential risks to its financial resilience through its financial monitoring and budget preparation processes. The approach is being improved through the development of better data analysis and forecasting in service areas where there is the greatest demand pressure. Transformation plans form a key part of the Council's FIT Plan for managing down overspend risk on the revenue account in future years.</p> <p>The Council had a deficit of £19 million on the Dedicated Schools Grant Reserve on 31 March 2024 – which was an improvement on the £21 million deficit reported the year before. The Council is working through a safety valve improvement plan. A Strategic Risk Summary report shared with the Children and Young People Overview and Scrutiny Committee in December 2024 indicated that the council is on track to meet the deficit control and reduction targets set out in its Safety Valve Agreement. The Council is aware that any deficit still uncleared by the time statutory override ends would impact adversely on the General Fund. We note that the Safety Valve agreement included a condition that the Council create a £3 million reserve earmarked to fund any shortfall on delivery instead of impacting revenue. The Council did this and the sum remains in the Council's earmarked reserves.</p> <p>The resilience of other reserves is an area of risk for the Council. The General Fund Reserve (£10.065 million on 31 March 2024) is at risk of depletion, should exceptional financial support end on 31 March 2025. In preparing the 2024/25 to 2028/29 medium term financial plan, the Council did include different scenarios for each year, around whether exceptional financial support would be received and whether council tax flexibility should be granted. It would be helpful to extend the scenario analysis to assumptions around demand, demography, interest rates and inflation.</p>	<p>A</p>

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

Financial sustainability (continued)



Significant weakness identified

The Council started 2024/25 with a balance of £10.065 on its General Fund Reserve – just £65,000 more than the Council's assessed minimum prudent amount. A forecast overspend of £11.221 million was identified by the Council at the end of quarter 2 of 2024/25.

With the General Fund Reserve so close to its minimum prudent amount, the Council cannot afford not to focus on managing outturn. The Council will also need to continue to be mindful though of its reserves position.

The Council made capital loans to MDC Ltd (a subsidiary undertaking) for £76 million (including long term loans, £85 million). Under current arrangements, the Council is not charging the revenue account with minimum revenue provision on the loans of £76 million. The Council should review findings from a recent government consultation on minimum revenue provision for capital loans and clarify its approach.

Key Recommendation 1:

The Council must urgently address the forecast budget overspend for 2024/25. The Council should be clear about its strategy for replenishing reserves to appropriate levels.

The Council is not at present charging minimum revenue provision to the revenue budget for the capital value of the £76 million loans. Our view is that this is not consistent with the current capital financing regulations and the Council should clarify the position and any potential financial impact as a matter of urgency.

Financial sustainability (continued)



Areas for improvement

During 2024/25, detailed reporting was provided to the corporate management team on progress with the Council's Financial Improvement and Transformation Plan. Given the gravity of the Council's financial situation and the importance of delivering the improvements planned, this should be extended to members.

The Council included scenarios within the medium-term financial strategy it prepared in February 2024. This was good practice and allowed members to see the respective impacts of any changes in exceptional financial support and council tax assumptions. It would be helpful to extend the scenario analysis to assumptions around demand, demography, interest rates and inflation.

Improvement recommendation 1:

For the FIT Plan, the Council should consider introducing more granular reporting on savings progress to members. Momentum should be maintained around savings delivery over the rest of 2024/25.

Improvement recommendation 2:

For the medium-term financial strategy, the Council should consider enhancing the scenario planning it introduced in 2023/24 to include more detailed scenarios around revenue account income and expenditure assumptions.

Governance



We considered how the Audited Body:

Commentary on arrangements

Assessment

monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour and where it procures and commissions services.

The Council has effective processes in place for monitoring and ensuring effective standards of behaviour for members and officers. Councillors are required to declare interests and gifts of over £100, with the Register of Interests publicly accessible. There is a Councillor Conduct Committee. Contract Procedure Rules guide procurement and are overseen by a Category Management Team.

However, one area where the Council has a recent history of non-compliance with statutory requirements surrounds the publishing of statutory unaudited accounts within deadlines set by government. Our Interim Auditors Annual Report for 2022/23 recommended that accounts for 2022/23 be published by 28th February 2024. They were published in December 2024. The statutory due date had originally been 31st May 2023. We recognise that delayed accounts have been common across the local government sector in recent years and that Medway Council has worked hard to catch up. Statutory unaudited accounts for 2023/24 were published in May 2024, with the group accounts added in January 2025.

However, new requirements set out by the government in July 2024 will require more robust compliance with deadlines in future years. Non-compliant Councils will be named by the government publicly. For 2024/25, the Council is going to need to publish unaudited accounts (including group accounts) by 30th June 2025. Our audit of those accounts will need to be complete by 27th February 2026. The timetable will need to be significantly brought forward compared to the two most recent years and for this reason, we raise a key recommendation.

R

ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee

The Council's Constitution outlines decision-making arrangements, stating that elected members make strategic decisions, and officers make operational decisions. Decisions are made at meetings of the Cabinet, Full Council, or Committees. From our review of papers presented at Cabinet, the reports provided sufficient information for challenge and debate. From our review, we also found that the Audit Committee provides effective challenge and holds members to account.

In January 2024, CIPFA reported that Medway Council needs to act "boldly" to secure financial sustainability. Since 1 April 2023, the Council has already taken some politically unattractive decisions, including stopping free swimming for children; charging for green waste; removing the tourism team; and increasing or introducing new car parking charges, for example at country parks. Our testing identified that decision-making in 2023/24 was supported by arrangements for information sharing; open debate; and effective scrutiny.

G

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

Governance (continued)



We considered how the Audited Body:

Commentary on arrangements

Assessment

<p>Monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</p>	<p>The 2023/24 Risk Management Strategy outlined the process for identifying and managing risks; and escalating them to the Strategic Risk Register. The 2023/24 Quarter 4 Summary of Strategic Risk Performance presented to Cabinet included 17 identified risks. The Summary showed a clear analysis of which four were very likely risks (financial pressure; adult and children social care budget pressure risks; and the exit from Gun Wharf). It also showed a clear analysis of which of the remaining risks were likely (six risks) and unlikely or rare (seven risks). Estimates around impact were also shown for each risk. The information was sufficient to allow members to focus on the most likely and impactful risks.</p> <p>The Internal Audit and Counter Fraud functions are a shared service with Gravesham Borough Council, reporting to the Audit Committee regularly. The Counter Fraud team performs reactive and proactive activities. However, satisfaction survey results indicate a need for improved promotion of the Counter Fraud and their services, as well as training on fraud awareness. Whilst a large numbers of staff were aware of the Counter Fraud Strategy, only a small number had read it.</p>	<p>A</p>
<p>Approaches and carries out its annual budget setting process</p>	<p>The Council keeps members informed when setting the budget. Cabinet had been provided with budget and financial plan reports since September 2023 when the revenue and capital budget for 2024/25 was set in February 2024. For consultation with officers, the Council also uses a star chamber process. Although the processes in place seem positive, by the end of the second quarter, the Council was forecasting a variance against budget of £11.221 million. At quarter 1, the variance had stood at £16.473 million. High value, fluctuating variances incurred early in the year undermine the credibility of the budget. Where the budget is based on latest data, high value fluctuations are less likely early in the year.</p> <p>We note that at the time we carried out our work, the Council was in the process of assessing its needs to right-size the Finance Team. The Council had recruited three new Range 6 accountants; and was in the process of recruiting more new Range 4 accountants. This is part of a wider £1 million initiative in 2024/25 to right-size corporate support across Human Resources and Finance and Transformation. The Range 4 recruits were expected to be directed towards supporting the budget process. Close working with budget holders from the start of any new arrangements adopted will be important.</p> <p>Robust budget data will be essential for addressing the Council's financial position. This makes effective resourcing for the budget setting arrangements essential.</p>	<p>A</p>
<p>Ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships</p>	<p>During 2024/24, budget monitoring data was shared quarterly with members. A CIPFA Resilience Review in January 2024 described the Council's financial position as "grave" and recommended monthly rather than quarterly reporting to members. Since the start of 2024/25, there has been a monthly process of sharing budget data and actions with budget and service managers; the directorate management team; the corporate management team; and member portfolio holders.</p> <p>The new monitoring arrangement is comprehensive, but with an overspend of £11.221 million forecast for 2024/25, the underlying risk within the budget remains high.</p>	<p>A</p>

G

No significant weaknesses in arrangements identified or improvement recommendation made.

A

No significant weaknesses in arrangements identified, but improvement recommendations made.

R

Significant weaknesses in arrangements identified and key recommendations made.

Governance (continued)



Significant weakness

Our Interim Auditors Annual Report for 2022/23 recommended that accounts for 2022/23 be published by 28th February 2024. They were published in December 2024. The statutory due date had originally been 31st May 2023. We recognise that delayed accounts have been common across the local government sector in recent years and that Medway Council has worked hard to catch up. However, new requirements set out by the government in July 2024 will require more robust compliance with deadlines in future years. Non-compliant Councils will be named by the government publicly. For 2024/25, the Council is going to need to publish unaudited accounts (including group accounts) by 30th June 2025. Our audit of those accounts will need to be complete by 27th February 2026. The timetable will need to be significantly brought forward compared to the two most recent years and for this reason, we raise a key recommendation.

Key Recommendation 2:

Draft accounts (including group accounts) for 2024/25 should be published in line with their statutory deadline (30th June 2025) and supported by a comprehensive set of working papers, and sufficient capacity to service an audit to completion. Our audit will need to be complete by 27th February 2026.

Areas for improvement

Satisfaction survey results for Counter Fraud and Internal Audit presented to the Audit Committee demonstrate a clear need for the Counter Fraud strategy to be promoted more, as while large numbers of staff are aware of it, only a small number had read it.

By the end of the second quarter of 2024/25, the Council was forecasting a variance against budget of £11.221 million. At quarter 1, the variance had stood at £16.473 million. High value, fluctuating variances incurred early in the year undermine the credibility of the budget. Robust budget data will be essential if the Council is to improve its financial position.

Improvement recommendation 3:

Staff awareness around the Counter Fraud and Corruption Strategy should be increased.

Improvement recommendation 4:

Additional resourcing should be directed towards the budget setting process. When new resources are recruited, close working between the finance team and individual budget holders will be important.

Improving economy, efficiency and effectiveness



We considered how the audited body:

Commentary on arrangements

Assessment

<p>uses financial and performance information to assess performance to identify areas for improvement</p>	<p>Page 32 of this report shows that work against our prior year improvement recommendation for the Local Plan is ongoing. Further action is therefore required in respect of our prior year recommendation.</p> <p>Performance monitoring data is shared with the Cabinet on a quarterly basis, having been checked by directorates and the corporate management team first for accuracy. The reports to Cabinet include benchmarking data for comparison of performance with other councils. There is evidence that the Council takes action around indicators that are underperforming. For example, temporary accommodation and housing delivery indicators were more than 5% below target in 2023/24 but the Council adopted a Housing Action Plan in June 2024.</p>	<p>A</p>
<p>evaluates the services it provides to assess performance and identify areas for improvement</p>	<p>Medway Council achieved a good rating in most areas during a July 2023 Ofsted inspection, with a need for improvement in the experiences and progress of children needing help and protection. An improvement plan has been developed, overseen by the Continuous Improvement Board.</p> <p>A joint inspection by OFSTED and CQC in February 2024 identified inconsistent experiences and outcomes for children with special needs, requiring the Council to address six areas of improvement. The council has developed a detailed improvement plan with target dates ranging from July 2024 to October 2025, overseen by the SEND Partnership Board.</p> <p>The Council addressed 15 recommendations from the Local Government and Social Care Ombudsman, but 5 were not completed within the agreed timescale. There had been delay in 2022/23 implementation as well – suggesting that the Council needs to consider capacity.</p>	<p>A</p>
<p>ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives</p>	<p>The Medway Local Plan 2041 development progress has been regularly reported to the Regeneration, Culture and Environment Overview and Scrutiny Committee and Cabinet. A recent consultation received around 400 responses from various stakeholders.</p> <p>The Council has significant partnerships, such as the Medway Safeguarding Children Partnership (MSCP), which supports local organizations in safeguarding children. The MSCP Executive meets bi-monthly to review operational and financial performance, and its annual report is presented to the Council's Children and Young People Overview and Scrutiny Committee.</p> <p>The Council has good oversight through the Cabinet Subcommittees over Kyndi Limited and Medway Development Company Limited (group undertakings). Financial and performance reports for the companies are taken to a Council subcommittee quarterly.</p>	<p>G</p>

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

Improving economy, efficiency and effectiveness (continued)



We considered how the audited body:

Commentary on arrangements

Assessment

commissions or procures services, assessing whether it is realising the expected benefits

The Council has effective arrangements for realising benefits from contracts. This is demonstrated by the management of the Highway Infrastructure contract. The Council oversees the contract's performance through various monitoring arrangements and there are regular strategic and operational meetings prior to the annual review presented to the Regeneration, Culture and Environment Overview and Scrutiny Committee.

The Council also shows thorough consideration in procurement processes, addressing legal, financial, and consultation aspects. Capital Budget Monitoring reports are first reviewed by the Business Support and Digital Overview and Scrutiny Committee quarterly before being presented at Cabinet. Overall, the Council's management of the contracts and procurement processes indicates a robust approach to contract management and governance.

G

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

Improving economy, efficiency and effectiveness (continued)



Areas for improvement

The Local Government and Social Care Ombudsman Annual Review letter reviewed progress with fifteen recent recommendations. The Ombudsman confirmed that in five cases the recommendations were not completed within the agreed timescales. The same issue was raised in 2022/23 as well.

Improvement recommendation 5:

The Council should ensure that there is sufficient capacity in place and staff are suitably trained to respond to Local Government and Social Care Ombudsman investigations sufficiently and within agreed timescales. Oversight of progress made against recommendations should be enhanced to ensure that any slippage is remedied as soon as possible.



Value for Money Recommendations raised in 2023/24

Recommendations raised in 2023/24

Recommendation	Type of recommendation	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>The Council must urgently address the forecast budget overspend for 2024/25. The Council should be clear about its strategy for replenishing reserves to appropriate levels.</p> <p>The Council is not at present charging minimum revenue provision to the revenue budget for the capital value of the £76 million loans. Our view is that this is not consistent with the current capital financing regulations and the Council should clarify the position and any potential financial impact as a matter of urgency.</p>	Key	FS	<p>Budget monitoring reports and other financial reports.</p> <p>Meeting with the Chief Finance Officer</p>	Forecast overspend could exceed reserves available to support it.	<p>Actions: The COO has shared with the auditor an e-mail exchange with CIPFA colleagues in which he explains his position in terms of MRP on loans to MDC Ltd. CIPFA colleagues endorsed this position, both verbally and in their, as yet unpublished, 'Assurance Review' report, which states: "We have discussed treatment of these loans in respect of MRP with the S.151 Officer and are content that the proposed treatment of these loans complies with MRP guidance and advice on the distinction between 'performing' and 'non-performing' loans. In this context, 'performing' loans are where principal repayments are being received and 'non-performing' loans are where there is the anticipation of a future receipt but there actually isn't one due anytime soon."</p> <p>It goes on to say: "The council is compliant with the CIPFA's Treasury Management Code of Practice and the Prudential Code. The council is also compliant with guidance on MRP. External audit has not raised any issues of compliance in respect of these."</p> <p>It is management's view that the position has already been clarified and on the basis of the advice from CIPFA management is content that its treatment is consistent with current capital financing regulations.</p> <p>Responsible Officer: CFO</p> <p>Executive Lead: COO</p> <p>Council's own assessment: Complete</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR2 Draft accounts (including group accounts) for 2024/25 should be published in line with their statutory deadline (30th June 2025) and supported by a comprehensive set of working papers, and sufficient capacity to service an audit to completion. Our audit will need to be complete by 27th February 2026.	Key	FS	Meeting with the Chief Finance Officer.	Failure to comply with statutory reporting requirements.	<p>Actions: Agreed. Medway Council will publish its 2024/25 financial statements in line with the statutory deadline (as it did for 2023/24) and looks forward to welcoming a properly resourced audit team to complete the audit by February 2026. The accountancy team was 'right-sized' this year with the addition of seven new posts.</p> <p>Responsible Officer: CFO</p> <p>Executive Lead: COO</p> <p>Due Date: 30 June 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR1 For the FIT Plan, the Council should consider introducing more granular reporting on savings progress to members. Momentum should be maintained around savings delivery over the rest of 2024/25.	Improvement	FS	FIT Plan	Enhanced ability to manage savings and finance.	<p>Actions: The FIT Plan monitoring was initially reported fortnightly to CMT (now monthly) and is also reported quarterly to Cabinet, alongside the financial monitoring.</p> <p>Responsible Officer: CIO/ CFO</p> <p>Executive Lead: COO</p> <p>Due Date: Complete.</p>
IR2 For the medium-term financial strategy, the Council should consider enhancing the scenario planning it introduced in 2023/24 to include more detailed scenarios around revenue account income and expenditure assumptions.	Improvement	FS	Medium Term Financial Strategy	Enhanced ability to assess risk in the medium-term financial plan.	<p>Actions: Agreed. The budget-setting process for 2026/27 will start much earlier than usual, giving more time for the wider organisation to prepare its forecasts for the MTFO and enhanced scenario planning.</p> <p>Responsible Officer: CFO</p> <p>Executive Lead: COO</p> <p>Due Date: MTFO to Cabinet in Sept. 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR3 Staff awareness around the Counter Fraud and Corruption Strategy should be increased.	Improvement	GOV	Counter Fraud satisfaction survey 2024	Increased awareness of staff-wide roles and responsibilities around fraud.	<p>Actions: Agreed. We will look to carry out some awareness raising to all staff via the 'Meta-compliance' system.</p> <p>Responsible Officer: Head of Audit and Counter Fraud</p> <p>Executive Lead: COO</p> <p>Due Date: September 2025</p>
IR4 Additional resourcing should be directed towards the budget setting process. When new resources are recruited, close working between the finance team and individual budget holders will be important.	Improvement	GOV	<p>Review if budget monitoring reports.</p> <p>Meeting with the Chief Finance Officer.</p>	Increased effectiveness of budget arrangements.	<p>Actions: Agreed. The 2024/25 budget included seven additional posts to 'right-size' the accountancy team and these officers will support a much more robust and much earlier budget-setting process for 2026/27.</p> <p>Responsible Officer: CFO</p> <p>Executive Lead: COO</p> <p>Due Date: Budget process to start April 2025</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

Recommendation	Type of recommendation	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
<p>IR5 The Council should ensure that there is sufficient capacity in place and staff are suitably trained to respond to Local Government and Social Care Ombudsman investigations sufficiently and within agreed timescales. Oversight of progress made against recommendations should be enhanced to ensure that any slippage is remedied as soon as possible.</p>	Improvement	EEE	LGSC Ombudsman Annual Report 2023-/4	Earlier benefit of learning from ombudsman findings.	<p>Actions: Agreed. Medway Council has a dedicated Customer Relations Team who have sufficient capacity and are trained in Ombudsman processes. They work closely with services to coordinate Ombudsman investigations, as it has been highlighted that the services themselves lack capacity. This has recently been addressed through the 'right-sizing' of key services such as ASC, Children's Services and Housing. In response to the delays highlighted by the Ombudsman, the Customer Relations Manager has now implemented an additional layer to the team's process to make deadlines very clear and to alert the Assistant to ensure that any slippage is remedied as soon as possible. The Customer Relations Manager provides complaints data and analysis to directorate management teams on a quarterly basis, which includes reporting activity around Ombudsman complaints to ensure clear visibility of performance.</p> <p>Responsible Officer: CIO</p> <p>Executive Lead: COO</p> <p>Due Date: Completed</p>

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

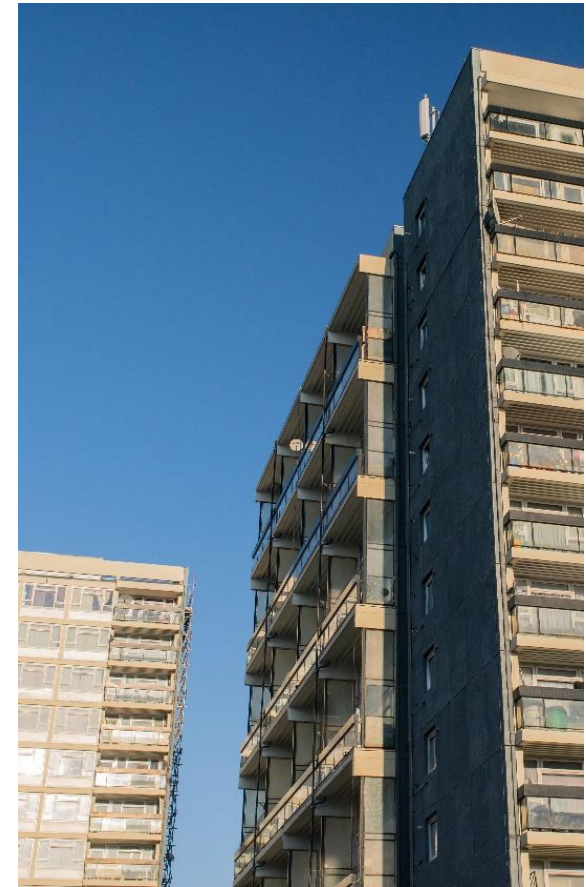
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B: Value for Money Auditor responsibilities



Value for Money arrangements work

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The audited body's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

2023/24 is the fourth year of the Code, and we undertake and report the work in three phases as set out in the Code.

Phase 1 – Planning and initial risk assessment

As part of our planning we assess our knowledge of the Council's arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period

Information which informs our risk assessment	
Cumulative knowledge and experience of the audited body	Annual Governance Statement and the Head of Internal Audit annual opinion
Interviews and discussions with key stakeholders	The work of inspectorates and other regulatory bodies
Progress with implementing recommendations	Key documents provided by the audited body
Findings from our opinion audit	Our knowledge of the sector as a whole

Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements we will undertake further work to understand whether there are significant weaknesses. We use auditor's professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations. A range of different recommendations can be raised by the Council's auditors as follows:

- **Statutory recommendations** – actions which should be taken where significant weaknesses are identified with arrangements. These are made under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and require discussion at full Council and a public response.
- **Key recommendations** – actions which should be taken by the Council where significant weaknesses are identified within arrangements.
- **Improvement recommendations** – actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.

Appendix C: Follow-up of previous recommendations

Recommendation	Type of recommendation *	AAR raised	Progress to date	Addressed?	Further action?
1 The Council must urgently address the 2023/24 financial forecast overspend and establish a pathway to secure its medium-term financial sustainability..... It must consider a realignment of priorities (and) put effort toward exploring all opportunities. Its plan should include an intention to rebuild reserves to provide future flexibility.	Key	2022/23	<p>The Council has been granted exceptional financial support of £14.742 million for 2024/25. Without this, it is unlikely that the Council would have been able to prepare a balanced budget for the year without fully depleting its General Fund Reserve.</p> <p>The Council's General Fund stood at £10.065 million at the end of 2023/24, and earmarked reserves stood at £36 million.</p> <p>It remains important that the Council focuses of securing medium term financial sustainability and replenishing the reserves. However, for 2024/25, by the end of Quarter 1, the Council was already forecasting an additional overspend of £16.473 million. A smaller but still significant pressure of £11.221 million was forecast by the end of quarter 2.</p>	No	Yes
2 The Council should introduce separate monitoring of savings proposals (outside baseline budget variance monitoring). The Council should also introduce sensitivity analysis or scenario testing for medium-term financial planning.	Key	2022/23	<p>Savings monitoring is in place for the corporate management team and the medium-term financial plan for 2024/25 to 2028/29 did include different scenarios.</p> <p>We raise a new recommendation around sharing savings monitoring data with members as well as the corporate management team.</p>	Partial	Yes
3 Draft accounts for 2022/23 should be published at the earliest opportunity and no later than 28th February 2024.	Key	2022/23	Draft accounts for 2022/23 were published in November 2024 and a disclaimed audit opinion was issued ahead of the backstop deadline of 13 December 2024.	Ongoing The Council caught up with the backstop timetable, but closer requirements will need to be complied with for 2024/25.	Yes

*Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Appendix C: Follow-up of previous recommendations

Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
4	Improvement	2022/23	<p>The correct procurement strategy is now shown on the Council's website.</p> <p>The Climate Change Action Plan was not updated during 2023/24.</p> <p>For the Local Plan, the Council now expects the Plan to be finalised in 2025. A recent period of consultation ran from 15 July to 8 September.</p>	Partial	Yes
5	Improvement	2022/23	<p>All necessary steps should be taken to keep Council plans and strategies up to date, including the Local Plan, the Climate Change Action Plan and the Procurement Strategy. For the Local Plan, a timetable is in place, and it should be adhered to.</p> <p>The Council-wide workforce plan should be completed. Work to develop a standalone Adult Social Care workforce strategy should proceed. As well as highlighting issues and priorities facing the workforce, the strategies should include measures for testing the effectiveness and impact of workforce actions taken, with timescales agreed for regular monitoring.</p> <p>An organisation-wide Workforce Strategy for 2024 to 28 is now in place. An Adult Social Care workforce strategy is being developed in line with work to right size corporate services support to the Adult Social Care function.</p>	Partial	Ongoing

*Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Appendix C: Follow-up of previous recommendations

Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
<p>As it moves into 2022-23, Medway Council should undertake:</p> <p>i). Further modelling of the medium-term impact of rising complex case costs in the Children's Service. This should feed into a Medium-Term Financial Strategy to be presented to Cabinet. The impact that rising costs of term-time only placements will have on the Dedicated Schools Grant deficit should also be reflected within medium-term financial planning.</p> <p>ii). Development of Risk Management Policies for the Children's Service as a whole, to complement risk management processes already in place at individual child level.</p> <p>iii). Continued work to stabilise the Children's Service workforce and achieve consistent standards of practice within the Children's Service. This should pay regard to ongoing labour market issues after the COVID-19 pandemic.</p> <p>iv). Review of practices and standards for engaging with children and families – with ongoing steps to share planning clearly and avoid jargon.</p>	Improvement	2020/21	<p>Our Interim Auditor's Annual Report for 2022/23 confirmed that the medium-term financial outlook for 2023 to 28 includes estimates for rising costs of placements, including for complex cases; that a Children's Service risk register is now in place; and that a new corporate programme is in place to make Medway a child friendly community.</p> <p>Work is ongoing to stabilise the children's service and achieve required standards within the service. In March 2024, an improvement update taken to the Children And Young People Overview and Scrutiny Committee confirmed that a Continuous Improvement Plan has been developed for Children's Services and a Continuous Improvement Board, which is multi agency, now meets three times a year to oversee, support and challenge progress against the plan for Children's Services. There are no further specific recommendations for the 2023/24 over and above the steps already being taken by the Council to improve.</p>	In progress	Ongoing

*Explanations of the different types of recommendations which can be made are summarised in Appendix B.



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