



# Medway Council Interim Auditor's Annual Report

**2022-23**

November 2023



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We are required 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 Code of Audit Practice issued by the National Audit Office (NAO) 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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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# Executive summary



## Value for money arrangements and key recommendation(s)

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.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022-23 is the third year that we have reported our findings in this way. 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	Risk of significant weakness identified around financial sustainability.	R Significant weakness in arrangements for 2022-23 identified and two key recommendations made <b>(Pages 7 and 8)</b> . Two new improvement recommendation also made <b>(Pages 17 and 18)</b> .	A No significant weakness identified for 2021-22 but two improvement recommendations made.	↓
Governance	Risk of significant weakness identified around governance.	R One significant weakness in arrangements identified and one Key recommendation made <b>(Page 9)</b> . New improvement recommendation made <b>(Page 17)</b> .	R One significant weakness in arrangements identified for 2021-22 and one key recommendation made. One improvement recommendation also made.	↔
Improving economy, efficiency and effectiveness	Risk of significant weakness identified around improving economy, efficiency and effectiveness.	A No significant weaknesses in arrangements identified, but one new improvement recommendation made <b>(Page 17)</b> . We also highlight the ongoing need to implement remaining Ofsted recommendations <b>(Page 24)</b> .	R One significant weakness in arrangements identified and one key recommendation made.	↑

- 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)



## Financial sustainability

Medway Council overspent against its' net budget by £6.094 million in 2022-23. This included a gross overspend of £18.041 million on Children and Adult Services. The Council's General Reserves stood at an estimated value of just £10.155 million on 31 March 2023 – with £10 million being the General Fund minimum prudent balance and £155,000 being the only remaining amount of General Reserve above that amount. This leaves the Council's finances in a perilous situation, as the forecast overspend for 2023-24 (£12.251 million) is higher than the balance on the General Reserves. The Council does hold earmarked reserves of some £44 million, some of which could be utilised to meet short term pressure, but would need to be replenished rapidly to meet the purpose for which they were created. The medium-term financial outlook for later years is even more worrying. The Council has forecast a budget gap of £38.7 million for 2024-25, rising to a gap of £71.8 million by 2027-28. Plans to bridge the medium term gap are in their infancy.

Since the end of 2022-23, the Council has taken active steps to explore avenues for bringing finances back under control. This includes enforcement of spending controls, discussions with Department of Housing, Local Government and Communities and commissioning an independent resilience review by the Chartered Institute for Public Finance Accountants (CIPFA). The latter is not expected to conclude until 31 December 2023, by which time there will be only three months left to balance the budget for 2023-24 and to put in place effective arrangements for 2024-25. We make a Key Recommendation around the need to take urgent action sooner rather than later to address the 2023/24 financial pressure and to determine a realistic plan for the medium term challenge (**Key Recommendation 1, Page 7**). We also make a Key Recommendation around the need to monitor savings plans and the need to introduce sensitivity analysis or scenario testing for medium-term financial planning (**Key Recommendation 2, Page 8**).

Due to the scale of the challenge ahead, we have considered whether we should exercise our statutory powers such as issuing a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act 2014. We acknowledge senior officers' representations about the work in progress to address the challenge and consider it appropriate to wait to see the impact of this work. We will continue to monitor the Council's progress over the next few months; consider its implementation of any recommendations from the CIPFA review and the pace of progress on bridging the medium term gap. The 2024/25 budget setting and updated medium term financial plan will be a key milestone against which we will revisit our assessment as to whether statutory recommendations are required.

The Council has a high value capital programme, but the Local Plan is not yet agreed. Shortly after the end of 2022-23, uncertainty around political consensus for developing a rural area led to Homes England and the Department for Levelling Up, Housing and Communities cancelling an infrastructure project which had been estimated to be worth some £170 million. There are other plans and strategies not agreed or not finalized, including the Workforce Strategy. We make two Improvement Recommendations around the importance of keeping plans and strategies up to date (**Improvement Recommendations 1 and 2, Pages 17 and 18**).



# Executive summary (continued)



## Governance

Medway Council has effective processes in place for risk management and internal control over Council undertakings.

The Council has made some progress with implementing external audit recommendations during 2022-23. Our Interim Auditor's Annual Reports both for 2021-22 and for 2020-21 recommended that the Council's governance arrangements for group undertakings be strengthened. In July 2023, a revised governance structure for companies was proposed, including professional appointments for company Boards and a Shareholder Board within the Council. Our Interim Auditor's Annual Report for 2021-22 also recommended that the Council end dual role holding between Cabinet and the Audit Committee. In response, dual role holding (also for the Scrutiny Committees) ended in June 2023.

The area where the Council has been less successful during 2022-23 at implementing recommendations surrounds preparation of statutory accounts. The unaudited draft accounts for 2021-22 were required under the Accounts and Audit (Amendment) Regulations 2021 to be available for inspection from 31 July 2022. The draft statement of accounts for 2022-23 was required to be available for inspection by 31 July 2023. When we completed our testing for 2022-23 (3<sup>rd</sup> November 2023), neither set of draft accounts was available on the Council's website, although the 2021-22 draft account has since been published. Delays in preparing and publishing draft accounts have reduced transparency and breached the Council's statutory duty. We understand that the Council now plans to prepare and publish a draft account for 2022-23 by the end of February 2024. We raise one Key Recommendation (Page 9).



## Improving economy, efficiency and effectiveness

Medway Council has effective arrangements in place for assessing performance, although the Council's performance indicators highlight a year-on-year trend towards deteriorating performance overall. Indicators for the Children's Service particularly declined between 2021-22 and 2022-23. However, Ofsted reported that the Service (as a whole) improved from Inadequate to Good over the same period. This suggests that objective standards were still met. Extensive work has been carried out on developing a Children's Service workforce strategy. However, within the Children's Service, caseloads for staff are still rising. We note that there are still four Ofsted recommendations to address (Page 24).

The Council's Procurement Strategy needs to be updated on its website, but we have no other observations to make in respect of the Council's working with partners, procurement and commissioning.

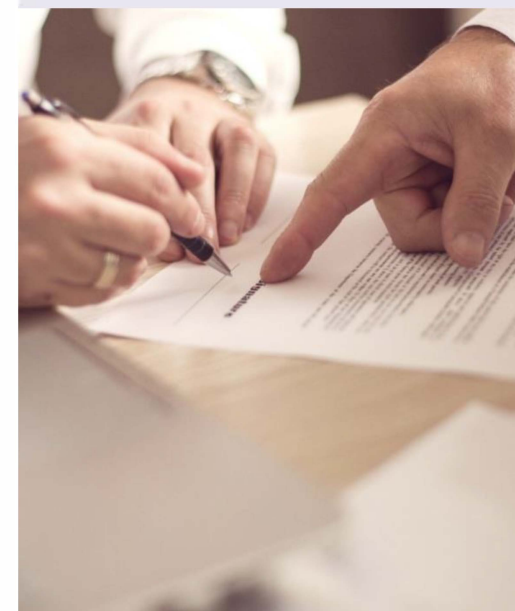
### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by Council officers, Council Members and external stakeholders with whom we have engaged during the course of our review.



## Financial Statements opinion

The audit of the financial statements for 2021/22 and 2022/23 has not yet commenced.



# Use of auditor's powers

We bring the following matters to your attention:

	2022/23
<p><b>Statutory recommendations</b></p> <p>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.</p>	<p>We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014. However, this assessment will be kept under review.</p>
<p><b>Public Interest Report</b></p> <p>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.</p>	<p>We did not issue a public interest report.</p>
<p><b>Application to the Court</b></p> <p>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.</p>	<p>We did not make an application to the Court.</p>
<p><b>Advisory notice</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,</li> <li>• 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</li> <li>• is about to enter an item of account, the entry of which is unlawful.</li> </ul>	<p>We did not issue any advisory notices.</p>
<p><b>Judicial review</b></p> <p>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.</p>	<p>We did not make an application for judicial review.</p>

# Key recommendations

<p><b>Key Recommendation 1</b></p>	<p>The Council must urgently address the 2023/24 financial forecast overspend and establish a pathway to secure its medium term financial sustainability.</p> <p>The Council is now in a position where it must consider a re-alignment of priorities to coincide with securing financial sustainability. This may involve making politically unattractive or undesirable decisions in the interest of the Authority's future viability.</p> <p>The Council must put effort toward exploring all opportunities for increasing income from fees and charges, potential fundraising opportunities, service transformation which may include significantly drawing back services to the statutory minimum, revision of policy priorities to ensure alignment with financial sustainability, reallocation of earmarked reserves, asset sales and alternative means of cost avoidance or income generating in order to bridge the 2024/25 budget gap (and subsequent medium-term gap) and address the currently forecast overspend for 2023/24. Its plan should include an intention to rebuild reserves to provide future financial flexibility.</p>
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<p><b>Identified significant weakness in arrangements</b></p>	<p>The forecast overspend for 2023-24 (£12.251 million) exceeds the opening balance on the General Reserves (£10.155 million). There is, in addition, a budget gap of £38.7 million forecast for 2024-25 and the Council forecasts that this will increase to a gap of £71.8 million by 2027-28.</p>
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<p><b>Summary findings</b></p>	<p>Forecasts indicate that the General Reserve will be fully depleted by 31 March 2023 and that budget gaps will continue to grow. Urgent step change is needed to address the scale of the challenge the Council faces.</p>
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<p><b>Criteria impacted by the significant weakness</b></p>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p><b>Financial sustainability</b></p> </div> <div style="text-align: center;">  <p>Governance</p> </div> <div style="text-align: center;">  <p>Improving economy, efficiency and effectiveness</p> </div> </div>
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<p><b>Auditor judgement</b></p>	<p>Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022-23. We have therefore identified a significant weakness in arrangements.</p>
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<p><b>Management comments</b></p>	<p>Cabinet Portfolio Holders and the Corporate Management Team are working to identify and agree proposals to reduce the 2023/24 overspend and to balance the budget gap for 2024/25, including options to reduce spend across all non-statutory functions even those within statutory services and increase income including raising fees and charges. Work is in progress to identify a programme of disposal of surplus assets and to rationalise the way some services are delivered to enable future disposals while improving serviced delivery. A further review of the capital programme is underway to mitigate the pressure on borrowing identified in the Draft Budget.</p> <p>This work is happening in parallel to the CIPFA and LGA/ADASS reviews which will conclude by 31 December 2023, however findings will be shared throughout the delivery of the fieldwork so that prompt action can be taken. We expect the reviews will result in a comprehensive action plan to deliver a balanced budget, however if the collective activity outlined fails to identify sufficient savings or income to enable a balanced budget, the Council will seek exceptional financial support from the Department of Levelling Up, Homes and Communities.</p>
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The range of recommendations that external auditors can make is explained in Appendix B.

# Key recommendations

## Key Recommendation 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.

## Identified significant weakness in arrangements

Under current arrangements, the Council does not monitor savings plans separately from the base budget once the savings plans have been approved. There is also at present no sensitivity applied to medium term forecasts when they are presented to the Council.

## Summary findings

Scope for improved record keeping for monitoring savings plans and testing sensitivity in medium-term financial plans. This would make it easier to determine where best to direct effort.

## Criteria impacted by the significant weakness



Financial sustainability



Governance



Improving economy, efficiency and effectiveness

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022-23. We have therefore identified a significant weakness in arrangements.

## Management comments

To date the Council has sought to reflect both the true anticipated service expenditure and income in the budgets, rather than explicitly holding savings in discrete budget codes that would facilitate separate monitoring of the delivery of savings agreed. To that end the budget monitoring reports currently only identify where budgeted savings have not been delivered in part or in full. Finance are working to compile the full suite of savings assumptions build into the 2023/24 budget and will use this (initially internally only) to separately monitor the delivery of savings in the current year. We will review how the 2024/25 budget is built to facilitate the monitoring of savings publicly from 2024/25.




It has not been possible to date to complete sensitivity analysis in the MTFO projections due to a lack of capacity in Finance and in the services to support this process. Officers will work to introduce an enhanced suite of guidance and tools to support the preparation of business cases, including sensitivity analysis as soon as practicably possible.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

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



# Key recommendations

<b>Key Recommendation 3</b>	Draft accounts for 2022-23 should be published at the earliest opportunity and no later than 28 February 2024.
<b>Identified significant weakness in arrangements</b>	The Council's draft Statement of Accounts for year ended 31 March 2023 has not yet been published. This breaches the Accounts and Audit (Amendment) Regulations 2021. We would normally have expected an unaudited statement of accounts for 2022-23 to have been published by 31 July 2023.
<b>Summary findings</b>	Delays in preparing and publishing draft accounts reduces transparency and breaches the Council's statutory duty.
<b>Criteria impacted by the significant weakness</b>	<div style="display: flex; align-items: center; gap: 10px;"> <div style="text-align: center;">  <p>Financial sustainability</p> </div> <div style="text-align: center;">  <p style="background-color: red; color: white; padding: 2px;">Governance</p> </div> <div style="text-align: center;">  <p>Improving economy, efficiency and effectiveness</p> </div> </div>
<b>Auditor judgement</b>	We would normally have expected an unaudited statement of accounts for 2022-23 to have been published by 31 July 2023.
<b>Management comments</b>	The 2021/22 statements were published on 20 November 2023, and as work is underway to produce the statements for 2022/23 we anticipate these will be published in February 2024.

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

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

# Securing economy, efficiency and effectiveness in the Council's use of resources

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 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.

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) 03, 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.

**In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:**

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 13 to 22.

# The current LG landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023-24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024-25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

# The current LG landscape (continued)



## 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 million 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 estimates 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. Uncertainty around whether there was political consensus for developing the rural Hoo Peninsula led to Homes England and the Department for Levelling Up, Housing and Communities cancelling a £170 million infrastructure investment project on the Hoo Peninsula in July 2023. Uncertain housing market conditions have also put pressure on other development schemes that the Council has lent monies to.





# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans
- 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 which may include working with other local public bodies as part of a wider system.

## Identifying financial pressure and achievable savings plans; and managing risk to financial resilience

Our Interim Auditor's Annual Report for 2021-22 reported that during 2021-22, Medway Council had difficulty in planning ahead for 2022-23. The report also noted that spending restrictions had to be introduced by the Council part-way through 2022-23 (in November 2022) as costs started to outstrip the budget which the Council had planned for.

By the end of 2022-23, the Council had overspent against its net budget by £6.094 million. Behind the net budget movements (which included lower than expected finance costs and lower than expected regeneration spending), a gross overspend of £18.041 million was incurred in Children and Adult Services. Children and Adult Services were both areas where the Council had been intending to make savings during the year, with a combined target value of £17.1 million savings for 2022-23. In effect, there had been a shortfall of £35.141 million for those services.

Over the course of 2022-23, Medway Council used General Reserves of £10.947 million to help balance the revenue budget. With other draws also made on the General Reserves (for example, a £3 million earmarking for the Dedicated Schools Grant deficit and miscellaneous contributions to capital projects), the Council's General Reserves stood at an estimated value of just £10.155 million by 31 March 2023 – with £10 million being the General Fund minimum prudent balance and £155,000 being the only remaining amount of General Reserve left above that amount.

We note that over the course of 2022-23, the Council's external borrowings also increased by £8.202 million whilst its cash and cash equivalents fell by £1.8 million.

The Council's medium-term modelling indicates that severe pressure

on the budget is going to continue. The Council has forecast an overspend for 2023-24 of £12.251 million. The budget for 2023-24 had already allowed for reserves contributions of £2.206 million and there is therefore a risk that the contributions required from General Reserves for 2023-24 will be higher than the sums available. This makes the Council's financial situation for 2023-24 perilous.

The Medium-Term Financial Outlook prepared by the s151 officer in September 2023 is even more worrying. It forecasts a further budget gap of £38.7 million for 2024-25, rising to a gap of £71.8 million by 2027-28.

Since the end of 2022-23, the Council has taken active steps to explore avenues for bringing finance back under control. This includes:

- Commissioning an independent resilience review by the Chartered Institute for Public Finance Accountants (CIPFA), to identify costs and how they operate; and to identify new opportunities for reducing costs and increasing income. The review is expected to conclude by 31 December 2023;
- Engaging an independent review of Adult Social Care costs with the Local Government Association and the Association of Directors of Adult Social Services (the Council's trajectory for future cost increases is higher for Adult than for Children Services);
- Enforcing new expenditure controls;
- Imposing targets on each directorate to identify and enforce management action; and
- Joining discussions with other Local Authorities facing similar issues for comparison of proposed solutions.

There will only be three months of 2023-24 left by the time CIPFA conclude their review. Urgent step change will be needed before that just to contain forecast overspends within the level of General Reserves available. The seriousness of the Council's financial situation should not

# Financial sustainability (continued)

be under-estimated, and we raise a Key Recommendation around the need to enforce control sooner rather than later (Key Recommendation 1, Page 7).

To make the step changes that Medway Council urgently needs, strong arrangements for monitoring progress with savings schemes and anticipating sensitivity will be required. Under current arrangements, the Council does not monitor savings plans separately from the base budget once the savings plans have been approved.

The Council has a good understanding of the risks it faces but for the £17.1 million savings planned for Children and Adult Services, for example, there is no succinct way of telling which parts of the savings plans performed and which did not.

Under current arrangements, there is also at present no sensitivity applied to medium term forecasts when they are presented to the Council. The Council's estimated budget gap of £38.7 million for 2024-25 (rising to £71.8 million by 2027-28) could be bigger, for example, if assumptions around the Dedicated Schools Grant deficit change.

It looks likely that the Council is going to have to engage with the Department for Levelling Up, Housing and Communities in some way. Changes to the Council's own record keeping may make this easier. Separate monitoring of savings and scenario testing for medium-term plans are areas where arrangements could be strengthened to make it easier to see and monitor the "whole picture" for the Council; to determine where to direct effort; and to understand what the full scale of risk is (Key Recommendation 2, Page 8).

**Figure 1: Children and Adult Service risks and issues identified by the Council (Source: Medium-Term Financial Outlook for 2023-24 to 2027-28)**

<b>Rising prices for complex placements.</b>
<b>Court judgement around unaccompanied asylum seeker children</b>
<b>16% increase in average weekly cost of Adult residential package pay bands.</b>
<b>33% of Adult residential and nursing placements being with private providers outside the pay bands.</b>
<b>3% increased Adult demographic growth</b>
<b>30% of Adult social workers needing to be paid at locum rates.</b>
<b>30.82% vacancy rate for Children's Service social workers and managers</b>
<b>27.1% staff turnover in the Children's Service</b>
<b>12.4% mandatory pay increase for foster carers.</b>
<b>Ongoing increase in Children's caseloads.</b>
<b>Increased complexity of Children caseloads and associated increase in legal costs.</b>

**Figure 2: Overspend data (Source: Medway Council Outturn and Budget Monitoring Reports)**

	2022/23	2021/22
	£'000	£'000
Planned revenue expenditure	386,353	371,472
Actual revenue expenditure	391,932	358,295
Minimum required Reserves balance (as assessed by the s151 officer)	10,000	10,000
General Reserves (General Fund and Uncommitted earmarked reserves) - estimated	10,155	26,550
Forecast overspend for the next 12 months (1 April 2023 to 31 March 2024)	12,251	N/A

# Financial sustainability (continued)



## Dedicated Schools Grant Deficits

On 12<sup>th</sup> December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Recent estimates put the total national deficit for local authorities in tens of billions by March 2023. Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalize as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

## Planning for sustainable delivery and consistency with other plans

### The Dedicated Schools Grant Deficit

The Council's Dedicated Schools Grant deficit stood at £25.53 million at the start of 2022-23. Over the course of the year, the Council negotiated a Safety Valve Improvement Plan with the Department for Education (DFE) and the Education Skills Funding Agency. It was agreed that the Council would be provided with £14.282 million of revenue funds over three years, with the first £5.72 million being paid in 2022-23 with the Council making a £3 million contribution to an earmarked reserve to guard against any revenue overspends in future years. The Council is now required to return the High Needs budget back to balance by 31 March 2026. Since the end of 2022-23, the Council has made steady progress against its own milestones for achieving this although some inwards migration after the detailed milestones were agreed may require re-profiling.

Under the Safety Valve Improvement Plan, Medway Council will also be provided with £7.188 million of capital funds to cover capital works necessary for moving special educational needs provision back into mainstream schools. The Council plans to complete capital works using this money and s106 receipts and prior year programme monies now due for utilisation.

### The Local Plan and the Capital Programme

Our Interim Auditor's Annual Report for 2021-22 highlighted that Medway Council's Local Plan has not been formally updated since 2003. The Council is not on track to agree an updated Local Plan until 2025 and is expected to miss the Government's December 2023 deadline for agreeing an updated Plan. Spatial policies, particularly for areas which are currently rural, have proved particularly difficult to agree.

Our Interim Auditor's Annual Report for 2021-22 referred to a £170 million planned infrastructure project for the Hoo Peninsula that the Council was trying to deliver in partnership with Homes England. Homes England and the Department for Levelling Up, Housing and Communities cancelled the project in July 2023, in part because of political uncertainty around consensus for developing the Peninsula. The estimated impact of the project cancellation on the Revenue Account was £700,000 (understood to have since been re-estimated as a lower impact of £300,000). We raise an Improvement Recommendation around keeping the Local Plan and other plans up to date (**Improvement Recommendation 1, Page 17**).

Around one third of the Council's remaining Capital Programme is still dedicated to regeneration and placemaking. Flagship policies which are in progress include housing at Rochester Riverside and Chatham Waterfront. However, there remain risks to the Council's capital plans – changing market conditions; local appetite for development; the costs of dealing with reinforced autoclaved aerated concrete; and planning for climate change are all factors that the Council needs to manage.

# Financial sustainability (continued)



## Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors.

This trend has seen an increase in the use of more expensive agency staff and use of interims.

The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear. To achieve this aim, councils need to develop a workforce plan or strategy which not only sets out aims and aspirations but also a roadmap with numerical targets against which outcomes can be measured and assessed.

The workforce strategy needs to be clearly linked with strategic objectives and financial planning.

Without a corporate workforce plan, Councils cannot take a strategic view of how the needs of the council in terms of human resources will develop over the medium term and appropriate development through training and recruitment may not be undertaken.

For market conditions, we note that the Council approved loans during 2020-21 of up to £120 million, to be paid out over five years to its subsidiary company Medway Development Company Ltd. The loans were intended to finance the company developing land; and building and selling houses. By 31 March 2022, the Council had paid out loans of £32.7 million. By 31 March 2023, the loans stood at £65 million. However, conditions were very different in the housing market to when the loan agreement had first been made. In July 2022, the Council agreed that the loans would be re-negotiated to 50-year repayment terms and that Medway Development Company Ltd could diversify into the private rental sector as a means of dealing with changing market conditions. We note that financing costs for the £65 million loans are being born by the company rather than the Council. However, as we have already noted, the Council's own external borrowings also rose over 2022-23 (from £308.8 million to £405.9 million) whilst cash and cash equivalents fell (from £5.37 million to £3.57 million).

For the local appetite for development, we note that at least one of the remaining biggest place-based projects in the Capital Programme still only has partial planning permission. Other risks within the Capital Programme are that new costs for dealing with reinforced autoclaved aerated concrete (already found within one key building) may need to be added to it (potentially necessitating more borrowings); and that capital costs associated with the Council's Climate Change Action Plan may not yet have been fully captured. We note that the Climate Change Action Plan has not been formally reviewed since 2021-22.

It will be important now that any changes in the capital plan are sensitive to the pressure already on the Council's General Reserves. Miscellaneous contributions from the General Reserve to other capital projects in 2022-23 contributed to that Reserves' reduction in 2022-23. As things currently stand, the General Reserves are already on track for full depletion.

## Workforce

Our Interim Auditors Annual Report for 2021-22 recommended that the Council should develop a Council-wide workforce strategy. The Council is in the process of developing such a strategy and has recognised that key objectives will be to strengthen the workforce offer; transform recruitment processes; improve talent identification and management; and support skills, progression, retention and development. Because workforce issues are acute within the social care sector, the Council has also developed a standalone strategy specifically for the Children's Service and is now in the process of developing a standalone strategy for the Adult Service.

The Children's Service Workforce Strategy highlights vacancy rates and turnover statistics; identifies key priorities around recruitment, investment and engagement; includes tangible measures for testing effectiveness and impact; and commits to an annual review process. This will be a helpful tool for demonstrating the issues the Council faces; and for organising and monitoring mitigations.

With staffing just as critical in Adult Social Care as it is in the Children's Service, it will be important that work with the Adult strategy continues. The Adult strategy should also include a plan for how effectiveness and impact of workforce actions will be measured, along the same principles set out in the Children's strategy (**Improvement Recommendation 2, Page 18**).



# Improvement recommendations

<b>Improvement Recommendation 1</b>	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.
<b>Improvement opportunity identified</b>	Updating other areas of business planning supports revenue and capital planning and makes it easier to communicate and achieve strategic aims. In so far as plans such as the Local Plan are not on track, it is statutory deadlines rather than the Council's own milestones which will be breached.
<b>Summary findings</b>	The Local Plan is currently going through consultation. The Council is not expected to meet the December 2023 deadline for agreeing its Local Plan. The Council has a Climate Change Action Plan which it aims to review annually. The Plan has not been refreshed since 2022. The Council has a new Procurement Strategy (2021-2025) but its website continues to display the previous Procurement Strategy (2016-2021).
<b>Criteria impacted</b>	 Financial sustainability  Governance  Improving economy, efficiency and effectiveness
<b>Auditor judgement</b>	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.
<b>Management comments</b>	The specific plans and strategies identified will be reviewed and updated. In addition, the Corporate Management Team has instructed a review of the arrangements to maintain and update core policies (to be conducted by the Internal Audit team early in 2024/25).

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations

## Improvement Recommendation 2

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.

## Improvement opportunity identified

A Council-wide workforce strategy is under development but not yet complete. Some 30% of the Adult Social Care workforce is provided through locum arrangements and Adult Social Care is a significant area of overspend. Without an agreed Council-wide workforce plan, the Council cannot assess whether resources are being best directed between its various teams.

## Summary findings

Workforce strategies need to be updated.

## Criteria impacted



Financial sustainability



Governance



Improving economy, efficiency and effectiveness

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.

## Management comments

Officers will work to produce an Adult Social Care workforce development and to complete the Council-wide plan and both will be presented to Members as soon as practicably possible during 2024/25.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. 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; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures compliance with appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

## Risk management and internal controls

Medway Council has effective processes in place for risk management and internal control. The Council shares an Internal Audit and Counter Fraud function with Gravesham Borough Council. Internal Audit reported in September 2023 that during 2022-23, Medway Council's framework of governance, risk management, and system of internal control, were sufficient and effective, and contributed to the proper economic, efficient, and effective use of resources in achieving the Council's objectives. For Counter Fraud, they reported that 528 investigations were concluded during 2022-23, with cashable savings of £661,998 identified and further non-cashable savings of £190,000 linked to the recovery of property.

Internal Audit take a risk-based approach to setting their programme of work for any one year and for 2022-23, Internal Audit moved for the first time from using an annual process for assessing risk to using a six-monthly process. The Internal Audit programme of work was assessed against risk indicators both for the start of the year and half-way through the year. Financial risk, fraud risk and corporate strategic priorities were also added to the criteria against which internal audit assessments were made for determining their programme of work for the first time in 2022-23. Previously, assessments had been based on risks at transaction and control cycle level only. There were no serious control deficiencies reported in Medway Council's Annual Governance Statement for 2022-23.

## Arrangements with companies

Our Interim Auditor's Annual Reports for both 2020-21 and 2021-22 recommended that arrangements for governance over companies should be strengthened. The recommendations surrounded more frequent company monitoring; revising the arrangement for Cabinet members to sit on boards; and strengthening business case approval arrangements. Shortly after the end of 2022-23 (in July 2023), a revised governance arrangement for the Council's three main group undertakings (Kyndi Ltd, Medway Development Company Ltd and Medway Norse Ltd) was approved. Under the new arrangements, Councillor representatives on boards will be replaced by professional executive and non-executive directors chosen for their technical and sector expertise. Cabinet sub-committees will be set up to act as shareholder boards within the Council and those boards will be able to request more frequent reporting from the companies if they consider it necessary. With independent, professional legal advice, the arrangements for business planning, transparency and accountability within subsidiaries will also be revised. We welcome these improvements to governance over group undertakings.

## Budget setting and budgetary control

As we have noted, Medway Council overspent against its budget for 2022-23 by £6.094 million and is forecast to overspend against its 2023-24 budget by £12.251 million. The overspend for both years has been predominately driven by rising costs and demand for Children and Adult Services. Leaving those service lines aside though, we find that in other areas of the business, reasonable budget processes are in place. Budgets are developed through discussion between budget holders and finance partners; and between officers and portfolio holders. A star chamber process is used before any formal decision is made. Monthly monitoring occurs at budget holder level through the year, with reporting on outturn to Cabinet on a quarterly basis.

# Governance (continued)

## Making properly informed decisions

Medway Council has approved an executive/scrutiny model of decision making. Cabinet is the primary decision-making and monitoring body with four scrutiny committees appointed for reviewing policy decisions before and after implementation. Members have the power to “call in” decisions made by the executive for review. Portfolio holders periodically attend scrutiny meetings held. The Constitution sets out a scheme of delegations showing which matters officers have authority to make decisions on. The Audit Committee oversees governance overall.

Our Interim Auditor’s Annual Report for 2021-22 made an Improvement Recommendation that the Council should ensure there is no dual role holding for Members between the Cabinet and the Audit Committee. Our Improvement Recommendation has been implemented and we note that there has been no dual role holding between Cabinet and the Audit Committee since June 2023. There has also been

no dual role holding between Cabinet and the Scrutiny Committees since that date. Spatial priorities for the Local Plan was one area where consensus could not be reached during 2022-23. The Local Plan had to go back for re-consultation. The re-consultation period closed on 31<sup>st</sup> October 2023.

## Compliance

The Council’s arrangements for securing standards and behaviour among members and employees in 2022-23 were broadly effective.

However, our Interim Auditor’s Annual report for 2021-22 highlighted that the Council’s draft statement of accounts for the year ended 31 March 2022 had not been completed and that the 2021-22 accounts were therefore not yet available for inspection.

The unaudited draft accounts for 2021-22 were required under the Accounts and Audit (Amendment) Regulations

2021 to be available for inspection from 31 July 2022. By 3<sup>rd</sup> November 2023, the draft account was still not available on the Council’s website.

The draft statement of accounts for 2022-23 was required to be available for inspection by 31 July 2023. By 3<sup>rd</sup> November 2023, a draft account for 2022-23 also had not been prepared.

Delays in preparing and publishing draft accounts have reduced transparency and breached the Council’s statutory duty. We raised a Key Recommendation in our Interim Auditor’s Annual Report for 2021-22. Page 23 of this report shows that it still has not been implemented.

We note that the Council is also expected to be in breach of its legal obligations when the Government’s December 2023 deadline for agreeing an updated Local Plan passes. The Council is not on track to meet this deadline, although it does have a timetable in place. It will be important that this timetable is adhered to (**Improvement Recommendation 1, Page 17**).

	2022/23	2021/22
Annual Governance Statement (control deficiencies)	No specific areas of concern	No specific areas of concern
Head of Internal Audit opinion	Sufficient and effective	Sufficient and effective
Ofsted inspection rating	Good	Inadequate

The Council’s performance against key governance metrics is set out in the table above.



# 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
- where it commissions or procures services assesses whether it is realising the expected benefits
- 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.

## Use of financial and performance information

Medway Council has effective systems for assessing performance. Four performance reports are presented to Cabinet each year, having first been through Directorate Management Team and Corporate Management Team scrutiny and challenge. The Council's Corporate Plan specifies the Council's Priorities to be People; Place; and Growth. The quarterly performance reports report progress against 51 different outcomes supporting those Priorities, with each outcome in turn showing short-and-long term trends for a series of supporting measures.

Our Interim Auditor's Annual Report for 2021-22 noted that over time, the Council's overall performance against its target outcomes was deteriorating. The quarterly performance reports RAG rate performance, with those measures being up to 5% below target RAG rated as AMBER and those measures falling more than 5% below target RAG rated as RED. Over the course of 2021-22, the number of measures RAG rated RED was broadly stable (25%). However, the number RAG rated AMBER increased significantly (from 5.4% at the start of the year to 12.5% by the end of the year).

The trend towards deterioration in overall performance continued over the course of 2022-23. By 31 March 2023, 34.7% of all measures were RAG rated as RED, with a third of those that were AMBER at the start of the year having deteriorated to RED as the year went on. The sharpest deterioration of performance against the Council's own targets in 2022-23 surrounded the Children's Service. The Council RAG rated eight of its measures RED for 2022-23 compared to just three the year before. The RED RAG rated measures related in large part to caseloads, social worker turnover, first visit rates and audit findings. However, Ofsted

reported an overall "Good" performance in the Children's Service over the same period, with just four improvement recommendations, indicating that despite the Council falling short of its own targets, objective standards were met.

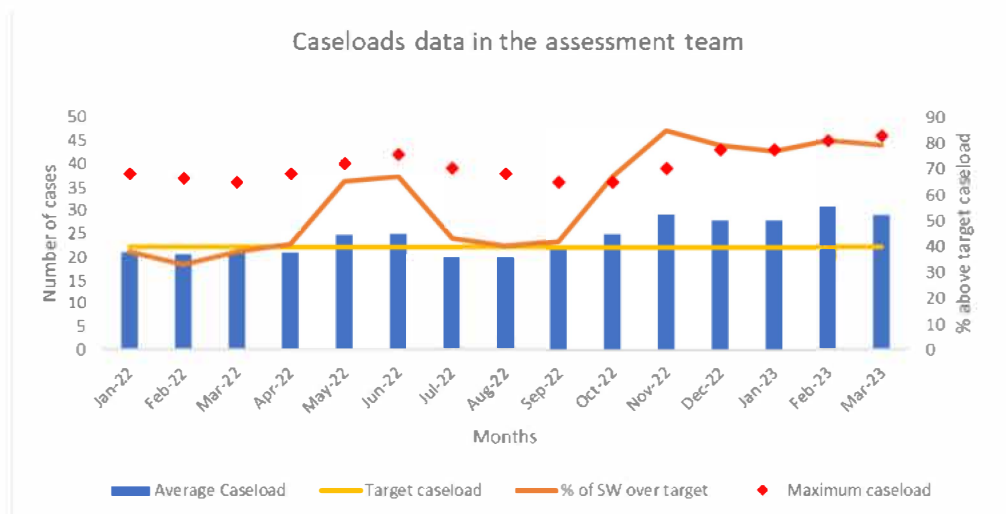
Ofsted had previously graded Medway Council's Children's Service as Inadequate in July 2019. Monitoring visits in May 2021 and September 2021 continued to find issues. By January 2022, however, a third Ofsted monitoring visit found that there was by now a "**relentless commitment**" to improve and when a full re-inspection was carried out shortly after the end of 2022-23 (in July 2023), Ofsted concluded that the service was by now overall "Good".

The Council's self-assessment of weakness around caseloads and the percentage of the substantive workforce filled by permanent social work staff are to some extent interlinked and driven by historic problems with recruitment. From discussion with officers, we established that the Council anticipates that having moved from an "Inadequate" to a "Good" Ofsted grading will in its' own right start to help with future recruitment. Other initiatives around recruitment and staffing have included quarterly benchmarking of pay and benefits; improved learning and development opportunities; targeting new assistant manager grade recruitment to bring down the manager grade caseload; and quarterly reporting against the new Children's Service workforce strategy. At the end of Quarter 4 though, as Figure 3 shows, caseloads (in the assessment team at least) remained well above the Council's own target.

On Page 24 of this report, we note that although good progress has been made with Ofsted and external audit recommendations, ongoing attention to caseloads is still required. To some extent though this does reflect national trends. We also note that Ofsted's remaining recommendations need to be addressed.

# Improving economy, efficiency and effectiveness (continued)

**Figure 3: Children’s Service assessment team caseload data [Source: Medway Council Performance Report, Quarter 4 2022-23]**



## Delivering within significant partnerships

Our Interim Auditor’s Annual Report for 2021-22 commented that Medway Council had effective arrangements in place for delivering within partnerships. Examples of partnership that we highlighted included external provision of children’s placements; the partnership with Homes England for development on the Hoo Peninsula; and arrangements with subsidiary companies. Despite the wider economic challenges that Medway and its partners face, in some respects those partnerships can all be seen as having continued to work well during 2022-23.

Children’s placement costs (in particular, for complex cases) have risen significantly year on year due to wider market conditions. The Council has been successful at now reflecting this

trend within its medium-term financial planning. Homes England did cancel the Hoo Peninsula project but remains a partner for Rochester Riverside and substantially reimbursed the Council for all Hoo Peninsula losses. The Council also engaged well with subsidiary companies. On 1 April 2022, for example, the Council took the recruitment arm of Kyndi Ltd’s business back in house because it was performing at a different rate to the CCTV, telecare and remote care arms of the Kyndi Ltd business.

Medway Council works proactively to learn from other organisations. Examples of learning from others include working with a partner in practice to address Ofsted’s findings; reaching out to other Local Authorities to compare approaches for financial management; and reviewing Adult Social Care workforce arrangements at other Councils. As we have noted, Adult Social Care is a growing risk for the Council. Twenty per cent of Medway’s population is expected to be aged over 65 by 2030. At the time of writing our report, the Council was exploring numerous options for working with partners to create capacity in the market. The Council has also recognised the vital importance of unpaid partners (carers). There are around 25,000 unpaid carers living in Medway and the Council has a joint strategy with NHS Medway to support them. This includes a new Citizen’s Portal which will carry a full suite of information, advice and guidance as well as an “E-Marketplace” which is being developed to ensure that those unpaid carers looking for support can research appropriate solutions for themselves.

## Procurement and commissioning

Medway Council had effective arrangements in place for procurement and commissioning in 2022-23. The Council adopted a Procurement Strategy for 2021-25 in 2021 and progress against the strategy is formally reviewed by Members annually. Progress against the 2021-25 strategy was reviewed by the Business Support Overview and Scrutiny Committee in November 2022 and by Cabinet in January 2023. Risks around inflation and rising utilities prices were reviewed; climate goals inclusion within social value criteria was confirmed; and improved contract and relationship management objectives were adopted by the Council as new procurement objectives for monitoring.

We note that the Council’s website still displays the Procurement Strategy adopted for 2016-21 and we recommend this is updated (**Improvement Recommendation 1, Page 17**) but we have no other observations to make in respect of procurement.

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Year in respect of	Progress to date	Addressed?	Further action?
Draft accounts for 2021-22 should be published at the earliest opportunity. For 2022-23, early planning should be undertaken to meet statutory deadlines.	Key	2021-22	At the time of writing this report for 2022-23 (3 <sup>rd</sup> November 2023) a draft account for 2021-22 had not yet been published and work to prepare a draft account for 2022-23 had not yet started.	No	Yes Draft accounts for 2021-22 and 2022-23 should be published on the Council's website.
The Council should continue with developing a Council-wide workforce strategy.	Improvement	2021-22	A Council-wide workforce strategy is in the process of being developed. A standalone Children's Service strategy is now in place. The Council has started to develop a standalone Adult Social Care workforce strategy and this work should continue.	Partial	Yes The Council-wide workforce strategy should be finalised. Work to develop an Adult Social Care workforce strategy should continue. Measures for success and arrangements for monitoring should be included.
Medway Council should continue with current efforts to agree and update its Local Plan so that the strategic growth it hopes to deliver can continue in a timely and consensual fashion.	Improvement	2021-22	The consultation for a revised Local Plan closed on 31 October 2023. The Council is expected to miss the statutory deadline of having an agreed Local Plan in place by December 2023. An agreed Local Plan is expected to be finalised in 2025.	No	Yes The Council should continue to work towards agreeing its Local Plan. On Pages 17 and 18 of this report, we note that there are other plans and strategies that also require attention.
Medway Council should move away from the current dual role holding option between Cabinet and Audit Committee.	Improvement	2021-22	There has been no dual role holding since June 2023.	Yes	No

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Year in respect of	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>	Key	2020-21	<p>i). The Medium-Term Financial Outlook for 2023-28 includes estimates for the rising costs of placements, including complex cases.</p> <p>ii). A risk register is now in place at Children's Service level.</p> <p>iii). Ofsted noted that the Council constantly strives to strengthen the workforce. Pay and benefits are benchmarked; and learning and development opportunities have been enhanced. There is a dedicated Children's Service workforce strategy. However, caseloads in some teams do continue to remain higher than target.</p> <p>iv). A corporate programme is in place to make Medway a child-friendly community. Ofsted recognised participation, and the work of the board, as significantly improved since the time of the last inspection.</p>	Partial	<p>Yes</p> <p>The Council has made significant progress against recommendations from Ofsted and external audit. However, caseloads remain above target.</p> <p>Ofsted raised four improvement recommendations in their July 2023 report and the Council should continue with its work towards implementation.</p>

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Year in respect of	Progress to date	Addressed?	Further action?
<p>Working with subsidiaries:</p> <p>I). Internal Audit's July 2020 recommendations on MDC Ltd governance arrangements should be revisited and, where necessary, implemented at the earliest opportunity.</p> <p>II). 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.</p> <p>III). 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.</p>	Improvement	2020-21	<p>Shortly after the end of 2022-23 (in July 2023), a revised governance arrangement for the Council's three main group undertakings (Kyndi Ltd, Medway Development Company Ltd and Medway Norse Ltd) was approved. Under the new arrangements, Councillor representatives on boards will be replaced by professional executive and non-executive directors chosen for their technical and sector expertise. Cabinet sub-committees will be set up to act as shareholder boards within the Council and those boards will be able to request more frequent reporting from the companies if they consider it necessary. With independent, professional legal advice, the arrangements for business planning, transparency and accountability within subsidiaries will also be revised.</p>	Yes	No



# Opinion on the financial statements



## Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 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 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conduct our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

The financial statements audit for 2022/23 has not yet been started. The audit for 2021/22 was started and then paused in agreement with senior officers whilst the government consults on a statutory backstop to the completion of outstanding old year audits.



# 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.

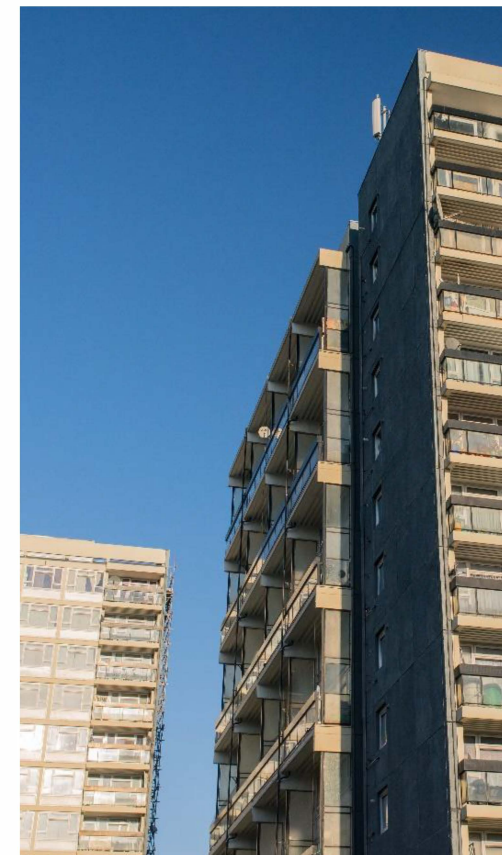
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

## 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(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's 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	7, 8, 9
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	17, 18

