



Interim Auditor's Annual Report on Medway Council

2020/21

September 2022



Contents



We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Executive Summary	3
Key recommendation	5
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	7
Financial sustainability	8
Governance	14
Improving economy, efficiency and effectiveness	23
COVID-19 arrangements	29
Opinion on the financial statements	30

Appendices

- A - The responsibilities of the Council
- B - An explanatory note on recommendations

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 on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.




Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Our review included consideration of arrangements for Covid-19.

The external audit of the draft financial statements for 2020/21 is currently in progress. Findings from the audit of the financial statements can have an impact on value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalized and updated where appropriate on completion of the financial statements audit.

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but two Improvement Recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but four Improvement Recommendations made.
Improving economy, efficiency and effectiveness	Significant weakness identified	One area of significant weakness in arrangements identified. One Key Recommendation made.

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

Executive summary



Value for money arrangements and key recommendations



Financial Sustainability

Medway Council is successful at identifying and managing short term financial pressures. In-year financial discipline is strong (with spending moratoriums being used where deemed necessary) and there are effective arrangements for identifying and delivering savings. However, Since November 2020, there has been slippage in the Council's Medium Term Financial Strategic Planning. 2021-22 has seen new and emerging trends (for example in costs of Children's Services) and it is important that Medium Term Financial Strategic Planning is re-introduced at the earliest opportunity. We have raised an Improvement Recommendation around this point.

The Capital Programme is growing significantly and more granular reporting of performance against budget may be helpful going forward. We have raised an Improvement Recommendation around this point also.

We noted some evidence of under resourcing in the Finance function during 2020-21. The Finance team has grown in size since the end of 2020-21 and, at the time of our work, was shortly to be restructured.

Further details can be found on pages 8 to 13 of this report.



Governance

Medway Council has sound processes in place for monitoring and assessing risk. The Internal Audit function is effective. Processes for setting and monitoring annual budgets are effective, although we make one Improvement Recommendation around increasing the frequency of budget monitoring reports. For the Council's business activities, we found evidence of good processes around making informed decisions and monitoring and ensuring standards. For business activities delivered through subsidiaries, we found scope for improving governance processes. We make three Improvement Recommendations around governance over work with subsidiaries. .

Further details can be found on pages 14 to 22 of this report.



Improving Economy, efficiency and effectiveness

For 2020-21, we find that most children covered by the Medway Council's Children's Service were not receiving a good enough service. Looking forward, we note that some costs within that Service have been growing rapidly since 2021-22 and that this may undermine efforts to improve the Service. We have raised a Key Recommendation around medium term financial strategic planning and other areas of improvement required for the Children's Service.

For other areas of the Council's own business, arrangements for monitoring, assessing and evaluating services and for procurement were effective in 2020-21.

Further details can be found on pages 5 to 6 and on pages 23 to 28 of this report.



Opinion on the financial statements

Our audit of the Council's financial statements for 2022/21 is in progress and will continue through until September 2022.

Key recommendation



Improving economy, efficiency and effectiveness



Key Recommendation 1 As it moves into 2022-23, Medway Council should undertake:

- 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;
- 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;
- 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; and
- Review of practices and standards for engaging with children and families – with ongoing steps to share planning clearly and avoid jargon.

Why/impact

Ofsted's Monitoring Visit in September 2021 concluded that "most children in Medway who require support are not yet receiving a good enough service. Their progress is held back by wide-ranging inconsistencies in the quality and impact of assessments, plans, interventions and management oversight and supervision"..... and....."there is still a very long way to go to ensure that all children consistently receive the help and protection that they need."

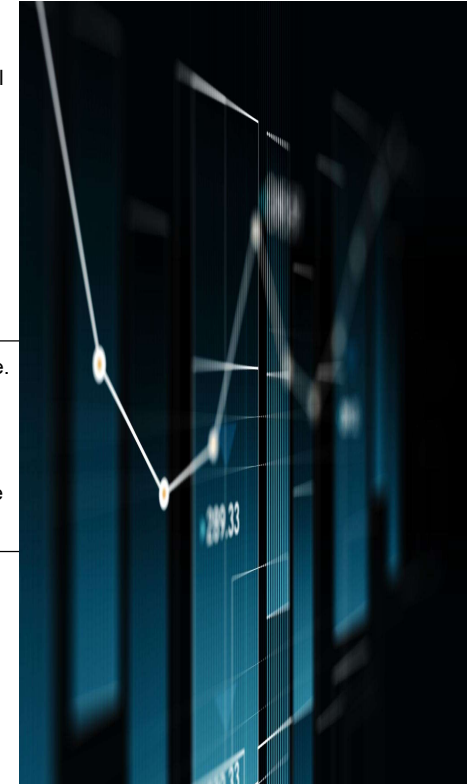
In January 2022, Ofsted noted that progress had been made. However, Ofsted also noted that the stability of the workforce remained an issue; social work practice standards were inconsistent; and the rising number of complex cases was an issue. The rising costs of complex cases are high and have not yet been reflected within Medium Term Financial Strategic Planning reported to Cabinet.

Auditor judgement

Service standards and financial resilience are both at risk.

Recent assessments of the Children's Service (January 2022) indicate that workforce capacity and consistency remain an issue and that risk management processes for the Service as a whole will be a focus of attention going forward. In the wake of Covid 19, there has been a significant and sustained national rise in the number of complex Children cases and a national shortfall in the number of placements available to accommodate those cases.

In the absence of a Medium Term Financial Forecast having been prepared since November 2020, the overall medium term financial outlook for the Council has not yet been worked through with this new and emerging trend taken into account. We note that Dedicated Schools Grant budgets as well as Children's Service budgets will be affected by rising costs of placements going forward.



The range of recommendations that external auditors can make is explained in Appendix B.

Key recommendation



Improving economy, efficiency and effectiveness



Summary findings Workforce pressures have made it difficult for the Council to embed and sustain improvement, despite significant financial investment. The growing number of growing complex cases and the national shortfall in placements for them will add to financial pressure on the Children's Service and the wider Council in the medium term. This has not yet been reflected within a financial strategy presented to Cabinet. Under current arrangements, the Dedicated Schools Grant budget will also be affected.

Management comment

We continue to update and enhance our modelling of placement costs in Children's Services and our latest projections are in the Financial Outlook 2023/24 presented to Cabinet in September 2022. While the government has been delivering one year settlements for local authorities, we have paused the publication of projections into the medium term. It is our intention to publish medium term projections alongside the budget in February 2023, subject to sufficient clarity from the government in the Autumn of this year.

Children's Services Divisional Management Team have revised the strategic risks in place at a Corporate level and will continue to monitor to date. The singular strategic risk focuses on meeting the needs of children and young people and the possibility of failure to achieve this aim. We have revised practices and procedures partnering with our internal audit team as well our partner in practice, Essex County Council, but will seek further guidance from our corporate risk colleagues to assure ourselves of our position.

We continue to review and monitor our workforce strategy, and report on delivery monthly to the Leaders Improvement Board and quarterly to the Partnership Improvement Board, as well as regular returns to Department for Education. Our workforce position is further scrutinised by Overview & Scrutiny Committees. We benchmark our position quarterly to ensure we remain competitive and review additional benefits to ensure our attraction strategy is working well. Constant review ensures we work towards stabilising the workforce as best we can in light of the national context.

Children's Services Divisional Management Team will work to increase opportunities, practices, and standards for engaging with children and families. There is also a Corporate programme of work underway to secure Medway's place as a Child-Friendly Community.



The range of recommendations that external auditors can make is explained in Appendix B.

Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities 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 Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:



Financial Sustainability

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas is set out on pages 8 to 28 of this report. Our commentary on arrangements to manage the response to Covid-19 is on page 29 of this report.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Identifying and Planning for Financial Pressures

Medway Council's Annual Capital and Revenue Budgets for 2020-21 and for 2021-22 both identified short term financial pressures. The Revenue Budget for 2020-21 showed an in-year "budget gap" (expected overspend) of £0.301m and the Revenue Budget for 2021-22 showed an in-year "budget gap" (expected overspend) of £2.393m. However, with the combined impact of Covid-19 activity, strong financial discipline and effective savings plans, the actual Revenue Outturn for 2020-21 was an underspend of £3.9m. From "Round 3" 2021-22 Revenue Budget Monitoring reports, the forecast Revenue Outturn for 2021-22 is an underspend of £2.2m.

Medium term financial planning has been less consistent at Medway Council. In September 2019, the Council prepared and published a five-year Medium Term Financial Strategy - covering the period 2019 to 2024. In November 2020, the Council prepared and published an equivalent Medium Term Financial Strategy covering a three-year period (2020 to 2023). In February 2022, the Capital and Revenue Budget for 2022-23 was presented to Cabinet with a note that government had provided a one-year settlement for 2022-23, with no certainty beyond that. The Revenue Budget anticipated an in-year gap of £1.6M for the Council in 2022-23, noting that this would, if necessary, be funded from reserves. No medium-term plan was attached to the Budget for looking beyond 2022-23.

Medway Council's General Fund reserves stood at £22.7m on 31 March 2021. However, during 2021-22, new and emerging medium-term trends have been identified by the Council around the rising costs of Children's Service placements (see page 26 of this report). These growing costs have not yet been captured in financial planning presented to Cabinet for the medium-term after 2022-23. As page 26 of this report shows, a variance of £7.8M was forecast for the Children's Service for 2021-22. Early modelling within the Service indicates that this is likely to rise year on year as a result of inflation, growing demand for placements and limited supply. Without Council-wide multi-year forecasts and a Council-wide Medium Term Financial Strategy, the impact is difficult to plan effectively for.

Our Audit Findings Report for 2019-20 (presented to the Audit Committee in July 2020) included a VFM Action Plan which recommended that the Council return to medium-term financial planning. The Council's response was that this was "Implemented". Officers inform us that the Council intends to move back to preparing a five-year Medium Term Financial Strategy for 2023-2024 onwards. An Improvement Recommendation has been raised (**Improvement Recommendation 1, page 12**).

Financial sustainability

Medway Council's cycle has in the past been to publish medium-term plans each Autumn (September 2019 and November 2020, for example). Most Local Authorities publish Medium-Term plans in Spring (the following January or February). When arrangements for preparing and publishing a Medium-Term Financial Strategy for 2023-24+ are introduced, aiming for a later cycle (January 2023 compared to September 2022) may make the data more certain and the timetable more achievable. We note this consideration within **Improvement Recommendation 1 on page 12.**

Savings Plans

Medway Council's Revenue Budget in-year financial discipline was strong in 2020-21. A spending moratorium requiring all service line expenditure to be authorized by the Finance Strategy team was in place for the second half of 2020-21 (as it had been for the second half of 2019-20). Parallel to this, savings plans are well managed by the Council.

The Council has a Business Change Team which works with service lines on a regular programme of savings targets every year and which reports to the Council's Transformation Board. The Transformation Board met five times during 2020-21. The Business Change Team's reports to the Board highlight progress against two sets of targets – savings within one year, each with a stated target financial value; and savings over the longer term – referred to as “transformation enabler” projects, each with a detailed narrative description of project operational progress rather than a specific short term financial target.

The Business Change Team reports to the Transformation Board are separate to routine monthly budget monitoring and they enable the Council to directly monitor the progress of specific schemes. We reviewed the Business Change team report to the Transformation Board for March 2021. It noted that, amongst other things:

- Service lines had been assisted in reaching their annual budget targets;
- Fostering Panels had gone paperless;
- A Medway Park RingGo parking solution was being developed to improve income collection;
- A procurement process was underway for Smart Parking pilot projects; and
- Smart road surface monitors had been installed.

The parking and road transformations are examples of areas where public consultation is critical to success with savings schemes. Medway Council's Business Intelligence Team leads external stakeholder research and consultations. The Business Intelligence Team worked closely with the Business Change Team in 2020-21 and 2021-22. From 2022-23 onwards, the Business Intelligence Team was integrated into the Business Change Team.

Sustainable Delivery of Strategic Priorities

Medway Council's Strategic Priorities are People, Place and Growth. The activities covered in the Capital and Revenue Budgets presented to Cabinet for 2020-21 were consistent with these Priorities. The Capital Programme is of particular note. At £470m over five years, this is the biggest programme of capital expenditure ever undertaken by the Council. To assess the effectiveness of the Council's arrangements for sustainable delivery, we considered the Capital Programme in more detail and the capacity within the Council's Finance function to manage ongoing work during the coming period of growth.

The Capital Programme

£170M of the Capital Programme relates to planned Housing Infrastructure Fund development on the Hoo peninsular, to be funded by Homes England and delivered over the next three years, through sub-contractors appointed by the Council. The intention is to develop £86m of highways infrastructure; £64m of rail intervention; and £14m of environmental improvements – so that commercial housebuilding can then proceed in the area. Another £120m of the Capital Programme relates to housebuilding to be delivered through the Medway Development Company, using commercial loans from the Council. The Council has a target to build 29,000 homes by 2035. The Capital Programme's link to this strategic priority is clear.

Some £33m of “Education Capital” spend on building new Special Schools is also included within the Capital Programme – with a view to supporting High Needs education and financial recovery against the Dedicated Schools Grant deficit. Again, the link with the wider Strategic Priorities to support “People” and “Place” is clear.

Financial sustainability

We saw a strong trail of risk reporting and management for the Capital Programme in 2020-21 – in Budget documents and the Treasury and Capital Strategies and on the Strategic Risk Register. The Capital Outturn report for 2020-21 indicates that there was relatively little slippage (£3M) in delivery of the Programme that year. However, the high value infrastructure and housing projects were at early stages in 2020-21. The work for both will be of high value and technically complicated and delivered through a devolved supply chain, over a period when labour and materials prices are expected to rise. Performance (or slippage) against budget is currently reported against the five-year total budget. Our Audit Findings Report 2019-20 VFM Action Plan recommended that the Council should consider reporting performance against the budget for each year of the Capital Programme. We make a similar Improvement Recommendation (**Improvement Recommendation 2, page 13**).

The Finance Function

During our Value for Money (VFM) audit, we noted evidence of resource shortfalls within the Council's finance function. These included late running draft Statements of Accounts two years running; late running audits and 44 audit adjustments to the draft Statement of Accounts for 2019-20; a late NDR return and no 2020-21 Revenue Outturn reporting for the Department for Levelling Up, Housing and Communities. By the time of writing our report, the Finance team had been expanded significantly. The senior management team (which includes the Chief Finance Officer) was also about to be re-structured. As the size and complexity of the Council's operations expands, strong financial skills will be important for sustainable delivery of priorities. As part of our audit for 2021-22 we will consider whether the recruitment and restructuring has now filled the resource shortfalls within the finance function.

Consistency with Other Plans

The Council's Revenue and Capital Budget for 2020-21 was consistent with other plans. The Revenue Budget allowed for the expected annual cost of Children's Service Ofsted Improvements which were known and the annual cost of financing the Capital Programme. Treasury, investment and borrowing impacts of financing the Capital Programme were reflected within the Treasury Strategy for 2020-21.

One overarching Workforce Strategy document was not in place at Medway Council for 2020-21, although we recognize that individual service lines did have strategy documents for their areas – the Children's Service being an example of an area where significant workforce planning and re-engineering was taking place. Our understanding is that a Council-wide Workforce Strategy is currently being developed for future years – with particular focus on retention and succession planning risk management. We will review this Strategy in tandem with our review of finance function capacity as part of our audit for 2021-22.



Financial sustainability

Managing Risks to Financial Resilience

The General Fund Reserves balances on 31 March 2021 more than outweighed budget gaps anticipated for 2021-22 and 2022-23. The Council is alert to the risk that it cannot continually use its reserves to support the annual budget. For the year under report (2020-21), we have not therefore identified significant issues around managing risks to financial resilience. The trends around price rises in the Children's Service emerged during 2021-22. Two additional areas for consideration going forward that we note here are the cash flow risks associated with Housing Infrastructure Funding for the Hoo peninsular and the Dedicated Schools Grant deficit.

Housing Infrastructure Funding

Housing Infrastructure Funding for the Hoo peninsular is capped at £170m. Key risks surround the risk that labour and material costs will outstrip the £170m grant fund allocation provided; and the liquidity risks associated with having to pay for labour and materials in advance of grant funds being received. Medway Council recognised the Housing Infrastructure Funding arrangements as a key risk on its Strategic Risk Register for the first time for Quarter 4 of 2020-21. Spend on the project during 2020-21 was only £3.47m. However, as the project progresses, we will revisit arrangements for managing these risks and protecting the wider financial resilience of the Council as part of our work for 2021-22.

Dedicated Schools Grant deficit

During 2020-21, Medway Council's Dedicated Schools Grant deficit increased from £9.3m to £16.3m. The Council has a "High Needs" Budget Recovery Plan, which covers the period 2020-21 to 2029-30 and allows for an increase in the deficit during the first four years of the plan; a peak in the deficit at around £21m by 2024; and a gradual elimination year on year thereafter. The final elimination of the deficit being anticipated during 2028-29 and a surplus anticipated in 2029-30.

The Council's Recovery Plan is monitored internally by a Member's Panel and externally by the Schools Forum and the Department for Education. As its name suggests, the Plan assumes "High Needs" packages drive the Dedicated Schools Grant deficit. Key elements of "Recovery" include the £33m capital spend on new special schools to allow transfers away from the private sector; rationalisation of top-up rate banding arrangements between schools; and better engagement for VFM with school place providers.

These are solutions that take more than one year to take effect. The Council's 2022-23 Section 25 Statement noted that without Government Support in the early stages of the Recovery Plan, Medway would be unable to avoid presentationally needing to issue a Section 114 during 2023-24.

Medway Council is one of many Council's depending on Government Support to manage Dedicated Schools Grants deficits. Whilst this support is in place and a Recovery Plan is being followed, overall medium-term financial sustainability is not at risk. We will review the value of the deficit and progress with the Recovery Plan again as part of our audit for 2021-22. 2021-22 will see an increase in the proportion of Children's Service complex placements covered by the Dedicated Schools grant budget from 2021-22 onwards. This is likely to impact the High Needs Recovery Plan for 2020-21 to 2029-30.

Conclusion

Medway Council is successful at identifying and managing short term financial pressures. In-year financial discipline is strong (with spending moratoriums being used where deemed necessary) and there are effective arrangements for identifying and delivering savings. However, Since November 2020, there has been slippage in the Council's Medium Term Financial Strategic Planning. 2021-22 has seen new and emerging trends (for example in costs of Children's Services) and it is important that Medium Term Financial Strategic Planning is re-introduced at the earliest opportunity. We have raised an Improvement Recommendation around this point.

The Capital Programme is growing significantly and more granular reporting of performance against budget may be helpful going forward. We have raised an Improvement Recommendation around this point also.

We noted some evidence of under resourcing in the Finance function during 2020-21. The Finance team has grown in size since the end of 2020-21 and, at the time of our work, was shortly to be restructured.

Improvement recommendation



Financial Sustainability

Improvement Recommendation 1

Medway Council should re-introduce medium term financial planning in the form of an annual Medium Term Financial Strategy presented to Cabinet. Ideally, this would cover a five year period.

Consideration should be given to moving the cycle for reporting Medium Term Financial Strategies from September or November to January or February the following year.

Why/impact

Effective medium term financial planning is essential for financial sustainability. Where new trends emerge, for example increased costs in Children's placements and accommodation, it is harder for decision makers to hold effective discussion without medium term plans that project Council-wide forecasts.

Auditor judgement

The recommendation made in our 2019-20 Audit Findings report has not been implemented. Financial planning and control could be strengthened by re-introducing a Medium Term Financial Strategy.

Summary findings

There has been no five year financial plan or strategy shared with Cabinet since September 2019. New, emerging trends have not been captured in a Medium Term Financial Strategy presented to Cabinet. Later timetable (Spring rather than Autumn) may make it easier and more reliable to present a Medium Term Financial Strategy to Cabinet.

Management comment

While the government has been delivering one year settlements for local authorities, we have paused the publication of projections into the medium term. It is our intention to publish medium term projections alongside the budget in February 2023, subject to sufficient clarity from the government in the Autumn of this year.



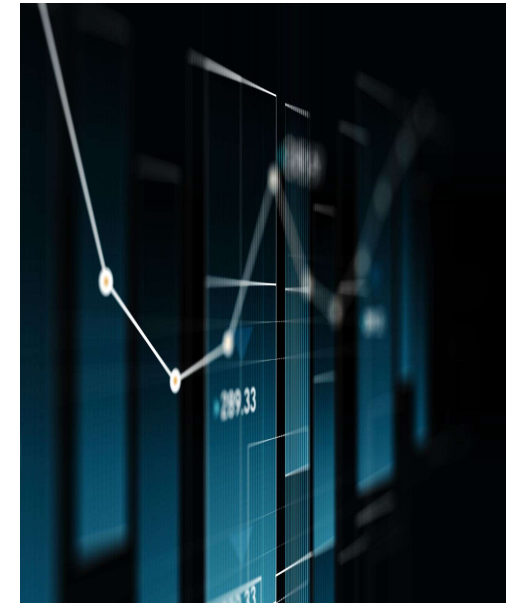
The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation



Financial Sustainability

Improvement Recommendation 2	The Council should consider reporting Capital Programme performance (or slippage) against the budget for each year of the programme rather than against a five year total.
Why/impact	The Capital Programme is technically complex and growing significantly in size – over a period when labour and materials prices are rising. More granular reporting of progress may assist decision-making and risk management.
Auditor judgement	The recommendation made in our 2019-20 Audit Findings report has not been implemented. More granular reporting year on year may allow better oversight of the Capital Programme as it grows in size.
Summary findings	Performance (or slippage) against budget is currently reported against the five-year total budget. We recommended more granular reporting in our Audit Findings Report for 2019-20.
Management comment	The Council are currently reviewing the monitoring of capital schemes procedures to strengthen the level of information provided to aid decision making, and as part of that, have recently increased the level of information provided to Members as part of the quarterly monitoring reports.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and Assessing Risk

Medway Council maintains a Strategic Risk Register which is presented to Cabinet on a quarterly basis. Typically, the Register shows between 13 and 16 top level Strategic Risks each quarter and, for each risk, reports Title/ Owner/ RAG Rated Inherent Risk/ Current Risk/ Target Risk/ Movement (Direction of Travel) / Definition/ Council Priority and Values/ and which Scrutiny Committee has oversight. As part of our work, we reviewed copies of the Register provided to Cabinet for all four quarters of 2020-21 and for the first half of 2021-22. Areas identified by the Council as at risk were consistent with our wider audit knowledge and included, for example, Finances; Economic Recovery after Covid-19; Non-delivery of Children's Services Improvement; and Changing Demographics of Older People. For most of the quarters we reviewed, the Registers highlighted which Risks were new and which had been removed. We saw change over the period reviewed (for example, Climate Change added/ Relationship with Schools and Academies removed) which showed that the document and the risk assessment processes which underpin it is part of a responsive and proactive process.

The overall Risk Strategy is presented to Cabinet and the Audit Committee annually, normally in September, although the September 2020 Strategy was delayed as a result of the Covid-19 pandemic and was presented to Audit Committee in January 2021 and to Cabinet in February 2021. The Risk Strategy shows the Council's risk management framework, processes and the division of risk management roles and responsibilities between Members, Portfolio holders, the Corporate Management Team (CMT), Strategic Risk Management Group, Directorate Management Teams (DMTs), Assistant Directors, Service Managers, Staff, Internal Audit and Counter Fraud. The overriding sentiment is that:

“responsibility for managing risk belongs to everyone”.

Internal Audit and Counter Fraud services are provided through a shared services agreement with Gravesham District Council. Medway Council has an Internal Audit Charter (drawn-up in 2017-18, going through revision in 2022, at the time of writing our report) which sets out scope of work, reporting lines, quality assurance and more. 1,213 days of service had been budgeted for 2020-21 before the start of Covid-19, with 65% of the chargeable time being allocated to Internal Audit and 35% of the days being allocated to Counter Fraud. The Internal Audit Plan for 2020-21 was due to be presented to the Audit Committee in March 2020. Covid-19 meant that the relevant Committee meeting was cancelled. Internal Audit resources were redeployed to the Covid-19 response. The Plan was re-written and presented to the Audit Committee instead in July 2020, now with 868 days allocated in total to Medway for 2020-21. We note that 82% of the original Plan was still delivered, with the internal audit of only one key system being delayed to 2021-22 (payroll, which was going through a change process and would have needed re-examination during 2021-22 anyway). We note that Internal Audit concluded that the Council's system of governance, risk management and internal control was adequate for 2020-21.

Governance

The Internal Audit plan for 2020-21 was drawn-up to include a combination of Council Systems audits due cyclically and specific risk audits. At the time of writing our report, work was underway to remove cyclical Council systems audits from the Internal Audit Plan going forward and to make all 2022-23 internal audits risk-based. To emphasise that risk response needs to be continuous, the 2022-23 Internal Audit Plan will only cover the first half of the year when it is first issued. The Plan will be re-issued around September 2022, with risk assessments updated to support audits chosen for the second half of the year. A new Internal Audit Charter will also come into effect for 2022-23 reflecting, amongst other updates, this closer focus on risk.

The Council's Internal Audit service also cyclically visits around 10% of Medway's maintained schools per annum. The Council's Internal Audit team has no formal role within any of the Council's subsidiaries or joint ventures, although we note that in July 2020, the service undertook a very detailed and specific review of governance arrangements at the Medway Development Company (MDC) Ltd.

Budget Setting

Demographic and tax base assumptions were realistic and the Budget included disclosure around what the Council considered to be its' key risks: Demographic growth; Special Educational Needs deficit; final settlement lower than planned; inadequate funding; Covid 19; capital receipts; MDC activity (failure to sell housing); and Housing Infrastructure Fund overspend.

The Medium-Term Financial Strategies that were prepared in September 2019 and November 2020 were supported by sensitivity analysis and scenario testing.

Budget Monitoring

Four "Rounds" of Revenue and Capital Budget Monitoring are completed at the Council every year. Budget Monitoring reports for Rounds 1 to 3 are shared with the Directorate Management Teams (DMTs), the Corporate Management Team (CMT), Cabinet and the Business and Support

Overview and Scrutiny Committee. The DMT reports include very detailed variance analysis – produced in collaboration between Finance Business Partners and Service Line managers. Reports to the CMT, Cabinet and Scrutiny Committee show summaries of the position. For Round 4 every year, summary Budget Monitoring Reports are submitted to CMT. The annual Outturn Report to Cabinet and the Business and Support Overview and Scrutiny Committee provides public reporting on budget monitoring for the year.

In 2020-21 (and 2019-20), Round 2 Revenue Budget Monitoring Reports underpinned the Council's decision to enforce spending moratoriums. The 2020-21 Budget Monitoring reports that we reviewed as part of our work included data from the Council's key financial systems; service line considerations and projections; and workforce information. They were supported by a Treasury Management Mid Year Review in September 2020 and Treasury Outturn Report in July 2021.

The Grant Thornton Audit Findings Report for 2019-20 included a VFM Action Plan which recommended, during periods of rapid change, that the Council's budget monitoring reports are submitted to Cabinet more frequently than quarterly. This has not so far been implemented. At the time of writing this report, the Council faces growing Children's Service costs and financing a high value, complicated Capital Programme through a period of rising costs of financing. We repeat the recommendation that consideration be given to more regular budget monitoring reporting to Cabinet (**Improvement Recommendation 3, page 19**).

Making Informed Decisions

Council Business Activities

Cabinet is the part of the Council responsible for most decisions. The Cabinet has one sub committee (the Members Advisory Climate Change Group). Generally, Cabinet works through an annual Forward Plan of work and is supported by four Overview and Scrutiny Committees (OSCs), being the:

- Business Support OSC;
- Children and Young People OSC;
- Health and Adult Social Care OSC; and
- Regeneration, Culture and Environment OSC.

Governance

We reviewed a sample of papers provided to Cabinet during 2020-21 for decisions around the Council's business. We were content that papers included appropriate information around project owners, decision impacts, options, risks and the specific decision required. Examples of decisions and discussions in Cabinet papers we reviewed included:

- May 2020 – approval of rent deferrals to support key commercial tenants;
- August 2020 – expansion of Abbey Court Special School and Bradfields Special School under the Education Capital Programme; and
- February 2021 – Holiday Activities and Food Programme proposals.

The Leader of the Council used Urgency Powers granted under the Constitution nine times during 2020-21 to by-pass full Cabinet meetings and make decisions alone during the pandemic. The Council's website clearly shows where Urgency Powers were used and which Scrutiny Committee supported their use. A Governance Group was subsequently put in place to retrospectively check all the decisions made alone by the Leader during the emergency. This group now meets as the Strategic Risk Management Group, reviewing the Strategic Risk Register before it goes to Cabinet for discussion.

Subsidiaries

Medway's Council owned two subsidiaries on 31 March 2021 – Kyndi Ltd and Medway Development Company (MDC) Ltd. Kyndi Ltd was formerly the Medway Commercial Group (MCG) Ltd. MDC Ltd and Kyndi Ltd each had two subsidiaries of their own on 31 March 2021. Transactions and balances with subsidiaries, namely with Medway Development Company (MDC) Ltd, were assessed by the Council as material for the first time in 2020-21 – with MDC Ltd owing the Council £13M on 31 March 2021. By 31 December 2021, MDC's loan financing stood at £27M. In total, amounts borrowed by MDC Ltd from the Council are expected to grow to £120M over the five year life of the Council's Capital Programme.

To form a view on the effectiveness of the Council's arrangements for making decisions about business delivered through subsidiaries, we assessed the extent to which:

- The Council developed shared strategies with the subsidiaries;
- The subsidiaries maintained Cabinet reporting – allowing overall decision-making to sit with the Council;
- Risk of financial loss was mitigated; and
- The Council and the subsidiaries were transparent about common challenges.

Kyndi Ltd:

For Kyndi Ltd and its' subsidiaries, we noted that, after significant financial losses during 2019-20, work had been undertaken during 2020-21 to rationalise functions (with less profitable services being transferred back in-house to the Council); consolidate loans (Kyndi Ltd owed the Council £2.6M on 31 March 2021); replace senior leaders, including directors and the Chief Executive Officer; and re-brand. By the end of 2020-21, Kyndi Ltd and its' subsidiaries had returned a profit of £600,000 and consideration was being given to transferring some of the more profitable functions back in-house to the Council as well as the loss-making functions. Winding down one of Kyndi's subsidiaries (Medway Public Services Ltd) was also being considered - as the teckal exemption advantages that company gave the group replicated teckal exemption advantages already provided by Kyndi Ltd as its' parent.

Six monthly reporting to Cabinet was maintained for the Kyndi Ltd Group throughout 2020-21. Whilst many of the 2020-21 measures undertaken were triggered by significant financial loss on non-core projects in the previous year, strong mitigations were put in place during 2020-21 and there was transparency and a shared goal with the Council.

Governance

MDC Ltd:

Turning to consider the Medway Development Company (MDC) Ltd Group, we note that here also both the parent, MDC Ltd, and one of the subsidiaries, MDC Private Sector Rented (PRS) Ltd, provide teckal exemption advantages. Thresholds around which companies are eligible for teckal exemptions are very strictly proscribed. As noted earlier, MDC Group is expected to shortly go through a period of rapid expansion. These thresholds will need to be kept under close scrutiny.

There is a clear shared strategy between the Council and the MDC Ltd Group. One of the key Outcomes monitored under the Council's Strategic Plan surrounds "Delivering new homes to meet the needs of Medway's residents". We note that the Outcome turned from RED to GREEN in the 2020-21 Quarter 3 Performance Monitoring report, as 1,130 dwellings were completed through MDC Group in the first nine months of that year. The original business case for MDC Ltd stated that the purpose of the company would be to:

"maximise the opportunities to invest in or develop property within and outside Medway and in the first instance to enable the development of a number of Council owned sites".

The Council's first subsidiary (MDC PRS Ltd) aimed to build and rent property. However, the objectives are evolving over time. The second subsidiary (MDC Land and Projects Ltd) has been created to build and sell property ("provide capital receipt") using the commercial loans from the Council.

The MDC Group's risk profile is likely to change as objectives evolve, as will the skillset needed for effective governance and leadership. Medway Council's Internal Audit and Counter Fraud service reviewed governance arrangements at MDC Ltd in July 2020. They noted that there is six monthly reporting to Cabinet and that the Council's Business and Support Overview and Scrutiny Committee also

oversees the Company. Given the coming rapid period of growth, Internal Audit recommended consideration be given to more regular reporting to Cabinet. They also recommended that all transactions between the Company and the Council be put on a commercial footing. There has, so far, been no Medway Council follow-up review of Actions Implemented from this report. We note that reporting on the Company to Cabinet has remained six monthly and that the Business and Support Overview and Scrutiny Committee has not received reports on the company since April 2020 at the earliest.

Given that MDC Group has now started active growth, the Internal Audit recommendations should be revisited and, where necessary, implemented at the earliest opportunity. An Improvement Recommendation has been made around this point (**Improvement Recommendation 4, page 20**).

For transparency, the Council assesses that "clear line of sight" on Company activities is currently provided by the fact that each company in the MDC Group has a Cabinet member sitting on its Board. There are strong processes for declaring interests on the Council's website and dispensations have been granted for Cabinet members to join the discussions and decisions around the companies they sit on Boards for. However, there can be disadvantages in dual roles – not only around whether conflicts of interest are fully managed, but also around whether the subsidiary itself is provided with the best fit skill set it needs. MDC Group is expected to grow significantly in the coming years. To manage public perception around high value and politically interesting projects, ethical walls need to be clear and skill sets need to be maximised. As MDC grows and as Cabinet membership turns over, consideration should be given to moving away from the current arrangement for having Cabinet members sit on Boards. An Improvement Recommendation has also been made around this point (**Improvement Recommendation 5, page 21**).

For risk management, we particularly note that under current arrangements, Business Cases for new housing developments are approved at MDC Board level. Medway Council's full Cabinet has delegated this function. With the value and profile of projects increasing rapidly, and with consideration above of current arrangements for managing Cabinet oversight and potential conflicts of interest, the Business Case approval arrangement should be considered. If a Cabinet Sub Committee were to be set up, for example, full delegation of Business Case approvals to subsidiary Boards may no longer be necessary. An Improvement Recommendation has been raised around this point (**Improvement Recommendation 6, page 22**).

Governance



Monitoring and Ensuring Standards

Medway Council's Councillor Conduct Committee is responsible for promoting and maintaining standards of conduct by Councillors. It is supported by a Member Code of Conduct written into the Constitution and there is also an Employee Code of Conduct. Policies around declaring and managing interests and around gifts and hospitality are written into both Codes. For Cabinet, where interests have been declared, they are shown clearly on the Council's website. Dispensations have been given to some Cabinet members to participate in discussion and decisions around group undertakings where they have a role as Board director. Declaring the interests publicly does mitigate against the risk of conflict (although it still leaves a risk around the adequacy of the skillset on the subsidiary's Board).

The Council's Audit Committee meets five times per annum. The Head of Internal Audit has a direct line of reporting to the Audit Committee. Committee papers from 2020-21 show that both the Head of Internal Audit and the Monitoring Officer attended every meeting during the year under review. We found no evidence to indicate, and were not informed of, any serious data breaches by the Council during 2020-21, although we do observe that in March 2021 Internal Audit made a series of RED RAG rated Improvement Recommendations around Caldicott arrangements for confidential data – covering arrangements for access to the data, authorisation for the data and protocols for using the data. By the time of writing our report, all Internal Audit Caldicott Recommendations had been implemented.

Conclusion

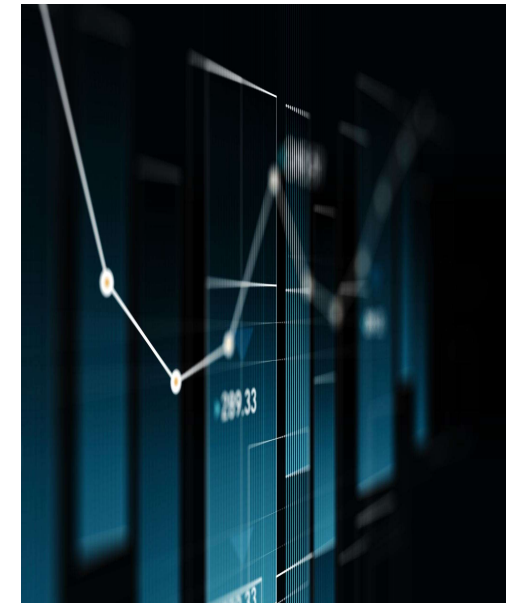
Medway Council has sound processes in place for monitoring and assessing risk. The Internal Audit function is effective. Processes for setting and monitoring annual budgets are effective, although we make one Improvement Recommendation around increasing the frequency of budget monitoring reports. For the Council's business activities, we found evidence of good processes around making informed decisions and monitoring and ensuring standards. For business activities delivered through subsidiaries, we found scope for improving governance processes. We make three Improvement Recommendations around governance over work with subsidiaries. .

Improvement recommendation



Governance

Improvement Recommendation 3	Consideration should be given to increasing the frequency of budget monitoring reports (currently quarterly).
Why/impact	The Council faces growing Children's Service costs and financing a high value, complicated Capital Programme through a period of rising costs of financing.
Auditor judgement	The recommendation made in our 2019-20 Audit Findings report has not been implemented. The Grant Thornton Audit Findings Report for 2019-20 included a VFM Action Plan which recommended, during periods of rapid change, that the Council's budget monitoring reports are submitted to Cabinet more frequently than quarterly. This has not so far been implemented.
Summary findings	Consideration should be given to increasing the frequency of budget monitoring reports (currently quarterly). We recommended more frequent reporting in our Audit Findings Report for 2019-20.
Management comment	Cabinet declined to receive update reports on a more frequent basis, however if the sub-committee proposal (recommendation 6 below) is accepted by Cabinet, this will create a mechanism for more frequent monitoring reports.



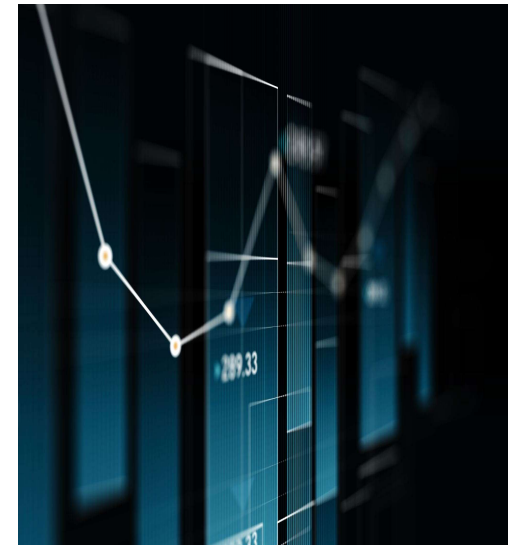
The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation



Governance

Improvement Recommendation 4	Working with subsidiaries: Internal Audit's July 2020 recommendations on MDC Ltd governance arrangements should be revisited and, where necessary, implemented at the earliest opportunity
Why/impact	Internal audit recommendations since July 2020 have not been followed up to check for implementation. Cabinet reporting remains at six monthly and there have been no papers on MDC Ltd to the Business and Support Overview and Scrutiny Committee since April 2020 at least.
Auditor judgement	MDC Ltd's risk profile is likely to change as the Group's objectives evolve, as will the skillset needed for effective governance and leadership. MDC transaction and balances are expected to grow significantly. More frequent reporting to Cabinet may be beneficial.
Summary findings	MDC Ltd is growing in size and complexity. Internal Audit recommendations on governance may be appropriate for consideration.
Management comment	Cabinet declined to receive update reports on a more frequent basis, however if the sub-committee proposal (recommendation 6 below) is accepted by Cabinet, this will create a mechanism for more frequent monitoring reports.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation



Governance

Improvement Recommendation 5	Working with subsidiaries: As MDC grows and as Cabinet membership turns over, consideration should be given to moving away from the current arrangement for having Cabinet members sit on subsidiary company Boards.
Why/impact	There can be disadvantages in dual roles – not only around whether conflicts of interest are fully managed, but also around whether the subsidiary itself is provided with the best fit skill set it needs.
Auditor judgement	To manage public perception around high value and politically interesting projects, ethical walls need to be clear and skill sets on Boards need to be maximised.
Summary findings	There is scope for rationalising dual role holding between Cabinet Members and Board Members for group undertakings.
Management comment	The issue of Cabinet Members sitting on the Boards of our LATCos was also raised in the more recent internal audit of Kyndi's governance. The management action plan commits to a review of the membership of our LATCos following the local elections in May 2023, at which point we will look to take on board the recommendations from the two internal audits, which are consistent with GT's own recommendations and the best practice guidance from CIPFA.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation



Governance

Improvement Recommendation 6	Working with subsidiaries: The Business Case approval arrangement for MDC Group Ltd's new housing ventures should be reviewed. If a Cabinet Sub Committee were to be set up, for example, full delegation of Business Case approvals to subsidiary Boards may no longer be necessary.
Why/impact	Cabinet and Council are not fully cited on Business Case approvals at MDC Ltd under current arrangements.
Auditor judgement	Arrangements for approval of MDC Ltd's Business Cases for new developments should be reviewed and, where necessary, revised. A Cabinet Sub Committee may be an option, given high levels of new activity and other comments around possible need for more regular reporting to Cabinet and the disadvantages of dual role holding.
Summary findings	As the MDC Group expands, arrangements around Governance should be reviewed and, where necessary, revised.
Management comment	We will ensure that recommendations to strengthen the arrangements for shareholder approval of MDC's business cases are included in the next update report to Cabinet.



The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance Review, Monitoring and Assessment

Children's Services

An Ofsted inspection report on Medway Council's Children's Social Care Services, issued on 27th August 2019, judged the services to help and protect children to be 'Inadequate'. A Commissioner was appointed by the DFE to advise on whether Medway Council had the capacity to continue to run its own services. Bracknell Forest Council worked with Medway Council during 2019-20 and the first half of 2020-21 on building senior leadership strength and capacity. An Improvement Plan was put in place and an Improvement Board was set up, with an independent Chair and representatives from key partners such as Schools, the Police and the Clinical Commissioning Group. Supporting the Board within the Council, a Children's Improvement Team was set up and work commenced to increase financial resources and permanent staff posts within Children's Services.

In December 2020, the DFE's Commissioner recommended that her role conclude as Medway Council was making progress. The DFE subsequently appointed an Improvement Adviser to continue to offer the Council support through its' improvement journey. Essex County Council replaced Bracknell Forest Council as Partner in Practice and the focus turned to addressing quality within the detailed Children's Service lines. Key areas of weakness identified by Ofsted in 2019 had surrounded workforce capacity at practitioner level and, as a result, very high caseloads for each social worker. This became one of the main areas of the Council's attention in 2020-21.

Ofsted Monitoring Visits were subject to delay during the Covid-19 pandemic. A visit was conducted by Ofsted during September 2021 to review progress. Significant effort had been made by that time to increase workforce capacity – with additional permanent posts created to ease caseload per practitioner and reduce dependency on agency staff. The Council's staffing data shows that the size and make-up of the Children's Service team had changed as follows:

Figure 1: Children's Service Staff Profiles October 2019 to September 2021. Source: Medway Council.

	October 2019	September 2021
Permanent Staff	358	412
Agency Staff	73	49
Total Staff	431	461
Vacancies (including those covered by Agency Staff)	71	108

Improving economy, efficiency and effectiveness

The Improvement Plan also included strands of work to address quality assurance; performance management; and partnerships. For Corporate Performance reporting, six new Children's Service Performance Measures were adopted during 2020-21, with an emphasis on reducing caseload per head; speeding up response times; and improving long term planning for children. The budgeted cost of improvements in 2020-21 was £4m.

The Ofsted Monitoring Visit in September 2021 was followed by a public letter from Ofsted to the Council in October 2021. The letter acknowledged "fragile progress" had been made, but noted that:

"most children in Medway who require support are not yet receiving a good enough service. Their progress is held back by wide-ranging inconsistencies in the quality and impact of assessments, plans, interventions and management oversight and supervision"..... and....."there is still a very long way to go to ensure that all children consistently receive the help and protection that they need."

In addition, the October 2021 letter noted that:

- some critical performance indicators had begun to worsen;
- turnover of staff threatened to undermine the tenuous progress made;
- caseloads had started to increase again; and
- children and families' needs were increasingly complex.

In February 2020, an HMIP* inspection of Medway Council's Youth Justice service took place. The inspection reported that the service "Requires Improvement", with arrangements for Youth Justice planning (in particular around risk and safeguarding) assessed as Inadequate. A Youth Justice Improvement Plan was shared with the Cabinet and Children and Young People's Scrutiny Committee in June 2020 – for working through the remainder of 2020-21 and beyond.

With the February 2020 findings from HMIP and with Ofsted's October 2021 public letter in mind, we conclude that, despite active steps taken towards improvement during 2020-21, there were significant weaknesses in arrangements for the Children's Service during the year.

* Her Majesty's Inspector of Prisons

Work towards Improvement of the Medway Council Children's Service (and Youth Justice) has been ongoing throughout 2021-22. The Revenue and Capital Budget for 2021-22 included a £6.6m budget line for Ofsted-related Improvements (staff stabilisation) with further investment of £8m in the 2022-23 budget.

Figure 2: Children's Service Budgeted Annual Improvement Costs 2020-21 to 2022-23

	Budgeted annual Improvement costs on workforce £M
2020-21	4
2021-22	6.6
2022-23	8

In August 2021, Essex County Council, as Partner in Practice for Children's Services, conducted a formal review of the Youth Justice service, with HMIP inspection status. Essex County Council recommended joining-up Child and Professional plans and clearer explanations of plans to Children and Families. Essex Council did not, however, raise fundamental concerns around risk and safeguarding.

Ofsted conducted a further Children's Service Monitoring Visit in January 2022 and published a Letter in March 2022 stating that the pace of change (improvement) was accelerating; that there was a strengthened Corporate Parenting Board and strengthened senior leadership team; and that manageable caseloads for social workers had now been achieved.

The positive direction of travel in 2021-22 is clear. This notwithstanding, we note that Ofsted's March 2022 letter still pointed to ongoing issues with workforce stability; children's assessments and plans being lengthy, dependant on jargon and difficult to read; and continued inconsistency in standards of social work practice. The Council's own Performance Measures from December 2021 show that caseloads for social workers, even if they were "manageable", had nevertheless increased again, and sharply, as shown in Figures 3 and 4.

Improving economy, efficiency and effectiveness

Figure 3: Assessment Team Caseload per Social Worker April 2021 to December 2021. Source: Medway Council.

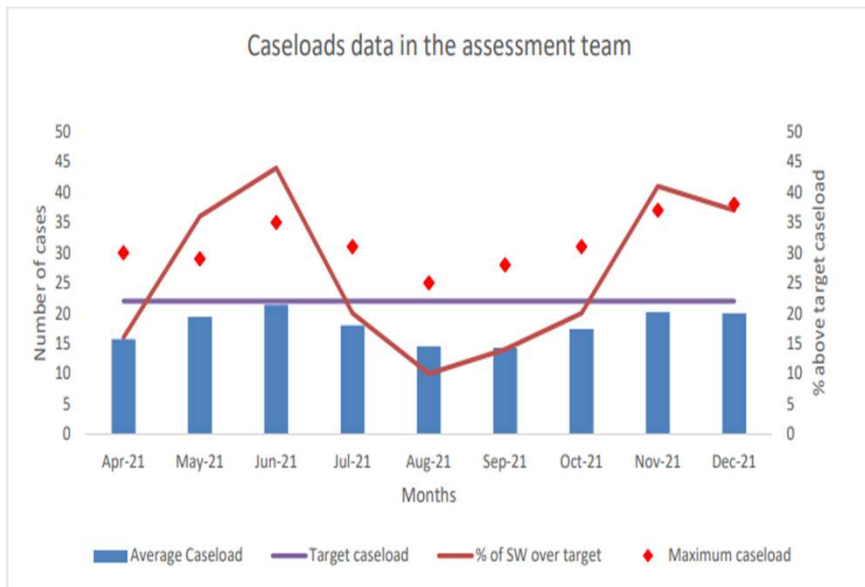
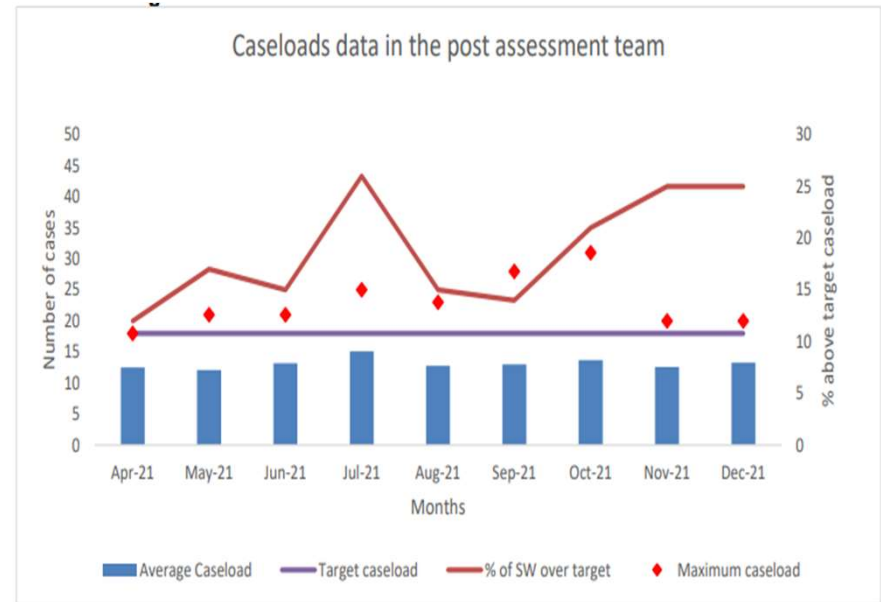


Figure 4: Post Assessment Team Caseload per Social Worker April 2021 to December 2021. Source: Medway Council.



Improving economy, efficiency and effectiveness

Narrative published by the Council with these Measures attributed the rising caseloads to increases in the number of referrals, staff vacancies and absences. The Children's Improvement Team at around this time also noted that risk assessment (for the Service as a whole) is likely to be an area of focus in the coming 12 months, along with addressing an emerging significant shortfall in appropriate placements for children in care, particularly older children with complex needs.

Like many Local Authorities, Medway Council has seen two emerging trends since the Covid-19 pandemic: presenting children have more complex needs and are more likely to need residential placement; and there is a national shortfall in the number of residential units and placements compared to national need.

Provider placement and accommodation prices are increasing sharply year on year and Medway Council competes with other authorities (including from London) for supply. The Council assesses that the main factors driving price rises surround not only the rising national demand (numbers of children in care overall may be stable, but a higher percentage of those in care have complex needs) and the national shortfall children in accommodation and placements relative to the new levels of demand, but also inflation. The additional budget pressure started to become clear during 2021-22.

The Council's latest Revenue and Capital Budget Monitoring data shows that a variance of £7.8m is forecast for 2021-22 in connection with this Children's Complex Cases placement and accommodation costs. The Children's Service Finance Business Partner has produced early modelling which indicates that, with continued growth in demand for complex care and inflation, the incremental cost will continue to grow by an additional £5m to £6m per annum between 2022-23 and 2025-26. Budgeting for the costs of complex placements between 2020-21 and 2021-22 saw other changes. In 2020-21, around one third of the total costs of placing these children was funded from the Dedicated Schools Grant and two thirds was funded from the Children's Service budget. For 2021-22 onwards, term-time only placements have been wholly funded from the Dedicated Schools Grant budget. The impact of price rises for the Council as a whole is therefore wider than is currently captured through the Children's Services' own modelling.

As no Medium Term Financial Strategy has been presented to Cabinet since November 2020, the potential impact on other service lines has not yet been subject to full evaluation and discussion.

Having identified that significant weaknesses remained within the Children's Service in 2020-21 and that there are still fundamental issues with performance in 2021-22, we conclude that there are key actions to be taken by Medway Council as it moves into 2022-23 and make a Key Recommendation covering :

- Further modelling of the medium term impact of rising complex case costs, for inclusion within a Medium Term Financial Strategy to be presented to Cabinet. It will be important to ensure that all impacts of price rises, including those on the Dedicated School Grant deficit, are captured as part of this process;
- Development of Risk Management Policies for the Children's Service as a whole, to complement risk management processes at individual child level;
- Continued work to stabilise the workforce and achieve consistent standards of practice within the workforce, paying regard to ongoing labour market issues after the Covid-19 pandemic; and
- Review of practices and standards for engaging with children and families – with ongoing steps to share planning clearly and avoid jargon.

Improving economy, efficiency and effectiveness

Performance Review, Monitoring and Assessment

Other Observations

Medway Council has three Strategic Priorities: People, Place and Growth. The Council sets and measures outcomes under these three Priorities and this forms the basis of corporate performance indicator reporting for the Council. The Council's Corporate Insight, Performance and Information Governance team manage the process of reviewing, monitoring and assessing performance.

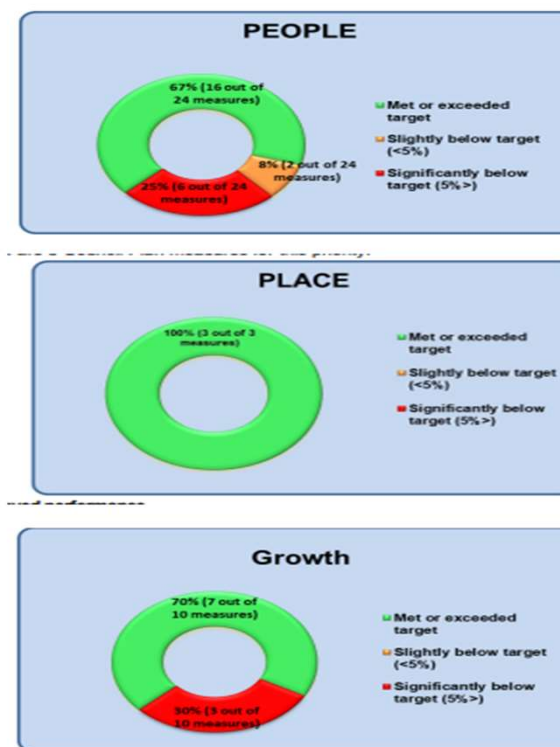
Directorates have access to an IT software system which they populate with progress against measures. Within the directorates, there is segregation of duties between data inputters and data reviewers. On a cyclical basis, the Council's Internal Audit service test the performance data posted.

Quarterly reports are generated from the IT system, for presentation to Directorate Management Teams, the Corporate Management Team, Cabinet and (where relevant), the Scrutiny Committees. Performance against Measures is RAG rated and presented in a clear way that allows trends and direction of travel to be monitored and key issues for discussion to be drawn out. High level summary rings presented to Cabinet for Quarter 4 of 2020-21, for example, are copied in Figure 5. They showed RED RAG ratings around People (Children's Service) and Growth (mainly surrounded jobs creation targets for the quarter).

Evaluating Services

The quarterly Performance Measures are included within Cabinet papers alongside the quarterly Strategic Risk Register. Taken together, these give Cabinet a powerful tool for oversight. We have noted in some detail already how closely the Council evaluated the poorly performing Children's Services. Regular reporting and self-evaluation; the setting of additional Measures for reporting to Cabinet; and proactive engagement with outside agencies where needed indicate that the Council knows itself well and makes good use of tools for evaluation, despite underlying structural issues in the Service taking more than one year to resolve.

Figure 5: Performance Measures Summary – Quarter 4 2020-21. Source: Medway Council.



Improving economy, efficiency and effectiveness

Working with Partners

Medway Council works with a high cross section of partners to deliver its' services. Prominent partnership arrangements during 2020-21 included:

- Hosting shared services with Gravesham Borough Council for Internal Audit, Counter Fraud; Legal Services; Revenue & Benefits; and HR & Payroll;
- Co-working on Health and Wellbeing functions with Kent and Medway Clinical Commissioning Group, Medway and Swale Integrated Care Partnership and the Primary Care Network for Medway and Swale;
- Working through joint venture arrangements with Norfolk County Council to deliver facilities management, grounds maintenance; school transport, waste collection; and street cleaning;
- Miscellaneous arrangements with the voluntary and community sector, the Police, schools and other bodies; and
- Trading in services for CCTV; telecare; temporary staff; and education through a wholly owned subsidiary. Developing housing through another wholly owned subsidiary.

No single inventory or directory of "Partnerships" is maintained by the Council. However, the Council's Strategic Risk Register includes "Alternative Delivery Models" as a Strategic Risk and gives an outline of the range of different models used; the risks of working through partnerships and agreements with others; and mitigations used by the Council to manage those risks. Mitigations include a business case approval process; Cabinet reporting; oversight and scrutiny arrangements; robust contracts; effective performance management; and business continuity mechanisms.

A new major stream of partnership working for Medway Council started in July 2020 when Homes England approved the £170m funding for infrastructure delivery referred to earlier in this report. Consultants were appointed by Medway Council during 2020-21 for the first feasibility and planning work, with governance and planning milestones falling due between May and August 2021. Expenditure in 2020-21 was immaterial (£3.47m) but this is a rapidly growing area of activity.

Procurement

Medway Council spends in excess of £230 million per annum, taking revenue funding and capital and grant monies together. Procurement is undertaken centrally by the Category Management team, which works closely with service lines and the Finance team. A Procurement Board maintains member oversight of procurement and category management activity. Procurement performance management was driven by Cabinet and the Corporate Management Team reviewing and challenging the delivery of savings against targets until July 2020. In July 2020, the work of the Category Management Team was de-coupled from revenue savings targets and categorised as Business As Usual. The effectiveness of procurement can therefore now be seen through routine Revenue Budget monitoring.

Medway Council issued a new Procurement Strategy in December 2020 – using the National Procurement Guide as it's starting point. The Strategy shows awareness of and proactive response to the operating conditions at the time it was issued. It noted risks around price increases with EU exit and Covid-19 and that "we expect to see the largest change in awarded contracts, especially where raw materials are being imported through the supply chain". The Strategy pinpointed that this would most likely be a risk associated to capital projects and that such projects would therefore have additional time built into the programme to allow for measures such as value engineering or Early Buyer Involvement to control risks with costs.

Frameworks have been developed by the Category Management Team and Finance, reduce time for delivery from suppliers. These are being used not only by Medway Council but by other public bodies who pay to use them – in turn creating a financial income for the Council. Overall, we found good high level processes in place for effective management of procurement at the Council in 2020-21.

Conclusion

For 2020-21, we find that most children covered by the Medway Council's Children's Service were not receiving a good enough service. Looking forward, we note that some costs within that Service have been growing rapidly since 2021-22 and that this may undermine efforts to improve the Service. We have raised a Key Recommendation around medium term financial strategic planning and other areas of improvement required for the Children's Service.

For other areas of the Council's own business, arrangements for monitoring, assessing and evaluating services and for procurement were effective in 2020-21.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

During 2020/21, Medway Council received from the Government three tranches of non-ringfenced, direct emergency support funding totalling £16.441M. The Council also claimed an additional £7.033M from the Government's Sales, Fees and Charges Income Compensation Scheme in 2020/21.

Together, the emergency support funding and income compensation helped to fund the expenditure pressures and income shortfalls experienced across the Council's services in 2020/21. As noted on Page 10 of this Report, final Outturn for the year recorded an underspend of £3.918M. The Council transferred this sum to general reserves to fund the 2021/22 revenue budget requirement.

Governance

In terms of capturing and reporting Covid-19 impacts, Medway Council performed well. A new set of Cost Centres was created to capture Covid-related spend. A Finance Cell was set up to track all Covid related spend and maintain records of spend against specific grants and claims. Income shortfalls were recorded in relevant service cost centres, with separate sheets retained to support associated claims through the income compensation scheme.

In other areas, the pandemic meant disruption to usual governance arrangements. Comments across this report reflect the pressure that the pandemic put on usual processes. We have noted, for example, a two-month lag in presenting a Medium-Term Financial

Strategy (September 2019 to November 2020); the Annual Risk Strategy being delayed from September 2020 to January/ February 2021; redeployment of Internal Audit resources and the Internal Audit plan needing to be re-presented; and regular Cabinet decision-making processes being replaced by decision-making under Urgency Powers on nine occasions.

Improving Economy, Efficiency and Effectiveness

Medway Council worked on many practical levels to support Services and partners. We have seen at page 16 that the Council deferred rent collection to support key commercial tenants. The Council also temporarily suspended court recovery action to support other tenants and debtors. The Council moved to daily payment runs to support suppliers and pay business grants out faster.

Medway Council shifted from requiring signatures to accepting emails from individual accounts as evidence for approvals - for treasury transactions and invoices. The Council also started accepting photographs of documents in support of expense claims where staff worked from home.

Other comments

The disruption at Medway Council was not dissimilar to that experienced by many Local Government entities during the Covid-19 pandemic. Additional pressure of administering new grants and reliefs could reasonably be expected to have exacerbated resource pressures already existing within the Council. In total, £108million of additional grant funding was received and accounted for by the Council in 2020-21 as a result of the pandemic. This context is of note when considering Finance team resource shortfalls and time taken to implement VFM Action Plan recommendations from our 2019-20 Audit Findings Report.

Opinion on the financial statements



Audit of the financial statements

Our work on the 2020/21 financial statements audit was delayed as the audit of the 2019/20 financial statements was not completed until October 2021.

We have started the detailed testing of the 2020/21 financial statements and this is scheduled to be undertaken through to October 2022.

We will report our detailed findings to the Council's Audit Committee in November 2022.

Findings from the audit of the financial statements can have an impact on value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalized and updated where appropriate on completion of the financial statements audit.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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) 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 - An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	EEE p. 5 - 6
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	FS p. 12 - 13 Governance p. 19 – 22 3Es N/A



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